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EXHIBIT
S-1
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF 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

DIRECT TESTIMONY

(COST OF CAPITAL)

OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 6, 2015

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EXECUTIVE SUMMARY
QUAIL CREEK WATER COMPANY, INC.
DOCKET NO. WS-04235A-13-0343

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

Capital Structure – Staff recommends that the Commission adopt a capital structure for Quail Creek Water Company, Inc. ("Company") for this proceeding consisting of 0.0 percent debt and 100.0 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.5 percent cost of equity for the Company. Staff's estimated cost of equity for the Company is based on the 8.9 percent average of its discounted cash flow method ("DCF") cost of equity methodology estimates for the sample companies of 8.6 percent for the constant-growth DCF model and 9.1 percent for the multi-stage DCF model. Staff's recommended cost of equity includes an upward economic assessment adjustment of 60 basis points (0.6 percent).

Cost of Debt – Staff recommends that the Commission adopt a 0.0 percent cost of debt for the Company.

Overall Rate of Return – Staff recommends that the Commission adopt a 9.5 percent overall rate of return.

Mr. Bourassa's Testimony – The Commission should reject the Company's proposed 10.0 percent return on equity ("ROE") for the following reasons:

Mr. Bourassa's discounted cash flow ("DCF") model estimates are overstated due to the use of historical stock price appreciation growth as a parameter to measure the dividend growth component in the constant growth DCF model. Mr. Bourassa's risk premium model ("RPM") estimates are overstated due to (i) use of a 30-year U.S. Treasury rate, and not a corporate bond yield, in the computation of the MRP component, and (ii) use of a forecasted risk free rate in the computation of the MRP estimated cost of equity. Mr. Bourassa's capital asset pricing model ("CAPM") estimates are overstated due to the use of a forecasted risk-free rate. The current market risk premium ("MRP") in Mr. Bourassa's current CAPM model improperly incorporate estimates of earnings per share ("EPS"), dividends per share ("DPS") and book value per share.

I. INTRODUCTION

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

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

Q. Briefly describe your responsibilities as a Public Utilities Analyst.

A. I am responsible for the examination of financial and statistical information included in utility rate applications and other financial matters, including studies to estimate the cost of capital component in rate filings used to determine the overall revenue requirement, and for preparing written reports, testimonies and schedules to present Staff's recommendations to the Commission on these matters.

Q. Please describe your educational background and professional experience.

A. I hold a Bachelor of Arts degree in History from Arizona State University, a Master of Library Science degree from the University of Arizona, and a Master of Business Administration degree with an emphasis in Finance from Arizona State University. While pursuing my MBA degree, I was inducted into Beta Gamma Sigma, the National Business Honor Society. I have passed the CPA exam, but opted not to pursue certification. I have worked professionally as a librarian, financial consultant and tax auditor and served as Staff's cost of capital witness in rate case evidentiary proceedings in my current as well as in a past tenure as a Commission employee. Since returning to the Commission in January 2012, I have filed cost of capital testimony on behalf of Staff in over 20 rate proceedings, and have filed revenue requirement and rate design testimony on behalf of Staff in three rate proceedings. Additionally, I attended the Society of Utility Regulatory Financial Analysts ("SURFA") Forum (April 2013), the National Association of Regulatory Utility

Commissioners ("NARUC") Utility Rate School (May 2013), and the Institute of Public Utilities at Michigan State University Annual Regulatory Studies Program ("Camp NARUC") (August 2014).

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

A. My testimony provides Staff's recommended capital structure, cost of equity, and overall rate of return ("ROR") for establishing the revenue requirements for Quail Creek Water Company, Inc. ("QCW" or "Company") in the Company's pending water rate application.

Q. Please provide a brief description of QCW.

A. QCW is a Class "B" for-profit public service corporation engaged in the business of providing potable water service in a portion of Pima County, Arizona, pursuant to a certificate of convenience and necessity granted by the Arizona Corporation Commission ("Commission"). During the test year ending December 31, 2013, the Company served approximately 2,011 customers.

Summary of Testimony and Recommendations

Q. Briefly summarize how Staff's cost of capital testimony is organized.

A. Staff's cost of capital testimony is presented in ten sections. Section I is this introduction. Section II discusses the concept of weighted average cost of capital ("WACC"). Section III presents the concept of capital structure and Staff's recommended capital structure for QCW in this proceeding. Section IV discusses the concepts of ROE and risk. Section V presents the methods employed by Staff to estimate QCW's ROE. Section VI presents the findings of Staff's ROE analysis. Section VII presents Staff's final cost of equity estimates for QCW. Section VIII presents Staff's ROR recommendation. Section IX presents Staff's comments

on the direct testimony of the Company's witness, Mr. Thomas J. Bourassa. Finally, Section X presents Staff's conclusions.

Q. Have you prepared any exhibits to accompany your testimony?

A. Yes. I prepared nine schedules (JAC-1 to JAC-9) which support Staff's cost of capital analysis.

Q. What is Staff's recommended rate of return for QCW?

A. Staff recommends a 9.5 percent overall ROR, as shown in Schedule JAC-1. Staff's ROR recommendation is based on the following: (1) a capital structure composed of 0.0 percent debt and 100.0 percent equity; (2) an estimated cost of equity of 8.9 percent, calculated as the simple average of the two cost of equity estimates for the sample companies derived from Staff's discounted cash flow ("DCF") estimation methodologies (8.6 percent from Staff's constant growth DCF model and 9.1 percent from Staff's multi-stage DCF model), plus the adoption of a 60 basis point upward economic assessment adjustment; and (3) a cost of debt of 0.0 percent.

Staff continues to develop and analyze the indicated cost of equity estimates derived from the two capital asset pricing model ("CAPM") estimation methodologies historically considered and relied upon by Staff. However, at the present time Staff is recommending that the Commission place less emphasis on CAPM results due to the continuing divergence of the CAPM-indicated cost of equity results relative to those derived by the DCF model.

Q. Mr. Cassidy, briefly explain why the cost of equity estimates derived from the CAPM have become problematic in today's economic environment.

A. In an effort to recover from the economic recession of 2008, the United States Federal Reserve ("The Fed") initiated a monetary policy intended to stimulate economic growth and reduce unemployment by keeping the federal funds rate at a level between 0 to ¼ percent.[1] The federal funds rate is the central bank's key tool to spur the economy and a low rate is thought to encourage spending by making it cheaper to borrow money. In addition, in an effort to put downward pressure on longer-term interest rates, the Fed initiated a policy of quantitative easing[2] wherein the U.S. central bank would purchase U.S. Treasury mortgage-backed securities by reinvesting the principal payments from its holdings of agency debt and agency mortgage-backed securities, and of rolling over maturing Treasury securities at auction.[3] As a consequence, the low interest rate environment engineered by the Fed has compelled investors to seek out higher yields on investment wherever they may be found, resulting in the equity markets having recently achieved new all-time highs,[4] and forecasted dividend yields continuing to remain at low levels.[5] At present, these factors, in combination with one another, have led to unusually low cost of equity estimates being obtained from the CAPM model. Accordingly, in Staff's judgment the cost of equity estimates derived from the CAPM should not be given their traditional weighting for purposes of setting rates until such time that market conditions change.[6]

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[1] The federal funds rate is the interest rate charged to banks by the Fed for overnight transfers of funds.

[2] Quantitative easing is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity. Quantitative easing is considered when short-term interest rates are at or approaching zero, and does not involve the printing of new banknotes.

[3] In a Press Release issued October 29, 2014, the Fed announced that it would conclude its asset purchase program, thereby putting an end to its use of quantitative easing (i.e., adding to its holdings of agency mortgage-backed securities at a pre-determined monthly rate) as a monetary policy instrument. In making the announcement, the Fed indicated that there had been substantial improvement in the outlook for the labor market since the inception of its current asset purchase program effective program, and that it continued to see sufficient strength in the broader economy to support ongoing progress toward maximum employment in a context of price stability. The Fed indicated, however, that it would maintain its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-

QCW's Proposed Overall Rate of Return

Q. Briefly summarize QCW's proposed capital structure, cost of debt, ROE and overall ROR for this proceeding.

A. Table 1 summarizes the Company's proposed capital structure, cost of debt, ROE and overall ROR in this proceeding:

Table 1

	Weight	Cost	Weighted Cost
Long-term Debt	0.00%	0.00%	0.00%
Common Equity	100.00%	10.00%	10.00%
Cost of Capital/ROR			**10.00%**

QCW is proposing an overall rate of return of 10.00 percent.

II. THE WEIGHTED AVERAGE COST OF CAPITAL

Q. Briefly explain the cost of capital concept.

A. The cost of capital is the opportunity cost of choosing one investment over others with equivalent risk. In other words, the cost of capital is the return that stakeholders expect for investing their financial resources in a determined business venture over another business venture.

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backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. (http://www.federalreserve.gov/newsevents/press/monetary/20141029a.htm)

[4] On March 2, 2015, the Dow Jones Industrial Average reached an all-time high (both intra-day and closing) of 18,288.63. Similarly, the S&P 500 Index reached a new all-time closing high of 2,117.69 on April 24, 2015, and an all-time intra-day high of 2,125.92 on April 27, 2015 (Source: Yahoo! Finance).

[5] As reported in the *Value Line Investment Survey, Summary & Index*, the median estimated dividend yield (next 12 months) of all dividend paying stocks under its review is currently at 2.0 percent (*Value Line*, April 24, 2015 issue).

[6] Recently, there has been much speculation that the Fed might signal a change in monetary policy. In a press release issued on March 18, 2015, the words, "considerable time," were removed from the guidance provided by the Fed relating to when the central bank might consider raising the federal funds rate from its current target range of 0 to ¼ percent. In making this change to its forward guidance, however, the Federal Reserve Open Market Committee indicated that no decision had been made as to the timing of the initial increase in the target range. (http://www.federalreserve.gov/newsevents/press/monetary/20150318a.htm)

Q. What is the overall cost of capital?

A. The cost of capital to a company issuing a variety of securities (i.e., stock and indebtedness) is an average of the cost rates on all issued securities adjusted to reflect the relative amounts for each security in the company's entire capital structure. Thus, the overall cost of capital to a firm is its weighted average cost of capital ("WACC").

Q. How is the WACC calculated?

A. The WACC is calculated by adding the weighted expected returns of a firm's securities. The WACC formula is:

Equation 1.

$$WACC = \sum_{i=1}^{n} W_i * r_i$$

In this equation, W_i is the weight given to the ith security (the proportion of the ith security relative to the portfolio) and r_i is the expected return on the ith security.

Q. Can you provide an example demonstrating application of Equation 1?

A. Yes. For this example, assume that an entity has a capital structure composed of 40 percent debt and 60 percent equity. Also, assume that the embedded cost of debt is 5.5 percent and the expected return on equity, i.e., the cost of equity, is 10.0 percent. Calculation of the WACC is as follows:

$$WACC = (40\% * 5.5\%) + (60\% * 10.0\%)$$

$$WACC = 2.20\% + 6.00\%$$

$$WACC = 8.20\%$$

The weighted average cost of capital in this example is 8.20 percent. The entity in this example would need to earn an overall rate of return of 8.20 percent to cover its cost of capital.

III. CAPITAL STRUCTURE

Background

Q. Please explain the capital structure concept.

A. The capital structure of a firm is the relative proportions of each type of security: short-term debt, long-term debt (including capital leases), preferred stock and common stock that are used to finance the firm's assets.

Q. How is the capital structure expressed?

A. The capital structure of a company is expressed as the percentage of each component of the capital structure (capital leases, short-term debt, long-term debt, preferred stock and common stock) relative to the entire capital structure.

As an example, the capital structure for an entity that is financed by $20,000 of short-term debt, $85,000 of long-term debt (including capital leases), $15,000 of preferred stock and $80,000 of common stock is shown in Table 2.

Table 2

Component			%
Short-Term Debt	$20,000	($20,000/$200,000)	10.0%
Long-Term Debt	$85,000	($85,000/$200,000)	42.5%
Preferred Stock	$15,000	($15,000/$200,000)	7.5%
Common Stock	$80,000	($80,000/$200,000)	40.0%
Total	$200,000		100%

The capital structure in this example is composed of 10.0 percent short-term debt, 42.5 percent long-term debt, 7.5 percent preferred stock and 40.0 percent common stock.

QCW's Capital Structure

Q. What capital structure does QCW propose for purposes of this proceeding?

A. The Company proposes a capital structure composed of 0.0 percent debt and 100.0 percent common equity. QCW's proposed capital structure reflects its actual capital structure as of the December 31, 2013 test-year end, as shown in the Company's Schedule D-1.

Q. How does QCW's proposed capital structure compare to capital structures of publicly-traded water utilities?

A. Schedule JAC-4 shows the capital structures of seven publicly-traded water companies ("sample water companies" or "sample water utilities") as of December 2013. The average capital structure for the sample water utilities is comprised of approximately 47.6 percent debt and 52.4 percent equity.

Staff's Capital Structure

Q. What is Staff's recommended capital structure for QCW?

A. Staff recommends a capital structure composed of 0.0 percent debt and 100.0 percent equity.

Q. Although Staff is recommending a 100.0 percent equity capital structure for the Company in this docket, does Staff recommend that QCW be required to rebalance its capital structure prior to filing for rates in its next rate case?

A. Yes.

Q. What is the basis for Staff's recommendation that the Company be required to effectuate a rebalancing of its capital structure prior to filing for its next rate case?

A. Because the cost of debt is less than the cost of equity, and a reduction to the equity component within the Company's capital structure will reduce the overall weighted cost of capital to be recovered in rates. Regulated public utilities are capital intensive and, as such, require significant capital to fund the plant infrastructure necessary to provide service to customers. Exclusive use of equity capital to fund plant infrastructure, however, requires ratepayers to pay a proportionately higher cost of service than if the same plant were funded with a combination of both debt and equity capital. Therefore, Staff's recommendation that QCW be required to rebalance its capital structure prior to the filing of its next rate case is intended to provide a measure of rate relief to customers in the future. It should be noted that, to the extent QCW fails to effectuate a rebalancing of its 100.0 percent equity capital structure prior to the filing of its next rate case, for rate-making purposes Staff is prepared to recommend use of a hypothetical capital structure for the Company.

Q. To Staff's knowledge, have there been other Robson-owned regulated utilities who have effectuated a rebalancing of their capital structures when filing for a rate increase with the Commission?

A. Yes, there have been two such recent instances. In 2011, QCW's sister affiliate, Pima Utility Company, effectuated a rebalancing of its capital structure when filing for rates (*See* Docket No. W-02199A-11-0329, et al.), and in 2013 another sister affiliate, Lago Del Oro Water Company, did likewise (*See* Docket No. W-01944A-13-0215). In each of the two above noted dockets the rebalancing of the capital structure was effectuated, in part, by replacing existing equity capital with newly issued debt capital.

Q. Did Staff consider recommending a hypothetical capital structure for the Company in the instant docket?

A. No, it did not. QCW last filed for a rate increase 16 years ago (the Company's prior rate case used a December 31, 1997 test-year end), and as a consequence the Company has not been afforded the opportunity to earn a return on the investment in plant placed into service since that time. For this reason, Staff did not believe use of a hypothetical capital structure was warranted at this time.

IV. RETURN ON EQUITY

Background

Q. Please define the term "cost of equity capital."

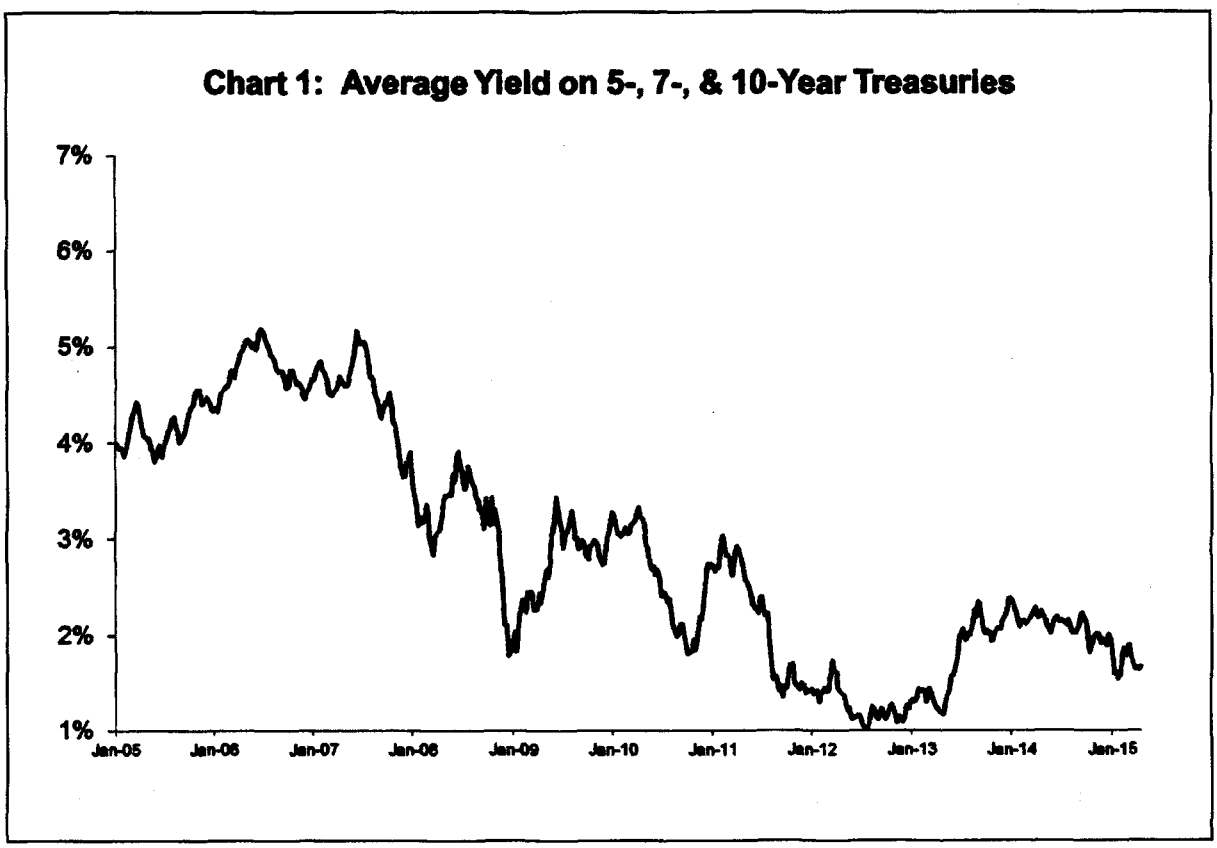
A. The cost of equity is the rate of return that investors expect to earn on their investment in a business entity given its risk. In other words, the cost of equity to the entity is the investors' expected rate of return on other investments of similar risk. As investors have a wide selection of stocks to choose from, they will choose stocks with similar risks but higher returns. Therefore, the market determines the entity's cost of equity.

Q. Is there a correlation between interest rates and the cost of equity?

A. Yes, there is a positive correlation between interest rates and the cost of equity, as the two tend to move in the same direction.

Q. What has been the general trend of interest rates in recent years?

A. A chronological chart of interest rates is a good tool to show interest rate history and identify trends. Chart 1 graphs intermediate U.S. treasury rates from January 7, 2005, to April 24, 2015.



As shown in Chart 1, intermediate-term interest rates generally trended upward from 2005 to mid-2007, trended downward until mid-2012, and have trended upward since that time.

Q. What has been the general trend in interest rates longer term?

A. U.S. Treasury rates from January 1965 - March 2015 are shown in Chart 2. The chart shows that interest rates trended upward through the early- to mid-1980s and have trended downward since that time.

Source: Federal Reserve

Q. Do these trends have relevance to the cost of equity?

A. Yes. As previously noted, interest rates and the cost of equity tend to move in the same direction; therefore, it can be concluded that the cost of equity has also declined over the past 30 years.

Q. Do actual returns represent the cost of equity?

A. No. The cost of equity represents investors' *expected* returns and not realized returns.

Risk

Q. Please define risk as it relates to an equity security investment.

A. Risk, as it relates to an equity security investment, is defined as the variability or uncertainty of the returns associated with that particular security. Investors are risk averse and require a greater potential return to invest in relatively greater risk opportunities, i.e., investors require compensation for taking on additional risk. Risk is generally separated into two components: market risk (systematic risk) which is non-diversifiable, and non-market risk (unsystematic risk or firm-specific risk) which is diversifiable.

Q. What is market risk?

A. Market risk, or systematic risk, is the risk associated with an investment that cannot be reduced through diversification. Market risk stems from factors that affect all securities, such as recessions, war, inflation and high interest rates. These factors affect the entire market. However, market risk does not impact each security to the same degree.

Q. What is non-market risk?

A. Non-market risk, or unsystematic risk, is risk which is unique to the firm and is capable of being diversified away. Examples of unsystematic risk include losses caused by labor problems, nationalization of assets, loss of a big client or adverse weather conditions. Investors can eliminate firm-specific risk by holding a diverse portfolio; thus, it is not of concern to diversified investors.

Q. Is the cost of equity affected by firm-specific risk?

A. No. Since firm-specific risk can be eliminated through diversification, it does not affect the cost of equity.

Q. Can investors expect additional returns for firm-specific risk?

A. No. Investors who hold diversified portfolios can effectively eliminate firm-specific risk and, consequently, do not require any additional return. Since investors who choose to be less than fully-diversified must compete in the market with fully-diversified investors, the former cannot expect to be compensated for unique risk.

Q. Is a firm subject to any other risk?

A. Yes. Firms are also subject to business risk and to financial risk.

Q. Please define business risk.

A. Business risk is the fluctuation of earnings inherent in a firm's operations and environment, such as competition and adverse economic conditions, which may impair its ability to provide returns on investment. Companies in the same or similar line of business tend to experience the same fluctuations in business cycles.

Q. Please define financial risk.

A. Financial risk is the fluctuation of earnings inherent in the use of debt financing that may impair a firm's ability to provide adequate returns; the higher the percentage of debt in a company's capital structure, the greater its exposure to financial risk.

Q. Do business risk and financial risk affect the cost of equity?

A. Yes.

Q. How does QCW's financial risk exposure compare to that of Staff's sample group of water companies?

A. JAC-4 shows the capital structures of the seven sample water companies as of December 2013, and QCW's capital structure as of the test year ending December 31, 2013. As shown, the sample water utilities were capitalized with approximately 47.6 percent debt and 52.4 percent equity, while QCW's capital structure consists of 0.0 percent debt and 100.0 percent equity. Thus, relative to Staff's sample companies, QCW has no exposure to financial risk because the Company does not utilize debt financing.

V. ESTIMATING THE COST OF EQUITY

Introduction

Q. Did Staff directly estimate the cost of equity for QCW?

A. No. Since QCW is not a publicly-traded company, Staff is unable to directly estimate its cost of equity due to the lack of firm-specific market data. Instead, Staff estimated the Company's cost of equity indirectly, using a representative sample group of publicly-traded water utilities as a proxy, taking the average of the sample group to reduce the sample error resulting from random fluctuations in the market at the time the information is gathered.

Q. What sample companies did Staff select as proxies for QCW?

A. Staff's sample consists of the following seven publicly-traded water utilities: American States Water, California Water, Aqua America, Connecticut Water Service, Middlesex Water, SJW Corporation and York Water. Staff selected these companies because they are publicly-

traded, receive the majority of their earnings from regulated operations, have at least ten years of historical market trading data available, and are followed by the *Value Line Investment Survey.*

Q. What models did Staff implement to estimate QCW's cost of equity?

A. Staff used two variations of the DCF model, both of which are market-based, to estimate the cost of equity for QCW: the constant-growth DCF model and the multi-stage DCF model.

Q. Please explain why Staff chose the DCF model.

A. Staff chose to use the DCF model because it is a widely-recognized market-based model and has been used extensively to estimate the cost of equity. For the reasons noted earlier, Staff does not incorporate estimates derived from the CAPM into its cost of equity analysis for QCW. An explanation of the DCF model is provided below.

Discounted Cash Flow Model Analysis

Q. Please provide a brief summary of the theory upon which the DCF method of estimating the cost of equity is based.

A. The DCF method of stock valuation is based on the theory that the value of an investment is equal to the sum of the future cash flows generated from the aforementioned investment discounted to the present time. This method uses expected dividends, market price and dividend growth rate to calculate the cost of capital. Professor Myron Gordon pioneered the DCF method in the 1960s. The DCF method has become widely used to estimate the cost of equity for public utilities due to its theoretical merit and its simplicity. Staff used the financial information for the relevant seven sample companies in the DCF model and averaged the results to determine an estimated cost of equity for the sample companies.

Q. Does Staff use more than one version of the DCF?

A. Yes. Staff uses two versions of the DCF model: the constant-growth DCF and the multi-stage or non-constant growth DCF. The constant-growth DCF assumes that an entity's dividends will grow indefinitely at the same rate. The multi-stage growth DCF model assumes the dividend growth rate will change at some point in the future.

The Constant-Growth DCF

Q. What is the mathematical formula used in Staff's constant-growth DCF analysis?

A. The constant-growth DCF formula used in Staff's analysis is:

Equation 2:

$$K = \frac{D_1}{P_0} + g$$

where:

K = the cost of equity
D_1 = the expected annual dividend
P_0 = the current stock price
g = the expected infinite annual growth rate of dividends

Equation 2 assumes that the entity has a constant earnings retention rate and that its earnings are expected to grow at a constant rate. According to Equation 2, a stock with a current market price of $10 per share, an expected annual dividend of $0.45 per share and an expected dividend growth rate of 3.0 percent per year has a cost of equity to the entity of 7.5 percent reflected by the sum of the dividend yield ($0.45/ $10 = 4.5 percent) and the 3.0 percent annual dividend growth rate.

Q. How did Staff calculate the expected dividend yield (D_1/P_0) component of the constant-growth DCF formula?

A. Staff calculated the expected yield component of the DCF formula by dividing the expected annual dividend (D_1) by the spot stock price (P_0) after the close of market on April 1, 2015, as reported by *MSN Money*.

Q. Why did Staff use the April 1, 2015, spot price rather than a historical average stock price to calculate the dividend yield component of the DCF formula?

A. The current, rather than historic, market price is used in order to be consistent with financial theory. In accordance with the Efficient Market Hypothesis, the current stock price is reflective of all available information on a stock, and as such reveals investors' expectations of future returns.

Q. How did Staff estimate the dividend growth (g) component of the constant-growth DCF model represented by Equation 2?

A. The dividend growth component used by Staff is determined by the average of six different estimation methods, as shown in Schedule JAC-8. Staff calculated historical and projected growth estimates on dividend-per-share ("DPS"),[7] earnings-per-share ("EPS")[8] and sustainable growth bases.

Q. Why did Staff examine EPS growth to estimate the dividend growth component of the constant-growth DCF model?

A. Historic and projected EPS growth are used because dividends are related to earnings. Dividend distributions may exceed earnings in the short run, but cannot continue indefinitely. In the long term, dividend distributions are dependent on earnings.

[7] Derived from information provided by *Value Line*.
[8] Derived from information provided by *Value Line*.

Q. How did Staff estimate historical DPS growth?

A. Staff estimated historical DPS growth by calculating a compound annual DPS growth rate for each of its sample companies over the 10-year period, 2004-2013. As shown in Schedule JAC-5, the average historical DPS growth rate for the sample was 3.7 percent.

Q. How did Staff estimate projected DPS growth?

A. Staff calculated an average of the projected DPS growth rates for the sample water utilities from *Value Line* through the period, 2017-2019. The average projected DPS growth rate is 6.4 percent, as shown in Schedule JAC-5.

Q. How did Staff estimate historical EPS growth rate?

A. Staff estimated historical EPS growth by calculating a compound annual EPS growth rate for each of its sample companies over the 10-year period, 2004-2013. As shown in Schedule JAC-5, the average historical EPS growth rate for the sample was 6.5 percent.

Q. How did Staff estimate projected EPS growth?

A. Staff calculated an average of the projected EPS growth rates for the sample water utilities from *Value Line* through the period, 2017-2019. The average projected EPS growth rate is 6.5 percent, as shown in Schedule JAC-5.

Q. How does Staff calculate its historical and projected sustainable growth rates?

A. Historical and projected sustainable growth rates are calculated by adding their respective retention growth rate terms (br) to their respective stock financing growth rate terms (vs), as shown in Schedule JAC-6.

Q. What is retention growth?

A. Retention growth is the growth in dividends due to the retention of earnings. The retention growth concept is based on the theory that dividend growth cannot be achieved unless the company retains and reinvests a portion of its earnings. The retention growth is used in Staff's calculation of sustainable growth shown in Schedule JAC-6.

Q. What is the formula for the retention growth rate?

A. The retention growth rate is the product of the retention ratio and the book/accounting return on equity. The retention growth rate formula is:

Equation 3:

$$\text{Retention Growth Rate} = br$$

where: b = the retention ratio (1 – dividend payout ratio)
r = the accounting/book return on common equity

Q. How did Staff calculate the average historical retention growth rate (br) for the sample water utilities?

A. Staff calculated the mean of the 10-year average historical retention rate for each sample company over the period, 2004-2013. As shown in Schedule JAC-6, the historical average retention (br) growth rate for the sample is 2.8 percent.

Q. How did Staff estimate its projected retention growth rate (br) for the sample water utilities?

A. Staff used the retention growth projections for the sample water utilities for the period, 2017-2019, from *Value Line*. As shown in Schedule JAC-6, the projected average retention growth rate for the sample companies is 4.3 percent.

Q. When can retention growth provide a reasonable estimate of future dividend growth?

A. The retention growth rate is a reasonable estimate of future dividend growth when the retention ratio is reasonably constant and the entity's market price to book value ("market-to-book ratio") is expected to be 1.0. The average retention ratio has been reasonably constant in recent years. However, the market-to-book ratio for the sample water utilities is 2.4, notably higher than 1.0, as shown in Schedule JAC-7.

Q. Is there any financial implication of a market-to-book ratio greater than 1.0?

A. Yes. A market-to-book ratio greater than 1.0 implies that investors expect an entity to earn an accounting/book return on its equity that exceeds its cost of equity. The relationship between required returns and expected cash flows is readily observed in the fixed securities market. For example, assume an entity contemplating issuance of bonds with a face value of $10 million at either 6 percent or 8 percent and, thus, paying annual interest of $600,000 or $800,000, respectively. Regardless of investors' required return on similar bonds, investors will be willing to pay more for the bonds if issued at 8 percent than if the bonds are issued at 6 percent. For example, if the current interest rate required by investors is 6 percent, then they would bid $10 million for the 6 percent bonds and more than $10 million for the 8 percent bonds. Similarly, if equity investors require a 9 percent return and expect an entity to earn accounting/book returns of 13 percent, the market will bid up the price of the entity's stock to provide the required return of 9 percent.

Q. How has Staff generally recognized a market-to-book ratio exceeding 1.0 in its cost of equity analyses in recent years?

A. Staff has assumed that investors expect the market-to-book ratio to remain greater than 1.0. Given that assumption, Staff has added a stock financing growth rate (vs) term to the retention ratio (br) term to calculate its historical and projected sustainable growth rates.

Q. Do the historical and projected sustainable growth rates Staff uses to develop its DCF cost of equity in this case continue to include a stock financing growth rate term?

A. Yes.

Q. What is stock financing growth?

A. Stock financing growth is the increase in an entity's dividends attributable to the sale of stock by that entity. Stock financing growth is a concept derived by Myron Gordon and discussed in his book *The Cost of Capital to a Public Utility.*[9] Stock financing growth is the product of the fraction of the funds raised from the sale of stock that accrues to existing shareholders (v) and the fraction resulting from dividing the funds raised from the sale of stock by the existing common equity (s).

Q. What is the mathematical formula for the stock financing growth rate?

A. The mathematical formula for stock financing growth is:

Equation 4:

$$\text{Stock Financing Growth} = vs$$

where: v = Fraction of the funds raised from the sale of stock that accrues to existing shareholders

s = Funds raised from the sale of stock as a fraction of the existing common equity

Q. How is the variable *v* presented above calculated?

A. Variable *v* is calculated as follows:

[9] Gordon, Myron J. *The Cost of Capital to a Public Utility.* MSU Public Utilities Studies, Michigan, 1974, pp. 31-35.

Equation 5:

$$v = 1 - \left(\frac{\textit{book value}}{\textit{market value}} \right)$$

For example, assume that a share of stock has a $30 book value and is selling for $45. Then, to find the value of *v*, the formula is applied:

$$v = 1 - \left(\frac{30}{45} \right)$$

In this example, *v* is equal to 0.33.

Q. How is the variable *s* presented above calculated?

A. Variable *s* is calculated as follows:

Equation 6:

$$s = \frac{\text{Funds raised from the issuance of stock}}{\text{Total existing common equity before the issuance}}$$

For example, assume that an entity has $150 in existing equity, and it sells $30 of stock. Then, to find the value of *s*, the formula is applied:

$$s = \left(\frac{30}{150} \right)$$

In this example, *s* is equal to 20.0 percent.

Q. What is the *vs* term when the market-to-book ratio is equal to 1.0?

A. A market-to-book ratio of 1.0 reflects that investors expect an entity to earn a book/accounting return on their equity investment equal to the cost of equity. When the

market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the entity accrues to the benefit of existing shareholders, i.e., the term *v* is equal to zero (0.0). Consequently, the *vs* term is also equal to zero (0.0). When stock financing growth is zero, dividend growth depends solely on the *br* term.

Q. What is the effect of the *vs* term when the market-to-book ratio is greater than 1.0?

A. A market-to-book ratio greater than 1.0 reflects that investors expect an entity to earn a book/accounting return on their equity investment greater than the cost of equity. Equation 5 shows that, when the market-to-book ratio is greater than 1.0, the *v* term is also greater than zero. The excess by which new shares are issued and sold over book value per share of outstanding stock is a contribution that accrues to existing stockholders in the form of a higher book value. The resulting higher book value leads to higher expected earnings and dividends. Continued growth from the *vs* term is dependent upon the continued issuance and sale of additional shares at a price that exceeds book value per share.

Q. What *vs* estimate did Staff calculate from its analysis of the sample water utilities?

A. Staff estimated an average stock financing growth of 2.7 percent for the sample water utilities, as shown in Schedule JAC-6.

Q. What would occur if an entity had a market-to-book ratio greater than 1.0 as a result of investors expecting earnings to exceed its cost of equity, and subsequently experienced newly-authorized rates equal only to its cost of equity?

A. Holding all other factors constant, one would expect market forces to move the company's stock price lower, closer to a market-to-book ratio of 1.0, to reflect investor expectations of reduced expected future cash flows.

Q. If the average market-to-book ratio of Staff's sample water utilities were to fall to 1.0 due to authorized ROEs equaling their cost of equity, would inclusion of the vs term be necessary to Staff's constant-growth DCF analysis?

A. No. As discussed above, when the market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the entity accrues to the benefit of existing shareholders because the *v* term equals to zero and, consequently, the *vs* term also equals zero. When the market-to-book ratio equals 1.0, dividend growth depends solely on the *br* term. Staff's inclusion of the *vs* term assumes that the market-to-book ratio continues to exceed 1.0 and that the water utilities will continue to issue and sell stock at prices above book value with the effect of benefitting existing shareholders.

Q. What are Staff's historical and projected sustainable growth rates?

A. Staff's estimated historical sustainable growth rate is 5.5 percent based on an analysis of earnings retention for the sample water companies. Staff's projected sustainable growth rate is 7.0 percent based on retention growth projected by *Value Line.* Schedule JAC-6 presents Staff's estimates of the sustainable growth rate.

Q. What is Staff's expected infinite annual growth rate in dividends?

A. Staff's expected dividend growth rate (g) is 5.9 percent, which is the average of historical and projected DPS, EPS, and sustainable growth estimates. Staff's calculation of the expected infinite annual growth rate in dividends is shown in Schedule JAC-8.

Q. What is Staff's constant-growth DCF estimate for the sample utilities?

A. Staff's constant-growth DCF estimate is 8.6 percent, as shown in Schedule JAC-3.

The Multi-Stage DCF

Q. Why did Staff implement the multi-stage DCF model to estimate QCW's cost of equity?

A. Staff generally uses the multi-stage DCF model to consider the assumption that dividends may not grow at a constant rate. The multi-stage DCF uses two stages of growth; the first stage (near-term) has a duration of four years, followed by a second stage (long-term) of constant growth.

Q. What is the mathematical formula for the multi-stage DCF?

A. The multi-stage DCF formula is shown in the following equation:

Equation 7:

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

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

Q. What steps did Staff take to implement its multi-stage DCF cost of equity model?

A. First, Staff projected future dividends for each of the sample water utilities using near-term and long-term growth rates. Second, Staff calculated the rate (cost of equity) which equates the present value of the forecasted dividends to the current stock price for each of the sample water utilities. Lastly, Staff calculated an overall sample average cost of equity estimate.

Q. How did Staff calculate near-term (stage-1) growth?

A. The stage-1 growth rate is based on *Value Line*'s projected dividends for the next twelve months, when available, and on the average dividend growth (g) rate of 5.9 percent, calculated in Staff's constant DCF analysis for the remainder of the stage.

Q. How did Staff estimate long-term (stage-2) growth?

A. Staff calculated the stage-2 growth rate using the arithmetic mean rate of growth in Gross Domestic Product ("GDP") from 1929 to 2013.[10] Using the GDP growth rate assumes that the water utility industry is expected to grow at the same rate as the overall economy.

Q. What is the historical GDP growth rate that Staff used to estimate stage-2 growth?

A. Staff used 6.5 percent to estimate the stage-2 growth rate.

Q. What is Staff's multi-stage DCF estimate for the sample utilities?

A. Staff's multi-stage DCF estimate is 9.1 percent, as shown in Schedule JAC-3.

Q. What is Staff's overall DCF estimate for the sample utilities?

A. Staff's overall DCF estimate is 8.9 percent. Staff calculated the overall DCF estimate by averaging the constant growth DCF (8.6%) and multi-stage DCF (9.1%) estimates, as shown in Schedule JAC-3.

[10] www.bea.doc.gov.

VI. SUMMARY OF STAFF'S COST OF EQUITY ANALYSIS

Q. What is the result of Staff's constant-growth DCF analysis to estimate the cost of equity for the sample water utilities?

A. Schedule JAC-3 shows the result of Staff's constant-growth DCF analysis. The result of Staff's constant-growth DCF analysis is as follows:

k = 2.7% + 5.9%

k = **8.6%**

Staff's constant-growth DCF estimate of the cost of equity for the sample water utilities is 8.6 percent.

Q. What is the result of Staff's multi-stage DCF analysis to estimate of the cost of equity for the sample utilities?

A. Schedule JAC-9 shows the result of Staff's multi-stage DCF analysis. The result of Staff's multi-stage DCF analysis is:

Company	**Equity Cost Estimate (k)**
American States Water	8.6%
California Water	9.2%
Aqua America	8.9%
Connecticut Water	9.2%
Middlesex Water	9.9%
SJW Corp	9.0%
York Water	8.9%
Average	**9.1%**

Staff's multi-stage DCF estimate of the cost of equity for the sample water utilities is 9.1 percent.

Q. What is Staff's overall DCF estimate of the cost of equity for the sample utilities?

A. Staff's overall DCF estimate of the cost of equity for the sample utilities is 8.9 percent. Staff calculated an overall DCF cost of equity estimate by averaging Staff's constant growth DCF (8.6 percent) and Staff's multi-stage DCF (9.1 percent) estimates, as shown in Schedule JAC-3.

VII. FINAL COST OF EQUITY ESTIMATES FOR QCW

Q. Please compare QCW's capital structure to that of Staff's seven sample companies.

A. The average capital structure for the sample water utilities is composed of 47.6 percent debt and 52.4 percent equity, as shown in Schedule JAC-4. In contrast, QCW's capital structure is composed of 0.0 percent debt and 100.0 percent equity. Thus, unlike the sample companies, QCW shareholders have no exposure to financial risk due to the absence of fixed cost debt financing in the Company's capital structure.

Q. Is Staff recommending a downward financial risk adjustment to the Company's cost of equity to recognize its lower financial risk?

A. No. Staff normally applies two criteria in assessing whether application of a downward financial risk adjustment is appropriate. The first consideration is whether the utility has a reasonably economical capital structure. Staff considers a capital structure composed of no more than 60 percent equity to meet this condition. If equity exceeds 60 percent, as it does for QCW, Staff considers application of a downward financial risk adjustment to be appropriate if the utility meets the second criteria. The second condition is whether the utility has access to the capital markets. For non-publicly traded entities, access to the capital markets typically requires that the firm obtain an investment grade credit rating, or to be affiliated (i.e., operating subsidiary) with a parent company having such. In the instant docket, QCW does not meet this condition; thus, despite QCW's equity exceeding 60 percent,

Staff is not recommending a downward financial risk adjustment to the Company's cost of equity. Staff's methodology for applying a downward financial risk adjustment encourages a utility with access to the capital markets to use that access to manage its capital structure with economic efficiency and encourages a utility that lacks access to the capital markets to maintain a healthy capital structure.

Q. Does Staff recommend that, prior to filing its next rate case, QCW be required to effectuate a rebalancing of the Company's equity rich capital structure?

A. Yes. For the reasons noted earlier, Staff recommends that QCW be required to effectuate a rebalancing of its capital structure prior to filing its next rate case.

Q. Did Staff consider factors other than the results of its technical models in its cost of equity analysis?

A. Yes. In consideration of the relatively uncertain status of the economy and the market that currently exists, Staff is proposing an upward economic assessment adjustment to the cost of equity. In this case, Staff recommends a 60 basis point (0.6 percent) upward economic assessment adjustment, as shown in Schedule JAC-3.

Q. What is Staff's recommended cost of equity for QCW?

A. Staff recommends a cost of equity of 9.5 percent for QCW, based on cost of equity estimates for the sample companies of 8.6 percent for the constant-growth DCF model and 9.1 percent for the multi-stage DCF model. Staff recommends adoption of a 60 basis point upward economic assessment adjustment resulting in a 9.5 percent Staff-recommended cost of equity, as shown in Schedule JAC-3.

VIII. RATE OF RETURN RECOMMENDATION

Q. What overall rate of return did Staff determine for QCW?

A. Staff determined a 9.5 percent ROR for the Company, as shown in Schedule JAC-1 and the following table:

Table 3

	Weight	Cost	Weighted Cost
Long-term Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	9.5%	9.5%
Overall ROR			**9.5%**

IX. STAFF RESPONSE TO COMPANY'S COST OF CAPITAL WITNESS MR. THOMAS J. BOURASSA

Q. Please summarize Mr. Bourassa's analyses and recommendations.

A. Mr. Bourassa recommends a 10.0 percent cost of equity based on estimates derived from two constant growth Discounted Cash Flow ("DCF") models, one Risk Premium Model ("RPM"), and two Capital Asset Pricing Model ("CAPM") analyses, using a proxy sample of seven publicly-traded water companies. He proposes a capital structure consisting of 0.00 percent debt and 100.00 percent equity. Based upon the results of his cost of equity analyses, Mr. Bourassa determined that the cost of equity for his publicly traded sample water utilities lied within the range of 9.4 percent to 10.8 percent, with the mid-point of this range being 10.1 percent. To this 10.1 percent mid-point cost of equity estimate, Mr. Bourassa arrived at his recommended 10.0 percent cost of equity estimate for the Company by making an upward 50 basis point (0.5 percent) adjustment for QCW's small size relative to the sample companies, and a downward Hamada financial risk adjustment of 60 basis points (0.6 percent) to give recognition to QCW's equity rich capital structure (10.1 percent + 0.5 percent – 0.6 percent = 10.0 percent).

For purposes of his constant growth DCF analyses, Mr. Bourassa derived (i) a 9.61 percent cost of equity estimate using *Value Line* projected EPS growth forecasts to estimate the dividend growth (g) component (See TJB Schedule D-4.7, Page 1), and (ii) a 9.42 percent cost of equity estimate based upon an average of historical and forecasted measures of dividend growth (See TJB Schedule D-4.7, Page 2). The historical growth parameters utilized by Mr. Bourassa in his past and future DCF analysis include growth in share price appreciation, book value, EPS, and DPS. As shown in Mr. Bourassa's summary Schedule D-4.1, these two DCF estimates are reported as 9.6 percent and 9.4 percent. In each of his two constant growth DCF models, Mr. Bourassa uses a spot market stock price to compute the current dividend yield (D_0/P_0). However, as reported in TJB Schedule D-4.6, the spot price date is reported to be September 5, 2014, a date which conflicts with the June 13, 2014 spot price date noted in Mr. Bourassa's direct testimony.[11]

In his RPM analysis, Mr. Bourassa obtains an equity risk premium of 6.0 percent for his sample companies computed as the spread between average annual total realized market returns for his proxy group of companies over the 15-year period, 1999-2013, less the average annual yield on long-term U.S. Treasury securities over this same period of time. To this 6.0 percent equity risk premium, Mr. Bourassa adds a 4.6 percent forecasted U.S. Treasury Bond rate based, in part, upon estimates from Value Line and Blue Chip Consensus Forecasts covering the period, 2016-2018 (See TJB Schedule D-4.8).[12] Based upon these calculations, Mr. Bourassa derived a RPM estimated cost of equity of 10.6 percent (6.0 percent + 4.6 percent = 10.6 percent) (See TJB Schedule D-4.9).

In his CAPM analyses, Mr. Bourassa presents estimates based upon both historical and current market risk premia. For purposes of his historical market risk premium CAPM, Mr.

[11] *See* Bourassa Direct, page 26, lines 6-7.
[12] *See* Bourassa Direct, page 29, lines 9-10.

Bourassa utilizes inputs from *Duff and Phelps* to obtain an average market risk (RP_M) premium of 6.96 percent on the Standard & Poor's 500 ("S&P 500") index over the period 1926-2013. He then multiplies this figure by his 0.71 sample average beta coefficient, and to that quantity adds a 4.60 percent forecasted risk free (R_f) rate, deriving a 9.5 percent historical MRP CAPM estimated cost of equity (See TJB Schedule D-4.11). For purposes of his current market risk premium CAPM, Mr. Bourassa utilizes inputs from the DCF model to compute an expected market (k) return. In making this calculation, Mr. Bourassa began by calculating a 9.44 percent dividend growth (g) rate utilizing median 3-5 year projected growth estimates for EPS, DPS and book value per share for the universe of 1700 stocks covered by *Value Line*. To this number he added a recent 3-month average (i.e., June-August, 2014) expected dividend yield (D_1/P_0) of 2.61 percent for his sample companies, obtaining an expected market (k) return of 12.05 percent (2.61 percent + 9.44 percent = 12.05 percent). Mr. Bourassa then utilized a 3-month average measure of the ***current*** 30-year U.S. Treasury rate (3.32 percent) as the risk free (R_f) rate to compute the MRP component. In doing so, he obtained an expected current MRP of 8.73 percent, a figure derived by reducing the 12.05 expected market (k) return by the risk free (R_f) rate (12.05 percent – 3.32 percent = 8.73 percent) (See TJB Schedule D-4.10). Finally, Mr. Bourassa derived a 10.8 percent current MRP CAPM cost of equity estimate by multiplying the MRP component by his 0.71 sample average beta coefficient, and to that quantity added a ***forecasted*** risk free (R_f) rate of 4.6 percent (See TJB Schedule D-4.11).[13]

[13] This is the same forecasted 4.6 percent risk free rate used in his RPM analysis (*See* Bourassa Direct, page 33, lines 17-20).

Q. As noted in direct testimony,[14] Mr. Bourassa utilizes a proxy group of seven sample companies. When reviewing Mr. Bourassa's schedules, did Staff find that the information provided for one of his sample companies, American States Water (AWR), was incorrectly identified as American Water Works (AWK)?

A. Yes. A review of Mr. Bourassa's Schedules D-4.2, D-4.3, D-4.4, D-4.5, D-4.6 and D-4.7 suggests that he utilized American Water Works (AWK), and not American States Water (AWR), as one of his seven proxy companies. However, in reviewing Mr. Bourassa's cost of capital work papers, Staff determined that the market data provided by Mr. Bourassa in the above noted schedules properly pertained to American States Water, and not to American Water Works.

Q. Does Staff have any comment on Mr. Bourassa's use of growth in average annual share price to estimate the expected dividend growth (g) component in the constant growth DCF model?

A. Yes. Staff would point out that as presented in both Mr. Bourassa's five- and ten-year historical growth DCF analyses, share price growth exceeded that of dividend growth by a wide margin. Specifically, in his five-year historical growth analysis (See TJB Schedule D-4.4) average share price growth (9.43 percent) exceeds average DPS growth (3.50 percent) by 169.43 percent (((.0943/.0350) – 1) = 1.6943), and in his ten-year historical growth analysis (See TJB Schedule D-4.5) average share price growth (9.35 percent) exceeds average DPS growth (3.50 percent) by 167.14 percent (((.0935/.0350) – 1) = 1.6714). Thus, share price appreciation is not a determinant of dividend growth, and for this reason Staff considers its use as a growth parameter to be inappropriate in the DCF model.

[14] *See* Bourassa Direct, page 11, lines 24-26.

Q. As it relates to the cost of equity, what is the significance of Mr. Bourassa's sample water companies having experienced share price growth in excess of DPS growth over both the last five- and ten-year periods?

A. Simply stated, it is an indication that the cost of equity for publicly-traded water utilities has fallen over each of the last 5- and 10-year periods. When the market price per share of common stock for a given firm rises faster than does the dividend paid on a per share basis, the dividend yield falls. As dividend yields fall, investors pay more for an equivalent unit of return on their investment, resulting in a lower cost of equity. Markets are efficient, and because prices for publicly traded stocks can rise only if investors are willing to bid up the share price, when share price growth exceeds DPS growth over a five- or ten-year period, the willingness of investors to continue to bid up share prices is reflective of investor expectations that market returns have fallen. Thus, Mr. Bourassa's use of share price growth increases his cost of equity estimate at a time when share price growth actually reflects a decrease in the market cost of equity. This incongruous outcome is the result of choosing an inappropriate parameter for dividend growth in the DCF model.

Q. Does this suggest that Mr. Bourassa's DCF cost of equity estimates have been overstated by use of share price appreciation as a growth parameter to measure the dividend growth (g) rate in the constant growth DCF model?

A. Yes. For purposes of his analysis, Mr. Bourassa incorporates the 5-year measures of historical growth depicted in TJB Schedule D-4.4 into his DCF analysis. As shown in column [5] of that schedule, Mr. Bourassa's estimated 6.14 percent average historical dividend growth rate represents an average of the estimates shown in columns [1] through [4]. Staff determined that if the 9.43 percent growth estimate for share price appreciation was *excluded* from the

computation of the 5-year historical average appearing in column [5], an average based upon the individual estimates appearing in column's [2] through [4] for each sample company (i.e., growth in book value, EPS and DPS) would result in Mr. Bourassa's historical average falling from 6.14 percent to 5.02 percent, a difference of 112 basis points. Do I include a Staff Exhibit restating TJB Schedule D-4.4 to show this?

Q. Turning to Mr. Bourassa's RPM analysis, does Staff believe that Mr. Bourassa's methodology serves to overstate his 10.6 percent RPM derived cost of equity?

A. Yes, and for two reasons. First, for purposes of his analysis Mr. Bourassa improperly utilizes a 30-year U.S. Treasury yield to estimate the equity risk premium component of his RPM model. Long-term U.S. Treasury debt instruments are commonly used as a proxy for the risk free (R_f) rate in the CAPM because they are free of default risk. In order to compute what might be considered a "market-based" measure of the equity risk premium, Mr. Bourassa should properly have used the yield on a market based corporate debt instrument. Second, Mr. Bourassa's use of a forecasted 4.6 percent 30-year U.S. Treasury rate in the computation of his RPM cost of equity estimate was improper. Instead, he should have used the current 30-year U.S. Treasury rate currently borne by investors in the marketplace. As of Staff's April 1, 2015 spot-price date, the yield on the 30-year U.S. Treasury Bond was 2.47 percent, a figure 213 basis points *lower* than the forecasted 4.6 percent rate used by Mr. Bourassa in his RPM analysis (.046 - .257 = .0213).

Q. Turning to Mr. Bourassa's CAPM analyses, does Staff believe that use of EPS and DPS growth estimates are appropriate as inputs to be used in the computation of the MRP component in the current MRP CAPM model?

A. No. The CAPM is a single holding period model,[15] and as such the appropriate growth inputs to be used in the computation of the MRP component of the current MRP CAPM are those which might reasonably be expected to reflect investor's holding period returns over the next 3-5 years. In contrast, EPS and DPS growth estimates are appropriate inputs to be used in the DCF model, as DCF cost of equity estimates are obtained by discounting anticipated future cash flows (i.e., dividend distributions) into perpetuity. Mr. Bourassa's use of EPS and DPS as inputs in the current MRP CAPM model appear to be self-serving at this time, for given the strength of the equity markets over the last several years,[16] the DPS and EPS growth estimates utilized in Mr. Bourassa's current MRP CAPM are not reflective of *current* market conditions.

Q. Does Staff believe it is proper for Mr. Bourassa to use a forecasted risk-free (R_F) interest rate in his CAPM analyses?

A. No. The appropriate risk-free interest rate to be used in the CAPM model is the current rate borne by investors in the market. Use of a forecasted risk-free rate serves to overstate the estimated market cost of equity.

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[15] The CAPM makes the following assumptions: 1) single holding period; 2) perfect and competitive securities market; 3) no transaction costs; 4) no restrictions on short selling or borrowing; 5) the existence of a risk-free rate; and 6) homogeneous expectations.

[16] *See* Cassidy Direct, p. 4, footnote 4.

Q. Please comment on Mr. Bourassa's use of a current measure of the risk free rate when computing the market risk premium component of the current MRP CAPM, and a forecasted risk free rate when computing his overall current MRP CAPM cost of equity.

A. As shown in TJB Schedules D-4.10 and D-4.11, Mr. Bourassa uses two different risk free rates in his current MRP CAPM: a 3.32 percent 30-year U.S. Treasury yield as the risk-free (R_f) rate in the computation of his 8.73 percent current MRP, and a 4.6 percent forecasted risk free rate in the computation of his 10.8 percent current MRP CAPM cost of equity. By so doing, he maximizes the value of the MRP component by using the *lower* current risk free rate, and maximizes the estimated current MRP CAPM cost of equity by using the *higher* forecasted risk free rate. As noted earlier, Staff believes that the current risk free rate should be used at all times in the CAPM equation, and by failing to do so, Mr. Bourassa has overstated his current MRP CAPM estimate by 128 basis points, a figure equivalent to the difference between the two risk free rates he uses (.0460 - .0332 = .0128).

Q. Does Staff agree with Mr. Bourassa that an adjustment for small size is necessary when setting rates for a regulated public utility?

A. No. Annie Wong, of Western Connecticut State University, conducted a study on utility stocks to determine if the so-called size effect exists in the utility industry, and she writes as follows:

> The fact that the two samples show different, though weak, results indicates that utility and industrial stocks do not share the same characteristics. First, given firm size, utility stocks are consistently less risky than industrial stocks. Second, industrial betas tend to decrease with firm size but utility betas do not. These findings may be attributed to the fact that all public utilities operate in an environment with regional monopolistic power and regulated financial structure. As a result, the business and financial risks are very

> similar among the utilities regardless of their size. Therefore, utility betas would not necessarily be expected to be related to firm size.
>
> The object of this study is to examine if the size effect exists in the utility industry. After controlling for equity values, there is some weak evidence that firm size is a missing factor from the CAPM for the industrial but not for the utility stocks. *This implies that although the size phenomenon has been strongly documented for industrials, the findings suggest that there is no need to adjust for the firm size in utility regulations.* [emphasis added].[17]

To underscore this point, Paschall and Hawkins write as follows:

> A size premium does not automatically apply in every case. Each privately held company should be analyzed to determine if a size premium is appropriate in its particular case. There can be unusual circumstances where a small company has risk characteristics that make it far less risky than the average company, warranting the use of a very low equity risk premium. One possible example of this is a private water utility (monopoly situation, very low risk, near-guarantee of payments).[18]

Q. Has the Commission previously ruled on the issue of firm size and whether it warrants a risk premium adjustment to the cost of equity?

A. Yes. The Commission previously ruled in Decision No. 64282[19] for Arizona Water that firm size does not warrant recognition of a risk premium stating, "We do not agree with the Company's proposal to assign a risk premium to Arizona Water based on its size relative to other publicly traded water utilities…." The Commission confirmed its previous ruling in Decision No. 64727[20] for Black Mountain Gas agreeing with Staff that "the 'firm size phenomenon' does not exist for regulated utilities, and that therefore there is no need to adjust for risk for small firm size in utility regulation." All companies have firm-specific risks;

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[17] Annie Wong, "Utility Stock and the Size Effect: An Empirical Analysis," *Journal of the Midwest Finance Association*, (1993), p.98.
[18] Michael A. Paschall and George B. Hawkins, "Do Smaller Companies Warrant a Higher Discount Rate for Risk?: The 'Size Effect' Debate," *CCH Business Valuation Alert*, Vol. 1, Issue No. 2, December 1999.
[19] Dated December 28, 2001.
[20] Dated April 17, 2002.

therefore, the existence of unique risks for a company does not lead to the conclusion that its total risk is greater than other entities. Moreover, as previously discussed, investors cannot expect compensation for firm-specific risk since it can be eliminated through diversification.

X. CONCLUSION

Q. Please summarize Staff's recommendations.

A. Staff recommends that the Commission adopt a 9.5 percent overall rate of return ("ROR") for the Company based on a capital structure composed of 0.0 percent debt and 100.0 percent equity, Staff's 8.9 percent average DCF cost of equity estimate, and Staff's 60 basis point (0.60 percent) upward economic assessment adjustment.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Capital Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	9.5%	9.5%
Weighted Average Cost of Capital			**9.5%**
Company Proposed Capital Structure			
Debt	0.00%	0.00%	0.00%
Common Equity	100.00%	10.00%	10.00%
Weighted Average Cost of Capital			**10.00%**

[D] : [B] x [C]
Supporting Schedules: JAC-3 and JAC-4.

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Quail Creek Water Company, Inc. Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]		[E]
DCF Method		D_1/P_0 [1]	+ g [2]	=	k
Constant Growth DCF Estimate		2.7%	+ 5.9%	=	8.6%
Multi-Stage DCF Estimate				=	9.1%
Average DCF Estimate					**8.9%**
		Staff's Estimated Cost of Equity			**8.9%**
		Economic Assessment Adjustment			0.6%
		Sub-Total			**9.5%**
		Financial Risk Adjustment			0.0%
		Total			**9.5%**

1 MSN Money and Value Line
2 Schedule JAC-8

Quail Creek Water Company, Inc. Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
Company	Debt	Common Equity	Total
American States Water	40.8%	59.2%	100.0%
California Water	47.2%	52.8%	100.0%
Aqua America	52.0%	48.0%	100.0%
Connecticut Water	48.4%	51.6%	100.0%
Middlesex Water	45.9%	54.1%	100.0%
SJW Corp	54.7%	45.3%	100.0%
York Water	44.2%	55.8%	100.0%
Average Sample Water Utilities	**47.6%**	**52.4%**	**100.0%**
Quail Creek Water Company	**0.00%**	**100.00%**	**100.0%**

Source:
Sample Water Companies from Value Line

Quail Creek Water Company, Inc. Cost of Capital Calculation
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 2004 to 2013 DPS[1]	Dividends Per Share Projected DPS[1]	Earnings Per Share 2004 to 2013 EPS[1]	Earnings Per Share Projected EPS[1]
American States Water	5.6%	8.6%	15.2%	4.4%
California Water	1.3%	8.2%	4.9%	8.9%
Aqua America	7.6%	9.0%	9.7%	6.0%
Connecticut Water	1.7%	4.1%	3.7%	5.3%
Middlesex Water	1.5%	2.0%	5.4%	3.9%
SJW Corp	4.1%	6.5%	2.1%	8.7%
York Water	4.1%	6.3%	4.8%	8.0%
Average Sample Water Utilities	**3.7%**	**6.4%**	**6.5%**	**6.5%**

1 Value Line

Quail Creek Water Company, Inc. Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth 2004 to 2013 br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth 2004 to 2013 br + vs	Sustainable Growth Projected br + vs
American States Water	4.1%	5.4%	1.8%	6.0%	7.3%
California Water	2.6%	3.5%	3.1%	5.7%	6.6%
Aqua America	4.2%	6.0%	1.8%	6.0%	7.8%
Connecticut Water	2.1%	4.5%	3.2%	5.3%	7.7%
Middlesex Water	1.3%	3.2%	3.2%	4.5%	6.4%
SJW Corp	3.2%	3.3%	1.0%	4.2%	4.3%
York Water	2.2%	4.1%	4.9%	7.1%	8.9%
Average Sample Water Utilities	**2.8%**	**4.3%**	**2.7%**	**5.5%**	**7.0%**

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

Quail Creek Water Company, Inc. Cost of Capital Calculation
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 4/1/2015	Book Value	Mkt To Book	*Value Line* Beta *b*	Raw Beta *braw*
American States Water	AWR	**39.89**	13.10	3.0	**0.70**	0.52
California Water	CWT	**24.73**	12.54	2.0	**0.70**	0.52
Aqua America	WTR	**26.45**	8.81	3.0	**0.70**	0.52
Connecticut Water	CTWS	**37.20**	19.70	1.9	**0.65**	0.45
Middlesex Water	MSEX	**23.06**	12.27	1.9	**0.70**	0.52
SJW Corp	SJW	**31.42**	15.86	2.0	**0.85**	0.75
York Water	YORW	**24.08**	8.48	2.8	**0.65**	0.45
Average				**2.4**	**0.71**	**0.53**

[C]: Msn Money
[D]: Value Line
[E]: [C] / [D]
[F]: Value Line
[G]: (-0.35 + [F]) / 0.67

Quail Creek Water Company, Inc. Cost of Capital Calculation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical[1]	3.7%
DPS Growth - Projected[1]	6.4%
EPS Growth - Historical[1]	6.5%
EPS Growth - Projected[1]	6.5%
Sustainable Growth - Historical[2]	5.5%
Sustainable Growth - Projected[2]	7.0%
Average	**5.9%**

1 Schedule JAC-5
2 Schedule JAC-6

Quail Creek Water Company, Inc. Cost of Capital Calculation
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]
Company	Current Mkt. Price (P_o)[1] 4/1/2015	Projected Dividends[2] (Stage 1 growth) (D_t) d_1	d_2	d_3	d_4	Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
American States Water	39.9	0.86	0.91	0.96	1.02	6.5%	8.6%
California Water	24.7	0.69	0.73	0.77	0.82	6.5%	9.2%
Aqua America	26.5	0.65	0.69	0.73	0.78	6.5%	8.9%
Connecticut Water	37.2	1.04	1.10	1.17	1.24	6.5%	9.2%
Middlesex Water	23.1	0.80	0.84	0.89	0.95	6.5%	9.9%
SJW Corp	31.4	0.79	0.84	0.89	0.94	6.5%	9.0%
York Water	24.1	0.60	0.64	0.68	0.72	6.5%	8.9%
						Average	**9.1%**

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

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

1 [B] see Schedule JAC-7
2 Derived from Value Line Information
3 Average annual growth in GDP 1929 - 2012 in current dollars.
4 Internal Rate of Return of Projected Dividends

EXHIBIT
5-2
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF 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

DIRECT

TESTIMONY

OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 6, 2015

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EXECUTIVE SUMMARY
QUAIL CREEK WATER COMPANY, INC.
DOCKET NO. W-02514A-14-0343

Quail Creek Water Company, Inc. ("QCW" or "Company") is an Arizona Class "B" utility engaged in the business of providing potable water service in a portion of Pima County, Arizona, pursuant to certificates of convenience and necessity granted by the Arizona Corporation Commission ("Commission"). In the test-year ended December 31, 2013, Quail Creek served approximately 2,011 customers. The Company's current rates were approved in Decision No. 61611, dated April 1, 1999. QCW's service territory is located in an Active Management Area.

The Company proposes a revenue increase of $411,785, or 48.75 percent, over adjusted test year revenues of $844,719, to $1,256,504. The Company's proposal results in operating income of $367,886 for a 10.00 percent rate of return on its proposed Original Cost Rate Base ("OCRB") of $3,678,863.

Staff recommends a $288,454 or 34.15 percent revenue increase over the adjusted test year revenues of $844,719 to $1,133,173. Staff's recommended revenue results in an operating income of $303,675 for a rate of return of 9.5 percent on Staff's adjusted OCRB of $3,196,580.

Staff recommends:

1. That the Company be required to achieve a more balanced capital structure prior to the filing of its next rate case; to the extent the Company fails to effectuate a rebalancing of its equity rich capital structure, Staff may recommend that a hypothetical capital structure be used for rate-making purposes.

2. The depreciation rates listed in Table E of the Engineering Report.

INTRODUCTION

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

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

Q. Briefly describe your responsibilities as a Public Utilities Analyst III.

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

Q. Please describe your educational background and professional experience.

A. I hold a Bachelor of Arts degree in History from Arizona State University, a Master of Library Science degree from the University of Arizona, and a Master of Business Administration degree with an emphasis in Finance from Arizona State University. While pursuing my MBA degree, I was inducted into Beta Gamma Sigma, the National Business Honor Society. I have passed the CPA exam, but opted not to pursue certification. I have worked professionally as a librarian, financial consultant and tax auditor and served as Staff's cost of capital witness in rate case evidentiary proceedings in my current as well as in a past tenure as a Commission employee. Since returning to the Commission in January 2012, I have filed cost of capital testimony on behalf of Staff in over 20 rate proceedings, and have filed revenue requirement and rate design testimony on behalf of Staff in three rate proceedings. Additionally, I have attended the Society of Utility Regulatory Financial Analyts ("SURFA") Forum (April 2013), the National Association of Regulatory Utility Commissioners ("NARUC") Utility Rate School (May 2013), and the Institute of Public

Utilities at Michigan State University Annual Regulatory Studies Program ("Camp NARUC") (August 2014).

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

A. I am presenting Staff's analysis and recommendations in the areas of rate base, operating revenues and expenses, and cost of capital regarding the Quail Creek Water Company ("QCW" or "Company") application for a permanent rate increase. For convenience, my direct cost of capital testimony and accompanying schedules are being filed under separate cover. I will be filing rate design testimony and schedules on May 13, 2015. Staff witness, Michael Thompson, is presenting Staff's engineering analysis and recommendations.

Q. What is the basis of your recommendations?

A. I performed a regulatory audit of the Company's application to determine whether sufficient, relevant, and reliable evidence exists to support the Company's requested rate increase. The regulatory audit consisted of examining and testing the financial information, accounting records, and other supporting documentation and verifying that the accounting principles applied were in accordance with the Commission-adopted NARUC Uniform System of Accounts ("USOA") and Generally Accepted Accounting Principles ("GAAP").

BACKGROUND

Q. Please provide a brief description of QCW and the service it provides.

A. QCW is an Arizona Class "B" utility engaged in the business of providing potable water service in a portion of Pima County, Arizona. During the test year, QCW served approximately 2,011 customers. The Company's current rates were approved by the

Commission in Decision No. 61611,[1] dated April 1, 1999, and went into effect as of that date. QCW's service territory is located in an Active Management Area ("AMA").

Q. Has QCW experienced significant growth since its last rate filing?

A. Yes. At the time of its last rate case, QCW served fewer than 100 metered customers; today, it serves more than 2,000 metered customers.[2] As a consequence of this growth, QCW has had to make significant investments in plant to accommodate its current level of customer connections.

Q. Please quantify the growth that has occurred in QCW's plant in service since the Company's last rate filing.

A. In its last rate filing, QCW used a test year ending December 31, 1997, and as of that date the Company had plant in service of $981,287. In the instant docket, QCW reports plant in service of $7,819,192 as of the December 31, 2013 test-year end.

Q. When making the additions to plant in service noted above, did QCW pay for and/or take title to these plant additions after the date the plant was initially placed into service?

A. Yes, in some cases. As noted in the direct testimony filed by Company witness, Mr. Ray Jones:

> "QCW uses an affiliate to manage and finance construction of plant expansion projects on its behalf. Once the projects are complete, QCW purchases the plant from the affiliate at actual cost without markup or

[1] Docket No. W-02514A-98-0655.
[2] *See* Soriano Direct, p. 4, lines 12-13.

overhead. In some instances these plant purchases were deferred beyond the year in which the facilities were placed into service."[3]

As presented in Mr. Jones' direct testimony (see table on p. 10), included in QCW's plant in service were deferred plant puchases of $2,600,907.

Q. Will you be addressing the timing of these deferred plant purchases later in your testimony?

A. Yes.

Q. Did QCW rely upon affiliate entities in managing and financing the construction of plant expansion projects on behalf of the Company?

A. Yes. The plant management/financing affiliate responsible for the construction of plant expansion projects for QCW is the developer of the Quail Creek community, Robson Ranch Quail Creek, LLC ("RRQC").[4]

Q. Who owns QCW?

A. QCW is owned by a group of seven shareholders, six of which are organized in the legal form of a trust.[5]

Q. Is QCW affiliated with other business entities?

A. Yes. QCW is affiliated with a number of different business entities, some of which are water and wastewater utilities regulated by the Commission, and others which are non-regulated.

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[3] *See* Jones Direct, p. 9, lines 19-23.

[4] In response to Staff data request JAC 2-1, QCW indicated that all of the plant used and useful in the provision of water service by QCW was built by its affiliate, RRQC.

[5] *See* Soriano Direct, Exhibit SS-DT1. As shown in Exhibit SS-DT1, these six trusts are held in the names of individual members of the Robson family, and account for 99.0 percent of the ownership interest in QCW common equity.

Q. Please identify QCW's water and wastewater utility affiliates which are subject to regulation by the Commission.

A. As presented in the direct testimony filed by Company witness, Mr. Steven Soriano,[6] QCW's regulated sister utilities include:

Ridgeview Utility Company
SaddleBrooke Utility Company
Lago Del Oro Water Company
Picacho Water Company
Picacho Sewer Company
Pima Utility Company
Mountain Pass Utility Company
Santa Rosa Water Company
Santa Rosa Utility Company

Q. Please identify QCW's non-regulated affiliates, and briefly describe the relationship QCW has with each.

A. In response to Staff data request JAC 1-12, QCW identified the following five non-regulated affiliates:

Affiliate	Type of Company
Robson Ranch Quail Creek, LLC	Real Estate Developer
Robson Ranch Arizona Construction Co.	Construction Contractor
Quail Creek CC Property Owners Assoc.	Home Owner's Association
Robson Communities, Inc.	Accounting Services
B & R Engineering, Inc.	Civil Engineering

[6] *Ibid.*, p. 2.

As regards the affiliate relationship QCW has with each, they are as follows: as noted earlier, RRQC is the developer of the Quail Creek community, and both manages and finances plant expansion projects on behalf of QCW; Robson Ranch Arizona Construction Co. ("RRAC") is the construction contractor for the Quail Creek community; Quail Creek CC Property Owners Assoc. ("QCHOA") is the homeowners association for the Quail Creek community; Robson Communities, Inc. ("RCI") provides accounting, HR, IT, and other support services to each of the regulated affiliate companies, including payroll, banking and other administrative support; and B & R Engineering, Inc. ("B&R") is the civil engineering firm of record for the Quail Creek development, and has provided services to the developer of the Quail Creek community (i.e., RRQC) for over 15 years.

Q. Is the Quail Creek community the only development QCW serves within its certificated service territory?

A. No. QCW provides water service to customers in the Quail Creek and Stone House community developments, both of which are located in the Town of Sahuarita, Arizona in Pima County. As noted, RRQC is the developer of the Quail Creek community. The Stone House community is being developed by Stone House Development, Inc., a 50/50 joint venture between Diamond Ventures, Inc. ("DVI") and Robson. The Stone House development is both managed and operated by DVI.[7]

Q. What test year did QCW use in this filing?

A. QCW's test year is based on the twelve months ended December 31, 2013.

[7] *See* Soriano Direct, p. 1, lines 17-23.

CONSUMER SERVICE

Q. Please provide a brief history of customer complaints received by the Commission regarding QCW.

A. A Staff search of the Consumer Services database reveals the following from January 1, 2012 through April 2, 2015:

- **2015** – Eight opinions opposed to the rate case
- **2014** – No complaints
- **2013** – No complaints
- **2012** – No complaints

COMPLIANCE

Q. Please provide a summary of the ACC compliance status of QCW.

A. A check of the Compliance database indicates that as of April 3, 2015, there are currently no delinquencies for QCW. Thus, the Company is currently, "in compliance."

SUMMARY OF PROPOSED REVENUES

Q. Please summarize the Company's filing.

A. The Company proposes a $411,785, or 48.75 percent, revenue increase from $844,719 to $1,256,504. The proposed revenue increase would produce an operating income of $367,886 for a 10.00 percent rate of return on an original cost rate base ("OCRB") of $3,678,863. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with an average usage of 5,725 gallons from $31.03 to $43.63, for an increase of $12.60 or 40.62 percent.

Q. Please summarize Staff's recommended revenue.

A. Staff recommends a $288,454, or 34.15 percent, revenue increase from $844,719 to $1,133,173. Staff's recommended revenue increase would produce an operating income of $303,675 for a 9.50 percent rate of return on a Staff adjusted OCRB of $3,196,580 as shown on Schedule JAC-1. The effect on the typical residential bill will be provided in my rate design testimony.

Q. Please summarize Staff's rate base and operating income adjustments for QCW.

A. Staff's testimony discusses the following adjustments:

Rate Base Adjustments

Wells & Springs (NARUC Acct. 307) – This adjustment decreases rate base by a net of $249,432 to reflect a disallowance/reversing entry of the Well 16 drilling costs which the Company transferred to the Well 12 plant account in 2009. Staff's net $249,432 adjustment represents the carrying value of the Well 16 drilling costs of $251,984, less a $2,552 capitalized interest cost component allocated to Well 16 in 2009 ($251,984 - $2,552 = $249,432).

Wells & Springs (NARUC Acct. 307)[8] – This adjustment decreases rate base by $9 to reflect the removal of capitalized interest allocated to the cost of Well 11 in 2002.

Wells & Springs (NARUC Acct. 307) – This adjustment increases rate base by $4,013 to reflect the reclassification of a one-time Well 12 new source water testing expense in 2013 as a capital expenditure (see Staff Engineering Report).

[8] Although this may seem like a minor adjustment, it is a portion of a larger, single adjustment explained on page 18 of my testimony.

Structures & Improvements (NARUC Acct. 304)[9] – This adjustment decreases rate base by $18 to reflect the removal of capitalized interest allocated to the cost of Well 11 in 2002.

Electric Pumping Equipment (NARUC Acct. 311)[10] – This adjustment decreases rate base by $173 to reflect the removal of $173 of capitalized interest allocated to the cost of Well 11 in 2002.

Accumulated Depreciation – This adjustment decreases rate base by $234,113 to reflect the impact of Staff's recalculation of accumulated depreciation based on Staff adjustments to rate base.

Operating Income Adjustments

Water Testing Expense – The adjustment decreases annual water testing expense by $5,256 to reflect an appropriate cost level for the Monitoring Assistant Program ("MAP") and other water testing expenses on a going-forward basis (see Staff Engineering Report).

Transportation Expense – The adjustment decreases annual transportation expense by $2,136 to reflect the personal commute mileage for a vehicle driven by a Company employee.

Miscellaneous Expense – The adjustment decreases annual miscellaneous expense by $4,787 to reflect a reclassification of MAP water testing expenses which the Company improperly accounted for as miscellaneous expense.

Depreciation Expense – This adjustment decreases annual depreciation expense by $8,279 to reflect Staff's calculation of depreciation expense using Staff's recommended depreciation

[9] Although this may seem like a minor adjustment, it is a portion of a larger, single adjustment explained on page 18 of my testimony.

[10] Although this may seem like a minor adjustment, it is a portion of a larger, single adjustment explained on page 18 of my testimony.

rates and Staff's recommended plant and Contributions in Aid of Construction ("CIAC") balances.

Property Tax Expense – This adjustment decreases property tax expense by $2,432 to reflect Staff's calculation of the Company's property tax expense.

Income Tax Expense – This adjustment increases income tax expenses by $9,611 to reflect the income tax calculation on Staff's adjusted test year operating income.

RATE BASE

Fair Value Rate Base

Q. Did QCW prepare schedules showing the elements of Reconstruction Cost New Rate Base?

A. No, it did not. The Company's filing requests that QCW's OCRB be used as its fair value rate base ("FVRB").[11]

Rate Base Summary

Q. Please summarize Staff's rate base recommendation.

A. Staff recommends a rate base of $3,196,580 for QCW, a decrease of $482,283 from the Company's proposed $3,678,863 rate base. Staff's recommendation results from the four rate base adjustments below.

[11] *See* Bourassa Direct, p. 5, lines 21-22.

Rate Base Adjustment No. 1 – Disallowance of Well 16 Drilling Costs

Q. As noted earlier, QCW acquired much of its plant on a deferral basis from its non-regulated affiliate, RRQC. Is the Well 16 project included among QCW's deferred plant purchases in this proceeding?

A. Yes. As shown in the table on page 10 of Mr. Jones' direct testimony, QCW allegedly placed Well 16 into service in 2009, but purchase of the asset from the RRQC non-regulated affiliate was deferred until 2011. At that time, QWC paid RROC $510,205 for well 16. Of this total, $251,984 represented the costs associated with the drilling of Well 16 and charged to NARUC Plant Account 307 (Wells & Springs), while $258,221 were costs charged to NARUC Plant Account 311 (Pumping Equipment) ($251,984 + $258,221 = $510,205).

Q. Mr. Cassidy, is there a question as to whether Well 16 was ever placed into service back in 2009 from an operational standpoint?

A. Yes. In response to Staff Data Request JAC 2-4, the Company indicated that Well 16 was in service during the months of September and October of 2009 but that this was while test pumping was being conducted. By the end of this two month testing period, it was determined that Well 16 was unsuitable for potable uses and the Well was taken out of service in October 2009. The Company considered Well 16 to be "in-service" during this two month period because it was pumping water into the QWC water system during this testing period. Even though QWC made a management decision to actually pump water from Well 16 into the water system serving customers during the September – October 2009 time frame, the water from this Well contained excessive amounts of sand; therefore, was not operationally useful.

Q. Mr. Cassidy, was there a written agreement signed between QCW and RRQC related to the development of Well 16?

A. No. In response to Staff Data Request JAC 4-1, the Company acknowledged that there was no written contract between QCW and RRQC related to the development of this Well. Also the Company indicated that there were no written memoranda exchanged between QCW and RRQC between the date the Well 16 project was initiated and when the project was abandoned after incurring a total cost of $510,205.

Q. At the time QCW purchased Well 16 from its non-regulated affiliate, RRQC, in 2011, did Company Management know that Well 16 was nonproductive/unsuitable as a source of potable water?

A. Yes. Pursuant to information provided in the Company's response to Staff Data Request JAC 2-4, Well 16 was placed into service during the month of September 2009, but taken out of service in October 2009 after testing definitively determined the well to be nonproductive/unsuitable as a source of potable water. Further, the Company acknowledged that it was aware of a similar determination being made regarding Well 16 back in late 2006 or early 2007.

Q. Does Staff believe that the absence of a written agreement between QWC and RRQC related to the development of Well 16 should be of concern to the Commission?

A. Yes. Affiliate transactions in general require extra scrutiny because of the tendency to be self serving as noted within Section D, Affiliate Transactions (Not Tariffed), of the NARUC Guidelines for Cost Allocations and Affiliate Transactions. The absence of a written contract in this instance, where a payment of $510,205 was made to an affiliate for an asset that the regulated utility knew would never be used or useful alarming.

Written contracts provide safeguards, limit risks and clarify the understanding of the signing parties as to the the contract deliverables. It is clear to Staff that, absent the existing affiliate relationship, it would be logical and reasonable for management to insist upon a signed written contract when retaining the services of an independent third party to design and complete major construction projects and/or to provide on-going operational services.

Staff recommends that, on a going forward basis, the Commission should direct QWC to seek competitive bids, and enter into written contracts, for all capital projects that exceed $100,000.

Q. When was the purchase of Well 16 recorded on QCW's books?

A. In response to Staff data request JAC 5-3, QCW indicated that the Well 16 assets purchased from its non-regulated affiliate, RRQC, were booked on December 19, 2011, which corresponds to the date a check was issued to RRQC by QCW for payment of the Well 16 project costs.[12]

Q. Mr. Cassidy, do the records at the Arizona Department of Water Resources ("ADWR") support the Company's statement?

A. No. Staff found that the records at ADWR continue to show Well 16 being owned by RRQC as of the date of the filing of my testimony.[13]

[12] The above referenced check was made out to RRQC in the amount of $2,724,580, and represented payment for the following plant assets: Unit 23 Water ($184,133); Unit 15 Water ($221,062); Unit 24 Water ($174,844); 2nd Water Tank – Remainder Purchase ($776,457); McGibbon Parcel – Water ($90,390); Acquifer Protection Permit ($76,664); Well 16 ($510,205); and Well 12 ($690,825).

[13] As of April 23, 2015, a check of the Arizona Department of Water Resources ("ADWR") well registry web site reported the owner of record for Well 16 (ADWR Well No. 55-608598) to be RRQC. https://gisweb.azwater.gov/WellRegistry/SearchWellReg.aspx

Q. Did QCW initially retire the entire balance (i.e., $510,205) of nonproductive Well 16 project costs?

A. Yes, as evidenced by the statement made by Mr. Jones in direct testimony and in response to Staff Data Request JAC 5-3, QCW indicated that the $510,205 outlay in Well 16 costs was retired on 2/28/2013.[14]

Q. For purposes of its pending rate filing, did QCW make an adjustment reversing the $251,984 retirement of Well 16 drilling costs?

A. Yes.

Q. Has Staff confirmed the existence of the NARUC accouting guidance cited by Mr. Jones and the Company?

A. Yes. Within the NARUC description of the costs that can be recorded as part of a USoA account 307 Wells and Springs asset, the guidance does indicate that the costs to be capitalized can include the cost of nonproductive wells drilled as a part of a project resulting in a source of water within the same supply area.

Q. In light of the above acknowledgement, why did Staff make an adjustment to again remove the $251,984 in drilling costs that QCW transferred to Well 12?

A. For two reasons. First, the NARUC accounting treatment to which Mr. Jones cites has relevance only to regulated utilities, and not to their non-regulated developer affiliates. QCW, the regulated entity subject to the NARUC guidance, paid for/assumed ownership of Well 16 two years *after* the well was known to be nonproductive. Staff does not believe that such guidance should be applied after the fact to capital projects undertaken years earlier by an unregulated affiliate. Second, Staff believes the controlling accounting treatment is found in

[14] *See* Jones Direct, p. 8, lines 7-8.

the NARUC Guidelines for Cost Allocations and Affiliate Transactions. Specifically, Section D of the Guidelines deals with Affiliate Transactions (Not Tariffed), and rule 3 of that Section dealing with the transfer of capital assets between a regulated utility and its non-regulated affiliate. Within those Affiliate Transaction Guidelines, assets sold to a regulated utility by a non-regualted affiliate are to be transferred at the lower of cost or market value (actual wording in the Guidelines reads "at the lower of prevailing market price or net book value"). So, regardless of the fact that QCW was apparently willing to pay its non-regulated affiliate $510,205 for the purchase of a non productive well that could not be used in providing service to customers, Staff believes the value of this asset at the time it was sold to QWC should be considered to be zero.

Q. Pursuant to the NARUC Guidelines for Cost Allocations and Affiliate Transactions ("NARUC Guidelines"), is it acceptable for a non-regulated affiliate to transfer capital assets to a regulated utility at cost when that cost exceeds real value of a well that is not used and useful?

A. No, it is not.

Q. What is Staff's recommendation?

A. Staff recommends that the Well 16 drillings costs be disallowed, in order to conform with the NARUC Guidelines that affiliate transfers of assets between non-regulated affiliates and the subject utility be made at the lower of cost or the value of a non productive well that is not used and useful in providing service. As shown in Schedule JAC-4, Staff's adjustment will reduce rate base by a net amount of $249,432, a figure representing the actual $251,984 transfer cost, net of capitalized interest of $2,552.

Rate Base Adjustment No. 2 – Capitalized Interest

Q. Why did Staff make an adjustment for capitalized interest?

A. Pursuant to information provided in response to Staff data request JAC 1-3, Staff learned that capitalized interest of $5,167 had been allocated to the cost of Well 16 in 2009. Of this total, $2,552 was allocated to Wells & Springs (NARUC Acct. 307) and $2,615 was allocated Electric Pumping Equipment (NARUC Acct. 311). Because QCW's capital structure contains no debt, Staff issued data request JAC 3-1 asking the Company to explain this interest cost allocation. In response, QCW stated that the capitalized interest allocation was improper and contrary to established practices,[15] and that the Company would make an adjustment to remove the capitalized interest when filing rebuttal testimony. Staff's adjustment was made in view of the Company's acknowledgement that the allocation of capitalized interest to plant was improper.

Q. When making an adjustment for the capitalized interest allocated to Well 16, did Staff make an adjustment for the entire $5,167 amount of capitalized interest?

A. No. Staff's adjustment was confined only to the $2,552 amount of capitalized interest allocated to Wells & Springs (NARUC Acct. 307) in 2009. Staff made no adjustment to the $2,615 of capitalized interest allocated to Electric Pumping Equipment (NARUC Acct. 311), as this cost component was included in the Company's $258,221 retirement of Well 16 plant relating to Account 311.

Q. In its review of the case, did Staff find other instances in which capitalized interest was improperly allocated to plant?

A. Yes. Staff found that $200 of capitalized interest had improperly been allocated to the Well 11 account in 2002. Of this total, $18 was allocated to Structures & Improvements (NARUC

[15] In its response to Staff data request JAC 3-1, the Company acknowledged that RRQC charges capitalized interest to development projects, but its policy is not to capitalize interest on utility infrastructure projects to be purchased by QCW.

Acct. 304), $9 was allocated to Wells & Springs (NARUC Acct. 307), and $173 was allocated to Electric Pumping Equipment (NARUC Acct. 311).

Rate Base Adjustment No. 3 – Capitalization of Well 12 New Sourse Water Testing Costs

Q. Why did Staff make an adjustment to capitalize the $4,013 of Well 12 new source water testing costs?

A. The Well 12 new source water testing costs incurred in the test-year represent a one-time water testing expense which, on a going-forward basis, will not have to be repeated. Accordingly, Staff determined that it would be appropriate to capitalize these costs rather than expensing them, for to recognize these as recurring costs would overstate QCW's annual water testing expenses on a going-forward basis (see discussion in Staff's Engineering Report).

Rate Base Adjustment No. 4 – Accumulated Depreciation

Q. What is the Company's proposed balance for accumulated depreciation?

A. The Company's application proposes an accumulated depreciation balance of $2,352,796.

Q. How did QCW calculate its proposed balance of accumulated depreciation in the application?

A. The Company began with the balance of accumulated depreciation authorized in its last rate case, Decision No. 61611, dated April 1, 1999.[16] In its prior rate case, QCW used a test year ended December 31, 1997. In the application, the Company detailed changes in plant and accumulated depreciation from January 1, 1998 through December 31, 2013, a period of sixteen years. Plant was depreciated at a composite rate of 4.08 percent per annum, using a half-year convention.

[16] Docket No. W-02514A-98-0655.

Q. Does Staff recommend an adjustment to this calculation?

A. Yes

Q. What specific adjustments did Staff make to Accumulated Depreciation?

A. Staff adjusted the accumulated depreciation balances for the following nine plant accounts: to NARUC Acct. 301 (Organization Costs), Staff's adjustment increases accumulated depreciation by $36,273; to NARUC Acct. 304 (Structures & Improvements), Staff's adjustment decreases accumulated depreciation by $8; to NARUC Acct. 307 (Wells & Springs), Staff's adjustment decreases accumulated depreciation by $42,119; to NARUC Acct. 311 (Electric Pumping Equipment), Staff's adjustment increases accumulated depreciation by $259,531; to NARUC Acct. 330.1 (Storage Tanks), Staff's adjustment increases accumulated depreciation by $42,091; to NARUC Acct. 331 (Transmission & Distribution Mains), Staff's adjustment increases accumulated depreciation by $11,195; to NARUC Acct. 333 (Services), Staff's adjustment increases accumulated depreciation by $80; to NARUC Acct. 334 (Meters & Meter Installations), Staff's adjustment decreases accumulated depreciation by $969; and to NARUC Acct. 335 (Hydrants), Staff's adjustment increases accumulated depreciation by $585, as shown in Schedule JAC-6.

Q. Why is Staff recommending an adjustment to accumulated depreciation?

A. There are several reasons. First, the 4.08 percent composite depreciation rate authorized by the Commission in Decision No. 61611 did not go into effect until April 1, 1999; thus, it was necessary for Staff to make an adjustment to reflect accumulated depreciation at the previously authorized rate for the 15-month period, January 1, 1998 – April 1, 1999. In researching the Company's prior docket history, however, Staff determined that no such previously authorized depreciation rate had been established by the Commission.[17]

[17] QCW was granted its Certificate of Convenience and Necessity ("CC&N")by the Commission in Decision No. 56738 (Docket No. U-2514-89-109), dated December 7, 1989. In the Decision, QCW was ordered to file for a rate review

Accordingly, Staff utilized a composite depreciation rate of 5.0% over this 15-month period, as this had been the customary composite depreciation rate used by the Commission at that time. Second, Staff determined that the Company was accruing an accumulated depreciation reserve balance on NARUC Account 301 (Organization Costs).[18] By their nature, organizational costs are incurred when initially creating/incorporating a company, and include legal fees and other costs whose useful life extends over the life of the organization. Accordingly, for purposes of its analysis Staff did not depreciate/amortize organizational costs, and instead made a downward adjustment to accumulated depreciation by the total amount booked to NARUC Acct. 301 by the Company. Third, Staff determined that because Well 16 had a market value of zero at the time it was acquired from QCW's affiliate, a retirement of any portion of the $510,205 cost associated with that well by the Company was inappropriate. Accordingly, Staff made an adjustment to accumulated depreciation in an amount equal to the $258,221 Well 16 costs recorded in NARUC Acct. 311 (Electronic Pumping Equipment) which the Company retired in 2011.

Q. What depreciation rate was used by the Company over the 15-month period, January 1, 1998 – April 1, 1999?

A. The Company used the composite 4.08 percent depreciation rate established in Decision No. 61611 over this 15-month period of time.

Q. Did Staff adjust the amounts proposed for accumulated depreciation?

A. Yes

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within six months after a 12-month period of actual operation at which time all issues related to rate base items would be resolved. The Company failed to file for such a rate review, however, and as a consequence no previously authorized depreciation rate had been established by the Commision.

[18] As of the December 31, 1997 prior test-year end, the balance of accumulated depreciation for this account was reported to be $12,434, as shown in Bourassa Schedule B-2, Page 3.5.

Q. How did Staff calculate its recommended Accumulated Depreciation?

A. Staff began with the accumulated depreciation balance adopted by the Commission in the last rate case and applied the Commission-authorized depreciation rates to depreciable plant and all documented additions in the intervening years.

Q. Did Staff recalculate the Accumulated Depreciation balance using Staff's recommended plant balances?

A. Yes. Staff recalculated the accumulated depreciation balance using the plant in service balances that were adjusted by the reclassifications and adjustments made by Staff.

Q. Why did Staff make these adjustments?

A. The adjustments made for accumulated depreciation to Structures & Improvements (Acct. 304), Wells & Springs (Acct. 307), and Electric Pumping Equipment (Acct. 311) correspond to the rate base adjustments for these specific accounts. The adjustments made to Storage Tanks (Acct. 330.1), Transmission & Distribution Mains (Acct. 331), Services (Acct. 333), Meters & Meter Installations (Acct. 334), and Hydrants (Acct. 335) reflect Staff's calculation of accumulated depreciation since the last rate case. Staff's adjustment to Organization Costs (Acct. 301) was made to correct for the Company improperly depreciating the value of a non-depreciable account.

Q. What is Staff's overall recommendation regarding QCW's aggregated accumulated depreciation reserve?

A. Staff recommends an upward adjustment to accumulated depreciation in the amount of $234,113, which has the effect of decreasing rate base by $234,113 as shown on schedule JAC-6.

OPERATING INCOME

Operating Income Summary

Q. What are the results of Staff's analysis of test year revenues, expenses, and operating income?

A. As shown in Schedules JAC-7 and JAC-8, Staff's analysis resulted in test year revenues of $844,719, expenses of $712,477 and operating income of $132,242. The Company's application shows test year revenues of $844,719, expenses of $725,756 and operating income of $118,963. Staff's recommendation results from the six operating income adjustments discussed below.

Operating Income Adjustment No. 1 – Water Testing Expense

Q. What is the Company proposing for Water Testing expense?

A. The Company is proposing $12,864 for Water Testing expense in the test year.

Q. What is Staff's Recommendation?

A. Staff recommends annual Water Testing expenses of $7,608 (See Staff engineering testimony of Michael Thompson), a decrease of $5,256. Staff's adjustment to water testing expense is presented in Schedule JAC-9.

Operating Income Adjustment No. 2 – Transportation Expense

Q. What is QCW proposing for test year transportation expense?

A. QCW proposes $13,067 for test year transportation expense.

Q. What is Staff recommending for test year transportation expense?

A. As shown in Schedule JAC-10, Staff recommends transportation expense of $10,931. Staff's recommended adjustment is based upon the elimation of personal commute mileage which should not be the responsibity of ratepayers.

Operating Income Adjustment No. 3 – Miscellaneous Expense

Q. What is QCW proposing for miscellaneous expense?

A. QCW proposes miscellaneous expense of $12,741. Staff's recommended adjustment is based upon a reclassification of water testing expenses from miscellaneous expense to contractual service expense.

Q. What is Staff's recommendation?

A. As shown in Schedule JAC-11, Staff recommends miscellaneous expense of $7,954.

Operating Income Adjustment No. 4 – Depreciation Expense

Q. What is QCW proposing for test-year depreciation expense?

A. QCW proposes test-year depreciation expense of $294,340.

Q. What is Staff recommending for test-year depreciation expense?

A. Staff recommends test-year depreciation expense of $286,061, an $8,279 decrease from the Company's proposed amount, as shown in Schedule JAC-12. This adjustment is necessary to syncyronize Staff's plant in service recommendation with the resulting calculation of depreciation expense. Staff's adjustment also used the recommended depreciation rates shown in Table E, Section H of the Engineering report.

Operating Income Adjustment No. 5 – Property Tax Expense

Q. What is QCW proposing for test-year property tax expense?

A. QCW proposes test-year property tax expense of $35,106.

Q. What is Staff recommending for test-year property tax expense?

A. Staff recommends $32,674 for test-year property tax expense, a $2,432 decrease to the Company's proposed amount, as shown in Schedule JAC-13.

Q. Did the Company use the modified ADOR calculation for property tax expense?

A. Staff and the Company used the same methodology to calculate the property taxes. Both the Company and Staff propose an assessment ratio of 18 percent, in keeping with Arizona Revised Statutes ("ARS") § 42-15001.

Operating Income Adjustment No. 6 – Income Tax Expense

Q. What is QCW proposing for income tax expense?

A. QCW proposes test-year income tax expense of $57,233.

Q. Did Staff make an adjustment to test year Income Tax Expense?

A. Yes.

Q. What was the basis of Staff's adjustment to income taxes?

A. Staff applied the statutory state and federal income tax rates to Staff's test year taxable income. Income tax expenses for the test year and recommended revenues are shown in Schedule JAC-2.

Q. Did the Company and Staff use the same methodology to calculate income taxes?

A. Yes, for the most part. In doing so, Staff adopted the 4.9 percent State tax rate used by the Company.

Q. When is the 4.9 percent State income tax rate expected to go into effect?

A. The 4.9 percent State income tax rate is expected to go into effect as of January 1, 2017. Even though the effective date for this state income tax rate is over a year out, Staff believes capturing this rate is appropriate because this is the rate that will be in effect during most of the time period before the Company's next rate case. Based upon the five year amortization period being used for rate case expense, the next QCW rate case filing is not anticipated until 2020.

Q. What does Staff recommend for test-year income tax expense for the Company?

A. Staff recommends test-year income tax expense of $66,844, an increase of $9,611 from the Company proposed amount, as shown in Schedule JAC-14.

Q. In its Application, the Company proposes the adoption of a Purchased Power Adjustment Mechanism ("PPAM") in rates. Does Staff plan to address this issue in direct testimony at this time, or when filing rate design testimony?

A. Staff will address this issue in Staff's rate design direct testimony, to be filed on May 13, 2015.

Q. In light of the above, does Staff recommend the use of rate base/rate of return methodology to determine the Company's revenue requirement?

A. Yes. Staff recommends that QCW be authorized to earn an overall rate of return of 9.5 percent on Staff's recommended $3,196,580 rate base.

Q. Does this conclude your direct testimony?

A. Yes, it does.

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013
REVENUE REQUIREMENT

Schedule JAC-1

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] COMPANY FAIR VALUE	[C] STAFF ORIGINAL COST	[D] STAFF FAIR VALUE
1	Adjusted Rate Base	$ 3,678,863	$ 3,678,863	$ 3,196,580	$ 3,196,580
2	Adjusted Operating Income (Loss)	$ 118,963	$ 118,963	$ 132,242	$ 132,242
3	Current Rate of Return (L2 / L1)	3.23%	3.23%	4.14%	4.14%
4	Required Rate of Return	10.00%	10.00%	9.50%	9.50%
5	Required Operating Income (L4 * L1)	$ 367,886	$ 367,886	$ 303,675	$ 303,675
6	Operating Income Deficiency (L5 - L2)	$ 248,923	$ 248,923	$ 171,433	$ 171,433
7	Gross Revenue Conversion Factor	1.6543	1.6543	1.6826	1.6826
8	Required Revenue Increase (L7 * L6)	$ 411,785	$ 411,785	$ 288,454	$ 288,454
9	Adjusted Test Year Revenue	$ 844,719	$ 844,719	$ 844,719	$ 844,719
10	Proposed Annual Revenue (L8 + L9)	$ 1,256,504	$ 1,256,504	$ 1,133,173	$ 1,133,173
11	Required Increase in Revenue (%)	48.75%	48.75%	34.15%	34.15%

References:
Column (A): Company Schedule B-1
Column (B): Company Schedule B-1
Column (C): Staff Schedules OCRB, GRCF, TYOI & COC
Column (D): Staff Schedules OCRB, GRCF, TYOI & COC

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

Schedule JAC-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	40.5683%			
5	Subtotal (L3 - L4)	59.4317%			
6	**Revenue Conversion Factor (L1 / L5)**	1.6826			
	Calculation of Uncollectible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	39.7920%			
9	One Minus Combined Income Tax Rate (L7 - L8)	60.2080%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0			
	Calculation of Effective Tax Rate:				
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 (Line 44)	36.6898%			
16	Effective Federal Income Tax Rate (L14 x L15)	34.8920%			
17	Combined Federal and State Income Tax Rate (L13 +L16)	39.7920%			
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	39.7920%			
20	One Minus Combined Income Tax Rate (L18 - L19)	60.2080%			
21	Property Tax Factor (XXX-18, L24)	1.2893%			
22	Effective Property Tax Factor (L 21 * L 22)	0.007762861			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		40.5683%		
24	Required Operating Income (Schedule XXX-1, Line 5)	$ 303,675			
25	Adjusted Test Year Operating Income (Loss) (Schedule XXX-10, Line 40)	$ 132,242			
26	Required Increase in Operating Income (L24 - L25)		$ 171,433		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	$ 180,146			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	$ 66,844			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 113,302		
30	Recommended Revenue Requirement (Schedule XXX-1, Line 10)	$ 1,133,173			
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. (L32 - L33)		$ -		
35	Property Tax with Recommended Revenue (XXX-18, L19)	$ 36,393			$ (0)
36	Property Tax on Test Year Revenue (XXX-18, L 16)	$ 32,674			
37	Increase in Property Tax Due to Increase in Revenue (XXX-18, L22)		$ 3,719		
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		$ 288,454		
	Calculation of Income Tax:	Test Year		STAFF Recommended	
39	Revenue (Schedule XXX-10, Col.[C], Line 5 & Sch. XXX-1, Col. [B], Line 10)	$ 844,719	$ 288,454	$ 1,133,173	
40	Operating Expenses Excluding Income Taxes	645,633	$ 3,719	649,352	
41	Synchronized Interest (L47)	-		-	
42	Arizona Taxable Income (L36 - L37- L38)	$ 199,086		$ 483,821	
43	Arizona State Income Tax Rate	4.9000%		4.9000%	
44	Arizona Income Tax (L39 x L40)		$ 9,755		$ 23,707
45	Federal Taxable Income (L33 - L35)	$ 189,331		$ 460,114	
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	7,500		7,500	
47	Federal Tax on Second Income Bracket ($50,001 - $75,000) @ 25%	6,250		6,250	
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	8,500		8,500	
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	34,839		91,650	
50	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	-		42,539	
51	Total Federal Income Tax		$ 57,089		$ 156,439
52	Combined Federal and State Income Tax (L35 + L42)		$ 66,844		$ 180,146
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				36.69%
	Calculation of Interest Synchronization:				
54	Rate Base (Schedule XXX-3, Col. [C], Line (17))	$ 3,196,580			
55	Weighted Average Cost of Debt (Schedule XXX-1)	0.00%			
56	Synchronized Interest (L45 X L46)	$ -			

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

Schedule JAC-3

RATE BASE - ORIGINAL COST/FAIR VALUE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	REF	[C] STAFF AS ADJUSTED
1	Plant in Service	$ 7,819,192	$ (248,170)	1, 2, 3	$ 7,571,022
2	Less: Accumulated Depreciation	2,352,796	234,113	4	2,586,909
3	Net Plant in Service	$ 5,466,396	$ (482,283)		$ 4,984,113
	LESS:				
4	Net Contribution in Aid-of Construction (CIAC)	$ 535,758	$ -		$ 535,758
5	Advances in Aid of Construction (AIAC)	-	-		-
8	Customer Deposits	180,221	-		180,221
9	Deferred Income Tax Credits	1,071,554	-		1,071,554
	Total Deductions	$ 1,787,533	$ -		$ 1,787,533
	ADD:				
10	Unamortized Finance Charges	$ -	$ -		$ -
11	Deferred Tax Assets	-	-		-
12	Allowance for Working Capital	-	-		-
13	Intentional Left Blank	-	-		-
	Total Additions	$ -	$ -		$ -
14	**Original Cost Rate Base**	**$ 3,678,863**	**$ (482,283)**		**$ 3,196,580**

References:
Column (A): Company Schedule B-1
Column (B): Schedules JAC-5a, JAC-5b, JAC-5c, and JAC-6
Column (C): Column (A) + Column (B)

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

Schedule JAC-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Well 16 Disallowance ADJ #1	[C] Capitalized Interest ADJ #2	[D] Capitalization of Well 12 test costs ADJ #3	[E] Accumulated Depreciation ADJ #4	[F] STAFF ADJUSTED
		PLANT IN SERVICE:						
1	301	Organization Costs	$ 37,295	$ -	$ -	$ -	$ -	$ 37,295
2	302	Franchise Costs	-	-	-	-	-	-
3	303	Land & Land Rights	92,895	-	-	-	-	92,895
4	304	Structures & Improvements	75,442	-	(18)	-	-	75,424
5	307	Wells & Springs	834,248	(249,432)	(2,561)	4,013	-	586,268
6	310	Power Generation Equipment	37,618	-	-	-	-	37,618
7	311	Electric Pumping Equipment	1,137,275	-	(173)	-	-	1,137,102
8	320	Water Treatment Equipment	-	-	-	-	-	-
9	320.2	Solutions & Feeders	-	-	-	-	-	-
	320.3	Arsenic Remediation Plant	-	-	-	-	-	-
10	330	Distribution Reservoirs & Standpipes	-	-	-	-	-	-
11	330.1	Storage Tanks	856,574	-	-	-	-	856,574
12	330.2	Pressure Tanks	32,236	-	-	-	-	32,236
13	331	Transmission & Distribution Mains	3,194,161	-	-	-	-	3,194,161
14	333	Services	891,232	-	-	-	-	891,232
15	334	Meters & Meter Installations	90,315	-	-	-	-	90,315
16	335	Hydrants	477,182	-	-	-	-	477,182
17	336	Backflow Prevention Devices	-	-	-	-	-	-
18	339	Other Plant & Misc. Equip.	-	-	-	-	-	-
19	340	Office Furniture & Fixtures	2,071	-	-	-	-	2,071
20	340.1	Computer & Software	-	-	-	-	-	-
21	341	Transportation Equipment	-	-	-	-	-	-
22	342	Store Equipment	-	-	-	-	-	-
23	343	Tools & Work Equipment	2,399	-	-	-	-	2,399
24	344	Laboratory Equipment	-	-	-	-	-	-
25	345	Power Operated Equipment	-	-	-	-	-	-
26	346	Communications Equipment	57,194	-	-	-	-	57,194
27	347	Miscellaneous Equipment	-	-	-	-	-	-
28	348	Other Tangible Plant	1,056	-	-	-	-	1,056
29		Gross Utility Plant in Service	$ 7,819,192	$ (249,432)	$ (2,752)	$ 4,013	$ -	$ 7,571,022
30		Less: Accumulated Depreciation	2,352,796	-	-	-	234,113	2,586,909
31		Net Utility Plant in Service (L29 - L30)	$ 5,466,396	$ (249,432)	$ (2,752)	$ 4,013	$ (234,113)	$ 4,984,113
		DEDUCTIONS						
32		Contributions in Aid of Construction (CIAC)	$ 820,205	$ -	$ -	$ -	$ -	$ 820,205
33		Less: Accumulated Amortization	284,447	-	-	-	-	284,447
34		Net CIAC (L32 - L33)	$ 535,758	$ -	$ -	$ -	$ -	$ 535,758
35		Advances in Aid of Construction (AIAC)	-	-	-	-	-	-
36		Customer Meter Deposits	180,221	-	-	-	-	180,221
37		Deferred Income Tax Credits	1,071,554	-	-	-	-	1,071,554
38		Total Deductions	$ 1,787,533	$ -	$ -	$ -	$ -	$ 1,787,533
		ADDITIONS:						
39		Unamortized Finance Charges	$ -	$ -	$ -	$ -	$ -	$ -
40		Deferred Tax Assets	-	-	-	-	-	-
41		Allowance for Working Capital	-	-	-	-	-	-
42		Intentional Left Blank	-	-	-	-	-	-
43		Total Additions	$ -	$ -	$ -	$ -	$ -	$ -
44		**ORIGINAL COST RATE BASE**	$ 3,678,863	$ (249,432)	$ (2,752)	$ 4,013	$ (234,113)	$ 3,196,580

ADJ #	Description	Reference Schedule
1	Well 16 Disallowance	JAC - 5a
2	Capitalized Interest	JAC - 5b
3	Capitalization of Well 12 New Source Testing Costs	JAC - 5c
4	Accumulated Depreciation	JAC - 6

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

Schedule JAC-5a

RATE BASE ADJUSTMENT NO. 1 - Disallowance of Well 16 Drilling Costs

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJUSTMENT	[C] STAFF ADJUSTED
1	Wells and Springs (Acct. No. 307)	$ 249,432	$ (249,432)	$ -

Well 16 Drilling Costs recored in NARUC Acct. 307	$ 251,984
Less: Capitalized Interest	2,552
Net Well 16 Drilling Costs to be Disallowed	$ 249,432

REFERENCES:
Column [A]: Company Schedule B-2; Company response to Staff DR JAC 1-12
Column [B]: Testimony, Schedule JAC-5b
Column [C]: Column [A] + Column [B]

QUAIL CREEK WATER COMPANY, INC.
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Test Year Ended December 31, 2013

Schedule JAC-5b

RATE BASE ADJUSTMENT NO. 2 - CAPITALIZED INTEREST

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJUSTMENT	Year	[C] STAFF ADJUSTED
	301	Organization Costs	$ 37,295			$ 37,295
	302	Franchise Costs	-			-
	303	Land & Land Rights	92,895			92,895
	304	Structures & Improvements	75,442	$ (18)	2002	75,424
	307	Wells & Springs	834,248	$ (2,561)	2002; 2009	831,687
	310	Power Generation Equipment	37,618			37,618
	311	Electric Pumping Equipment	1,137,275	(173)	2002	1,137,102
	320	Water Treatment Equipment	-			-
	320.2	Solutions & Feeders	-			-
	320.3	Arsenic Remediation Plant	-			-
	330	Distribution Reservoirs & Standpipes	-			-
	330.1	Storage Tanks	856,574			856,574
	330.2	Pressure Tanks	32,236			32,236
	331	Transmission & Distribution Mains	3,194,161			3,194,161
	333	Services	891,232			891,232
	334	Meters & Meter Installations	90,315			90,315
	335	Hydrants	477,182			477,182
	336	Backflow Prevention Devices	-			-
	339	Other Plant & Misc. Equip.	-			-
	340	Office Furniture & Fixtures	2,071			2,071
	340.1	Computer & Software	-			-
	341	Transportation Equipment	-			-
	342	Store Equipment	-			-
	343	Tools & Work Equipment	2,399			2,399
	344	Laboratory Equipment	-			-
	345	Power Operated Equipment	-			-
	346	Communications Equipment	57,194			57,194
	347	Miscellaneous Equipment	-			-
	348	Other Tangible Plant	1,056			1,056
			$ 7,819,193	$ (2,752)		$ 7,816,441

REFERENCES:

Column [A]: Company Schedule B-2
Column [B]: Testimony, JAC; Data Request JAC 1-3 and JAC 3-1
Column [C]: Column [A] + Column [B]

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

Schedule JAC-5c

RATE BASE ADJUSTMENT NO. 3 - Capitalization of Well 12 New Source Water Testing Costs

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJUSTMENT	[C] STAFF ADJUSTED
1	Wells and Springs (Acct. No. 307)	$ -	$ 4,013	$ 4,013

REFERENCES:
Column [A]: Company Schedule B-2
Column [B]: Testimony, Company response to Staff DR JAC 1-22
Column [C]: Column [A] + Column [B]

QUAIL CREEK WATER COMPANY, INC.

Schedule JAC-6

Docket No. W-02514A-14-0343

Test Year Ended December 31, 2013

RATE BASE ADJUSTMENT NO. 4 - ACCUMULATED DEPRECIATION

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJUSTMENT	[C] STAFF ADJUSTED
1	301	Organization Costs	$ 36,273	$ (36,273)	$ -
2	302	Franchise Costs	-	-	-
3	303	Land & Land Rights	-	-	-
4	304	Structures & Improvements	16,734	(8)	16,726
5	307	Wells & Springs	258,516	(42,119)	216,397
6	310	Power Generation Equipment	13,537	-	13,537
7	311	Electric Pumping Equipment	(39,241)	259,531	220,290
8	320	Water Treatment Equipment	-	-	-
9	320.2	Solutions & Feeders	-	-	-
10	320.3	Arsenic Remediation Plant		-	-
11	330	Distribution Reservoirs & Standpipes	-	-	-
12	330.1	Storage Tanks	377,367	42,091	419,458
13	330.2	Pressure Tanks	12,495	-	12,495
14	331	Transmission & Distribution Mains	1,244,095	11,195	1,255,289
15	333	Services	237,169	80	237,249
16	334	Meters & Meter Installations	30,053	(969)	29,084
17	335	Hydrants	150,082	585	150,668
18	336	Backflow Prevention Devices	-	-	-
19	339	Other Plant & Misc. Equip.	-	-	-
20	340	Office Furniture & Fixtures	416	-	416
21	340.1	Computer & Software	-	-	-
22	341	Transportation Equipment	-	-	-
23	342	Store Equipment	-	-	-
24	343	Tools & Work Equipment	399	-	399
25	344	Laboratory Equipment	-	-	-
26	345	Power Operated Equipment	-	-	-
27	346	Communications Equipment	13,876	-	13,876
28	347	Miscellaneous Equipment	-	-	-
29	348	Other Tangible Plant	1,027	-	1,027
		Accumulated Depreciation	$ 2,352,796	$ 234,113	$ 2,586,909

REFERENCES:

Column [A]: Company Schedule B-2

Column [B]: Testimony

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

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

Schedule JAC-7

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS		[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*						
2	Metered Water Sales	$ 837,366	$ -		$ 837,366	$ 288,454	$ 1,125,820
3	Water Sales - Unmetered	-	-		-	-	-
4	Other Operating Revenue	7,353	-		7,353	-	7,353
5	**Total Operating Revenues**	$ 844,719	$ -		$ 844,719	$ 288,454	$ 1,133,173
6	*OPERATING EXPENSES:*						
7	Salaries & Wages	$ 85,321	$ -		$ 85,321	$ -	$ 85,321
		21,254			21,254	-	21,254
8	Purchased Water	-	-		-	-	-
9	Purchased Power	72,800	-		72,800	-	72,800
10	Chemicals	6,454	-		6,454	-	6,454
11	Repairs & Maintenance	23,693	-		23,693	-	23,693
12	Office Supplies & Expense	20,818	-		20,818	-	20,818
13	Contractual Services - Engineering	-	-		-	-	-
	Contractual Services - Accounting	380	-		380	-	380
	Contractual Services - Legal	468	-		468	-	468
	Contractual Services - Other	17,777	-		17,777	-	17,777
	Contractual Services - Testing	12,864	(5,256)	1	7,608	-	7,608
14	Water Testing	-	-		-	-	-
15	Rents	566	-		566	-	566
16	Transportation Expense	13,067	(2,136)	2	10,931	-	10,931
17	Insurance - General Liability	524	-		524	-	524
18	Insurance - Health & Life	9,483	-		9,483	-	9,483
19	Regulatory Commission Expense	425	-		425	-	425
	Reg. Comm. Exp. - Rate Case	40,000	-		40,000	-	40,000
	Bad Debt Expense	442	-		442	-	442
20	Miscellaneous Expense	12,741	(4,787)	3	7,954	-	7,954
21	Depreciation Expense	294,340	(8,279)	4	286,061	-	286,061
22	Taxes Other than Income	-	-		-	-	-
23	Property Taxes	35,106	(2,432)	5	32,674	3,719	36,393
24	Income Tax	57,233	9,611	6	66,844	113,302	180,146
25	**Total Operating Expenses**	$ 725,756	$ (13,279)		$ 712,477	$ 117,021	$ 829,498
26	**Operating Income (Loss)**	$ 118,963	$ 13,279		$ 132,242	$ 171,433	$ 303,675

References:
Column (A): Company Schedule C-1
Column (B): Schedule JAC-8
Column (C): Column (A) + Column (B)
Column (D): Schedules JAC-13 and JAC-14
Column (E): Column (C) + Column (D)

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

Schedule JAC-8

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Water Testing ADJ #1	[C] Transportation Exp. ADJ #2	[D] Misc. Exp. ADJ #3	[I] Depreciation Exp. ADJ #4	[J] Property Tax ADJ #5	[K] Income Tax ADJ #6	[T] STAFF ADJUSTED
1	*REVENUES:*								
2	461 Metered Water Sales	$ 837,366	$ -	$ -	$ -	$ -	$ -	$ -	$ 837,366
3	460 Water Sales - Unmetered	-	-	-	-	-	-	-	-
4	474 Other Operating Revenue	7,353	-	-	-	-	-	-	7,353
5	**Total Operating Revenues**	$ 844,719	$ -	$ -	$ -	$ -	$ -	$ -	$ 844,719
6	*OPERATING EXPENSES:*								
7	601 Salaries & Wages	$ 85,321	$ -	$ -	$ -	$ -	$ -	$ -	$ 85,321
8	Employee Pensions and Benefits	21,254	-	-	-	-	-	-	21,254
9	610 Purchased Water	-	-	-	-	-	-	-	-
10	615 Purchased Power	72,800	-	-	-	-	-	-	72,800
11	618 Chemicals	6,454	-	-	-	-	-	-	6,454
12	620 Materials and Supplies	23,693	-	-	-	-	-	-	23,693
13	621 Office Supplies & Expense	20,818	-	-	-	-	-	-	20,818
14	630 Contractual Services - Engineering	-	-	-	-	-	-	-	-
15	Contractual Services - Accounting	380	-	-	-	-	-	-	380
16	Contractual Services - Legal	468	-	-	-	-	-	-	468
17	Contractual Services - Other	17,777	-	-	-	-	-	-	17,777
18	Contractual Services - Testing	12,864	(5,256)	-	-	-	-	-	7,608
19	635 Water Testing	-	-	-	-	-	-	-	-
20	641 Rents	566	-	-	-	-	-	-	566
21	650 Transportation Expense	13,067	-	(2,136)	-	-	-	-	10,931
22	Insurance - Vehicle	524	-	-	-	-	-	-	524
23	657 Insurance - General Liability	9,483	-	-	-	-	-	-	9,483
24	666 Regulatory Commission Expense	425	-	-	-	-	-	-	425
25	Reg. Comm. Exp. - Rate Case	40,000	-	-	-	-	-	-	40,000
26	Bad Debt Expense	442	-	-	-	-	-	-	442
27	675 Miscellaneous Expense	12,741	-	-	(4,787)	-	-	-	7,954
28	403 Depreciation Expense	294,340	-	-	-	(8,279)	-	-	286,061
29	408 Taxes Other than Income	-	-	-	-	-	-	-	-
30	408.11 Property Taxes	35,106	-	-	-	-	(2,432)	-	32,674
31	409 Income Tax	57,233	-	-	-	-	-	9,611	66,844
32	**Total Operating Expenses**	$ 725,756	$ (5,256)	$ (2,136)	$ (4,787)	$ (8,279)	$ (2,432)	$ 9,611	$ 712,477
33	**Operating Income (Loss)**	$ 118,963	$ 5,256	$ 2,136	$ 4,787	$ 8,279	$ 2,432	$ (9,611)	$ 132,242

ADJ #	Description	Reference Schedule
1	Contractual Services - Water Testing Expense	JAC - 9
2	Miscellaneous Expense	JAC - 10
3	Transportation Expense	JAC - 11
4	Depreciation Expense	JAC - 12
5	Property Tax Expense	JAC - 13
6	Income Tax Expense	JAC - 14
7		

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

Schedule JAC-9

OPERATING INCOME ADJUSTMENT NO. 1 - Contractual Services - Water Testing

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	Water Testing Expense	$ 12,864	$ (5,256)	$ 7,608
2	Water Testing Cost reclassified from Misc. Exp.	-		-
3	Total	$ 12,864	$ (5,256)	$ 7,608

Contractual Services - Water Testing - per Company	$	12,864
Less: Robson Ranch Water Testing Costs - per Staff Engineering		(6,825)
New source testing - reclassified as a capital expenditure		(4,013)
Sub-Total	$	2,026
Add: Known and measureable increase to annual water testing expenses		241
Known and measureable increase in MAP water testing expenses		554
MAP water testing costs - reclassified from Miscellaneous Expense		4,787
Contractual Services - Water Testing - per Staff	$	7,608

Water testing expenses (going forward) -- As per Staff Engineering	$	2,267
Less: Annual test-year water testing expenses accounted for		2,026
Known and measureable increase to annual water testing expenses	$	241

MAP testing expenses (going forward) -- As per Staff Engineering	$	5,341
Less: Test-year MAP Costs accounted for as Miscellaneous expenses		4,787
Known and measureable increase in MAP water testing expenses	$	554

References:
Column (A), Company Schedule C-2 & Workpapers
Column (B): Testimony JAC; Schedule JAC-8
Column (C): Column (A) + Column (B)

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

Schedule JAC-10

OPERATING INCOME ADJUSTMENT NO. 2 - Transportation Expense

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	Transportation Expense	$ 13,067	$ (2,136)	$ 10,931
2		-	-	-
3	Total	$ 13,067	$ (2,136)	$ 10,931

Personal Commute Miles of Superintendent		15	miles per day
IRS Standard Mileage Rate for 2013	$	0.565	rate per mile
	$	8.48	
Number of work days per month		21	
Monthly personal commute expense	$	177.98	
Months per year		12	
Annual personal commute expense	$	2,135.70	

References:

Column (A), Company Schedule C-2 & Workpapers

Column (B): Testimony JAC; Response to Staff Data Request JAC 1-23

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

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

Schedule JAC-11

OPERATING INCOME ADJUSTMENT NO. 3 - Miscellaneous Expense

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	Miscellaneous Expense	$ 12,741	$ (4,787)	$ 7,954
2		-	-	-
3	Total	$ 12,741	$ (4,787)	$ 7,954

To reclassify MAP water testing expenses from Miscellaneous Expense to Contractual Services - Testing (as per Staff Engineer Michael Thompson)

References:
Column (A), Company Schedule C-2 & Workpapers
Column (B): Testimony JAC
Column (C): Column (A) + Column (B)

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

Schedule JAC-12

OPERATING INCOME ADJUSTMENT No. 4 - DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	GROSS UTILITY PLANT IN SERVICE	FULLY/NON DEPRECIABLE	DEPRECIABLE PLANT	DEPREC. RATE	EXPENSE
	Plant In Service						
1	301	Organization Costs	$ 37,295	$ 37,295	$ -	0.00%	$ -
2	302	Franchise Costs	-		-	0.00%	-
3	303	Land & Land Rights	92,895	92,895	-	0.00%	-
2	304	Structures & Improvements	75,424		75,424	3.33%	2,512
3	307	Wells & Springs	586,268		586,268	3.33%	19,523
4	310	Power Generation Equipment	37,618		37,618	5.00%	1,881
3	311	Electric Pumping Equipment	1,137,102		1,137,102	12.50%	142,138
4	320	Water Treatment Equipment	-		-	3.33%	-
5	320.2	Solutions & Feeders	-		-	20.00%	-
4	320.3	Arsenic Remediation Plant	-		-	0.00%	-
5	330	Distribution Reservoirs & Standpipes	-		-	0.00%	-
6	330.1	Storage Tanks	856,574		856,574	2.22%	19,016
5	330.2	Pressure Tanks	32,236		32,236	5.00%	1,612
6	331	Transmission & Distribution Mains	3,194,161		3,194,161	2.00%	63,883
7	333	Services	891,232		891,232	3.33%	29,678
6	334	Meters & Meter Installations	90,315		90,315	8.33%	7,523
7	335	Hydrants	477,182		477,182	2.00%	9,544
8	336	Backflow Prevention Devices	-		-	6.67%	-
7	339	Other Plant & Misc. Equip.	-		-	6.67%	-
8	340	Office Furniture & Fixtures	2,071		2,071	6.67%	138
9	340.1	Computer & Software	-		-	20.00%	-
8	341	Transportation Equipment	-		-	20.00%	-
9	342	Store Equipment	-		-	4.00%	-
10	343	Tools & Work Equipment	2,399		2,399	5.00%	120
9	344	Laboratory Equipment	-		-	10.00%	-
10	345	Power Operated Equipment	-		-	5.00%	-
11	346	Communications Equipment	57,194		57,194	10.00%	5,719
10	347	Miscellaneous Equipment	-		-	10.00%	-
11	348	Other Tangible Plant	1,056		1,056	10.00%	106
29		Subtotal General	$ 7,571,022		$ 7,440,832		$ 303,392
30		Less: Amortization of Contributions (Depreciable Plant/Depreciation Exp.)			$ 820,205	2.1130%	$ 17,331
31		Staff Recommended Depreciation Expense					$ 286,061
32		Company Proposed Depreciation Expense					294,340
33		Increase/(Decrease) to Depreciation Expense					$ (8,279)

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

Schedule JAC-13

OPERATING INCOME ADJUSTMENT No. 5 - PROPERTY TAXES

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 844,719	$ 844,719
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	$ 1,689,438	$ 1,689,438
4	Staff Recommended Revenue	844,719	1,133,173
5	Subtotal (Line 4 + Line 5)	$ 2,534,157	$ 2,822,611
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	$ 844,719	$ 940,870
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	$ 1,689,438	$ 1,881,741
10	Plus: 10% of CWIP		
11	Less: Net Book Value of Licensed Vehicles		
12	Full Cash Value (Line 9 + Line 10 - Line 11)	$ 1,689,438	$ 1,881,741
13	Assessment Ratio		
14	Assessment Value (Line 12 * Line 13)	$ 304,099	$ 338,713
15	Composite Property Tax Rate - Obtained from ADOR		
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 32,674	
17	Company Proposed Property Tax	35,106	
18	Staff Test Year Adjustment (Line 16 - Line 17)	$ (2,432)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 36,393
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		32,674
21	Increase in Property Tax Due to Increase in Revenue Requirement		$ 3,719
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		$ 3,719
23	Increase in Revenue Requirement		$ 288,454
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.289340%

REFERENCES:
Line 15: Composite Tax Rate obtained from Arizona Department of Revenue
Line 17: Company Schedule C-1 Page 2
Line 21: Line 19 - Line 20
Line 23: Schedule JAC-1

QUAIL CREEK WATER COMPANY, INC.
DOCKET NOS. W-02514A-14-0343
RESPONSES TO STAFF's SECOND SET OF DATA REQUESTS

March 20, 2015

Respondent:	Ray L. Jones
Title:	Consultant
Company:	Aricor Water Solutions, LC
Address:	18835 N. Thompson Peak Parkway, Suite 215 Scottsdale, AZ 85255

original cost without mark-up or overhead. If the invoices are from an affiliate Robson-owned water utility, provide the underlying source documentation;

b) If applicable, provide the name of the QCW affiliate utility who previously owned the plant assets acquired by QCW;

c) If applicable, provide the date each deferred plant asset was initially placed into service by the prior QCW affiliate utility, accompanied by the balance of accumulated depreciation booked to the asset by that QCW affiliate utility; and

d) Provide (i) a detailed explanation as to why QCW elected to purchase the above plant assets on a deferral basis, rather than paying for the assets at the time the plant was placed into service by QCW, and (ii) indicate if the Company believes it to be in the public interest for QCW to delay ownership of plant used to provide service for periods up to seven years.

RESPONSE: In connection with the response to data request 2.2, all subparts, the Company directs Staff to the response to data request 2.1, *supra.* By way of further response, please see below.

a) The requested source documentation for each deferred plant purchase is attached as the below listed files. Each file contains the documentation for the job indicated by its file name. The documents have been annotated in red to assist with tracking the booked costs.

QUAIL CREEK WATER COMPANY, INC.
DOCKET NOS. W-02514A-14-0343
RESPONSES TO STAFF's SECOND SET OF DATA REQUESTS

March 20, 2015

Respondent:	Ray L. Jones
Title:	Consultant
Company:	Aricor Water Solutions, LC
Address:	18835 N. Thompson Peak Parkway, Suite 215 Scottsdale, AZ 85255

JAC 2-2 Unit 15 Source Documentation.pdf
JAC 2-2 Unit 23 Source Documentation.pdf
JAC 2-2 Unit 24 Source Documentation.pdf
JAC 2-2 McGibbon WL Source Documentation.pdf
JAC 2-2 Well 11 Source Documentation.pdf
JAC 2-2 Well 16 Source Documentation.pdf
JAC 2-2 WP No. 1 2nd Tank Source Documentation.pdf
JAC 2-2 WP No. 1 BS Source Documentation.pdf

b) Not Applicable. As noted in Company's response to JAC 2-1, all of the plant used and useful in the provision of water utility service by QCW was built specifically for QCW by an affiliate, Robson Ranch Quail Creek, LLC. None of the plant has ever been owned or placed in service by another entity, including another affiliated "Robson-owned" water/wastewater utility.

c) Not Applicable. None of the plant has ever been owned or placed in service by another entity, including another affiliated "Robson-owned" water/wastewater utility.

d) QCW cannot answer the first part of this data request. All of the assets were built for QCW and then placed in service by QCW before any of current management team was involved in the utility operations. This is how plant was financed for QCW, as well as for other entities like Lago Del Oro Water Company, which recently completed a rate proceeding. See Decision No. 74564 (June 20, 2014).

QCW does not believe this arrangement was adverse to its customers. In essence, the developer, Robson Ranch Quail Creek, LLC, funded the plant, the plant was available to service customers when it was needed, and QCW had full operational control over the

QUAIL CREEK WATER COMPANY, INC.
DOCKET NOS. W-02514A-14-0343
RESPONSES TO STAFF's SECOND SET OF DATA REQUESTS

March 20, 2015

Respondent:	Ray L. Jones
Title:	Consultant
Company:	Aricor Water Solutions, LC
Address:	18835 N. Thompson Peak Parkway, Suite 215 Scottsdale, AZ 85255

plant. Moreover, until this case, customers have never been asked to pay a return on or of the capital investment in the plant being used to serve them.

Furthermore, as indicated in the table of deferred plant purchases, QCW has proposed an adjustment to accumulated depreciation to recognize that a portion of the useful lives of the plant items has been consumed prior to being booked by QCW. The proposed accumulated depreciation adjustment follows the procedure adopted in Decision No. 74564 (June 20, 2014) for QCW's affiliate, Lago Del Oro Water Company, which faced the same issue in its recent rate case. The end result from a rate making perspective is that the Company's plant balance, accumulated depreciation balance, net plant balance and rate base are exactly the same as if QCW had purchased and booked the plant on the day that it was placed in service.

In summary, considering the facts in this case and the proposed ratemaking treatment, QCW does not believe that the deferred plant purchases are contrary to the public interest.

Attachment G

QUAIL CREEK WATER COMPANY, INC.
DOCKET NOS. W-02514A-14-0343
RESPONSES TO STAFF's THIRD SET OF DATA REQUESTS

March 30, 2015

Respondent:	Chris Sabin
Title:	Controller
Company:	Quail Creek Water Company, Inc.
Address:	9532 East Riggs Road Sun Lakes, AZ 85248

Company Response Number: JAC 3-1

Q. Interest Cost Allocation to Plant – As shown in Mr. Bourassa's B-2 Plant work papers for Well 16, the revised allocation cost of Well 16 includes a $5,167.05 interest component. In regards to this interest allocation amount, please respond to the following:

a. Provide a detailed explanation of the $5,167.05 interest amount allocated to the cost of Well 16;
b. Indicate if the interest expense was incurred due to the issuance of debt;
c. If so, identify the lender, indicate if long- or short-term debt, and provide a calculation of the $5,167.05 interest amount showing the interest rate, the outstanding principal balance and the length of time over which interest accrued;
d. If short-term debt, indicate the issuance date and the maturity date of the short-term debt instrument;
e. If the debt was long-term debt, please state if the debt was authorized by the Commission, and provide all supporting documentation;
f. If the $5,167.05 interest amount is not due to the issuance of debt, please provide the rationale for including an interest cost allocation to plant, and provide all supporting documentation;
g. Provide a calculation showing how the $5,167.05 interest amount was derived by the allocation methodology;
h. If the interest amount was AFUDC, provide a calculation with all supporting documentation; and

QUAIL CREEK WATER COMPANY, INC.
DOCKET NOS. W-02514A-14-0343
RESPONSES TO STAFF's THIRD SET OF DATA REQUESTS

March 30, 2015

Respondent:	Chris Sabin
Title:	Controller
Company:	Quail Creek Water Company, Inc.
Address:	9532 East Riggs Road Sun Lakes, AZ 85248

i. Indicate if the interest allocation was related to the number of years between the plant "in service year" and the "accounting year."

RESPONSE: After reviewing the allocation of Well 16 costs it has been determined that the capitalized interest allocation in the amount of $5,167.05 was contrary to established practices. As a policy, the Developer, Robson Ranch Quail Creek, LLC, charges capitalized interest to development projects but does not capitalize interest on utility infrastructure projects to be purchased by Quail Creek Water Company.

This interest allocation resulted from several Well 16 costs that were erroneously recorded to the job for Well 5, a golf course irrigation well which is owned and operated by the Developer. When the Well 16 costs were reclassified to the correct job, a portion of the capitalized interest was also reclassified to the Well 16 job. Since capitalized interest would not normally be charged to a Quail Creek Water Company project, the Company will make an adjustment to remove the capitalized interest from the cost of Well 16 in its rebuttal filing.

EXHIBIT
5-3
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF 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

(RATE DESIGN)

DIRECT TESTIMONY OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 13, 2015

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EXECUTIVE SUMMARY
QUAIL CREEK WATER COMPANY, INC.
DOCKET NO. W-02514A-14-0343

Quail Creek Water Company, Inc. ("QCW" or "Company") is an Arizona Class "B" utility engaged in the business of providing potable water service in a portion of Pima County, Arizona, pursuant to certificates of convenience and necessity granted by the Arizona Corporation Commission ("Commission"). In the test-year ended December 31, 2013, Quail Creek served approximately 2,011 customers. The Company's current rates were approved in Decision No. 61611, dated April 1, 1999.

The Company-proposed rates would increase the monthly bill for a typical 5/8 x 3/4-inch meter residential customer, with a median usage of 4,500 gallons, by $10.29 or 37.28 percent, from $27.60 to $37.89.

Staff recommended rates would increase the monthly bill for a typical 5/8 x 3/4-inch meter residential customer, with a median usage of 4,500 gallons, by $5.40 or 19.57 percent, from $27.60 to $33.00.

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

INTRODUCTION

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

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

Q. Are you the same John Cassidy who previously filed testimony pertaining to rate base, operating revenues and expenses and revenue requirement on behalf of Staff in this docket for Quail Creek Water Company, Inc. ("QCW" or "Company") permanent rate application?

A. Yes, I am.

Q. What is the basis of your testimony?

A. Based on the adjustments and revenue requirement recommended by Staff, I am presenting Staff's recommended rate design.

BACKGROUND

Q. Please provide a brief description of QCW and the service it provides.

A. QCW is an Arizona Class "B" utility engaged in the business of providing potable water service in a portion of Pima County, Arizona. During the test year, QCW served approximately 2,011 customers. The Company's current rates were approved by the Commission in Decision No. 61611,[1] dated April 1, 1999, and went into effect as of that date.

[1] Docket No. W-02514A-98-0655.

RATE DESIGN

Q. Did Staff prepare Schedules showing the present, Company-proposed, and Staff-recommended rates and charges?

A. Yes. Staff Schedule JAC-1 shows the present monthly minimum charges and commodity rates, the Company's proposed monthly minimum charges and commodity rates and Staff's recommended monthly minimum charges and commodity rates. The Schedule also shows the present, proposed and recommended service charges. Staff Schedule JAC-2 shows the bill impact on a typical 5/8 x 3/4-inch residential customer.

Q. What primary characteristic distinguishes Staff's recommended rate structures from the present and Company-proposed rate structures?

A. The present rate structure includes a flat rate commodity charge, while the Company-proposed and Staff-recommended rate structures both use multi-tier inverted block commodity rates.

Q. Please summarize the present rate design for QCW.

A. The present monthly minimum charges by meter size are as follows: 5/8 x 3/4-inch, $15.00; 3/4-inch, $20.00; 1-inch, $25.00; 1 1/2-inch, $50.00; 2-inch, $80.00; 3-inch, $150.00; 4-inch, $250.00; and 6-inch, $500.00. No gallons are included in the monthly minimum charge. The flat commodity rate for all meter sizes and classes is $2.80 per thousand gallons.

Q. Please summarize the Company's proposed rate design.

A. The Company's proposed monthly minimum charges by meter size are as follows: Residential 5/8 x 3/4-inch, $21.23; 3/4-inch, $28.30; 1-inch, $35.38; 1 1/2-inch, $70.75; 2-inch, $113.20; 3-inch, $212.25; 4-inch, $353.75; and 6-inch, $707.50. Zero gallons are included in the monthly minimum charge. The Company proposes a three-tier inverted-

block commodity rate for the 5/8 x 3/4-inch and 3/4-inch residential customers with a $3.58 per thousand gallons first-tier (zero to 4,000 gallons) commodity rate, a $4.68 per thousand gallons second-tier (4,001 to 10,000 gallons) commodity rate and a $5.78 per thousand gallons third-tier commodity rate for any consumption over 10,000 gallons. The larger residential and commercial classes' commodity break-over points vary by meter size with a $4.68 per thousand gallons first-tier commodity rate and a $5.78 per thousand gallons for any consumption over the first tier.

Q. Please summarize Staff's recommended rate design.

A. Staff's recommended monthly minimum charges by meter size are as follows: 5/8 x 3/4-inch, $18.00; 3/4-inch, $27.00; 1-inch, $45.00; 1 1/2-inch, $90.00; 2-inch, $144.00; 3-inch, $288.00; 4-inch, $450.00; and 6-inch, $900.00. Zero gallons are included in the monthly minimum charge. For the 5/8 x 3/4-inch and 3/4-inch residential customers, Staff recommends a three-tier inverted block commodity rate for the 5/8 x 3/4-inch and 3/4-inch residential customers with a $3.00 per thousand gallons first-tier (zero to 3,000 gallons) commodity rate, a $4.00 per thousand gallons second-tier (3,001 to 9,000 gallons) commodity rate and a $5.42 per thousand gallons third-tier commodity rate for any consumption over 9,000 gallons. Staff recommends a two-tier inverted-block rate for larger residential and commercial classes with break-over points that vary by meter size with a $4.00 per thousand gallons first-tier commodity rate and a $5.42 per thousand gallons commodity rate for any consumption over the first tier. More details of rate design are shown on Staff Schedule JAC-1.

Q. As proposed by the Company, what is the rate impact on a typical 5/8 x 3/4-inch meter residential customer?

A. The Company's proposed rates would increase the typical 5/8-inch meter residential bill with median usage of 4,500 gallons from $27.60 to $37.89 for an increase of $10.29 or 37.28 percent.

Q. As recommended by Staff, what is the rate impact on a typical 5/8 x 3/4-inch meter residential customer?

A. Staff's recommended rates would increase the typical 5/8-inch meter residential bill with a median usage of 4,500 gallons from $27.60 to $33.00, for an increase of $5.40 or 19.57 percent.

SERVICE CHARGES

Q. What did the Company propose for service charges?

A. The Company proposed the following:

a. $25 Establishment Charge.

b. $25 Reconnection (delinquent) Service Charge.

c. $25 Meter Test (if correct) Charge.

d. $15 Meter Re-read (if correct) Charge.

e. $15 Not Sufficient Funds (NSF) Charge.

f. 1.5 % (per month) Deferred Payment Charge.

g. $50 Establishment (After-Hours) Charge.

Q. What is Staff's recommendation?

A. Staff recommends the following:

1. Approval of:
   a. $25 Establishment Charge.
   b. $25 Reconnection (delinquent) Service Charge.
   c. $25 Meter Test (if correct) Charge.
   d. $15 Meter Re-read (if correct) Charge.
   e. $15 Not Sufficient Funds (NSF) Charge.
   f. 1.5 % (per month) Deferred Payment Charge.
   g. $50 Establishment (After-Hours) Charge.

2. Eliminate:
   a. The words "Establishment/After Hours (R-14-2-403.D.2) - $45."

3. Replace with:
   a. The words "Establishment (After-Hours) Charge - $50 after regular working hours, on Saturdays, Sundays or holidays if at the customer's request or for the customer's convenience.

PURCHASED POWER ADJUSTMENT MECHANISM

Q. In its Application, does QCW propose the adoption of a cost recovery adjustment mechanism for purchased power?

A. Yes, the Company has proposed the adoption of a purchased power adjustment mechanism ("PPAM") in rates.[2] As proposed, the PPAM will serve as a cost recovery adjustment mechanism for recovery of only the increase (decrease) in purchased power expense caused by an increase (decrease) in power rates charged to QCW by the Company's electric utility provider, Tucson Electric Power ("TEP"). The purchased power expense included in

[2] *See* Bourassa Direct, pp. 15-19.

operating expenses (expressed in dollars per kwh) will serve as the base figure against which the amounts to be recovered or refunded when increases or decreases in purchased power costs per kwh are incurred in future years. Increases (decreases) to purchased power costs expense resulting from changes in the volume of water pumped will not affect the amount to be recovered (refunded) by the proposed PPAM.

Q. Why has the Company proposed the adoption of a PPAM in rates?

A. Because QCW has no control over the rate it is charged for electric power by TEP, the Company's proposed PPAM is intended as a mechanism to pass along any cost increase, or decrease, in purchased power to customers. The Company believes that a closer match between costs and customer bills will reduce regulatory lag, and create a more efficient price signal. Additionally, QCW believes that the presence of a PPAM will help ensure that the Company has the opportunity to earn its authorized rate of return.[3]

Q. What is Staff's recommendation with regard to QCW's request for a PPAM?

A. Staff recommends that the Company file a PPAM tariff and a Plan of Administration for Staff's review and approval.

Q. Does this conclude your direct testimony?

A. Yes, it does.

[3] See Bourassa Direct, p. 19, lines 3-8

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8 x 3/4" Meter	$ 15.00	$ 21.23	$ 18.00
3/4" Meter	20.00	28.30	27.00
1" Meter	25.00	35.38	45.00
1½" Meter	50.00	70.75	90.00
2" Meter	80.00	113.20	144.00
3" Meter	150.00	212.25	288.00
4" Meter	250.00	353.75	450.00
6" Meter	500.00	707.50	900.00
Commodity Rates			
All Meters - Flat Commodity Rate	$ 2.80		
5/8 x 3/4" & 3/4" Meter - Residential			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 4,000 Gallons		$ 3.58	
From 4,001 to 10,000 Gallons		$ 4.68	
Over 10,000 Gallons		$ 5.78	
From 1 to 3,000 Gallons			$ 3.00
From 3,001 to 9,000 Gallons			$ 4.00
Over 9,000 Gallons			$ 5.42
5/8 x 3/4" & 3/4" Meter - Commercial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 10,000 Gallons		$ 4.68	
Over 10,000 Gallons		$ 5.78	
From 1 to 3,000 Gallons			$ 3.00
From 3,001 to 9,000 Gallons			$ 4.00
Over 9,000 Gallons			$ 5.42
5/8 x 3/4" & 3/4" Meter - Irrigation			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 10,000 Gallons		$ 4.68	
Over 10,000 Gallons		$ 5.78	
From 1 to 9,000 Gallons			$ 4.00
Over 9,000 Gallons			$ 5.42
1" - Residential, Commercial & Irrigation			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 17,000 Gallons		$ 4.68	
Over 17,000 Gallons		$ 5.78	
From 1 to 15,000 Gallons			$ 4.00
Over 15,000 Gallons			$ 5.42
1½" - Residential, Commercial & Irrigation			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 33,000 Gallons		$ 4.68	
Over 33,000 Gallons		$ 5.78	
From 1 to 35,000 Gallons			$ 4.00
Over 35,000 Gallons			$ 5.42

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
2" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 53,000 Gallons		$ 4.68	
Over 53,000 Gallons		$ 5.78	
From 1 to 55,000 Gallons			$ 4.00
Over 55,000 Gallons			$ 5.42
3" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 100,000 Gallons		$ 4.68	
Over 100,000 Gallons		$ 5.78	
From 1 to 80,000 Gallons			$ 4.00
Over 80,000 Gallons			$ 5.42
4" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 167,000 Gallons		$ 4.68	
Over 167,000 Gallons		$ 5.78	
From 1 to 115,000 Gallons			4.00
Over 115,000 Gallons			5.42
6" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 334,000 Gallons		$ 4.68	
Over 334,000 Gallons		$ 5.78	
From 1 to 240,000 Gallons			$ 4.00
Over 240,000 Gallons			$ 5.42

RATE DESIGN

		Company Proposed Rates			Staff Recommended Rates		
Service Line and Meter Installation Charges	Present Rates	Service Line Charge	Meter Charge	Total Charge	Service Line Charge	Meter Charge	Total Charge
5/8" x 3/4" Meter	$ 350	$ 385	$ 135	$ 520	$ 385	$ 135	$ 520
3/4" Meter	$ 400	415	205	620	415	205	620
1" Meter	$ 470	465	265	730	465	265	730
1½" Meter	$ 695	520	475	995	520	475	995
2" Turbine Meter	$ 1,225	800	995	1,795	800	995	1,795
2" Compound Meter	$ 1,820	800	1,840	2,640	800	1,840	2,640
3" Turbine Meter	$ 1,735	1,015	1,620	2,635	1,015	1,620	2,635
3" Compound Meter	$ 2,410	1,135	2,495	3,630	1,135	2,495	3,630
4" Turbine Meter	$ 2,700	1,430	2,570	4,000	1,430	2,570	4,000
4" Compound Meter	$ 3,455	1,610	3,545	5,155	1,610	3,545	5,155
6" Turbine Meter	$ 5,115	2,150	4,925	7,075	2,150	4,925	7,075
6" Compound Meter	$ 6,650	2,270	6,820	9,090	2,270	6,820	9,090
Service Charges							
Establishment	$ 25.00			$ 25.00			$ 25.00
Establishment (after hours)	45.00			Eliminate			Eliminate
Reestablishment within 12 months	**			**			**
Reconnection/Delinquent	25.00			25.00			$ 25.00
Meter Test (if correct)	25.00			25.00			$ 25.00
Meter Re-read (if correct)	15.00			15.00			$ 15.00
Deposit	*			*			*
Deposit Interest	*			*			*
NSF Check	$ 15.00			$ 15.00			$ 15.00
Deferred Payment, per month	1.5% per month			1.5% per month			1.5% per month
Late Payment Fee (per month)	***			***			***
After-Hours Service Charge	NT			$ 50.00			$ 50.00
Monthly Service Charge of Fire Sprinklers							
4" or Smaller	****			****			****
6"	****			****			****
8"	****			****			****
10"	****			****			****
Larger than 10"	****			****			****

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

** Number of months off the system times the monthly minimum per Commision Rule A.A.C. R-14-2-403(D)

*** 1.5% per month or a minimum of $3.50

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

NT = No Tariff

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

Schedule JAC-2

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

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,725	$ 31.03	$ 43.62	$ 12.59	40.58%
Median Usage	4,500	27.60	37.89	$ 10.29	37.28%
Staff Recommended					
Average Usage	5,725	$ 31.03	$ 37.90	$ 6.87	22.14%
Median Usage	4,500	27.60	33.00	$ 5.40	19.57%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 15.00	$ 21.23	41.53%	$ 18.00	20.00%
1,000	$ 17.80	24.81	39.38%	21.00	17.98%
2,000	$ 20.60	28.39	37.82%	24.00	16.50%
3,000	$ 23.40	31.97	36.62%	27.00	15.38%
4,000	$ 26.20	35.55	35.69%	31.00	18.32%
5,000	$ 29.00	40.23	38.72%	35.00	20.69%
6,000	$ 31.80	44.91	41.23%	39.00	22.64%
7,000	$ 34.60	49.59	43.32%	43.00	24.28%
8,000	$ 37.40	54.27	45.11%	47.00	25.67%
9,000	$ 40.20	58.95	46.64%	51.00	26.87%
10,000	$ 43.00	63.63	47.98%	55.00	27.91%
11,000	$ 45.80	69.41	51.55%	59.00	28.82%
12,000	$ 48.60	75.19	54.71%	63.00	29.63%
13,000	$ 51.40	80.97	57.53%	68.42	33.11%
14,000	$ 54.20	86.75	60.06%	73.84	36.24%
15,000	$ 57.00	92.53	62.33%	79.26	39.05%
16,000	$ 59.80	98.31	64.40%	84.68	41.61%
17,000	$ 62.60	104.09	66.28%	90.10	43.93%
18,000	$ 65.40	109.87	68.00%	95.52	46.06%
19,000	$ 68.20	115.65	69.57%	100.94	48.01%
20,000	$ 71.00	121.43	71.03%	106.36	49.80%
25,000	$ 85.00	150.33	76.86%	133.46	57.01%
30,000	$ 99.00	179.23	81.04%	160.56	62.18%
35,000	$ 113.00	208.13	84.19%	187.66	66.07%
40,000	$ 127.00	237.03	86.64%	214.76	69.10%
45,000	$ 141.00	265.93	88.60%	241.86	71.53%
50,000	$ 155.00	294.83	90.21%	268.96	73.52%
75,000	$ 225.00	439.33	95.26%	404.46	79.76%
100,000	$ 295.00	583.83	97.91%	539.96	83.04%

EXHIBIT
S-4
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF QUAIL CREEK WATER COMPANY, INC. AN ARIZONA WATER 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

DIRECT

TESTIMONY

OF

MICHAEL S. THOMPSON, P. E.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 6, 2015

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Engineering Report for Quail Creek Water Company, Inc. MST-1

INTRODUCTION

Q. Please state your name and business address.

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

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

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

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since June 2013.

Q. What are your responsibilities as a Utilities Engineer - Water/Wastewater?

A. As a Utilities Engineer specializing in water and wastewater engineering, my responsibilities include: the inspection, investigation, and evaluation of water and wastewater systems; obtaining data and preparing investigative reports; providing technical recommendations and suggesting corrective action for water and wastewater systems; and providing written and oral testimony in rate cases and other cases before the Commission.

Q. How many companies have you analyzed for the Utilities Division?

A. I have analyzed 15 companies covering various responsibilities for the Utilities Division Staff ("Utilities Staff" or "Staff").

Q. Have you previously testified before this Commission?

A. Yes, I have testified before this Commission.

Q. What is your educational background?

A. I graduated from the SUNY College of Environmental Science and Forestry ("ESF") at Syracuse, New York, and Syracuse University ("SU") at Syracuse, New York. I have a Bachelor of Science Degree in Pulp and Paper Engineering from ESF and Chemical Engineering from SU.

Q. Briefly describe your pertinent work experience.

A. Prior to my employment with the Commission, I was the Operations Engineer, from 2009 to 2012, for the Southwest and Central Districts of Golden State Water Company ("GSWC"), located in Gardena and Santa Fe Springs, California, respectively. As the Operations Engineer, I provided technical assistance and support to the districts' operations departments with primary focus on resolving operational problems and optimizing the efficiency of the water system operations. Prior to my employment with GSWC, I was employed with Chaparral City Water Company ("Chaparral"), from 2002 to 2009, as District Operations Engineer. While at Chaparral, I performed all capital, new business, and water quality activities within the district. I served as field engineer/construction manager for all capital and new business projects under construction. I also managed all water quality activities including monitoring, sampling, and reporting as required by 40 CFR (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

From 2000 to 2002, I was employed with the Fountain Hills Sanitary District as Engineering Assistant. I performed plan review of all commercial and residential projects in the Town of Fountain Hills, and managed the district's construction projects.

From 1996 to 2000, I was employed as an Environmental Engineering Specialist with the Arizona Department of Environmental Quality ("ADEQ"). During that time period, I

performed operations and maintenance site inspections of public water systems in Gila, LaPaz, Mohave, and Southwestern Yavapai counties.

Q. Please state your professional membership, registrations, and licenses.

A. I am registered as a Professional Engineer (Civil) in the State of Arizona, a Grade 2 Certified Water Treatment Plant Operator, and a Grade 3 Certified Water Distribution System Operator. I am a member of the American Water Works Association and Arizona Water Association.

PURPOSE OF TESTIMONY

Q. What was your assignment in this rate proceeding?

A. My assignment was to provide Staff's engineering evaluations for the Quail Creek Water Company, Inc. ("Quail Creek" or "Company") rate proceedings.

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

A. My testimony presents the findings of Staff's engineering evaluation of the operations for the Quail Creek Water System. The findings are contained in the Engineering Report that I have prepared for this proceeding. The report is included as Exhibit MST-1 in this pre-filed testimony.

ENGINEERING REPORT

Q. Please describe the information contained in your Engineering Reports.

A. The Report is divided into three (3) general sections: *1) Executive Summary, 2) Engineering Report Discussion, and 3) Engineering Report Figures.* The *Discussion* section for the Quail Creek Water System is further divided into nine (9) subsections: *1) Introduction and Location of the Water System, 2) Description of the Water System, 3) Water Usage, 4) Growth, 5) Arizona Department Environmental Quality Compliance, 6) Arizona Department of Water Resources Compliance, 7) Arizona Corporation Commission Compliance, 8) Depreciation Rates, and 9) Other Issues.*

Q. Was the Engineering Report prepared by you?

A. Yes.

CONCLUSIONS AND RECOMMENDATIONS

Q. What are Staff's conclusions and recommendations regarding the operations of the Quail Creek Water System?

A. Staff's conclusions and recommendations are contained in the Executive Summary of the Engineering Report.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

Exhibit MST-1

ENGINEERING REPORT FOR
Quail Creek Water Company, Inc.

Docket No. W-02514A-14-0343 (Rates)

By Michael Thompson, P. E.

April 17, 2015

EXECUTIVE SUMMARY

CONCLUSIONS

1. The Arizona Corporation Commission ("ACC" or "Commission") Utilities Division Staff ("Utilities Staff" or "Staff") concludes that the Quail Creek Water Company, Inc. ("Quail Creek" or "Company") water system has adequate production and storage capacity to serve the present customer base and any reasonable growth.

2. Quail Creek's original Certificate of Convenience & Necessity ("CC&N") was granted in an Order Preliminary in Commission Decision No. 56738, dated December 7, 1989, and permanently granted in Commission Decision No. 59695. CC&N extensions were granted in Commission Decision Nos. 63137 and 67067 on November 16, 2000, and June 25, 2004, respectively. The CC&N currently covers an area totaling approximately 2,761 acres (4.31 square miles).

3. The Quail Creek water system well #16 is inactive. The well is disconnected physically and electrically from the water system. Staff concludes that the inactive well is not used and useful to the water system's provision of service.

4. The Arizona Department of Environmental Quality ("ADEQ") Compliance Status Report ("CSR"), dated November 20, 2014, indicates that the Quail Creek water system is currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and the Arizona Administrative Code, Title 18, Chapter 4.

5. The Quail Creek water system service area is located within the Arizona Department of Water Resources ("ADWR") Tucson Active Management Area ("AMA"), and is enrolled as a regulated tier I municipal provider in the Modified Non-Per Capita Conservation Program ("MNPCCP").

6. ADWR's Water Provider Compliance Report, dated April 14, 2015, indicates that the Quail Creek water system is currently compliant with departmental requirements governing water providers and/or community water systems.

7. According to the Commission's Utilities Division Compliance Section database, Quail Creek currently has no delinquent Commission compliance items.

8. Quail Creek has approved Cross-Connection/Backflow Prevention and Curtailment Tariffs on file with the Commission.

9. Quail Creek does not have any Best Management Practice ("BMP") Tariffs on file with the Commission. However, Quail Creek has implemented, as required by ADWR, a basic public education program plus five (5) additional BMPs.

RECOMMENDATIONS

1. Staff recommends an annual water testing expense of $7,608 for Quail Creek be used for the purposes of this application.

2. Staff recommends the depreciation rates listed under "Staff's Recommended Rates" in Table E be adopted.

3. Staff recommends the meter and service line installation charges listed under "Staff's Recommendations" in Table F be adopted.

4. Staff recommends that Quail Creek file with Docket Control, as a compliance item in this docket within 90 days of the effective date of a decision in this proceeding, the seven (7) BMPs that were approved by ADWR for implementation by Quail Creek as an MNPCCP participant that substantially conform to the templates created by Staff for the Commission's review and consideration. The templates created by Staff are available on the Commission's website at http://www.azcc.gov/Divisions/Utilities/forms.asp.

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A. INTRODUCTION AND LOCATION OF COMPANY

On September 19, 2014, Quail Creek Water Company, Inc. ("Quail Creek" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for approval of a rate increase in Docket No. W-02514A-14-0343. Quail Creek's current rates were approved in Commission Decision No. 61611 dated April 1, 1999.

Quail Creek is a Class B public utility water company that provides service to approximately 2,011 metered connections.[1] The Quail Creek water system is a groundwater-based system serving master planned communities of Quail Creek and Stone House located in Sahuarita, Arizona. Sahuarita, which is located approximately 15 miles south of Tucson, is shown on Figure 1. The Quail Creek water system Certificate of Convenience and Necessity ("CC&N"), which covers an area totaling approximately 2,761 acres (4.31 square miles), is shown in Figure 2. The original CC&N was granted in an Order Preliminary in Commission Decision No. 56738, dated December 7, 1989, and permanently granted in Commission Decision No. 59695. Two (2) CC&N extensions were granted in Commission Decision Nos. 63137 and 67067 on November 16, 2000, and June 25, 2004, respectively.

B. DESCRIPTION OF THE WATER SYSTEM

The Quail Creek water system was visited on November 25, 2014, by Staff member Michael Thompson. Mr. Thompson was accompanied by Mr. Edward MacMeans and Mr. Ray Jones. Mr. MacMean is responsible for the day-to-day operations of the Quail Creek water system and is also the certified operator of record.[2]

The Quail Creek water system contains three (3) active drinking water wells, one (1) inactive well, a water plant (Water Plant #1), and 184 fire hydrants. Water Plant #1 contains one (1) 15,000 gallon hydro-pneumatic pressure tank, two (2) 750,000 gallon storage tanks, an emergency back-up generator with an automatic transfer switch, and a booster pump station. The booster pump station consists of three (3) 15 horsepower ("hp") booster pumps, and one (1) 30 hp booster pump. Two (2) of the 15 hp booster pumps operate with Variable Frequency Drives ("VFDs").

The three (3) active drinking water wells pump directly to a looped distribution system which consists of two (2) pressure zones (Zones 2 & 3). The storage tanks, located at Water Plant #1, receive water from the wells via the distribution system. Both storage tanks are interconnected and supply water to the distribution system via gravity feed and the booster pump station. Although interconnected, water is supplied to Zone 2 (lower zone) via gravity feed from the east storage tank, while Zone 3 (upper zone) is supplied water from both storage tanks via the booster pump station. The wells and water plant are normally operated remotely from the Lago Del Oro Saddlebrook

[1] Per water use data submitted with the application.
[2] Mr. MacMeans is certified with the Arizona Department of Environmental Quality ("ADEQ") as a Grade 4 Water Distribution System Operator, Grade 4 Water Treatment Plant Operator, Grade 4 Wastewater Treatment Plant Operator, and Grade 3 Collection System Operator. Mr. MacMeans's ADEQ Operator Identification No. is OP008401, with an expiration date of August 31, 2015.

office with the utilization of the Supervisory Control and Data Acquisition ("SCADA") system. The emergency backup generator provides emergency power for the booster pump station.

The in-service plant facilities (i.e., wells, tanks, pumps, and visible pipe) appeared to be in proper working order, properly maintained, and in good condition. Staff did not observe any leaks at the plant facilities, or in the distribution system.

The inactive well, Well #16, is disconnected physically and electrically from the water system. The pump and motor have been removed. Staff concludes that the inactive well is not used and useful to the water system's provision of service.

Detailed listings of the plant facilities are included in Table A. A schematic of the service area is illustrated in Figure 3.

Table A. Quail Creek Water System Plant Facilities Summary

Active Wells							
Well ID	ADWR Well ID	Pump (hp)	Pump Yield (gpm)[3]	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
(S) Well #11	55-608597	75	425	459	16	8	1952
(T) Well #12	55-219145	200	1,000	900	18	8	2011
(T) Well #13	55-608522	125	675	2,000	20	8	1974

(S) Signifies Submersible Pump Well
(T) Signifies Turbine Pump Well

Inactive Active Well							
Well ID	ADWR Well ID	Pump (hp)	Pump Yield (gpm)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
(S) Well #16	55-608598	100	382	510	16	8	1962

Water Plant #1			
Storage Tanks (Gallons)	Pressure Tank (Gallons)	Booster Pump System (hp)	Emergency Back-up Generator w/ Automatic Transfer Switch

[3] gpm signifies gallon per minute

East Storage Tank – 750,000 West Storage Tank – 750,000	1 – 13,000	3 – 15 1 - 30	150 Kw

Fire Hydrants	
Quantity	184

Service Area Distribution Mains		
Diameter (inches)	Material	Length (feet)
4	Poly Vinyl Chloride ("PVC")	360
6	PVC	55,002
6	Ductile Iron Pipe	441
8	PVC	53,356
12	PVC	21,087
16	PVC	500
21	PVC	4,225
Total Length		134,971

Service Areas Meters	
Size (inches)	Quantity
5/8 x ¾	0
¾	1,848
1	142
1 ½	4
2	11
4 (Compound)	1
Total Quantity	2,006

C. WATER USE

1. *Water Sold*

Figure 4 represents the water consumption data for the Quail Creek water system during the test year, January 2013 through December 2013. Customer consumption included a high monthly water usage of 258 gallons per day ("gpd") per connection (1,958 connections) in June, and a low water usage of 176 gpd per connection (1,942 connections) in March. The average daily usage during the twelve-month period was 219 gpd per connection. The Company reported 157,088,000 gallons of water sold during the test year.[4]

2. *Non-Accounted For Water*

Non-accounted for water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and water produced by the

[4] Total water sold during the test year is based on the monthly data from the meter reads.

source. A water balance will allow a water company to identify water and revenue losses due to leakage and any non-metered water use such as construction, firefighting, and line flushing.

Quail Creek reported 170,255,000 gallons of water pumped and 157,088,000 gallons of water sold, during the test year ending December, 2013, resulting in a water loss of 7.73%, which is within acceptable limits.

3. Water System Analysis

The Quail Creek water system has three (3) active drinking water wells with a total production capacity of approximately 2,100 gpm (3,024,000 gpd). The water system has two (2) storage tanks with a total capacity of approximately 1,530,000 gallons. During the peak month, June 2013, the water system was serving 1,958 connections when Quail Creek reported 15,158,000 gallons of water sold. Average daily demand for the month of June 2013 was determined to be 505,267 gpd, while average daily demand per connection was determined to be 258 gpd. Staff concludes that the Quail Creek water system has adequate production and storage capacity to serve the present customer base and any reasonable growth.

D. GROWTH

Table B and Figure 5 show Quail Creek's customer growth based on service connection data from its past eighteen (18) Annual Reports. Accordingly, Table B and Figure 5 indicate that Quail Creek experienced positive growth from 1997 through 2014. During that period of time Quail Creek gained a total of 2,017 connections, which equates to an average growth of 119 connections per year.

With respect to future growth, Quail Creek is projecting a positive trend in growth from 2015 through 2019. In general, Quail Creek is projecting its growth to increase at a total rate of 24.2 percent (projected gain of 503 customers) from 2015 through 2019.

Table B. Quail Creek Actual and Projected Growth

Year	Number of Customers	Source
1997	61	Annual Report
1998	95	Annual Report
1999	113	Annual Report
2000	196	Annual Report
2001	299	Annual Report
2002	459	Annual Report
2003	667	Annual Report
2004	956	Annual Report
2005	1,307	Annual Report

2006	1,585	Annual Report
2007	1,641	Annual Report
2008	1,705	Annual Report
2009	1,748	Annual Report
2010	1,835	Annual Report
2011	1,872	Annual Report
2012	1,929	Annual Report
2013	1,992	Annual Report
2014	2,078	Annual Report
2015	2,181	Projected
2016	2,281	Projected
2017	2,381	Projected
2018	2,481	Projected
2019	2,581	Projected

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

1. *Compliance Status*

ADEQ regulates the Quail Creek water system under ADEQ Public Water System Identification ("PWS ID") No. 04-10-262. ADEQ inspected the Quail Creek water system on October 23, 2012. During the inspection no major deficiencies were found in the operation, maintenance, or certified operator status of the water system.

According to ADEQ, the Quail Creek water system is currently delivering water that meets water quality standards required by 40 CFR 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.[5] Quail Creek is considered to be in full compliance by ADEQ.

2. *Water Monitoring and Testing Expenses*

In its Income Statement, line item 19 (Contractual Services – Testing), Quail Creek reported $12,864 in water testing expenses for the 2013 test year. Upon reviewing the water testing invoices it was determined that approximately $6,825 of those expenses were actually associated with Robson Ranch Quail Creek Recharge water testing.[6] Consequently, Quail Creek water testing expenses included in line item 19 (Contractual Services – Testing) during the test year were actually $6,039, as illustrated in Table C.

---

[5] ADEQ CSR's dated November 20, 2014.

[6] Robson Ranch Quail Creek Recharge ("RRQCR") was established to obtain effluent from the Pima County Wastewater Treatment Plant ("PCWTP") for recharge purposes. RRQCR discharges effluent from the PCWTP into Recharge Perk Basins via an effluent pump station. RRQCR monitors the effluent at the effluent pump station, as well as two (2) monitoring wells. The effluent pump station, perk basins, and monitoring wells are located within the Quail Creek Water Company, Inc. CC&N. The RRQCR is not associated with or owned by Quail Creek Water Company, Inc.

Table C. Company Reported Test Year Water Testing Expenses – Quail Creek Water Company, Inc.

Line Item	Test Year Water Tests	Test Year Expenses	Adjusted Test Year Expenses w/New Source	Adjusted Test Year Expenses w/out New Source
Robson Ranch Quail Creek Recharge Expenses **Line Item #19 Contractual Services – Testing**	**Inorganic Chemicals (IOCs)**	$3,339	$0	$0
	Nitrogen 2	$1,088	$0	$0
	Fecal Coliform	$2,398	$0	$0
	Subtotal	**$6,825**	**$0**	**$0**
Quail Creek Expenses **Line Item #19 Contractual Services – Testing**	**New Source Tests**	$4,013	$4,013	$0
	Total Coliform	$976	$976	$976
	Disinfection-By-Products (TTHMs)	$300	$300	$300
	Disinfection-By-Products (HAA5s)	$750	$750	$750
	Subtotal	**$12,864**	**$6,039**	**$2,026**
Quail Creek Expenses **Line Item #27 Miscellaneous Expense**	**Monitoring Assistance Program (MAP)**	$5,341	$5,341	$5,341
	Total	**$18,205**	**$11,380**	**$7,367**

New source water testing, a one-time expense of $4,013, was included in the $6,039 water testing expenses. Although technically considered water testing expenses, new source testing expenses, which in this case were associated with the Well #12 capital project, should more than likely be capitalized. By removing the one-time expense of $4,013, the actual water testing expenses for the test year were $2,026.

In addition to Total Coliform, Disinfectant-By-Products, and Lead & Copper testing, the Quail Creek water system is also subject to mandatory participation in the Monitoring Assistance Program ("MAP").[7] Test Year MAP expenses of $5,341 were inadvertently entered in Line Item 27 (Miscellaneous Expense) of the Income Statement instead of Line Item 17 (Contractual Services –

[7] The MAP is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

Testing). As a result, the actual water testing expenses during the 2013 test year were the combined total of $2,026 and $5,341 equaling $7,367, as shown in Table C.

The monitoring and testing expenses that were reviewed, evaluated, and recalculated by Staff are represented in Table D. The total estimated annual water testing expense for the water system is $7,608. Staff recommends water testing expenses of $7,608 be used for purposes of this proceeding.

Table D. Staff Recommended Water Monitoring & Testing Expenses – Quail Creek Water Company, Inc.

Water Test	Expense Per Test	Quantity of Tests Per 3 Years	3 Year Expenses	Total Expenses
Total Coliform	$16	180	$2,880	$960
Lead & Copper	$34	20	$680	$227
Disinfection-By-Products (TTHM's)	$110	9	$990	$330
Disinfection-By-Products (HAA5's)	$250	9	$2,250	$750
Subtotal			**$6,800**	**$2,267**
Monitoring Assistance Program (MAP)	$5,341	MAP	$16,023	$5,341
Total			**$22,823**	**$7,608**

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Quail Creek water system service area is located within the Tucson Active Management Area ("AMA") and is enrolled as a regulated tier I municipal provider in the Modified Non-Per Capita Conservation Program ("MNPCCP").

ADWR's Water Provider Compliance Report dated April 14, 2015, indicates that the Quail Creek water system is currently compliant with departmental requirements governing water providers and/or community water systems.

G. ARIZONA CORPORATION COMMISSION COMPLIANCE

A check of the Utilities Division Compliance Section database showed that there are no delinquent Commission compliance items for Quail Creek.[8]

[8] Per Compliance Section email dated April 14, 2015.

H. DEPRECIATION RATES

Staff's typical and customary depreciation rates, which vary by National Association of Regulatory Utility Commissioners ("NARUC") plant categories, are illustrated in Table E. These rates represent typical and customary values within a range of anticipated equipment life. Quail Creek's proposed depreciation rates which are shown in the Proposed Rates column in Table E are similar to Staff's typical rates and, therefore, Staff recommends approval of the Company's proposed rates. Staff recommends the depreciation rates listed under "Staff's Recommended Rates" in Table E be adopted.

Table E. Depreciation Rate Table – Quail Creek Water Company, Inc.

NARUC Account Numbers	Depreciable Plant	Quail Creek Proposed Rates (%)	Staff's Typical Rates (%)	Staff Recommended Rates (%)
301	Organization	0.00	0.00	0.00
302	Franchises	0.00	0.00	0.00
303	Land & Land Rights	0.00	0.00	0.00
304	Structures & Improvements	3.33	3.33	3.33
305	Collection & Impounding Reservoirs	2.50	2.50	2.50
306	Lake & River Intakes	2.50	2.50	2.50
307	Wells & Springs – Source & Pumping	3.33	3.33	3.33
308	Infiltration Galleries – Source & Pumping	6.67	6.67	6.67
309	Supply Mains	2.00	2.00	2.00
310	Power Generation Equipment	5.00	5.00	5.00
311	Pumping Equipment - Electric	12.50	12.50	12.50
320 320.1 320.2	**Water Treatment Equipment** Water Treatment Equipment –Plant Water Treatment Equipment – Solution Feeders	 3.33 20.00	 3.33 20.00	 3.33 20.00
330 330.1 330.2	**Distribution Reservoirs & Standpipes** Storage Tanks Pressure Tanks	 2.22 5.00	 2.22 5.00	 2.22 5.00
331	Transmission and Distribution Mains	2.00	2.00	2.00
333	Services	3.33	3.33	3.33

334	**Meters**	8.33	8.33	8.33
335	**Hydrants**	2.00	2.00	2.00
336	**Backflow Prevention Devices**	6.67	6.67	6.67
339	**Other Plant & Miscellaneous Equipment**	6.67	6.67	6.67
340	**Office Furniture & Equipment**	6.67	6.67	6.67
340.1	Computers & Software	20.00	20.00	20.00
341	**Transportation Equipment**	20.00	20.00	20.00
342	**Stores Equipment**	4.00	4.00	4.00
343	**Tools, Shop & Garage Equipment**	5.00	5.00	5.00
344	**Laboratory Equipment**	10.00	10.00	10.00
345	**Power Operated Equipment**	5.00	5.00	5.00
346	**Communication Equipment**	10.00	10.00	10.00
347	**Miscellaneous Equipment**	10.00	10.00	10.00
348	**Other Tangible Plant**	10.00	-----	10.00

I. OTHER ISSUES

1. *Service Line and Meter Installation Charges*

Quail Creek proposed changes to its existing service line and meter installation charges.[9] The proposed charges are refundable advances and are similar to Staff's typical range of charges for service line and meter installations and, therefore, Staff recommends approval of the Company's proposed charges. Since Quail Creek may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Those charges are included in Table E listed under "Staff's Recommendations". Staff recommends the charges listed under "Staff's Recommendations" in Table F be adopted.

Table F. Service Line and Meter Installation Charges – Quail Creek Water Company, Inc.

Meter Size	Company Current Tariff	Quail Creek Proposed			Staff's Recommendations		
		Service Line Charge	Meter Charge	Total Charge	Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	$350	$385	$135	$520	$385	$135	$520
3/4-inch	$400	$415	$205	$620	$415	$205	$620
1-inch	$470	$465	$265	$730	$465	$265	$730
1-1/2-inch	$695	$520	$475	$995	$520	$475	$995
2-inch	$1,225	$800	$995	$1,795	$800	$995	$1,795

[9] The Company's current charges were approved in Decision No. 61611, effective April 1, 1999.

Turbine							
2-inch Compound	$1,820	$800	$1,840	$2,640	$800	$1,840	$2,640
3-inch Turbine	$1,735	$1,015	$1,620	$2,635	$1,015	$1,620	$2,635
3-inch Compound	$2,410	$1,135	$2,495	$3,630	$1,135	$2,495	$3,630
4-inch Turbine	$2,700	$1,430	$2,570	$4,000	$1,430	$2,570	$4,000
4-inch compound	$3,455	$1,610	$3,545	$5,155	$1,610	$3,545	$5,155
6-inch Turbine	$5,115	$2,150	$4,925	$7,075	$2,150	$4,925	$7,075
9-inch Compound	$6,650	$2,270	$6,820	$9,090	$2,270	$6,820	$9,090

2. *Curtailment Tariff*

Quail Creek has an approved Curtailment Tariff on file with the Commission. This tariff became effective December 31, 2014.

3. *Cross-Connection/Backflow Prevention Tariff*

Quail Creek has an approved Cross-Connection/Backflow Prevention Tariff on file with the Commission. This tariff became effective November 14, 2014.

4. *Best Management Practices ("BMP") Tariff*

Quail Creek is regulated by ADWR under the MNPCCP and is required to implement a basic public education program plus five (5) additional best management practices ("BMPs).[10] On June 24, 2010, ADWR approved a Public Education Program and five (5) BMPs for Quail Creek. The BMPs approved by ADWR included:

1) Customer High Water Use Inquiry Resolution (BMP #3.6)
2) Customer High Water Use Notification (BMP #3.7)
3) Water Waste Investigations and Information (BMP #3.8)
4) Leak Detection Program (BMP #4.1)
5) Meter Repair and/or Replacement (BMP #4.2)
6) Public Education Program (BMP Template)

[10] Information provided by Ray Jones Direct Testimony, dated September 19, 2015.

Staff recommends that Quail Creek file with Docket Control, as a compliance item in this docket within 90 days of the effective date of a decision in this proceeding, the seven (7) BMPs (six (6) that are listed above that substantially conform to the templates created by Staff for the Commission's review and consideration. The templates created by Staff are available on the Commission's website at http://www.azcc.gov/Divisions/Utilities/forms.asp. Quail Creek may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

FIGURES

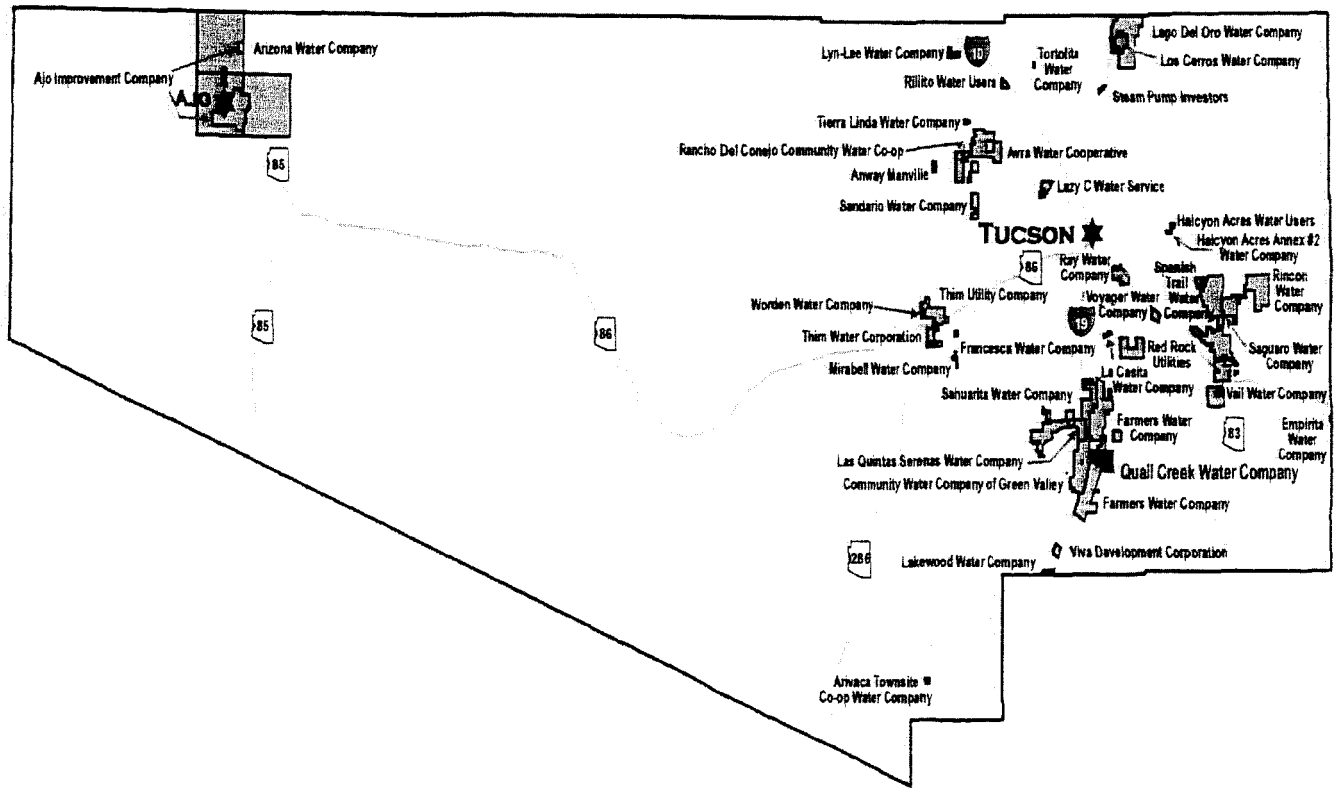

FIGURE 1 – PIMA COUNTY MAP

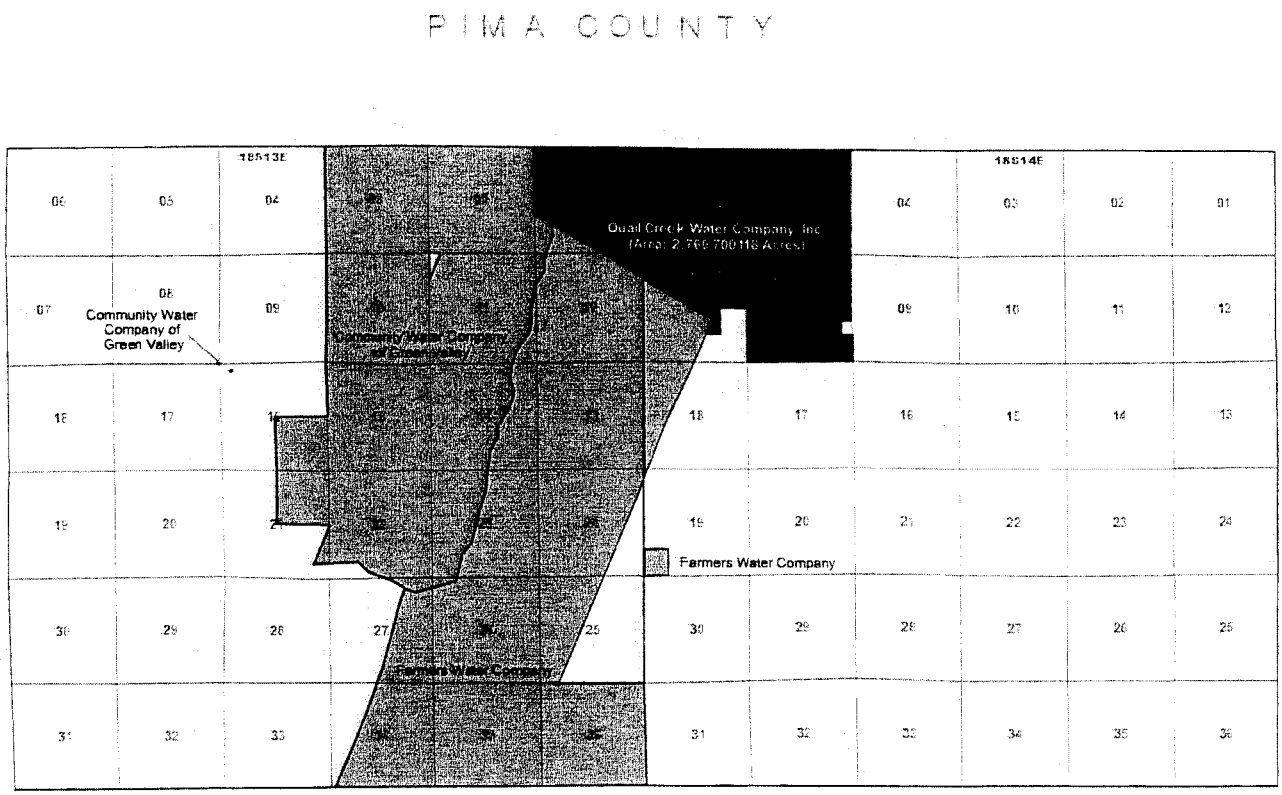

FIGURE 2 – QUAIL CREEK WATER COMPANY CERTIFICATED AREA

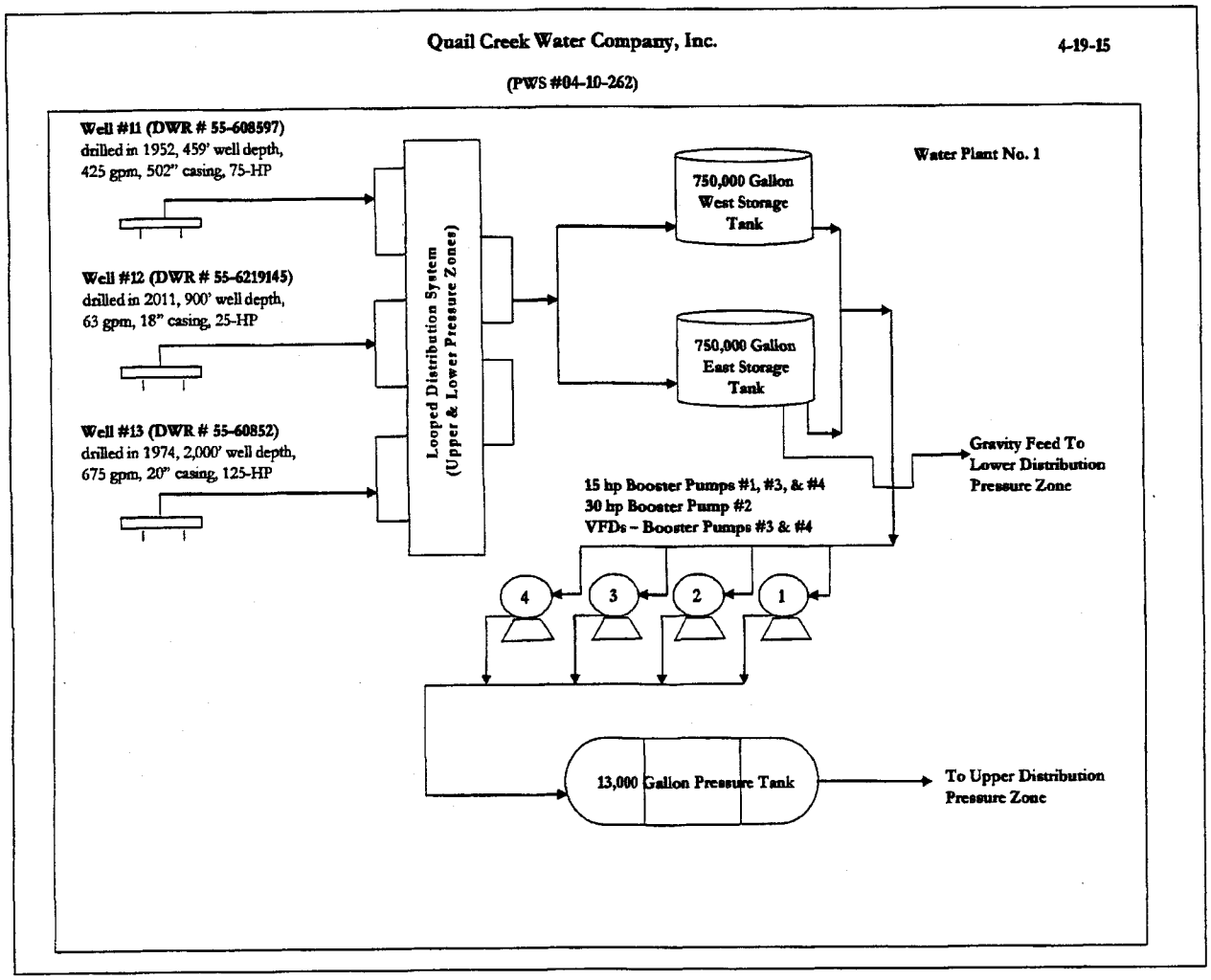

FIGURE 3 – QUAIL CREEK WATER SYSTEM (PWS No. 04-10-262)

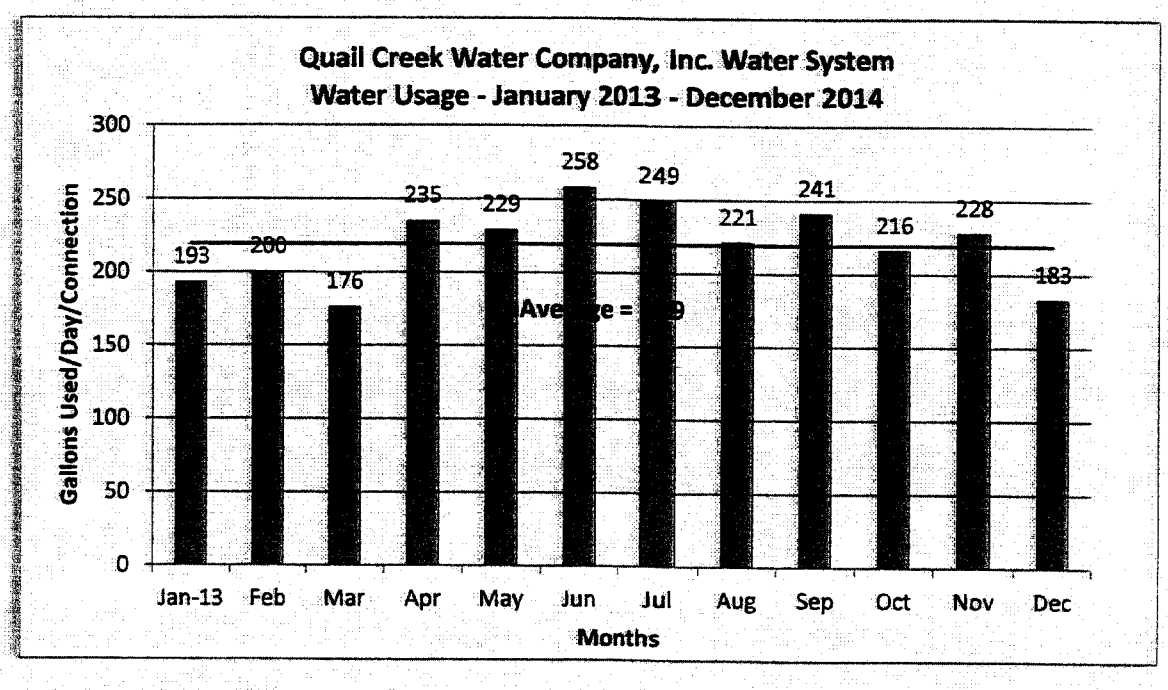

FIGURE 4 – QUAIL CREEK WATER COMPANY, INC. WATER CONSUMPTION

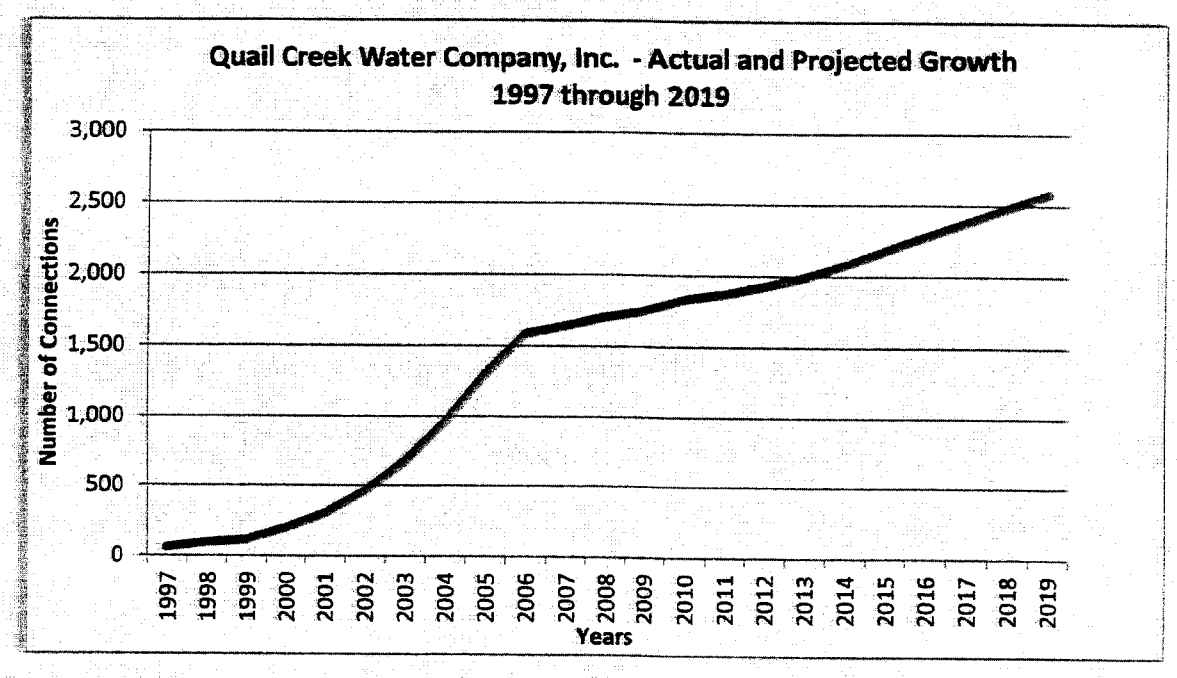

FIGURE 5 – QUAIL CREEK WATER COMPANY, INC. GROWTH

EXHIBIT
S-5
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF 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

SURREBUTTAL TESTIMONY

(COST OF CAPITAL)

OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 1, 2015

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EXECUTIVE SUMMARY
QUAIL CREEK WATER COMPANY, INC.
DOCKET NO. WS-02514A-14-0343

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

Capital Structure – Staff recommends that the Commission adopt a capital structure for Quail Creek Water Company, Inc. ("Company") for this proceeding consisting of 0.0 percent debt and 100.0 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.4 percent cost of equity for the Company. Staff's estimated cost of equity for the Company is based on the 8.8 percent average of its discounted cash flow method ("DCF") cost of equity methodology estimates for the sample companies of 8.4 percent for the constant-growth DCF model and 9.1 percent for the multi-stage DCF model. Staff's recommended cost of equity includes an upward economic assessment adjustment of 60 basis points (0.6 percent). In Staff's direct testimony the cost of equity was 9.5 percent.

Cost of Debt – Staff recommends that the Commission adopt a 0.0 percent cost of debt for the Company.

Overall Rate of Return – Staff recommends that the Commission adopt a 9.4 percent overall rate of return as compared to 9.5 percent in Staff's direct testimony.

Mr. Bourassa's Testimony – The Commission should reject the Company's proposed 10.0 percent return on equity for the following reasons:

Mr. Bourassa's DCF model estimates are overstated due to the use of historical stock price appreciation growth as a parameter to measure the dividend growth component in the constant-growth DCF model. Mr. Bourassa's risk premium model ("RPM") estimates are overstated due to (i) use of a 30-year U.S. Treasury rate, and not a corporate bond yield, in the computation of the market risk premium ("MRP") component, and (ii) use of a forecasted risk free rate in the computation of the MRP estimated cost of equity. Mr. Bourassa's capital asset pricing model ("CAPM") estimates are overstated due to the use of both a forecasted risk-free rate and an inflated beta coefficient. The current MRP in Mr. Bourassa's current MRP CAPM model improperly incorporates 3-5 year projected estimates of earnings per share, dividends per share and book value per share.

I. INTRODUCTION

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

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

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

A. Yes, I am.

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

A. The purpose of my surrebuttal testimony is to report on Staff's updated cost of capital analysis with its recommendations regarding Quail Creek Water Company's ("QCW" or "Company") cost of capital, and to respond to the cost of capital rebuttal testimony of Company witness, Mr. Thomas J. Bourassa.

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

A. Staff's surrebuttal testimony is presented in four sections. Section I is this introduction. Section II discusses Staff's updated cost of capital analysis. Section III presents Staff's comments on the rebuttal testimony of the Company's cost of capital witness, Mr. Bourassa. Lastly, Section IV presents Staff's recommendations.

II. COST OF EQUITY AND OVERALL RATE OF RETURN

Q. When filing direct testimony, Staff utilized the 10-year period, 2004-2013, over which to measure historical dividend growth in its constant growth discounted cash flow ("DCF") model. Since filing direct testimony, did Staff update its cost of capital model to facilitate the estimation of dividend growth over a different 10-year period?

A. Yes. Staff updated its cost of capital model to allow for the computation of a 10-year dividend growth rate for each of its sample companies utilizing historical measures of dividends per share ("DPS"), earnings per share ("EPS") and sustainable growth over the period 2005-2014.[1] For purposes of computing the dividend growth (g) component in the constant growth DCF model, Staff relies upon financial data made available by *Value Line*. Utilizing information provided in *Value Line's* most recent quarterly update for the water utility industry,[2] Staff was able to update its model in order to obtain historical measures of DPS, EPS and sustainable growth covering the 10-year period 2005-2014. Staff routinely performs this update to its cost of capital model on an annual basis once the requisite financial data for the previous year's operating performance is made available by *Value Line* for each of Staff's sample companies. Staff does so in order to ensure that the inputs utilized in its cost of capital model reflect current, rather than stale, information.

Q. When updating its cost of capital model did Staff also make adjustments to projected measures of DPS, EPS and sustainable growth for each of Staff's sample companies?

A. Yes. In its most recent quarterly update for the water utility industry, *Value Line* updated its projected measures of growth for DPS, EPS and sustainable growth through the period, 2018-2020. Previously, when filing direct testimony, Staff's projected measures of growth had been based on *Value Line* projections through the period 2017-2019.

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[1] As noted in Staff's direct testimony, in addition to these three historical measures of growth, Staff's estimated dividend growth (g) rate in the constant growth DCF model incorporates measures of projected EPS, DPS and sustainable growth, as well (*See* Cassidy Direct, p.18, lines 16-19).

[2] *Value Line Investment Survey, Ratings & Reports*, dated April 17, 2015.

Q. After updating Staff's cost of capital model in the manner described above, was there a change to the expected dividend growth (g) rate in Staff's constant-growth DCF model?

A. Yes, in updating its cost of capital model, Staff's expected dividend growth rate fell from 5.9 percent to 5.6 percent, a downward change of 30 basis points. As shown in Schedule JAC-8 filed in Staff's direct testimony, the dividend growth (g) rate in Staff's constant-growth DCF model had previously been 5.9 percent. As shown in Surrebuttal Schedule JAC-8, however, Staff's newly updated sample average dividend growth (g) rate is 5.6 percent.

Q. Having updated Staff's cost of capital model utilizing the most recent *Value Line* data for Staff's seven sample companies, was Staff able to determine if the 30 basis point reduction to Staff's expected dividend growth (g) rate, from 5.9 percent to 5.6 percent, was attributable to changes in historical measures of dividend growth or changes to projected measures of dividend growth?

A. The 30 basis point reduction to Staff's expected dividend growth rate is entirely attributable to changes in *Value Line's* projected measures of dividend growth for Staff's sample companies.[3]

[3] A comparison of the data presented in Schedules JAC-8, as filed in Staff's Direct and Surrebuttal testimonies, clearly indicate that the 30 basis point change to Staff's dividend growth rate is attributable to reductions in measures of projected growth, and not to measures of historical growth. Specifically, when comparing the two Schedules JAC-8, reductions to *Value Line's* projected estimate of EPS growth (6.5 percent in Direct versus 5.1 percent in Surrebuttal) and Staff's projected estimate for sustainable growth (7.0 percent in Direct versus 6.1 percent in Surrebuttal) essentially account for the entire 30 basis point change. This is because the reduction to Staff's historical sustainable growth estimate (5.5 percent in Direct versus 4.8 percent in Surrebuttal) was offset by gains to Staff's historical EPS growth estimate (7.1 percent in Surrebuttal versus 6.5 percent in Direct) and historical DPS growth (3.8 percent in Surrebuttal versus 3.7 percent in Direct). As can be seen, there was no change to *Value Line's* projected DPS growth estimate (6.4 percent in both Direct and Surrebuttal).

Q. In performing its annual update to Staff's cost of capital model, did Staff incorporate a normalization adjustment to the 2014 EPS reported by *Value Line* for SJW Corporation (one of Staff's sample companies) and, if so, why?

A. Yes, Staff made a normalization adjustment to the $2.54 annual EPS figure reported by *Value Line* for SJW Corporation ("SJW") in 2014 to give recognition to a one-time, nonrecurring increase in reported EPS in the third quarter of that year. Specifically, in the third quarter of 2014, *Value Line* reported SJW's quarterly EPS to be $1.88, a figure which exceeds by a wide margin the *annual* EPS reported for SJW in each of the two prior years, 2013 ($1.12) and 2012 ($1.18). As noted in an earlier *Value Line* quarterly update for SJW,[4] this "whopping increase" to third quarter earnings was the result of "SJW's recognition of $58.2 million in revenues due the company for expenses incurred in previous years," the delayed recovery of which "was the reason for the previous four quarters having negative year-over-year comparisons." *Value Line* stated that it did not back out any portion of the profits reported in Q3 of 2014 as a nonrecurring item because "they were earned by the utility's main business during the course of normal operations… [but] recognized all at the same time."

In making its normalization adjustment, Staff assumed that, in the absence of this one-time event, SJW's EPS in Q3 of 2014 would have been $0.43, not $1.88, and that the $1.45 residual one-time EPS windfall ($1.88 - $.43 = $1.45) should be distributed over 5 quarters (Q3 & Q4 of 2013, and Q1, Q2, & Q3 of 2014). Accordingly, Staff allocated $0.58 (2/5ths of this windfall) to the reported $1.12 2013 EPS figure and reduced the reported $2.54 EPS figure for 2014 by this same $0.58 amount to a level of $1.96 ($2.54 - $0.58 = $1.96). Failure to make such a normalization adjustment to SJW's reported $2.54 2014 EPS would serve to skew the data such that the 10-year compound annual EPS growth rate for SJW over the

[4] *Value Line Investment Survey, Ratings & Reports*, dated January 16, 2015.

2005-2014 period would not be representative of SJW's actual compound annual earnings growth over this time period.

Q. What impact, if any, did Staff's normalization adjustment to SJW's reported 2014 EPS have upon Staff's estimated sample average 5.6 percent constant growth DCF dividend growth (g) rate in this docket?

A. Ultimately, Staff's normalization adjustment to SJW's reported 2014 EPS had *no effect* upon Staff's estimated dividend growth (g) rate in this docket. As shown in column [D] of Surrebuttal Schedule JAC-5, after making the above referenced normalization adjustment Staff determined that SJW experienced 10-year compound annual EPS growth of 8.5 percent (8.46 percent rounded to two digits) over the period 2005-2014, resulting in a 7.1 percent (7.10 percent rounded to two digits) historical sample average 10-year EPS growth rate over this same period. As shown in column [B] of Surrebuttal Schedule JAC-8, this 7.1 percent historical EPS growth rate was a contributing factor to Staff's overall 5.6 percent (5.56 percent rounded to two digits) estimated dividend growth (g) rate. In the alternative, had Staff made no normalization adjustment to SJW's reported $2.54 EPS in 2014, Staff determined that on a pro forma basis Staff's estimated 10-year historical growth rate would have remained at 5.6 percent (5.63 percent rounded to two digits), based upon (i) an 11.31 percent compound annual EPS growth rate for SJW over the 10-year period 2005-2014 and (ii) a 7.51 sample average 10-year EPS growth rate over this same period of time.

III. STAFF RESPONSE TO COMPANY'S COST OF CAPITAL WITNESS MR. THOMAS J. BOURASSA

Q. In Rebuttal (p. 4), Mr. Bourassa is critical of Staff's recommendation that the Company be required to rebalance its capital structure prior to the filing of its next rate case. Specifically, he states that the Company disagrees with Staff's recommendation, and argues that a decision as to the appropriate mix of debt and equity capital to be employed in the capital structure is best left to management. How does Staff respond?

A. Staff agrees that management should have primary responsibility for determining the appropriate capital structure mix to be employed by a regulated utility/public service company. However, when the capital structure employed by a regulated utility is 100.0 percent equity, then for rate-making purposes Staff believes it is appropriate for this Commission to require the Company to rebalance its capital structure. As noted in Staff's Direct,[5] the cost of debt is less than the cost of equity, and given the capital intensive nature of the water utility industry, exclusive use of equity capital to fund plant infrastructure requires ratepayers to pay a proportionately higher cost of service than had the plant been funded with a mix of both debt and equity capital. Staff's recommendation that QCW rebalance its capital structure is prospective in nature. As noted in Staff's direct testimony,[6] there have been two recent instances in which Robson-owned utilities have filed financing applications requesting Commission authorization to rebalance their capital structures for the express purpose of increasing the debt component.[7]

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[5] *See* Cassidy Direct (Cost of Capital), p. 9, lines 12-23.

[6] *See* Cassidy Direct (Cost of Capital), p. 10, lines 4-9. It should be noted that in Staff's direct testimony, the docket citations given for to the two Robson-owned utilities are to rate cases filed by Pima Utility Company (Docket No. W-02199A-11-0329, et al.) and Lago Del Oro Water Company (Docket No. W-01944A-13-0215). Properly cited, the references should be to the financing application filed by each Robson-owned utility, which are as follows: Pima Utility Company (Docket No. W-02199A-11-0403, et al.); and Lago Del Oro Water Company (Docket No. W-01944A-13-0242).

[7] In the Pima Utility Company financing case (Docket No. W-02199A-11-0403, et al.), the company's application requested authorization to issue evidence of indebtedness in the amount of $8,370,000. Of this total, (i) $4,370,000 was replacement debt to refinance existing debt at a reduced interest rate, (ii) $1,500,000 was new debt used to fund infrastructure improvements, and (iii) $2,500,000 was new debt used to buy back equity capital to effectuate a rebalancing

Q. In Rebuttal (p. 4, lines 1-3), Mr. Bourassa points out that Staff did not define the term "balanced." Can Staff provide insight as to what it believes the appropriate debt and equity capital mix in a rebalanced capital structure for QCW might reasonably be expected to be?

A. In view of the fact that two other Robson-owned utilities, Pima Utility Company ("Pima") and Lago Del Oro Water Company ("LDO"), have recently requested and been granted Commission authorization to rebalance their capital structures, Staff believes that the authorized capital structure used to set rates in the most recent rate docket for each of these Robson-owned utilities would provide a reasonable proxy for what QCW's rebalanced capital structure might be.

Q. Are Pima and LDO comparable in size to QCW?

A. Yes, they are, for like QCW, both Pima and LDO are Arizona Class "B" utility companies.

Q. For ratemaking purposes, what capital structure was used by the Commission to establish the currently authorized rates for Pima Utility Company (Docket No. W-02199A-11-0329, et al.) and Lago Del Oro Water Company (Docket No. W-01944A-13-0215)?

A. In Decision No. 73573 (dated November 21, 2012), the Commission authorized rates for Pima were established based upon a capital structure consisting of 35.4 percent debt and 64.6

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of Pima's capital structure and reflect a higher amount of debt. The Commission authorized Pima's proposed financing in Decision No. 73078 (dated April 5, 2012). In the Lago Del Oro financing case (Docket No. W-01944A-13-0242), the company's application requested authorization to issue evidence of indebtedness in the amount of $3,900,000 stating that "this funding will be used to repay the shareholders for this asset purchase and rebalance the Company's capital structure to reflect a higher amount of debt." The plant to be acquired had been purchased on a deferred basis from an affiliate (Saddlebrooke Development) at original cost of $3,887,998; however, because the affiliate's original cost figure did not reflect accrual of accumulated depreciation of the assets from the time they were placed into service until the date of purchase, Staff recommended a reduction in the loan amount to $2,751,411. Lago Del Oro agreed with Staff's recommendation, and the Commission authorized the company's proposed financing in the amount of $2,751,411 in Decision No. 74450 (dated April 18, 2014).

percent equity.[8] In Decision No. 74564 (dated June 20, 2014), the Commission authorized rates for LDO were established based upon a capital structure consisting of 29.0 percent debt and 71.0 percent equity.[9] Based upon the relative weightings of debt and equity capital among these two Robson-owned utilities, an average (i.e., arithmetic mean) capital structure would be comprised of 32.2 percent debt and 67.8 percent equity.[10]

Q. In Rebuttal (p. 4, lines 11-21), and apparently within the context of addressing Staff's recommended prospective rebalancing of QCW's capital structure, Mr. Bourassa raises the issue of small size, suggesting that this is a relevant consideration when determining the appropriate equity ratio for a firm. In doing so, he cites a study by Scott and Martin[11] whose findings suggest that smaller firms found it prudent to "offset higher business risks related to being small by reducing financial risk." How does Staff respond?

A. Mr. Bourassa's discussion appears to be a rationalization for QCW maintaining a 100.0 percent equity capital structure, and his analysis is flawed for two reasons. First, the study he cites to concerns itself with "unregulated firms in twelve industries," and not to regulated public utilities which have been granted natural monopoly status and operate in an environment free of competition. For obvious reasons, business risk exposure is significantly greater for firms operating in a competitive environment than for firms (i.e., regulated utilities) which do not, and for this reason Mr. Bourassa's attempt to extrapolate the findings of a study concerned with unregulated firms and apply them to regulated public utilities is improper. Second, and assuming for a moment that what Mr. Bourassa says is true, "that smaller utilities seek to maintain higher equity ratios to help offset the higher business risks,"[12]

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[8] *See* Commission Decision No. 73573, p. 29, lines 20-22.
[9] *See* Commission Decision No. 74564, pp. 14-15, Finding of Fact No. 60.
[10] Debt ((.354 + .29)/2) = .322, or 32.2 percent; Equity ((.646 + .71)/2) = .678, or 67.8 percent.
[11] Scott, D.F. and J.D. Martin, "Industry Influence on Financial Structure," *Financial Management*, Spring 1975, pp. 67-71.
[12] *See* Bourassa Direct, p. 4, lines 20-21.

this then begs the question, "Why did QCW's sister-utilities, Pima and LDO, seek authorization to rebalance their capital structures when they are comparable in size to QCW?"

Q. Does an election on the part of Pima and LDO to rebalance their respective capital structures render moot the small size argument put forth by Mr. Bourassa for QCW in Rebuttal?

A. Yes, by virtue of QCW being comparable in size to both Pima and LDO.

Q. In closing on the issue of capital structure mix, in view of Mr. Bourassa's assertion that management should decide the appropriate mix of debt and equity capital to be used to fund plant infrastructure, how does Staff respond to the statement made by Mr. Ray L. Jones in Rebuttal[13] that payments made to QCW affiliates for deferred plant purchases must wait "until such time QCW has available funds to pay the affiliate for the design-build contracting service provided?"

A. Incurring an obligation to pay for capital projects and then just waiting until cash is available to pay for these liabilities is not an acceptable business plan. Rather than waiting until QCW had "available funds," management could instead have elected to purchase the plant utilizing low cost debt rather than higher cost equity. As noted in Mr. Bourassa's Rebuttal,[14] interest rates are expected to rise, which suggests that had QCW elected to finance the acquisition of these deferred asset purchases with debt, QCW's overall cost of service would have already been reduced and the benefit to be derived by ratepayers would be reflected in the rates to be set in this docket. In failing to avail itself of debt financing to purchase these plant assets QCW could, presumably, have to pay a higher cost of debt in the future, and the benefit to be

[13] *See* Jones Rebuttal, p. 8, lines 13-15.
[14] *See* Bourassa Rebuttal, p. 10, line 5.

derived by ratepayers from a rebalanced QCW capital structure in the Company's next rate case will be proportionately diminished.

Q. In Rebuttal (pp. 5-6, lines 5:3), Mr. Bourassa stated that Staff relied solely on the DCF model, pointing out that Staff did not incorporate estimates derived from the CAPM into its analysis "because current market conditions have led to unusually low results from its CAPM." In view of this, assuming Staff had elected to incorporate estimates derived from the CAPM into its cost of equity analysis, on a pro forma basis what would Staff's updated recommended cost of equity estimate have been for QCW?

A. As presented in Surrebuttal Exhibit JAC-A, Staff prepared a pro forma restatement of Surrebuttal Schedule JAC-3 showing what Staff's updated cost of equity recommendation for the Company would have been had Staff incorporated estimates derived from the CAPM into its analysis. As shown, Staff's average CAPM cost of equity estimate is 7.6 percent, based on estimates derived from Staff's historical market risk premium ("MRP") CAPM (7.3 percent) and Staff's current MRP CAPM (7.9 percent) models. As can be seen, this 7.6 percent average CAPM estimate is 120 basis points *lower* than Staff's average 8.8 percent DCF cost of equity estimate and, on a pro forma basis, results in a Staff estimated cost of equity of 8.2 percent ((.088 + .076)/2 = .082). As can further be seen, after adoption of Staff's upward 60 basis point (0.6 percent) economic assessment adjustment, Staff's recommended cost of equity for QCW would be 8.8 percent (.082 + .006 = .088), on a pro forma basis.[15]

[15] In keeping with the Efficient Market Hypothesis, the risk-free (R_f) rates used in Staff's historical- and current MRP CAPM models reflect the yields on U.S Treasury debt instruments (5-, 7- and 10-year intermediate Treasury rates for Staff's historical MRP CAPM; 30-year long-term Treasury bond yield in Staff's current MRP CAPM) were obtained as of the close of market trading on May 27, 2015, the same date Staff obtained closing spot market share prices for each of its seven sample companies for purposes of computing the expected dividend (D_1/P_0) yield in Staff's constant growth DCF model.

Q. Does Staff believe an authorized return on equity of 8.8 percent is reasonable for rate making purposes in this docket?

A. Staff believes that a return on equity of 8.8 percent would be on the low side of reasonableness, which is why Staff elected not to incorporate cost of equity estimates obtained from the CAPM into its analysis.

Q. What is the MRP (R_p) component employed by Staff in its historical- and current MRP CAPM analyses?

A. As shown in Column [D] of Surrebuttal Exhibit JAC-A, the MRP employed by Staff in its historical MRP CAPM is 7.5 percent, and the MRP employed by Staff in its current MRP CAPM is 6.9 percent.

Q. What is the MRP (RP_M) component employed by Mr. Bourassa in his historical- and current MRP CAPM analyses?

A. As shown in Bourassa Rebuttal Schedule D-4.11, the MRP component employed by Mr. Bourassa in his historical MRP CAPM model is 7.00 percent, and the MRP employed in his current MRP CAPM model is 9.25 percent.

Q. In Rebuttal (p. 10, lines 19-22), Mr. Bourassa makes reference to a recent *Wall Street Journal* article,[16] noting that, as of the end of April 2015, the equity risk premium for the S&P 500 was "one of the highest estimates going back to 1960." Did Staff access the article cited by Mr. Bourassa and, if so, what was the equity risk premium on the S&P 500 as of the end of April 2015?

A. Yes, Staff accessed the article on the internet,[17] and in so doing determined that the equity risk premium on the S&P 500 as of the end of April 2015 was 5.8 percent.[18]

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[16] Lahart, Justin, "Lower Yields May Be Stocks' Real Threat," *The Wall Street Journal (WSJ.com)*, (May 17, 2015).
[17] http://www.wsj.com/articles/lower-yields-may-be-stocks-real-threat-1431885420

Q. Would an equity risk premium on the S&P 500 of 5.8 percent, measured as of the end of April 2015, be considered an indication of the "current" MRP?

A. Yes, because the S&P 500 is a broad based market index of 500 publicly-traded companies, and the performance of the S&P 500 is often used as a proxy for that of the market as a whole.

Q. In light of the above, if the current 5.8 percent equity risk premium is one of the highest since 1960, does Staff believe this to be further evidence that the 9.25 percent MRP component in Mr. Bourassa's current MRP CAPM has been significantly overstated?

A. Yes. In absolute terms, Mr. Bourassa's 9.25 percent current MRP exceeds by 345 basis points this 5.8 percent current MRP value (.0925 - .058 = .0345), which in relative terms equates to an overstatement of 59.48 percent ((.0925/.058)-1 = .5948).

Q. Please quantify the degree to which Mr. Bourassa's 9.25 percent current MRP exceeds the 6.9 percent current MRP employed by Staff in its current MRP CAPM.

A. In absolute terms, Mr. Bourassa's 9.25 percent current MRP exceeds by 235 basis points Staff's 6.9 percent current MRP (.0925 - .069 = .0235), which in relative terms equates to an overstatement of 34.06 percent ((.0925/.069)-1 = .3406).

[18] The 5.8 percent equity risk premium value cited to is based upon the research findings of Dr. Aswath Damodaran, Professor of Finance at the Stern School of Business at New York University.

Q. In direct testimony,[19] Staff states that Mr. Bourassa's use of EPS and DPS growth inputs in the computation of the MRP component in his current MRP CAPM results in a MRP component that is not reflective of current market conditions. Do the above overstatement quantifications support Staff's position in this regard?

A. Yes.

Q. As presented in Rebuttal Schedule D-4.11, Mr. Bourassa's current MRP CAPM estimated cost of equity (k) is 11.0 percent. Among Mr. Bourassa's cost of equity estimates, is the 11.0 percent estimate derived from his current MRP CAPM the highest expected cost estimate?

A. Yes, it is. As shown in Rebuttal Schedule D-4.1, among the indicated cost of equity estimates shown for Mr. Bourassa's water sample group, the single highest expected cost estimate is 11.0 percent, obtained from his current MRP CAPM. As further shown in Rebuttal Schedule D-4.1 (See footnote 1), for purposes of arriving at the indicated cost of equity for QCW, Mr. Bourassa makes an additional upward 100 basis point adjustment to the equity risk premium, the highest value being 12.0 percent to reflect an additional 100 basis points added to his 11.0 percent current MRP CAPM estimate.

Q. In Rebuttal, does Mr. Bourassa continue to employ a forecasted risk-free (R_F) rate in the computation of both his historical- and current MRP CAPM cost of equity (k) estimates?

A. Yes, he does. As shown in Rebuttal Schedule D-4.11, Mr. Bourassa employs a 4.2 percent forecasted risk-free rate in the computation of both his historical- and current MRP CAPM cost of equity estimates.[20]

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[19] *See* Cassidy Direct, p. 37, lines 4-13.

[20] In direct testimony, Mr. Bourassa employed a forecasted risk-free rate of 4.6 percent in both his CAPM and Risk Premium cost of equity estimation models, a figure 40 basis points higher than the 4.2 percent forecasted rate he employs in rebuttal testimony (*See* Bourassa Direct, Schedule D-4.11).

Q. And does use of a forecasted risk-free rate serve to overstate the market cost (k) of equity in the CAPM?

A. Yes, which suggests that Mr. Bourassa's historical- and current MRP CAPM cost of equity estimates have both been overstated.

Q. Moreover, in Rebuttal (p. 13, lines 13-18) Mr. Bourassa cites to Dr. Morin[21] who, apparently, affirms the propriety of using forecasted rates in the CAPM. In reviewing Dr. Morin's book, was Staff able to find contradictory evidence suggesting that use of a forecasted risk-free rate in the CAPM is inappropriate?

A. Yes, Staff found two such occasions where Dr. Morin appears to contradict himself on this point. First, in regard to the appropriate risk-free rate to be used in the CAPM, Dr. Morin writes as follows:

> "At the conceptual level, because common stock is a long-term investment and because the cash flows to investors in the form of dividends last indefinitely, the yield on very long-term government bonds, namely, the yield on 30-year Treasury bonds, is the best measure of the risk-free rate for use in the CAPM and Risk-Premium methods."[22]

Second, as authority for his current MRP CAPM methodology, Mr. Bourassa cites to a case study appearing on pp. 165-166 of Dr. Morin's book.[23] However, a review of the referenced case study presented clearly indicates that the **current yield** on the 30-year U.S. Treasury Bond was used as a proxy for the risk-free rate, and not a forecasted yield. Moreover, in the case study presented by Morin to which Mr. Bourassa cites, the current yield on the 30-year U.S. Treasury Bond was used as the risk-free rate in the computation of both (i) the current MRP component, and (ii) the current MRP CAPM estimated cost (k) of equity. As noted in Staff's direct testimony,[24] Mr. Bourassa used two different risk-free rates in his current MRP CAPM analysis -- one a current measure, the other a forecasted measure of the yield on the

[21] Morin, Roger A., *New Regulatory Finance*, Public Utility Reports, Inc. (2006).
[22] Morin, Roger A., *New Regulatory Finance*, Public Utility Reports, Inc. (2006), p. 151.
[23] *See* Bourassa Rebuttal, p. 13, lines 2-4.
[24] *See* Cassidy Direct, p. 38, lines 5-14.

30-year U.S. Treasury Bond – and in so doing maximized both the current MRP component as well as the current MRP CAPM estimated cost of equity.

Q. For purposes of updating his current MRP CAPM in Rebuttal, did Mr. Bourassa again elect to utilize two different risk-free (R_F) rates in his analysis?

A. Yes, he did. As shown in Rebuttal Schedule D-4.10, Mr. Bourassa employed a 2.60 percent current 30-year Treasury rate when computing the current MRP component. For purposes of the computation of his updated 11.0 percent current MRP CAPM estimated cost of equity (k), however, he used a 4.2 percent forecasted measure of the 30-year Treasury rate as the risk-free rate, as shown in Rebuttal Schedule D-4.11.

Q. In reviewing Rebuttal Schedule D-4.11, does Staff have reason to believe that Mr. Bourassa has overstated the beta coefficient in both his historical- and current MRP CAPM analyses?

A. Yes. As shown in Rebuttal Schedule D-4.11, Mr. Bourassa employs a sample average beta coefficient of 0.74 in both his historical- and current MRP CAPM models. Both Mr. Bourassa and Staff utilize the same proxy group of seven sample companies, and as shown in Staff's Surrebuttal Schedule JAC-7 the sample average beta coefficient for Staff's proxy group of companies is currently 0.72. Staff's sample average 0.72 beta is based upon information provided by *Value Line* in its most recent quarterly update (dated April 17, 2015) of publicly-traded water utility stocks, which suggests that Mr. Bourassa has overstated the beta coefficient in both his historical- and current MRP CAPM analyses.

Q. Does an overstatement to the beta coefficient in the CAPM result in an overstatement to the estimated cost (k) of equity derived from that model?

A. Yes, which suggests that Mr. Bourassa's historical- and current MRP CAPM cost of equity estimates have both been fractionally overstated.

Q. For the reasons noted above, therefore, Mr. Bourassa's 11.0 percent current MRP CAPM cost of equity (k) estimate has been overstated in three different ways; namely, by use of (i) an inflated MRP component which is not reflective of current market conditions, (ii) a forecasted risk-free rate, and (iii) an inflated beta coefficient, true?

A. Yes. Furthermore, it should be noted that had Mr. Bourassa utilized market-based inputs in his current MRP CAPM (i.e., a MRP component reflective of current market conditions, a current measure of the long-term U.S. Treasury bond rate, and the current sample average beta) then he, like Staff, might well have elected not to rely on cost of equity estimates obtained from the CAPM by virtue of their being excessively low at the present time.[25]

Q. In Rebuttal (p. 11, lines 2-6) Mr. Bourassa states that "Staff has previously used share price growth in a DCF model" to estimate the MRP component in its current MRP CAPM, and cites to Staff cost of capital testimony filed in other rate dockets for support. How does Staff respond?

A. First, Mr. Bourassa's characterization of Staff's methodology as being one which utilizes "share price growth in a DCF model" to estimate the MRP component in Staff's current MRP model is not accurate. In the constant growth DCF model, the cost of equity represents the sum of (i) a dividend yield component added to (ii) a dividend growth rate. Staff's current MRP CAPM methodology is, "DCF derived," only in the sense that it similarly involves the utilization of a dividend yield component and a growth component, both of

[25] It should be noted that Mr. Bourassa's 9.4 percent historical MRP CAPM cost of equity estimate is overstated by use of (i) a forecasted risk-free rate and (ii) an inflated beta, as shown in Rebuttal Schedule D-4.11.

which Staff obtains from *Value Line*.[26] Second, the growth component utilized in the computation of the MRP is a measure of future 3-5 year stock price appreciation. As noted in Staff's direct testimony,[27] the CAPM is a single-holding period model, thus rendering *Value Line's* 3-5 year price appreciation potential estimate to be an ideal metric with which to compute the current MRP component in the CAPM. Third, like Staff, Mr. Bourassa formerly utilized this same methodology to compute the MRP component in his current MRP CAPM. Although he states in Rebuttal (p. 2, lines 21-22) that there has been no change to his methods, Mr. Bourassa only recently made a change to his current MRP CAPM methodology.[28]

Q. As noted earlier, Mr. Bourassa employed a forecasted risk-free rate in both his historical- and current MRP CAPM analyses. Did he similarly employ a forecasted risk-free rate in the computation of his 10.6 percent estimated cost of equity (k) obtained from his Risk Premium Model?

A. Yes, he did. As shown in Rebuttal Schedule D-4.9, in obtaining a 10.6 percent estimated cost of equity from his Risk Premium Model, Mr. Bourassa employed the same 4.2 percent forecasted risk-free rate used in each of his two CAPM analyses.

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[26] For purposes of the computation of the market risk premium component in Staff's current MRP CAPM, the inputs utilized by Staff are (i) *Value Line's* median estimated dividend yield (next 12 months) on all dividend paying stocks under review (i.e., the dividend yield component), and (ii) *Value Line's* estimated median price appreciation potential of all 1700 stocks in the hypothesized economic environment 3 to 5 years hence (i.e., the growth component).

[27] *See* Cassidy Direct, p. 37, lines 4-13.

[28] When filing direct testimony in the recent Utility Source, LLC case (Docket No. W-04235A-13-0331), Mr. Bourassa utilized the same current MRP CAPM methodology as Staff; however, when filing rebuttal testimony in that same docket, Mr. Bourassa utilized a new methodology to compute the market risk premium component, one utilizing projected 3-5 year DPS and EPS growth forecasts, as described in the case study appearing on pp. 165-166 of Dr. Morin's book.

Q. Is it correct to state that among the cost of equity estimates obtained from Mr. Bourassa's cost of equity estimation models in Rebuttal, the 10.6 percent estimate obtained from his Risk Premium Model was exceeded only by the 11.0 percent cost of equity estimate obtained from his current MRP CAPM?

A. Yes. As shown in Rebuttal Schedule D-4.1, the 10.6 percent estimate obtained from Mr. Bourassa's Risk Premium Model was second (highest) only to the 11.0 percent cost of equity estimate obtained from his current MRP CAPM.[29]

Q. As shown in Rebuttal Schedule D-4.9, the 10.6 percent cost of equity estimate obtained from Mr. Bourassa's Risk Premium Model represents the sum of a 6.4 percent 16-year average annual market risk premium plus a 4.2 percent risk-free rate (6.4 + 4.2 = 10.6). Without commenting on the methodology employed by Mr. Bourassa in arriving at his 6.4 percent market risk premium, what would Mr. Bourassa's estimated Risk Premium Model cost of equity have been had he used the same current risk-free rate (i.e., 2.6 percent) employed in the computation of the MRP component in his current MRP CAPM rather than a 4.2 percent forecasted rate?

A. Had Mr. Bourassa employed a 2.6 percent risk-free rate in the computation, his Risk Premium Model cost of equity estimate would have been reduced to 9.0 percent (.064 + .026 = .09).

[29] As can be seen in Rebuttal Schedule D-4.1, Mr. Bourassa's 10.6 percent Risk Premium Model estimate is the indicated cost of equity for his sample companies. For purposes of his indicated cost of equity for QCW, Mr. Bourassa adds an additional 100 basis point risk component to this 10.6 percent cost, resulting in an indicated cost of equity of 11.6 percent.

Q. How would a 9.0 percent cost of equity estimate obtained from Mr. Bourassa's Risk Premium Model compare with the cost of equity estimates obtained by Mr. Bourassa from his two constant growth DCF models?

A. As detailed in Rebuttal Schedules D-4.7 (pages 1 and 2), Mr. Bourassa obtained constant growth DCF cost of equity estimates of 9.71 percent and 9.41 percent.[30] Thus, a 9.0 percent estimated cost of equity obtained from Mr. Bourassa's Risk Premium Model when using a current risk-free rate (i.e., 2.6 percent) would fall *below* the 9.41 – 9.71 percent range of estimates obtained from his two constant growth DCF models.

Q. In Rebuttal (pp. 5-9) Mr. Bourassa appears to be critical of both the DCF model, generally, and, in particular, Staff's sole reliance on the DCF as a cost of equity estimation model. To begin, does Staff agree with Mr. Bourassa's assertion that Staff has relied on only one model in its analysis?

A. No. While it is true that Staff's cost of equity recommendations are based upon estimates derived from the DCF (both constant growth- and multi-stage DCF) as shown in Surrebuttal Schedule JAC-A, Staff also obtained estimates from both its historical-and current MRP CAPM. For the reasons noted earlier, however, Staff elected not to incorporate those estimates into its analysis for purposes of setting rates in this docket. That Staff made such an election should not be construed to suggest that Staff either ignored or otherwise disregarded the results obtained from its CAPM models.

[30] As presented in his summary of results (Rebuttal Schedule D-4.1), these constant growth DCF indicated costs of equity are shown to be 9.4 percent and 9.7 percent for Mr. Bourassa's sample water companies. He then adds a 100 basis point equity risk premium to each estimate for purposes of arriving at DCF indicated costs of equity of 10.4 percent and 10.7 percent for QCW.

Q. In Rebuttal, Mr. Bourassa quotes from a passage in Dr. Morin's book, stating that he agrees with Dr. Morin that the DCF is not a "superior methodology" relative to other cost of equity estimation models.[31] How does Staff respond?

A. Staff would point out that in the same passage, Dr. Morin goes on to say that the same is true of the Risk Premium and CAPM models; namely, that they, similarly, are not superior methodologies.[32] Staff would further point out that the results obtained from any given model should be evaluated in terms of the inputs utilized to obtain cost of equity estimates from the model. As discussed earlier, Staff believes the cost of equity estimates obtained by Mr. Bourassa from his CAPM and Risk Premium models are inflated due to the inputs he has elected to employ.

Q. And among the cost of equity estimates obtained from Mr. Bourassa's models, are the estimates from his DCF models lower than those obtained from either his CAPM or Risk Premium models?

A. Yes, they are, as can be seen in Bourassa Rebuttal Schedule D-4.1. This, perhaps, explains why Mr. Bourassa appears critical of Staff's reliance on cost of equity estimates obtained from the DCF.

Q. Why does Staff believe it is important that the cost of equity estimates obtained from the DCF model should be given appropriate consideration for purposes of setting rates in this docket?

A. Unlike other cost of equity estimation models, the DCF model intrinsically links the price investors are willing to pay for a security to the return yielded on that investment. While it is true that equity valuations have risen in the capital markets over the last several years resulting in a consequential decline in dividend yields, this circumstance is reflective of the market cost

[31] *See* Bourassa Rebuttal, p. 6, lines 5-14 (quotation from *Morin*, p. 431).
[32] *See* Bourassa Rebuttal p. 6 line 13 (quotation from *Morin* p. 431).

of equity having fallen. Thus, to disregard cost of equity estimates derived from the DCF at this time would be to ignore the reality that in today's marketplace investors must pay more for a given unit of return.

IV. STAFF RECOMMENDATIONS

Q. What are Staff's recommendations for QCW's cost of capital?

A. Staff makes the following recommendations for QCW's cost of capital:

1. Staff recommends a capital structure comprised of 0.0 percent debt and 100.0 percent equity.
2. Staff recommends a cost of debt of 0.0 percent.
3. Staff recommends an updated cost of equity of 9.4 percent, based upon Staff's 8.8 percent average DCF cost of equity estimate, and Staff's 60 basis point (0.60 percent) upward economic assessment adjustment.
4. Staff recommends an updated overall rate of return ("ROR") of 9.4 percent.

Q. Does Staff's silence on a particular issue raised by the Company in rebuttal testimony infer or otherwise imply that Staff agrees with the Company's stated Rebuttal position?

A. No, it does not.

Q. Does this conclude your cost of capital surrebuttal testimony?

A. Yes, it does.

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

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Capital Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	9.4%	9.4%
Weighted Average Cost of Capital			**9.4%**
Company Proposed Capital Structure			
Debt	0.00%	0.00%	0.00%
Common Equity	100.00%	10.00%	10.00%
Weighted Average Cost of Capital			**10.00%**

[D] : [B] x [C]
Supporting Schedules: JAC-3 and JAC-4.

Quail Creek Water Company, Inc. Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]		[E]
DCF Method		D_1/P_0[1]	+	g[2]	=	k
Constant Growth DCF Estimate		2.8%	+	5.6%	=	8.4%
Multi-Stage DCF Estimate					=	9.1%
Average DCF Estimate						**8.8%**
		Staff's Estimated Cost of Equity				**8.8%**
		Economic Assessment Adjustment				0.6%
		Sub-Total				**9.4%**
		Financial Risk Adjustment				0.0%
		Total				**9.4%**

1 MSN Money and Value Line
2 Schedule JAC-8

Quail Creek Water Company, Inc. Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
Company	Debt	Common Equity	Total
American States Water	38.7%	61.3%	100.0%
California Water	45.9%	54.1%	100.0%
Aqua America	50.3%	49.7%	100.0%
Connecticut Water	45.6%	54.4%	100.0%
Middlesex Water	44.3%	55.7%	100.0%
SJW Corp	54.7%	45.3%	100.0%
York Water	43.4%	56.6%	100.0%
Average Sample Water Utilities	**46.1%**	**53.9%**	**100.0%**
Quail Creek Water Company	**0.00%**	**100.00%**	**100.0%**

Source:
Sample Water Companies from Value Line

Quail Creek Water Company, Inc. Cost of Capital Calculation
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 2005 to 2014 DPS[1]	Dividends Per Share Projected DPS[1]	Earnings Per Share 2005 to 2014 EPS[1]	Earnings Per Share Projected EPS[1]
American States Water	6.4%	6.2%	11.6%	6.5%
California Water	1.4%	8.3%	5.0%	5.4%
Aqua America	7.8%	9.2%	8.9%	6.6%
Connecticut Water	1.9%	5.2%	5.2%	3.2%
Middlesex Water	1.4%	2.3%	4.5%	3.6%
SJW Corp	3.9%	7.0%	8.5%	NA
York Water	3.9%	6.7%	6.1%	5.3%
Average Sample Water Utilities	**3.8%**	**6.4%**	**7.1%**	**5.1%**

1 Value Line

Quail Creek Water Company, Inc. Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth 2005 to 2014 br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth 2005 to 2014 br + vs	Sustainable Growth Projected br + vs
American States Water	4.6%	6.4%	1.6%	6.2%	8.0%
California Water	2.9%	3.6%	1.3%	4.2%	4.9%
Aqua America	4.3%	6.1%	1.1%	5.5%	7.2%
Connecticut Water	2.3%	4.1%	2.9%	5.1%	6.9%
Middlesex Water	1.6%	3.6%	1.5%	3.1%	5.1%
SJW Corp	4.0%	3.3%	0.9%	4.9%	4.1%
York Water	2.4%	3.8%	2.6%	5.0%	6.4%
Average Sample Water Utilities	**3.1%**	**4.4%**	**1.7%**	**4.8%**	**6.1%**

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

Quail Creek Water Company, Inc. Cost of Capital Calculation
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 5/27/2015	Book Value	Mkt To Book	*Value Line* Beta *b*	Raw Beta *braw*
American States Water	AWR	**38.78**	13.42	2.9	**0.70**	0.52
California Water	CWT	**23.82**	13.04	1.8	**0.75**	0.60
Aqua America	WTR	**26.64**	9.18	2.9	**0.70**	0.52
Connecticut Water	CTWS	**35.34**	20.30	1.7	**0.65**	0.45
Middlesex Water	MSEX	**22.06**	12.34	1.8	**0.75**	0.60
SJW Corp	SJW	**29.94**	16.80	1.8	**0.80**	0.67
York Water	YORW	**22.40**	8.45	2.7	**0.70**	0.52
Average				2.2	**0.72**	**0.55**

[C]: Msn Money
[D]: Value Line
[E]: [C] / [D]
[F]: Value Line
[G]: (-0.35 + [F]) / 0.67

Quail Creek Water Company, Inc. Cost of Capital Calculation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical[1]	3.8%
DPS Growth - Projected[1]	6.4%
EPS Growth - Historical[1]	7.1%
EPS Growth - Projected[1]	5.1%
Sustainable Growth - Historical[2]	4.8%
Sustainable Growth - Projected[2]	6.1%
Average	**5.6%**

1 Schedule JAC-5
2 Schedule JAC-6

Quail Creek Water Company, Inc. Cost of Capital Calculation
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]
Company	Current Mkt. Price (P_o)[1] 5/27/2015	Projected Dividends[2] (Stage 1 growth) (D_t) d_1	d_2	d_3	d_4	Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
American States Water	38.8	0.85	0.90	0.95	1.00	6.4%	8.6%
California Water	23.8	0.68	0.72	0.76	0.80	6.4%	9.2%
Aqua America	26.6	0.66	0.69	0.73	0.77	6.4%	8.8%
Connecticut Water	35.3	1.03	1.09	1.15	1.22	6.4%	9.3%
Middlesex Water	22.1	0.79	0.83	0.88	0.92	6.4%	9.9%
SJW Corp	29.9	0.79	0.83	0.88	0.93	6.4%	9.0%
York Water	22.4	0.60	0.63	0.67	0.71	6.4%	9.1%
						Average	9.1%

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

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

1 [B] see Schedule JAC-7
2 Derived from Value Line Information
3 Average annual growth in GDP 1929 - 2012 in current dollars.
4 Internal Rate of Return of Projected Dividends

Quail Creek Water Company, Inc. Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

Pro Forma Restatement of Surrebuttal Schedule JAC-3
As if Staff's Cost of Equity Estimate were based on the Average of
Staff's DCF and CAPM Cost of Equity Estimation Models

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0 [1]	+	g [2]	=	k
Constant Growth DCF Estimate			2.8%	+	5.6%	=	8.4%
Multi-Stage DCF Estimate						=	9.1%
Average DCF Estimate							**8.8%**
CAPM Method	Rf	+	b [5]	x	(Rp)	=	k
Historical Market Risk Premium [3]	1.9%	+	0.72	x	7.5% [6]	=	7.3%
Current Market Risk Premium [4]	2.9%	+	0.72	x	6.9% [7]	=	7.9%
Average CAPM Estimate							**7.6%**
			Staff's Estimated Cost of Equity				**8.2%**
			Economic Assessment Adjustment				0.6%
			Sub-Total				**8.8%**
			Financial Risk Adjustment				0.0%
			Total				**8.8%**

1 MSN Money and Value Line
2 Schedule JAC-8
3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at www.ustreas.gov
4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at www.ustreas.gov
5 Value Line
6 Historical Market Risk Premium (Rp) calculated from 2014 Ibbotson SBBI Classic Yearbook data
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EXHIBIT
S-6
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF 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

(REVENUE REQUIREMENT AND RATE DESIGN)

SURREBUTTAL TESTIMONY

OF

JOHN A. CASSIDY

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 1, 2015

Quail Creek Water Company, Inc. Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

Pro Forma Restatement of Surrebuttal Schedule JAC-3
As if Staff's Cost of Equity Estimate were based on the Average of
Staff's DCF and CAPM Cost of Equity Estimation Models

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0 [1]	+	g [2]	=	**k**
Constant Growth DCF Estimate			2.8%	+	5.6%	=	8.4%
Multi-Stage DCF Estimate						=	9.1%
Average DCF Estimate							**8.8%**
CAPM Method	**Rf**	+	b [5]	x	**(Rp)**	=	**k**
Historical Market Risk Premium [3]	1.9%	+	0.72	x	7.5% [6]	=	7.3%
Current Market Risk Premium [4]	2.9%	+	0.72	x	6.9% [7]	=	7.9%
Average CAPM Estimate							**7.6%**
			Staff's Estimated Cost of Equity				**8.2%**
			Economic Assessment Adjustment				0.6%
			Sub-Total				**8.8%**
			Financial Risk Adjustment				0.0%
			Total				**8.8%**

1 MSN Money and Value Line
2 Schedule JAC-8
3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at www.ustreas.gov
4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at www.ustreas.gov
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EXECUTIVE SUMMARY
QUAIL CREEK WATER COMPANY
DOCKET NO. W-02514A-14-0343

Staff's updated revenue requirement recommendations reflect a 10 basis-point drop to Staff's recommended cost of equity, from 9.5 percent in direct testimony to 9.4 percent in surrebuttal testimony..

Staff's surrebuttal testimony responds to Quail Creek Water Company ("QCW" or "Company") rebuttal testimony on the issue of revenue requirement and rate design.

Staff has revised its rate design to reflect adoption of the Company's proposed break-over points for all customer classes and meter sizes, and to allow for recovery to Staff's updated revenue requirement.

Staff's revised recommended rates would increase the monthly bill for a typical 5/8 x 3/4-inch meter residential customer, with a median usage of 4,500 gallons, by $4.53 or 16.41 percent, from $27.60 to $32.13.

INTRODUCTION

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

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

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

A. Yes, I am. On behalf of Staff, I filed direct testimony addressing the issues of revenue requirement, rate design and cost of capital.

PURPOSE OF SURREBUTTAL TESTIMONY

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

A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of Staff, to the rebuttal testimony of Mr. Ray L. Jones and Mr. Thomas J. Bourassa, witnesses for Quail Creek Water Company ("QCW" or "Company").

Q. What issues will you address?

A. In this filing, my surrebuttal testimony will address the issues of revenue requirement and rate design. Under separate cover, I will also be filing surrebuttal testimony addressing the issue of cost of capital.

Q. Did the change in Staff's recommended required rate of return for QCW, from 9.5 percent in direct testimony to 9.4 percent in surrebuttal testimony, result in a change to Staff's required revenue requirement for the Company?

A. Yes. As shown in Surrebuttal Schedule JAC-1 (Revenue Requirement), Staff's updated required revenue increase is $283,295, a figure $5,159 lower than the $288,454 revenue

increase reported in Schedule JAC-1 filed in Staff's direct testimony ($288,454 - $283,295 =$5,159). This change resulted in a reduction to Staff's required revenue increase from 34.15 percent in direct testimony, to 33.54 percent in surrebuttal testimony.

Q. Was the reduction to Staff's recommended rate of return, from 9.5 percent in direct testimony to 9.4 percent in surrebuttal testimony, the only factor which contributed to the change in Staff's recommended revenue requirement for QCW?

A. Yes, it was.

STAFF RESPONSE TO COMPANY REVENUE REQUIREMENT WITNESS RAY JONES

Q. In direct testimony, did Staff acknowledge the existence of the NARUC accounting guidance (i.e., NARUC Uniform System of Accounts) to which Mr. Jones cites as authority for allowing the drilling costs associated with a non-productive well (i.e., Well 16) to be included in the cost of the final production well (i.e., Well 12)?

A. Yes.[1]

Q. Mr. Cassidy, upon further review regarding Company witness Mr. Jones continuing discussion regarding the applicability of the NARUC USofA Account No. 307 accounting guidelines to the very short "in-service life" of Well 16. Does Staff believe that NARUC Account 307 should have even been used in the accounting for Well 16?

A. No. The Company has acknowledged that Well 16 was only "marginally operationally useful" at any point in time and QWC has also acknowledged that Well 16 was only connected to its system for "on-going testing." Staff believes that Well 16 should have been accounted for as Construction Work in Progress ("CWIP"), which is NARUC Account 105. Based upon the

[1] *See* Cassidy Direct, p. 14, lines 13-16.

evidence noted in the rebuttal testimony of Mr. Jones, any Well 16 investment would never have even showed up on Account 307. This fact also supports Staff's conclusion that Well 16 was not really in-service even during September of 2009, which is the single month that the Company claims Well 16 was in-service. I have included an excerpt from the NARUC Account 105 description as Attachment 1 to my surrebuttal testimony. Clearly, as acknowledged by the testimony of the Company's witness[2] that this Well was still being tested in September of 2009, the facility was, at best, still in the process of being constructed and rightly accounted for in Account 105.

Staff also notes that the well was not in-serv ice, or used and useful during the test year.

Q. In rebuttal testimony, however, Mr. Jones makes the following statement: "Mr. Cassidy does not challenge the Company's interpretation of the NARUC [Uniform] System of Accounts."[3] Does Staff believe this to be an accurate statement, and if not, why not?

A. No, this is not an accurate statement. As noted, Staff acknowledged the existence of the NARUC Uniform System of Accounts ("USoA") cited to as authority by Mr. Jones; however, given the circumstances of the case, Staff determined *application* of this NARUC accounting guidance in the instant docket to be improper. For the reasons noted in Staff's direct testimony,[4] Staff determined (i) the USoA not to be controlling because they apply only to regulated utilities, and not to their non-regulated affiliates, and (ii) the NARUC Guidelines for Cost Allocations and Affiliate Transactions ("NARUC Guidelines") to be controlling.

[2] Refer to the rebuttal testimony of Mr. Jones, page 11, lines 11 through 23.
[3] *See* Jones Rebuttal, p. 6, lines 23-24.
[4] *See* Cassidy Direct, pp. 14-15, lines 20:10. For obvious reasons, had Staff not challenged the Company's interpretation of the NARUC System of Accounts in regard to the treatment of Well 16 drilling costs, Staff would not have made an adjustment disallowing those costs.

Q. In direct testimony,[5] Staff identified the two reasons noted above as support for its adjustment disallowing the net $249,432 of Well 16 drilling costs transferred by QCW to the Well 12 project account. When addressing the reasoning behind Staff's disallowance in Rebuttal (pp. 6-7, lines 26:5), does Mr. Jones properly characterize the first reason given for Staff's disallowance?

A. No, he does not. Staff's direct testimony clearly indicates that the first reason given for the disallowance has to do with the fact that the USoA to which Mr. Jones cites "has relevance only to regulated utilities, and *not to their non-regulated developer affiliates*" (emphasis added). Mr. Jones' Rebuttal knows this substantive point and, by implication, attempts to suggest that the guidance provided by the USoA applies equally to both regulated utilities and their non-regulated affiliates, alike. Again, this is contrary to Staff's stated position.

Q. In Rebuttal (p. 7, lines 8-21), Mr. Jones then goes on to assert that Staff's reliance on the NARUC Guidelines for Cost Allocations and Affiliate Transactions ("NARUC Guidelines") for support is improper. In doing so, Mr. Jones argues that the NARUC Guidelines do not apply in this instance, as "[t]he Guidelines are not rules and do not contain rules," and as such "should not be used to override accounting treatment called for in specific provisions of the NARUC [Uniform] System of Accounts." How does Staff respond?

A. Staff would agree with the first point Mr. Jones makes; namely, that the NARUC Guidelines are not rules and do not contain rules. However, Staff strongly disagrees with the second point he attempts to make on grounds that the USoA apply *only to regulated utilities.* In the absence of any written type of contract between QCW and its non-regulated developer affiliate regarding Well 16, all available evidence suggests that the risks associated with the drilling/rehabilitation of Well 16 were borne by the non-regulated affiliate, RRQC. Implicit

[5] *See* Cassidy Direct, pp. 14-15, lines 20:10.

in the arguments put forth by Mr. Jones in Rebuttal that the NARUC Guidelines do not apply is the notion that the USoA applies to both QCW and its non-regulated affiliate. That Mr. Jones is mistaken on this point renders moot his assertion that the NARUC Guidelines do not apply in this instance.

Q. In rebuttal testimony, does Mr. Jones acknowledge that affiliate transactions should receive heightened scrutiny by regulators?

A. Yes.[6]

Q. In direct testimony,[7] Staff recommended that on a going-forward basis QCW be required to seek competitive bids and enter into written contracts for all capital projects in excess of $100,000. In Rebuttal (pp. 12-13, lines23:4), Mr. Jones states that Staff's recommendation is "unnecessary" asserting that "[t]here is simply too much coordination required between the various Robson affiliates involved in the development of the various subdivisions and projects to allow a third-party to effectively oversee the projects without burdening QCW and its ratepayers with increased costs and risk." How does Staff respond?

A. Staff respectively disagrees, for as evidenced by the Company's responses to Staff data requests JAC 2-2(d)(i)[8] and JAC 4-1[9], there appears to be a distinct lack of any written record of contractual agreements and/or coordination between the various Robson affiliates as they relate to the capital projects associated with QCW. It should be noted that QCW, unlike its non-regulated Robson affiliates, is a public utility subject to regulation by the Commission. For this reason, Staff believes its recommendation to be appropriate, as ratepayers will benefit from QCW being required to obtain independent bids on capital projects in excess of

[6] *See* Jones Rebuttal, p. 7, line 24.
[7] *See* Cassidy Direct, p. 13, lines 7-9.
[8] *See* Cassidy Direct Attachment F
[9] *See* Cassidy Direct Attachment E

$100,000, and the Company will be assured of having a documentary record of contractual agreements available when coming before the ACC seeking rate relief.

STAFF RESPONSE TO COMPANY RATE BASE WITNESS THOMAS J. BOURASSA

Q. In Rebuttal (p. 10, lines 13-21), Mr. Bourassa suggests that because Decision No. 61611 (dated April 1, 1999) issued in the Company's prior rate case authorized a composite depreciation rate of 4.08 percent, Staff's use of a 5.0 percent composite rate during the 15-month interim between QCW's prior test year end (i.e., December 31, 1997) and the issuance of Decision No. 61611 was improper. How does Staff respond?

A. For the reasons noted in Staff's direct testimony,[8] Staff's use of a 5.0 percent composite rate over the 15-month interim period between the December 31, 1997 test-year end of the Company's prior rate filing and the April 1, 1999 effective date of Decision No. 61611 was proper.

Q. In Rebuttal (pp. 12-13, lines 17:8), Mr. Bourassa stated that Staff did not make an adjustment for Accumulated Deferred Income Taxes ("ADIT"). Specifically, he argues that Staff should have made an adjustment to ADIT of approximately $92,000,[9] and that in failing to do so, Staff's rate base is understated by over $92,000. How does Staff respond?

A. Staff made no adjustment to ADIT because the Company did not provide the necessary documentation needed to make such adjustment. That said, Staff would agree that an adjustment to ADIT is appropriate, for as shown in Surrebuttal Schedule JAC-3 Staff adopted the Company's $1,071,554 deferred income tax credit account balance, but subsequently made adjustments to plant without also making an adjustment to ADIT.

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[8] *See* Cassidy Direct, pp. 18-19, lines 20:3; and Footnote 17.

[9] As presented in Rebuttal Exhibit TJB-RB1, Mr. Bourassa computes Staff's ADIT adjustment to be $92,419, based upon Staff's recommendations.

STAFF RESPONSE TO COMPANY RATE DESIGN WITNESS THOMAS J. BOURASSA

Q. In Rebuttal (pp. 15-17, lines 24:23) Mr. Bourassa is critical of Staff's proposed break-over points in direct testimony. For purposes of Staff's updated surrebuttal testimony, did Staff adopt (i) QCW's proposed 1st and 2nd tier break-over points for ¾-inch and smaller metered residential customers, and (ii) the Company's proposed break-over points for all 1-inch and larger meter sizes utilizing a scaling approach based upon relative flows from a ¾-inch meter?

A. Yes. Please refer to JAC-1

Q. Having made the above noted changes to its recommended break-over points, did Staff make other revisions to its recommended rate design in Surrebuttal?

A. Yes. Staff increased its recommended commodity rates for its second-tier (4,001 to 10,000 gallons) and third-tier (over 10,000 gallons) break-over points for all 3/4-inch and smaller metered residential customers to $4.25 and $5.36 per thousand gallons, respectively.[10] Additionally, Staff increased the recommended commodity rates used in Staff's two-tier inverted-block rate for larger residential and commercial classes with break-over points which vary by meter size; Staff's first-tier commodity rate was increased to $4.25 per thousand gallons, and Staff's commodity rate for any consumption over the first tier was reduced to $5.36 per thousand gallons.[11] These revisions to Staff's rate design in Surrebuttal were made to generate Staff's recommended revenue requirement.

[10] In Direct testimony, Staff had previously recommended 2nd and 3rd tier commodity rates of $4.00 and $5.42 per thousand gallons, respectively.

[11] In Direct testimony, Staff had previously recommended commodity rates of $4.00 and $5.42 per thousand gallons, respectively, for use in Staff's two-tier inverted-block rate for larger residential and commercial classes with break-over points which vary by meter size.

Q. As noted in Mr. Bourassa's Rebuttal (pp. 17-18, lines 26:9), the Company's proposed rate design allows for revenue recovery of 44.73 percent from the monthly minimum charges. Based upon Staff's recommended rate design in Surrebuttal, what percentage of revenue recovery is provided from Staff's proposed monthly minimum charges?

A. In Surrebuttal, Staff's proposed rate design provides for revenue recovery of 45.12 percent from the monthly minimum charges.

Q. As recommended by the Company in Rebuttal, what is the rate impact on a typical 5/8 x 3/4 inch meter residential customer?

A. As shown in Rebuttal Schedule H-2 (Page 2), the Company's recommended rates would increase the typical 5/8 x 3/4 inch meter residential bill with a median usage of 4,500 gallons from $27.60 to $37.66, for an increase of $10.06 or 36.44 percent.

Q. As recommended by Staff in Surrebuttal, what is the rate impact on a typical 5/8 x 3/4 inch meter residential customer?

A. As shown in Surrebuttal Schedule JAC-2, Staff's recommended rates would increase the typical 5/8 x 3/4 inch meter residential bill with a median usage of 4,500 gallons from $27.60 to $32.13, for an increase of $4.53 or 16.41 percent.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

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Surrebuttal Schedule JAC-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] COMPANY FAIR VALUE	[C] STAFF ORIGINAL COST	[D] STAFF FAIR VALUE
1	Adjusted Rate Base	$ 3,678,863	$ 3,678,863	$ 3,196,580	$ 3,196,580
2	Adjusted Operating Income (Loss)	$ 118,963	$ 118,963	$ 132,242	$ 132,242
3	Current Rate of Return (L2 / L1)	3.23%	3.23%	4.14%	4.14%
4	Required Rate of Return	10.00%	10.00%	9.40%	9.40%
5	Required Operating Income (L4 * L1)	$ 367,886	$ 367,886	$ 300,479	$ 300,479
6	Operating Income Deficiency (L5 - L2)	$ 248,923	$ 248,923	$ 168,237	$ 168,237
7	Gross Revenue Conversion Factor	1.6543	1.6543	1.6839	1.6839
8	Required Revenue Increase (L7 * L6)	$ 411,785	$ 411,785	$ 283,295	$ 283,295
9	Adjusted Test Year Revenue	$ 844,719	$ 844,719	$ 844,719	$ 844,719
10	Proposed Annual Revenue (L8 + L9)	$ 1,256,504	$ 1,256,504	$ 1,128,014	$ 1,128,014
11	Required Increase in Revenue (%)	48.75%	48.75%	33.54%	33.54%

References:
Column (A): Company Schedule B-1
Column (B): Company Schedule B-1
Column (C): Staff Schedules OCRB, GRCF, TYOI & COC
Column (D): Staff Schedules OCRB, GRCF, TYOI & COC

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Surrebuttal Schedule JAC-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	40.6143%			
5	Subtotal (L3 - L4)	59.3857%			
6	**Revenue Conversion Factor (L1 / L5)**	1.6839			
	Calculation of Uncollectible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	39.8386%			
9	One Minus Combined Income Tax Rate (L7 - L8)	60.1614%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0			
	Calculation of Effective Tax Rate:				
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 (Line 44)	36.7388%			
16	Effective Federal Income Tax Rate (L14 x L15)	34.9386%			
17	Combined Federal and State Income Tax Rate (L13 +L16)	39.8386%			
	Calculation of Effective Property Tax Factor				
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	39.8386%			
20	One Minus Combined Income Tax Rate (L18 - L19)	60.1614%			
21	Property Tax Factor (XXX-18, L24)	1.2893%			
22	Effective Property Tax Factor (L 21 * L 22)	0.007756854			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		40.6143%		
24	Required Operating Income (Schedule XXX-1, Line 5)	$ 300,479			
25	Adjusted Test Year Operating Income (Loss) (Schedule XXX-10, Line 40)	$ 132,242			
26	Required Increase in Operating Income (L24 - L25)		$ 168,237		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	$ 178,250			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	$ 66,844			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 111,405		
30	Recommended Revenue Requirement (Schedule XXX-1, Line 10)	$ 1,128,014			
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. (L32 - L33)		$ -		
35	Property Tax with Recommended Revenue (XXX-18, L19)	$ 36,327			$ -
36	Property Tax on Test Year Revenue (XXX-18, L 16)	$ 32,674			
37	Increase in Property Tax Due to Increase in Revenue (XXX-18, L22)		$ 3,653		
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		$ 283,295		
	Calculation of Income Tax:	Test Year		STAFF Recommended	
39	Revenue (Schedule XXX-10, Col.[C], Line 5 & Sch. XXX-1, Col. [B], Line 10)	$ 844,719	$ 283,295	$ 1,128,014	
40	Operating Expenses Excluding Income Taxes	645,633	$ 3,653	649,286	
41	Synchronized Interest (L47)	-		-	
42	Arizona Taxable Income (L36 - L37- L38)	$ 199,086		$ 478,728	
43	Arizona State Income Tax Rate	4.9000%		4.9000%	
44	Arizona Income Tax (L39 x L40)		$ 9,755		$ 23,458
45	Federal Taxable Income (L33 - L35)	$ 189,331		$ 455,271	
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	7,500		7,500	
47	Federal Tax on Second Income Bracket ($50,001 - $75,000) @ 25%	6,250		6,250	
48	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	8,500		8,500	
49	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	34,839		91,650	
50	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	-		40,892	
51	Total Federal Income Tax		$ 57,089		$ 154,792
52	Combined Federal and State Income Tax (L35 + L42)		$ 66,844		$ 178,250
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				36.74%
	Calculation of Interest Synchronization:				
54	Rate Base (Schedule XXX-3, Col. [C], Line (17))	$ 3,196,580			
55	Weighted Average Cost of Debt (Schedule XXX-1)	0.00%			
56	Synchronized Interest (L45 X L46)	$ -			

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Surrebuttal Schedule JAC-3

RATE BASE - ORIGINAL COST/FAIR VALUE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	REF	[C] STAFF AS ADJUSTED
1	Plant in Service	$ 7,819,192	$ (248,170)	1, 2, 3	$ 7,571,022
2	Less: Accumulated Depreciation	2,352,796	234,113	4	2,586,909
3	Net Plant in Service	$ 5,466,396	$ (482,283)		$ 4,984,113
	LESS:				
4	Net Contribution in Aid-of Construction (CIAC)	$ 535,758	$ -		$ 535,758
5	Advances in Aid of Construction (AIAC)	-	-		-
8	Customer Deposits	180,221	-		180,221
9	Deferred Income Tax Credits	1,071,554	-		1,071,554
	Total Deductions	$ 1,787,533	$ -		$ 1,787,533
	ADD:				
10	Unamortized Finance Charges	$ -	$ -		$ -
11	Deferred Tax Assets	-	-		-
12	Allowance for Working Capital	-	-		-
13	Intentional Left Blank	-	-		-
	Total Additions	$ -	$ -		$ -
14	**Original Cost Rate Base**	**$ 3,678,863**	**$ (482,283)**		**$ 3,196,580**

References:
Column (A), Company Schedule B-1
Column (B): Schedules JAC-5a, JAC-5b, JAC-5c, and JAC-6
Column (C): Column (A) + Column (B)

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Surrebuttal Schedule JAC-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Well 16 Disallowance ADJ #1	[C] Capitalized Interest ADJ #2	[D] Capitalization of Well 12 test costs ADJ #3	[E] Accumulated Depreciation ADJ #4	[F] STAFF ADJUSTED
		PLANT IN SERVICE:						
1	301	Organization Costs	$ 37,295	$ -	$ -	$ -	$ -	$ 37,295
2	302	Franchise Costs	-	-	-	-	-	-
3	303	Land & Land Rights	92,895	-	-	-	-	92,895
4	304	Structures & Improvements	75,442	-	(18)	-	-	75,424
5	307	Wells & Springs	834,248	(249,432)	(2,561)	4,013	-	586,268
6	310	Power Generation Equipment	37,618	-	-	-	-	37,618
7	311	Electric Pumping Equipment	1,137,275	-	(173)	-	-	1,137,102
8	320	Water Treatment Equipment	-	-	-	-	-	-
9	320.2	Solutions & Feeders	-	-	-	-	-	-
	320.3	Arsenic Remediation Plant	-	-	-	-	-	-
10	330	Distribution Reservoirs & Standpipes	-	-	-	-	-	-
11	330.1	Storage Tanks	856,574	-	-	-	-	856,574
12	330.2	Pressure Tanks	32,236	-	-	-	-	32,236
13	331	Transmission & Distribution Mains	3,194,161	-	-	-	-	3,194,161
14	333	Services	891,232	-	-	-	-	891,232
15	334	Meters & Meter Installations	90,315	-	-	-	-	90,315
16	335	Hydrants	477,182	-	-	-	-	477,182
17	336	Backflow Prevention Devices	-	-	-	-	-	-
18	339	Other Plant & Misc. Equip.	-	-	-	-	-	-
19	340	Office Furniture & Fixtures	2,071	-	-	-	-	2,071
20	340.1	Computer & Software	-	-	-	-	-	-
21	341	Transportation Equipment	-	-	-	-	-	-
22	342	Store Equipment	-	-	-	-	-	-
23	343	Tools & Work Equipment	2,399	-	-	-	-	2,399
24	344	Laboratory Equipment	-	-	-	-	-	-
25	345	Power Operated Equipment	-	-	-	-	-	-
26	346	Communications Equipment	57,194	-	-	-	-	57,194
27	347	Miscellaneous Equipment	-	-	-	-	-	-
28	348	Other Tangible Plant	1,056	-	-	-	-	1,056
29		Gross Utility Plant in Service	$ 7,819,192	$ (249,432)	$ (2,752)	$ 4,013	$ -	$ 7,571,022
30		Less: Accumulated Depreciation	2,352,796	-	-	-	234,113	2,586,909
31		Net Utility Plant in Service (L29 - L30)	$ 5,466,396	$ (249,432)	$ (2,752)	$ 4,013	$ (234,113)	$ 4,984,113
		DEDUCTIONS						
32		Contributions in Aid of Construction (CIAC)	$ 820,205	$ -	$ -	$ -	$ -	$ 820,205
33		Less: Accumulated Amortization	284,447	-	-	-	-	284,447
34		Net CIAC (L32 - L33)	$ 535,758	$ -	$ -	$ -	$ -	$ 535,758
35		Advances in Aid of Construction (AIAC)	-	-	-	-	-	-
36		Customer Meter Deposits	180,221	-	-	-	-	180,221
37		Deferred Income Tax Credits	1,071,554	-	-	-	-	1,071,554
38		Total Deductions	$ 1,787,533	$ -	$ -	$ -	$ -	$ 1,787,533
		ADDITIONS:						
39		Unamortized Finance Charges	$ -	$ -	$ -	$ -	$ -	$ -
40		Deferred Tax Assets	-	-	-	-	-	-
41		Allowance for Working Capital	-	-	-	-	-	-
42		Intentional Left Blank	-	-	-	-	-	-
43		Total Additions	$ -	$ -	$ -	$ -	$ -	$ -
44		**ORIGINAL COST RATE BASE**	$ 3,678,863	$ (249,432)	$ (2,752)	$ 4,013	$ (234,113)	$ 3,196,580

ADJ #	Description	Reference Schedule
1	Well 16 Disallowance	JAC - 5a
2	Capitalized Interest	JAC - 5b
3	Capitalization of Well 12 New Source Testing Costs	JAC - 5c
4	Accumulated Depreciation	JAC - 6

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Surrebuttal Schedule JAC-5a

RATE BASE ADJUSTMENT NO. 1 - Disallowance of Well 16 Drilling Costs

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJUSTMENT	[C] STAFF ADJUSTED
1	Wells and Springs (Acct. No. 307)	$ 249,432	$ (249,432)	$ -

Well 16 Drilling Costs recored in NARUC Acct. 307	$ 251,984
Less: Capitalized Interest	2,552
Net Well 16 Drilling Costs to be Disallowed	$ 249,432

REFERENCES:
Column [A]: Company Schedule B-2; Company response to Staff DR JAC 1-12
Column [B]: Testimony, Schedule JAC-5b
Column [C]: Column [A] + Column [B]

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Surrebuttal Schedule JAC-5b

RATE BASE ADJUSTMENT NO. 2 - CAPITALIZED INTEREST

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJUSTMENT	Year	[C] STAFF ADJUSTED
	301	Organization Costs	$ 37,295			$ 37,295
	302	Franchise Costs	-			-
	303	Land & Land Rights	92,895			92,895
	304	Structures & Improvements	75,442	$ (18)	2002	75,424
	307	Wells & Springs	834,248	$ (2,561)	2002; 2009	831,687
	310	Power Generation Equipment	37,618			37,618
	311	Electric Pumping Equipment	1,137,275	(173)	2002	1,137,102
	320	Water Treatment Equipment	-			-
	320.2	Solutions & Feeders	-			-
	320.3	Arsenic Remediation Plant	-			-
	330	Distribution Reservoirs & Standpipes	-			-
	330.1	Storage Tanks	856,574			856,574
	330.2	Pressure Tanks	32,236			32,236
	331	Transmission & Distribution Mains	3,194,161			3,194,161
	333	Services	891,232			891,232
	334	Meters & Meter Installations	90,315			90,315
	335	Hydrants	477,182			477,182
	336	Backflow Prevention Devices	-			-
	339	Other Plant & Misc. Equip.	-			-
	340	Office Furniture & Fixtures	2,071			2,071
	340.1	Computer & Software	-			-
	341	Transportation Equipment	-			-
	342	Store Equipment	-			-
	343	Tools & Work Equipment	2,399			2,399
	344	Laboratory Equipment	-			-
	345	Power Operated Equipment	-			-
	346	Communications Equipment	57,194			57,194
	347	Miscellaneous Equipment	-			-
	348	Other Tangible Plant	1,056			1,056
			$ 7,819,193	$ (2,752)		$ 7,816,441

REFERENCES:

Column [A]: Company Schedule B-2
Column [B]: Testimony, JAC; Data Request JAC 1-3 and JAC 3-1
Column [C]: Column [A] + Column [B]

QUAIL CREEK WATER COMPANY, INC.
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Surrebuttal Schedule JAC-5c

RATE BASE ADJUSTMENT NO. 3 - Capitalization of Well 12 New Source Water Testing Costs

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJUSTMENT	[C] STAFF ADJUSTED
1	Wells and Springs (Acct. No. 307)	$ -	$ 4,013	$ 4,013

REFERENCES:
Column [A]: Company Schedule B-2
Column [B]: Testimony, Company response to Staff DR JAC 1-22
Column [C]: Column [A] + Column [B]

QUAIL CREEK WATER COMPANY, INC.
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Surrebuttal Schedule JAC-6

RATE BASE ADJUSTMENT NO. 4 - ACCUMULATED DEPRECIATION

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJUSTMENT	[C] STAFF ADJUSTED
1	301	Organization Costs	$ 36,273	$ (36,273)	$ -
2	302	Franchise Costs	-	-	-
3	303	Land & Land Rights	-	-	-
4	304	Structures & Improvements	16,734	(8)	16,726
5	307	Wells & Springs	258,516	(42,119)	216,397
6	310	Power Generation Equipment	13,537	-	13,537
7	311	Electric Pumping Equipment	(39,241)	259,531	220,290
8	320	Water Treatment Equipment	-	-	-
9	320.2	Solutions & Feeders	-	-	-
10	320.3	Arsenic Remediation Plant		-	-
11	330	Distribution Reservoirs & Standpipes	-	-	-
12	330.1	Storage Tanks	377,367	42,091	419,458
13	330.2	Pressure Tanks	12,495	-	12,495
14	331	Transmission & Distribution Mains	1,244,095	11,195	1,255,289
15	333	Services	237,169	80	237,249
16	334	Meters & Meter Installations	30,053	(969)	29,084
17	335	Hydrants	150,082	585	150,668
18	336	Backflow Prevention Devices	-	-	-
19	339	Other Plant & Misc. Equip.	-	-	-
20	340	Office Furniture & Fixtures	416	-	416
21	340.1	Computer & Software	-	-	-
22	341	Transportation Equipment	-	-	-
23	342	Store Equipment	-	-	-
24	343	Tools & Work Equipment	399	-	399
25	344	Laboratory Equipment	-	-	-
26	345	Power Operated Equipment	-	-	-
27	346	Communications Equipment	13,876	-	13,876
28	347	Miscellaneous Equipment	-	-	-
29	348	Other Tangible Plant	1,027	-	1,027
		Accumulated Depreciation	$ 2,352,796	$ 234,113	$ 2,586,909

REFERENCES:
Column [A]: Company Schedule B-2
Column [B]: Testimony
Column [C]: Column [A] + Column [B]

QUAIL CREEK WATER COMPANY, INC.
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Surrebuttal Schedule JAC-7

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*					
2	Metered Water Sales	$ 837,366	$ -	$ 837,366	$ 283,295	$ 1,120,661
3	Water Sales - Unmetered	-	-	-	-	-
4	Other Operating Revenue	7,353	-	7,353	-	7,353
5	**Total Operating Revenues**	$ 844,719	$ -	$ 844,719	$ 283,295	$ 1,128,014
6	*OPERATING EXPENSES:*					
7	Salaries & Wages	$ 85,321	$ -	$ 85,321	$ -	$ 85,321
		21,254		21,254	-	21,254
8	Purchased Water	-	-	-	-	-
9	Purchased Power	72,800	-	72,800	-	72,800
10	Chemicals	6,454	-	6,454	-	6,454
11	Repairs & Maintenance	23,693	-	23,693	-	23,693
12	Office Supplies & Expense	20,818	-	20,818	-	20,818
13	Contractual Services - Engineering	-	-	-	-	-
	Contractual Services - Accounting	380	-	380	-	380
	Contractual Services - Legal	468	-	468	-	468
	Contractual Services - Other	17,777	-	17,777	-	17,777
	Contractual Services - Testing	12,864	(5,256) 1	7,608	-	7,608
14	Water Testing	-	-	-	-	-
15	Rents	566	-	566	-	566
16	Transportation Expense	13,067	(2,136) 2	10,931	-	10,931
17	Insurance - General Liability	524	-	524	-	524
18	Insurance - Health & Life	9,483	-	9,483	-	9,483
19	Regulatory Commission Expense	425	-	425	-	425
	Reg. Comm. Exp. - Rate Case	40,000	-	40,000	-	40,000
	Bad Debt Expense	442	-	442	-	442
20	Miscellaneous Expense	12,741	(4,787) 3	7,954	-	7,954
21	Depreciation Expense	294,340	(8,279) 4	286,061	-	286,061
22	Taxes Other than Income	-	-	-	-	-
23	Property Taxes	35,106	(2,432) 5	32,674	3,653	36,327
24	Income Tax	57,233	9,611 6	66,844	111,405	178,250
25	**Total Operating Expenses**	$ 725,756	$ (13,279)	$ 712,477	$ 115,058	$ 827,535
26	**Operating Income (Loss)**	$ 118,963	$ 13,279	$ 132,242	$ 168,237	$ 300,479

References:
Column (A): Company Schedule C-1
Column (B): Schedule JAC-8
Column (C): Column (A) + Column (B)
Column (D): Schedules JAC-13 and JAC-14
Column (E): Column (C) + Column (D)

QUAIL CREEK WATER COMPANY, INC.
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Surrebuttal Schedule JAC-8

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Water Testing ADJ #1	[C] Transportation Exp. ADJ #2	[D] Misc. Exp. ADJ #3	[I] Depreciation Exp. ADJ #4	[J] Property Tax ADJ #5	[K] Income Tax ADJ #6	[T] STAFF ADJUSTED
1	*REVENUES:*								
2	461 Metered Water Sales	$ 837,366	$ -	$ -	$ -	$ -	$ -	$ -	$ 837,366
3	460 Water Sales - Unmetered	-	-	-	-	-	-	-	-
4	474 Other Operating Revenue	7,353	-	-	-	-	-	-	7,353
5	**Total Operating Revenues**	$ 844,719	$ -	$ -	$ -	$ -	$ -	$ -	$ 844,719
6	*OPERATING EXPENSES:*								
7	601 Salaries & Wages	$ 85,321	$ -	$ -	$ -	$ -	$ -	$ -	$ 85,321
8	Employee Pensions and Benefits	21,254	-	-	-	-	-	-	21,254
9	610 Purchased Water	-	-	-	-	-	-	-	-
10	615 Purchased Power	72,800	-	-	-	-	-	-	72,800
11	618 Chemicals	6,454	-	-	-	-	-	-	6,454
12	620 Materials and Supplies	23,693	-	-	-	-	-	-	23,693
13	621 Office Supplies & Expense	20,818	-	-	-	-	-	-	20,818
14	630 Contractual Services - Engineering	-	-	-	-	-	-	-	-
15	Contractual Services - Accounting	380	-	-	-	-	-	-	380
16	Contractual Services - Legal	468	-	-	-	-	-	-	468
17	Contractual Services - Other	17,777	-	-	-	-	-	-	17,777
18	Contractual Services - Testing	12,864	(5,256)	-	-	-	-	-	7,608
19	635 Water Testing	-	-	-	-	-	-	-	-
20	641 Rents	566	-	-	-	-	-	-	566
21	650 Transportation Expense	13,067	-	(2,136)	-	-	-	-	10,931
22	Insurance - Vehicle	524	-	-	-	-	-	-	524
23	657 Insurance - General Liability	9,483	-	-	-	-	-	-	9,483
24	666 Regulatory Commission Expense	425	-	-	-	-	-	-	425
25	Reg. Comm. Exp. - Rate Case	40,000	-	-	-	-	-	-	40,000
26	Bad Debt Expense	442	-	-	-	-	-	-	442
27	675 Miscellaneous Expense	12,741	-	-	(4,787)	-	-	-	7,954
28	403 Depreciation Expense	294,340	-	-	-	(8,279)	-	-	286,061
29	408 Taxes Other than Income	-	-	-	-	-	-	-	-
30	408.11 Property Taxes	35,106	-	-	-	-	(2,432)	-	32,674
31	409 Income Tax	57,233	-	-	-	-	-	9,611	66,844
32	**Total Operating Expenses**	$ 725,756	$ (5,256)	$ (2,136)	$ (4,787)	$ (8,279)	$ (2,432)	$ 9,611	$ 712,477
33	**Operating Income (Loss)**	$ 118,963	$ 5,256	$ 2,136	$ 4,787	$ 8,279	$ 2,432	$ (9,611)	$ 132,242

ADJ #	Description	Reference Schedule
1	Contractual Services - Water Testing Expense	JAC - 9
2	Miscellaneous Expense	JAC - 10
3	Transportation Expense	JAC - 11
4	Depreciation Expense	JAC - 12
5	Property Tax Expense	JAC - 13
6	Income Tax Expense	JAC - 14
7		

QUAIL CREEK WATER COMPANY, INC.
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Surrebuttal Schedule JAC-9

OPERATING INCOME ADJUSTMENT NO. 1 - Contractual Services - Water Testing

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	Water Testing Expense	$ 12,864	$ (5,256)	$ 7,608
2	Water Testing Cost reclassified from Misc. Exp.	-		-
3	Total	$ 12,864	$ (5,256)	$ 7,608

Contractual Services - Water Testing - per Company	$	12,864
Less: Robson Ranch Water Testing Costs - per Staff Engineering		(6,825)
New source testing - reclassified as a capital expenditure		(4,013)
Sub-Total	$	2,026
Add: Known and measureable increase to annual water testing expenses		241
Known and measureable increase in MAP water testing expenses		554
MAP water testing costs - reclassified from Miscellaneous Expense		4,787
Contractual Services - Water Testing - per Staff	$	7,608

Water testing expenses (going forward) -- As per Staff Engineering	$	2,267
Less: Annual test-year water testing expenses accounted for		2,026
Known and measureable increase to annual water testing expenses	$	241

MAP testing expenses (going forward) -- As per Staff Engineering	$	5,341
Less: Test-year MAP Costs accounted for as Miscellaneous expenses		4,787
Known and measureable increase in MAP water testing expenses	$	554

References:
Column (A), Company Schedule C-2 & Workpapers
Column (B): Testimony JAC; Schedule JAC-8
Column (C): Column (A) + Column (B)

QUAIL CREEK WATER COMPANY, INC.
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Surrebuttal Schedule JAC-10

OPERATING INCOME ADJUSTMENT NO. 2 - Transportation Expense

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	Transportation Expense	$ 13,067	$ (2,136)	$ 10,931
2		-	-	-
3	Total	$ 13,067	$ (2,136)	$ 10,931

Personal Commute Miles of Superintendent		15	miles per day
IRS Standard Mileage Rate for 2013	$	0.565	rate per mile
	$	8.48	
Number of work days per month		21	
Monthly personal commute expense	$	177.98	
Months per year		12	
Annual personal commute expense	$	2,135.70	

References:
Column (A), Company Schedule C-2 & Workpapers
Column (B): Testimony JAC; Response to Staff Data Request JAC 1-23
Column (C): Column (A) + Column (B)

QUAIL CREEK WATER COMPANY, INC.
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Surrebuttal Schedule JAC-11

OPERATING INCOME ADJUSTMENT NO. 3 - Miscellaneous Expense

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	Miscellaneous Expense	$ 12,741	$ (4,787)	$ 7,954
2		-	-	-
3	Total	$ 12,741	$ (4,787)	$ 7,954

To reclassify MAP water testing expenses from Miscellaneous Expense to Contractual Services - Testing (as per Staff Engineer Michael Thompson)

References:
Column (A), Company Schedule C-2 & Workpapers
Column (B): Testimony JAC
Column (C): Column (A) + Column (B)

QUAIL CREEK WATER COMPANY, INC.
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Surrebuttal Schedule JAC-12

OPERATING INCOME ADJUSTMENT No. 4 - DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	GROSS UTILITY PLANT IN SERVICE	FULLY/NON DEPRECIABLE	DEPRECIABLE PLANT	DEPREC. RATE	EXPENSE
	Plant In Service						
1	301	Organization Costs	$ 37,295	$ 37,295	$ -	0.00%	$ -
2	302	Franchise Costs	-		-	0.00%	-
3	303	Land & Land Rights	92,895	92,895	-	0.00%	-
2	304	Structures & Improvements	75,424		75,424	3.33%	2,512
3	307	Wells & Springs	586,268		586,268	3.33%	19,523
4	310	Power Generation Equipment	37,618		37,618	5.00%	1,881
3	311	Electric Pumping Equipment	1,137,102		1,137,102	12.50%	142,138
4	320	Water Treatment Equipment	-		-	3.33%	-
5	320.2	Solutions & Feeders	-		-	20.00%	-
4	320.3	Arsenic Remediation Plant	-		-	0.00%	-
5	330	Distribution Reservoirs & Standpipes	-		-	0.00%	-
6	330.1	Storage Tanks	856,574		856,574	2.22%	19,016
5	330.2	Pressure Tanks	32,236		32,236	5.00%	1,612
6	331	Transmission & Distribution Mains	3,194,161		3,194,161	2.00%	63,883
7	333	Services	891,232		891,232	3.33%	29,678
6	334	Meters & Meter Installations	90,315		90,315	8.33%	7,523
7	335	Hydrants	477,182		477,182	2.00%	9,544
8	336	Backflow Prevention Devices	-		-	6.67%	-
7	339	Other Plant & Misc. Equip.	-		-	6.67%	-
8	340	Office Furniture & Fixtures	2,071		2,071	6.67%	138
9	340.1	Computer & Software	-		-	20.00%	-
8	341	Transportation Equipment	-		-	20.00%	-
9	342	Store Equipment	-		-	4.00%	-
10	343	Tools & Work Equipment	2,399		2,399	5.00%	120
9	344	Laboratory Equipment	-		-	10.00%	-
10	345	Power Operated Equipment	-		-	5.00%	-
11	346	Communications Equipment	57,194		57,194	10.00%	5,719
10	347	Miscellaneous Equipment	-		-	10.00%	-
11	348	Other Tangible Plant	1,056		1,056	10.00%	106
29		Subtotal General	$ 7,571,022		$ 7,440,832		$ 303,392
30		Less: Amortization of Contributions (Depreciable Plant/Depreciation Exp.)			$ 820,205	2.1130%	$ 17,331
31		Staff Recommended Depreciation Expense					$ 286,061
32		Company Proposed Depreciation Expense					294,340
33		Increase/(Decrease) to Depreciation Expense					$ (8,279)

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OPERATING INCOME ADJUSTMENT No. 5 - PROPERTY TAXES

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$ 844,719	$ 844,719
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	$ 1,689,438	$ 1,689,438
4	Staff Recommended Revenue	844,719	1,128,014
5	Subtotal (Line 4 + Line 5)	$ 2,534,157	$ 2,817,452
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	$ 844,719	$ 939,151
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	$ 1,689,438	$ 1,878,301
10	Plus: 10% of CWIP		
11	Less: Net Book Value of Licensed Vehicles		
12	Full Cash Value (Line 9 + Line 10 - Line 11)	$ 1,689,438	$ 1,878,301
13	Assessment Ratio		
14	Assessment Value (Line 12 * Line 13)	$ 304,099	$ 338,094
15	Composite Property Tax Rate - Obtained from ADOR		
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 32,674	
17	Company Proposed Property Tax	35,106	
18	Staff Test Year Adjustment (Line 16 - Line 17)	$ (2,432)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 36,327
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		32,674
21	Increase in Property Tax Due to Increase in Revenue Requirement		$ 3,653
22	Increase in Property Tax Due to Increase in Revenue Requirement (Line 21)		$ 3,653
23	Increase in Revenue Requirement		$ 283,295
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		**1.289340%**

REFERENCES:
Line 15: Composite Tax Rate obtained from Arizona Department of Revenue
Line 17: Company Schedule C-1 Page 2
Line 21: Line 19 - Line 20
Line 23: Schedule JAC-1

QUAIL CREEK WATER COMPANY, INC.
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Surrebuttal Schedule JAC-14

OPERATING INCOME ADJUSTMENT NO. 6 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	Income Tax Expense	$ 57,233	$ 9,611	$ 66,844
2	Total	$ 57,233	$ 9,611	$ 66,844

References:
Column (A), Company Schedule C-2
Column (B): Testimony
Column (C): Column (A) + Column (B)

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8 x 3/4" Meter	$ 15.00	$ 21.23	$ 18.00
3/4" Meter	20.00	28.30	27.00
1" Meter	25.00	35.38	45.00
1½" Meter	50.00	70.75	90.00
2" Meter	80.00	113.20	144.00
3" Meter	150.00	212.25	288.00
4" Meter	250.00	353.75	450.00
6" Meter	500.00	707.50	900.00
Commodity Rates			
All Meters - Flat Commodity Rate	$ 2.80		
5/8 x 3/4" & 3/4" Meter - Residential			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 4,000 Gallons		$ 3.58	$ 3.00
From 4,001 to 10,000 Gallons		$ 4.68	$ 4.25
Over 10,000 Gallons		$ 5.78	$ 5.36
5/8 x 3/4" & 3/4" Meter - Commercial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 10,000 Gallons		$ 4.68	$ 4.25
Over 10,000 Gallons		$ 5.78	$ 5.36
5/8 x 3/4" & 3/4" Meter - Irrigation			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 10,000 Gallons		$ 4.68	$ 4.25
Over 10,000 Gallons		$ 5.78	$ 5.36
1" - Residential, Commercial & Irrigation			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 17,000 Gallons		$ 4.68	$ 4.25
Over 17,000 Gallons		$ 5.78	$ 5.36
1½" - Residential, Commercial & Irrigation			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 33,000 Gallons		$ 4.68	$ 4.25
Over 33,000 Gallons		$ 5.78	$ 5.36
2" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 53,000 Gallons		$ 4.68	$ 4.25
Over 53,000 Gallons		$ 5.78	$ 5.36
3" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 100,000 Gallons		$ 4.68	$ 4.25
Over 100,000 Gallons		$ 5.78	$ 5.36
4" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 167,000 Gallons		$ 4.68	4.25
Over 167,000 Gallons		$ 5.78	5.36
6" - Residential, Commercial & Industrial			
Gallons Included in Minimum	0	0	0
Excess of Minimum - per 1,000 Gallons			
From 1 to 334,000 Gallons		$ 4.68	$ 4.25
Over 334,000 Gallons		$ 5.78	$ 5.36

RATE DESIGN

		Company Proposed Rates			Staff Recommended Rates		
Service Line and Meter Installation Charges	Present Rates	Service Line Charge	Meter Charge	Total Charge	Service Line Charge	Meter Charge	Total Charge
5/8" x 3/4" Meter	$ 350	$ 385	$ 135	$ 520	$ 385	$ 135	$ 520
3/4" Meter	$ 400	415	205	620	415	205	620
1" Meter	$ 470	465	265	730	465	265	730
1½" Meter	$ 695	520	475	995	520	475	995
2" Turbine Meter	$ 1,225	800	995	1,795	800	995	1,795
2" Compound Meter	$ 1,820	800	1,840	2,640	800	1,840	2,640
3" Turbine Meter	$ 1,735	1,015	1,620	2,635	1,015	1,620	2,635
3" Compound Meter	$ 2,410	1,135	2,495	3,630	1,135	2,495	3,630
4" Turbine Meter	$ 2,700	1,430	2,570	4,000	1,430	2,570	4,000
4" Compound Meter	$ 3,455	1,610	3,545	5,155	1,610	3,545	5,155
6" Turbine Meter	$ 5,115	2,150	4,925	7,075	2,150	4,925	7,075
6" Compound Meter	$ 6,650	2,270	6,820	9,090	2,270	6,820	9,090
Service Charges							
Establishment	$ 25.00			$ 25.00			$ 25.00
Establishment (after hours)	45.00			Eliminate			Eliminate
Reestablishment within 12 months	**			**			**
Reconnection/Delinquent	25.00			25.00			$ 25.00
Meter Test (if correct)	25.00			25.00			$ 25.00
Meter Re-read (if correct)	15.00			15.00			$ 15.00
Deposit	*			*			*
Deposit Interest	*			*			*
NSF Check	$ 15.00			$ 15.00			$ 15.00
Deferred Payment, per month	1.5% per month			1.5% per month			1.5% per month
Late Payment Fee (per month)	***			***			***
After-Hours Service Charge	NT			$ 50.00			$ 50.00
Monthly Service Charge of Fire Sprinklers							
4" or Smaller	****			****			****
6"	****			****			****
8"	****			****			****
10"	****			****			****
Larger than 10"	****			****			****

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

** Number of months off the system times the monthly minimum per Commision Rule A.A.C. R-14-2-403(D)

*** 1.5% per month or a minimum of $3.50

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

NT = No Tariff

QUAIL CREEK WATER COMPANY, INC.
Docket No. W-02514A-14-0343
Test Year Ended December 31, 2013

Surrebuttal Schedule JAC-2

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

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,725	$ 31.03	$ 43.62	$ 12.59	40.58%
Median Usage	4,500	27.60	37.89	$ 10.29	37.28%
Staff Recommended					
Average Usage	5,725	$ 31.03	$ 37.33	$ 6.30	20.31%
Median Usage	4,500	27.60	32.13	$ 4.53	16.41%

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

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 15.00	$ 21.23	41.53%	$ 18.00	20.00%
1,000	$ 17.80	24.81	39.38%	21.00	17.98%
2,000	$ 20.60	28.39	37.82%	24.00	16.50%
3,000	$ 23.40	31.97	36.62%	27.00	15.38%
4,000	$ 26.20	35.55	35.69%	30.00	14.50%
5,000	$ 29.00	40.23	38.72%	34.25	18.10%
6,000	$ 31.80	44.91	41.23%	38.50	21.07%
7,000	$ 34.60	49.59	43.32%	42.75	23.55%
8,000	$ 37.40	54.27	45.11%	47.00	25.67%
9,000	$ 40.20	58.95	46.64%	51.25	27.49%
10,000	$ 43.00	63.63	47.98%	55.50	29.07%
11,000	$ 45.80	69.41	51.55%	60.86	32.88%
12,000	$ 48.60	75.19	54.71%	66.22	36.26%
13,000	$ 51.40	80.97	57.53%	71.58	39.26%
14,000	$ 54.20	86.75	60.06%	76.94	41.96%
15,000	$ 57.00	92.53	62.33%	82.30	44.39%
16,000	$ 59.80	98.31	64.40%	87.66	46.59%
17,000	$ 62.60	104.09	66.28%	93.02	48.59%
18,000	$ 65.40	109.87	68.00%	98.38	50.43%
19,000	$ 68.20	115.65	69.57%	103.74	52.11%
20,000	$ 71.00	121.43	71.03%	109.10	53.66%
25,000	$ 85.00	150.33	76.86%	135.90	59.88%
30,000	$ 99.00	179.23	81.04%	162.70	64.34%
35,000	$ 113.00	208.13	84.19%	189.50	67.70%
40,000	$ 127.00	237.03	86.64%	216.30	70.31%
45,000	$ 141.00	265.93	88.60%	243.10	72.41%
50,000	$ 155.00	294.83	90.21%	269.90	74.13%
75,000	$ 225.00	439.33	95.26%	403.90	79.51%
100,000	$ 295.00	583.83	97.91%	537.90	82.34%

ATTACHMENT 1

UNIFORM SYSTEM OF ACCOUNTS

FOR

CLASS A

WATER UTILITIES

1996

NATIONAL ASSOCIATION
OF
REGULATORY UTILITY COMMISSIONERS

C. Gains or losses from the sale of land and land rights or other disposition of such property previously recorded in this account and not placed in utility service shall, unless otherwise authorized or required by the Commission, be recorded directly in account 414 - Gains (Losses) from Disposition of Utility Property. However, when determined to be significant by the Commission the gain or loss shall be transferred to account 253 - Other Deferred Credits, or account 186 - Miscellaneous Deferred Debits. Such deferred amounts shall then be amortized to account 414 - Gains (Losses) from Disposition of Utility Property, unless otherwise authorized or required by the Commission.

D. The property included in this account shall be classified according to the detailed accounts prescribed for utility plant in service and the account shall be maintained in such detail as though the property were in service. Separate subaccounts shall be maintained hereunder for each utility department for which plant is held for future use.

Note:--Materials and supplies, and meters held in reserve, and normal spare capacity of plant in service shall not be included in this account.

104. Utility Plant Purchased or Sold

A. This account shall be charged with the cost of utility plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and shall be credited with the selling price of like property transferred to others pending the distribution to appropriate accounts in accordance with Accounting Instruction 21.

B. Within six months from the date of acquisition or transfer of property recorded herein, the utility shall file with the Commission the proposed journal entries to clear from this account the amounts recorded herein.

C. When an existing water system or operating unit is acquired the utility shall be obligated to obtain, from the party acquired from, all existing records, including records of plant construction dates and costs, and records of accumulated depreciation applicable to such properties.

105. Construction Work in Progress

A. This account shall include the total of balances of work orders for utility plant in process of construction but not ready for service at the date of the balance sheet.

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

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

106. Completed Construction Not Classified

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

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

108. Accumulated Depreciation

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

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

C. The following subaccounts shall be maintained:

108.1 Accumulated Depreciation of Utility Plant in Service

A. This account shall be credited with the following:

EXHIBIT
S-7
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF 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

SURREBUTTAL

TESTIMONY

OF

JAMES R. ARMSTRONG

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 1, 2015

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EXECUTIVE SUMMARY
QUAIL CREEK WATER COMPANY, INC.
DOCKET NO. W-02514A-14-0343

Mr. Armstrong identifies and discusses a number of on-going Quail Creek Water Company ("QCW") accounting and financial reporting concerns.

Mr. Armstrong also recommends that the Commission require QCW to:

1. Enter into written contracts with affiliates governing the design and construction of future utility plant and facility additions;
2. Develop and sign a Code of Affiliate Conduct that would be binding upon QCW and all affiliates;
3. Assure that the Company's 2015 Annual Report to the Commission reflect proper accrual accounting for all balance sheet and income statement items; and
4. Isolate the facts and financial implications associated with material future early plant retirements concurrent with the timing of such an early retirement decision so that all issues and considerations related to such decisions can be identified and addressed at the proper time.

INTRODUCTION

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

A. My name is James R. Armstrong. I am employed as the Chief Accountant of the Finance & Regulatory Analysis Section of the Utilities Division ("Staff") of the Arizona Corporation Commission ("ACC"). My business address is 1200 West Washington, Phoenix, Arizona 85007.

Q. Mr. Armstrong, please provide a brief overview of your education and previous ratemaking experience.

A. I hold a Bachelor's Degree in Finance and a Master's Degree in Accounting, both from Kansas State University. I am a Certified Public Accountant. My professional work background includes serving over 30 years in various ratemaking capacities, including time serving on the staffs of the Kansas Corporation Commission, the Oklahoma Corporation Commission, and the Residential Utilities Consumer Office in Arizona. I also spent ten years as the Manager of Rates for Oklahoma Natural Gas ("ONG") and also two years as ONG's Manager of Financial Planning. In addition, I worked as a full time regulatory consultant for Westar Energy for almost two years, immediately before joining the ACC Staff in September of 2012.

Q. Mr. Armstrong, did you file direct testimony on behalf of Staff in Docket No. 14-0343, the rate case Application filed by Quail Creek Water Company ("QCW" or "Company")?

A. No.

SCOPE OF TESTIMONY - QCW'S ACCOUNTING AND FINANCIAL REPORTING

Q. Please identify the issues that will be the focus of your surrebuttal testimony.

A. I will be responding to comments made by Company witnesses Mr. Jones and Mr. Bourassa regarding QCW's accounting and financial reporting.

Q. Mr. Armstrong, why is Staff just now raising these accounting irregularity concerns?

A. Staff felt obligated to formally address the Company's ongoing accounting and financial reporting deficiencies as a result of the additional fact finding efforts undertaken in response to comments contained in the testimony of the Company's witnesses.

Q. Mr. Armstrong, are ACC-regulated utilities required to follow the NARUC accounting guidelines contained in the NARUC Uniform System of Accounts ("USoA")?

A. Yes. Such a directive is found in Arizona Administrative Code § R14-2-411 D (2). Further, R14-2-411 D (1) also contains language requiring utilities to keep records that are "complete and authentic."

Q. Has QCW indicated that it does follow the NARUC USoA guidelines?

A. Yes, QCW specifically stated that it follows NARUC USoA in response to Staff Data Request No. JAC 1-2. Refer to Staff Surrebuttal-4 attached to my testimony.

Q. Mr. Armstrong, do the NARUC USoA Accounting Instructions also contain a directive requiring the timely and accurate recording of transactions with associated companies?

A. Yes. General Accounting Instruction No. 15 contains the following language:

I have included a copy of Accounting Instruction No. 15 as Staff Surrebuttal Exhibit - 1 affixed to my surrebuttal testimony.

Q. Mr. Armstrong, has Company witness Mr. Jones, acknowledged that QWC's books and records did not account for Well 16 on a timely basis?

A. Yes, I believe so. Mr. Jones sums up QCWs Well 16 accounting as being one of several "deferred plant purchases" that the Company apparently just chose not to reflect on its books and records in a timely manner.

Q. Mr. Armstrong, would you agree that on page 7, lines 1 through 5 of Mr. Jones' rebuttal testimony filed on behalf of QWC, Mr. Jones appears to confirm the fact that the Company did not pay for Well 16 until two years after the well was known to be unproductive.

A. Yes.

Q. Mr. Jones then goes on to make reference to Staff's decision to develop its Well 16 recommendations around accounting treatment discussion contained in the NARUC produced *Guidelines for Cost Allocations and Affiliate Transactions* ("Guidelines"). Is it fair to say that this two year accounting timeframe displacement was a contributing factor in Staff's decision to broaden its Well 16 focus to include consideration of these NARUC Guidelines?

A. Yes. Further, Staff and the Company are in agreement that, generally, affiliate transactions should receive heightened scrutiny, and evidence of untimely or incomplete accounting involving affiliate transactions certainly enhanced the need for additional scrutiny.

Q. In Staff's opinion has QCW, in fact, followed the NARUC accounting guidelines in an acceptable manner?

A. No.

Q. What is the basis for this Staff conclusion?

A. Staff's conclusion is based upon numerous Company witness statements as well as corresponding accounting deviations found in Annual Reports filed by QCW.

Q. Mr. Armstrong, please begin your discussion of the examples Staff has noted of unacceptable accounting on behalf of QCW.

A. First, beginning at page 6, line 21,through page 13, line 22, of his direct testimony, Mr. Jones spends a great deal of time identifying and discussing the numerous adjustments he needed to make in order to "correct" the implications resulting from the Company's past accounting shortcomings. From this rather extensive list, which is summarized within the table shown on page 13 of Mr. Jones' direct testimony, Staff can only conclude that this effort must have taken many hours of Mr. Jones' time.

It is also interesting to note that Mr. Jones makes reference to accounting challenges presented in other rate cases filed by Robson controlled ACC-regulated utilities[1]. Mr. Jones acknowledges that similar accounting issues have been vetted over an extended period of time in many such rate cases[2]. These facts beg two valid questions: how long must the parties to Robson-run utility rate cases continue to deal with such recurring accounting shortcomings, and, of equal or greater importance, how long are rate payers going to be required to pay for

[1] On page 10 of Mr. Jones's rebuttal testimony he discusses a recent rate case filed by affiliate Lago Del Oro where the parties had to work around delayed accounting issues similar to those encountered in the QWC rate case.
[2] Refer to page 8, lines 4 through 6 of Mr. Jones rebuttal testimony.

the higher level of rate case expense driven by the many hours of consulting time required to "reconstruct Robson utility books and records" each time a new rate case is filed?

Q. Does Staff have another reason for bringing this issue to the Commission's attention?

A. Yes. Company witness Mr. Soriano indicated on page 4, lines 1 and 2 of his direct testimony that all of the Robson water and wastewater utilities are planning on filing rate cases over the next few years. Couple this statement with the acknowledgement of QCW's consultants in this rate case that this Commission has been faced with similar accounting inadequacies for many years, and over several rate cases, and you have the foundation for the remainder of my surrebuttal testimony regarding additional accounting and business practice abnormalities noted in the rebuttal testimony of Company witnesses Mr. Jones and Mr. Bourassa.

Q. Please identify the other statements found in the rebuttal testimonies of the Company's two witnesses, Mr. Jones and Mr. Bourassa, that led Staff to evaluate more closely the Company's accounting.

A. Statements made by these witnesses included the following:

a. Statements regarding QCW affiliates providing long-term financing to support capital projects;

b. Statements regarding "Accounts Receivable" that were allegedly recorded on the books of the QCW affiliates without a discussion of corresponding "Accounts Payable"[3] being recorded on the QCW books; and,

c. Statements regarding QCW's delay in accounting for plant acquired from affiliates or constructed for QCW by affiliates.

[3] More accurately, these should be referred to Notes Receivable from Affiliates and Notes Payable to Affiliates.

Q. Where did Staff turn in order to understand the full context and soundness of these statements?

A. Staff turned to the 2004 through 2014 Annual Reports submitted to the ACC by QCW. Each of these Annual Reports contains sworn statements indicating that the information submitted is complete and correct. So, Staff initially presumed that the information contained in these reports could be relied upon as being complete and accurate.

Q. Regarding Staff's review of the referenced QCW Annual Reports, please identify the financial data categories that became Staff's primary focus.

A. The financial data of primary focus included the following items reported on the year end QCW Balance Sheets:

- Available Cash;
- Notes Receivable from Affiliates;
- Notes Payable to Affiliates;
- Long-Term Debt; and,
- Gross Plant Investments

Q. Mr. Armstrong, did Staff prepare an Exhibit that summarizes the significant elements of financial information found in these Balance Sheets[4] that you will be addressing?

A. Yes. The financial element summaries are contained in Staff Surrebuttal Exhibit 2 attached to my surrebuttal testimony.

Q. Please continue.

A. The columns show the relevant financial data amounts by year, while the line items shown on the left identify individual items of interest.

[4] Staff would also note that Exhibit Staff Surrebuttal 1 also contains some information taken from the QWC Income Statement, but generally Staff focused on information found on the QWC Balance Sheets.

Q. Referring to the three statements (noted as Statements a, b, and c) made by Company witnesses that drew Staff's interest, and beginning with item (a) - statements made about QCW affiliates providing long-term financing to support capital projects, please discuss Staff's findings.

A. Based upon rebuttal testimony statements made by Company witnesses Mr. Jones and Mr. Bourassa, it appears to Staff that QCW committed to long-term indebtedness and/or "other evidences of indebtedness" without Commission approval. On page 8, line 23 through page 9, line 6, direct Mr. Jones notes that a QCW affiliate financed the cost of various capital projects, including Well 16, and that such financing arrangements were allowed to remain in effect for several years after the projects were completed. Mr. Bourassa makes several similar statements including on page 5, line 12, of his rebuttal testimony where he refers to the arrangement as a method of financing plant additions.

Q. Mr. Armstrong, turn now to statement (b) – statements made regarding construction project-related Accounts Receivable[5] that were allegedly <u>recorded on the books of the QCW affiliates</u> without a discussion of corresponding construction project-related Accounts Payable being recorded on the QCW books. Please explain why this is a problem from an accounting perspective?

A. The problem is that such acknowledgments indicate the presence of incomplete and/or inaccurate accounting on the part of QCW.

[5] It would be more appropriate to refer to the Accounts Receivable/Accounts Payable involving affiliate transactions as Accounts Payable to Affiliates and/or Accounts Receivable or Payable to Affiliates or Notes Payable to and/or Notes Receivable from affiliates.

Q. Mr. Armstrong, by turning to Staff Surrebuttal Exhibit 2, can you show us the finding that supports the conclusion that the construction project-related Accounts Payable to Affiliates were not recorded on the regulated water company's books?

A. Yes. Such Accounts Payable would show up on line 4, and the amount of the Accounts Payable would correspond (be equal) to the amount of the Accounts Receivable allegedly recorded on the affiliate's books, to which the Company witnesses do specifically refer. Further, as I will discuss in more detail later, this Accounts Payable to Affiliate entry should have been accompanied by a corresponding entry to Plant-In-Service (line 8) in the same accounting period(s) that these Accounts Payable to Affiliate liabilities were actually incurred.

Other than two small Notes Payable to Affiliate balances showing up in the year 2004, and year 2005 QCW financial statements, there are no additional Accounts Payable to Affiliate balances shown on any of the Company's Annual Reports submitted between 2004 and 2014.

Q. Does QCW explain why it did not accrue the capital project-related liabilities the Company had to its affiliate, on its books, as these liabilities actually became obligations of QCW?

A. No, it does not. This management decision is perplexing since this unrecorded liability apparently reached $2.7 million before being recorded (in 2011), while the same management team found it necessary and reasonable to record much smaller affiliate payables and receivables on the QCW books.

Q. Mr. Armstrong, by viewing Staff Surrebuttal Exhibit 2, is it possible to see where and when these much smaller payables and receivables involving affiliates were recorded on QCW's books?

A. Yes, it is. If we look at lines 3 and 4 we clearly see that QCW's management recorded affiliate payables and receivables as small as $8,616 (line 3, column E). Yet the significantly larger affiliate transactions (ultimately totaling $2.7 million) were not reported, until years after they should have been reported.

Q. Mr. Armstrong, please explain the accounting accuracy implications associated with statement (c) regarding delays in recording plant acquisitions.

A. I would first direct the Commission's attention to the Table shown on page 10 of the direct testimony of Company witness Mr. Jones and to footnote No. 12 at the bottom of page 13 of the direct testimony of Staff witness, Mr. Cassidy. Within these two references, we find a summary of the Plant-In-Service additions that **were recorded in the wrong years** by QCW. By recording these Plant additions in the wrong years, I mean that the investments were recorded on the QCW books and records in years other than the years the items were placed into service, which would have been the correct accounting.

Turning to line 10 and the various year-by-year columns in Staff Surrebuttal Exhibit 1, we see the plant additions recorded in 2009, 2010, and 2011 that, according to the Company's own witnesses, should have been recorded in 2002 through 2009. On line 11 we see the net year-by-year plant-in-service changes that would have resulted if these plant additions were recorded accurately. Footnote 1 of this Exhibit also demonstrates this accounting inaccuracy.

Q. So, to be clear, is it accurate to state that, for example, the positive entries shown on line 10 represent the plant additions that should have been recorded in the respective years, while the negative figures represent when these plant additions were actually recorded on the QCW books?

A. Yes. The negative entries also suggest that the recorded plant addition activities for those respective years are actually over stated by these amounts.

Q. Mr. Armstrong, does Staff believe QCW's management should have been aware of the fact that the financial data presented in its Annual Reports to the ACC was inaccurate?

A. Yes.

Q. Which Annual Reports does Staff believe contained inaccurate and/or incomplete financial information?

A. Since the plant additions were inaccurately presented going back to at least 2002, and since such errors would have rolling implications to the subsequently submitted financial report, Staff believes that all Annual Reports submitted between 2002 and 2014 could be in error.

Q. Is it acceptable for QCW to continue with the accounting practices you have been discussing?

A. No, and Staff will be addressing a number of accounting practices and policy improvements that it believes the Commission should require QCW and its affiliates to adopt and follow.

STAFF RECOMMENDATIONS REGARDING QCW'S ACCOUNTING AND REPORTING PRACTICES

Q. Mr. Armstrong, after giving consideration to the evidence showing that QCW has failed to follow NARUC guidelines and has otherwise engaged in some incomplete and/or untimely accounting and financial reporting covering many years, which included instances where transactions with affiliates were not being recorded on the Company's books in an accurate and expeditious manner as required by NARUC, is Staff making additional recommendations to the Commission related to the Company's accounting practices?

A. Yes. Staff recommends that the Commission incorporate the following directives in the Decision rendered in Docket No. 14-0343:

1. The Company should commit to entering into written contracts with its affiliates governing the design and construction of future utility plant and facilities additions. Such contracts should incorporate all elements that would reasonably be expected to be included in an agreement with a non-affiliate entity.[6]

2. QCW should be directed to develop and agree to sign a Code-of-Affiliate-Conduct ("Code") that would be binding upon QCW and all affiliates (regulated and non-regulated).

   But for the provisions related specifically to Global Water's Infrastructure Construction and Financing Agreements ("ICFAs"), the QCW Code should include provisions similar to the provisions contained in the Code-of-Affiliate-Conduct filed by Global Water on August 15, 2014 in Docket No SW-20445A-12-0310, and the accompanying consolidated Dockets.

[6] QWC already committed to this requirement. See rebuttal testimony of Company witness, Mr. Jones, page 13, lines 5 through 8.

The Company's draft Code would be submitted to Staff within 90 days of the date of the Commission's Decision in this Docket, and Staff will review the Company's proposed Code and work with the Company regarding any needed revisions. The ultimate content of this Code must be acceptable in all respects to Staff.

3. The 2015 QCW Annual Reports submitted by the Company must reflect proper accrual accounting for all balance sheet and income statement items. This 2015 Annual Report must be accompanied by an Attachment identifying and explaining all changes made within this Report to align QCW's ongoing financial accounting and reporting with correction/revisions resulting from the Commission's Decision in Docket No. 14-0343.

4. The Company should be placed on notice that information related to all material future early plant retirements is to be isolated and set up as potential regulatory assets as discussed in more detail later in my surrebuttal testimony. In essence the accounting related to any material early plant retirement should fall under the provisions of paragraph 27 H of the NARUC Utility Plant Accounting Instructions, excerpts of which are attached to my surrebuttal testimony as Staff Surrebuttal Exhibit 3. This accounting for material early plant retirements would be followed as an alternative to automatically charging the debit side of the asset retirement journal entry against the Company's accumulated depreciation reserve for the underlying plant account.

Q. Mr. Armstrong, please expand upon point 4 in Staff's list of recommendations, i.e., why does Staff believe this accounting alternative can be an acceptable way of addressing such material early retirements?

A. First, let me say that material early retirements should be the exception rather than the rule. Staff believes that early retirements should be isolated on the utility's books and records so that all issues and considerations that identify and explain why such early retirements occurred are readily available. If a utility knows up front that there are going to be early retirements, it will be easier for the utility to strive to meet this burden of proof at the time the need for the early retirement surfaces rather than have Staff determine during the course of a future rate case audit that such early retirements occurred. In such instances, the utility would then have to attempt to surface explanations and support related to the need and reasonableness of management's early retirement decision.

Second, more timely isolation of the financial implications associated with early retirement decisions will allow the Commission to review and ultimately approve a plan that could ultimately amortize (and thus remove) the impacts associated with the early retirement from the books of the utility, instead of leaving this early retirement impact stranded forever within the utility's accumulated depreciation reserve balance.

Obviously, with regards to the QCW early retirement issue, we are not able to insist that the Company follow this alternative accounting since we are now well after the asset retirement date. However, requiring the isolation of relevant information in the future should be required.

Q. Would Staff's recommendation to require QCW to isolate the facts related to such early retirements, provide for a full review and assessment of these facts, that could ultimately lead to the establishment of ACC-authorized regulatory assets, and allow the Commission to address cost-recovery issues in a subsequent QCW rate case?

A. Yes. At that time, the Company would need to show that the early retirement decision was prudent, and it must also identify and give recognition to all early retirement related factors such as were insurance proceeds received related to this retirement if this was an insurable loss.

Q. Are there conditions that would need to be met before this accounting approach could be requested in future QCW rate case dockets?

A. Yes. Staff's recommendations in each rate case are always based upon a specific evaluation of the evidence presented. But, preliminarily, Staff believes that any early plant retirements would need to be material and occur before the underlying asset reaches 75% of its original estimated useful life, as defined by the depreciation rate authorized for this particular asset. Materiality would be a case-specific determination, but generally Staff believes that materiality would be defined as a retirement that reduces the recorded depreciation reserve for this asset class by more than 25%.

Q. Mr. Armstrong would Staff be supportive of a Commission decision to apply this regulatory asset treatment to the QCW Well 16 early retirement?

A. No. Staff stands by the Well 16 recommendations presented in the direct testimony of Staff witness Mr. Cassidy. In addition to the arguments in Mr. Cassidy's direct testimony, Staff believes that the history behind the development, ownership, and accounting related to Well

16, which was never truly used and useful to ratepayers[7], remains far too questionable for the Commission to authorize the cost recoveries requested by the Company. The uncertainty and haziness cast by the result of Staff's review of the history and facts surrounding this well should be resolved by the Commission in favor of protecting ratepayers.

Notwithstanding all of the explanations provided by QCW witnesses Mr. Jones and Mr. Bourassa regarding why QCW's accounting and financial reporting shortcomings and missteps should be of no real concern to the Commission, the fact is that having complete and accurate accounting is necessary to ensure the proper setting of rates. When there is a significant breakdown in accounting and financial reporting, there is a higher risk of setting improper rates, the level of trust declines, and system protections (for ratepayers) diminish. Accurate accounting assures that the rate setting process works.

Q. Mr. Armstrong, does this conclude your surrebuttal testimony?

A. Yes.

[7] QWC witness Mr. Jones refers to Well 16 as being "only marginally operationally useful" to describe the Well's service history which covered at best one month in 2009 when it was used to deliver water containing high levels of sand to be used and paid for by customers.

EXHIBIT 1

UNIFORM SYSTEM OF ACCOUNTS

FOR

CLASS A

WATER UTILITIES

1996

NATIONAL ASSOCIATION
OF
REGULATORY UTILITY COMMISSIONERS

not relieve the utility from the responsibility of providing a distribution of the costs of labor or from being able to substantiate its labor charged with sufficient source documents.

12. General - Operating Reserves

Accretions to operating reserve accounts made by charges to operating expenses shall not exceed a reasonable provision for the expense. Material balances in such reserve accounts shall not be diverted from the purpose for which provided, unless the permission of the Commission is first obtained.

13. General - Records for Each Plant

Separate records shall be maintained by utility plant accounts of the book cost of each plant owned including additions by the utility to plant leased from others and of the cost of operating and maintaining each plant owned or operated.

14. General - Accounting for Other Departments

If the utility also operates other utility departments, such as electric, wastewater, gas, etc., it shall keep such accounts for the other departments as may be prescribed by proper authority and in the absence of prescribed accounts, it shall keep such accounts as are proper or necessary to reflect the results of operating each other department.

15. General - Transactions with Associated Companies

Each utility shall keep its accounts and records so as to be able to furnish accurately and expeditiously statements of all transactions with associated companies. The statements may be required to show the general nature of the transactions, the amounts involved therein and the amounts included in each account prescribed herein with respect to such transactions. Transactions with associated companies shall be recorded in the appropriate accounts for transactions of the same nature. Nothing herein contained, however, shall be construed as restraining the utility from subdividing accounts for the purposes of recording separately transactions with associated companies.

16. General - Contingent Assets and Liabilities

Contingent assets represent a possible source of value to the utility contingent upon the fulfillment of conditions regarded as uncertain. Contingent liabilities include items which may under certain conditions become obligations of the utility but which are

Quail Creek Water Company
14-0343

Annual Report Analysis

Quail Creek Water
Annual Report Review
Docket No. 14-0343

Exhibit - Staff Surrebuttal 1

Line		A	B	C	D	E	F	G	H	I	J	K	L	M
	Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
	Income Statement:													
	Depreciation Expense			47,838	51,787	60,677	65,702	76,663	89,429	102,736	117,504	253,395	266,978	236,826
	Income Tax			244,297	124,199	162,387	188,480	287,976	167,908	224,220	150,679	51,482	65,338	122,389
	Net Income			139,420	186,299	242,863	271,587	342,906	262,624	166,000	216,768	269,956	189,830	205,347
1	**Approximate Available Cash**			187,258	238,086	303,540	337,289	419,569	352,053	268,736	334,272	523,351	456,808	442,173
	Balance Sheet:													
2	Cash			67,604	93,508	72,443	26,732	28,404	22,238	54,094	84,746	76,293	80,775	76,040
	Temp. Cash Investments			-	-	-	-	-	-	-	-	-	-	-
3	**Notes Receivable from Affil.**			-	-	8,616	82,606	17,504	64,161	19,939	146,925	828,893	1,172,323	1,208,407
4	**Notes Payable to Affiliates**			13,294	55,263	-	-	-	-	-	-	-	-	-
	Customer Deposits			-	-	370,189	332,901	303,042	259,043	231,127	195,179	159,806	180,221	151,157
5	**Long-Term Notes**			-	-	-	-	-	-	-	-	-	-	-
6	**Equity**			2,018,816	2,401,795	2,303,490	2,675,984	3,138,763	3,602,574	4,091,008	7,035,078	7,772,171	8,031,573	8,199,705
7											2,944,070			
	Utility Plant in Service:													
8	Org. Cost			1,964,506	2,363,550	2,592,620	2,899,547	3,395,897	3,775,218	4,248,102	6,998,586	7,026,791	6,958,696	7,066,415
	Accumulated Depreciation			556,053	607,840	668,517	734,218	810,882	900,312	1,003,047	1,120,552	1,373,947	1,054,550	1,291,376
	OCLD			1,408,453	1,755,710	1,924,103	2,165,329	2,585,015	2,874,906	3,245,055	5,878,034	5,652,844	5,904,146	5,775,039
9	**Gross Plant Investments**				399,044	229,070	306,927	496,350	379,321	472,884	2,750,484	28,205	(68,095)	107,719
	Plant Additions Reflected In Actual Years			-	90,390		221,062	174,844	510,205		(996,501)			
				776,457			184,133				(960,590)			
10		193,816		450,000					(193,816)	(450,000)				
11	**Total Indicated Changes to Gross Plant by Year[1]**	193,816		1,226,457	90,390		405,195	174,844	316,389	(450,000)	(1,957,091)			

[1] Staff would note that reported depreciation expense and the resulting depreciation reserve would also change.

EXHIBIT 2

EXHIBIT 3

UNIFORM SYSTEM OF ACCOUNTS FOR CLASS A WATER UTILITIES

1996

NATIONAL ASSOCIATION OF
REGULATORY UTILITY COMMISSIONERS
1201 Constitution Avenue, N.W., Suite 1102
Post Office Box 684
Washington, DC 20044-0684
Telephone No. (202) 898-2200
Facsimile No. (202) 898-2213

Price: $25.00

DEFINITIONS

24. "Premium", as applied to the securities issued or assumed by the utility, means the excess of the cash value of the consideration received from their sale over the sum of their par (stated value of no-par stocks) or face value and interest or dividends accrued at the date of sale.

25. "Property retired", as applied to utility plant, means property which has been removed, sold, abandoned, destroyed, or which for any cause has been permanently withdrawn from service.

26. "Reclaimed water" means water that has received at least secondary treatment and basic disinfection and is reused after flowing out of a wastewater treatment plant.

27. "Regulatory Assets and Liabilities" are assets and liabilities that result from rate actions of regulatory agencies. Regulatory assets and liabilities arise from specific revenues, expenses, gains or losses that would have been included in determination of net income in one period under the general requirements of the Uniform System of Accounts but for it being probable that; 1) such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services; or 2) in the case of regulatory liabilities, that refunds to customers, not provided for in other accounts, will be required. Regulatory assets and liabilities can also be created in reconciling differences between the requirements of generally accepted accounting principles, regulatory practice and tax laws.

28. "Replacing" or "replacement", when not otherwise indicated in the context, means the construction or installation of utility plant in place of property of retired, together with the removal of the property retired.

29. "Research and development" means expenditures incurred by public utilities which represent research and development costs in the experimental or laboratory sense. The term includes generally all such costs incident to the development of an experimental or pilot model, a plant process, a product, a formula, an invention, or similar property, and the improvement of already existing property of the type mentioned.

30. "Retained earnings" means the accumulated net income of the utility less distributions to stockholders and transfers to other capital accounts, and other adjustments (See account 439 - Adjustments to Retained Earnings).

31. "Retirement units" means those items of utility plant which, when retired, with or without replacement, are accounted for by crediting the original costs.

or in "stores", shall be charged to the plant account appropriate for their use.

C. The equipment accounts shall include angle irons and similar items which are installed at the base of an item of equipment, but piers and foundations which are designed to be as permanent as the buildings which house the equipment, or which are constructed as a part of the buildings and which cannot be removed without cutting into the walls, ceilings or floors without in some way impairing the building, shall be included in the building accounts.

D. The equipment accounts shall include the necessary costs of testing or running a plant or part thereof during an experimental or test period prior to becoming available for service. The utility shall furnish the Commission with full particulars of and justification for any test or experimental run extending beyond a period of thirty days.

E. The cost of efficiency or other tests made subsequent to the date equipment becomes available for service shall be charged to the appropriate expense accounts, except that tests to determine whether equipment meets the specifications and requirements as to efficiency, performance, etc., guaranteed by manufacturers, made after operations have commenced and within the period specified in the agreement or contract of purchase, may be charged to the appropriate utility plant account.

27. Utility Plant - Additions and Retirements

A. For the purpose of avoiding undue refinement in accounting for additions to and retirements and replacements of utility plant, all property shall be considered as consisting of (1) retirement units and (2) minor items of property. Each utility shall use such list of retirement units as is in use by it at the effective date hereof or as may be prescribed by the Commission, with the option, however, of using smaller units, provided the utility's practice in this respect is consistent.

B. The addition and retirement of retirement units shall be accounted for as follows:

(1) When a retirement unit is added to the utility plant, the cost thereof shall be added to the appropriate utility plant account, except that when units are acquired in the acquisition of any utility plant constituting an operating system, they shall be accounted for as provided in Instruction 21.

(2) When a retirement unit is retired from utility plant, with or without replacement, the book cost thereof shall be credited to the utility plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to utility plant shall be charged to the accumulated depreciation applicable to such property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.

C. The addition and retirement of minor items of property shall be accounted for as follows:

(1) When a minor item of property which did not previously exist is added to plant and a substantial addition results, the cost thereof shall be accounted for in the same manner as for the addition of a retirement unit, as set forth in paragraph B(1), above, otherwise the charge shall be to the appropriate maintenance expense account.

(2) When a minor item of property is retired and not replaced, the book cost thereof shall be credited to the utility plant account in which it is included; and, in the event the minor item is a part of a depreciable plant, the account for accumulated depreciation shall be charged with the book cost and cost of removal and credited with the salvage. If, however, the book cost of the minor item retired and not replaced has been or will be accounted for when such unit is retired, no separate credit to the property account is required.

(3) When a minor item of depreciable property is replaced independently of the retirement unit of which it is a part, the cost of replacement shall be charged to the maintenance expense account appropriate for the item, except that if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated cost at current prices of replacing without betterment shall be charged to the appropriate utility plant account.

D. The book cost of the utility plant retired shall be the amount at which such property is included in the utility plant accounts, including all components of construction costs. The book cost shall be determined from the utility's records and if this cannot be done, it shall be estimated. When it is impracticable to

determine the book cost of each unit, due to the relatively large number or small cost thereof, an appropriate average book cost of the units, with due allowance for any differences in size and character, shall be used as the book cost of the units retired.

E. The book cost of land retired shall be credited to the appropriate land account. If the land is sold, the difference between the book cost and the sale price of the land (less commissions and other expenses of making the sale) shall be included in account 414 - Gains (Losses) from Disposition of Utility Property, unless otherwise authorized or required by the Commission. If the land is not used in utility service but is retained by the utility, the book cost shall be charged to account 103 - Property Held for Future Use, or account 121 - Nonutility Property, as appropriate.

F. The book cost less net salvage of depreciable utility plant retired shall be charged in its entirety to account 108.1 - Accumulated Depreciation of Utility Plant in Service. Any amounts which, by approval or order of the Commission, are charged to account 182 - Extraordinary Property Losses, shall be credited to account 108.1 - Accumulated Depreciated of Utility Plant in Service.

G. The accounting for the retirement of amounts included in account 302 - Franchises and the items of limited term interest in land included in the accounts for land and land rights shall be as provided for in the text of account 110.1 - Accumulated Amortization of Utility Plant in Service, account 407.1 - Amortization of Limited Term Plant and account 407.3 - Amortization of Other Utility Plant.

H. In some instances the unexpected early retirement of a major unit of property, which would eliminate or seriously deplete the existing depreciation reserve, may require accounting treatment which differs from that described in paragraph B above. In such instances the Commission may authorize or order the loss on retirement (less any tax savings) to be charged to income in the current year or transferred to account 186 - Miscellaneous Deferred Debits, and amortized in future periods. Such accounting treatment shall be used only when specifically authorized or directed by the Commission.

EXHIBIT 4

QUAIL CREEK WATER COMPANY, INC.
DOCKET NOS. W-02514A-14-0343
RESPONSES TO STAFF's FIRST SET OF DATA REQUESTS

November 21, 2014

Respondent:	Thomas J. Bourassa, CPA
Title:	Consultant
Address:	139 W. Wood Drive Phoenix, AZ 85029
Company Response Number:	JAC 1-2

Q. Cross References For General Ledger – Please provide a cross reference to show the general ledger accounts combined for presentation of each line item in Schedules B-1 and C-1.

RESPONSE: The Company follows the National Association of Regulatory Commissioners ("NARUC") Uniform System of Accounts. Please see tabs "E-1" and "E-2" in the work paper file "Quail Creek Water Standard Filing Schedules.xlsx" provided herewith for cross-references to GL.

DESCRIPTION OF ISSUE PREVIOUSLY IN DISPUTE	SUMMARY OF RESOLUTION
Rate Base – Staff's Disallowance of Well 16 Costs PIS – Well drilling costs of $249,432 in dispute (resulting in $203,636 reduction to rate base) Accumulated Depreciation – $258,221 retirement of Well 16 pumping equipment in dispute.	The Well 16 costs recorded in Account 307 (Wells and Springs), the drilling costs, will be included in the cost of Well 12 as proposed by Company. However, the drilling costs of $249,432 are off-set by $45,796 in intervening depreciation of plant in service, for a net impact to rate base of $203,636. Inclusion of this cost in plant in service also results in $8,306 in depreciation expense. Well 16 costs charged to Account 311, Pumping Equipment (equipment costs) that were booked to plant in service and subsequently retired from plant in service will not be included in rate base. The retirement of equipment costs in the amount of $258,221 will be reversed by increasing accumulated depreciation by $258,221. The Company will place the cost of the retired Well 16 equipment into the plant held for future use account. To the extent the Company is able to place this equipment into service in conjunction with development of a future well, the Company may request recovery of the cost in a future rate case.
Rate Base – Accumulated Deferred Income Taxes (ADITs) differ by $8,128	The joint schedules submitted by Quail Creek Water and Staff incorporate the Company's calculation of ADITs using the plant amounts agreed to by the Quail Creek Water and Staff.
Rate Base and Depreciation Expense - Accumulated Depreciation (A/D) differs because (1) the parties use different depreciation rates for the first 15 months after the last decision; (2) different depreciation methodologies for some plant accounts resulting in a $984 difference in A/D; and (3) a correction to A/D due to a computational error of $5,048.	The joint schedules submitted by Quail Creek Water and Staff utilize all of Staff's recommended depreciation rates including the Staff depreciation rate of 5% for the first 15 months subsequent to the last decision. The joint schedules also adopt Quail Creek's depreciation methodology (group procedure) and reflect the correction to A/D.

EXHIBIT
J-1
ADMITTED

DESCRIPTION OF ISSUE PREVIOUSLY IN DISPUTE	SUMMARY OF RESOLUTION
Cost of Capital – Return on Equity – Quail Creek Water recommends 10% and Staff recommends 9.4%	Quail Creek Water and Staff agree that Staff's direct filing recommended return on equity of 9.5% is supported by the evidence and fair rate of return on the fair value of Quail Creek Water's plant devoted to public utility service.
Best Management Practices – Staff recommends Quail Creek Water file 7 BMPs as a compliance item	Staff has agreed to withdraw its recommendation for imposition of BMPs.
Other Issues – Staff recommends that the ACC order Quail Creek Water to - (1) develop and sign a code of conduct binding on Quail Creek Water and all affiliates, regulated and non-regulated; (2) ensure that 2015 Annual Reports reflect proper accrual accounting; (3) isolate facts and financial implication of any future early retirements; and (4) require Quail Creek Water to file a financing application to obtain a more balanced capital structure before next rate case.	Staff has agreed to withdraw its recommendations. Quail Creek Water has agreed to file a compliance report on or before June 15, 2016 attesting that Quail Creek Water: (1) has entered into a written contract with its affiliate governing the construction of plant for Quail Creek Water, which contract shall provide that Quail Creek Water will pay its affiliate for all plant constructed within one year of the plant being placed into service and recorded on the Company's books; (2) that plant constructed by affiliates is being booked on an accrual basis at the time it is placed into service; and (3) has made all necessary adjustments to its books and records to reflect the adjustments adopted in this case. In addition, Quail Creek Water has agreed that to ensure that it track retirements in sufficient detail to allow material early retirements, if any, to be identified and reviewed in future rate cases.

DESCRIPTION OF ISSUE PREVIOUSLY IN DISPUTE	SUMMARY OF RESOLUTION
Rate Design – Scaling of Base Charges by Meter Size	The joint schedules submitted by Quail Creek Water and Staff reflect a difference in meter scaling. Quail Creek Water has retained the current ratio between meter sizes while Staff recommends scaling meters sizes using AWWA meter flow ratios. As a result, although Quail Creek Water and Staff agree on each and every component of the revenue requirement, the parties' recommended rates are different. Under Quail Creek Water's recommendation, an average 5/8 inch customer will experience and increase of about 33% and an average 1 inch customer will experience an increase of about 44.5%. Under Staff's recommendation, an average 5/8 inch customer will experience and increase of 28.775% and an average 1 inch customer will experience an increase of 73.78%. This is the only aspect of the parties' recommendations that are not in full harmony

EXHIBIT
J-2
ADMITTED

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

Exhibit
Hearing Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base		$ 3,504,123
2			
3	Adjusted Operating Income		125,680
4			
5	Current Rate of Return		3.59%
6			
7	Required Operating Income		$ 332,892
8			
9	Required Rate of Return on Fair Value Rate Base		9.50%
10			
11	Operating Income Deficiency		$ 207,212
12			
13	Gross Revenue Conversion Factor		1.6750
14			
15	Increase in Gross Revenue		
16	Requirement		$ 347,070
17			
18	Adjusted Test Year Revenues		$ 844,719
19	Increase in Gross Revenue Revenue Requirement		$ 347,070
20	Proposed Revenue Requirement		$ 1,191,789
21	% Increase		41.09%
22			

	Customer Classification		Present Rates	Proposed Rates	Dollar Increase	Percent Increase
25	5/8x3/4 Inch	Residential	$ 654,321	$ 893,827	$ 239,506	36.60%
26	3/4 Inch	Residential	-	-	-	0.00%
27	1 Inch	Residential	64,595	93,619	29,024	44.93%
28	1 1/2 Inch	Residential	-	-	-	0.00%
29	2 Inch	Residential	3,424	5,588	2,164	63.20%
30						
31	5/8x3/4 Inch	Commercial	$ 20,007	$ 30,927	$ 10,920	54.58%
32	3/4 Inch	Commercial	-	-	-	0.00%
33	1 Inch	Commercial	11,118	19,846	8,729	78.51%
34	1 1/2 Inch	Commercial	9,942	17,967	8,024	80.71%
35	2 Inch	Commercial	28,157	47,129	18,972	67.38%
36	3 Inch	Commercial	-	-	-	0.00%
37	6 Inch	Commercial	-	-	-	0.00%
38						
39	5/8x3/4 Inch	Irrigation	$ 10,246	$ 18,376	$ 8,130	79.34%
40	3/4 Inch	Irrigation	-	-	-	0.00%
41	1 Inch	Irrigation	2,514	4,277	1,764	70.16%
42	1 1/2 Inch	Irrigation	3,957	6,844	2,886	72.93%
43	2 Inch	Irrigation	9,033	15,920	6,887	76.24%
44	3 Inch	Irrigation	-	-	-	0.00%
45	4 Inch	Irrigation	6,753	10,324	3,570	52.86%
46						
47	Revenue Annualization		$ 13,906	$ 19,792	5,886	42.32%
48						
49						
50						
51	**Subtotal**		$ 837,974	$ 1,184,435	$ 346,461	41.35%
52						
53	Other Water Revenues		$ 7,353	$ 7,353	$ -	0.00%
54	Reconciling Amount		(608)	1	609	-100.16%
55	Rounding		-	-	-	0.00%
56	**Total of Water Revenues**		$ 844,719	$ 1,191,789	$ 347,070	41.09%
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
Hearing Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 7,825,043	$ 7,825,043
3	Less: Accumulated Depreciation	2,638,759	2,638,759
4			
5	Net Utility Plant in Service	$ 5,186,283	$ 5,186,283
6			
7	Less:		
8	Advances in Aid of Construction	-	-
9			
10	Contributions in Aid of Construction	820,205	820,205
11			
12	Accumulated Amortization of CIAC	(284,447)	(284,447)
13			
14	Customer Meter Deposits	180,221	180,221
15	Custmer Security Deposits	-	-
16	Accumulated Deferred Income Tax	966,182	966,182
17			
18			
19	Plus:		
20			
21	Deferred Regulatory Assets	-	-
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	$ 3,504,123	$ 3,504,123
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	SUPPORTING SCHEDULES:		
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
Hearing Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustment	Rebuttal Adjusted at end of Test Year
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	285,963	2,638,759
7				
8				
9	Net Utility Plant			
10	in Service	$ 5,466,396		$ 5,186,283
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	(105,543)	966,182
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		$ 3,504,123
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
47	B-2, pages 2			B-1
48				
49				
50				
51				

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

Exhibit
Hearing Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustments 1 Plant-in-Service	2 Accumulated Depreciation	3 ADIT	4 Intentionally Left Blank	5 Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
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		285,963				2,638,759
7								
8								
9	Net Utility Plant							
10	in Service	$ 5,466,396	$ 5,851	$ (285,963)	$ -	$ -	$ -	$ 5,186,283
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	-						-
15								
16	Contributions in Aid of							
17	Construction (CIAC)	820,205						820,205
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			(105,543)			966,182
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	$ (285,963)	$ 105,543	$ -	$ -	$ 3,504,123
34								
35								
36								
37	SUPPORTING SCHEDULES:						RECAP SCHEDULES:	
38	B-2, pages 3-5						B-1	
39								
40								
41								

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

Exhibit
Hearing Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Actual Orginal Cost	Adjustments A Remove Capitalized Interest	B Capitalize New Source Testing	C Retirement Correction 1998	D Adjustments to Reconcile Plant to Reconstruction	E Intentionally Left Blank	Adjusted Original Cost
6	301	Organization Cost	$ 37,295				-		$ 37,295
7	302	Franchise Cost	-				-		-
8	303	Land and Land Rights	92,895				-		92,895
9	304	Structures and Improvements	75,442	(18)			-		75,424
10	305	Collecting and Impounding Res.	-				-		-
11	306	Lake River and Other Intakes	-				-		-
12	307	Wells and Springs	834,248	(2,561)	4,013		-		835,700
13	308	Infiltration Galleries and Tunnels	-				-		-
14	309	Supply Mains	-				-		-
15	310	Power Generation Equipment	37,618				-		37,618
16	311	Electric Pumping Equipment	1,137,275	(173)		4,590	-		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
22	330.2	Pressure Tanks	32,236				-		32,236
23	331	Trans. and Dist. Mains	3,194,161				-		3,194,161
24	333	Services	891,232				-		891,232
25	334	Meters	90,315				-		90,315
26	335	Hydrants	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
30	340.1	Computers and Software	-				-		-
31	341	Transportation Equipment	-				-		-
32	342	Stores Equipment	-				-		-
33	343	Tools and Work Equipment	2,399				-		2,399
34	344	Laboratory Equipment	-				-		-
35	345	Power Operated Equipment	-				-		-
36	346	Communications Equipment	57,194				-		57,194
37	347	Miscellaneous Equipment	-				-		-
38	348	Other Tangible Plant	1,056				-		1,056
39		Loss on Plant Disposition	-						-
40		TOTALS	$ 7,819,192	$ (2,752)	$ 4,013	$ 4,590	$ -	$ -	$ 7,825,043
41									
42	Adjusted Plant-in-Service								$ 7,819,192
43									
44	Increase (decrease) in Plant-in-Service								$ 5,851
45									
46	Adjustment to Plant-in-Service								$ 5,851
47									
48	SUPPORTING SCHEDULES								
49	B-2, pages 3.1 to 3.4								
50									

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

Exhibit
Hearing Schedule B-2
Page 3.1
Witness: Bourassa

Line No.				
1	Remove Capitalized Interest			
2				
3				
4	Acct.		Orginal	
5	No.	Description	Cost	
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	SUPPORTING SCHEDULE			
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
Hearing Schedule B-2
Page 3.2
Witness: Bourassa

Line No.			
1	Capitalize New Source Water Testing		
2			
3			
4	Acct.		Orginal
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
Hearing Schedule B-2
Page 3.3
Witness: Bourassa

Line No.

1 Correction to Retirement in 2011

Acct. No.	Description	Year	Per Direct	Per Rebuttal	PIS Adjustment
311	Electric Pumping Equipment	2011	303,221	298,631	4,590
	TOTALS				$ 4,590

SUPPORTING SCHEDULE
Testimony

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

Exhibit
Hearing Schedule B-2
Page 3.4
Witness: Bourassa

Line No.

1 Reconciliation of Plant to Plant Reconstruction

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

SUPPORTING SCHEDULE
B-2, pages 3.1 through 3.3
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
Hearing Schedule B-2
Page 3.5
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	Per Decision No. 61611 - 04/01/1999 [1] Book Plant at 12/31/1997	[2] Dec. 61611 Adjust-ments	[3] Adjusted Plant at 12/31/1997 [1]+[2]	[4] Dec. 61611 Accum Depr 12/31/1997	[5] Net Plant 12/31/1997 [3]-[4]	Current Books [6] Book Plant at 12/31/1997	[7] Accum Depr 12/31/1997	[8] Net Plant 12/31/1997 [6]-[7]
1	301	Organization Cost	4.08%	4.08%	37,295		37,295	12,434	24,861	37,295	12,434	24,861
2	302	Franchise Cost	0.00%	0.00%			-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	65,000		65,000	-	65,000	65,000	-	65,000
4	304	Structures & Improvements	5.00%	4.08%			-	-	-	-	-	-
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%			-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%			-	-	-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	162,035		162,035	55,689	106,346	162,035	55,689	106,346
8	308	Infiltration Galleries	5.00%	4.08%			-	-	-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%			-	-	-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%			-	-	-	-	-	-
11	311	Pumping Equipment	5.00%	4.08%	55,410		55,410	49,974	5,436	55,410	49,974	5,436
12	320	Water Treatment Equipment	5.00%	4.08%			-	-	-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%			-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%			-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	180,280		180,280	37,566	142,714	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%			-	-	-	180,280	37,566	142,714
17	330.2	Pressure Tanks	5.00%	4.08%			-	-	-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	4.08%	446,017		446,017	109,957	336,060	446,017	109,957	336,060
19	333	Services	5.00%	4.08%	3,171		3,171	1,322	1,849	3,171	1,322	1,849
20	334	Meters	5.00%	4.08%	1,698		1,698	1,698	-	1,698	1,698	-
21	335	Hydrants	5.00%	4.08%	23,325		23,325	6,482	16,843	23,325	6,482	16,843
22	336	Backflow Prevention Devices	5.00%	4.08%			-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%			-	-	-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%			-	-	-	-	-	-
25	340.1	Computers & Software	5.00%	4.08%			-	-	-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	6,000		6,000	6,000	-	6,000	6,000	-
27	342	Stores Equipment	5.00%	4.08%			-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%			-	-	-	-	-	-
29	344	Laboratory Equipment	5.00%	4.08%			-	-	-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%			-	-	-	-	-	-
31	346	Communication Equipment	5.00%	4.08%			-	-	-	-	-	-
32	347	Miscellaneous Equipment	5.00%	4.08%			-	-	-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	1,056		1,056	352	704	1,056	352	704
34												
35		TOTAL			981,285	-	981,285	281,474	699,811	981,285	281,474	699,811
36												
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
Hearing Schedule B-2
Page 3.6
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	1998 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-	-	-	-	-		1,522	37,295	13,956	23,340
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-		-	65,000	-	65,000
4	304	Structures & Improvements	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	-	-	-	-	-	-		8,102	162,035	63,791	98,244
8	308	Infiltration Galleries	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
11	311	Pumping Equipment	5.00%	4.08%	-	-	-	-	-	-		2,771	55,410	52,745	2,666
12	320	Water Treatment Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-	-	-	-	-		9,014	180,280	46,580	133,700
17	330.2	Pressure Tanks	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	4.08%	-	-	-	-	-	-		22,301	446,017	132,258	313,759
19	333	Services	5.00%	4.08%	-	-	-	-	-	-		159	3,171	1,481	1,690
20	334	Meters	5.00%	4.08%	-	-	-	-	-	-		-	1,698	1,698	-
21	335	Hydrants	5.00%	4.08%	-	-	-	-	-	-		1,166	23,325	7,648	15,676
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
25	340.1	Computers & Software	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	6,000	6,000	-
27	342	Stores Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
29	344	Laboratory Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-	-	-	-	-		53	1,056	405	651
34															
35		TOTAL			-	-	-	-	-	-	-	45,086	981,285	326,560	654,725
36															
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
Hearing Schedule B-2
Page 3.7
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	1999 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-	-	-	-	-		1,522	37,295	15,477	21,818
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-		-	65,000	-	65,000
4	304	Structures & Improvements	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	-	-	-	-	-	-		6,984	162,035	70,774	91,260
8	308	Infiltration Galleries	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
11	311	Pumping Equipment	5.00%	4.08%	-	-	-	-	-	-		2,388	55,410	55,133	277
12	320	Water Treatment Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-	-	-	-	-		7,770	180,280	54,350	125,930
17	330.2	Pressure Tanks	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	4.08%	-	-	-	-	-	-		19,223	446,017	151,482	294,535
19	333	Services	5.00%	4.08%	-	-	-	-	-	-		137	3,171	1,617	1,553
20	334	Meters	5.00%	4.08%	-	-	-	-	-	-		-	1,698	1,698	-
21	335	Hydrants	5.00%	4.08%	-	-	-	-	-	-		1,005	23,325	8,654	14,671
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
25	340.1	Computers & Software	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-	-	-	6,000	6,000		-	-	-	-
27	342	Stores Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
29	344	Laboratory Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	1,750	-	1,750	-	-	-		38	1,750	38	1,712
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-	-	-	-	-		45	1,056	450	605
34															
35		TOTAL			1,750	-	1,750	-	6,000	6,000	-	39,112	977,035	359,672	617,363
36															
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
Hearing Schedule B-2
Page 3.8
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	2000 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-	-	-	-	-		1,522	37,295	16,999	20,296
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-		-	65,000	-	65,000
4	304	Structures & Improvements	5.00%	4.08%	4,894	-	4,894	-	-	-		100	4,894	100	4,794
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	-	-	-	-	-	-		6,611	162,035	77,385	84,649
8	308	Infiltration Galleries	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
11	311	Pumping Equipment	5.00%	4.08%	37,557	-	37,557	-	15,000	15,000		2,721	77,967	42,854	35,113
12	320	Water Treatment Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-	-	-	-	-		7,355	180,280	61,705	118,575
17	330.2	Pressure Tanks	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	4.08%	-	-	-	-	-	-		18,198	446,017	169,679	276,338
19	333	Services	5.00%	4.08%	-	-	-	-	-	-		129	3,171	1,747	1,424
20	334	Meters	5.00%	4.08%	1,183	-	1,183	-	-	-		93	2,881	1,791	1,090
21	335	Hydrants	5.00%	4.08%	-	-	-	-	-	-		952	23,325	9,605	13,719
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
25	340.1	Computers & Software	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
27	342	Stores Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
29	344	Laboratory Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	897	-	897	-	-	-		90	2,647	127	2,520
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-	-	-	-	-		43	1,056	493	562
34															
35		TOTAL			44,531	-	44,531	-	15,000	15,000	-	37,813	1,006,566	382,486	624,080
36															
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
Hearing Schedule B-2
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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	2001 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-	-	-	-	-		1,522	37,295	18,521	18,775
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-		-	65,000	-	65,000
4	304	Structures & Improvements	5.00%	4.08%	-	-	-	-	-	-		200	4,894	299	4,594
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	-	-	-	-	-	-		6,611	162,035	83,996	78,038
8	308	Infiltration Galleries	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
11	311	Pumping Equipment	5.00%	4.08%	8,924	-	8,924	-	14,337	14,337		3,071	72,554	31,587	40,967
12	320	Water Treatment Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-	-	-	-	-		7,355	180,280	69,061	111,219
17	330.2	Pressure Tanks	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	4.08%	-	-	-	-	-	-		18,198	446,017	187,877	258,140
19	333	Services	5.00%	4.08%	-	-	-	-	-	-		129	3,171	1,876	1,295
20	334	Meters	5.00%	4.08%	228	-	228	-	-	-		122	3,109	1,913	1,195
21	335	Hydrants	5.00%	4.08%	-	-	-	-	-	-		952	23,325	10,557	12,768
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
25	340.1	Computers & Software	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
27	342	Stores Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
29	344	Laboratory Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	6,315	-	6,315	-	-	-		237	8,962	364	8,598
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-	-	-	-	-		43	1,056	536	519
34															
35		TOTAL			15,468	-	15,468	-	14,337	14,337	-	38,439	1,007,697	406,587	601,109
36															
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
Hearing Schedule B-2
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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	2002 Plant Additions	Plant Adjustments	Capitalized Interest	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-		-	-	-	-		1,522	37,295	20,042	17,253
2	302	Franchise Cost	0.00%	0.00%	-	-		-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	27,895	-		27,895	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	5.00%	4.08%	18,398	-	(18)	18,380	-	-	-		575	23,273	874	22,399
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	27,578	-	(9)	27,569	-	-	-		7,173	189,604	91,170	98,434
8	308	Infiltration Galleries	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
11	311	Pumping Equipment	5.00%	4.08%	169,714	-	(173)	169,541	-	-	-		6,419	242,095	38,006	204,090
12	320	Water Treatment Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-		-	-	-	-		7,355	180,280	76,416	103,864
17	330.2	Pressure Tanks	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	4.08%	190,448	-		190,448	-	-	-		22,083	636,465	209,959	426,506
19	333	Services	5.00%	4.08%	57,676	-		57,676	-	-	-		1,306	60,847	3,182	57,665
20	334	Meters	5.00%	4.08%	-	-		-	-	-	-		127	3,109	2,040	1,069
21	335	Hydrants	5.00%	4.08%	27,395	-		27,395	-	-	-		1,511	50,720	12,067	38,652
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
25	340.1	Computers & Software	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
27	342	Stores Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	707	-		707	-	-	-		14	707	14	693
29	344	Laboratory Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	1,340	-		1,340	-	-	-		393	10,302	757	9,545
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-		-	-	-	-		43	1,056	579	476
34																
35		TOTAL			521,151	-	(200)	520,951	-	-	-	-	48,520	1,528,648	455,108	1,073,540
36																
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

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Hearing Schedule B-2
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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	2003 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-	-	-	-	-		1,522	37,295	21,564	15,731
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	5.00%	4.08%	-	-	-	-	-	-		950	23,273	1,824	21,450
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	-	-	-	-	-	-		7,736	189,604	98,906	90,698
8	308	Infiltration Galleries	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
11	311	Pumping Equipment	5.00%	4.08%	-	-	-	-	-	-		9,877	242,095	47,883	194,212
12	320	Water Treatment Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-	-	-	-	-		7,355	180,280	83,772	96,508
17	330.2	Pressure Tanks	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	4.08%	228,624	-	228,624	-	-	-		30,632	865,089	240,591	624,498
19	333	Services	5.00%	4.08%	49,285	-	49,285	-	-	-		3,488	110,132	6,670	103,462
20	334	Meters	5.00%	4.08%	4,163	-	4,163	-	-	-		212	7,272	2,252	5,020
21	335	Hydrants	5.00%	4.08%	28,800	-	28,800	-	-	-		2,657	79,520	14,724	64,795
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
25	340.1	Computers & Software	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
27	342	Stores Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	-	-	-	-	-	-		29	707	43	664
29	344	Laboratory Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	2,730	-	2,730	-	-	-		476	13,032	1,233	11,799
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-	-	-	-	-		43	1,056	623	433
34															
35		TOTAL			313,602	-	313,602	-	-	-	-	64,976	1,842,250	520,084	1,322,166
36															
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

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Hearing Schedule B-2
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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	2004 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-	-	-	-	-		1,522	37,295	23,086	14,210
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	5.00%	4.08%	-	-	-	-	-	-		950	23,273	2,773	20,500
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	-	-	-	-	-	-		7,736	189,604	106,642	82,962
8	308	Infiltration Galleries	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	31,758	-	31,758	-	-	-		648	31,758	648	31,110
11	311	Pumping Equipment	5.00%	4.08%	478,260	-	478,260	-	-	-		19,634	720,355	67,517	652,838
12	320	Water Treatment Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	676,294	-	676,294	-	-	-		21,152	856,574	104,924	751,650
17	330.2	Pressure Tanks	5.00%	4.08%	32,236	-	32,236	-	-	-		658	32,236	658	31,578
18	331	Transmission & Distribution Mains	5.00%	4.08%	152,378	-	152,378	-	-	-		38,404	1,017,467	278,995	738,472
19	333	Services	5.00%	4.08%	66,728	-	66,728	-	-	-		5,855	176,860	12,524	164,335
20	334	Meters	5.00%	4.08%	13,737	-	13,737	-	-	-		577	21,008	2,829	18,180
21	335	Hydrants	5.00%	4.08%	33,497	-	33,497	-	-	-		3,928	113,017	18,652	94,365
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
25	340.1	Computers & Software	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
27	342	Stores Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	-	-	-	-	-	-		29	707	72	635
29	344	Laboratory Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	22,104	-	22,104	-	-	-		983	35,136	2,216	32,920
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-	-	-	-	-		43	1,056	666	390
34															
35		TOTAL			1,506,992	-	1,506,992	-	-	-	-	102,116	3,349,242	622,200	2,727,041
36															
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

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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	2005 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-	-	-	-	-		1,522	37,295	24,607	12,688
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	5.00%	4.08%	5,180	-	5,180	-	-	-		1,055	28,453	3,828	24,625
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	-	-	-	-	-	-		7,736	189,604	114,377	75,226
8	308	Infiltration Galleries	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	-	-	-	-	-	-		1,296	31,758	1,944	29,815
11	311	Pumping Equipment	5.00%	4.08%	-	-	-	-	-	-		29,390	720,355	96,908	623,447
12	320	Water Treatment Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-	-	-	-	-		34,948	856,574	139,872	716,702
17	330.2	Pressure Tanks	5.00%	4.08%	-	-	-	-	-	-		1,315	32,236	1,973	30,263
18	331	Transmission & Distribution Mains	5.00%	4.08%	338,638	663,178	1,001,816	-	-	-		61,950	2,019,283	340,945	1,678,338
19	333	Services	5.00%	4.08%	71,348	69,718	141,066	-	-	-		10,094	317,926	22,618	295,308
20	334	Meters	5.00%	4.08%	31,341	-	31,341	-	-	-		1,497	52,350	4,325	48,025
21	335	Hydrants	5.00%	4.08%	42,926	87,308	130,235	-	-	-		7,268	243,252	25,920	217,332
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
25	340.1	Computers & Software	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
27	342	Stores Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	-	-	-	-	-	-		29	707	101	606
29	344	Laboratory Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	-	-	-	-	-	-		1,434	35,136	3,649	31,487
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-	-	-	-	-		43	1,056	709	347
34															
35		TOTAL			489,434	820,205	1,309,639	-	-	-	-	159,576	4,658,881	781,776	3,877,105
36															
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
Hearing Schedule B-2
Page 3.14
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	2006 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-	-	-	-	-		1,522	37,295	26,129	11,167
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	5.00%	4.08%	-	-	-	-	-	-		1,161	28,453	4,989	23,464
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	-	-	-	-	-	-		7,736	189,604	122,113	67,490
8	308	Infiltration Galleries	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	1,236	-	1,236	-	-	-		1,321	32,994	3,265	29,730
11	311	Pumping Equipment	5.00%	4.08%	6,264	-	6,264	-	-	-		29,518	726,618	126,426	600,192
12	320	Water Treatment Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-	-	-	-	-		34,948	856,574	174,820	681,754
17	330.2	Pressure Tanks	5.00%	4.08%	-	-	-	-	-	-		1,315	32,236	3,288	28,948
18	331	Transmission & Distribution Mains	5.00%	4.08%	130,193	-	130,193	-	-	-		85,043	2,149,476	425,987	1,723,489
19	333	Services	5.00%	4.08%	52,505	-	52,505	-	-	-		14,042	370,431	36,661	333,770
20	334	Meters	5.00%	4.08%	17,067	-	17,067	-	-	-		2,484	69,417	6,809	62,608
21	335	Hydrants	5.00%	4.08%	21,806	-	21,806	-	-	-		10,370	265,057	36,289	228,768
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
25	340.1	Computers & Software	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
27	342	Stores Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	-	-	-	-	-	-		29	707	130	577
29	344	Laboratory Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	-	-	-	-	-	-		1,434	35,136	5,083	30,053
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-	-	-	-	-		43	1,056	752	304
34															
35		TOTAL			229,071	-	229,071	-	-	-	-	190,965	4,887,951	972,741	3,915,210
36															
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
Hearing Schedule B-2
Page 3.15
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	2007 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-	-	-	-	-		1,522	37,295	27,651	9,645
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	5.00%	4.08%	-	-	-	-	-	-		1,161	28,453	6,150	22,303
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	-	-	-	-	-	-		7,736	189,604	129,849	59,755
8	308	Infiltration Galleries	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	-	-	-	-	-	-		1,346	32,994	4,611	28,384
11	311	Pumping Equipment	5.00%	4.08%	1,691	-	1,691	-	-	-		29,681	728,309	156,106	572,203
12	320	Water Treatment Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-	-	-	-	-		34,948	856,574	209,768	646,806
17	330.2	Pressure Tanks	5.00%	4.08%	-	-	-	-	-	-		1,315	32,236	4,603	27,633
18	331	Transmission & Distribution Mains	5.00%	4.08%	431,026	-	431,026	-	-	-		96,492	2,580,502	522,479	2,058,023
19	333	Services	5.00%	4.08%	192,670	-	192,670	-	-	-		19,044	563,101	55,705	507,397
20	334	Meters	5.00%	4.08%	9,439	-	9,439	-	-	-		3,025	78,856	9,834	69,022
21	335	Hydrants	5.00%	4.08%	70,900	-	70,900	-	-	-		12,261	335,957	48,550	287,407
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	1,416	-	1,416	-	-	-		29	1,416	29	1,387
25	340.1	Computers & Software	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
27	342	Stores Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	-	-	-	-	-	-		29	707	159	549
29	344	Laboratory Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	4,980	-	4,980	-	-	-		1,535	40,116	6,618	33,498
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-	-	-	-	-		43	1,056	795	261
34															
35		TOTAL			712,122	-	712,122	-	-	-	-	210,166	5,600,073	1,182,907	4,417,166
36															
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
Hearing Schedule B-2
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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	2008 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-	-	-	-	-		1,522	37,295	29,172	8,123
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	5.00%	4.08%	4,325	-	4,325	-	-	-		1,249	32,778	7,399	25,379
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	990	(990)	-	-	-	-		7,736	189,604	137,585	52,019
8	308	Infiltration Galleries	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	-	-	-	-	-	-		1,346	32,994	5,957	27,037
11	311	Pumping Equipment	5.00%	4.08%	87,378	-	87,378	-	47,642	47,642		30,526	768,045	138,990	629,055
12	320	Water Treatment Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-	-	-	-	-		34,948	856,574	244,716	611,858
17	330.2	Pressure Tanks	5.00%	4.08%	-	-	-	-	-	-		1,315	32,236	5,919	26,318
18	331	Transmission & Distribution Mains	5.00%	4.08%	363,405	-	363,405	-	-	-		112,698	2,943,907	635,177	2,308,730
19	333	Services	5.00%	4.08%	144,958	-	144,958	-	-	-		25,932	708,060	81,636	626,423
20	334	Meters	5.00%	4.08%	-	-	-	-	-	-		3,217	78,856	13,051	65,805
21	335	Hydrants	5.00%	4.08%	65,437	-	65,437	-	-	-		15,042	401,394	63,592	337,803
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	-	-	-	-	-	-		58	1,416	87	1,329
25	340.1	Computers & Software	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
27	342	Stores Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	-	-	-	-	-	-		29	707	188	520
29	344	Laboratory Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	4,700	-	4,700	-	-	-		1,733	44,817	8,351	36,466
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-	-	-	-	-		43	1,056	838	218
34															
35		TOTAL			671,194	(990)	670,204	-	47,642	47,642	-	237,393	6,222,635	1,372,657	4,849,977
36															
37															
38															

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Hearing Schedule B-2
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Witness: Jones/Bourassa

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	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	2009 Plant Additions	Plant Adjustments	Capitalized Interest	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-		-	-	-	-		1,522	37,295	30,694	6,602
2	302	Franchise Cost	0.00%	0.00%	-	-		-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-		-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	5.00%	4.08%	-	-		-	-	-	-		1,337	32,778	8,737	24,042
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	-	251,984	(2,552)	249,432	-	-	-		12,824	439,035	150,409	288,626
8	308	Infiltration Galleries	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	4,624	-		4,624	-	-	-		1,440	37,618	7,397	30,221
11	311	Pumping Equipment	5.00%	4.08%	536,600	(253,063)		283,538	-	-	-		37,120	1,051,583	176,110	875,473
12	320	Water Treatment Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
17	330.2	Pressure Tanks	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	5.00%	4.08%	88,544	-		88,544	-	-	-		34,948	856,574	279,665	576,909
19	333	Services	5.00%	4.08%	42,432	-		42,432	-	-	-		1,315	32,236	7,234	25,002
20	334	Meters	5.00%	4.08%	-	-		-	-	-	-		121,918	3,032,451	757,095	2,275,356
21	335	Hydrants	5.00%	4.08%	22,336	-		22,336	-	-	-		29,754	750,491	111,391	639,100
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-		-	-	-	-		3,217	78,856	16,269	62,587
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-		-	-	-	-		16,833	423,730	80,425	343,306
24	340	Office Furniture & Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
25	340.1	Computers & Software	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-		-	-	-	-		58	1,416	144	1,271
27	342	Stores Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
29	344	Laboratory Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-		-	-	-	-		29	707	216	491
31	346	Communication Equipment	5.00%	4.08%	1,175	-		1,175	-	-	-		-	-	-	-
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-		-	-	-	-		1,852	45,992	10,203	35,788
34													-	-	-	-
35		TOTAL			695,710	(1,079)	(2,552)	692,079	-	-	-	-	43	1,056	881	175
36													264,212	6,914,714	1,636,869	5,277,844
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
Hearing Schedule B-2
Page 3.18
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	2010 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-	-	-	-	-		1,522	37,295	32,215	5,080
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	5.00%	4.08%	-	-	-	-	-	-		1,337	32,778	10,074	22,704
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	-	-	-	-	-	-		17,913	439,035	168,322	270,713
8	308	Infiltration Galleries	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	-	-	-	-	-	-		1,535	37,618	8,932	28,686
11	311	Pumping Equipment	5.00%	4.08%	13,723	-	13,723	76,170	-	76,170		41,631	989,136	141,571	847,565
12	320	Water Treatment Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-	-	-	-	-		34,948	856,574	314,613	541,961
17	330.2	Pressure Tanks	5.00%	4.08%	-	-	-	-	-	-		1,315	32,236	8,549	23,687
18	331	Transmission & Distribution Mains	5.00%	4.08%	-	-	-	-	-	-		123,724	3,032,451	880,819	2,151,632
19	333	Services	5.00%	4.08%	-	-	-	-	-	-		30,620	750,491	142,011	608,480
20	334	Meters	5.00%	4.08%	5,224	-	5,224	-	-	-		3,324	84,080	19,593	64,488
21	335	Hydrants	5.00%	4.08%	-	-	-	-	-	-		17,288	423,730	97,713	326,017
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	-	-	-	-	-	-		58	1,416	202	1,214
25	340.1	Computers & Software	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
27	342	Stores Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	-	-	-	-	-	-		29	707	245	462
29	344	Laboratory Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	3,937	-	3,937	-	-	-		1,957	49,929	12,160	37,769
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-	-	-	-	-		43	1,056	924	132
34															
35		TOTAL			22,884	-	22,884	76,170	-	76,170	-	277,243	6,861,428	1,837,943	5,023,486
36															
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
Hearing Schedule B-2
Page 3.19
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	2011 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-	-	-	-	-		1,522	37,295	33,737	3,558
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	5.00%	4.08%	15,263	-	15,263	-	-	-		1,649	48,041	11,723	36,318
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	469,316	(76,664)	392,652	-	-	-		25,923	831,687	194,244	637,443
8	308	Infiltration Galleries	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	-	-	-	-	-	-		1,535	37,618	10,467	27,151
11	311	Pumping Equipment	5.00%	4.08%	298,688	-	298,688	510,205	(211,574)	298,631		40,358	989,193	(116,702)	1,105,895
12	320	Water Treatment Equipment	5.00%	4.08%	-	-	-	-	-	-		192	-	192	(192)
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-	-	-	-	-		34,948	856,574	349,561	507,013
17	330.2	Pressure Tanks	5.00%	4.08%	-	-	-	-	-	-		1,315	32,236	9,864	22,372
18	331	Transmission & Distribution Mains	5.00%	4.08%	-	-	-	-	-	-		123,724	3,032,451	1,004,543	2,027,908
19	333	Services	5.00%	4.08%	1,664	-	1,664	-	-	-		30,654	752,155	172,665	579,490
20	334	Meters	5.00%	4.08%	-	-	-	-	-	-		3,430	84,080	23,023	61,057
21	335	Hydrants	5.00%	4.08%	-	-	-	-	-	-		17,288	423,730	115,001	308,729
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	-	-	-	-	-	-		58	1,416	260	1,156
25	340.1	Computers & Software	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
27	342	Stores Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	-	-	-	-	-	-		29	707	274	433
29	344	Laboratory Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	8,461	-	8,461	-	4,980	4,980		2,108	53,410	9,288	44,122
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-	-	-	-	-		43	1,056	967	89
34															
35		TOTAL			793,392	(76,664)	716,728	510,205	(206,594)	303,611	-	284,776	7,274,545	1,819,107	5,455,438
36															
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

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Hearing Schedule B-2
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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	2012 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-	-	-	-	-		1,522	37,295	35,259	2,037
2	302	Franchise Cost	0.00%	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	5.00%	4.08%	12,843	-	12,843	-	-	-		2,222	60,884	13,945	46,939
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	-	-	-	-	-	-		33,933	831,687	228,177	603,510
8	308	Infiltration Galleries	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	-	-	-	-	-	-		1,535	37,618	12,002	25,616
11	311	Pumping Equipment	5.00%	4.08%	-	-	-	-	-	-		40,359	989,193	(76,343)	1,065,536
12	320	Water Treatment Equipment	5.00%	4.08%	-	-	-	-	-	-		(192)	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-	-	-	-	-		34,948	856,574	384,509	472,065
17	330.2	Pressure Tanks	5.00%	4.08%	-	-	-	-	-	-		1,315	32,236	11,179	21,057
18	331	Transmission & Distribution Mains	5.00%	4.08%	-	-	-	-	-	-		123,724	3,032,451	1,128,267	1,904,184
19	333	Services	5.00%	4.08%	9,089	-	9,089	-	-	-		30,873	761,244	203,538	557,706
20	334	Meters	5.00%	4.08%	1,026	-	1,026	-	-	-		3,451	85,106	26,474	58,631
21	335	Hydrants	5.00%	4.08%	-	-	-	-	-	-		17,288	423,730	132,289	291,441
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	655	-	655	-	-	-		71	2,071	331	1,740
25	340.1	Computers & Software	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
27	342	Stores Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	809	-	809	-	-	-		45	1,517	320	1,197
29	344	Laboratory Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	3,784	-	3,784	-	-	-		2,256	57,194	11,545	45,649
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-	-	-	-	-		43	1,056	1,010	45
34															
35		TOTAL			28,205	-	28,205	-	-	-	-	293,395	7,302,750	2,112,502	5,190,249
36															
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
Hearing Schedule B-2
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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Prior Allowed Deprec. Rate	After Deci Allowed Deprec. Rate	2013 Plant Additions	Plant Adjustments	Capitalize Testing Exp	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	4.08%	-	-		-	-	-	-	(36,780)	1,522	37,295	0	37,295
2	302	Franchise Cost	0.00%	0.00%	-	-		-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-		-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	5.00%	4.08%	14,540	-		14,540	-	-	-		2,781	75,424	16,725	58,698
5	305	Collecting & Impounding Reservoirs	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
7	307	Wells & Springs	5.00%	4.08%	-	-	4,013	4,013	-	-	-		34,015	835,700	262,192	573,508
8	308	Infiltration Galleries	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	5.00%	4.08%	-	-		-	-	-	-		1,535	37,618	13,537	24,081
11	311	Pumping Equipment	5.00%	4.08%	152,499	-		152,499	-	-	-	258,221	43,470	1,141,692	225,348	916,344
12	320	Water Treatment Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
16	330.1	Storage Tanks	5.00%	4.08%	-	-		-	-	-	-		34,948	856,574	419,458	437,116
17	330.2	Pressure Tanks	5.00%	4.08%	-	-		-	-	-	-		1,315	32,236	12,495	19,741
18	331	Transmission & Distribution Mains	5.00%	4.08%	161,710	-		161,710	-	-	-		127,023	3,194,161	1,255,290	1,938,871
19	333	Services	5.00%	4.08%	129,987	-		129,987	-	-	-		33,711	891,232	237,249	653,983
20	334	Meters	5.00%	4.08%	5,209	-		5,209	-	-	-		3,579	90,315	30,053	60,262
21	335	Hydrants	5.00%	4.08%	53,451	-		53,451	-	-	-		18,379	477,182	150,668	326,514
22	336	Backflow Prevention Devices	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	5.00%	4.08%	-	-		-	-	-	-		84	2,071	416	1,655
25	340.1	Computers & Software	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
26	341	Transportation Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
27	342	Stores Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	4.08%	883	-		883	-	-	-		80	2,399	399	2,000
29	344	Laboratory Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
31	346	Communication Equipment	5.00%	4.08%	-	-		-	-	-	-		2,334	57,194	13,878	43,316
32	347	Miscellaneous Equipment	5.00%	4.08%	-	-		-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	5.00%	4.08%	-	-		-	-	-	-		43	1,056	1,053	2
34																
35		TOTAL			518,280	-	4,013	522,293	-	-	-	221,441	304,817	7,825,043	2,638,759	5,186,283
36																
37																
38																

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

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Hearing Schedule B-2
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Witness: Bourassa

Accumulated Depreciation

Line No.	Acct. No.	Description	Per Books Accum. Depr.	A Capitalized Interest	B Capitalized Water Testing Exp.	C Non-Depr Plant	Adjustments D Correction To Depreciation in 1998	E Correction To Retirements in 2011	F Remove Retirement A/D Well	G Adjustments to Reconcile A/D to Recon.	Adjusted Accum. Depr.
6	301	Organization Cost	$ 36,273			$ (36,780)	$ 507			$ (0)	$ 0
7	302	Franchise Cost	-				-			-	-
8	303	Land and Land Rights	-				-			-	-
9	304	Structures and Improvements	16,734	(8)			-			0	16,725
10	305	Collecting and Impounding Res.	-				-			-	-
11	306	Lake River and Other Intakes	-				-			-	-
12	307	Wells and Springs	258,516	(473)	82		2,204			1,863	262,192
13	308	Infiltration Galleries and Tunnels	-				-			-	-
14	309	Supply Mains	-				-			-	-
15	310	Power Generation Equipment	13,537				-			-	13,537
16	311	Electric Pumping Equipment	(39,241)	(81)			754	5,058	258,221	637	225,348
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	377,367				2,452			39,639	419,458
22	330.2	Pressure Tanks	12,495				-			-	12,495
23	331	Trans. and Dist. Mains	1,244,095				6,066			5,129	1,255,290
24	333	Services	237,169				43			36	237,249
25	334	Meters	30,053				-			-	30,053
26	335	Hydrants	150,082				317			268	150,668
27	336	Backflow Prevention Devices	-				-			-	-
28	339	Other Plant and Misc. Equip.	-				-			-	-
29	340	Office Furniture and Fixtures	416				-			(0)	416
30	340.1	Computers and Software	-				-			-	-
31	341	Transportation Equipment	-				-			-	-
32	342	Stores Equipment	-				-			-	-
33	343	Tools and Work Equipment	399				-			-	399
34	344	Laboratory Equipment	-				-			-	-
35	345	Power Operated Equipment	-				-			-	-
36	346	Communications Equipment	13,876				-			2	13,878
37	347	Miscellaneous Equipment	-				-			-	-
38	348	Other Tangible Plant	1,027				14			12	1,053
39		Loss on Plant Disposition	-								-
40		TOTALS	$ 2,352,796	$ (562)	$ 82	$ (36,780)	$ 49,923	$ 5,058	$ 258,221	$ 10,022	$ 2,638,759
41											
42		Adjusted Accumulated Depreciation									$ 2,352,796
43											
44		Increase (decrease) in Accumulated Depreciation									$ 285,963
45											
46		Adjustment to Accumulated Depreciation									$ 285,963
47											
48		SUPPORTING SCHEDULES									
49		B-2, pages 4.1 to 4.6									
50											

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

Exhibit
Hearing Schedule B-2
Page 4.1
Witness: Bourassa

Line No.

1 Adjustment to A/D for Capitalized Interest Removal

Acct. No.	Description	Adjustment	Year	Rate	No. of Years	A/D Adjustment
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
Hearing Schedule B-2
Page 4.2
Witness: Bourassa

Line No.

1 Adjustment to A/D for Capitalized Water Testing Expense

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

18 SUPPORTING SCHEDULE

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

Exhibit
Hearing Schedule B-2
Page 4.3
Witness: Bourassa

Line No.			
1	Remove A/D for Non-Depreciable Accounts		
2			
3			
4	Acct.		A/D
5	No.	Description	Adjustment
6	301	Organization Cost	(36,780)
7			
8			
9			
10			
11			
12			
13			
14			
15			
16		TOTALS	$ (36,780)
17			
18			
19	SUPPORTING SCHEDULE		
20			
21			

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

Exhibit
Hearing Schedule B-2
Page 4.4
Witness: Bourassa

Line No.

1 Correction to Depreication Expense 1998

Acct. No.	Description	Per Rebuttal	Per Direct	A/D Adjustment
301	Organization Cost	1,522	1,014	507
302	Franchise Cost	-	-	-
303	Land and Land Rights	-	-	-
304	Structures and Improvements	-	-	-
305	Collecting and Impounding Res.	-	-	-
306	Lake River and Other Intakes	-	-	-
307	Wells and Springs	6,611	4,407	2,204
308	Infiltration Galleries and Tunnels	-	-	-
309	Supply Mains	-	-	-
310	Power Generation Equipment	-	-	-
311	Electric Pumping Equipment	2,261	1,507	754
320	Water Treatment Equipment	-	-	-
320.1	Water Treatment Plant	-	-	-
320.2	Chemical Solution Feeders	-	-	-
330	Dist. Reservoirs & Standpipe	-	(37,566)	37,566
330.1	Storage tanks	7,355	4,904	2,452
330.2	Pressure Tanks	-	-	-
331	Trans. and Dist. Mains	18,198	12,132	6,066
333	Services	129	86	43
334	Meters	-	-	-
335	Hydrants	952	634	317
336	Backflow Prevention Devices	-	-	-
339	Other Plant and Misc. Equip.	-	-	-
340	Office Furniture and Fixtures	-	-	-
340.1	Computers and Software	-	-	-
341	Transportation Equipment	-	-	-
342	Stores Equipment	-	-	-
343	Tools and Work Equipment	-	-	-
344	Laboratory Equipment	-	-	-
345	Power Operated Equipment	-	-	-
346	Communications Equipment	-	-	-
347	Miscellaneous Equipment	-	-	-
348	Other Tangible Plant	43	29	14
	TOTALS	$ 35,549	$ (13,867)	$ 49,416

SUPPORTING SCHEDULE
Testimony
Work papers

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

Exhibit
Hearing Schedule B-2
Page 4.5
Witness: Bourassa

Line No.								
1	Correction to A/D for Retirement Correction in 2011							
2								
3								
4	Acct.					Per	Per	A/D
5	No.	Description				Direct	Rebuttal	Adjustment
6	311	Electric Pumping Equipment	Retirement			303,221	298,631	4,590
7								
8						Depr		
9				Year		Rate	Years	
10	311	Electric Pumping Equipment	Depreciatior	2011		4.08%	2.50	468
11								
12								
13								
14								
15								
16								$ 5,058
17								
18	SUPPORTING SCHEDULE							
19	B-2, page 3.3							
20								

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

Exhibit
Hearing Schedule B-2
Page 4.6
Witness: Bourassa

Line No.

1 Reconciliation of A/D to A/D Reconstruction

Acct. No.	Description	A/D Adjusted per Direct	B-2 Adjustments	A/D Adjusted Per Settlement	A/D Per Reconstruction	A/D Adjustment
301	Organization Cost	36,273	(36,273)	0	0	(0)
302	Franchise Cost	-	-	-	-	-
303	Land and Land Rights	-	-	-	-	-
304	Structures and Improvements	16,734	(8)	16,725	16,725	0
305	Collecting and Impounding Res.	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-
307	Wells and Springs	258,516	1,813	260,329	262,192	1,863
308	Infiltration Galleries and Tunnels	-	-	-	-	-
309	Supply Mains	-	-	-	-	-
310	Power Generation Equipment	13,537	-	13,537	13,537	-
311	Electric Pumping Equipment	(39,241)	263,952	224,711	225,348	637
320	Water Treatment Equipment	-	-	-	-	-
320.1	Water Treatment Plant	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-
330	Dist. Reservoirs & Standpipe	-	37,566	37,566	-	(37,566)
330.1	Storage tanks	377,367	2,452	379,818	419,458	39,639
330.2	Pressure Tanks	12,495	-	12,495	12,495	-
331	Trans. and Dist. Mains	1,244,095	6,066	1,250,160	1,255,290	5,129
333	Services	237,169	43	237,212	237,249	36
334	Meters	30,053	-	30,053	30,053	-
335	Hydrants	150,082	317	150,399	150,668	268
336	Backflow Prevention Devices	-	-	-	-	-
339	Other Plant and Misc. Equip.	-	-	-	-	-
340	Office Furniture and Fixtures	416	-	416	416	(0)
340.1	Computers and Software	-	-	-	-	-
341	Transportation Equipment	-	-	-	-	-
342	Stores Equipment	-	-	-	-	-
343	Tools and Work Equipment	399	-	399	399	-
344	Laboratory Equipment	-	-	-	-	-
345	Power Operated Equipment	-	-	-	-	-
346	Communications Equipment	13,876	-	13,876	13,878	2
347	Miscellaneous Equipment	-	-	-	-	-
348	Other Tangible Plant	1,027	14	1,041	1,053	12
	Loss on Plant Disposition		-	-	-	-
	TOTALS	$ 2,352,796	$ 275,941	$ 2,628,738	$ 2,638,759	$ 10,022

SUPPORTING SCHEDULE
B-2, pages 4.1 through 4.2
B-2, pages 3.5 through 3.21

* A/D adjustment of $10,022 is due to using 5% instead of a 4.08% depreciation rate from the end of the last test year to the date of the prior decision (15 months).

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

Exhibit
Hearing Schedule B-2
Page 5
Witness: Bourassa

Deferred Income Tax as of December 31, 2013

Line No.			Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
6		Plant-in-Service	$ 7,825,043 [1]								
7		Accum. Deprec.	(2,638,759) [1]								
8		CIAC	(535,758) [3]								
9	Fed.	Fixed Assets	$ 4,650,526	$ 2,025,324 [2]	100.0%	$ (2,625,201)	34.62%		-		(908,765)
11	State	Fixed Assets	$ 4,650,526	$ 2,025,324 [2]	100.0%	$ (2,625,201)	4.90%		-		(128,635)
13	Fed &State	AIAC		180,221 [4]	100.0%	$ 180,221 [4]	39.52%		$ 71,218		
15								$ -	$ 71,218	$ -	$ (1,037,400)
17		Net Asset (Liability)						$ (966,182)			
20		DIT Asset (Liability) per Direct						$ (1,071,725)			
22		Adjustment to DIT						$ (105,543)			

Footnotes - See page 5.1

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

Exhibit
Hearing Schedule B-2
Page 5.1
Witness: Bourassa

Line No.		FEDERAL			STATE		
1	[1] **Per adjusted book balances**						
2	[2] **Computation of Net Tax Value December 31, 2013**						
3	Based on 2013 Tax Depreciation report (December 31, 2013)						
4	Unadjusted Cost at December 31, 2013 per federal and state tax depr. report	$ 7,545,070			$ 7,545,070		
5	Reconciling Items not on tax report:						
6	Proposed Plant Adjustments	1,261			1,261		
7							
8							
9							
10							
11	Net Unadjusted Cost tax Basis at December 31, 2013			$ 7,546,331			$ 7,546,331
12							
13	Reductions						
14	Accumulated Depreciation 2013 and prior per federal and state tax depr. report	$ (5,521,695)			$ (5,521,695)		
15							
16	Tax Depreication Related to Proposed Plant Adjustments	688			688		
17					-		
18					-		
19					-		
20							
21				(5,521,007)			(5,521,007)
22	Net Reductions through December 31, 2013			$ 2,025,324			$ 2,025,324
23	Net tax value of plant-in-service at December 31. 2013						
24							
25	[3] **CIAC (including impact of change to probability of realization)**						
26	Gross CIAC per adjusted book balances		$ 820,205				
27	CIAC reductions/addtions						
28	A.A per adjusted book balances	$ (284,447)					
29		-					
30			(284,447)				
31	Net CIAC before unrealized AIAC			$ 535,758			
32							
33	Unrealized AIAC Component						
34	AIAC per adjusted book balances		$ -				
35	Adjusted Net AIAC (see footnote 5 below)		70.0%				
36	Unrealized AIAC Component % (1-Realized AIAC Component)			$ -			
37				$ 535,758			
38	Total realizable CIAC						
39							
40	[4] **AIAC (including impact of change in probability of realization)**						
41	AIAC per adjusted book balances			$ -			
42	Less: Unrealized AIAC (from Note 3, above)			$ -			
43							
44	Subtotal			$ -			
45	Meter and Service Line Installation Charges per adjusted book balances			180,221			
46	Total realizable AIAC			$ 180,221			
47							

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

Exhibit
Hearing 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		Adjusted Test Year	
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	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
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
Hearing 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	$ 347,070	$ 1,184,436
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	7,353	-	7,353		7,353
5		$ 844,719	$ -	$ 844,719	$ 347,070	$ 1,191,789
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	4,475	39,581
31	Income Tax	57,233	4,862	62,095	135,383	197,478
32			-	-		-
33	**Total Operating Expenses**	$ 725,756	$ (6,717)	$ 719,039	$ 139,858	$ 858,897
34	**Operating Income**	$ 118,963	$ 6,717	$ 125,680	$ 207,212	$ 332,892
35	**Other Income (Expense)**					
36	Interest Income	-	-	-		-
37	Other income	-	-	-		-
38	Interest Expense	-	-	-		-
39	Other Expense	-	-	-		-
40		-	-	-		-
41	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
42	**Net Profit (Loss)**	$ 118,963	$ 6,717	$ 125,680	$ 207,212	$ 332,892
43						
44	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
45	C-1, page 2				A-1	
46						
47						

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

Exhibit
Hearing Schedule C-1
Page 2
Witness: Bourassa

Line No.		LABEL>>>>> Adjusted Book Results	1 Depreciation	2 Property Taxes	3 Water Testing Expense	4 Transportation Expense	5 Misc Expense	6 Intentionally Left Blank	7 Intentionally Left Blank	8 Income Taxes	~~Rebuttal~~ Adjusted Results	Proposed Rate Increase	~~Rebuttal~~ Adjusted with Rate Increase
1	**Revenues**												
2	Metered Water Revenues	$ 837,366									$ 837,366	$ 347,070	$ 1,184,436
3	Unmetered Water Revenues	-									-		-
4	Other Water Revenues	7,353									7,353		7,353
5		$ 844,719	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 844,719	$ 347,070	$ 1,191,789
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	4,475	39,581
31	Income Tax	57,233								4,862	62,095	135,383	197,478
32													
33	**Total Operating Expenses**	$ 725,756	$ 600	$ -	$ (5,256)	$ (2,136)	$ (4,787)	$ -	$ -	$ 4,862	$ 719,039	$ 139,858	$ 858,897
34	**Operating Income**	$ 118,963	$ (600)	$ -	$ 5,256	$ 2,136	$ 4,787	$ -	$ -	$ (4,862)	$ 125,680	$ 207,212	$ 332,892
35	**Other Income (Expense)**												
36	Interest Income	-							-		-		-
37	Other income	-							-		-		-
38	Interest Expense	-							-		-		-
39	Other Expense	-							-		-		-
40		-									-		-
41	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
42	**Net Profit (Loss)**	$ 118,963	$ (600)	$ -	$ 5,256	$ 2,136	$ 4,787	$ -	$ -	$ (4,862)	$ 125,680	$ 207,212	$ 332,892
43													
44	SUPPORTING SCHEDULES:												
45	C-2												
46													

RECAP SCHEDULES:
C-1, page 1

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

Exhibit
Hearing Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1 Depreciation	2 Property Taxes	3 Water Testing Expense	4 Transportation Expense	5 Misc Expense	6 Intentionally Left Blank	Subtotal
1								
2								
3								
4	Revenues				-		-	-
5								
6	Expenses	600	-	(5,256)	(2,136)	(4,787)	-	(11,579)
7								
8	Operating							
9	Income	(600)	-	5,256	2,136	4,787	-	11,579
10								
11	Interest							
12	Expense							-
13	Other							
14	Income /							-
15	Expense							
16								
17	Net Income	(600)	-	5,256	2,136	4,787	-	11,579
18								
19								

Adjustments to Revenues and Expenses

		7 Intentionally Left Blank	8 Income Taxes	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Intentionally Left Blank	12 Intentionally Left Blank	Subtotal
20								
21								
22								
23								
24								
25	Revenues							-
26								
27	Expenses	-	4,862	-	-	-	-	(6,717)
28								
29	Operating							
30	Income	-	(4,862)	-	-	-	-	6,717
31								
32	Interest							
33	Expense	-						-
34	Other							
35	Income /	-						-
36	Expense							
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
Hearing Schedule C-2
Page 2
Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Original Cost	Non-Depr. or Fully Depr. Plant	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1							
2							
3	Acct.		Original	Non-Depr. or	Adjusted Original	Proposed	Depreciation
4	No.	Description	Cost	Fully Depr. Plant	Cost	Rates	Expense
5	301	Organization Cost	$ 37,295		$ 37,295	0.00%	$ -
6	302	Franchise Cost	-	-	-	0.00%	-
7	303	Land and Land Rights	92,895	(92,895)	-	0.00%	-
8	304	Structures and Improvements	75,424		75,424	3.33%	2,512
9	305	Collecting and Impounding Res.	-		-	2.50%	-
10	306	Lake River and Other Intakes	-		-	2.50%	-
11	307	Wells and Springs	835,700		835,700	3.33%	27,829
12	308	Infiltration Galleries and Tunnels	-		-	6.67%	-
13	309	Supply Mains	-		-	2.00%	-
14	310	Power Generation Equipment	37,618		37,618	5.00%	1,881
15	311	Electric Pumping Equipment	1,141,692		1,141,692	12.50%	142,711
16	320	Water Treatment Equipment	-		-	3.33%	-
17	320.1	Water Treatment Plant	-		-	3.33%	-
18	320.2	Chemical Solution Feeders	-		-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	-		-	2.22%	-
20	330.1	Storage tanks	856,574		856,574	2.22%	19,016
21	330.2	Pressure Tanks	32,236		32,236	5.00%	1,612
22	331	Trans. and Dist. Mains	3,194,161		3,194,161	2.00%	63,883
23	333	Services	891,232		891,232	3.33%	29,678
24	334	Meters	90,315		90,315	8.33%	7,523
25	335	Hydrants	477,182		477,182	2.00%	9,544
26	336	Backflow Prevention Devices	-		-	6.67%	-
27	339	Other Plant and Misc. Equip.	-		-	6.67%	-
28	340	Office Furniture and Fixtures	2,071		2,071	6.67%	138
29	340.1	Computers and Software	-		-	20.00%	-
30	341	Transportation Equipment	-		-	20.00%	-
31	342	Stores Equipment	-		-	4.00%	-
32	343	Tools and Work Equipment	2,399		2,399	5.00%	120
33	344	Laboratory Equipment	-		-	10.00%	-
34	345	Power Operated Equipment	-		-	5.00%	-
35	346	Communications Equipment	57,194		57,194	10.00%	5,719
36	347	Miscellaneous Equipment	-		-	10.00%	-
37	348	Other Tangible Plant	1,056		1,056	10.00%	106
38		TOTALS	$ 7,825,043	$ (92,895)	$ 7,732,147		$ 312,272
39							
40	Less: Amortization of Contributions				Gross CIAC	Amort. Rate	
41	331	Trans. and Dist. Mains			$ 663,178	2.00%	$ (13,264)
42	333	Services			$ 69,718	3.33%	(2,322)
43	335	Hydrants			$ 87,308	2.00%	(1,746)
44		Total CIAC			$ 820,205		$ (17,331)
45	Total Depreciation Expense						$ 294,940
46							
47	Adjusted Test Year Depreciation Expense						294,340
48							
49	Increase (decrease) in Depreciation Expense						$ 600
50							
51	Adjustment to Revenues and/or Expenses						$ 600
52							
53	SUPPORTING SCHEDULE						
54	B-2, page 3						

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

Exhibit
Hearing Schedule C-2
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 844,719	$ 844,719
2	Weight Factor	3	2
3	Subtotal (Line 1 * Line 2)	2,534,157	1,689,438
4	Company Recommended Revenue		1,191,789
5	Subtotal (Line 4 + Line 5)	2,534,157	2,881,227
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	844,719	960,409
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	1,689,438	1,920,818
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	1,920,818
13	Assessment Ratio	18.0%	18.0%
14	Assessment Value (Line 12 * Line 13)	304,099	345,747
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	$ 37,149
17	Tax on Parcels	2,432	2,432
18	Total Property Taxes (Line 16 + Line 17)	$ 35,106	
19	Test Year Property Taxes	$ 35,106	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	$ -	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 39,581
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 35,106
24	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 4,475**
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 4,475
27	Increase in Revenue Requirement		$ 347,070
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.28934%
29			
30			
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Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Hearing Schedule C-2
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Water Testing Expense

Line No.			
1			
2			
3	Staff Reccommended Water Testing Expense	$	7,608
4			
5	Test Year Water Testing Expense		12,864
6			
7	Increase (decrease) in Water Testing Expense	$	(5,256)
8			
9			
10	Adjustment to Revenue and/or Expense	$	(5,256)
11			
12			
13			
14			
15			
16	Reference		
17	Staff Schedule JAC-9		
18			
19			
20			

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

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Hearing Schedule C-2
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Transportation Expense

Line No.			
1			
2	Staff Reccommended Transportation Expense	$	10,931
3			
4	Test Year Transportation Expense		13,067
5			
6	Increase (decrease) in Transportation Expense	$	(2,136)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(2,136)
10			
11			
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15	Reference		
16	Staff Schedule JAC-10		
17			
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19			
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Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Hearing Schedule C-2
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Miscellaneous Expense

Line No.			
1			
2	Staff Reccommended Miscellaneous Expense	$	7,954
3			
4	Test Year Miscellaneous Expense		12,741
5			
6	Increase (decrease) in Miscellaneous Expense	$	(4,787)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(4,787)
10			
11			
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14			
15	Reference		
16	Staff Schedule JAC-11		
17			
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19			
20			

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

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Hearing Schedule C-2
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Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Hearing 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
Hearing Schedule C-2
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Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Computed Income Tax	$ 62,095	$ 197,478
5	Test Year Income tax Expense	57,233	62,095
6	Adjustment to Income Tax Expense	$ 4,862	$ 135,383
7			
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13	SUPPORTING SCHEDULE		
14	C-3, page 2		
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Quail Creek Water Company
Test Year Ended December 31, 2013
Computation of Gross Revenue Conversion Factor

Exhibit
Hearing Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	39.517%
2		
3	Property Taxes	0.780%
4		
5		
6	Total Tax Percentage	40.297%
7		
8	Operating Income % = 100% - Tax Percentage	59.703%
9		
10		
11		
12		
13	1 = Gross Revenue Conversion Factor	
14	Operating Income %	1.6750
15		
16		
17		
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25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1
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Quail Creek Water Company
Test Year Ended December 31, 2013

Exhibit
Hearing Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	[E]	[F]
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	Uncollecible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	40.2968%					
5	Subtotal (L3 - L4)	59.7032%					
6	**Revenue Conversion Factor (L1 / L5)**	1.674952					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	39.5170%					
9	One Minus Combined Income Tax Rate (L7 - L8)	60.4830%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	4.9000%					
14	Federal Taxable Income (L12 - L13)	95.1000%					
15	Applicable Federal Income Tax Rate (L55 Col F)	36.4006%					
16	Effective Federal Income Tax Rate (L14 x L15)	34.6170%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		39.5170%				
	Calculation of Effective Property Tax Factor						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	39.5170%					
20	One Minus Combined Income Tax Rate (L18-L19)	60.4830%					
21	Property Tax Factor	1.2893%					
22	Effective Property Tax Factor (L20*L21)		0.7798%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			40.2968%			
24	Required Operating Income	$ 332,892					
25	AdjustedTest Year Operating Income (Loss)	$ 125,680					
26	Required Increase in Operating Income (L24 - L25)		$ 207,212				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	$ 197,478					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	$ 62,095					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 135,383				
30	Recommended Revenue Requirement	$ 1,191,789					
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	$ 39,581					
36	Property Tax on Test Year Revenue	$ 35,106					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 4,475				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 347,070				

		(A)	(B)	(C)	(D)	[E]	[F]
		Test Year			Company Recommended		
	Calculation of Income Tax:	Total Water	Intentionally Left Blank	Water	Total Water	Intentionally Left Blank	Water
39	Revenue	$ 844,719		$ 844,719	$ 1,191,789		$ 1,191,789
40	Operating Expenses Excluding Income Taxes	656,945		656,945	661,419		661,419
41	Synchronized Interest (L47)	-		-	-		-
42	Arizona Taxable Income (L39 - L40 - L41)	$ 187,775		$ 187,775	$ 530,370		$ 530,369
43	Arizona State Income Tax Rate	4.9000%		4.9000%	4.9000%		4.9000%
44	Arizona Income Tax (L42 x L43)	$ 9,201		$ 9,201	$ 25,988		$ 25,988
45	Federal Taxable Income (L42- L44)	$ 178,574		$ 178,574	$ 504,382		$ 504,381
46							
47	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 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
49	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500		$ 8,500	$ 8,500		$ 8,500
50	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 30,644		$ 30,644	$ 91,650		$ 91,650
51	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -		$ -	$ 57,590		$ 57,590
52							
53	Total Federal Income Tax	$ 52,894		$ 52,894	$ 171,490		$ 171,490
54	Combined Federal and State Income Tax (L35 + L42)	$ 62,095		$ 62,095	$ 197,478		$ 197,478

55	COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / [Col. [D], L45 - Col. [A], L45]	36.4006%		
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]			36.4006%

	Calculation of Interest Synchronization:		Water
58	Rate Base		$ 3,504,123
59	Weighted Average Cost of Debt		0.0000%
60	Synchronized Interest (L59 X L60)		$ -

Quail Creek Water Company
Revenue Summary
Test Year Ended December 31, 2013

Exhibit
Hearing Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Classification	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	$ 654,321	$ 893,827	$ 239,506	36.60%	77.46%	75.00%
2	3/4 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
3	1 Inch	Residential	64,595	93,619	29,024	44.93%	7.65%	7.86%
4	1 1/2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
5	2 Inch	Residential	3,424	5,588	2,164	63.20%	0.41%	0.47%
6								
7	5/8x3/4 Inch	Commercial	$ 20,007	$ 30,927	$ 10,920	54.58%	2.37%	2.60%
8	3/4 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
9	1 Inch	Commercial	11,118	19,846	8,729	78.51%	1.32%	1.67%
10	1 1/2 Inch	Commercial	9,942	17,967	8,024	80.71%	1.18%	1.51%
11	2 Inch	Commercial	28,157	47,129	18,972	67.38%	3.33%	3.95%
12	3 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
13	6 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
14								
15	5/8x3/4 Inch	Irrigation	$ 10,246	$ 18,376	$ 8,130	79.34%	1.21%	1.54%
16	3/4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
17	1 Inch	Irrigation	2,514	4,277	1,764	70.16%	0.30%	0.36%
18	1 1/2 Inch	Irrigation	3,957	6,844	2,886	72.93%	0.47%	0.57%
19	2 Inch	Irrigation	9,033	15,920	6,887	76.24%	1.07%	1.34%
20	3 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
21	4 Inch	Irrigation	6,753	10,324	3,570	52.86%	0.80%	0.87%
22								
23								
24								
25								
26								
27	**Subtotals of Revenues**		$ 824,068	$ 1,164,643	$ 340,575	41.33%	97.56%	97.72%
28								
29	**Revenue Annualizations:**							
30	5/8x3/4 Inch	Residential	$ 9,969	$ 13,253	$ 3,284	32.94%	1.18%	1.11%
31	3/4 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
32	1 Inch	Residential	(44)	(64)	(20)	45.16%	-0.01%	-0.01%
33	1 1/2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
34	2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
35								
36	5/8x3/4 Inch	Commercial	$ 1,589	$ 2,368	$ 780	49.08%	0.19%	0.20%
37	3/4 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
38	1 Inch	Commercial	2,037	3,439	1,402	68.84%	0.24%	0.29%
39	1 1/2 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
40	2 Inch	Commercial	(1,765)	(2,837)	(1,072)	60.71%	-0.21%	-0.24%
41	3 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
42	6 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
43								
44	5/8x3/4 Inch	Irrigation	$ (36)	$ (96)	$ (59)	163.00%	0.00%	-0.01%
45	3/4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
46	1 Inch	Irrigation	152	235	83	54.47%	0.02%	0.02%
47	1 1/2 Inch	Irrigation	2,006	3,494	1,488	74.18%	0.24%	0.29%
48	2 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
49	3 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
50	4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
51								
52	**Subtotal Revenue Annualization**		$ 13,906	$ 19,792	$ 5,886	42.32%	1.65%	2.34%
53								
54	**Total Revenues w/ Annualization**		$ 837,974	$ 1,184,435	$ 346,461	41.35%	99.20%	99.38%
55	**Misc Revenues**		7,353	7,353	-	0.00%	0.87%	0.62%
56	**Reconciling Amount**		(608)	1	609	-100.16%	-0.07%	0.00%
57	**Total Revenues**		$ 844,719	$ 1,191,789	$ 347,070	41.09%	100.00%	100.00%
58								
59								

Quail Creek Water Company
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2013

Exhibit
Hearing Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		Average Number of Customers at 12/31/2013	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	5/8x3/4 Inch	Residential	1,757	5,725	$ 31.03	$ 41.25	$ 10.22	32.92%	88.85%
2	3/4 Inch	Residential	-	-	$ 20.00	$ 27.07	$ 7.07	35.35%	0.00%
3	1 Inch	Residential	129	5,965	41.70	60.24	18.54	44.46%	6.53%
4	1 1/2 Inch	Residential	-	-	50.00	67.68	17.68	35.35%	0.00%
5	2 Inch	Residential	1	73,325	285.31	455.24	169.92	59.56%	0.05%
6									
7	5/8x3/4 Inch	Commercial	53	5,808	$ 31.26	46.01	14.75	47.18%	2.70%
8	3/4 Inch	Commercial	-	-	20.00	27.07	7.07	35.35%	0.00%
9	1 Inch	Commercial	8	34,704	122.17	206.94	84.77	69.39%	0.38%
10	1 1/2 Inch	Commercial	3	80,778	276.18	477.82	201.64	73.01%	0.15%
11	2 Inch	Commercial	9	70,019	276.05	436.96	160.91	58.29%	0.43%
12	3 Inch	Commercial	-	-	150.00	203.03	53.03	35.35%	0.00%
13	6 Inch	Commercial	-	-	500.00	676.75	176.75	35.35%	0.00%
14									
15	5/8x3/4 Inch	Irrigation	11	22,577	$ 78.21	$ 134.08	$ 55.87	71.43%	0.55%
16	3/4 Inch	Irrigation	-	-	20.00	27.07	7.07	35.35%	0.00%
17	1 Inch	Irrigation	3	18,277	76.18	116.15	39.98	52.48%	0.14%
18	1 1/2 Inch	Irrigation	1	70,475	247.33	420.88	173.55	70.17%	0.07%
19	2 Inch	Irrigation	2	105,846	376.37	634.97	258.60	68.71%	0.10%
20	3 Inch	Irrigation	-	-	150.00	203.03	53.03	35.35%	0.00%
21	4 Inch	Irrigation	1	111,709	562.78	832.89	270.10	47.99%	0.05%
22									
23									
24									
25									
26									
27									
28									
29	Totals		1,978						100.00%
30									
31	Actual Year End Number								
32	of Customers:		2,011						
33									
34									
35									
36									

Quail Creek Water Company
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2013

Exhibit
Hearing Schedule H-2
Page 2
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		Average Number of Customers at 12/31/2013	Median Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	5/8x3/4 Inch	Residential	1,757	4,500	$ 27.60	$ 35.82	$ 8.22	29.79%	88.85%
2	3/4 Inch	Residential	-	-	$ 20.00	$ 27.07	$ 7.07	35.35%	0.00%
3	1 Inch	Residential	129	4,500	$ 37.60	$ 53.76	$ 16.16	42.97%	6.53%
4	1 1/2 Inch	Residential	-	-	$ 50.00	$ 67.68	$ 17.68	35.35%	0.00%
5	2 Inch	Residential	1	70,000	$ 276.00	$ 436.86	$ 160.86	58.28%	0.05%
6									
7	5/8x3/4 Inch	Commercial	53	2,500	$ 22.00	$ 31.37	$ 9.37	42.59%	2.70%
8	3/4 Inch	Commercial	-	-	$ 20.00	$ 27.07	$ 7.07	35.35%	0.00%
9	1 Inch	Commercial	8	6,500	$ 43.20	$ 62.61	$ 19.41	44.93%	0.38%
10	1 1/2 Inch	Commercial	3	-	$ 50.00	$ 67.68	$ 17.68	35.35%	0.15%
11	2 Inch	Commercial	9	42,500	$ 199.00	$ 296.42	$ 97.42	48.95%	0.43%
12	3 Inch	Commercial	-	-	$ 150.00	$ 203.03	$ 53.03	35.35%	0.00%
13	6 Inch	Commercial	-	-	$ 500.00	$ 676.75	$ 176.75	35.35%	0.00%
14									
15	5/8x3/4 Inch	Irrigation	11	500	$ 16.40	$ 22.52	$ 6.12	37.29%	0.55%
16	3/4 Inch	Irrigation	-	-	20.00	27.07	7.07	35.35%	0.00%
17	1 Inch	Irrigation	3	-	25.00	33.84	8.84	35.35%	0.14%
18	1 1/2 Inch	Irrigation	1	55,000	204.00	335.35	131.35	64.39%	0.07%
19	2 Inch	Irrigation	2	26,000	152.80	223.38	70.58	46.19%	0.10%
20	3 Inch	Irrigation	-	-	150.00	203.03	53.03	35.35%	0.00%
21	4 Inch	Irrigation	1	80,000	474.00	692.52	218.52	46.10%	0.05%
22									
23									
24									
25									
26									
27									
28									100.00%
29	Totals		1,978						
30									
31	Actual Year End Number								
32	of Customers:		2,011						
33									
34									
35									
36									

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

Exhibit
Hearing Schedule H-3
Page 1

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	$ 20.30	$ 5.30	35.35%
2	3/4 Inch	20.00	27.07	7.07	35.35%
3	1 Inch	25.00	33.84	8.84	35.35%
4	1 1/2 Inch	50.00	67.68	17.68	35.35%
5	2 Inch	80.00	108.28	28.28	35.35%
6	3 Inch	150.00	203.03	53.03	35.35%
7	4 Inch	250.00	338.38	88.38	35.35%
8	6 Inch	500.00	676.75	176.75	35.35%
9	Standpipe	-	-	-	NM
10					
11					
12	Gallons In Minimum (all classes)	-	-		
13					
14					
15					
16					
17					
18					

Line No.	Commodity Rates (per 1,000 gallons)	Block	Present Rate	Proposed Rate
19				
20				
21	5/8x3/4 Inch (all classes)	Over Minimum	$ 2.80	
22				
23	5/8x3/4 Inch - Residential	1 gallons to 4,000 gallons		$ 3.33
24		4,001 gallons to 10,000 gallons		$ 4.43
25		over 10,000 gallons		$ 5.53
26				
27	5/8x3/4 Inch - Non-residential	1 gallons to 10,000 gallons		$ 4.43
28		over 10,000 gallons		$ 5.53
29				
30	3/4 Inch Meter (all classes)	Over Minimum	$ 2.80	
31				
32	3/4 Inch Meter - Residential	1 gallons to 4,000 gallons		$ 3.33
33		4,001 gallons to 10,000 gallons		$ 4.43
34		over 10,000 gallons		$ 5.53
35				
36	3/4 Inch Meter - Non-residential	1 gallons to 10,000 gallons		$ 4.43
37		over 10,000 gallons		$ 5.53
38				
39				
40				
41				
42				
43	NM = not meaningful			
44	NT = No Tariff			
45				

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

Exhibit
Hearing Schedule H-3
Page 2

Line No.	Commodity Rates (per 1,000 gallons)	Block	Present Rate	Proposed Rate
1				
2				
3	**Commodity Rates (per 1,000 gallons)**	**Block**	**Present Rate**	**Proposed Rate**
4	1 Inch Meter (all classes)	Over Minimum	$ 2.80	
5				
6	1 Inch Meter (all classes)	1 gallons to 17,000 gallons		$ 4.43
7		over 17,000 gallons		$ 5.53
8				
9	1.5 Inch Meter (all classes)	Over Minimum	$ 2.80	
10				
11	1.5 Inch Meter - (all classes)	1 gallons to 33,000 gallons		$ 4.43
12		over 33,000 gallons		$ 5.53
13				
14	2 Inch Meter (all classes)	Over Minimum	$ 2.80	
15				
16	2 Inch Meter - (all classes)	1 gallons to 53,000 gallons		$ 4.43
17		over 53,000 gallons		$ 5.53
18				
19	3 Inch Meter (all classes)	Over Minimum	$ 2.80	
20				
21	3 Inch Meter - (all classes)	1 gallons to 100,000 gallons		$ 4.43
22		over 100,000 gallons		$ 5.53
23				
24	4 Inch Meter (all classes)	Over Minimum	$ 2.80	
25				
26	4 Inch Meter (all classes)	1 gallons to 167,000 gallons		$ 4.43
27		over 167,000 gallons		$ 5.53
28				
29	6 Inch Meter - (all classes)	1 gallons to 334,000 gallons		$ 4.43
30		over 334,000 gallons		$ 5.53
31				
32				
33	Standpipe*	All gallons	$ 2.80	$ 5.53
34				
35	* Includes hydrant or construction water.			
36	NT = No Tariff			

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

Exhibit
Hearing Schedule H-3
Page 3
Witness: Bourassa

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]
5/8 x 3/4 Inch			$ 350.00	$ 385.00	$ 135.00	$ 520.00
3/4 Inch			$ 400.00	415.00	205.00	620.00
1 Inch			$ 470.00	465.00	265.00	730.00
1 1/2 Inch			$ 695.00	520.00	475.00	995.00
2 Inch Turbo			$ 1,225.00	800.00	995.00	1,795.00
2 Inch, Compound			$ 1,820.00	800.00	1,840.00	2,640.00
3 Inch Turbo			$ 1,735.00	1,015.00	1,620.00	2,635.00
3 Inch, compound			$ 2,410.00	1,135.00	2,495.00	3,630.00
4 Inch Turbo			$ 2,700.00	1,430.00	2,570.00	4,000.00
4 Inch, compound			$ 3,455.00	1,610.00	3,545.00	5,155.00
6 Inch Turbo			$ 5,115.00	2,150.00	4,925.00	7,075.00
6 Inch, compound			$ 6,650.00	2,270.00	6,820.00	9,090.00

[1] Based on ACC Staff Engineering Memo dated Feburary 21, 2008

Other Charges:

Establishment	$ 25.00	$ 25.00
Establishment (after hours)	$ 45.00	Remove
Reestablishment within 12 months	**	**
Reconnection/Delinguent	$ 25.00	$ 25.00
Meter Test (if correct)	$ 25.00	$ 25.00
Meter Re-read (if correct)	$ 15.00	$ 15.00
Deposit	*	*
Deposit Interest	*	*
NSF Check	$ 15.00	$ 15.00
Deferred Payment, per month	1.5% per month	1.5% per month
Late Payment Fee (per month)	***	***
After hours service charge	NT	$ 50.00

Monthly Service Charge of Fire Sprinklers

4" or Smaller	****	****
6"	****	****
8"	****	****
10"	****	****
Larger than 10"	****	****

* Per Commission Rule A.A.C R-14-2-403(b)
** Number of months off the system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).
*** 1.5% per month or a minimum of $3.50.
**** 1% of monthly minimum for a comparable sized meter connection, but no less than $5.00 per month (requires separate service line).

NT = No Tariff

Exhibit

EXHIBIT
J-3
ADMITTED

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

Line No.	Monthly Usage Charge for:	Present Rates	Staff Proposed Rates	Change	Percent Change
1	Meter Size (All Classes):				
2	5/8x3/4 Inch	$ 15.00	$ 19.01	$ 4.01	26.70%
2	3/4 Inch	20.00	28.51	8.51	42.54%
3	1 Inch	25.00	47.51	22.51	90.05%
4	1 1/2 Inch	50.00	95.03	45.03	90.05%
5	2 Inch	80.00	152.04	72.04	90.05%
6	3 Inch	150.00	304.08	154.08	102.72%
7	4 Inch	250.00	475.13	225.13	90.05%
8	6 Inch	500.00	950.25	450.25	90.05%
9	Standpipe	-	-	-	NM
10					
11					
12	Gallons In Minimum (all classes)	-	-		
13					
14					
15					
16					
17					
18					

Line No.	Commodity Rates (per 1,000 gallons)	Block	Present Rate	Proposed Rate
19				
20				
21	5/8x3/4 Inch (all classes)	Over Minimum	$ 2.80	
22				
23	5/8x3/4 Inch - Residential	1 gallons to 4,000 gallons		$ 3.18
24		4,001 gallons to 10,000 gallons		$ 4.18
25		over 10,000 gallons		$ 5.60
26				
27	5/8x3/4 Inch - Non-residential	1 gallons to 10,000 gallons		$ 4.18
28		over 10,000 gallons		$ 5.60
29				
30	3/4 Inch Meter (all classes)	Over Minimum	$ 2.80	
31				
32	3/4 Inch Meter - Residential	1 gallons to 4,000 gallons		$ 3.18
33		4,001 gallons to 10,000 gallons		$ 4.18
34		over 10,000 gallons		$ 5.60
35				
36	3/4 Inch Meter - Non-residential	1 gallons to 10,000 gallons		$ 4.18
37		over 10,000 gallons		$ 5.60
38				
39				
40				
41				
42				
43	NM = not meaningful			
44	NT = No Tariff			
45				

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

Exhibit 0
Page 2

Line No.	Commodity Rates (per 1,000 gallons)	Block	Present Rate	Proposed Rate
1				
2				
3	**Commodity Rates (per 1,000 gallons)**	**Block**	**Present Rate**	**Proposed Rate**
4	1 Inch Meter (all classes)	Over Minimum	$ 2.80	
5				
6	1 Inch Meter (all classes)	1 gallons to 17,000 gallons		$ 4.18
7		over 17,000 gallons		$ 5.60
8				
9	1.5 Inch Meter (all classes)	Over Minimum	$ 2.80	
10				
11	1.5 Inch Meter - (all classes)	1 gallons to 33,000 gallons		$ 4.18
12		over 33,000 gallons		$ 5.60
13				
14	2 Inch Meter (all classes)	Over Minimum	$ 2.80	
15				
16	2 Inch Meter - (all classes)	1 gallons to 53,000 gallons		$ 4.18
17		over 53,000 gallons		$ 5.60
18				
19	3 Inch Meter (all classes)	Over Minimum	$ 2.80	
20				
21	3 Inch Meter - (all classes)	1 gallons to 100,000 gallons		$ 4.18
22		over 107,000 gallons		$ 5.60
23				
24	4 Inch Meter (all classes)	Over Minimum	$ 2.80	
25				
26	4 Inch Meter (all classes)	1 gallons to 167,000 gallons		$ 4.18
27		over 167,000 gallons		$ 5.60
28				
29	6 Inch Meter - (all classes)	1 gallons to 334,000 gallons		$ 4.18
30		over 334,000 gallons		$ 5.60
31				
32				
33	Standpipe*	All gallons	$ 2.80	$ 5.60
34				
35	* Includes hydrant or construction water.			
36	NT = No Tariff			

EXHIBIT
J-4
ADMITTED

Quail Creek Water Company
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2013

Exhibit
Rate Design Results Comparison
Page 1

Line No.	Customer Classification and/or Meter Size		Average Number of Customers at 12/31/2013	Average Consumption	Average Bill Present Rates	Company Rate Design: Average Bill Proposed Rates	Company Rate Design: Proposed Increase Dollar Amount	Company Rate Design: Proposed Increase Percent Amount	Staff Rate Design: Average Bill Proposed Rates	Staff Rate Design: Proposed Increase Dollar Amount	Staff Rate Design: Proposed Increase Percent Amount
1	5/8x3/4 Inch	Residential	1,757	5,725	$ 31.03	$ 41.25	$ 10.22	32.92%	$ 39.96	$ 8.93	28.77%
2	3/4 Inch	Residential	-	-	20.00	27.07	7.07	35.35%	28.51	8.51	42.54%
3	1 Inch	Residential	129	5,965	41.70	60.24	18.54	44.46%	72.47	30.77	73.78%
4	1 1/2 Inch	Residential	-	-	50.00	67.68	17.68	35.35%	95.03	45.03	90.05%
5	2 Inch	Residential	1	73,325	285.31	455.24	169.92	59.56%	484.83	199.52	69.93%
6											
7	5/8x3/4 Inch	Commercial	53	5,808	$ 31.26	46.01	14.75	47.18%	43.30	12.04	38.52%
8	3/4 Inch	Commercial	-	-	20.00	27.07	7.07	35.35%	28.51	8.51	42.54%
9	1 Inch	Commercial	8	34,704	122.17	206.94	84.77	69.39%	220.68	98.51	80.63%
10	1 1/2 Inch	Commercial	3	80,778	276.18	477.82	201.64	73.01%	497.97	221.79	80.31%
11	2 Inch	Commercial	9	70,019	276.05	436.96	160.91	58.29%	466.30	190.25	68.92%
12	3 Inch	Commercial	-	-	150.00	203.03	53.03	35.35%	304.08	154.08	102.72%
13	6 Inch	Commercial	-	-	500.00	676.75	176.75	35.35%	950.25	450.25	90.05%
14											
15	5/8x3/4 Inch	Irrigation	11	22,577	$ 78.21	$ 134.08	$ 55.87	71.43%	$ 132.74	$ 54.52	69.71%
16	3/4 Inch	Irrigation	-	-	20.00	27.07	7.07	35.35%	28.51	8.51	42.54%
17	1 Inch	Irrigation	3	18,277	76.18	116.15	39.98	52.48%	128.63	52.46	68.86%
18	1 1/2 Inch	Irrigation	1	70,475	247.33	420.88	173.55	70.17%	440.24	192.91	78.00%
19	2 Inch	Irrigation	2	105,846	376.37	634.97	258.60	68.71%	667.06	290.69	77.24%
20	3 Inch	Irrigation	-	-	150.00	203.03	53.03	35.35%	304.08	154.08	102.72%
21	4 Inch	Irrigation	1	111,709	562.78	832.89	270.10	47.99%	942.47	379.69	67.47%
22											
23											
24	Totals		1,978								
25											
26	Actual Year End Number										
27	of Customers:		2,011								
28											
29											
30											

31 Differences in proposed rate designs stem from a difference in the factors used to scale the monthly minimums and in the price differentials in the 2nd and 3rd tier commodity
32 rates. With respect to the monthly minimums, the Company's proposed monthly minimums are scaled off the flows of a 3/4 inch meter while the Staff monthly minimums are
33 scaled off the flows of a 5/8x34 inch meter. This means that under the Company's proposed rate design, the 1 inch monthly minimum is 1.67 times the 5/8x3/4 inch meter minimum
34 while the 1 inch monthly minimum is 2.5 times the 5/8x3/4 inch minimum. With respect to the price differentials, under the Company's design the price differential between the
35 first and second tier commodity rate is $1.10 and the price differential between the second and third tier commodity rate is $1.10 whereas under the Staff rate design the price
36 differential between the first and the second tier commodity rate is $1.00 and the price differential between the second and third their commodity rate is $1.42.
37
38 Both rate designs recover approximately 45% of revenues from the monthly minimums and 55% from the commodity rates. Revenue recovery from the first, second, and third tier
39 commodity rates is similar.

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Attorneys for Quail Creek Water Company, Inc.

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-_____

DIRECT TESTIMONY OF

THOMAS J. BOURASSA

RATE BASE, INCOME STATEMENT AND RATE DESIGN

September 19, 2014

EXHIBIT
A-1
ADMITTED

TABLE OF CONTENTS

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II. Overview of the Company's Request for Rate Relief 2
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1. Other Tariff Changes 14
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I. INTRODUCTION AND QUALIFICATION

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

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

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

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

In my private practice the past 15 years, I have prepared and/or assisted in the preparation of several water and wastewater utility rate applications before the Arizona Corporation Commission ("Commission").

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

A. I am testifying in this proceeding on behalf of Quail Creek Water Company, Inc. ("QCW" or the "Company"). QCW is seeking increases in its rates and charges for water utility service in its certificated service area.

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

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I will testify in support of the Company's proposed adjustments to its rates and charges for water utility service. I am sponsoring the direct schedules, which are filed concurrently herewith in support of the Company's application. I was responsible for the preparation of these schedules based on my investigation and review of QCW's relevant books and records, and I was assisted by another witness, Ray Jones, with the plant or B schedules as he discusses in his direct testimony.

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

Q. THANK YOU. PLEASE CONTINUE.

A. In the second volume of my direct testimony, to which the D schedules are attached, I address cost of capital. QCW is requesting a return on common equity of 10 percent. As shown on Schedule D-1, the Company's capital structure used for ratemaking purposes consists of approximately 100 percent equity and 0 percent debt. The weighted average cost of capital is 10 percent.

Q. IS THE CAPITAL STRUCTURE DESCRIBED ABOVE THE ACTUAL CAPITAL STRUCTURE AT THE END OF THE TEST YEAR?

A. Yes.

Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.

A. The test year used by QCW is the 12-month period ending December 31, 2013. The Company is requesting a 10 percent return on its fair value rate base ("FVRB"). The Company has also proposed certain pro forma adjustments to take into account known and measurable changes to rate base, expenses and revenues. These pro forma adjustments are consistent with normal ratemaking and are contemplated by the Commission's rules and regulations governing rate applications.[1] These adjustments are necessary to obtain a normal or realistic relationship between revenues, expenses and rate base on a going-forward basis.

The Company's proposed fair value rate base is $3,678,863. The increase in revenues to provide for recovery of operating expenses and a 10.0 percent return on rate base is approximately $411,785, an increase of 48.75 percent over the adjusted and annualized test year revenues.

III. SCHEDULES

A. Summary of A, E and F Schedules

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

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

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

Schedule A-3 contains the Company's capital structure for the test year and the two prior years.

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

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

Schedule A-5 is the summary of the Company's changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates.

The E Schedules are based on the Company's actual operating results, as reported by the Company in annual reports filed with the Commission. The E-1 Schedule contains the comparative balance sheet data for the years 2011, 2012, and 2013 ended on December 31.

Schedule E-2, page 1, contains the income statement for the years 2011, 2012, and 2013 ended on December 31.

Schedule E-3 contains the statements of changes in the Company's financial position for the test year and the two prior years.

Schedule E-4 provides the changes in membership equity.

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

Schedule E-7 contains operating statistics for the years ended 2011, 2012, and 2013 ended on December 31.

Schedule E-8 contains the taxes charged to operations.

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

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

Schedule F-2 contains the summary of changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates.

Schedule F-3 shows the Company's projected construction requirements for 2014, 2015, 2016.

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

B. <u>Rate Base (B Schedules)</u>

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

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

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

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

Q. THANK YOU. PLEASE CONTINUE.

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

...

...

...

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

A. Yes. Schedule B-2 shows adjustments to the OCRB proposed by the Company. Schedule B-2, pages 2 through 6, provide the supporting information. These adjustments are, in summary:

B-2 adjustment number 1, as shown on Schedule B-2, page 2, adjusts plant-in-service ("PIS"). There are four PIS adjustments included in Adjustment 1. These are shown on Schedule B-2, page 3, and are labeled as adjustments "A," "B," "C" and "D."

Adjustment A of B-2 adjustment number 1 adjusts PIS to reflect Company proposed adjustments to plant. The proposed PIS adjustments are discussed in more detail in the Direct Testimony of Ray Jones.[2]

Adjustment B of B-2 adjustment number 1 adjusts PIS to reflect Company proposed retirements. The proposed retirements are discussed in more detail in the Direct Testimony of Ray Jones.[3]

Adjustment C of B-2 adjustment number 1 adjusts PIS to reflect QCW proposed reclassifications to PIS. The adjustment nets to a zero total adjustment to PIS. The plant reclassifications are also discussed in more detail in Mr. Jones' direct.[4]

Adjustment D of B-2 adjustment number 1 reflects adjustments to reconcile the PIS balance to the reconstructed PIS balance shown on Schedule B-2, pages 3.5 to 3.21.

---

[2] Direct Testimony of Ray Jones at 6-13.

[3] *Id.*

[4] *Id.*

Q. PLEASE CONTINUE.

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

Adjustment A of B-2 adjustment number 2 adjusts A/D for the proposed PIS adjustments shown in Adjustment A of B-2 adjustment number 1.

Adjustment B of B-2 adjustment number 2 adjusts A/D depreciation related to the proposed retirements discussed earlier in Adjustment B of B-2 adjustment number 1.

Adjustment C of B-2 adjustment number 2 adjusts A/D to reflect the re-computed amounts of A/D per the Company's B-2 plant detail schedule, Schedule B-2, pages 3.5 to 3.21.

Q. PLEASE CONTINUE.

A. B-2 adjustment number 3 shown on Schedule B-2, page 2, adjusts the accumulated amortization balance of contributions-in-aid of construction ("CIAC") to the recomputed amount reflecting the annual composite depreciation rate for plant-in-service. The details of this adjustment are shown on Schedule B-2, pages 5 and 5.1. The adjustment to gross CIAC reflects, in part, how the PIS adjustments proposed in B-2 Adjustment 1-A were funded.

Q. ARE THERE ANY ADJUSTMENTS TO ADVANCES-IN-AID OF CONSTRUCTION?

A. No. The Company does not have any advances-in-aid of construction ("AIAC").

Q. PLEASE CONTINUE.

A. B-2 adjustment number 4 adjusts accumulated deferred income taxes ("ADIT") based on the Company proposed adjusted PIS, A/D, AIAC, and CIAC.

The Company's computation of the ADIT balance recognizes the differences in the adjusted basis of its assets and the tax basis of its assets and uses the effective tax rates computed on the Schedule C-3, page 2. The details of the Company's ADIT computation are shown on Schedule B-2, pages 5 and 5.1.

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

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

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

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

A. The following is a summary of adjustments shown on Schedule C-1 and detailed on Schedule C-2:

Adjustment 1 annualizes depreciation expense. The proposed depreciation rate for each component of utility plant is shown on Schedule C-2, page 2. The depreciation rates approved in QCW's last rate case were composite rates. QCW proposes to use account specific rates going forward. The depreciation rates are based on Staff's typical and customary depreciation rates.

Adjustment 2 reduces property taxes. QCW has recognized the reduction in the assessment ratio contained in A.R.S. § 42-15001, entitled "Assessed Valuation of Class One Property." The 2014 and 2015 assessment ratio is 19.0 percent. However, the assessment ratio will be reduced to 18 percent beginning in the tax year ending December 2015 and going-forward. Accordingly, QCW has proposed an assessment ratio of 18 percent in recognition of the reduction currently

scheduled to take effect to tax years after 2015. This is clearly a known and measurable pro forma adjustment.

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

A. Adjustment 3 shows the rate case expense estimated by the Company. The Company estimates rate case expense of $200,000. The Company proposes that rate case expense be recovered over five years because it believes a five-year cycle for future rate cases is reasonable given this utility's circumstances.

Q. WHAT CIRCUMSTANCES?

A. As Mr. Soriano explains in his direct testimony, the plan is to bring all of the Robson utilities in for new rates on a more regular basis.[5] This practice may differ from the previous practice, but Mr. Soriano has consistently testified in recent rate cases for QCW's affiliates, Pima Utility Company and Lago del Oro Water Company, that the plan is to bring all the utilities in on a roughly five year cycle.

Q. HOW DID YOU ARRIVE AT THE AMOUNT OF RATE CASE EXPENSE?

A. Given QCW's size and the anticipated nature, length and complexity of the proceedings, I estimate this rate case to cost a total of $200,000. This analysis is based on my experience with rate cases before the Commission, and that of the Company's legal counsel.

Q. PLEASE EXPLAIN WHY YOU REFER TO THIS AMOUNT AS AN "ESTIMATE."

A. Because I can't see the future, I can only make some guesses based on my experience. The specifics of who may intervene, what unique issues may come into dispute, what kind of procedural problems we will encounter, etc. I cannot

[5] Direct Testimony of Steven Soriano at 3:24 – 4:2.

predict. I know rate cases are lengthy and expensive, but I still have to start with an estimate.

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

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

Adjustment 5 annualizes purchased power expense based on the additional gallons sold from annualizing revenues to the year-end number of customers in Adjustment 4, above. This adjustment is intended to match the additional expense associated with the revenue annualization.

Adjustment 6 is intentionally left blank.

Adjustment 7 removes other income and expense to eliminate their impact on income taxes.

Adjustment 8 reflects income taxes based upon the Company adjusted test year revenue and expense.

Q. IS THE COMPANY PROPOSING A LOWER ARIZONA INCOME TAX RATE BASED UPON RECENT CHANGES IN THE LAW?

A. Yes. By law (A.R.S. § 43- 1111) the Arizona corporate income tax rate will be reduced to 4.9 percent for taxable years beginning from and after December 31, 2016. The Company is proposing an Arizona Tax Rate of 4.9 percent in recognition the reduction scheduled to take effect to tax years after 2015. This is a

similar known and measurable adjustment to the one I discussed above for property taxes.

D. Rate Design (H Schedules)

Q. WHAT ARE THE COMPANY'S PRESENT RATES FOR WATER SERVICE?

A. The Company's present rates are:

MONTHLY SERVICE CHARGES (All Classes)

5/8" x 3/4" Meter	$ 15.00
3/4" Meter	$ 20.00
1" Meter	$ 25.00
1 1/2" Meter	$ 50.00
2" Meter	$ 80.00
3" Meter	$150.00
4" Meter	$250.00
6" Meter	$500.00

COMMODITY RATES

All Gallons Charge (per 1,000 gallons)	$2.80
Standpipe (per 1,000 gallons)	$2.80

Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR WATER SERVICE?

A. The Company's proposed rates are:

MONTHLY SERVICE CHARGES (All Classes)

5/8" x 3/4" Meter	$ 21.23
3/4" Meter	$ 28.30

1" Meter		$ 35.38
1 1/2" Meter		$ 70.75
2" Meter		$113.20
3" Meter		$212.25
4" Meter		$353.75
6" Meter		$707.50
Gallons in minimum (All classes)		0
COMMODITY RATES		
5/8"X3/4" Meter – Residential	1 to 4,000	$ 3.58
	4,001 to 10,000	$ 4.68
	Over 10,000	$ 5.78
5/8"X3/4" Meter – Non-residential	1 to 10,000	$ 4.68
	Over 10,000	$ 5.78
3/4" Meter – Residential	1 to 4,000	$ 3.58
	4,001 to 10,000	$ 4.68
	Over 10,000	$ 5.78
3/4" Meter – Non-residential	1 to 10,000	$ 4.68
	Over 10,000	$ 5.78
1" Meter – All Classes	1 to 17,000	$ 4.68
	Over 17,000	$ 5.78
1 ½" Meter – All Classes	1 to 33,000	$ 4.68
	Over 33,000	$ 5.78

2" Meter – All Classes	1 to 53,000	$ 4.68
	Over 53,000	$ 5.78
3" Meter – All Classes	1 to 100,000	$ 4.68
	Over 100,000	$ 5.78
4" Meter – All Classes	1 to 167,000	$ 4.68
	Over 167,000	$ 5.78
6" Meter – All Classes	1 to 333,000	$ 4.68
	Over 333,000	$ 5.78
Standpipe (per 1,000 gallons)	All gallons	$ 5.78

Q. IS THE COMPANY'S RATE DESIGN A CONSERVATION ORIENTED RATE DESIGN?

A. Yes. Inverted tier rate designs are conservation oriented. The smaller residential meters (5/8"x3/4" and ¾") are on an inverted three tier rate design and all other meter sizes are on an inverted two tier design. The Company's proposed rate design provides somewhat less revenue stability than the current rate design in that it provides for about 44.4 percent of the revenue requirement from monthly minimums compared to about 46.8 percent of revenues derived from the monthly minimums under present rates.[6] Ideally, the portion of revenue derived from the monthly minimums should be closer to 50 percent.

Q. WHAT METER SIZE ARE THE MAJORITY OF CUSTOMERS ON AND WHAT WAS THE AVERAGE MONTHLY BILL DURING THE TEST YEAR?

[6] *See* Schedule H-2, pages 3 and 4.

A. The largest customer class is the 5/8x3/4 inch residential class. This customer class comprises about 89 percent of the customers and contributes about 77.5 percent of the revenues under present rates. As shown on Schedule H-2, page 1, the average monthly bill under present rates for a 5/8x3/4 inch residential customer using an average 5,725 gallons is $31.03.

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

A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates for a 5/8x3/4 inch residential customer using an average 5,725 gallons is $43.63 – a $12.60 increase over the present monthly bill or a 40.62 percent increase; about 8 percent lower than the overall requested revenue increase in the instant case.

1. Other Tariff Changes

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

A. Yes. The Company is proposing to add an after-hours service charge which applies to all services performed after-hours. Accordingly, the Company is proposing to remove the Establishment Fee – After-Hours service charge.[7] The Company is not proposing any other changes.

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

A. Yes. The Company is proposing new charges based upon the Staff Engineering recommendations for typical meter and service line installation charges.[8]

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[7] *See* Schedule H-3, page 3.

[8] *Id.*

2. Purchased Power Adjustment Mechanism ("PPAM")

Q. PLEASE DISCUSS THE COMPANY'S PROPOSED PURCHASED POWER ADJUSTMENT MECHANISM.

A. The Company is proposing a cost recovery adjustment mechanism for purchased power known as a purchased power adjustment mechanism or PPAM. The purchased power expense included in operating expenses will serve as the base amounts for calculating the amounts to be recovered or refunded when increases or decreases in purchased power are incurred in future years. Only the increase (decrease) in purchased power expense caused by an increase (decrease) in power rates will be recovered and not the increase (decrease) in expense due to changes in volume of water.

Q. HAVE YOU PREPARED A SAMPLE CALCULATION FOR THESE ADJUSTMENT MECHANISMS?

A. Yes. Attached to this testimony as **Exhibit TJB-DT1** is a sample calculation. The numbers in the example do not reflect the actual numbers in the instant case and are used for illustrative purposes only.

Q. PLEASE EXPLAIN HOW THE PROPOSED PURCHASED POWER ADJUSTMENT MECHANISM WILL WORK?

A. Whenever the Company's purchased power expense increases or decreases from the amount adopted by this Commission in the instant case (or any subsequent case), the Company will file a schedule with the Commission setting forth an adjustment per 1,000 gallons to recover the increased or decreased purchased power expense based on the following procedure:

Step 1 – This step determines the purchased power cost variance ("PPCV") and the unitized purchased power cost variance ("UPPCV"). The test year will service as the base period. The PPCV will be determined by multiplying the

difference between the test year per kilowatt hour cost and the current year per kilowatt hour cost by the test year kilowatt hours used. The UPPCV will be determined by dividing the PPCV by the gallons pumped during the test year.

Step 2 – This step determines the excess water loss for the current year ("EWLCY"). To determine the EWLCY, the Company will first compute the wallet loss for the current year ("WLCY") based upon the difference between the gallons pumped during the current year ("GPCY") and the actual gallons sold during the current year ("AGSCY") plus other accounted for water ("OAW"). Next, the Company will compute the water loss allowed for the current year ("WLACY") by multiplying the GPCY by 10 percent. Finally, the EWLCY will be determined by the difference between the WLCY and WLACY. If WLCY is less than WLACY, then the EWLCY will be zero. In other words, current water loss is less than 10 percent; the minimum acceptable water loss rate. If WLCY is greater than WLACY, then there is excess water loss above the acceptable 10 percent threshold. The EWLCY will serve as the basis to compute the unrecoverable amount of PPCV in Step 3.

Step 3 – This step determines the purchased cost variance recovery to be disallowed ("PPCVRD") due to excessive water loss. The PPCVRD will be determined by multiplying the EWLCY (computed in Step 2) by the UPPCV (computed in Step 1). The PPCVRD will be used in Step 4 to determine the purchased power adjustment (the amount to be recovered from rate payers.)

Step 4 – This step determines purchase power adjustment ("PPA") and the unitized purchased power adjustment ("UPPA"). The PPA will be determined by subtracting the PPCVRD (computed in Step 3) from the PPCV (computed in Step 1) and adding any prior year purchased power cost variance carry over ("PPCVCO") amount. The UPPA will be determined by dividing the PPA by the

GPTY. The UPPA per 1,000 gallons will be determined by dividing the PPA by the GPTY and multiplying the result by 1,000 and rounded to the nearest cent.

The computed UPPA must amount to at least $.01 per thousand gallons, after rounding the calculation, before a pass-through to customers can be made. If the calculation of the UPPA results in a positive or negative value change of less than $.01 per thousand gallons, the PPA will be carried over the next year. In the event of a carry over, the PPA amount will be subject to a true-up.

Q. WHAT WILL BE THE AMOUNT APPEARING ON THE CUSTOMER'S BILL?

A. The purchased power adjustment charge ("PPAC") on the customer bill will be equal to UPPA times the actual gallons used (in 1,000's) including any gallons included in the minimum charge and rounded to the nearest whole cent.

Q. ARE THERE ANY OTHER PROVISIONS OF THE PURCHASED POWER ADJUSTER MECHANISM?

A. Yes. First, within 60 days of the effective date of a Commission decision authorizing a rate change in the approved tariffs for any ACC-regulated electric service provider supplying retail service to the Company, the Company shall file with docket control an analysis of the actual impact on the energy portion of the Company's electric service costs.

Second, the Company will break down its total purchased power bill into the amount due to fixed fees, volume of electricity used, and the rates paid per unit of electricity. For the period following the rate change, the Company will provide the same information, then compare the two periods, isolating any change in purchased power cost that is due exclusively to a rate change. The specific intent is to show exactly how much of any increase or decrease is due to changes in rate beyond the Company's control and how much is due to a change in the amount of

power that Company consumes. The Company will only recover increases or refund decreases that are due to changes in rate.

Three, all revised schedules filed with the Commission pursuant to the provisions of this PPAM will be accompanied by documentation prepared by the Company in a format approved by the Utilities Division Staff and will contain sufficient detail to enable the Commission to verify the accuracy of the Company's calculations.

Fourth, the surcharges will not become effective until approved by the Commission.

Fifth, the Company will file annually with the Commission a report detailing its purchased power costs and any conservation or power-shifting measures employed by the Company.

Sixth, the Company shall provide notice (in a form acceptable to Staff) of the rate increases to customers with the bill where the rate increase first appears.

Q. WILL THE ADOPTION OF THIS ADJUSTMENT MECHANISM LEAD TO A SIGNIFICANT AMOUNT OF ADDITIONAL WORK?

A. No, it will be relatively easy to determine the PPA each year and to compute the amount of the charge or credit, as the case may be, that is applied to the customer's bill. It should also be easy for Staff to verify the calculation. I have modeled the PPAM on ones recently approved for other water and wastewater utilities by the Commission.[9]

Q. WHAT IS THE COMPANY'S JUSTIFICATION FOR IMPLEMENTING THESE ADJUSTMENT MECHANISMS?

A. Cost-adjustment mechanisms first appeared in the electric and gas industries to

[9] *See Liberty Utilities (Litchfield Park Water & Sewer) Corp.*, Docket No. SW-01428A-13-0042, *et al.*

help utilities contend with rising fuel costs. These mechanisms are now widely used in ratemaking for water utilities in a number of states, especially in connection with purchased power, purchased water and various taxes. These mechanisms allow utilities to pass along cost increases or decreases that are essentially out of a utility's control. The closer match between costs and customer bills reduces regulatory lag and creates a more efficient price signal. It also helps to ensure the utility has an opportunity to earn its authorized rate of return. Thus, adjustment mechanisms benefit both utilities and their customers.

In the instant case, the amount that the Company must pay for purchased power is also a significant portion of its operations and maintenance costs, approximately 13 percent of total operating expenses. The Company has no control of the rates it must pay for purchased.

Q. WHO IS THE COMPANY'S ELECTRIC UTILITY?

A. Tucson Electric Power ("TEP"), whose rates for electric service are set by the Commission. And the PPAM only addresses increases in the cost of power. When the Commission allows TEP to charge more, I respectfully believe it should also allow those of TEP's customers, which are likewise regulated by the Commission, to keep up with those rising costs. Of course, it works both ways – if TEP's rates for service go down, then the PPAM will work to lower the Company's rates. For these reasons, I think the request for a PPAM is fair and reasonable.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Quail Creek Water Company, Inc.

Direct Testimony of Thomas J. Bourassa
Rate Base, Income Statement and Rate Design

Exhibit TJB-DT1

Quail Creek Water Company
Purchased Power Adjuster Mechanism (PPAM) Calculation

Exhibit
Page 1 of 1

Line No.			Formula			
1	**Step 1 - Calculation of Purchased Cost Variance and Unitized Purchased Power Cost Variance**					
2	Cost per Kilowatt Hour Current Year	CKWHCY		$	0.10	per Kwh
3	Cost per Kilowatt Hour Test Year	CKWHTY		$	0.08	per Kwh
4	Killowatt Hours Used Test Year	KWHUTY			1,250,000	Kwh
5	Purchased Power Cost Variance	PPCV	(CKWHCY minus CKWHTY) times KWHUTY	$	25,000	
6	Gallons Pumped Test Year	GPTY			400,000,000	gallons
7	Unitized Purchased Power Cost Variance	UPPCV	PPCV divided by GPTY	$	0.0000625	per gallon
8						
9						
10	**Step 2 - Calculation of Excess Water Loss for Current Year**					
11	Gallons Pumped Current Year	GPCY			450,000,000	gallons
12	Actual Gallons Sold in Current year	AGSCY			390,000,000	gallons
13	Other Accounted for Water	OAW			-	gallons
14	Total Accounted For Water Current Year	TAWCY	AGSCY plus OAW		390,000,000	gallons
15	Water Loss Current Year	WLCY	GPCY minus TAWCY		60,000,000	gallons
16	Water Loss Allowed Current Year	WLACY	GPCY times 10%		45,000,000	gallons
17	Excess Water Loss Current Year	EWLCY	WLCY minus WLACY, zero if less than zero		15,000,000	gallons
18						
19	**Step 3 - Calculation of Purchase Cost Variance Recovery to be Disallowed**					
20	Unitized Purchased Power Cost Variance	UPPVC	from Step 1	$	0.0000625	per gallon
21	Excess Water Loss Current Year	EWLCY	from Step 2		15,000,000	gallons
22	Purchased Power Cost Variance Recovery Disallowed	PPCVRD	UPPCV times EWLCY	$	937.50	
23						
24	**Step 4 - Calculation of Purchased Power Adjustment**					
25	Purchased Power Cost Variance	PPCV	from Step1	$	25,000	
26	Purchased Power Cost Variance Recovery Disallowed	PPCVRD	from Step 3	$	938	
27	Purchased Power Cost Variance Carry Over	PPCVCO	from prior year(s)	$	-	
28	Purchased Power Adjustment	PPA	PPCV minus PPCVRD plus PPCVCO	$	24,063	
29	Gallons Pumped Test Year	GPTY			400,000,000	gallons
30	Unitized Purchased Power Adjustment	UPPA	PPA divided by GPTY		0.00006016	per gallon
31	Unitized Purchased Power Adjustment per 1,000 gallons	UPPA	PPA divided by GPTY times 1,000		0.06	per 1,000 gallons
32						
33						
34						
35	**Purchased Power Adjustment Charge (PPAC) on Sample Customer Bill**					
36	Unitized Purchased Power Adjusment per 1,000 gallons	UPPA		$	0.06	
37	Actual Gallons Used (in 1,000's)				5	
38	PPAC on Sample Customer Bill			$	0.30	
39						

Quail Creek Water Company, Inc.

Direct Testimony of Thomas J. Bourassa
Rate Base, Income Statement and Rate Design

Schedules
A-C, E-F & H

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

Exhibit
Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base		$ 3,678,863
2			
3	Adjusted Operating Income		118,963
4			
5	Current Rate of Return		3.23%
6			
7	Required Operating Income		$ 367,886
8			
9	Required Rate of Return on Fair Value Rate Base		10.00%
10			
11	Operating Income Deficiency		$ 248,924
12			
13	Gross Revenue Conversion Factor		1.6543
14			
15	Increase in Gross Revenue		
16	Requirement		$ 411,785
17			
18	Adjusted Test Year Revenues		$ 844,719
19	Increase in Gross Revenue Revenue Requirement		$ 411,785
20	Proposed Revenue Requirement		$ 1,256,504
21	% Increase		48.75%
22			

	Customer Classification		Present Rates	Proposed Rates	Dollar Increase	Percent Increase
23						
24						
25	5/8x3/4 Inch	Residential	$ 654,321	$ 944,185	$ 289,864	44.30%
26	3/4 Inch	Residential	-	-	-	0.00%
27	1 Inch	Residential	64,595	98,366	33,771	52.28%
28	1 1/2 Inch	Residential	-	-	-	0.00%
29	2 Inch	Residential	3,424	5,872	2,448	71.51%
30						
31	5/8x3/4 Inch	Commercial	$ 20,007	$ 32,469	$ 12,462	62.29%
32	3/4 Inch	Commercial	-	-	-	0.00%
33	1 Inch	Commercial	11,118	20,795	9,677	87.04%
34	1 1/2 Inch	Commercial	9,942	18,822	8,879	89.31%
35	2 Inch	Commercial	28,157	49,459	21,302	75.65%
36	3 Inch	Commercial	-	-	-	0.00%
37	6 Inch	Commercial	-	-	-	0.00%
38						
39	5/8x3/4 Inch	Irrigation	$ 10,246	$ 19,254	$ 9,008	87.91%
40	3/4 Inch	Irrigation	-	-	-	0.00%
41	1 Inch	Irrigation	2,514	4,483	1,969	78.32%
42	1 1/2 Inch	Irrigation	3,957	7,181	3,224	81.47%
43	2 Inch	Irrigation	9,033	16,688	7,655	84.75%
44	3 Inch	Irrigation	-	-	-	0.00%
45	4 Inch	Irrigation	6,753	10,851	4,098	60.68%
46						
47	Revenue Annualization		$ 13,906	$ 20,887	6,981	50.20%
48						
49						
50						
51	**Subtotal**		$ 837,974	$ 1,249,312	$ 411,338	49.09%
52						
53	Other Water Revenues		$ 7,353	$ 7,353	$ -	0.00%
54	Reconciling Amount		(608)	(161)	447	-73.52%
55	Rounding		-	-	-	0.00%
56	**Total of Water Revenues**		$ 844,719	$ 1,256,504	$ 411,785	48.75%
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 Results of Operations

Exhibit
Schedule A-2
Page 1
Witness: Bourassa

Line No.	Description	Prior Years Ended 12/31/2011	Prior Years Ended 12/31/2012	Test Year Actual 12/31/2013	Test Year Adjusted 12/31/2013	Projected Year Present Rates 12/31/2014	Projected Year Proposed Rates 12/31/2014
1	Gross Revenues	$ 840,467	$ 908,778	$ 830,813	$ 844,719	$ 844,719	$ 1,256,504
3	Revenue Deductions and Operating Expenses	626,372	648,860	666,664	725,756	725,756	890,785
6	Operating Income	$ 214,095	$ 259,918	$ 164,149	$ 118,963	$ 118,963	$ 365,719
8	Other Income and Deductions	2,674	10,038	25,681	-	-	-
11	Interest Expense	-	-	-	-	-	-
13	Net Income	$ 216,769	$ 269,956	$ 189,830	$ 118,963	$ 118,963	$ 365,719
15	Common Shares	3,000	3,000	3,000	3,000	3,000	3,000
17	Earned Per Average Common Share	72.26	89.99	63.28	39.65	39.65	121.91
20	Dividends Paid	-	-	-	-	-	-
22	Dividends Per Common Share	-	-	-	-	-	-
25	Payout Ratio	-	-	-	-	-	-
27	Return on Average Invested Capital	4.51%	4.20%	2.74%	1.92%	1.96%	6.04%
30	Return on Year End Capital	3.48%	4.07%	2.63%	1.92%	2.01%	6.17%
33	Return on Average Common Equity	5.47%	4.95%	3.34%	2.11%	2.04%	6.14%
36	Return on Year End Common Equity	4.08%	4.83%	3.29%	2.08%	2.02%	5.95%
39	Times Bond Interest Earned Before Income Taxes	-	-	-	-	-	-
42	Times Total Interest and Preferred Dividends Earned After Income Taxes	-	-	-	-	-	-

50 SUPPORTING SCHEDULES
51 C-1
52 E-2
53 F-1

Quail Creek Water Company

Test Year Ended December 31, 2013
Summary of Capital Structure

Exhibit
Schedule A-3
Page 1
Witness: Bourassa

Line No.	Description:	Prior Years Ended 12/31/2011	Prior Years Ended 12/31/2012	Test Year 12/31/2013	Projected Year 12/31/2014
3	Short-Term Debt	-	-	-	-
4	Long-Term Debt	-	-	-	-
6	Total Debt	$ -	$ -	$ -	$ -
9	Preferred Stock	-	-	-	-
11	Common Equity	5,317,832	5,587,786	5,777,616	5,896,579
14	Total Capital & Debt	$ 5,317,832	$ 5,587,786	$ 5,777,616	$ 5,896,579
17	Capitalization Ratios:				
19	Long-Term Debt	0.00%	0.00%	0.00%	0.00%
21	Total Debt	0.00%	0.00%	0.00%	0.00%
24	Preferred Stock	-	-	-	-
26	Common Equity	100.00%	100.00%	100.00%	100.00%
29	Total Capital	100.00%	100.00%	100.00%	100.00%
32	Weighted Cost of				
33	Senior Capital	0.00%	0.00%	0.00%	0.00%

45 SUPPORTING SCHEDULES:
46 E-1
47 D-1

Quail Creek Water Company
Test Year Ended December 31, 2013
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		Construction Expenditures	Net Plant Placed in Service	Gross Utility Plant in Service
1				
2				
3				
4	Prior Year Ended 12/31/2011	2,750,484	2,750,484	6,998,586
5				
6	Prior Year Ended 12/31/2012	28,205	28,205	7,026,791
7				
8	Test Year Ended 12/31/2013	518,280	(68,095)	6,958,696
9				
10	Projected Year Ended 12/31/2014	35,500	35,500	6,994,196
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34	SUPPORTING SCHEDULES:			
35	B-2			
36	E-5			
37	F-3			
38				
39				
40				

Quail Creek Water Company
Test Year Ended December 31, 2013
Summary Statements of Cash Flows

Exhibit
Schedule A-5
Page 1
Witness: Bourassa

Line No.		Prior Year Ended 12/31/2011	Prior Year Ended 12/31/2012	Test Year Ended 12/31/2013	Projected Year Present Rates 12/31/2014	Projected Year Proposed Rates 12/31/2014
5	Cash Flows from Operating Activities					
6	Net Income	$ 216,769	$ 269,956	$ 189,830	$ 118,963	$ 365,719
7	Adjustments to reconcile net income to net cash					
8	provided by operating activities:					
9	Depreciation and Amortization	117,505	253,395	266,978	294,340	294,340
10	Other -Adjustments	-	-	-		
11	Changes in Certain Assets and Liabilities:					
12	Accounts Receivable	(2,599)	(196)	(5,641)		
13	Restricted Cash	-	-	-		
14	Materials and Supplies Inventory	-	-	-		
15	Prepaid Expenses	(45,602)	53,476	-		
16	Deferred Charges	174,919	151,714	53,010		
17	Receivables to Associated Co.	-	(221)	72		
18	Accounts Payable	2,496	(5,973)	8,117		
19	Payables to Associated Co.	19,762	-	337,563		
20	Note Receivable	(146,925)	(681,968)	(343,430)		
21	Interest Payable	-	-	-		
22	Customer Meter and Security Deposits	-	-	-		
23	Taxes Payable	(23,206)	14,492	(4,173)		
24	Other assets and liabilities	3,965	452	19		
25	Rounding	-	(2)	2		
26	Net Cash Flow provided by Operating Activities	$ 317,084	$ 55,125	$ 502,347	$ 413,303	$ 660,060
27	Cash Flow From Investing Activities:					
28	Capital Expenditures	(2,750,484)	(28,205)	(518,280)	(35,500)	(35,500)
29	Plant Held for Future Use	-	-	-		
30	Changes in debt reserve fund	-	-	-		
31	Net Cash Flows from Investing Activities	$ (2,750,484)	$ (28,205)	$ (518,280)	$ (35,500)	$ (35,500)
32	Cash Flow From Financing Activities					
33	Change in Restricted Cash	-	-	-		
34	Proceeds from Long-Term Debt	-	-	-		
35	Net receipt of contributions in aid of construction	-	-	-	-	-
36	Net receipts of advances in aid of construction	-	-	-	-	-
37	Repayments of Long-Term Debt	-	-	-	-	-
38	Distributions/Dividends Paid	-	-	-	-	-
39	Deferred Financing Costs	-	-	-	-	-
40	Paid in Capital	2,500,000	-	-	-	-
41	Net Cash Flows Provided by Financing Activities	$ 2,500,000	$ -	$ -	$ -	$ -
42	Increase(decrease) in Cash and Cash Equivalents	66,600	26,920	(15,933)	377,803	624,560
43	Cash and Cash Equivalents at Beginning of Year	54,094	120,694	76,293	60,360	60,360
44	Cash and Cash Equivalents at End of Year	$ 120,694	$ 147,614	$ 60,360	$ 438,163	$ 684,920

49 SUPPORTING SCHEDULES:
50 E-3
51 F-2

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

Exhibit
Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 7,819,192	$ 7,819,192
3	Less: Accumulated Depreciation	2,352,796	2,352,796
4			
5	Net Utility Plant in Service	$ 5,466,396	$ 5,466,396
6			
7	Less:		
8	Advances in Aid of Construction	-	-
9			
10	Contributions in Aid of Construction	820,205	820,205
11			
12	Accumulated Amortization of CIAC	(284,447)	(284,447)
13			
14	Customer Meter Deposits	180,221	180,221
15	Custmer Security Deposits	-	-
16	Accumulated Deferred Income Tax	1,071,554	1,071,554
17			
18			
19	Plus:		
20			
21	Deferred Regulatory Assets TCE Plume	-	-
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	$ 3,678,863	$ 3,678,863
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	SUPPORTING SCHEDULES:		
42	B-2		
43	B-3		
44	B-5		
45	E-1		
46			
47			
48			
49			
50			

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

Exhibit
Schedule B-2
Page 1
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustment	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 6,958,696	860,496	$ 7,819,192
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	1,054,550	1,298,246	2,352,796
7				
8				
9	Net Utility Plant			
10	in Service	$ 5,904,146		$ 5,466,396
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	859,639	211,915	1,071,554
24				-
25				-
26				
27	**Plus:**			
28				
29	Deferred Regulatory Assets TCE Plume	-		-
30	Prepayments	-		-
31	Materials and Supplies	-		-
32	Working capital	-	-	-
33				-
34				
35	Total	$ 4,864,286		$ 3,678,863
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
47	B-2, pages 2			B-1
48	E-1			
49				
50				
51				

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

Exhibit
Schedule B-2
Page 2
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments 1 Plant-in-Service	2 Accumulated Depreciation	3 CIAC	4 ADIT	5 Intentionally Left Blank	Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 6,958,696	860,496					$ 7,819,192
3								
4	**Less:**							
5	Accumulated							
6	Depreciation	1,054,550		1,298,246				
7								2,352,796
8								
9	Net Utility Plant							
10	in Service	$ 5,904,146	$ 860,496	$ (1,298,246)	$ -	$ -	$ -	$ 5,466,396
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	-						
15								-
16	Contributions in Aid of							
17	Construction (CIAC)	-			820,205			
18								820,205
19	Accumulated Amort of CIAC	-			(284,447)			
20								(284,447)
21	Customer Meter Deposits	180,221						
22	Customer Security Deposits	-						180,221
23	Accumulated Deferred Income Taxes (ADIT)	859,639						-
24						211,915		1,071,554
25								
26	**Plus:**							
27								
28	Deferred Regulatory Assets	-						
29	Prepayments	-						-
30	Materials and Supplies	-						
31	Allowance for Cash Working Capital	-						
32								-
33	Total	$ 4,864,286	$ 860,496	$ (1,298,246)	$ (535,758)	$ (211,915)	$ -	$ 3,678,863
34								
35								
36								
37	SUPPORTING SCHEDULES:							
38	B-2, pages 3-5							
39	E-1							
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

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Actual Orginal Cost	A Plant Adjustments	B Plant Retirement Adjustments	C Plant Reclassification	D Adjustments to Reconcile ant to Reconstructi	E Intentionally Left Blank	Adjusted Original Cost
				Adjustments					
6	301	Organization Cost	$ -	$ -	$ -	$ 37,295	$ -		$ 37,295
7	302	Franchise Cost	37,295	-	-	(37,295)	-		-
8	303	Land and Land Rights	92,895	-	-	-	-		92,895
9	304	Structures and Improvements	41,448	-	-	33,994	-		75,442
10	305	Collecting and Impounding Res.	-	-	-	-	-		-
11	306	Lake River and Other Intakes	-	-	-	-	-		-
12	307	Wells and Springs	1,049,576	(77,654)	-	(137,674)	-		834,248
13	308	Infiltration Galleries and Tunnels	-	-	-	-	-		-
14	309	Supply Mains	-	-	-	-	-		-
15	310	Power Generation Equipment	-	-	-	37,618	-		37,618
16	311	Electric Pumping Equipment	922,780	(1,079)	130,004	85,570	-		1,137,275
17	320	Water Treatment Equipment	-	-	-	-	-		-
18	320.1	Water Treatment Plant	-	-	-	-	-		-
19	320.2	Chemical Solution Feeders	-	-	-	-	-		-
20	330	Dist. Reservoirs & Standpipe	871,524	-	-	(871,524)	-		-
21	330.1	Storage tanks	-	-	-	856,574	-		856,574
22	330.2	Pressure Tanks	-	-	-	32,236	-		32,236
23	331	Trans. and Dist. Mains	2,530,982	663,178	-	-	-		3,194,161
24	333	Services	821,514	69,718	-	-	-		891,232
25	334	Meters	108,269	-	-	(17,954)	-		90,315
26	335	Hydrants	389,873	87,308	-	-	-		477,182
27	336	Backflow Prevention Devices	-	-	-	-	-		-
28	339	Other Plant and Misc. Equip.	-	-	-	-	-		-
29	340	Office Furniture and Fixtures	65,581	-	-	(63,510)	-		2,071
30	340.1	Computers and Software	-	-	-	-	-		-
31	341	Transportation Equipment	-	-	(6,000)	6,000	-		-
32	342	Stores Equipment	-	-	-	-	-		-
33	343	Tools and Work Equipment	1,692	-	-	707	-		2,399
34	344	Laboratory Equipment	-	-	-	-	-		-
35	345	Power Operated Equipment	-	-	-	-	-		-
36	346	Communications Equipment	25,266	-	(4,980)	36,908	-		57,194
37	347	Miscellaneous Equipment	-	-	-	-	-		-
38	348	Other Tangible Plant	-	-	-	1,056	-		1,056
39		Loss on Plant Disposition							-
40		TOTALS	$ 6,958,696	$ 741,472	$ 119,024	$ 0	$ -	$ -	$ 7,819,192
41									
42		Plant-in-Service per Books							$ 6,958,696
43									
44		Increase (decrease) in Plant-in-Service							$ 860,496
45									
46		Adjustment to Plant-in-Service							$ 860,496
47									
48		SUPPORTING SCHEDULES							
49		B-2, pages 3.1 to 3.4							
50									

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

Exhibit
Schedule B-2
Page 3.1
Witness: Bourassa

Line No.				
1	Plant Adjustments			
2				
3				
4	Acct.			Orginal
5	No.	Description		Cost
6	301	Organization Cost	$	-
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		(77,654)
13	308	Infiltration Galleries and Tunnels		-
14	309	Supply Mains		-
15	310	Power Generation Equipment		-
16	311	Electric Pumping Equipment		(1,079)
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		-
22	330.2	Pressure Tanks		-
23	331	Trans. and Dist. Mains		663,178
24	333	Services		69,718
25	334	Meters		-
26	335	Hydrants		87,308
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		-
39				
40		TOTALS	$	741,472
41				
42	SUPPORTING SCHEDULE			
43	Work papers			
44	Testimony			
45				

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

Exhibit
Schedule B-2
Page 3.2
Witness: Bourassa

Line No.			
1	Plant Retirement Adjustments		
2			
3			
4	Acct.		Orginal
5	No.	Description	Cost
6	301	Organization Cost	$ -
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	-
13	308	Infiltration Galleries and Tunnels	-
14	309	Supply Mains	-
15	310	Power Generation Equipment	-
16	311	Electric Pumping Equipment	130,004
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	-
22	330.2	Pressure Tanks	-
23	331	Trans. and Dist. Mains	-
24	333	Services	-
25	334	Meters	-
26	335	Hydrants	-
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	(6,000)
32	342	Stores Equipment	-
33	343	Tools and Work Equipment	-
34	344	Laboratory Equipment	-
35	345	Power Operated Equipment	-
36	346	Communications Equipment	(4,980)
37	347	Miscellaneous Equipment	-
38	348	Other Tangible Plant	-
39			
40		TOTALS	$ 119,024
41			
42			
43	SUPPORTING SCHEDULE		
44	Work papers		
45	Testimony		

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

Exhibit
Schedule B-2
Page 3.3
Witness: Bourassa

Line No.			
1	Plant Reclassifications		
2			
3			
4	Acct.		Orginal
5	No.	Description	Cost
6	301	Organization Cost	$ 37,295
7	302	Franchise Cost	(37,295)
8	303	Land and Land Rights	-
9	304	Structures and Improvements	33,994
10	305	Collecting and Impounding Res.	-
11	306	Lake River and Other Intakes	-
12	307	Wells and Springs	(137,674)
13	308	Infiltration Galleries and Tunnels	-
14	309	Supply Mains	-
15	310	Power Generation Equipment	37,618
16	311	Electric Pumping Equipment	85,570
17	320	Water Treatment Equipment	-
18	320.1	Water Treatment Plant	-
19	320.2	Chemical Solution Feeders	-
20	330	Dist. Reservoirs & Standpipe	(871,524)
21	330.1	Storage tanks	856,574
22	330.2	Pressure Tanks	32,236
23	331	Trans. and Dist. Mains	-
24	333	Services	-
25	334	Meters	(17,954)
26	335	Hydrants	-
27	336	Backflow Prevention Devices	-
28	339	Other Plant and Misc. Equip.	-
29	340	Office Furniture and Fixtures	(63,510)
30	340.1	Computers and Software	-
31	341	Transportation Equipment	6,000
32	342	Stores Equipment	-
33	343	Tools and Work Equipment	707
34	344	Laboratory Equipment	-
35	345	Power Operated Equipment	-
36	346	Communications Equipment	36,908
37	347	Miscellaneous Equipment	-
38	348	Other Tangible Plant	1,056
39			
40		TOTALS	$ 0
41			
42			
43	SUPPORTING SCHEDULE		
44	Work papers		
45	Testimony		

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

Exhibit
Schedule B-2
Page 3.4
Witness: Bourassa

Line No. 1 Reconciliation of Plant to Plant Reconstruction

Line No.	Acct. No.	Description	Orginal Cost	B-2 Adjustments	Adjusted Orginal Cost	Plant Per Reconstruction	Plant Adjustment
6	301	Organization Cost	$ -	$ 37,295	$ 37,295	$ 37,295	$ -
7	302	Franchise Cost	37,295	(37,295)	-	-	-
8	303	Land and Land Rights	92,895	-	92,895	92,895	-
9	304	Structures and Improvements	41,448	33,994	75,442	75,442	-
10	305	Collecting and Impounding Res.	-	-	-	-	-
11	306	Lake River and Other Intakes	-	-	-	-	-
12	307	Wells and Springs	1,049,576	(215,328)	834,248	834,248	-
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	922,780	214,495	1,137,275	1,137,275	-
17	320	Water Treatment Equipment	-	-	-	-	-
18	320.1	Water Treatment Plant	-	-	-	-	-
19	320.2	Chemical Solution Feeders	-	-	-	-	-
20	330	Dist. Reservoirs & Standpipe	871,524	(871,524)	-	-	-
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	2,530,982	663,178	3,194,161	3,194,161	-
24	333	Services	821,514	69,718	891,232	891,232	-
25	334	Meters	108,269	(17,954)	90,315	90,315	-
26	335	Hydrants	389,873	87,308	477,182	477,182	-
27	336	Backflow Prevention Devices	-	-	-	-	-
28	339	Other Plant and Misc. Equip.	-	-	-	-	-
29	340	Office Furniture and Fixtures	65,581	(63,510)	2,071	2,071	-
30	340.1	Computers and Software	-	-	-	-	-
31	341	Transportation Equipment	-	-	-	-	-
32	342	Stores Equipment	-	-	-	-	-
33	343	Tools and Work Equipment	1,692	707	2,399	2,399	-
34	344	Laboratory Equipment	-	-	-	-	-
35	345	Power Operated Equipment	-	-	-	-	-
36	346	Communications Equipment	25,266	31,928	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	$ 6,958,696	$ 860,496	$ 7,819,192	$ 7,819,192	$ -

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
Schedule B-2
Page 3.5
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Per Decision No. 61611 - 04/01/1999 [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	Current Books [6] Book Plant at 12/31/1997	[7] Accum Depr 12/31/1997	[8] Net Plant 12/31/1997
						[1]+[2]		[3]-[4]			[6]-[7]
1	301	Organization Cost	4.08%	37,295		37,295	12,434	24,861	37,295	12,434	24,861
2	302	Franchise Cost	0.00%			-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	65,000		65,000	-	65,000	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%	162,035		162,035	55,689	106,346	162,035	55,689	106,346
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%	55,410		55,410	49,974	5,436	55,410	49,974	5,436
12	320	Water Treatment Equipment	4.08%			-	-	-	-	-	-
13	320.1	Water Treatment Plants	4.08%			-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%			-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	180,280		180,280	37,566	142,714	-	37,566	(37,566)
16	330.1	Storage Tanks	4.08%			-	-	-	180,280	-	180,280
17	330.2	Pressure Tanks	4.08%			-	-	-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	446,017		446,017	109,957	336,060	446,017	109,957	336,060
19	333	Services	4.08%	3,171		3,171	1,322	1,849	3,171	1,322	1,849
20	334	Meters	4.08%	1,698		1,698	1,698	-	1,698	1,698	-
21	335	Hydrants	4.08%	23,325		23,325	6,482	16,843	23,325	6,482	16,843
22	336	Backflow Prevention Devices	4.08%			-	-	-	-	-	-
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%	6,000		6,000	6,000	-	6,000	6,000	-
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%			-	-	-	-	-	-
33	348	Other Tangible Plant	4.08%	1,056		1,056	352	704	1,056	352	704
34											
35		TOTAL		981,285	-	981,285	281,474	699,811	981,285	281,474	699,811
36											
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
Schedule B-2
Page 3.6
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1998 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,014	37,295	13,448	23,847
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%	-	-	-	-	-	-		4,407	162,035	60,096	101,938
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%	-	-	-	-	-	-		1,507	55,410	51,481	3,929
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-		(37,566)	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-		4,904	180,280	4,904	175,376
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		12,132	446,017	122,089	323,928
19	333	Services	4.08%	-	-	-	-	-	-		86	3,171	1,408	1,762
20	334	Meters	4.08%	-	-	-	-	-	-		-	1,698	1,698	-
21	335	Hydrants	4.08%	-	-	-	-	-	-		634	23,325	7,116	16,208
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		-	6,000	6,000	-
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%	-	-	-	-	-	-		29	1,056	381	675
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-					
34														
35		TOTAL		-	-	-	-	-	-	-	(12,852)	981,285	268,622	712,664
36														
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
Schedule B-2
Page 3.7
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1999 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	14,970	22,325
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%	-	-	-	-	-	-		6,611	162,035	66,707	95,327
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%	-	-	-	-	-	-		2,261	55,410	53,742	1,668
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
13	320.1	**Water Treatment Plants**	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-		7,355	180,280	12,259	168,021
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		18,198	446,017	140,287	305,730
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		129	3,171	1,538	1,633
19	333	Services	4.08%	-	-	-	-	-	-		-	1,698	1,698	-
20	334	Meters	4.08%	-	-	-	-	-	-		952	23,325	8,068	15,256
21	335	Hydrants	4.08%	-	-	-	-	-	-		-	-	-	-
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	6,000	6,000		-	-	-	-
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%	1,750	-	1,750	-	-	-		36	1,750	36	1,714
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	424	632
34														
35		TOTAL		1,750	-	1,750	-	6,000	6,000	-	37,106	977,035	299,728	677,308
36														
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
Schedule B-2
Page 3.8
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2000 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	16,492	20,804
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	65,000	-	65,000
4	304	Structures & Improvements	4.08%	4,894	-	4,894	-	-	-		100	4,894	100	4,794
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	73,318	88,716
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%	37,557	-	37,557	-	15,000	15,000		2,721	77,967	41,463	36,504
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		7,355	180,280	19,614	160,666
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		18,198	446,017	158,484	287,533
19	333	Services	4.08%	-	-	-	-	-	-		129	3,171	1,667	1,504
20	334	Meters	4.08%	1,183	-	1,183	-	-	-		93	2,881	1,791	1,090
21	335	Hydrants	4.08%	-	-	-	-	-	-		952	23,325	9,020	14,305
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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%	897	-	897	-	-	-		90	2,647	125	2,522
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	467	589
34														
35		TOTAL		44,531	-	44,531	-	15,000	15,000	-	37,813	1,006,566	322,541	684,025
36														
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
Schedule B-2
Page 3.9
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2001 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	18,013	19,282
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	79,929	82,105
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%	8,924	-	8,924	-	14,337	14,337		3,071	72,554	30,196	42,358
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		7,355	180,280	26,970	153,310
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		18,198	446,017	176,682	269,335
19	333	Services	4.08%	-	-	-	-	-	-		129	3,171	1,796	1,374
20	334	Meters	4.08%	228	-	228	-	-	-		122	3,109	1,913	1,195
21	335	Hydrants	4.08%	-	-	-	-	-	-		952	23,325	9,971	13,353
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	-	-	-		237	8,962	362	8,600
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	510	546
34														
35		TOTAL		15,468	-	15,468	-	14,337	14,337	-	38,439	1,007,697	346,843	661,054
36														
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
Schedule B-2
Page 3.10
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2002 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	19,535	17,760
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	27,895	-	27,895	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	18,398	-	18,398	-	-	-		575	23,291	874	22,417
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	27,578	-	27,578	-	-	-		7,174	189,613	87,103	102,510
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%	169,714	-	169,714	-	-	-		6,422	242,268	36,618	205,650
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		7,355	180,280	34,325	145,955
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	190,448	-	190,448	-	-	-		22,083	636,465	198,764	437,701
19	333	Services	4.08%	57,676	-	57,676	-	-	-		1,306	60,847	3,102	57,744
20	334	Meters	4.08%	-	-	-	-	-	-		127	3,109	2,040	1,069
21	335	Hydrants	4.08%	27,395	-	27,395	-	-	-		1,511	50,720	11,482	39,238
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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%	707	-	707	-	-	-		14	707	14	693
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	1,340	-	1,340	-	-	-		393	10,302	755	9,547
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	553	503
34														
35		TOTAL		521,151	-	521,151	-	-	-	-	48,524	1,526,848	395,167	1,133,681
36														
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
Schedule B-2
Page 3.11
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2003 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	21,057	16,239
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		950	23,291	1,825	21,466
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,613	94,839	94,773
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%	-	-	-	-	-	-		9,885	242,268	46,503	195,765
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-		7,355	180,280	41,681	138,599
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		30,632	865,089	229,396	635,693
18	331	Transmission & Distribution Mains	4.08%	228,624	-	228,624	-	-	-		3,488	110,132	6,590	103,541
19	333	Services	4.08%	49,285	-	49,285	-	-	-		212	7,272	2,252	5,020
20	334	Meters	4.08%	4,163	-	4,163	-	-	-		2,657	79,520	14,139	65,381
21	335	Hydrants	4.08%	28,800	-	28,800	-	-	-		-	-	-	-
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	707	43	664
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	2,730	-	2,730	-	-	-		476	13,032	1,231	11,801
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	596	459
34														
35		TOTAL		313,602	-	313,602	-	-	-	-	64,984	1,842,450	460,152	1,382,298
36														
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
Schedule B-2
Page 3.12
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2004 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	22,576	14,717
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		950	23,291	2,775	20,516
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,613	102,575	87,037
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	31,758	-	31,758	-	-	-		648	31,758	648	31,110
11	311	Pumping Equipment	4.08%	478,260	-	478,260	-	-	-		19,641	720,526	66,144	654,384
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	676,294	-	676,294	-	-	-		21,152	856,574	62,833	793,741
17	330.2	Pressure Tanks	4.08%	32,236	-	32,236	-	-	-		658	32,236	658	31,578
18	331	Transmission & Distribution Mains	4.08%	152,378	-	152,378	-	-	-		38,404	1,017,467	267,800	749,667
19	333	Services	4.08%	66,728	-	66,728	-	-	-		5,855	176,860	12,445	164,415
20	334	Meters	4.08%	13,737	-	13,737	-	-	-		577	21,008	2,829	18,180
21	335	Hydrants	4.08%	33,497	-	33,497	-	-	-		3,928	113,017	18,066	94,950
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	707	72	635
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	22,104	-	22,104	-	-	-		983	35,136	2,214	32,922
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	639	416
34														
35		TOTAL		1,506,992	-	1,506,992	-	-	-	-	102,124	3,349,442	562,276	2,787,166
36														
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
Schedule B-2
Page 3.13
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2005 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	24,100	13,195
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	5,180	-	5,180	-	-	-		1,056	28,471	3,831	24,640
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,613	110,312	79,301
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,296	31,758	1,944	29,815
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-		29,398	720,528	95,542	624,986
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	97,781	758,793
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	1,973	30,263
18	331	Transmission & Distribution Mains	4.08%	338,638	663,178	1,001,816	-	-	-		61,950	2,019,283	329,750	1,689,534
19	333	Services	4.08%	71,348	69,718	141,066	-	-	-		10,094	317,926	22,538	295,388
20	334	Meters	4.08%	31,341	-	31,341	-	-	-		1,497	52,350	4,325	48,025
21	335	Hydrants	4.08%	42,926	87,308	130,235	-	-	-		7,268	243,252	25,334	217,917
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	707	101	606
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-		1,434	35,136	3,647	31,489
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	682	373
34														
35		TOTAL		489,434	820,205	1,309,639	-	-	-	-	159,584	4,659,081	721,860	3,937,221
36														
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

Schedule B-2

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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2006 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	25,622	11,674
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		1,162	28,471	4,993	23,479
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,613	118,048	71,565
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	1,236	-	1,236	-	-	-		1,321	32,994	3,265	29,730
11	311	Pumping Equipment	4.08%	6,264	-	6,264	-	-	-		29,525	726,791	125,067	601,725
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	132,729	723,845
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	3,288	28,948
18	331	Transmission & Distribution Mains	4.08%	130,193	-	130,193	-	-	-		85,043	2,149,476	414,792	1,734,684
19	333	Services	4.08%	52,505	-	52,505	-	-	-		14,042	370,431	36,581	333,850
20	334	Meters	4.08%	17,067	-	17,067	-	-	-		2,484	69,417	6,809	62,608
21	335	Hydrants	4.08%	21,806	-	21,806	-	-	-		10,370	265,057	35,704	229,354
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	707	130	577
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-		1,434	35,136	5,081	30,055
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	725	330
34														
35		TOTAL		229,071	-	229,071	-	-	-	-	190,973	4,888,151	912,833	3,975,318
36														
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
Schedule B-2
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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2007 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	27,143	10,152
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		1,162	28,471	6,154	22,317
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,613	125,784	63,829
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,346	32,994	4,611	28,384
11	311	Pumping Equipment	4.08%	1,691	-	1,691	-	-	-		29,688	728,482	154,755	573,728
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	167,677	688,897
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	4,603	27,633
18	331	Transmission & Distribution Mains	4.08%	431,026	-	431,026	-	-	-		96,492	2,580,502	511,284	2,069,218
19	333	Services	4.08%	192,670	-	192,670	-	-	-		19,044	563,101	55,625	507,476
20	334	Meters	4.08%	9,439	-	9,439	-	-	-		3,025	78,856	9,834	69,022
21	335	Hydrants	4.08%	70,900	-	70,900	-	-	-		12,261	335,957	47,965	287,993
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	1,416	-	1,416	-	-	-		29	1,416	29	1,387
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	707	159	549
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	4,980	-	4,980	-	-	-		1,535	40,116	6,616	33,500
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	768	287
34														
35		TOTAL		712,122	-	712,122	-	-	-	-	210,174	5,600,273	1,123,007	4,477,266
36														
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
Schedule B-2
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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2008 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	28,665	8,630
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	4,325	-	4,325	-	-	-		1,250	32,796	7,404	25,392
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	990	(990)	-	-	-	-		7,736	189,613	133,520	56,092
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,346	32,994	5,957	27,037
11	311	Pumping Equipment	4.08%	87,378	-	87,378	-	47,642	47,642		30,533	768,218	137,645	630,573
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	202,625	653,949
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	5,919	26,318
18	331	Transmission & Distribution Mains	4.08%	363,405	-	363,405	-	-	-		112,698	2,943,907	623,982	2,319,925
19	333	Services	4.08%	144,958	-	144,958	-	-	-		25,932	708,060	81,557	626,503
20	334	Meters	4.08%	-	-	-	-	-	-		3,217	78,856	13,051	65,805
21	335	Hydrants	4.08%	65,437	-	65,437	-	-	-		15,042	401,394	63,007	338,388
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-		58	1,416	87	1,329
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	707	188	520
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	4,700	-	4,700	-	-	-		1,733	44,817	8,349	36,468
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	811	244
34														
35		TOTAL		671,194	(990)	670,204	-	47,642	47,642	-	237,401	6,222,835	1,312,766	4,910,069
36														
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
Schedule B-2
Page 3.17
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	30,187	7,109
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		1,338	32,796	8,742	24,054
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	251,984	251,984	-	-	-		12,877	441,596	146,397	295,199
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	4,624	-	4,624	-	-	-		1,440	37,618	7,397	30,221
11	311	Pumping Equipment	4.08%	536,600	(253,063)	283,538	-	-	-		37,127	1,051,756	174,772	876,984
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	237,574	619,000
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	7,234	25,002
18	331	Transmission & Distribution Mains	4.08%	88,544	-	88,544	-	-	-		121,918	3,032,451	745,900	2,286,551
19	333	Services	4.08%	42,432	-	42,432	-	-	-		29,754	750,491	111,311	639,180
20	334	Meters	4.08%	-	-	-	-	-	-		3,217	78,856	16,269	62,587
21	335	Hydrants	4.08%	22,336	-	22,336	-	-	-		16,833	423,730	79,839	343,891
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-		58	1,416	144	1,271
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	707	216	491
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	1,175	-	1,175	-	-	-		1,852	45,992	10,201	35,790
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	854	201
34														
35		TOTAL		695,710	(1,079)	694,631	-	-	-	-	264,272	6,917,466	1,577,038	5,340,428
36														
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
Schedule B-2
Page 3.18
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2010 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	31,708	5,587
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		1,338	32,796	10,080	22,716
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		18,017	441,596	164,414	277,182
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,535	37,618	8,932	28,686
11	311	Pumping Equipment	4.08%	13,723	-	13,723	76,170	-	76,170		41,638	989,309	140,240	849,069
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		488	-	488	(488)
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%	-	-	-	-	-	-		34,948	856,574	272,522	584,052
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	8,549	23,687
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		123,724	3,032,451	869,624	2,162,827
19	333	Services	4.08%	-	-	-	-	-	-		30,620	750,491	141,931	608,560
20	334	Meters	4.08%	5,224	-	5,224	-	-	-		3,324	84,080	19,593	64,488
21	335	Hydrants	4.08%	-	-	-	-	-	-		17,288	423,730	97,127	326,603
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-		58	1,416	202	1,214
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	707	245	462
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	3,937	-	3,937	-	-	-		1,957	49,929	12,158	37,771
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	897	158
34														
35		TOTAL		22,884	-	22,884	76,170	-	76,170	-	277,844	6,864,180	1,778,712	5,085,468
36														
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
Schedule B-2
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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	33,230	4,066
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	15,263	-	15,263	-	-	-		1,649	48,059	11,730	36,329
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	469,316	(76,664)	392,652	-	-	-		26,027	834,248	190,441	643,807
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,535	37,618	10,467	27,151
11	311	Pumping Equipment	4.08%	298,688	-	298,688	510,205	(206,984)	303,221		40,271	984,776	(122,710)	1,107,486
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		192	-	680	(680)
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%	-	-	-	-	-	-		34,948	856,574	307,470	549,104
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	9,864	22,372
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		123,724	3,032,451	993,348	2,039,103
19	333	Services	4.08%	1,664	-	1,664	-	-	-		30,654	752,155	172,585	579,570
20	334	Meters	4.08%	-	-	-	-	-	-		3,430	84,080	23,023	61,057
21	335	Hydrants	4.08%	-	-	-	-	-	-		17,288	423,730	114,415	309,315
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-		58	1,416	260	1,156
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	707	274	433
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	8,461	-	8,461	-	4,980	4,980		2,108	53,410	9,286	44,124
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	940	115
34														
35		TOTAL		793,392	(76,664)	716,728	510,205	(202,004)	308,201	-	284,795	7,272,707	1,755,305	5,517,402
36														
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
Schedule B-2
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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	34,752	2,544
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	12,843	-	12,843	-	-	-		2,223	60,902	13,952	46,949
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		34,037	834,248	224,478	609,770
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,535	37,618	12,002	25,616
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-		40,179	984,776	(82,531)	1,067,307
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		(680)	-	-	-
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-		-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-		34,948	856,574	342,418	514,156
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	11,179	21,057
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		123,724	3,032,451	1,117,072	1,915,379
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		30,873	761,244	203,459	557,786
19	333	Services	4.08%	9,089	-	9,089	-	-	-		3,451	85,106	26,474	58,631
20	334	Meters	4.08%	1,026	-	1,026	-	-	-		17,288	423,730	131,704	292,026
21	335	Hydrants	4.08%	-	-	-	-	-	-		-	-	-	-
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		71	2,071	331	1,740
24	340	Office Furniture & Equipment	4.08%	655	-	655	-	-	-		-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-		-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-		45	1,517	320	1,197
28	343	Tools, Shop & Garage Equipment	4.08%	809	-	809	-	-	-		-	-	-	-
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		2,256	57,194	11,543	45,651
31	346	Communication Equipment	4.08%	3,784	-	3,784	-	-	-		-	-	-	-
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		43	1,056	984	72
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-					
34														
35		TOTAL		28,205	-	28,205	-	-	-	-	292,831	7,300,912	2,048,136	5,252,776
36														
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
Schedule B-2
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Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2013 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	36,273	1,022
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	14,540	-	14,540	-	-	-		2,781	75,442	16,734	58,708
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		34,037	834,248	258,516	575,732
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,535	37,618	13,537	24,081
11	311	Pumping Equipment	4.08%	152,499	-	152,499	-	-	-		43,290	1,137,275	(39,241)	1,176,516
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	377,367	479,207
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	12,495	19,741
18	331	Transmission & Distribution Mains	4.08%	161,710	-	161,710	-	-	-		127,023	3,194,161	1,244,095	1,950,066
19	333	Services	4.08%	129,987	-	129,987	-	-	-		33,711	891,232	237,169	654,063
20	334	Meters	4.08%	5,209	-	5,209	-	-	-		3,579	90,315	30,053	60,262
21	335	Hydrants	4.08%	53,451	-	53,451	-	-	-		18,379	477,182	150,082	327,099
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-		84	2,071	416	1,655
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%	883	-	883	-	-	-		80	2,399	399	2,000
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-		2,334	57,194	13,876	43,318
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	1,027	29
34														
35		TOTAL		518,280	-	518,280	-	-	-	-	304,660	7,819,192	2,352,796	5,466,396
36														
37														
38														

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

Exhibit
Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Acct. No.	Description	Per Books Accum. Depr.	A Plant Retirements Adjustments	B Deferred Purchases Adjustments	C Adjustments to Reconcile A/D to Reconstruction	D Intentionally Left Blank	E Intentionally Left Blank	Adjusted Accum. Depr.
6	301	Organization Cost	$ -	$ -	$ -	$ 36,273			$ 36,273
7	302	Franchise Cost	37,171	-	-	(37,171)			-
8	303	Land and Land Rights	-	-	-	-			-
9	304	Structures and Improvements	7,172	-	4,906	4,655			16,734
10	305	Collecting and Impounding Res.	-	-	-	-			-
11	306	Lake River and Other Intakes	-	-	-	-			-
12	307	Wells and Springs	279,899	-	23,032	(44,416)			258,516
13	308	Infiltration Galleries and Tunnels	-	-	-	-			-
14	309	Supply Mains	-	-	-	-			-
15	310	Power Generation Equipment	-	-	9,070	4,466			13,537
16	311	Electric Pumping Equipment	269,825	130,004	205,639	(644,709)			(39,241)
17	320	Water Treatment Equipment	-	-	-	-			-
18	320.1	Water Treatment Plant	-	-	-	-			-
19	320.2	Chemical Solution Feeders	-	-	-	-			-
20	330	Dist. Reservoirs & Standpipe	153,706	-	-	(153,706)			-
21	330.1	Storage tanks	-	-	174,790	202,577			377,367
22	330.2	Pressure Tanks	-	-	9,207	3,288			12,495
23	331	Trans. and Dist. Mains	579,299	-	74,265	590,531			1,244,095
24	333	Services	86,735	-	26,086	124,348			237,169
25	334	Meters	17,314	-	-	12,739			30,053
26	335	Hydrants	59,697	-	9,305	81,080			150,082
27	336	Backflow Prevention Devices	-	-	-	-			-
28	339	Other Plant and Misc. Equip.	-	-	-	-			-
29	340	Office Furniture and Fixtures	59,119	-	-	(58,703)			416
30	340.1	Computers and Software	-	-	-	-			-
31	341	Transportation Equipment	-	(6,000)	-	6,000			-
32	342	Stores Equipment	-	-	-	-			-
33	343	Tools and Work Equipment	166	-	-	233			399
34	344	Laboratory Equipment	-	-	-	-			-
35	345	Power Operated Equipment	-	-	-	-			-
36	346	Communications Equipment	6,004	(4,980)	2,259	10,593			13,876
37	347	Miscellaneous Equipment	-	-	-	-			-
38	348	Other Tangible Plant	-	-	-	1,027			1,027
39		Loss on Plant Disposition	(501,563)			501,563			-
40		TOTALS	$ 1,054,545	$ 119,024	$ 538,559	$ 640,669	$ -	$ -	$ 2,352,796
42		Accumulated Depreciation per Books							$ 1,054,550
44		Increase (decrease) in Accumulated Depreciation							$ 1,298,246
46		Adjustment to Accumulated Depreciation							$ 1,298,246

48 SUPPORTING SCHEDULES
49 B-2, pages 4.1, 4.2, 4.3

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

Exhibit
Schedule B-2
Page 4.1
Witness: Bourassa

Line No.			
1	Plant Retirement A/D Adjustments		
2			
3			
4	Acct.		Orginal
5	No.	Description	Cost
6	301	Organization Cost	$ -
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	-
13	308	Infiltration Galleries and Tunnels	-
14	309	Supply Mains	-
15	310	Power Generation Equipment	-
16	311	Electric Pumping Equipment	130,004
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	-
22	330.2	Pressure Tanks	-
23	331	Trans. and Dist. Mains	-
24	333	Services	-
25	334	Meters	-
26	335	Hydrants	-
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	(6,000)
32	342	Stores Equipment	-
33	343	Tools and Work Equipment	-
34	344	Laboratory Equipment	-
35	345	Power Operated Equipment	-
36	346	Communications Equipment	(4,980)
37	347	Miscellaneous Equipment	-
38	348	Other Tangible Plant	-
39		Plant Held for Future Use	
40		TOTALS	$ 119,024
41			
42			
43	SUPPORTING SCHEDULE		
44	B-2, pages 3.1 through 3.2		
45	B-2, pages 3.4 through 3.29		

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

Exhibit
Schedule B-2
Page 4.2
Witness: Bourassa

Line No.			
1	Deferred Purchases A/D Adjustments		
2			
3			
4	Acct.		Orginal
5	No.	Description	Cost
6	301	Organization Cost	$ -
7	302	Franchise Cost	-
8	303	Land and Land Rights	-
9	304	Structures and Improvements	4,906
10	305	Collecting and Impounding Res.	-
11	306	Lake River and Other Intakes	-
12	307	Wells and Springs	23,032
13	308	Infiltration Galleries and Tunnels	-
14	309	Supply Mains	-
15	310	Power Generation Equipment	9,070
16	311	Electric Pumping Equipment	205,639
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	174,790
22	330.2	Pressure Tanks	9,207
23	331	Trans. and Dist. Mains	74,265
24	333	Services	26,086
25	334	Meters	-
26	335	Hydrants	9,305
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	2,259
37	347	Miscellaneous Equipment	-
38	348	Other Tangible Plant	-
39		Plant Held for Future Use	
40		TOTALS	$ 538,559
41			
42			
43	SUPPORTING SCHEDULE		
44	Work papers		
45			

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

Exhibit
Schedule B-2
Page 4.3
Witness: Bourassa

Line No.

1 Reconciliation of A/D to A/D Reconstruction

Line No.	Acct. No.	Description	A/D Orginal Cost	B-2 Adjustments	A/D Adjusted Orginal Cost	A/D Per Reconstruction	A/D Adjustment
6	301	Organization Cost	-	-	-	36,273	36,273
7	302	Franchise Cost	37,171	-	37,171	-	(37,171)
8	303	Land and Land Rights	-	-	-	-	-
9	304	Structures and Improvements	7,172	4,906	12,079	16,734	4,655
10	305	Collecting and Impounding Res.	-	-	-	-	-
11	306	Lake River and Other Intakes	-	-	-	-	-
12	307	Wells and Springs	279,899	23,032	302,931	258,516	(44,416)
13	308	Infiltration Galleries and Tunnels	-	-	-	-	-
14	309	Supply Mains	-	-	-	-	-
15	310	Power Generation Equipment	-	9,070	9,070	13,537	4,466
16	311	Electric Pumping Equipment	269,825	335,643	605,468	(39,241)	(644,709)
17	320	Water Treatment Equipment	-	-	-	-	-
18	320.1	Water Treatment Plant	-	-	-	-	-
19	320.2	Chemical Solution Feeders	-	-	-	-	-
20	330	Dist. Reservoirs & Standpipe	153,706	-	153,706	-	(153,706)
21	330.1	Storage tanks	-	174,790	174,790	377,367	202,577
22	330.2	Pressure Tanks	-	9,207	9,207	12,495	3,288
23	331	Trans. and Dist. Mains	579,299	74,265	653,564	1,244,095	590,531
24	333	Services	86,735	26,086	112,821	237,169	124,348
25	334	Meters	17,314	-	17,314	30,053	12,739
26	335	Hydrants	59,697	9,305	69,002	150,082	81,080
27	336	Backflow Prevention Devices	-	-	-	-	-
28	339	Other Plant and Misc. Equip.	-	-	-	-	-
29	340	Office Furniture and Fixtures	59,119	-	59,119	416	(58,703)
30	340.1	Computers and Software	-	-	-	-	-
31	341	Transportation Equipment	-	(6,000)	(6,000)	-	6,000
32	342	Stores Equipment	-	-	-	-	-
33	343	Tools and Work Equipment	166	-	166	399	233
34	344	Laboratory Equipment	-	-	-	-	-
35	345	Power Operated Equipment	-	-	-	-	-
36	346	Communications Equipment	6,004	(2,721)	3,283	13,876	10,593
37	347	Miscellaneous Equipment	-	-	-	-	-
38	348	Other Tangible Plant	-	-	-	1,027	1,027
39		Loss on Plant Disposition	(501,563)	-	(501,563)	-	501,563
40		TOTALS	$ 1,054,545	$ 657,583	$ 1,712,127	$ 2,352,796	$ 640,669

43 SUPPORTING SCHEDULE
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 3

Exhibit
Schedule B-2
Page 5
Witness: Bourassa

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

Line No.		Gross CIAC	Accumulated Amortization
1			
2			
3			
4			
5	Computed balance at end of TY	$ 820,205	$ 284,447
6			
7	Book balance at end of TY	$ -	$ -
8			
9	Increase (decrease)	$ 820,205	$ 284,447
10			
11			
12	Adjustment to CIAC/AA CIAC	$ 820,205	$ (284,447)
13	Label	3a	3b
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	E-1		
21	B-2, page 5.1 to 5.4		
22			
23			
24			
25			
26			
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28			
29			
30			
31			
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33			
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37			
38			
39			
40			

Quail Creek Water Company
Contributions-in-aid of Construction (CIAC)

Exhibit
Schedule B-2
Page 5.1
Witness: Jones/Bourassa

Line No.		Balance 12/31/1997 Decision No. 61611	1998 Additions	1998 Balance	1999 Additions	1999 Balance	2000 Additions	2000 Balance	2001 Additions	2001 Balance	2002 Additions	2002 Balance	2003 Additions	2003 Balance
5	CIAC	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Amortization Rate			4.08%		4.08%		4.08%		4.08%		4.08%		4.08%
8	Amortization (1/2 yr convention)			-		-		-		-		-		-
9	Accumulated Amortization	-		-		-		-		-		-		-
11	Net CIAC	-	-	-	-	-	-	-	-	-	-	-	-	-

Line No.		2004 Additions	2004 Balance	2005 Additions	2005 Balance	2006 Additions	2006 Balance	2007 Additions	2007 Balance	2008 Additions	2008 Balance	2009 Additions	2009 Balance	2010 Additions	2010 Balance
20	CIAC	-	-	820,205	820,205	-	820,205	-	820,205	-	820,205	-	820,205	-	820,205
22	Amortization Rate		4.08%		4.08%		4.08%		4.08%		4.08%		4.08%		4.08%
23	Amortization (1/2 yr convention)		-		16,732		33,464		33,464		33,464		33,464		33,464
24	Accumulated Amortization		-		16,732		50,197		83,661		117,125		150,590		184,054
26	Net CIAC	-	-	820,205	803,473	-	770,008	-	736,544	-	703,080	-	669,615	-	636,151

Line No.		2011 Additions	2011 Balance	2012 Additions	2012 Balance	2013 Additions	2013 Balance
35	CIAC	-	820,205	-	820,205	-	820,205
37	Amortization Rate		4.08%		4.08%		4.08%
38	Amortization (1/2 yr convention)		33,464		33,464		33,464
39	Accumulated Amortization		217,518		250,983		284,447
41	Net CIAC	-	602,687	-	569,222	-	535,758

Quail Creek Water Company
Test Year Ended December 31, 2013
Original Cost Rate Base Proforma Adjustments
Adjustment 5

Exhibit
Schedule B-2
Page 6
Witness: Bourassa

Deferred Income Tax as of December 31, 2012

Line No.			Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
6		Plant-in-Service	$ 7,819,192 [1]								
7		Accum. Deprec.	(2,352,796) [1]								
8		CIAC	(535,758) [3]								
9	Fed.	Fixed Assets	$ 4,930,638	$ 2,023,375 [2]	100.0%	$ (2,907,263)	34.39%		-		(999,913)
11	State	Fixed Assets	$ 4,930,638	$ 2,023,375 [2]	100.0%	$ (2,907,263)	4.90%		-		(142,456)
13	Fed &State	AIAC		180,221 [4]	100.0%	$ 180,221 [4]	39.29%		$ 70,815		
16								$ -	$ 70,815	$ -	$ (1,142,369)
17		Net Asset (Liability)						$ (1,071,554)			
20		DIT Asset (Liability) per Books						$ (859,639)			
22		Adjustment to DIT						$ 211,915			

Footnotes - See page 7.1

Quail Creek Water Company
Test Year Ended December 31, 2013
Original Cost Rate Base Proforma Adjustments
Adjustment 5

Exhibit
Schedule B-2
Page 6.1
Witness: Bourassa

Line No.		FEDERAL			STATE		
1	[1] **Per adjusted book balances**						
2	**2 Computation of Net Tax Value December 31, 2013**						
3	Based on 2012 Tax Depreciation report (December 31, 2013)						
4	Unadjusted Cost at December 31, 2012 per federal and state tax depr. report	$ 7,545,070			$ 7,545,070		
5	Reconciling Items not on tax report:						
6	Proposed Plant Retirement Adjustments	119,024			119,024		
7							
8							
9							
10							
11	Net Unadjusted Cost tax Basis at December 31, 2013						
12				$ 7,664,094			$ 7,664,094
13	Reductions						
14	Accumulated Depreciation 2013 and prior per federal and state tax depr. report	$ (5,521,695)			$ (5,521,695)		
15							
16	Proposed Plant Retirement Adjustments	(119,024)			(119,024)		
17					-		
18					-		
19					-		
20							
21							
22	Net Reductions through December 31, 2013			(5,640,719)			(5,640,719)
23	Net tax value of plant-in-service at December 31, 2012			$ 2,023,375			$ 2,023,375
24							
25	[3] **CIAC (including impact of change to probability of realization)**						
26	Gross CIAC per adjusted book balances		$ 820,205				
27	CIAC reductions/additions						
28	A/A per adjusted book balances	$ (284,447)					
29		-					
30							
31	Net CIAC before unrealized AIAC		(284,447)				
32				$ 535,758			
33	Unrealized AIAC Component						
34	AIAC per adjusted book balances						
35	Adjusted Net AIAC (see footnote 5 below)		$ -				
36	Unrealized AIAC Component % (1-Realized AIAC Component)		70.0%				
37				$ -			
38	Total realizable CIAC			$ 535,758			
39							
40	[4] **AIAC (including impact of change in probability of realization)**						
41	AIAC per adjusted book balances						
42	Less: Unrealized AIAC (from Note 3, above)			$ -			
43				$ -			
44	Subtotal						
45	Meter and Service Line Installation Charges per adjusted book balances			$ -			
46	Total realizable AIAC			180,221			
47				$ 180,221			

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

Exhibit
Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	33,285
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	$	36,318
10			
11			
12	Working Capital Requested	$	-
13			
14			
15			
16			
17			Adjusted Test Year
18	Total Operating Expense	$	725,756
19	Less:		
20	Income Tax	$	57,233
21	Property Tax		35,106
22	Depreciation		294,340
23	Purchased Water		-
24	Pumping Power		72,800
25	Allowable Expenses	$	266,277
26	1/8 of allowable expenses	$	33,285
27			
28			
29	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
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
Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 823,460	$ 13,906	$ 837,366	$ 411,785	$ 1,249,151
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	7,353	-	7,353		7,353
5		$ 830,813	$ 13,906	$ 844,719	$ 411,785	$ 1,256,504
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	71,469	1,331	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	-	12,864		12,864
20	Rents	566	-	566		566
21	Transportation Expenses	13,067	-	13,067		13,067
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	-	12,741		12,741
28	Depreciation and Amortization Expense	266,978	27,362	294,340		294,340
29	Taxes Other Than Income	-	-	-		-
30	Property Taxes	36,602	(1,496)	35,106	5,309	40,415
31	Income Tax	65,338	(8,105)	57,233	159,719	216,952
32			-	-		-
33	**Total Operating Expenses**	$ 666,664	$ 59,092	$ 725,756	$ 165,028	$ 890,785
34	**Operating Income**	$ 164,149	$ (45,186)	$ 118,963	$ 246,757	$ 365,719
35	**Other Income (Expense)**					
36	Interest Income	25,176	(25,176)	-		-
37	Other income	505	(505)	-		-
38	Interest Expense	-	-	-		-
39	Other Expense	-	-	-		-
40		-	-	-		-
41	**Total Other Income (Expense)**	$ 25,681	$ (25,681)	$ -	$ -	$ -
42	**Net Profit (Loss)**	$ 189,830	$ (70,867)	$ 118,963	$ 246,757	$ 365,719
43						
44	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
45	C-1, page 2				A-1	
46	E-2					
47						

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

Exhibit
Schedule C-1
Page 2
Witness: Bourassa

Line No.		LABEL>>>>> Test Year Book Results	1 Depreciation	2 Property Taxes	3 Rate Case Expense	4 Revenue Annualization	5 Purchased Power Annualization	6 Intentionally Left Blank	7 Remove Other Income/ Expense	8 Income Taxes	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**												
2	Metered Water Revenues	$ 823,460				$ 13,906					$ 837,366	$ 411,785	$ 1,249,151
3	Unmetered Water Revenues	-									-		-
4	Other Water Revenues	7,353									7,353		7,353
5		$ 830,813	$ -	$ -	$ -	$ 13,906	$ -	$ -	$ -	$ -	$ 844,719	$ 411,785	$ 1,256,504
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	71,469					1,331				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									12,864		12,864
20	Rents	566									566		566
21	Transportation Expenses	13,067									13,067		13,067
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									12,741		12,741
28	Depreciation and Amortization Expense	266,978	27,362								294,340		294,340
29	Taxes Other Than Income	-									-		-
30	Property Taxes	36,602		(1,496)							35,106	5,309	40,415
31	Income Tax	65,338								(8,105)	57,233	159,719	216,952
32													
33	**Total Operating Expenses**	$ 666,664	$ 27,362	$ (1,496)	$ 40,000	$ -	$ 1,331	$ -	$ -	$ (8,105)	$ 725,756	$ 165,028	$ 890,785
34	**Operating Income**	$ 164,149	$ (27,362)	$ 1,496	$ (40,000)	$ 13,906	$ (1,331)	$ -	$ -	$ 8,105	$ 118,963	$ 246,757	$ 365,719
35	**Other Income (Expense)**												
36	Interest Income	25,176							(25,176)		-		-
37	Other income	505							(505)		-		-
38	Interest Expense	-							-		-		-
39	Other Expense	-							-		-		-
40		-									-		-
41	**Total Other Income (Expense)**	$ 25,681	$ -	$ -	$ -	$ -	$ -	$ -	$ (25,681)	$ -	$ -	$ -	$ -
42	**Net Profit (Loss)**	$ 189,830	$ (27,362)	$ 1,496	$ (40,000)	$ 13,906	$ (1,331)	$ -	$ (25,681)	$ 8,105	$ 118,963	$ 246,757	$ 365,719
43													
44	SUPPORTING SCHEDULES:												
45	C-2												
46	E-2												

RECAP SCHEDULES:
C-1, page 1

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

Exhibit
Schedule C-2
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Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	
		Depreciation	Property Taxes	Rate Case Expense	Revenue Annualization	Purchased Power Annualization	Intentionally Left Blank	Subtotal
4	Revenues				13,906		-	13,906
6	Expenses	27,362	(1,496)	40,000		1,331	-	67,198
8	Operating Income	(27,362)	1,496	(40,000)	13,906	(1,331)	-	(53,292)
11	Interest Expense							-
13	Other Income / Expense							-
17	Net Income	(27,362)	1,496	(40,000)	13,906	(1,331)	-	(53,292)

Line No.		Adjustments to Revenues and Expenses						
		7	8	9	10	11	12	
		Remove Other Income/ Expense	Income Taxes	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Subtotal
25	Revenues							13,906
27	Expenses	-	(8,105)	-	-	-	-	59,092
29	Operating Income	-	8,105	-	-	-	-	(45,186)
32	Interest Expense	-						-
34	Other Income / Expense	(25,681)						(25,681)
38	Net Income	(25,681)	8,105	-	-	-	-	(70,867)

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

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Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Original Cost	Non-Depr. or Fully Depr. Plant	Adjusted Original Cost	Proposed Rates	Depreciation Expense
5	301	Organization Cost	$ 37,295		$ 37,295	0.00%	$ -
6	302	Franchise Cost	-	-	-	0.00%	-
7	303	Land and Land Rights	92,895	(92,895)	-	0.00%	-
8	304	Structures and Improvements	75,442		75,442	3.33%	2,512
9	305	Collecting and Impounding Res.	-		-	2.50%	-
10	306	Lake River and Other Intakes	-		-	2.50%	-
11	307	Wells and Springs	834,248		834,248	3.33%	27,780
12	308	Infiltration Galleries and Tunnels	-		-	6.67%	-
13	309	Supply Mains	-		-	2.00%	-
14	310	Power Generation Equipment	37,618		37,618	5.00%	1,881
15	311	Electric Pumping Equipment	1,137,275		1,137,275	12.50%	142,159
16	320	Water Treatment Equipment	-		-	3.33%	-
17	320.1	Water Treatment Plant	-		-	3.33%	-
18	320.2	Chemical Solution Feeders	-		-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	-		-	2.22%	-
20	330.1	Storage tanks	856,574		856,574	2.22%	19,016
21	330.2	Pressure Tanks	32,236		32,236	5.00%	1,612
22	331	Trans. and Dist. Mains	3,194,161		3,194,161	2.00%	63,883
23	333	Services	891,232		891,232	3.33%	29,678
24	334	Meters	90,315		90,315	8.33%	7,523
25	335	Hydrants	477,182		477,182	2.00%	9,544
26	336	Backflow Prevention Devices	-		-	6.67%	-
27	339	Other Plant and Misc. Equip.	-		-	6.67%	-
28	340	Office Furniture and Fixtures	2,071		2,071	6.67%	138
29	340.1	Computers and Software	-		-	20.00%	-
30	341	Transportation Equipment	-		-	20.00%	-
31	342	Stores Equipment	-		-	4.00%	-
32	343	Tools and Work Equipment	2,399		2,399	5.00%	120
33	344	Laboratory Equipment	-		-	10.00%	-
34	345	Power Operated Equipment	-		-	5.00%	-
35	346	Communications Equipment	57,194		57,194	10.00%	5,719
36	347	Miscellaneous Equipment	-		-	10.00%	-
37	348	Other Tangible Plant	1,056		1,056	10.00%	106
38		TOTALS	$ 7,819,192	$ (92,895)	$ 7,726,296		$ 311,672

			Gross CIAC	Amort. Rate	
40	Less: Amortization of Contributions				
41	331	Trans. and Dist. Mains	$ 663,178	2.00%	$ (13,264)
42	333	Services	$ 69,718	3.33%	(2,322)
43	335	Hydrants	$ 87,308	2.00%	(1,746)
44		Total CIAC	$ 820,205		$ (17,331)
45	Total Depreciation Expense				$ 294,340
46					
47	Adjusted Test Year Depreciation Expense				266,978
48					
49	Increase (decrease) in Depreciation Expense				$ 27,362
50					
51	Adjustment to Revenues and/or Expenses				$ 27,362
52					
53	SUPPORTING SCHEDULE				
54	B-2, page 3				

*Fully Depreciated/Amortized

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

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Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 844,719	$ 844,719
2	Weight Factor	3	2
3	Subtotal (Line 1 * Line 2)	2,534,157	1,689,438
4	Company Recommended Revenue		1,256,504
5	Subtotal (Line 4 + Line 5)	2,534,157	2,945,943
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	844,719	981,981
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	1,689,438	1,963,962
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	1,963,962
13	Assessment Ratio	18.0%	18.0%
14	Assessment Value (Line 12 * Line 13)	304,099	353,513
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	$ 37,983
17	Tax on Parcels	2,432	2,432
18	Total Property Taxes (Line 16 + Line 17)	$ 35,106	
19	Test Year Property Taxes	$ 36,602	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	$ (1,496)	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 40,415
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 35,106
24	Increase in Property Tax Due to Increase in Revenue Requirement		$ 5,309
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 5,309
27	Increase in Revenue Requirement		$ 1,256,504
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		0.42255%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Schedule C-2
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Witness: Bourassa

Rate Case Expense

Line No.			
1			
2			
3	Estimated Rate Case Expense	$	200,000
4			
5	Estimated Amortization Period in Years		5
6			
7	Annual Rate Case Expense	$	40,000
8			
9	Test Year Rate Case Expense	$	-
10			
11	Increase(decrease) Rate Case Expense	$	40,000
12			
13	Adjustment to Revenue and/or Expense	$	40,000
14			
15			
16	Reference		
17	Testimony		
18			
19			
20			

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

Exhibit
Schedule C-2
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Witness: Bourassa

Revenue Annualization

Line No.			
1			
2	Revenue Annualization	$	13,906
3			
4			
5			
6	Total Revenue from Annualization	$	13,906
7			
8			
9	Adjustment to Revenue and/or Expense	$	13,906
10			
11	SUPPORTING SCHEDULES		
12	C-2 pages 5.1 to 5.20		
13	H-1		
14			
15			
16			
17			
18			
19			
20			

Quail Creek Water Company
Revenue Annualization to Year End Customers: Residential 5/8x3/4 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.1
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	1,784	1,784	1,784	1,784	1,784	1,784	1,784
2	Actual Customers	1,736	1,741	1,748	1,754	1,755	1,758	1,758
3	Increase in Number of Customers/Bills	48	43	36	30	29	26	26
4	Average Revenue / Present Rates	$ 30.22	$ 29.32	$ 29.07	$ 32.28	$ 32.65	$ 31.84	$ 33.30
5	Revenue Annualization / Present Rates	$ 1,451	$ 1,261	$ 1,047	$ 968	$ 947	$ 828	$ 866
6								
7	Increase in Number of Customers	48	43	36	30	29	26	26
8	Average Revenue / Proposed Rates	$ 42.28	$ 40.78	$ 40.36	$ 45.72	$ 46.34	$ 44.99	$ 47.42
9	Revenue Annualization / Proposed Rates	$ 2,030	$ 1,754	$ 1,453	$ 1,372	$ 1,344	$ 1,170	$ 1,233
10	Additional Gallons to be Produced	260,955	219,986	180,934	185,103	182,789	156,390	169,893
11								
12								
13								
14		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec		Total Year
15	Year End Number of Customers	1,784	1,784	1,784	1,784	1,784		
16	Actual Customers	1,763	1,753	1,765	1,772	1,784		
17	Increase in Number of Customers/Bills	21	31	19	12	-		321
18	Average Revenue / Present Rates	$ 31.36	$ 32.14	$ 30.43	$ 30.71	$ 29.03		
19	Revenue Annualization / Present Rates	$ 659	$ 996	$ 578	$ 369	$ -		$ 9,969
20								
21	Increase in Number of Customers	21	31	19	12	-		
22	Average Revenue / Proposed Rates	$ 44.19	$ 45.49	$ 42.63	$ 43.10	$ 40.28		
23	Revenue Annualization / Proposed Rates	$ 659	$ 996	$ 578	$ 369	$ -		$ 14,020
24	Additional Gallons to be Produced	122,723	189,791	104,719	67,337	-		1,840,620

Quail Creek Water Company
Revenue Annualization to Year End Customers: Residential 3/4 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule
Page 5.2
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	-	-	-	-	-	-	-
2	Actual Customers	-	-	-	-	-	-	-
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 28.30	$ 28.30	$ 28.30	$ 28.30	$ 28.30	$ 28.30	$ 28.30
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	-	-	-	-	-	
16	Actual Customers	-	-	-	-	-	
17	Increase in Number of Customers/Bills	-	-	-	-	-	-
18	Average Revenue / Present Rates	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 28.30	$ 28.30	$ 28.30	$ 28.30	$ 28.30	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -
24	Additional Gallons to be Produced	-	-	-	-	-	-

Quail Creek Water Company
Revenue Annualization to Year End Customers: Residential 1 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.3
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	129	129	129	129	129	129	129
2	Actual Customers	126	129	128	128	130	131	130
3	Increase in Number of Customers/Bills	3	-	1	1	(1)	(2)	(1)
4	Average Revenue / Present Rates	$ 41.43	$ 40.29	$ 40.05	$ 45.09	$ 42.35	$ 43.22	$ 43.40
5	Revenue Annualization / Present Rates	$ 124	$ -	$ 40	$ 45	$ (42)	$ (86)	$ (43)
6								
7	Increase in Number of Customers	3	-	1	1	(1)	(2)	(1)
8	Average Revenue / Proposed Rates	$ 62.86	$ 60.95	$ 60.55	$ 68.98	$ 64.39	$ 65.85	$ 66.14
9	Revenue Annualization / Proposed Rates	$ 189	$ -	$ 61	$ 69	$ (64)	$ (132)	$ (66)
10	Additional Gallons to be Produced	17,609	-	5,375	128	(130)	(262)	(130)
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	129	129	129	129	129	
16	Actual Customers	129	129	129	130	130	
17	Increase in Number of Customers/Bills	-	-	-	(1)	(1)	(1)
18	Average Revenue / Present Rates	$ 40.87	$ 42.07	$ 40.41	$ 41.44	$ 39.77	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ (41)	$ (40)	$ (44)
20							
21	Increase in Number of Customers	-	-	-	(1)	(1)	
22	Average Revenue / Proposed Rates	$ 61.91	$ 63.93	$ 61.15	$ 62.86	$ 60.07	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ (41)	$ (40)	$ (67)
24	Additional Gallons to be Produced	-	-	-	(130)	(130)	22,330

Quail Creek Water Company
Revenue Annualization to Year End Customers: Residential 1.5 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.4
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	-	-	-	-	-	-	-
2	Actual Customers	-	-	-	-	-	-	-
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 50.00	$ 50.00	$ 50.00	$ 50.00	$ 50.00	$ 50.00	$ 50.00
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 70.75	$ 70.75	$ 70.75	$ 70.75	$ 70.75	$ 70.75	$ 70.75
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	-	-	-	-	-	
16	Actual Customers	-	-	-	-	-	
17	Increase in Number of Customers/Bills	-	-	-	-	-	-
18	Average Revenue / Present Rates	$ 50.00	$ 50.00	$ 50.00	$ 50.00	$ 50.00	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 70.75	$ 70.75	$ 70.75	$ 70.75	$ 70.75	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -
24	Additional Gallons to be Produced	-	-	-	-	-	-

Quail Creek Water Company
Revenue Annualization to Year End Customers: Residential 2 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.5
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	1	1	1	1	1	1	1
2	Actual Customers	1	1	1	1	1	1	1
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 185.00	$ 81.40	$ 101.00	$ 234.00	$ 234.00	$ 318.00	$ 442.60
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 288.81	$ 115.54	$ 148.32	$ 372.96	$ 372.96	$ 546.44	$ 803.78
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	1	1	1	1	1	
16	Actual Customers	1	1	1	1	1	
17	Increase in Number of Customers/Bills	-	-	-	-	-	-
18	Average Revenue / Present Rates	$ 346.00	$ 500.00	$ 401.72	$ 318.00	$ 262.00	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 604.27	$ 922.32	$ 719.35	$ 546.44	$ 430.79	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -
24	Additional Gallons to be Produced	-	-	-	-	-	-

Quail Creek Water Company
Revenue Annualization to Year End Customers: Commercial 5/8x3/4 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.6
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	57	57	57	57	57	57	57
2	Actual Customers	52	51	47	45	48	53	42
3	Increase in Number of Customers/Bills	5	6	10	12	9	4	15
4	Average Revenue / Present Rates	$ 28.03	$ 29.41	$ 30.13	$ 32.33	$ 32.71	$ 34.71	$ 44.17
5	Revenue Annualization / Present Rates	$ 140	$ 176	$ 301	$ 388	$ 294	$ 139	$ 663
6								
7	Increase in Number of Customers	5	6	10	12	9	4	15
8	Average Revenue / Proposed Rates	$ 43.02	$ 45.33	$ 46.53	$ 50.21	$ 50.84	$ 54.18	$ 70.47
9	Revenue Annualization / Proposed Rates	$ 215	$ 272	$ 465	$ 603	$ 458	$ 217	$ 1,057
10	Additional Gallons to be Produced	23,272	30,885	54,047	74,273	56,910	28,153	156,257
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	57	57	57	57	57	
16	Actual Customers	59	62	62	62	57	
17	Increase in Number of Customers/Bills	(2)	(5)	(5)	(5)	-	44
18	Average Revenue / Present Rates	$ 30.31	$ 33.31	$ 29.39	$ 27.80	$ 26.57	
19	Revenue Annualization / Present Rates	$ (61)	$ (167)	$ (147)	$ (139)	$ -	$ 1,589
20							
21	Increase in Number of Customers	(2)	(5)	(5)	(5)	-	
22	Average Revenue / Proposed Rates	$ 46.82	$ 51.85	$ 45.28	$ 42.64	$ 40.57	
23	Revenue Annualization / Proposed Rates	$ (61)	$ (167)	$ (147)	$ (139)	$ -	$ 2,494
24	Additional Gallons to be Produced	(10,933)	(32,704)	(25,688)	(22,865)	-	331,607

Quail Creek Water Company
Revenue Annualization to Year End Customers: Commercial 3/4 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.7
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	-	-	-	-	-	-	-
2	Actual Customers	-	-	-	-	-	-	-
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 28.30	$ 28.30	$ 28.30	$ 28.30	$ 28.30	$ 28.30	$ 28.30
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	-	-	-	-	-	
16	Actual Customers	-	-	-	-	-	
17	Increase in Number of Customers/Bills	-	-	-	-	-	-
18	Average Revenue / Present Rates	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 28.30	$ 28.30	$ 28.30	$ 28.30	$ 28.30	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -
24	Additional Gallons to be Produced	-	-	-	-	-	-

Quail Creek Water Company
Revenue Annualization to Year End Customers: Commercial 1 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.8
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	9	9	9	9	9	9	9
2	Actual Customers	6	6	7	6	6	7	8
3	Increase in Number of Customers/Bills	3	3	2	3	3	2	1
4	Average Revenue / Present Rates	$ 94.18	$ 88.39	$ 90.18	$ 128.04	$ 133.46	$ 173.08	$ 178.15
5	Revenue Annualization / Present Rates	$ 283	$ 265	$ 180	$ 384	$ 400	$ 346	$ 178
6								
7	Increase in Number of Customers	3	3	2	3	3	2	1
8	Average Revenue / Proposed Rates	$ 159.56	$ 147.60	$ 151.29	$ 229.49	$ 240.68	$ 322.51	$ 332.98
9	Revenue Annualization / Proposed Rates	$ 479	$ 443	$ 303	$ 688	$ 722	$ 645	$ 333
10	Additional Gallons to be Produced	74,126	67,921	46,558	110,401	116,211	105,772	54,697
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	9	9	9	9	9	
16	Actual Customers	9	9	9	9	9	
17	Increase in Number of Customers/Bills	-	-	-	-	-	17
18	Average Revenue / Present Rates	$ 108.30	$ 172.74	$ 100.55	$ 157.40	$ 37.13	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ 2,037
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 188.72	$ 321.79	$ 172.70	$ 290.13	$ 55.67	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ 3,613
24	Additional Gallons to be Produced	-	-	-	-	-	575,687

Quail Creek Water Company
Revenue Annualization to Year End Customers: Commercial 1 1/2 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.9
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	3	3	3	3	3	3	3
2	Actual Customers	3	3	3	3	3	3	3
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 157.80	$ 85.00	$ 143.99	$ 352.40	$ 52.80	$ 505.19	$ 471.77
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 257.09	$ 129.29	$ 228.56	$ 658.99	$ 75.43	$ 974.54	$ 905.54
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	3	3	3	3	3	
16	Actual Customers	3	3	3	3	3	
17	Increase in Number of Customers/Bills	-	-	-	-	-	-
18	Average Revenue / Present Rates	$ 385.81	$ 228.45	$ 224.07	$ 417.27	$ 289.59	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 728.00	$ 403.01	$ 393.95	$ 792.96	$ 529.27	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -
24	Additional Gallons to be Produced	-	-	-	-	-	-

Quail Creek Water Company
Revenue Annualization to Year End Customers: Commerical 2 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.10
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	8	8	8	8	8	8	8
2	Actual Customers	9	9	9	9	9	9	8
3	Increase in Number of Customers/Bills	(1)	(1)	(1)	(1)	(1)	(1)	-
4	Average Revenue / Present Rates	$ 241.06	$ 247.75	$ 234.28	$ 299.55	$ 309.57	$ 433.27	$ 283.81
5	Revenue Annualization / Present Rates	$ (241)	$ (248)	$ (234)	$ (300)	$ (310)	$ (433)	$ -
6								
7	Increase in Number of Customers	(1)	(1)	(1)	(1)	(1)	(1)	-
8	Average Revenue / Proposed Rates	$ 387.54	$ 401.36	$ 373.54	$ 508.34	$ 529.03	$ 784.50	$ 475.82
9	Revenue Annualization / Proposed Rates	$ (388)	$ (401)	$ (374)	$ (508)	$ (529)	$ (785)	$ -
10	Additional Gallons to be Produced	(57,523)	(59,911)	(55,100)	(78,411)	(81,989)	(126,167)	-
11								
12								
13		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec		Total Year
14								
15	Year End Number of Customers	8	8	8	8	8		
16	Actual Customers	8	8	8	8	8		
17	Increase in Number of Customers/Bills	-	-	-	-	-		(6)
18	Average Revenue / Present Rates	$ 243.14	$ 220.42	$ 289.76	$ 323.64	$ 172.75		
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -		$ (1,765)
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	$ 391.82	$ 348.05	$ 488.11	$ 558.08	$ 268.32		
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -		$ (2,984)
24	Additional Gallons to be Produced	-	-	-	-	-		(459,102)

Quail Creek Water Company
Revenue Annualization to Year End Customers: Commerical 3 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.11
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	-	-	-	-	-	-	-
2	Actual Customers	-	-	-	-	-	-	-
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 150.00	$ 150.00	$ 150.00	$ 150.00	$ 150.00	$ 150.00	$ 150.00
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 212.25	$ 212.25	$ 212.25	$ 212.25	$ 212.25	$ 212.25	$ 212.25
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	-	-	-	-	-	
16	Actual Customers	-	-	-	-	-	
17	Increase in Number of Customers/Bills	-	-	-	-	-	-
18	Average Revenue / Present Rates	$ 150.00	$ 150.00	$ 150.00	$ 150.00	$ 150.00	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 212.25	$ 212.25	$ 212.25	$ 212.25	$ 212.25	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -
24	Additional Gallons to be Produced	-	-	-	-	-	-

Quail Creek Water Company
Revenue Annualization to Year End Customers: Commerical 6 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.12
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	-	-	-	-	-	-	-
2	Actual Customers	-	-	-	-	-	-	-
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 707.50	$ 707.50	$ 707.50	$ 707.50	$ 707.50	$ 707.50	$ 707.50
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	-	-	-	-	-	
16	Actual Customers	-	-	-	-	-	
17	Increase in Number of Customers/Bills	-	-	-	-	-	
18	Average Revenue / Present Rates	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	-
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 707.50	$ 707.50	$ 707.50	$ 707.50	$ 707.50	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -
24	Additional Gallons to be Produced	-	-	-	-	-	-

Quail Creek Water Company
Revenue Annualization to Year End Customers: 5/8x3/4 Inch Irrigation
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.13
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	11	11	11	11	11	11	11
2	Actual Customers	9	9	9	11	11	10	11
3	Increase in Number of Customers/Bills	2	2	2	-	-	1	-
4	Average Revenue / Present Rates	$ 74.39	$ 71.47	$ 35.69	$ 52.16	$ 33.46	$ 76.18	$ 157.72
5	Revenue Annualization / Present Rates	$ 149	$ 143	$ 71	$ -	$ -	$ 76	$ -
6								
7	Increase in Number of Customers	2	2	2	-	-	1	-
8	Average Revenue / Proposed Rates	$ 132.89	$ 126.85	$ 55.83	$ 86.98	$ 52.09	$ 136.58	$ 304.99
9	Revenue Annualization / Proposed Rates	$ 266	$ 254	$ 112	$ -	$ -	$ 137	$ -
10	Additional Gallons to be Produced	42,423	40,334	14,778	-	-	21,850	-
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	11	11	11	11	11	
16	Actual Customers	13	13	12	12	11	
17	Increase in Number of Customers/Bills	(2)	(2)	(1)	(1)	-	1
18	Average Revenue / Present Rates	$ 71.11	$ 31.15	$ 196.05	$ 75.08	$ 53.69	
19	Revenue Annualization / Present Rates	$ (142)	$ (62)	$ (196)	$ (75)	$ -	$ (36)
20							
21	Increase in Number of Customers	(2)	(2)	(1)	(1)	-	
22	Average Revenue / Proposed Rates	$ 126.11	$ 48.24	$ 384.14	$ 134.32	$ 90.13	
23	Revenue Annualization / Proposed Rates	$ (142)	$ (62)	$ (196)	$ (75)	$ -	$ (99)
24	Additional Gallons to be Produced	(40,077)	(11,539)	(64,660)	(21,459)	-	(18,350)

Quail Creek Water Company
Revenue Annualization to Year End Customers: 3/4 Inch Irrigation
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.14
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	-	-	-	-	-	-	-
2	Actual Customers	-	-	-	-	-	-	-
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 28.30	$ 28.30	$ 28.30	$ 28.30	$ 28.30	$ 28.30	$ 28.30
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	-	-	-	-	-	
16	Actual Customers	-	-	-	-	-	
17	Increase in Number of Customers/Bills	-	-	-	-	-	-
18	Average Revenue / Present Rates	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 28.30	$ 28.30	$ 28.30	$ 28.30	$ 28.30	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -
24	Additional Gallons to be Produced	-	-	-	-	-	-

Quail Creek Water Company
Revenue Annualization to Year End Customers: 1 Inch Irrigation
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.15
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	3	3	3	3	3	3	3
2	Actual Customers	2	2	3	3	3	3	3
3	Increase in Number of Customers/Bills	1	1	-	-	-	-	-
4	Average Revenue / Present Rates	$ 25.00	$ 25.00	$ 27.33	$ 145.54	$ 86.13	$ 86.13	$ 85.67
5	Revenue Annualization / Present Rates	$ 25	$ 25	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	1	1	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 35.38	$ 35.38	$ 39.28	$ 265.63	$ 142.94	$ 142.94	$ 141.97
9	Revenue Annualization / Proposed Rates	$ 35	$ 35	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	3	3	3	3	3	
16	Actual Customers	3	3	3	2	3	
17	Increase in Number of Customers/Bills	-	-	-	1	-	3
18	Average Revenue / Present Rates	$ 76.33	$ 76.80	$ 76.33	$ 102.00	$ 76.33	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ 102	$ -	$ 152
20							
21	Increase in Number of Customers	-	-	-	1	-	
22	Average Revenue / Proposed Rates	$ 122.69	$ 123.66	$ 122.69	$ 175.70	$ 122.69	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ 102	$ -	$ 246
24	Additional Gallons to be Produced	-	-	-	27,500	-	27,500

Quail Creek Water Company
Revenue Annualization to Year End Customers: 1.5 Inch Irrigation
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.16
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	2	2	2	2	2	2	2
2	Actual Customers	1	1	1	1	1	1	-
3	Increase in Number of Customers/Bills	1	1	1	1	1	1	2
4	Average Revenue / Present Rates	$ 232.00	$ 316.00	$ 183.00	$ 204.00	$ 141.00	$ 829.80	$ 50.00
5	Revenue Annualization / Present Rates	$ 232	$ 316	$ 183	$ 204	$ 141	$ 830	$ 100
6								
7	Increase in Number of Customers	1	1	1	1	1	1	2
8	Average Revenue / Proposed Rates	$ 410.34	$ 583.82	$ 309.14	$ 352.51	$ 222.94	$ 1,644.97	$ 70.75
9	Revenue Annualization / Proposed Rates	$ 410	$ 584	$ 309	$ 353	$ 223	$ 1,645	$ 142
10	Additional Gallons to be Produced	65,001	95,001	47,501	55,001	32,501	278,500	-
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	2	2	2	2	2	
16	Actual Customers	2	2	2	2	2	
17	Increase in Number of Customers/Bills	-	-	-	-	-	8
18	Average Revenue / Present Rates	$ 127.00	$ 102.50	$ 141.00	$ 367.80	$ 287.44	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ 2,006
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 199.53	$ 158.55	$ 222.94	$ 690.80	$ 524.83	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ 3,665
24	Additional Gallons to be Produced	-	-	-	-	-	573,503

Quail Creek Water Company
Revenue Annualization to Year End Customers: 2 Inch Irrigation
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.17
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	2	2	2	2	2	2	2
2	Actual Customers	2	2	2	2	2	2	2
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 171.00	$ 91.90	$ 84.90	$ 83.50	$ 83.50	$ 83.50	$ 429.02
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 265.39	$ 133.10	$ 121.40	$ 119.05	$ 119.05	$ 119.05	$ 775.73
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
12							
13							
14							
15	Year End Number of Customers	2	2	2	2	2	
16	Actual Customers	2	2	2	2	2	
17	Increase in Number of Customers/Bills	-	-	-	-	-	-
18	Average Revenue / Present Rates	$ 651.76	$ 1,043.90	$ 721.62	$ 681.86	$ 389.96	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 1,235.75	$ 2,045.64	$ 1,380.03	$ 1,297.92	$ 695.06	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -
24	Additional Gallons to be Produced	-	-	-	-	-	-

Quail Creek Water Company
Revenue Annualization to Year End Customers: 3 Inch Irrigation
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.18
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	-	-	-	-	-	-	-
2	Actual Customers	-	-	-	-	-	-	-
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 150.00	$ 150.00	$ 150.00	$ 150.00	$ 150.00	$ 150.00	$ 150.00
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 212.25	$ 212.25	$ 212.25	$ 212.25	$ 212.25	$ 212.25	$ 212.25
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	-	-	-	-	-	
16	Actual Customers	-	-	-	-	-	
17	Increase in Number of Customers/Bills	-	-	-	-	-	-
18	Average Revenue / Present Rates	$ 150.00	$ 150.00	$ 150.00	$ 150.00	$ 150.00	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 212.25	$ 212.25	$ 212.25	$ 212.25	$ 212.25	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -
24	Additional Gallons to be Produced	-	-	-	-	-	-

Quail Creek Water Company
Revenue Annualization to Year End Customers: 4 Inch Irrigation
Test Year Ended December 31, 2013

Exhibit
Schedule C-2
Page 5.19
Witness: Bourassa

Line No.		Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul
1	Year End Number of Customers	1	1	1	1	1	1	1
2	Actual Customers	1	1	1	1	1	1	1
3	Increase in Number of Customers/Bills	-	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 280.80	$ 259.80	$ 257.00	$ 488.00	$ 644.80	$ 846.40	$ 1,232.80
5	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	-	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 405.26	$ 370.14	$ 365.46	$ 751.79	$ 1,014.03	$ 1,401.79	$ 2,199.82
9	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								

Line No.		Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
15	Year End Number of Customers	1	1	1	1	1	
16	Actual Customers	1	1	1	1	1	
17	Increase in Number of Customers/Bills	-	-	-	-	-	-
18	Average Revenue / Present Rates	$ 891.20	$ 737.20	$ 432.00	$ 432.00	$ 251.40	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ -
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 1,494.32	$ 1,176.26	$ 658.14	$ 658.14	$ 356.09	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ -
24	Additional Gallons to be Produced	-	-	-	-	-	-

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

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Purchased Power Annualization

Line No.			
1	Test Year Purchased Power Expense	$	71,469
2	Proposed Adjustments to Purchased Power		-
3	Adjusted Purchased Power Expense	$	71,469
4			
5	Gallons sold during test year (in 1,000's)		156,333
6			
7	Cost per 1,000 gallons	$	0.46
8	Additional Gallons Sold From annualization		2,894
9	Increase (decrease) in purchased power expense	$	1,331
10			
11			
12			
13			
14	Adjustment to Revenue and/or Expense	$	1,331
15			
16	Reference		
17	H-1		
18	Work Papers		
19			
20			

Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and/or Expenses
Adjustment Number 16

Exhibit
Schedule C-2
Page 17
Witness: Bourassa

Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Computed Income Tax	$ 57,233	$ 216,952
5	Test Year Income tax Expense	65,338	57,233
6	Adjustment to Income Tax Expense	$ (8,105)	$ 159,719
7			
8			
9			
10			
11			
12			
13	SUPPORTING SCHEDULE		
14	C-3, page 2		
15			
16			
17			
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Quail Creek Water Company
Test Year Ended December 31, 2013
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	39.294%
2		
3	Property Taxes	0.257%
4		
5		
6	Total Tax Percentage	39.550%
7		
8	Operating Income % = 100% - Tax Percentage	60.450%
9		
10		
11		
12		
13	1 = Gross Revenue Conversion Factor	
14	Operating Income %	1.6543
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1
27		
28		
29		
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40		

Quail Creek Water Company
Test Year Ended December 31, 2013

Exhibit
Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.5501%					
5	Subtotal (L3 - L4)	60.4499%					
6	**Revenue Conversion Factor (L1 / L5)**	1.654264					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	39.2936%					
9	One Minus Combined Income Tax Rate (L7 - L8)	60.7064%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	4.9000%					
14	Federal Taxable Income (L12 - L13)	95.1000%					
15	Applicable Federal Income Tax Rate (L55 Col F)	36.1658%					
16	Effective Federal Income Tax Rate (L14 x L15)	34.3936%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		39.2936%				
	Calculation of Effective Property Tax Factor						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	39.2936%					
20	One Minus Combined Income Tax Rate (L18-L19)	60.7064%					
21	Property Tax Factor	0.4225%					
22	Effective Property Tax Factor (L20*L21)		0.2565%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.5501%			
24	Required Operating Income	$ 367,866					
25	AdjustedTest Year Operating Income (Loss)	$ 118,963					
26	Required Increase in Operating Income (L24 - L25)		$ 248,924				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	$ 216,952					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	$ 57,233					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 159,719				
30	Recommended Revenue Requirement	$ 1,256,504					
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	$ 40,415					
36	Property Tax on Test Year Revenue	$ 35,106					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 5,309				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 413,952				

		(A)	(B)	(C)	(D)	(E)	(F)
		Test Year			Company Recommended		
		Total Water		Water	Total Water		Water
	Calculation of Income Tax:						
39	Revenue	$ 844,719		$ 844,719	$ 1,256,504		$ 1,256,504
40	Operating Expenses Excluding Income Taxes	666,524		666,524	673,633		673,633
41	Synchronized Interest (L47)	-		-	-		-
42	Arizona Taxable Income (L39 - L40 - L41)	$ 176,195		$ 176,196	$ 582,872		$ 582,871
43	Arizona State Income Tax Rate	4.9000%		4.9000%	4.9000%		4.9000%
44	Arizona Income Tax (L42 x L43)	$ 8,634		$ 8,634	$ 28,551		$ 28,551
45	Federal Taxable Income (L42- L44)	$ 167,562		$ 167,562	$ 554,121		$ 554,120
46							
47	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 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
49	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500		$ 8,500	$ 8,500		$ 8,500
50	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 26,349		$ 26,349	$ 91,650		$ 91,650
51	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -		$ -	$ 74,501		$ 74,501
52							
53	Total Federal Income Tax	$ 48,599		$ 48,599	$ 188,401		$ 188,401
54	Combined Federal and State Income Tax (L35 + L42)	$ 57,233		$ 57,233	$ 216,952		$ 216,952

55 COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53] / [Col. [D], L45 - Col. [A], L45] 36.1657%
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] 36.1658%

		Water
58	*Calculation of Interest Synchronization:* Rate Base	$ 3,678,863
59	Weighted Average Cost of Debt	0.0000%
60	Synchronized Interest (L59 X L60)	$ -

Quail Creek Water Company
Test Year Ended December 31, 2013
Comparative Balance Sheets

Exhibit
Schedule E-1
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2013	Year Ended 12/31/2012	Year Ended 12/31/2011
1	**ASSETS**			
2	Plant In Service	$ 6,958,696	$ 7,026,791	$ 6,998,586
3	Non-Utility Plant	-	-	-
4	Construction Work in Progress	-	-	-
5	Less: Accumulated Depreciation	(1,054,550)	(1,373,947)	(1,120,552)
6	Net Plant	$ 5,904,146	$ 5,652,844	$ 5,878,034
7				
8	Debt Reserve Fund	$ -	$ -	$ -
9				
10				
11		$ -	$ -	$ -
12	CURRENT ASSETS			
13	Cash and Equivalents	$ 80,775	$ 76,293	$ 84,746
14	Restricted Cash	-	-	-
15	Accounts Receivable, Net	72,876	67,235	67,039
16	Inter-Company Receivable	326	398	177
17	Notes Receivable	1,172,323	828,893	146,925
18	Materials and Supplies	-	-	-
19	Prepayments	-	-	53,476
20	Other Current Assets	-	-	-
21	Total Current Assets	$ 1,326,300	$ 972,819	$ 352,363
22				
23	Unamort. Debt Disc. And Expense			
24	Other Deferred Debits			
25	Deferred Debits	$ -	$ -	$ -
26				
27	Other Assets	$ -	$ -	$ -
28				
29	TOTAL ASSETS	$ 7,230,446	$ 6,625,663	$ 6,230,397
30				
31				
32	**LIABILITIES AND STOCKHOLDER EQUITY**			
33				
34	Stockholder's Equity	$ 5,777,616	$ 5,587,786	$ 5,317,832
35				
36	Long-Term Debt	$ -	$ -	$ -
37				
38	CURRENT LIABILITIES			
39	Accounts Payable	$ 14,043	$ 5,926	$ 11,899
40	Current Portion of Long-Term Debt	-	-	-
41	Payables to Associated Companies	337,563	-	-
42	Security Deposits	-	-	-
43	Customer Meter Deposits, Current	180,221	159,806	195,179
44	Current Portion of AIAC	-	-	-
45	Accrued Taxes	56,926	61,099	46,607
46	Accrued Interest	-	-	-
47	Other Current Liabilities	4,436	4,417	3,965
48	Total Current Liabilities	$ 593,189	$ 231,248	$ 257,650
49	DEFERRED CREDITS			
50	Customer Meter Deposits, less current	$ -	$ -	$ -
51	Advances in Aid of Construction	-	-	-
52	Accumulated Deferred Income Taxes	859,639	806,629	654,915
53	Contributions In Aid of Construction	-	-	-
54	Accumulated Amortization	-	-	-
55	Total Deferred Credits	$ 859,639	$ 806,629	$ 654,915
56				
57	Total Liabilities & Common Equity	$ 7,230,444	$ 6,625,663	$ 6,230,397
58				
59				
60				
61	SUPPORTING SCHEDULES:		RECAP SCHEDULES:	
62			A-3	
63				
64				
65				

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

Exhibit
Schedule E-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2013	Prior Year Ended 12/31/2012	Prior Year Ended 12/31/2011
1	**Revenues**			
2	Metered Water Revenues	$ 823,460	$ 898,929	$ 830,845
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	7,353	9,849	9,622
5	**Total Revenues**	$ 830,813	$ 908,778	$ 840,467
6	**Operating Expenses**			
7	Salaries and Wages	$ 85,321	$ 76,491	$ 75,365
8	Employee Pensions and Benefits	21,254	16,665	16,741
9	Purchased Water	-	-	-
10	Purchased Power	71,469	83,237	69,807
11	Fuel For Power Production	-		-
12	Chemicals	6,454	6,454	5,677
13	Materials and Supplies	23,693	33,931	57,723
14	Office Supplies and Expense	20,818	21,602	17,897
15	Contractual Services - Engineering	-	-	-
16	Contractual Services - Accounting	380	388	-
17	Contractual Services - Legal	468	-	-
18	Contractual Services - Other	17,777	17,777	28,050
19	Contractual Services - Testing	12,864	9,196	7,899
20	Rents	566	299	7,550
21	Transportation Expenses	13,067	18,598	12,301
22	Insurance - Vehicle	524	-	-
23	Insurance - General Liability	9,483	9,252	12,046
24	Reg. Comm. Exp. - Other	425	333	367
25	Reg. Comm. Exp. - Rate Case	-	-	-
26	Bad Debt Expense	442	2,112	548
27	Miscellaneous Expense	12,741	12,242	11,190
28	Depreciation and Amortization Expense	266,978	253,395	117,505
29	Taxes Other Than Income		-	-
30	Property Taxes	36,602	35,406	35,027
31	Income Tax	65,338	51,482	150,679
32		-	-	-
33	**Total Operating Expenses**	$ 666,664	$ 648,860	$ 626,372
34	**Operating Income**	$ 164,149	$ 259,918	$ 214,095
35	**Other Income (Expense)**			
36	Interest Income	25,176	9,370	2,346
37	Other Income	505	668	543
38	Interest Expense	-	-	
39	Other Expense	-	-	(215)
40	Gain (loss) on Disposal of Equip	-	-	-
41	**Total Other Income (Expense)**	$ 25,681	$ 10,038	$ 2,674
42	**Net Profit (Loss)**	$ 189,830	$ 269,956	$ 216,769
43				
44				
45				
46	SUPPORTING SCHEDULES:			
47				
48				

Quail Creek Water Company
Test Year Ended December 31, 2013
Comparative Statements of Cash Flows

Exhibit
Schedule E-3
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2013	Prior Year Ended 12/31/2012	Prior Year Ended 12/31/2011
1				
2				
3	Cash Flows from Operating Activities			
4	Net Income	$ 189,830	$ 269,956	$ 216,769
5	Adjustments to reconcile net income to net cash			
6	provided by operating activities:			
7	Depreciation and Amortization	266,978	253,395	117,505
8	Depreciation and Amortization Adjustments	-	-	-
9	Changes in Certain Assets and Liabilities:			
10	Accounts Receivable	(5,641)	(196)	(2,599)
11	Restricted Cash	-	-	-
12	Materials and Supplies Inventory	-	-	-
13	Prepaid Expenses	-	53,476	(45,602)
14	Deferred Charges	53,010	151,714	174,919
15	Receivables to Associated Co.	72	(221)	-
16	Accounts Payable	8,117	(5,973)	2,496
17	Payables to Associated Co.	337,563	-	19,762
18	Note Receivable	(343,430)	(681,968)	(146,925)
19	Interest Payable	-	-	-
20	Customer Meter and Security Deposits	-	-	-
21	Taxes Payable	(4,173)	14,492	(23,206)
22	Other assets and liabilities	19	452	3,965
23	Rounding	2	(2)	-
24	Net Cash Flow provided by Operating Activities	$ 502,347	$ 55,125	$ 317,084
25	Cash Flow From Investing Activities:			
26	Capital Expenditures	(518,280)	(28,205)	(2,750,484)
27	Plant Held for Future Use	-	-	-
28	Changes in Special Funds	-	-	-
29	Net Cash Flows from Investing Activities	$ (518,280)	$ (28,205)	$ (2,750,484)
30	Cash Flow From Financing Activities			
31	Change in Restricted Cash	-	-	-
32	Proceeds from Long-Term Debt	-	-	-
33	Net receipt of contributions in aid of construction	-	-	-
34	Net receipts of advances in aid of construction	-	-	-
35	Net proceeds from Customer Deposits	20,415	(35,373)	(35,948)
36	Repayments of Long-Term Debt	-	-	-
37	Distributions	-	-	-
38	Deferred Financing Costs	-	-	-
39	Paid in Capital	-	-	2,500,000
40	Net Cash Flows Provided by Financing Activities	$ 20,415	$ (35,373)	$ 2,464,052
41	Increase(decrease) in Cash and Cash Equivalents	4,482	(8,453)	30,652
42	Cash and Cash Equivalents at Beginning of Year	76,293	84,746	54,094
43	Cash and Cash Equivalents at End of Year	$ 80,775	$ 76,293	$ 84,746
44				
45				
46	SUPPORTING SCHEDULES:		RECAP SCHEDULES:	
47	Workpapers		A-5	
48				

Quail Creek Water Company
Test Year Ended December 31, 2013
Statement of Changes in Stockholder's Equity

Exhibit
Schedule E-4
Page 1
Witness: Bourassa

Line No.		Common Stock	Paid-in-Capital	Retained Earnings	Total
1					
2					
3					
4	Balance, December 31, 2010	$ 3,500	$ 695,896	$ 1,901,667	$ 2,601,063
5	Addnl Paid In Capital Adjustment	2,500,000			2,500,000
6	Distributions			-	-
7	Rounding				-
8	Net Income			216,769	216,769
9					
10	Balance, December 31, 2011	$ 2,503,500	$ 695,896	$ 2,118,436	$ 5,317,832
11	Addnl Paid In Capital Adjustment	-	-		-
12	Distributions			-	-
13	Rounding			(2)	(2)
14	Net Income			269,956	269,956
15					
16	Balance, December 31, 2012	$ 2,503,500	$ 695,896	$ 2,388,390	$ 5,587,786
17	Addnl Paid In Capital Adjustment		-		-
18	Distributions			-	-
19	Rounding				-
20	Net Income			189,830	189,830
21					
22	Balance, December, 2013	$ 2,503,500	$ 695,896	$ 2,578,220	$ 5,777,616
23					
24					
25					
26					
27					
28					
29	SUPPORTING SCHEDULES:			RECAP SCHEDULES:	
30				E-1	
31					
32					
33					
34					
35					
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39					
40					

Quail Creek Water Company
Test Year Ended December 31, 2013
Detail of Plant in Service

Exhibit
Schedule E-5
Page 1
Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2012	Plant Additions, Reclass-ications or or Retirements	Plant Balance at 12/31/2013
1					
2	301	Organization Cost	$ -	$ -	$ -
3	302	Franchise Cost	37,295	-	37,295
4	303	Land and Land Rights	92,895	-	92,895
5	304	Structures & Improvements	26,908	14,540	41,448
6	305	Collecting & Impounding Reservoirs	-	-	-
7	306	Lake, River, Canal Intakes	-	-	-
8	307	Wells & Springs	1,579,828	(530,252)	1,049,576
9	308	Infiltration Galleries	-	-	-
10	309	Raw Water Supply Mains	-	-	-
11	310	Power Generation Equipment	-	-	-
12	311	Pumping Equipment	822,027	100,753	922,780
13	320	Water Treatment Equipment	-	-	-
14	320	Water Treatment Plants	-	-	-
15	320.2	Solution Chemical Feeders	-	-	-
16	330.0	Distribution Reservoirs & Standpipes	870,800	724	871,524
17	330	Storage Tanks	-	-	-
18	330.2	Pressure Tanks	-	-	-
19	331	Transmission & Distribution Mains	2,369,271	161,710	2,530,981
20	333	Services	691,526	129,988	821,514
21	334	Meters	108,162	107	108,269
22	335	Hydrants	336,422	53,452	389,874
23	336	Backflow Prevention Devices	-	-	-
24	339	Other Plant & Misc Equipment	91,657	883	92,540
25	340	Office Furniture & Equipment	-	-	-
26	340.1	Computers & Software	-	-	-
27	341	Transportation Equipment	-	-	-
28	342	Stores Equipment	-	-	-
29	343	Tools, Shop & Garage Equipment	-	-	-
30	344	Laboratory Equipment	-	-	-
31	345	Power Operated Equipment	-	-	-
32	346	Communication Equipment	-	-	-
33	347	Miscellaneous Equipment	-	-	-
34	348	Other Tangible Plant	-	-	-
35					
36					
37					
38		Rounding			
39		TOTAL WATER PLANT	$ 7,026,791	$ (68,095)	$ 6,958,696
40					
41	SUPPORTING SCHEDULES			RECAP SCHEDULES:	
42	Work Papers			A-4	
43	B-2 pages 3.1 to 3.4			E-1	
44					

Quail Creek Water Company
Test Year Ended December 31, 2013
Operating Statistics

Exhibit
Schedule E-7
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2013	Prior Year Ended 12/31/2012	Prior Year Ended 12/31/2011
1	WATER STATISTICS:			
2				
3				
4				
5	Total Gallons Sold (in Thousands)	157,088	198,961	167,346
6				
7				
8				
9	Water Revenues from Customers:	$ 830,813	$ 908,778	$ 840,467
10				
11				
12				
13				
14	Year End Number of Customers	1,992	1,929	1,872
15				
16				
17	Annual Gallons (in Thousands)			
18	Sold Per Year End Customer	79	103	89
19				
20				
21				
22	Annual Revenue per Year End Customer	$ 417.07	$ 471.11	$ 448.97
23				
24	Pumping Cost Per 1,000 Gallons	$ 0.4550	$ 0.4184	$ 0.4171
25	Purchased Water Cost per 1,000 Gallons	$ -	$ -	$ -

Quail Creek Water Company
Test Year Ended December 31, 2013
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2013	Prior Year Ended 12/31/2012	Prior Year Ended 12/31/2011
1				
2				
3	State Income Taxes (est.)	$ 17,760	$ 22,372	$ 25,574
4	Federal Income Taxes (est.)	47,578	29,110	125,105
5	Payroll Taxes (est.)	6,026	5,403	5,323
6	Property Taxes	36,602	35,406	35,027
7				
8	Totals	$ 107,966	$ 92,291	$ 191,029
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Quail Creek Water Company
Test Year Ended December 31, 2013
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

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

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

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

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

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

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

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

Quail Creek Water Company
Test Year Ended December 31, 2013
Projected Income Statements - Present & Proposed Rates

Exhibit
Schedule F-1
Page 1
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2014	At Proposed Rates Year Ended 12/31/2014
1	**Revenues**			
2	Metered Water Revenues	$ 823,460	$ 837,366	$ 1,249,151
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	7,353	7,353	7,353
5		$ 830,813	$ 844,719	$ 1,256,504
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	71,469	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	12,864	12,864
20	Rents	566	566	566
21	Transportation Expenses	13,067	13,067	13,067
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
26	Bad Debt Expense	442	442	442
27	Miscellaneous Expense	12,741	12,741	12,741
28	Depreciation and Amortization Expense	266,978	294,340	294,340
29	Taxes Other Than Income	-	-	-
30	Property Taxes	36,602	35,106	40,415
31	Income Tax	65,338	57,233	216,952
32	**Total Operating Expenses**	$ 666,664	$ 725,756	$ 890,785
33	**Operating Income**	$ 164,149	$ 118,963	$ 365,719
34	**Other Income (Expense)**			
35	Interest Income	25,176	-	-
36	Other income	505	-	-
37	Interest Expense	-	-	-
38	Other Expense	-	-	-
39	Gain/Loss Sale of Fixed Assets	-	-	-
40	**Total Other Income (Expense)**	$ 25,681	$ -	$ -
41	**Net Profit (Loss)**	$ 189,830	$ 118,963	$ 365,719
42				
43				
44	SUPPORTING SCHEDULES:			
45	C-1			
46				
47				
48				

Quail Creek Water Company
Test Year Ended December 31, 2013
Projected Statements of Changes in Financial Position
Present and Proposed Rates

Exhibit
Schedule F-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2013	At Present Rates Year Ended 12/31/2014	At Proposed Rates Year Ended 12/31/2014
5	Cash Flows from Operating Activities			
6	Net Income	$ 189,830	$ 118,963	$ 365,719
7	Adjustments to reconcile net income to net cash			
8	provided by operating activities:			
9	Depreciation and Amortization	266,978	294,340	294,340
10	Depreciation Adjustments	-		
11	Changes in Certain Assets and Liabilities:			
12	Accounts Receivable	(5,641)		
13	Restricted Cash	-		
14	Materials and Supplies Inventory	-		
15	Prepaid Expenses	-		
16	Deferred Charges	53,010		
17	Receivables to Associated Co.	72		
18	Accounts Payable	8,117		
19	Payables to Associated Co.	337,563		
20	Note Receivable	(343,430)		
21	Interest Payable	-		
22	Customer Meter and Security Deposits	-		
23	Taxes Payable	(4,173)		
24	Other assets and liabilities	19		
25	Rounding	2		
26	Net Cash Flow provided by Operating Activities	$ 502,345	$ 413,303	$ 660,060
27	Cash Flow From Investing Activities:			
28	Capital Expenditures	(518,280)	(35,500)	(35,500)
29	Plant Held for Future Use	-		
30	Changes in debt reserve fund	-		
31	Net Cash Flows from Investing Activities	$ (518,280)	$ (35,500)	$ (35,500)
32	Cash Flow From Financing Activities			
33	Change in Restricted Cash	-		
34	Change in net amounts due to parent and affiliates	-		
35	Net Receipt contributions in aid of construction	-	-	-
36	Net receipts of advances in aid of construction	-	-	-
37	Repayments of Long-Term Debt	-	-	-
38	Dividends Paid	-	-	-
39	Deferred Financing Costs	-	-	-
40	Paid in Capital	-	-	-
41	Net Cash Flows Provided by Financing Activities	$ -	$ -	$ -
42	Increase(decrease) in Cash and Cash Equivalents	(15,935)	377,803	624,560
43	Cash and Cash Equivalents at Beginning of Year	76,293	60,358	60,358
44	Cash and Cash Equivalents at End of Year	$ 60,358	$ 438,161	$ 684,918

48 SUPPORTING SCHEDULES:
49 E-3

Quail Creek Water Company
Test Year Ended December 31, 2013
Projected Construction Requirements

Exhibit
Schedule F-3
Page 1
Witness: Bourassa

Line No.	Account Number	Plant Asset:	Test Year	2014	2015	2016
1						
2	Account					
3	Number	Plant Asset:	Test Year	2014	2015	2016
4	301	Organization Cost	$ -	$ -	$ -	$ -
5	302	Franchise Cost	-	-	-	-
6	303	Land and Land Rights	-	-	-	-
7	304	Structures and Improvements	14,540	-	-	-
8	305	Collecting and Impounding Res.	-	-	-	-
9	306	Lake River and Other Intakes	-	-	-	-
10	307	Wells and Springs	(530,252)	5,000	5,000	5,000
11	308	Infiltration Galleries and Tunnels	-	-	-	-
12	309	Supply Mains	-	-	-	-
13	310	Power Generation Equipment	-	-	-	-
14	311	Electric Pumping Equipment	100,753	10,000	10,000	10,000
15	320	Water Treatment Equipment	-	-	-	-
16	320.1	Water Treatment Plant	-	-	-	-
17	320.2	Chemical Solution Feeders	-	-	-	-
18	330	Dist. Reservoirs & Standpipe	724	-	-	-
19	330.1	Storage tanks	-	2,500	2,500	2,500
20	330.2	Pressure Tanks	-	-	-	-
21	331	Trans. and Dist. Mains	161,710	-	-	58,000
22	333	Services	129,988	8,000	8,000	56,000
23	334	Meters	107	5,000	5,000	5,000
24	335	Hydrants	53,452	-	-	20,000
25	336	Backflow Prevention Devices	-	-	-	-
26	339	Other Plant and Misc. Equip.	883	1,500	1,500	1,500
27	340	Office Furniture and Fixtures	-	-	-	-
28	340.1	Computers and Software	-	-	-	-
29	341	Transportation Equipment	-	-	-	-
30	342	Stores Equipment	-	-	-	-
31	343	Tools and Work Equipment	-	-	-	-
32	344	Laboratory Equipment	-	-	-	-
33	345	Power Operated Equipment	-	-	-	-
34	346	Communications Equipment	-	3,000	3,000	3,000
35	347	Miscellaneous Equipment	-	500	500	500
36	348	Other Tangible Plant	-	-	-	-
37	Total		$ (68,095)	$ 35,500	$ 35,500	$ 161,500
38						
39						
40						

Quail Creek Water Company
Test Year Ended December 31, 2013
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line No.	
1	Property Taxes were computed using the method used by the Arizona Department
2	of Revenue modified for ratemaking.
3	
4	Projected construction expenditures are shown on Schedule A-4.
5	
6	Expense adjustments are shown on Schedule C2, and are explained in the testimony.
7	
8	Income taxes were computed using statutory state and federal income tax rates.
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Quail Creek Water Company
Revenue Summary
Test Year Ended December 31, 2013

Exhibit
Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Classification	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	$ 654,321	$ 944,185	$ 289,864	44.30%	77.46%	75.14%
2	3/4 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
3	1 Inch	Residential	64,595	98,366	33,771	52.28%	7.65%	7.83%
4	1 1/2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
5	2 Inch	Residential	3,424	5,872	2,448	71.51%	0.41%	0.47%
6								
7	5/8x3/4 Inch	Commercial	$ 20,007	$ 32,469	$ 12,462	62.29%	2.37%	2.58%
8	3/4 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
9	1 Inch	Commercial	11,118	20,795	9,677	87.04%	1.32%	1.65%
10	1 1/2 Inch	Commercial	9,942	18,822	8,879	89.31%	1.18%	1.50%
11	2 Inch	Commercial	28,157	49,459	21,302	75.65%	3.33%	3.94%
12	3 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
13	6 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
14								
15	5/8x3/4 Inch	Irrigation	$ 10,246	$ 19,254	$ 9,008	87.91%	1.21%	1.53%
16	3/4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
17	1 Inch	Irrigation	2,514	4,483	1,969	78.32%	0.30%	0.36%
18	1 1/2 Inch	Irrigation	3,957	7,181	3,224	81.47%	0.47%	0.57%
19	2 Inch	Irrigation	9,033	16,688	7,655	84.75%	1.07%	1.33%
20	3 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
21	4 Inch	Irrigation	6,753	10,851	4,098	60.68%	0.80%	0.86%
22								
23								
24								
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26								
27	**Subtotals of Revenues**		$ 824,068	$ 1,228,425	$ 404,357	49.07%	97.56%	97.77%
28								
29	**Revenue Annualizations:**							
30	5/8x3/4 Inch	Residential	$ 9,969	$ 14,020	$ 4,051	40.64%	1.18%	1.12%
31	3/4 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
32	1 Inch	Residential	(44)	(67)	(23)	52.60%	-0.01%	-0.01%
33	1 1/2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
34	2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
35								
36	5/8x3/4 Inch	Commercial	$ 1,589	$ 2,494	$ 905	56.98%	0.19%	0.20%
37	3/4 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
38	1 Inch	Commercial	2,037	3,613	1,576	77.35%	0.24%	0.29%
39	1 1/2 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
40	2 Inch	Commercial	(1,765)	(2,984)	(1,219)	69.04%	-0.21%	-0.24%
41	3 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
42	6 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
43								
44	5/8x3/4 Inch	Irrigation	$ (36)	$ (99)	$ (63)	173.38%	0.00%	-0.01%
45	3/4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
46	1 Inch	Irrigation	152	246	94	62.14%	0.02%	0.02%
47	1 1/2 Inch	Irrigation	2,006	3,665	1,659	82.73%	0.24%	0.29%
48	2 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
49	3 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
50	4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
51								
52	**Subtotal Revenue Annualization**		$ 13,906	$ 20,887	$ 6,981	50.20%	1.65%	2.47%
53								
54	**Total Revenues w/ Annualization**		$ 837,974	$ 1,249,312	$ 411,338	49.09%	99.20%	99.43%
55	**Misc Revenues**		7,353	7,353	-	0.00%	0.87%	0.59%
56	**Reconciling Amount**		(608)	(161)	447	-73.52%	-0.07%	-0.01%
57	**Total Revenues**		$ 844,719	$ 1,256,504	$ 411,785	48.75%	100.00%	100.00%
58								
59								

Quail Creek Water Company
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2013

Exhibit
Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		Average Number of Customers at 12/31/2012	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	5/8x3/4 Inch	Residential	1,757	5,725	$ 31.03	$ 43.63	$ 12.60	40.62%	88.85%
2	3/4 Inch	Residential	-	-	$ 20.00	$ 28.30	$ 8.30	41.50%	0.00%
3	1 Inch	Residential	129	5,965	41.70	63.31	21.61	51.81%	6.53%
4	1 1/2 Inch	Residential	-	-	50.00	70.75	20.75	41.50%	0.00%
5	2 Inch	Residential	1	73,325	285.31	478.93	193.62	67.86%	0.05%
6									
7	5/8x3/4 Inch	Commercial	53	5,808	$ 31.26	48.42	17.16	54.89%	2.70%
8	3/4 Inch	Commercial	-	-	20.00	28.30	8.30	41.50%	0.00%
9	1 Inch	Commercial	8	34,704	122.17	217.36	95.19	77.92%	0.38%
10	1 1/2 Inch	Commercial	3	80,778	276.18	501.57	225.40	81.61%	0.15%
11	2 Inch	Commercial	9	70,019	276.05	459.81	183.75	66.56%	0.43%
12	3 Inch	Commercial	-	-	150.00	212.25	62.25	41.50%	0.00%
13	6 Inch	Commercial	-	-	500.00	707.50	207.50	41.50%	0.00%
14									
15	5/8x3/4 Inch	Irrigation	11	22,577	$ 78.21	$ 140.78	$ 62.57	79.99%	0.55%
16	3/4 Inch	Irrigation	-	-	20.00	28.30	8.30	41.50%	0.00%
17	1 Inch	Irrigation	3	18,277	76.18	122.37	46.19	60.64%	0.14%
18	1 1/2 Inch	Irrigation	1	70,475	247.33	442.00	194.67	78.71%	0.07%
19	2 Inch	Irrigation	2	105,846	376.37	666.99	290.62	77.22%	0.10%
20	3 Inch	Irrigation	-	-	150.00	212.25	62.25	41.50%	0.00%
21	4 Inch	Irrigation	1	111,709	562.78	876.86	314.08	55.81%	0.05%
22									
23									
24									
25									
26									
27									
28									
29	Totals		1,978						100.00%
30									
31	Actual Year End Number								
32	of Customers:		2,011						
33									
34									
35									
36									

Quail Creek Water Company
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2013

Exhibit
Schedule H-2
Page 2
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		Average Number of Customers at 12/31/2012	Median Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	5/8x3/4 Inch	Residential	1,757	4,500	$ 27.60	$ 37.90	$ 10.30	37.31%	88.85%
2	3/4 Inch	Residential	-	-	$ 20.00	$ 28.30	$ 8.30	41.50%	0.00%
3	1 Inch	Residential	129	4,500	$ 37.60	$ 56.45	$ 18.85	50.13%	6.53%
4	1 1/2 Inch	Residential	-	-	$ 50.00	$ 70.75	$ 20.75	41.50%	0.00%
5	2 Inch	Residential	1	70,000	$ 276.00	$ 459.70	$ 183.70	66.56%	0.05%
6									
7	5/8x3/4 Inch	Commercial	53	2,500	$ 22.00	$ 32.93	$ 10.93	49.69%	2.70%
8	3/4 Inch	Commercial	-	-	$ 20.00	$ 28.30	$ 8.30	41.50%	0.00%
9	1 Inch	Commercial	8	6,500	$ 43.20	$ 65.81	$ 22.61	52.35%	0.38%
10	1 1/2 Inch	Commercial	3	-	$ 50.00	$ 70.75	$ 20.75	41.50%	0.15%
11	2 Inch	Commercial	9	42,500	$ 199.00	$ 312.22	$ 113.22	56.89%	0.43%
12	3 Inch	Commercial	-	-	$ 150.00	$ 212.25	$ 62.25	41.50%	0.00%
13	6 Inch	Commercial	-	-	$ 500.00	$ 707.50	$ 207.50	41.50%	0.00%
14									
15	5/8x3/4 Inch	Irrigation	11	500	$ 16.40	$ 23.57	$ 7.17	43.70%	0.55%
16	3/4 Inch	Irrigation	-	-	20.00	28.30	8.30	41.50%	0.00%
17	1 Inch	Irrigation	3	-	25.00	35.38	10.38	41.50%	0.14%
18	1 1/2 Inch	Irrigation	1	55,000	204.00	352.51	148.51	72.80%	0.07%
19	2 Inch	Irrigation	2	26,000	152.80	234.95	82.15	53.77%	0.10%
20	3 Inch	Irrigation	-	-	150.00	212.25	62.25	41.50%	0.00%
21	4 Inch	Irrigation	1	80,000	474.00	728.38	254.38	53.67%	0.05%
22									
23									
24									
25									
26									
27									
28									
29	Totals		1,978						100.00%
30									
31	Actual Year End Number								
32	of Customers:		2,011						
33									
34									
35									
36									

Quail Creek Water Company
Metered Revenue Breakdown Summary
Present Rates

Exhibit
Schedule H-2
Page 3
Witness: Bourassa

		Present Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	Residential	$ 321,120	$ 343,170	$ -	$ -	$ 664,290
3/4 Inch	Residential	-	-	-	-	-
1 Inch	Residential	38,700	25,851	-	-	64,551
1 1/2 Inch	Residential	-	-	-	-	-
2 Inch	Residential	960	2,464	-	-	3,424
Subtotal		$ 360,780	$ 371,484	$ -	$ -	$ 732,264
		43.05%	44.33%	0.00%	0.00%	87.39%
5/8x3/4 Inch	Commercial	$ 10,260	$ 11,336	$ -	$ -	$ 21,596
3/4 Inch	Commercial	-	-	-	-	-
1 Inch	Commercial	2,700	10,455	-	-	13,155
1 1/2 Inch	Commercial	1,800	8,142	-	-	9,942
2 Inch	Commercial	7,680	18,712	-	-	26,392
3 Inch	Commercial	-	-	-	-	-
6 Inch	Commercial	-	-	-	-	-
Subtotal		$ 22,440	$ 48,644	$ -	$ -	$ 71,084
		0.00%	0.00%	0.00%	0.00%	0.00%
5/8x3/4 Inch	Irrigation	$ 1,980	$ 8,230	$ -	$ -	$ 10,210
3/4 Inch	Irrigation	-	-	-	-	-
1 Inch	Irrigation	900	1,766	-	-	2,666
1 1/2 Inch	Irrigation	1,200	4,763	-	-	5,963
2 Inch	Irrigation	1,920	7,113	-	-	9,033
3 Inch	Irrigation	-	-	-	-	-
4 Inch	Irrigation	3,000	3,753	-	-	6,753
Golf Course	Irrigation	-	-	-	-	-
Subtotal		9,000	25,625	-	-	34,625
		1.07%	3.06%	0.00%	0.00%	4.13%
5/8x3/4 Inch	Construction	-	-	-	-	-
		0.00%	0.00%	0.00%	0.00%	0.00%
	TOTALS	$ 392,220	$ 445,754	$ -	$ -	$ 837,974
	Percent of Total	46.81%	53.19%	0.00%	0.00%	100.00%
	Cummulative %	46.81%	100.00%	100.00%	100.00%	

Quail Creek Water Company
Metered Revenue Breakdown Summary
Company Proposed Rates

Exhibit
Schedule H-2
Page 4
Witness: Bourassa

		Present Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	Residential	$ 454,385	$ 262,826	$ 185,354	$ 55,640	$ 958,205
3/4 Inch	Residential	-	-	-	-	-
1 Inch	Residential	54,761	41,939	1,599	-	98,299
1 1/2 Inch	Residential	-	-	-	-	-
2 Inch	Residential	1,358	2,447	2,067	-	5,872
Subtotal		$ 510,504	$ 307,212	$ 189,020	$ 55,640	$ 1,062,376
		40.86%	24.59%	15.13%	4.45%	85.04%
5/8x3/4 Inch	Commercial	$ 14,518	$ 12,628	$ 7,817	$ -	$ 34,963
3/4 Inch	Commercial	-	-	-	-	-
1 Inch	Commercial	3,821	4,278	16,309	-	24,407
1 1/2 Inch	Commercial	2,547	2,306	13,968	-	18,822
2 Inch	Commercial	10,867	12,932	22,676	-	46,475
3 Inch	Commercial	-	-	-	-	-
6 Inch	Commercial	-	-	-	-	-
Subtotal		$ 31,753	$ 32,144	$ 60,771	$ -	$ 124,667
		2.54%	2.57%	4.86%	0.00%	9.98%
5/8x3/4 Inch	Irrigation	$ 2,802	$ 2,743	$ 13,610	$ -	$ 19,154
3/4 Inch	Irrigation	-	-	-	-	-
1 Inch	Irrigation	1,274	815	2,641	-	4,729
1 1/2 Inch	Irrigation	1,698	2,931	6,217	-	10,847
2 Inch	Irrigation	2,717	3,060	10,911	-	16,688
3 Inch	Irrigation	-	-	-	-	-
4 Inch	Irrigation	4,245	4,877	1,729	-	10,851
Golf Course	Irrigation	-	-	-	-	-
Subtotal		$ 12,735	$ 14,427	$ 35,108	$ -	$ 62,269
		1.02%	1.15%	2.81%	0.00%	4.98%
5/8x3/4 Inch	Construction	-	-	-	-	-
		0.00%	0.00%	0.00%	0.00%	0.00%
	TOTALS	$ 554,991	$ 353,782	$ 284,898	$ 55,640	$ 1,249,312
	Percent of Total	44.42%	28.32%	22.80%	4.45%	100.00%
	Cummulative %	44.42%	72.74%	95.55%	100.00%	

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

Exhibit
Schedule H-3
Page 1

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%
2	3/4 Inch	20.00	28.30	8.30	41.50%
3	1 Inch	25.00	35.38	10.38	41.50%
4	1 1/2 Inch	50.00	70.75	20.75	41.50%
5	2 Inch	80.00	113.20	33.20	41.50%
6	3 Inch	150.00	212.25	62.25	41.50%
7	4 Inch	250.00	353.75	103.75	41.50%
8	6 Inch	500.00	707.50	207.50	41.50%
9	Standpipe	-	-	-	NM
10					
11					
12	Gallons In Minimum (all classes)	-	-		
13					
14					
15					
16					
17					
18					

	Commodity Rates (per 1,000 gallons)	Block	Present Rate	Proposed Rate
19				
20				
21	5/8x3/4 Inch (all classes)	Over Minimum	$ 2.80	
22				
23	5/8x3/4 Inch - Residential	1 gallons to 4,000 gallons		$ 3.58
24		4,001 gallons to 10,000 gallons		$ 4.68
25		over 10,000 gallons		$ 5.78
26				
27	5/8x3/4 Inch - Non-residential	1 gallons to 10,000 gallons		$ 4.68
28		over 10,000 gallons		$ 5.78
29				
30	3/4 Inch Meter (all classes)	Over Minimum	$ 2.80	
31				
32	3/4 Inch Meter - Residential	1 gallons to 4,000 gallons		$ 3.58
33		4,001 gallons to 10,000 gallons		$ 4.68
34		over 10,000 gallons		$ 5.78
35				
36	3/4 Inch Meter - Non-residential	1 gallons to 10,000 gallons		$ 4.68
37		over 10,000 gallons		$ 5.78
38				
39				
40				
41				
42				
43	NM = not meaningful			
44	NT = No Tariff			
45				

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

Exhibit
Schedule H-3
Page 2

Line No.		Block	Present Rate	Proposed Rate
1				
2				
3	**Commodity Rates (per 1,000 gallons)**			
4	1 Inch Meter (all classes)	Over Minimum	$ 2.80	
5				
6	1 Inch Meter (all classes)	1 gallons to 17,000 gallons		$ 4.68
7		over 17,000 gallons		$ 5.78
8				
9	1.5 Inch Meter (all classes)	Over Minimum	$ 2.80	
10				
11	1.5 Inch Meter - (all classes)	1 gallons to 33,000 gallons		$ 4.68
12		over 33,000 gallons		$ 5.78
13				
14	2 Inch Meter (all classes)	Over Minimum	$ 2.80	
15				
16	2 Inch Meter - (all classes)	1 gallons to 53,000 gallons		$ 4.68
17		over 53,000 gallons		$ 5.78
18				
19	3 Inch Meter (all classes)	Over Minimum	$ 2.80	
20				
21	3 Inch Meter - (all classes)	1 gallons to 100,000 gallons		$ 4.68
22		over 107,000 gallons		$ 5.78
23				
24	4 Inch Meter (all classes)	Over Minimum	$ 2.80	
25				
26	4 Inch Meter (all classes)	1 gallons to 167,000 gallons		$ 4.68
27		over 167,000 gallons		$ 5.78
28				
29	6 Inch Meter - (all classes)	1 gallons to 334,000 gallons		$ 4.68
30		over 334,000 gallons		$ 5.78
31				
32				
33	Standpipe*	All gallons	$ 2.80	$ 5.78
34				
35	* Includes hydrant or construction water.			
36	NT = No Tariff			

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

Exhibit
Schedule H-3 Revised
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]
5/8 x 3/4 Inch			$ 350.00	$ 385.00	$ 135.00	$ 520.00
3/4 Inch			$ 400.00	415.00	205.00	620.00
1 Inch			$ 470.00	465.00	265.00	730.00
1 1/2 Inch			$ 695.00	520.00	475.00	995.00
2 Inch Turbo			$ 1,225.00	800.00	995.00	1,795.00
2 Inch, Compound			$ 1,820.00	800.00	1,840.00	2,640.00
3 Inch Turbo			$ 1,735.00	1,015.00	1,620.00	2,635.00
3 Inch, compound			$ 2,410.00	1,135.00	2,495.00	3,630.00
4 Inch Turbo			$ 2,700.00	1,430.00	2,570.00	4,000.00
4 Inch, compound			$ 3,455.00	1,610.00	3,545.00	5,155.00
6 Inch Turbo			$ 5,115.00	2,150.00	4,925.00	7,075.00
6 Inch, compound			$ 6,650.00	2,270.00	6,820.00	9,090.00

[1] Based on ACC Staff Engineering Memo dated Feburary 21, 2008

Other Charges:

Establishment	$ 25.00	$ 25.00
Establishment (after hours)	$ 45.00	Remove
Reestablishment within 12 months	**	**
Reconnection/Delinguent	$ 25.00	$ 25.00
Meter Test (if correct)	$ 25.00	$ 25.00
Meter Re-read (if correct)	$ 15.00	$ 15.00
Deposit	*	*
Deposit Interest	*	*
NSF Check	$ 15.00	$ 15.00
Deferred Payment, per month	1.5% per month	1.5% per month
Late Payment Fee (per month)	***	***
After hours service charge	NT	$ 50.00

Monthly Service Charge of Fire Sprinklers

4" or Smaller	****	****
6"	****	****
8"	****	****
10"	****	****
Larger than 10"	****	****

* Per Commission Rule A.A.C R-14-2-403(b)
** Number of months off the system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).
*** 1.5% per month or a minimum of $3.50.
**** 1% of monthly minimum for a comparable sized meter connection, but no less than $5.00 per month (requires separate service line).

NT = No Tariff

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Residential 5/8x3/4 Inch Meter
Test Year Ended December 31, 2013
(Excludes all Revenue Related Taxes)

Exhibit
Schedule H-4
Page 1
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 15.00	$ 21.23	$ 6.23	41.50%
1,000	17.80	24.81	$ 7.01	39.37%
2,000	20.60	28.39	$ 7.79	37.82%
3,000	23.40	31.97	$ 8.57	36.64%
4,000	26.20	35.56	$ 9.36	35.71%
5,000	29.00	40.24	$ 11.24	38.76%
6,000	31.80	44.92	$ 13.12	41.26%
7,000	34.60	49.60	$ 15.00	43.37%
8,000	37.40	54.29	$ 16.89	45.15%
9,000	40.20	58.97	$ 18.77	46.69%
10,000	43.00	63.65	$ 20.65	48.03%
12,000	48.60	75.22	$ 26.62	54.77%
14,000	54.20	86.78	$ 32.58	60.12%
16,000	59.80	98.35	$ 38.55	64.47%
18,000	65.40	109.92	$ 44.52	68.07%
20,000	71.00	121.48	$ 50.48	71.10%
25,000	85.00	150.40	$ 65.40	76.94%
30,000	99.00	179.31	$ 80.31	81.12%
35,000	113.00	208.22	$ 95.22	84.27%
40,000	127.00	237.14	$ 110.14	86.72%
45,000	141.00	266.05	$ 125.05	88.69%
50,000	155.00	294.97	$ 139.97	90.30%
60,000	183.00	352.79	$ 169.79	92.78%
70,000	211.00	410.62	$ 199.62	94.61%
80,000	239.00	468.45	$ 229.45	96.00%
90,000	267.00	526.28	$ 259.28	97.11%
100,000	295.00	584.11	$ 289.11	98.00%
Average Usage				
5,725	$ 31.03	$ 43.63	$ 12.60	40.62%
Median Usage				
4,500	$ 27.60	$ 37.90	$ 10.30	37.31%

Present Rates:

Monthly Minimum:	$	15.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons over Min.	$	2.80

Proposed Rates:

Monthly Minimum:		$	21.23
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	4,000	$	3.58
Up to	10,000	$	4.68
Over	10,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Residential 3/4 Inch Meter
Test Year Ended December 31, 2013
(Excludes all Revenue Related Taxes)

Exhibit
Schedule H-4
Page 2
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 20.00	$ 28.30	$ 8.30	41.50%
1,000	22.80	31.88	$ 9.08	39.84%
2,000	25.60	35.47	$ 9.87	38.54%
3,000	28.40	39.05	$ 10.65	37.49%
4,000	31.20	42.63	$ 11.43	36.64%
5,000	34.00	47.31	$ 13.31	39.16%
6,000	36.80	52.00	$ 15.20	41.30%
7,000	39.60	56.68	$ 17.08	43.13%
8,000	42.40	61.36	$ 18.96	44.72%
9,000	45.20	66.05	$ 20.85	46.12%
10,000	48.00	70.73	$ 22.73	47.35%
12,000	53.60	82.29	$ 28.69	53.53%
14,000	59.20	93.86	$ 34.66	58.55%
16,000	64.80	105.43	$ 40.63	62.69%
18,000	70.40	116.99	$ 46.59	66.18%
20,000	76.00	128.56	$ 52.56	69.15%
25,000	90.00	157.47	$ 67.47	74.97%
30,000	104.00	186.38	$ 82.38	79.22%
35,000	118.00	215.30	$ 97.30	82.46%
40,000	132.00	244.21	$ 112.21	85.01%
45,000	146.00	273.13	$ 127.13	87.07%
50,000	160.00	302.04	$ 142.04	88.78%
60,000	188.00	359.87	$ 171.87	91.42%
70,000	216.00	417.70	$ 201.70	93.38%
80,000	244.00	475.53	$ 231.53	94.89%
90,000	272.00	533.35	$ 261.35	96.09%
100,000	300.00	591.18	$ 291.18	97.06%
Average Usage				
-	$ 20.00	$ 28.30	$ 8.30	41.50%
Median Usage				
-	$ 20.00	$ 28.30	$ 8.30	41.50%

Present Rates:

Monthly Minimum:	$	20.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons over Min.	$	2.80

Proposed Rates:

Monthly Minimum:		$	28.30
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	4,000	$	3.58
Up to	10,000	$	4.68
Over	10,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Residential 1 Inch Meter
Test Year Ended December 31, 2013
(Excludes all Revenue Related Taxes)

Exhibit
Schedule H-4
Page 3
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 25.00	$ 35.38	$ 10.38	41.50%
1,000	27.80	40.06	$ 12.26	44.09%
2,000	30.60	44.74	$ 14.14	46.21%
3,000	33.40	49.42	$ 16.02	47.97%
4,000	36.20	54.11	$ 17.91	49.46%
5,000	39.00	58.79	$ 19.79	50.74%
6,000	41.80	63.47	$ 21.67	51.85%
7,000	44.60	68.15	$ 23.55	52.81%
8,000	47.40	72.84	$ 25.44	53.67%
9,000	50.20	77.52	$ 27.32	54.42%
10,000	53.00	82.20	$ 29.20	55.10%
12,000	58.60	91.57	$ 32.97	56.26%
14,000	64.20	100.93	$ 36.73	57.22%
16,000	69.80	110.30	$ 40.50	58.02%
18,000	75.40	120.77	$ 45.37	60.17%
20,000	81.00	132.33	$ 51.33	63.37%
25,000	95.00	161.25	$ 66.25	69.73%
30,000	109.00	190.16	$ 81.16	74.46%
35,000	123.00	219.07	$ 96.07	78.11%
40,000	137.00	247.99	$ 110.99	81.01%
45,000	151.00	276.90	$ 125.90	83.38%
50,000	165.00	305.82	$ 140.82	85.34%
60,000	193.00	363.64	$ 170.64	88.42%
70,000	221.00	421.47	$ 200.47	90.71%
80,000	249.00	479.30	$ 230.30	92.49%
90,000	277.00	537.13	$ 260.13	93.91%
100,000	305.00	594.96	$ 289.96	95.07%
Average Usage				
5,965	$ 41.70	$ 63.31	$ 21.61	51.81%
Median Usage				
4,500	$ 37.60	$ 56.45	$ 18.85	50.13%

Present Rates:

Monthly Minimum:	$	25.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons over Min.	$	2.80

Proposed Rates:

Monthly Minimum:		$	35.38
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	17,000	$	4.68
Over	17,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Residential 1.5 Inch Meter
Test Year Ended December 31, 2013
(Excludes all Revenue Related Taxes)

Exhibit
Schedule H-4
Page 4
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 50.00	$ 70.75	$ 20.75	41.50%
1,000	52.80	75.43	$ 22.63	42.87%
2,000	55.60	80.12	$ 24.52	44.09%
3,000	58.40	84.80	$ 26.40	45.20%
4,000	61.20	89.48	$ 28.28	46.21%
5,000	64.00	94.16	$ 30.16	47.13%
6,000	66.80	98.85	$ 32.05	47.97%
7,000	69.60	103.53	$ 33.93	48.75%
8,000	72.40	108.21	$ 35.81	49.46%
9,000	75.20	112.90	$ 37.70	50.13%
10,000	78.00	117.58	$ 39.58	50.74%
12,000	83.60	126.94	$ 43.34	51.85%
14,000	89.20	136.31	$ 47.11	52.81%
16,000	94.80	145.68	$ 50.88	53.67%
18,000	100.40	155.04	$ 54.64	54.42%
20,000	106.00	164.41	$ 58.41	55.10%
25,000	120.00	187.82	$ 67.82	56.52%
30,000	134.00	211.23	$ 77.23	57.64%
35,000	148.00	236.85	$ 88.85	60.03%
40,000	162.00	265.76	$ 103.76	64.05%
45,000	176.00	294.68	$ 118.68	67.43%
50,000	190.00	323.59	$ 133.59	70.31%
60,000	218.00	381.42	$ 163.42	74.96%
70,000	246.00	439.25	$ 193.25	78.56%
80,000	274.00	497.08	$ 223.08	81.41%
90,000	302.00	554.90	$ 252.90	83.74%
100,000	330.00	612.73	$ 282.73	85.68%
Average Usage				
-	$ 50.00	$ 70.75	$ 20.75	41.50%
Median Usage				
-	$ 50.00	$ 70.75	$ 20.75	41.50%

Present Rates:

Monthly Minimum:	$	50.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons over Min.	$	2.80

Proposed Rates:

Monthly Minimum:		$	70.75
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	33,000	$	4.68
Over	33,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Residential 2 Inch Meter
Test Year Ended December 31, 2013
(Excludes all Revenue Related Taxes)

Exhibit
Schedule H-4
Page 5
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 80.00	$ 113.20	$ 33.20	41.50%
1,000	82.80	117.88	$ 35.08	42.37%
2,000	85.60	122.57	$ 36.97	43.18%
3,000	88.40	127.25	$ 38.85	43.95%
4,000	91.20	131.93	$ 40.73	44.66%
5,000	94.00	136.61	$ 42.61	45.33%
6,000	96.80	141.30	$ 44.50	45.97%
7,000	99.60	145.98	$ 46.38	46.57%
8,000	102.40	150.66	$ 48.26	47.13%
9,000	105.20	155.35	$ 50.15	47.67%
10,000	108.00	160.03	$ 52.03	48.17%
12,000	113.60	169.39	$ 55.79	49.11%
14,000	119.20	178.76	$ 59.56	49.97%
16,000	124.80	188.13	$ 63.33	50.74%
18,000	130.40	197.49	$ 67.09	51.45%
20,000	136.00	206.86	$ 70.86	52.10%
25,000	150.00	230.27	$ 80.27	53.51%
30,000	164.00	253.68	$ 89.68	54.69%
35,000	178.00	277.10	$ 99.10	55.67%
40,000	192.00	300.51	$ 108.51	56.52%
45,000	206.00	323.93	$ 117.93	57.25%
50,000	220.00	347.34	$ 127.34	57.88%
60,000	248.00	401.87	$ 153.87	62.04%
70,000	276.00	459.70	$ 183.70	66.56%
80,000	304.00	517.53	$ 213.53	70.24%
90,000	332.00	575.35	$ 243.35	73.30%
100,000	360.00	633.18	$ 273.18	75.88%
Average Usage				
73,325	$ 285.31	$ 478.93	$ 193.62	67.86%
Median Usage				
70,000	$ 276.00	$ 459.70	$ 183.70	66.56%

Present Rates:

Monthly Minimum:		$	80.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
All Gallons over Min.		$	2.80

Proposed Rates:

Monthly Minimum:		$	113.20
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	53,000	$	4.68
Over	53,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Commercial 5/8x3/4 Inch Meter
Test Year Ended December 31, 2013
(Excludes all Revenue Related Taxes)

Exhibit
Schedule H-4
Page 6
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 15.00	$ 21.23	$ 6.23	41.50%
1,000	17.80	25.91	$ 8.11	45.55%
2,000	20.60	30.59	$ 9.99	48.50%
3,000	23.40	35.27	$ 11.87	50.74%
4,000	26.20	39.96	$ 13.76	52.50%
5,000	29.00	44.64	$ 15.64	53.93%
6,000	31.80	49.32	$ 17.52	55.10%
7,000	34.60	54.00	$ 19.40	56.08%
8,000	37.40	58.69	$ 21.29	56.92%
9,000	40.20	63.37	$ 23.17	57.64%
10,000	43.00	68.05	$ 25.05	58.26%
12,000	48.60	79.62	$ 31.02	63.82%
14,000	54.20	91.18	$ 36.98	68.24%
16,000	59.80	102.75	$ 42.95	71.82%
18,000	65.40	114.32	$ 48.92	74.79%
20,000	71.00	125.88	$ 54.88	77.30%
25,000	85.00	154.80	$ 69.80	82.11%
30,000	99.00	183.71	$ 84.71	85.57%
35,000	113.00	212.62	$ 99.62	88.16%
40,000	127.00	241.54	$ 114.54	90.19%
45,000	141.00	270.45	$ 129.45	91.81%
50,000	155.00	299.37	$ 144.37	93.14%
60,000	183.00	357.19	$ 174.19	95.19%
70,000	211.00	415.02	$ 204.02	96.69%
80,000	239.00	472.85	$ 233.85	97.85%
90,000	267.00	530.68	$ 263.68	98.76%
100,000	295.00	588.51	$ 293.51	99.49%
Average Usage				
5,808	$ 31.26	$ 48.42	$ 17.16	54.89%
Median Usage				
2,500	$ 22.00	$ 32.93	$ 10.93	49.69%

Present Rates:

Monthly Minimum:	$	15.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons over Min.	$	2.80

Proposed Rates:

Monthly Minimum:		$	21.23
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	10,000	$	4.68
Over	10,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Commercial 3/4 Inch Meter
Test Year Ended December 31, 2013
(Excludes all Revenue Related Taxes)

Exhibit
Schedule H-4
Page 7
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 20.00	$ 28.30	$ 8.30	41.50%
1,000	22.80	32.98	$ 10.18	44.66%
2,000	25.60	37.67	$ 12.07	47.13%
3,000	28.40	42.35	$ 13.95	49.11%
4,000	31.20	47.03	$ 15.83	50.74%
5,000	34.00	51.71	$ 17.71	52.10%
6,000	36.80	56.40	$ 19.60	53.25%
7,000	39.60	61.08	$ 21.48	54.24%
8,000	42.40	65.76	$ 23.36	55.10%
9,000	45.20	70.45	$ 25.25	55.85%
10,000	48.00	75.13	$ 27.13	56.52%
12,000	53.60	86.69	$ 33.09	61.74%
14,000	59.20	98.26	$ 39.06	65.98%
16,000	64.80	109.83	$ 45.03	69.48%
18,000	70.40	121.39	$ 50.99	72.43%
20,000	76.00	132.96	$ 56.96	74.94%
25,000	90.00	161.87	$ 71.87	79.86%
30,000	104.00	190.78	$ 86.78	83.45%
35,000	118.00	219.70	$ 101.70	86.19%
40,000	132.00	248.61	$ 116.61	88.34%
45,000	146.00	277.53	$ 131.53	90.09%
50,000	160.00	306.44	$ 146.44	91.53%
60,000	188.00	364.27	$ 176.27	93.76%
70,000	216.00	422.10	$ 206.10	95.42%
80,000	244.00	479.93	$ 235.93	96.69%
90,000	272.00	537.75	$ 265.75	97.70%
100,000	300.00	595.58	$ 295.58	98.53%
Average Usage				
-	$ 20.00	$ 28.30	$ 8.30	41.50%
Median Usage				
-	$ 20.00	$ 28.30	$ 8.30	41.50%

Present Rates:

Monthly Minimum:	$	20.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons over Min.	$	2.80

Proposed Rates:

Monthly Minimum:		$	28.30
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	10,000	$	4.68
Over	10,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Commercial 1 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule H-4
Page 8
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 25.00	$ 35.38	$ 10.38	41.50%
1,000	27.80	40.06	$ 12.26	44.09%
2,000	30.60	44.74	$ 14.14	46.21%
3,000	33.40	49.42	$ 16.02	47.97%
4,000	36.20	54.11	$ 17.91	49.46%
5,000	39.00	58.79	$ 19.79	50.74%
6,000	41.80	63.47	$ 21.67	51.85%
7,000	44.60	68.15	$ 23.55	52.81%
8,000	47.40	72.84	$ 25.44	53.67%
9,000	50.20	77.52	$ 27.32	54.42%
10,000	53.00	82.20	$ 29.20	55.10%
12,000	58.60	91.57	$ 32.97	56.26%
14,000	64.20	100.93	$ 36.73	57.22%
16,000	69.80	110.30	$ 40.50	58.02%
18,000	75.40	120.77	$ 45.37	60.17%
20,000	81.00	132.33	$ 51.33	63.37%
25,000	95.00	161.25	$ 66.25	69.73%
30,000	109.00	190.16	$ 81.16	74.46%
35,000	123.00	219.07	$ 96.07	78.11%
40,000	137.00	247.99	$ 110.99	81.01%
45,000	151.00	276.90	$ 125.90	83.38%
50,000	165.00	305.82	$ 140.82	85.34%
60,000	193.00	363.64	$ 170.64	88.42%
70,000	221.00	421.47	$ 200.47	90.71%
80,000	249.00	479.30	$ 230.30	92.49%
90,000	277.00	537.13	$ 260.13	93.91%
100,000	305.00	594.96	$ 289.96	95.07%
Average Usage				
34,704	$ 122.17	$ 217.36	$ 95.19	77.92%
Median Usage				
6,500	$ 43.20	$ 65.81	$ 22.61	52.35%

Present Rates:

Monthly Minimum:	$	25.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons over Min.	$	2.80

Proposed Rates:

Monthly Minimum:		$	35.38
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	17,000	$	4.68
Over	17,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Commercial 1 1/2 Inch Meter
Test Year Ended December 31, 2013

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Schedule H-4
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Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 50.00	$ 70.75	$ 20.75	41.50%
1,000	52.80	75.43	$ 22.63	42.87%
2,000	55.60	80.12	$ 24.52	44.09%
3,000	58.40	84.80	$ 26.40	45.20%
4,000	61.20	89.48	$ 28.28	46.21%
5,000	64.00	94.16	$ 30.16	47.13%
6,000	66.80	98.85	$ 32.05	47.97%
7,000	69.60	103.53	$ 33.93	48.75%
8,000	72.40	108.21	$ 35.81	49.46%
9,000	75.20	112.90	$ 37.70	50.13%
10,000	78.00	117.58	$ 39.58	50.74%
12,000	83.60	126.94	$ 43.34	51.85%
14,000	89.20	136.31	$ 47.11	52.81%
16,000	94.80	145.68	$ 50.88	53.67%
18,000	100.40	155.04	$ 54.64	54.42%
20,000	106.00	164.41	$ 58.41	55.10%
25,000	120.00	187.82	$ 67.82	56.52%
30,000	134.00	211.23	$ 77.23	57.64%
35,000	148.00	236.85	$ 88.85	60.03%
40,000	162.00	265.76	$ 103.76	64.05%
45,000	176.00	294.68	$ 118.68	67.43%
50,000	190.00	323.59	$ 133.59	70.31%
60,000	218.00	381.42	$ 163.42	74.96%
70,000	246.00	439.25	$ 193.25	78.56%
80,000	274.00	497.08	$ 223.08	81.41%
90,000	302.00	554.90	$ 252.90	83.74%
100,000	330.00	612.73	$ 282.73	85.68%
Average Usage				
80,778	$ 276.18	$ 501.57	$ 225.40	81.61%
Median Usage				
-	$ 50.00	$ 70.75	$ 20.75	41.50%

Present Rates:

Monthly Minimum:	$	50.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons over Min.	$	2.80

Proposed Rates:

Monthly Minimum:		$	70.75
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	33,000	$	4.68
Over	33,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Commerical 2 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule H-4
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Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 80.00	$ 113.20	$ 33.20	41.50%
1,000	82.80	117.88	$ 35.08	42.37%
2,000	85.60	122.57	$ 36.97	43.18%
3,000	88.40	127.25	$ 38.85	43.95%
4,000	91.20	131.93	$ 40.73	44.66%
5,000	94.00	136.61	$ 42.61	45.33%
6,000	96.80	141.30	$ 44.50	45.97%
7,000	99.60	145.98	$ 46.38	46.57%
8,000	102.40	150.66	$ 48.26	47.13%
9,000	105.20	155.35	$ 50.15	47.67%
10,000	108.00	160.03	$ 52.03	48.17%
12,000	113.60	169.39	$ 55.79	49.11%
14,000	119.20	178.76	$ 59.56	49.97%
16,000	124.80	188.13	$ 63.33	50.74%
18,000	130.40	197.49	$ 67.09	51.45%
20,000	136.00	206.86	$ 70.86	52.10%
25,000	150.00	230.27	$ 80.27	53.51%
30,000	164.00	253.68	$ 89.68	54.69%
35,000	178.00	277.10	$ 99.10	55.67%
40,000	192.00	300.51	$ 108.51	56.52%
45,000	206.00	323.93	$ 117.93	57.25%
50,000	220.00	347.34	$ 127.34	57.88%
60,000	248.00	401.87	$ 153.87	62.04%
70,000	276.00	459.70	$ 183.70	66.56%
80,000	304.00	517.53	$ 213.53	70.24%
90,000	332.00	575.35	$ 243.35	73.30%
100,000	360.00	633.18	$ 273.18	75.88%
Average Usage				
70,019	$ 276.05	$ 459.81	$ 183.75	66.56%
Median Usage				
42,500	$ 199.00	$ 312.22	$ 113.22	56.89%

Present Rates:

Monthly Minimum:		$	80.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
All Gallons over Min.		$	2.80

Proposed Rates:

Monthly Minimum:		$	113.20
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	53,000	$	4.68
Over	53,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Commerical 3 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule H-4
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Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 150.00	$ 212.25	$ 62.25	41.50%
1,000	152.80	216.93	$ 64.13	41.97%
2,000	155.60	221.62	$ 66.02	42.43%
3,000	158.40	226.30	$ 67.90	42.87%
4,000	161.20	230.98	$ 69.78	43.29%
5,000	164.00	235.66	$ 71.66	43.70%
6,000	166.80	240.35	$ 73.55	44.09%
7,000	169.60	245.03	$ 75.43	44.48%
8,000	172.40	249.71	$ 77.31	44.84%
9,000	175.20	254.40	$ 79.20	45.20%
10,000	178.00	259.08	$ 81.08	45.55%
12,000	183.60	268.44	$ 84.84	46.21%
14,000	189.20	277.81	$ 88.61	46.83%
16,000	194.80	287.18	$ 92.38	47.42%
18,000	200.40	296.54	$ 96.14	47.97%
20,000	206.00	305.91	$ 99.91	48.50%
25,000	220.00	329.32	$ 109.32	49.69%
30,000	234.00	352.73	$ 118.73	50.74%
35,000	248.00	376.15	$ 128.15	51.67%
40,000	262.00	399.56	$ 137.56	52.50%
45,000	276.00	422.98	$ 146.98	53.25%
50,000	290.00	446.39	$ 156.39	53.93%
60,000	318.00	493.22	$ 175.22	55.10%
70,000	346.00	540.05	$ 194.05	56.08%
80,000	374.00	586.88	$ 212.88	56.92%
90,000	402.00	633.70	$ 231.70	57.64%
100,000	430.00	680.53	$ 250.53	58.26%
Average Usage				
-	$ 150.00	$ 212.25	$ 62.25	41.50%
Median Usage				
-	$ 150.00	$ 212.25	$ 62.25	41.50%

Present Rates:

Monthly Minimum:		$	150.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
All Gallons over Min.		$	2.80

Proposed Rates:

Monthly Minimum:		$	212.25
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	100,000	$	4.68
Over	100,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Commerical 6 Inch Meter
Test Year Ended December 31, 2013

Exhibit
Schedule H-4
Page 12
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 500.00	$ 707.50	$ 207.50	41.50%
1,000	502.80	712.18	$ 209.38	41.64%
2,000	505.60	716.87	$ 211.27	41.79%
3,000	508.40	721.55	$ 213.15	41.93%
4,000	511.20	726.23	$ 215.03	42.06%
5,000	514.00	730.91	$ 216.91	42.20%
6,000	516.80	735.60	$ 218.80	42.34%
7,000	519.60	740.28	$ 220.68	42.47%
8,000	522.40	744.96	$ 222.56	42.60%
9,000	525.20	749.65	$ 224.45	42.74%
10,000	528.00	754.33	$ 226.33	42.87%
12,000	533.60	763.69	$ 230.09	43.12%
14,000	539.20	773.06	$ 233.86	43.37%
16,000	544.80	782.43	$ 237.63	43.62%
18,000	550.40	791.79	$ 241.39	43.86%
20,000	556.00	801.16	$ 245.16	44.09%
25,000	570.00	824.57	$ 254.57	44.66%
30,000	584.00	847.98	$ 263.98	45.20%
35,000	598.00	871.40	$ 273.40	45.72%
40,000	612.00	894.81	$ 282.81	46.21%
45,000	626.00	918.23	$ 292.23	46.68%
50,000	640.00	941.64	$ 301.64	47.13%
60,000	668.00	988.47	$ 320.47	47.97%
70,000	696.00	1,035.30	$ 339.30	48.75%
80,000	724.00	1,082.13	$ 358.13	49.46%
90,000	752.00	1,128.95	$ 376.95	50.13%
100,000	780.00	1,175.78	$ 395.78	50.74%
Average Usage				
-	$ 500.00	$ 707.50	$ 207.50	41.50%
Median Usage				
-	$ 500.00	$ 707.50	$ 207.50	41.50%

Present Rates:

Monthly Minimum:	$	500.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons over Min.	$	2.80

Proposed Rates:

Monthly Minimum:		$	707.50
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	333,000	$	4.68
Over	333,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 5/8x3/4 Inch Irrigation
Test Year Ended December 31, 2013

Exhibit
Schedule H-4
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Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 15.00	$ 21.23	$ 6.23	41.50%
1,000	17.80	25.91	$ 8.11	45.55%
2,000	20.60	30.59	$ 9.99	48.50%
3,000	23.40	35.27	$ 11.87	50.74%
4,000	26.20	39.96	$ 13.76	52.50%
5,000	29.00	44.64	$ 15.64	53.93%
6,000	31.80	49.32	$ 17.52	55.10%
7,000	34.60	54.00	$ 19.40	56.08%
8,000	37.40	58.69	$ 21.29	56.92%
9,000	40.20	63.37	$ 23.17	57.64%
10,000	43.00	68.05	$ 25.05	58.26%
12,000	48.60	79.62	$ 31.02	63.82%
14,000	54.20	91.18	$ 36.98	68.24%
16,000	59.80	102.75	$ 42.95	71.82%
18,000	65.40	114.32	$ 48.92	74.79%
20,000	71.00	125.88	$ 54.88	77.30%
25,000	85.00	154.80	$ 69.80	82.11%
30,000	99.00	183.71	$ 84.71	85.57%
35,000	113.00	212.62	$ 99.62	88.16%
40,000	127.00	241.54	$ 114.54	90.19%
45,000	141.00	270.45	$ 129.45	91.81%
50,000	155.00	299.37	$ 144.37	93.14%
60,000	183.00	357.19	$ 174.19	95.19%
70,000	211.00	415.02	$ 204.02	96.69%
80,000	239.00	472.85	$ 233.85	97.85%
90,000	267.00	530.68	$ 263.68	98.76%
100,000	295.00	588.51	$ 293.51	99.49%
Average Usage				
22,577	$ 78.21	$ 140.78	$ 62.57	79.99%
Median Usage				
500	$ 16.40	$ 23.57	$ 7.17	43.70%

Present Rates:

Monthly Minimum:		$ 15.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons over Min.		$ 2.80

Proposed Rates:

Monthly Minimum:		$ 21.23
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	10,000	$ 4.68
Over	10,000	$ 5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 3/4 Inch Irrigation
Test Year Ended December 31, 2013

Exhibit
Schedule H-4
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Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 20.00	$ 28.30	$ 8.30	41.50%
1,000	22.80	32.98	$ 10.18	44.66%
2,000	25.60	37.67	$ 12.07	47.13%
3,000	28.40	42.35	$ 13.95	49.11%
4,000	31.20	47.03	$ 15.83	50.74%
5,000	34.00	51.71	$ 17.71	52.10%
6,000	36.80	56.40	$ 19.60	53.25%
7,000	39.60	61.08	$ 21.48	54.24%
8,000	42.40	65.76	$ 23.36	55.10%
9,000	45.20	70.45	$ 25.25	55.85%
10,000	48.00	75.13	$ 27.13	56.52%
12,000	53.60	86.69	$ 33.09	61.74%
14,000	59.20	98.26	$ 39.06	65.98%
16,000	64.80	109.83	$ 45.03	69.48%
18,000	70.40	121.39	$ 50.99	72.43%
20,000	76.00	132.96	$ 56.96	74.94%
25,000	90.00	161.87	$ 71.87	79.86%
30,000	104.00	190.78	$ 86.78	83.45%
35,000	118.00	219.70	$ 101.70	86.19%
40,000	132.00	248.61	$ 116.61	88.34%
45,000	146.00	277.53	$ 131.53	90.09%
50,000	160.00	306.44	$ 146.44	91.53%
60,000	188.00	364.27	$ 176.27	93.76%
70,000	216.00	422.10	$ 206.10	95.42%
80,000	244.00	479.93	$ 235.93	96.69%
90,000	272.00	537.75	$ 265.75	97.70%
100,000	300.00	595.58	$ 295.58	98.53%
Average Usage				
-	$ 20.00	$ 28.30	$ 8.30	41.50%
Median Usage				
-	$ 20.00	$ 28.30	$ 8.30	41.50%

Present Rates:

Monthly Minimum:		$	20.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
All Gallons over Min.		$	2.80

Proposed Rates:

Monthly Minimum:		$	28.30
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	10,000	$	4.68
Over	10,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 1 Inch Irrigation
Test Year Ended December 31, 2013

Exhibit
Schedule H-4
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Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 25.00	$ 35.38	$ 10.38	41.50%
1,000	27.80	40.06	$ 12.26	44.09%
2,000	30.60	44.74	$ 14.14	46.21%
3,000	33.40	49.42	$ 16.02	47.97%
4,000	36.20	54.11	$ 17.91	49.46%
5,000	39.00	58.79	$ 19.79	50.74%
6,000	41.80	63.47	$ 21.67	51.85%
7,000	44.60	68.15	$ 23.55	52.81%
8,000	47.40	72.84	$ 25.44	53.67%
9,000	50.20	77.52	$ 27.32	54.42%
10,000	53.00	82.20	$ 29.20	55.10%
12,000	58.60	91.57	$ 32.97	56.26%
14,000	64.20	100.93	$ 36.73	57.22%
16,000	69.80	110.30	$ 40.50	58.02%
18,000	75.40	120.77	$ 45.37	60.17%
20,000	81.00	132.33	$ 51.33	63.37%
25,000	95.00	161.25	$ 66.25	69.73%
30,000	109.00	190.16	$ 81.16	74.46%
35,000	123.00	219.07	$ 96.07	78.11%
40,000	137.00	247.99	$ 110.99	81.01%
45,000	151.00	276.90	$ 125.90	83.38%
50,000	165.00	305.82	$ 140.82	85.34%
60,000	193.00	363.64	$ 170.64	88.42%
70,000	221.00	421.47	$ 200.47	90.71%
80,000	249.00	479.30	$ 230.30	92.49%
90,000	277.00	537.13	$ 260.13	93.91%
100,000	305.00	594.96	$ 289.96	95.07%
Average Usage				
18,277	$ 76.18	$ 122.37	$ 46.19	60.64%
Median Usage				
-	$ 25.00	$ 35.38	$ 10.38	41.50%

Present Rates:

Monthly Minimum:		$ 25.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons over Min.		$ 2.80

Proposed Rates:

Monthly Minimum:		$ 35.38
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	17,000	$ 4.68
Over	17,000	$ 5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 1.5 Inch Irrigation
Test Year Ended December 31, 2013

Exhibit
Schedule H-4
Page 16
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 50.00	$ 70.75	$ 20.75	41.50%
1,000	52.80	75.43	$ 22.63	42.87%
2,000	55.60	80.12	$ 24.52	44.09%
3,000	58.40	84.80	$ 26.40	45.20%
4,000	61.20	89.48	$ 28.28	46.21%
5,000	64.00	94.16	$ 30.16	47.13%
6,000	66.80	98.85	$ 32.05	47.97%
7,000	69.60	103.53	$ 33.93	48.75%
8,000	72.40	108.21	$ 35.81	49.46%
9,000	75.20	112.90	$ 37.70	50.13%
10,000	78.00	117.58	$ 39.58	50.74%
12,000	83.60	126.94	$ 43.34	51.85%
14,000	89.20	136.31	$ 47.11	52.81%
16,000	94.80	145.68	$ 50.88	53.67%
18,000	100.40	155.04	$ 54.64	54.42%
20,000	106.00	164.41	$ 58.41	55.10%
25,000	120.00	187.82	$ 67.82	56.52%
30,000	134.00	211.23	$ 77.23	57.64%
35,000	148.00	236.85	$ 88.85	60.03%
40,000	162.00	265.76	$ 103.76	64.05%
45,000	176.00	294.68	$ 118.68	67.43%
50,000	190.00	323.59	$ 133.59	70.31%
60,000	218.00	381.42	$ 163.42	74.96%
70,000	246.00	439.25	$ 193.25	78.56%
80,000	274.00	497.08	$ 223.08	81.41%
90,000	302.00	554.90	$ 252.90	83.74%
100,000	330.00	612.73	$ 282.73	85.68%
Average Usage				
70,475	$ 247.33	$ 442.00	$ 194.67	78.71%
Median Usage				
55,000	$ 204.00	$ 352.51	$ 148.51	72.80%

Present Rates:

Monthly Minimum:	$	50.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons over Min.	$	2.80

Proposed Rates:

Monthly Minimum:		$	70.75
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	33,000	$	4.68
Over	33,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 2 Inch Irrigation
Test Year Ended December 31, 2013

Exhibit
Schedule H-4
Page 17
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 80.00	$ 113.20	$ 33.20	41.50%
1,000	82.80	117.88	$ 35.08	42.37%
2,000	85.60	122.57	$ 36.97	43.18%
3,000	88.40	127.25	$ 38.85	43.95%
4,000	91.20	131.93	$ 40.73	44.66%
5,000	94.00	136.61	$ 42.61	45.33%
6,000	96.80	141.30	$ 44.50	45.97%
7,000	99.60	145.98	$ 46.38	46.57%
8,000	102.40	150.66	$ 48.26	47.13%
9,000	105.20	155.35	$ 50.15	47.67%
10,000	108.00	160.03	$ 52.03	48.17%
12,000	113.60	169.39	$ 55.79	49.11%
14,000	119.20	178.76	$ 59.56	49.97%
16,000	124.80	188.13	$ 63.33	50.74%
18,000	130.40	197.49	$ 67.09	51.45%
20,000	136.00	206.86	$ 70.86	52.10%
25,000	150.00	230.27	$ 80.27	53.51%
30,000	164.00	253.68	$ 89.68	54.69%
35,000	178.00	277.10	$ 99.10	55.67%
40,000	192.00	300.51	$ 108.51	56.52%
45,000	206.00	323.93	$ 117.93	57.25%
50,000	220.00	347.34	$ 127.34	57.88%
60,000	248.00	401.87	$ 153.87	62.04%
70,000	276.00	459.70	$ 183.70	66.56%
80,000	304.00	517.53	$ 213.53	70.24%
90,000	332.00	575.35	$ 243.35	73.30%
100,000	360.00	633.18	$ 273.18	75.88%
Average Usage				
105,846	$ 376.37	$ 666.99	$ 290.62	77.22%
Median Usage				
26,000	$ 152.80	$ 234.95	$ 82.15	53.77%

Present Rates:

Monthly Minimum:		$	80.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
All Gallons over Min.		$	2.80

Proposed Rates:

Monthly Minimum:		$	113.20
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	53,000	$	4.68
Over	53,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 3 Inch Irrigation
Test Year Ended December 31, 2013

Exhibit
Schedule H-4
Page 18
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 150.00	$ 212.25	$ 62.25	41.50%
1,000	152.80	216.93	$ 64.13	41.97%
2,000	155.60	221.62	$ 66.02	42.43%
3,000	158.40	226.30	$ 67.90	42.87%
4,000	161.20	230.98	$ 69.78	43.29%
5,000	164.00	235.66	$ 71.66	43.70%
6,000	166.80	240.35	$ 73.55	44.09%
7,000	169.60	245.03	$ 75.43	44.48%
8,000	172.40	249.71	$ 77.31	44.84%
9,000	175.20	254.40	$ 79.20	45.20%
10,000	178.00	259.08	$ 81.08	45.55%
12,000	183.60	268.44	$ 84.84	46.21%
14,000	189.20	277.81	$ 88.61	46.83%
16,000	194.80	287.18	$ 92.38	47.42%
18,000	200.40	296.54	$ 96.14	47.97%
20,000	206.00	305.91	$ 99.91	48.50%
25,000	220.00	329.32	$ 109.32	49.69%
30,000	234.00	352.73	$ 118.73	50.74%
35,000	248.00	376.15	$ 128.15	51.67%
40,000	262.00	399.56	$ 137.56	52.50%
45,000	276.00	422.98	$ 146.98	53.25%
50,000	290.00	446.39	$ 156.39	53.93%
60,000	318.00	493.22	$ 175.22	55.10%
70,000	346.00	540.05	$ 194.05	56.08%
80,000	374.00	586.88	$ 212.88	56.92%
90,000	402.00	633.70	$ 231.70	57.64%
100,000	430.00	680.53	$ 250.53	58.26%
Average Usage				
-	$ 150.00	$ 212.25	$ 62.25	41.50%
Median Usage				
-	$ 150.00	$ 212.25	$ 62.25	41.50%

Present Rates:

Monthly Minimum:	$	150.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons over Min.	$	2.80

Proposed Rates:

Monthly Minimum:		$	212.25
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	100,000	$	4.68
Over	100,000	$	5.78

Quail Creek Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 4 Inch Irrigation
Test Year Ended December 31, 2013

Exhibit
Schedule H-4
Page 19
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 250.00	$ 353.75	$ 103.75	41.50%
1,000	252.80	358.43	$ 105.63	41.79%
2,000	255.60	363.12	$ 107.52	42.06%
3,000	258.40	367.80	$ 109.40	42.34%
4,000	261.20	372.48	$ 111.28	42.60%
5,000	264.00	377.16	$ 113.16	42.87%
6,000	266.80	381.85	$ 115.05	43.12%
7,000	269.60	386.53	$ 116.93	43.37%
8,000	272.40	391.21	$ 118.81	43.62%
9,000	275.20	395.90	$ 120.70	43.86%
10,000	278.00	400.58	$ 122.58	44.09%
12,000	283.60	409.94	$ 126.34	44.55%
14,000	289.20	419.31	$ 130.11	44.99%
16,000	294.80	428.68	$ 133.88	45.41%
18,000	300.40	438.04	$ 137.64	45.82%
20,000	306.00	447.41	$ 141.41	46.21%
25,000	320.00	470.82	$ 150.82	47.13%
30,000	334.00	494.23	$ 160.23	47.97%
35,000	348.00	517.65	$ 169.65	48.75%
40,000	362.00	541.06	$ 179.06	49.46%
45,000	376.00	564.48	$ 188.48	50.13%
50,000	390.00	587.89	$ 197.89	50.74%
60,000	418.00	634.72	$ 216.72	51.85%
70,000	446.00	681.55	$ 235.55	52.81%
80,000	474.00	728.38	$ 254.38	53.67%
90,000	502.00	775.20	$ 273.20	54.42%
100,000	530.00	822.03	$ 292.03	55.10%
Average Usage				
111,709	$ 562.78	$ 876.86	$ 314.08	55.81%
Median Usage				
80,000	$ 474.00	$ 728.38	$ 254.38	53.67%

Present Rates:

Monthly Minimum:		$ 250.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All Gallons over Min.		$ 2.80

Proposed Rates:

Monthly Minimum:		$ 353.75
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	167,000	$ 4.68
Over	167,000	$ 5.78

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification Residential 5/8x3/4 Inch Meter

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
-	-	5	7	7	5	9	6	6	6	9	6	3	10	79	79	-
1	1,000	61	67	68	55	68	110	93	105	87	98	66	68	946	1,025	473
1,001	2,000	99	112	113	99	136	170	153	178	131	154	110	124	1,579	2,604	2,843
2,001	3,000	177	185	196	149	154	183	162	179	170	202	186	233	2,176	4,780	8,284
3,001	4,000	271	304	300	184	208	223	177	201	194	246	258	306	2,872	7,652	18,337
4,001	5,000	286	350	312	254	204	196	187	222	186	240	268	331	3,036	10,688	32,001
5,001	6,000	261	244	253	250	217	169	207	195	232	204	253	212	2,697	13,385	46,836
6,001	7,000	172	174	164	189	159	157	159	158	168	162	162	155	1,979	15,364	59,700
7,001	8,000	125	91	114	145	130	119	143	116	142	129	138	109	1,501	16,865	70,958
8,001	9,000	89	73	79	116	109	98	97	89	90	95	104	82	1,121	17,986	80,487
9,001	10,000	60	38	47	82	84	67	76	71	83	51	75	45	779	18,765	87,888
10,001	12,000	63	43	52	103	113	99	112	115	118	78	71	53	1,020	19,785	99,109
12,001	14,000	34	20	23	52	67	64	70	46	64	50	32	24	546	20,331	106,207
14,001	16,000	14	10	11	37	44	33	29	27	33	18	14	12	282	20,613	110,437
16,001	18,000	11	6	7	14	21	20	27	29	18	9	11	8	181	20,794	113,514
18,001	20,000	2	4	1	12	18	12	20	9	12	7	7	3	107	20,901	115,547
20,001	25,000	2	5	-	5	6	22	24	11	12	7	11	7	112	21,013	118,067
25,001	30,000	2	4	-	2	7	5	5	2	1	3	2	-	33	21,046	118,975
30,001	35,000	-	1	1	1	-	-	6	1	1	2	-	1	14	21,060	119,430
35,001	40,000	1	-	-	-	-	2	-	-	2	1	-	-	6	21,066	119,655
40,001	45,000	-	-	-	-	-	2	1	1	-	2	-	-	6	21,072	119,910
45,001	50,000	-	2	-	-	-	-	1	1	-	-	-	-	4	21,076	120,100
50,001	60,000	1	1	-	-	-	1	2	-	-	-	-	-	5	21,081	120,375
60,001	70,000	-	-	-	-	1	-	1	-	-	-	1	-	3	21,084	120,570
70,001	80,000	-	-	-	-	-	-	-	1	-	1	-	-	2	21,086	120,720
80,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21,086	120,720
90,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21,086	120,720
	-	-	-	-	-	-	-	-	-	-	-	-	1	1	21,087	120,720
	-													-	21,087	120,720
	-													-	21,087	120,720
	-													-	21,087	120,720
	-													-	21,087	120,720
	-													-	21,087	120,720
	-													-	21,087	120,720
Totals		1,736	1,741	1,748	1,754	1,755	1,758	1,758	1,763	1,753	1,765	1,772	1,784	21,087		

Average Usage	5,725
Median Usage	4,500
Average # Customers	1,757
Change in Number of Customers	48

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification Residential 3/4 Inch Meter

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-													-	-	-
1	1,000													-	-	-
1,001	2,000													-	-	-
2,001	3,000													-	-	-
3,001	4,000													-	-	-
4,001	5,000													-	-	-
5,001	6,000													-	-	-
6,001	7,000													-	-	-
7,001	8,000													-	-	-
8,001	9,000													-	-	-
9,001	10,000													-	-	-
10,001	12,000													-	-	-
12,001	14,000													-	-	-
14,001	16,000													-	-	-
16,001	18,000													-	-	-
18,001	20,000													-	-	-
20,001	25,000													-	-	-
25,001	30,000													-	-	-
30,001	35,000													-	-	-
35,001	40,000													-	-	-
40,001	45,000													-	-	-
45,001	50,000													-	-	-
50,001	60,000													-	-	-
60,001	70,000													-	-	-
70,001	80,000													-	-	-
80,001	90,000													-	-	-
90,001	100,000													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
Totals		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
											Average Usage			-		
											Median Usage			-		
											Average # Customers			-		
											Change in Number of Customers			-		

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification *Residential 1 Inch Meter*

Exhibit
Schedule H-5
Page 3
Witness: *Bourassa*

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumulative Billing	Cumulative Gals (1,000s)
-	-	2	2	1	2	1	3	2	2	1	1	-	2	19	19	-
1	1,000	2	4	7	4	15	12	12	12	11	9	5	6	99	118	50
1,001	2,000	6	9	7	6	7	11	11	14	13	16	12	10	122	240	233
2,001	3,000	13	13	19	7	13	10	8	15	13	13	14	21	159	399	630
3,001	4,000	23	29	17	10	12	15	15	16	13	21	24	23	218	617	1,393
4,001	5,000	18	15	20	19	14	13	14	12	19	19	17	19	199	816	2,289
5,001	6,000	10	15	15	19	12	12	17	10	8	9	14	11	152	968	3,125
6,001	7,000	19	10	12	12	12	10	6	11	12	6	10	8	128	1,096	3,957
7,001	8,000	10	9	5	10	9	6	9	9	5	6	7	7	92	1,188	4,647
8,001	9,000	2	6	8	7	7	8	6	6	3	5	7	5	70	1,258	5,242
9,001	10,000	6	4	8	4	6	6	4	2	6	8	1	4	59	1,317	5,803
10,001	12,000	8	7	4	10	5	6	8	7	9	4	5	6	79	1,396	6,672
12,001	14,000	5	2	2	9	8	6	6	6	5	6	7	1	63	1,459	7,491
14,001	16,000	-	1	1	2	4	3	2	4	5	2	2	3	29	1,488	7,926
16,001	18,000	-	-	-	3	2	5	4	-	2	1	3	-	20	1,508	8,266
18,001	20,000	-	2	-	1	1	1	2	-	2	1	1	3	14	1,522	8,532
20,001	25,000	-	-	1	-	1	3	2	1	2	1	-	1	12	1,534	8,802
25,001	30,000	2	1	1	2	1	-	1	2	-	1	-	-	11	1,545	9,104
30,001	35,000	-	-	-	1	-	1	1	-	-	-	-	-	3	1,548	9,202
35,001	40,000	-	-	-	-	-	-	-	-	-	-	1	-	1	1,549	9,239
40,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,549	9,239
45,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,549	9,239
50,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,549	9,239
60,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,549	9,239
70,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,549	9,239
80,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,549	9,239
90,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1,549	9,239
	-													-	1,549	9,239
	-													-	1,549	9,239
	-													-	1,549	9,239
	-													-	1,549	9,239
	-													-	1,549	9,239
	-													-	1,549	9,239
	-													-	1,549	9,239
	-													-	1,549	9,239
Totals		126	129	128	128	130	131	130	129	129	129	130	130	1,549	1,549	9,239

Average Usage	5,965
Median Usage	4,500
Average # Customers	129
Change in Number of Customers	4

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification Residential 1.5 Inch Meter

Exhibit
Schedule H-5
Page 4
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-													-	-	-
1	1,000													-	-	-
1,001	2,000													-	-	-
2,001	3,000													-	-	-
3,001	4,000													-	-	-
4,001	5,000													-	-	-
5,001	6,000													-	-	-
6,001	7,000													-	-	-
7,001	8,000													-	-	-
8,001	9,000													-	-	-
9,001	10,000													-	-	-
10,001	12,000													-	-	-
12,001	14,000													-	-	-
14,001	16,000													-	-	-
16,001	18,000													-	-	-
18,001	20,000													-	-	-
20,001	25,000													-	-	-
25,001	30,000													-	-	-
30,001	35,000													-	-	-
35,001	40,000													-	-	-
40,001	45,000													-	-	-
45,001	50,000													-	-	-
50,001	60,000													-	-	-
60,001	70,000													-	-	-
70,001	80,000													-	-	-
80,001	90,000													-	-	-
90,001	100,000													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
Totals		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Average Usage	-
Median Usage	-
Average # Customers	-
Change in Number of Customers	0

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification Residential 2 Inch Meter

Exhibit
Schedule H-5
Page 5
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1	1,000	-	1	-	-	-	-	-	-	-	-	-	-	1	1
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1
2,001	3,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1
3,001	4,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1
4,001	5,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1
7,001	8,000	-	-	1	-	-	-	-	-	-	-	-	-	1	2
8,001	9,000	-	-	-	-	-	-	-	-	-	-	-	-	-	2
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	2
10,001	12,000	-	-	-	-	-	-	-	-	-	-	-	-	-	2
12,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	-	2
14,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	-	2
16,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	-	2
18,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	2
20,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	2
25,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	2
30,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	-	2
35,001	40,000	1	-	-	-	-	-	-	-	-	-	-	-	1	3
40,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3
45,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3
50,001	60,000	-	-	-	1	1	-	-	-	-	-	-	-	2	5
60,001	70,000	-	-	-	-	-	-	-	-	-	-	-	1	1	6
70,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	6
80,001	90,000	-	-	-	-	-	1	-	-	-	-	1	-	2	8
90,001	100,000	-	-	-	-	-	-	-	1	-	-	-	-	1	9
129,500	129,500	-	-	-	-	-	-	1	-	-	-	-	-	1	10
150,000	150,000	-	-	-	-	-	-	-	-	1	-	-	-	1	11
114,900	114,900	-	-	-	-	-	-	-	-	-	1	-	-	1	12
	-													-	12
	-													-	12
	-													-	12
	-													-	12
	-													-	12
	-													-	12
	-													-	12
	-													-	12
															12
Totals		1	1	1	1	1	1	1	1	1	1	1	1	12	

Average Usage	73,325
Median Usage	70,000
Average # Customers	1
Change in Number of Customers	0

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification Commercial 5/8x3/4 Inch Meter

Exhibit
Schedule H-5
Page 6
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing
-	-	1	1	1	1	3	2	1	5	1	3	3	1	23	23
1	1,000	9	13	14	8	6	12	-	7	11	13	14	11	118	141
1,001	2,000	15	16	10	11	13	7	5	13	10	13	15	13	141	282
2,001	3,000	7	4	6	7	4	7	6	8	9	9	8	11	86	368
3,001	4,000	6	5	9	6	4	1	4	2	6	8	6	7	64	432
4,001	5,000	4	3	2	4	4	3	4	3	3	-	-	3	33	465
5,001	6,000	3	1	-	1	2	2	1	3	3	2	2	1	21	486
6,001	7,000	3	1	1	1	1	2	3	4	2	-	1	1	20	506
7,001	8,000	1	2	1	1	1	-	2	2	4	3	1	1	19	525
8,001	9,000	-	-	-	-	2	1	1	1	-	2	5	1	13	538
9,001	10,000	-	2	-	-	-	4	1	-	-	1	2	1	11	549
10,001	12,000	-	-	-	2	2	3	4	4	5	3	-	1	24	573
12,001	14,000	-	-	-	-	1	1	-	2	3	-	-	1	8	581
14,001	16,000	-	-	-	-	1	3	2	1	-	1	1	1	10	591
16,001	18,000	-	-	-	-	1	2	3	2	1	-	-	1	10	601
18,001	20,000	-	-	-	-	-	1	-	1	-	1	1	1	5	606
20,001	25,000	1	-	-	-	1	-	-	-	2	1	-	-	5	611
25,001	30,000	-	-	-	-	-	-	1	-	1	1	1	-	4	615
30,001	35,000	-	1	1	-	1	1	2	-	-	-	2	1	9	624
35,001	40,000	1	1	-	-	-	-	-	-	-	-	-	-	2	626
40,001	45,000	-	-	-	-	-	-	1	-	-	-	-	-	1	627
45,001	50,000	-	-	-	2	-	-	-	-	-	-	-	-	2	629
50,001	60,000	1	-	1	-	-	-	-	1	-	-	-	-	3	632
60,001	70,000	-	-	-	1	-	-	1	-	-	1	-	-	3	635
70,001	80,000	-	1	1	-	1	1	-	-	-	-	-	-	4	639
80,001	90,000	-	-	-	-	-	-	-	-	1	-	-	-	1	640
90,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	640
	-													-	640
	-													-	640
	-													-	640
	-													-	640
	-													-	640
	-													-	640
Totals		52	51	47	45	48	53	42	59	62	62	62	57	640	

Average Usage	5,808
Median Usage	2,500
Average # Customers	53
Change in Number of Customers	5

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification Commercial 3/4 Inch Meter

Exhibit
Schedule H-5
Page 7
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-													-	-	-
1	1,000													-	-	-
1,001	2,000													-	-	-
2,001	3,000													-	-	-
3,001	4,000													-	-	-
4,001	5,000													-	-	-
5,001	6,000													-	-	-
6,001	7,000													-	-	-
7,001	8,000													-	-	-
8,001	9,000													-	-	-
9,001	10,000													-	-	-
10,001	12,000													-	-	-
12,001	14,000													-	-	-
14,001	16,000													-	-	-
16,001	18,000													-	-	-
18,001	20,000													-	-	-
20,001	25,000													-	-	-
25,001	30,000													-	-	-
30,001	35,000													-	-	-
35,001	40,000													-	-	-
40,001	45,000													-	-	-
45,001	50,000													-	-	-
50,001	60,000													-	-	-
60,001	70,000													-	-	-
70,001	80,000													-	-	-
80,001	90,000													-	-	-
90,001	100,000													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
Totals		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification Commercial 1 Inch Meter

Exhibit
Schedule H-5
Page 8
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1	1,000	-	-	1	-	-	-	-	1	1	-	-	-	2	2	-
1,001	2,000	2	1	2	-	2	2	2	1	3	2	1	-	10	12	5
2,001	3,000	-	-	-	2	-	1	1	1	1	1	1	3	17	29	31
3,001	4,000	-	-	1	-	-	-	-	-	-	1	1	2	7	36	48
4,001	5,000	-	1	-	1	-	-	-	-	-	-	1	2	4	40	62
5,001	6,000	1	1	-	-	-	-	-	-	-	-	-	-	2	42	71
6,001	7,000	1	-	1	-	-	-	-	1	-	-	-	-	3	45	88
7,001	8,000	-	2	-	1	1	1	2	-	-	1	1	-	4	49	114
8,001	9,000	1	-	-	-	1	-	-	1	-	1	1	-	10	59	189
9,001	10,000	-	-	1	-	-	1	1	1	1	1	1	-	6	65	240
10,001	12,000	-	-	-	-	-	-	-	-	-	-	-	-	4	69	278
12,001	14,000	-	-	-	1	-	-	-	-	1	-	-	-	1	70	289
14,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	1	71	302
16,001	18,000	-	-	-	-	1	-	-	-	-	-	-	-	-	71	302
18,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	1	72	319
20,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	72	319
25,001	30,000	-	-	-	-	-	-	-	-	-	1	-	1	2	74	364
30,001	35,000	-	-	-	-	-	1	-	-	-	-	-	-	1	75	391
35,001	40,000	-	-	-	-	-	-	1	1	-	-	1	-	3	78	489
40,001	45,000	-	-	-	-	-	-	-	-	1	-	-	-	1	79	526
45,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	79	526
50,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	79	526
60,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	79	526
70,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	79	526
80,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	79	526
90,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	79	526
124,750	124,750	1	-	-	-	-	-	-	-	-	-	-	-	-	79	526
109,340	109,340	-	1	-	-	-	-	-	-	-	-	-	-	1	80	651
139,950	139,950	-	-	1	-	-	-	-	-	-	-	-	-	1	81	760
190,800	190,800	-	-	-	1	-	-	-	-	-	-	-	-	1	82	900
196,420	196,420	-	-	-	-	1	-	-	-	-	-	-	-	1	83	1,091
320,200	320,200	-	-	-	-	-	1	-	-	-	-	-	-	1	84	1,287
378,070	378,070	-	-	-	-	-	-	1	-	-	-	-	-	1	85	1,607
202,250	202,250	-	-	-	-	-	-	-	1	-	-	-	-	1	86	1,986
414,860	414,860	-	-	-	-	-	-	-	-	1	-	-	-	1	87	2,188
192,830	192,830	-	-	-	-	-	-	-	-	-	1	-	-	1	88	2,603
362,580	362,580	-	-	-	-	-	-	-	-	-	-	1	-	1	89	2,796
	-	-	-	-	-	-	-	-	-	-	-	-	1	1	90	3,158
	-													1	91	3,158
														-	91	3,158
Totals		6	6	7	6	6	7	8	9	9	9	9	9	91		3,158

Average Usage	34,704
Median Usage	6,500
Average # Customers	8
Change in Number of Customers	3

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification Commercial 1 1/2 Inch Meter

Exhibit
Schedule H-5
Page 9
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-	2	2	2	2	1	1	1	2	2	2	1	1	19	19	-
1	1,000	-	-	-	-	1	-	-	-	-	-	-	-	1	20	1
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	20	1
2,001	3,000	-	-	-	-	1	-	-	-	-	-	-	-	1	21	3
3,001	4,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21	3
4,001	5,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21	3
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21	3
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21	3
7,001	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21	3
8,001	9,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21	3
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21	3
10,001	12,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21	3
12,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21	3
14,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21	3
16,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21	3
18,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21	3
20,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21	3
25,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	21	3
30,001	35,000	-	-	-	-	-	-	-	-	-	-	-	1	1	22	31
35,001	40,000	-	1	-	-	-	-	-	-	-	-	-	-	-	22	31
40,001	45,000	-	-	-	-	-	1	-	-	-	-	-	-	1	23	68
45,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	1	24	111
50,001	60,000	-	-	-	-	-	-	-	-	-	-	1	-	1	25	158
60,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	25	158
70,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	25	158
80,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	25	158
90,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	25	158
115,500	115,500	1	-	-	-	-	-	-	-	-	-	-	-	-	25	158
100,700	100,700	-	-	1	-	-	-	-	-	-	-	-	-	1	26	274
324,000	324,000	-	-	-	1	-	-	-	-	-	-	-	-	1	27	374
445,200	445,200	-	-	-	-	-	1	-	-	-	-	-	-	1	28	698
118,200	118,200	-	-	-	-	-	-	1	-	-	-	-	-	1	29	1,143
333,700	333,700	-	-	-	-	-	-	1	-	-	-	-	-	1	30	1,262
359,800	359,800	-	-	-	-	-	-	-	1	-	-	-	-	1	31	1,595
191,200	191,200	-	-	-	-	-	-	-	-	1	-	-	-	1	32	1,955
186,500	186,500	-	-	-	-	-	-	-	-	-	1	-	-	1	33	2,146
346,000	346,000	-	-	-	-	-	-	-	-	-	-	1	-	1	34	2,333
229,200	229,200	-	-	-	-	-	-	-	-	-	-	-	1	1	35	2,679
	-													-	36	2,908
	-													-	36	2,908
Totals		3	3	3	3	3	3	3	3	3	3	3	3	36	36	2,908

Average Usage	80,778
Median Usage	-
Average # Customers	3
Change in Number of Customers	-

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification Commerical 2 Inch Meter

Exhibit
Schedule H-5
Page 10
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-	1	1	1	1	1	1	1	1	1	1	1	1	12	12	-
1	1,000	-	-	-	-	-	-	-	1	-	-	-	-	1	13	1
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	13	1
2,001	3,000	-	-	-	-	-	-	-	-	-	-	-	1	1	14	3
3,001	4,000	1	1	1	-	1	1	1	-	1	2	1	-	10	24	38
4,001	5,000	-	-	-	1	-	-	-	-	-	-	-	-	1	25	43
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	25	43
6,001	7,000	1	-	1	-	-	-	-	-	-	-	-	1	3	28	62
7,001	8,000	-	-	-	-	-	-	1	1	-	1	-	-	3	31	85
8,001	9,000	-	1	-	-	-	-	-	-	-	-	-	1	2	33	102
9,001	10,000	1	-	-	1	-	1	-	1	-	-	-	-	4	37	140
10,001	12,000	-	1	-	-	-	-	1	-	2	-	1	-	5	42	195
12,001	14,000	-	-	-	1	2	-	-	-	-	-	-	-	3	45	234
14,001	16,000	-	-	-	-	-	1	-	-	-	-	1	-	2	47	264
16,001	18,000	-	-	1	-	-	-	-	-	-	-	-	-	1	48	281
18,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	48	281
20,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	48	281
25,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	48	281
30,001	35,000	-	-	-	-	-	-	-	-	-	-	-	1	1	49	313
35,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	49	313
40,001	45,000	-	-	-	-	1	1	-	-	-	1	-	-	3	52	441
45,001	50,000	-	1	-	-	-	-	-	1	-	-	-	-	2	54	536
50,001	60,000	1	-	1	1	-	-	-	1	2	-	1	1	8	62	976
60,001	70,000	-	-	-	-	-	1	2	-	-	1	-	-	4	66	1,236
70,001	80,000	1	1	2	1	-	-	1	-	-	-	-	1	7	73	1,761
80,001	90,000	1	-	-	-	2	-	-	1	1	1	-	1	7	80	2,356
90,001	100,000	-	1	-	-	-	-	-	-	-	-	-	-	1	81	2,451
120,900	120,900	1	-	-	-	-	-	-	-	-	-	-	-	1	82	2,571
162,300	162,300	1	-	-	-	-	-	-	-	-	-	-	-	1	83	2,734
102,800	102,800	-	1	-	-	-	-	-	-	-	-	-	-	1	84	2,837
195,900	195,900	-	1	-	-	-	-	-	-	-	-	-	-	1	85	3,032
122,600	122,600	-	-	1	-	-	-	-	-	-	-	-	-	1	86	3,155
141,300	141,300	-	-	1	-	-	-	-	-	-	-	-	-	1	87	3,296
104,500	104,500	-	-	-	1	-	-	-	-	-	-	-	-	1	88	3,401
202,600	202,600	-	-	-	1	-	-	-	-	-	-	-	-	1	89	3,603
241,600	241,600	-	-	-	1	-	-	-	-	-	-	-	-	1	90	3,845
219,700	219,700	-	-	-	-	1	-	-	-	-	-	-	-	1	91	4,065
276,200	276,200	-	-	-	-	1	-	-	-	-	-	-	-	1	92	4,341
218,900	218,900	-	-	-	-	-	1	-	-	-	-	-	-	1	93	4,560
318,200	318,200	-	-	-	-	-	1	-	-	-	-	-	-	1	94	4,878
462,900	462,900	-	-	-	-	-	1	-	-	-	-	-	-	1	95	5,341
355,300	355,300	-	-	-	-	-	-	1	-	-	-	-	-	1	96	5,696
261,100	261,100	-	-	-	-	-	-	-	1	-	-	-	-	1	97	5,957
180,700	180,700	-	-	-	-	-	-	-	-	1	-	-	-	1	98	6,138
392,300	392,300	-	-	-	-	-	-	-	-	-	1	-	-	1	99	6,530
112,600	112,600	-	-	-	-	-	-	-	-	-	-	1	-	1	100	6,643
166,700	166,700	-	-	-	-	-	-	-	-	-	-	1	-	1	101	6,810
332,300	332,300	-	-	-	-	-	-	-	-	-	-	1	-	1	102	7,142
	-													-	102	7,142
	-													-	102	7,142
Totals		9	9	9	9	9	9	8	8	8	8	8	8	102		

Average Usage	70,019
Median Usage	42,500
Average # Customers	9
Change in Number of Customers	(1)

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification Commerical 3 Inch Meter

Exhibit
Schedule H-5
Page 11
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-													-	-	-
1	1,000													-	-	-
1,001	2,000													-	-	-
2,001	3,000													-	-	-
3,001	4,000													-	-	-
4,001	5,000													-	-	-
5,001	6,000													-	-	-
6,001	7,000													-	-	-
7,001	8,000													-	-	-
8,001	9,000													-	-	-
9,001	10,000													-	-	-
10,001	12,000													-	-	-
12,001	14,000													-	-	-
14,001	16,000													-	-	-
16,001	18,000													-	-	-
18,001	20,000													-	-	-
20,001	25,000													-	-	-
25,001	30,000													-	-	-
30,001	35,000													-	-	-
35,001	40,000													-	-	-
40,001	45,000													-	-	-
45,001	50,000													-	-	-
50,001	60,000													-	-	-
60,001	70,000													-	-	-
70,001	80,000													-	-	-
80,001	90,000													-	-	-
90,001	100,000													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
Totals		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification Commerical 6 Inch Meter

Exhibit
Schedule H-5
Page 12
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-															
1	1,000													-	-	-
1,001	2,000													-	-	-
2,001	3,000													-	-	-
3,001	4,000													-	-	-
4,001	5,000													-	-	-
5,001	6,000													-	-	-
6,001	7,000													-	-	-
7,001	8,000													-	-	-
8,001	9,000													-	-	-
9,001	10,000													-	-	-
10,001	12,000													-	-	-
12,001	14,000													-	-	-
14,001	16,000													-	-	-
16,001	18,000													-	-	-
18,001	20,000													-	-	-
20,001	25,000													-	-	-
25,001	30,000													-	-	-
30,001	35,000													-	-	-
35,001	40,000													-	-	-
40,001	45,000													-	-	-
45,001	50,000													-	-	-
50,001	60,000													-	-	-
60,001	70,000													-	-	-
70,001	80,000													-	-	-
80,001	90,000													-	-	-
90,001	100,000													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
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	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
Totals		-	-	-	-	-	-	-	-	-	-	-	-	-		

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

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification 5/8x3/4 Inch Irrigation

Exhibit
Schedule H-5
Page 13
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-	3	2	3	2	4	4	5	5	8	5	5	4	50	50	-
1	1,000	1	1	1	1	1	2	1	2	1	2	1	2	16	66	8
1,001	2,000	1	-	-	-	-	-	-	-	-	-	-	-	1	67	10
2,001	3,000	-	-	-	-	-	-	-	-	-	-	-	-	-	67	10
3,001	4,000	-	-	-	-	-	-	-	1	1	1	1	1	5	72	27
4,001	5,000	-	-	-	-	-	-	1	1	-	-	-	-	2	74	36
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	74	36
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	-	74	36
7,001	8,000	1	2	2	-	1	1	-	-	-	-	-	1	8	82	96
8,001	9,000	-	1	-	2	2	-	1	-	-	1	1	-	8	90	164
9,001	10,000	-	-	1	-	1	-	-	1	-	-	-	-	3	93	193
10,001	12,000	1	-	-	1	-	1	1	-	1	1	-	-	6	99	259
12,001	14,000	-	-	-	1	-	-	-	-	-	-	-	-	1	100	272
14,001	16,000	1	-	-	-	-	-	-	-	-	-	-	-	1	101	287
16,001	18,000	-	-	-	1	-	-	-	-	-	-	-	-	1	102	304
18,001	20,000	-	-	1	-	2	-	-	-	-	1	-	-	4	106	380
20,001	25,000	-	-	1	1	-	-	1	1	1	-	1	1	7	113	537
25,001	30,000	-	1	-	1	-	1	-	-	-	-	-	-	3	116	620
30,001	35,000	-	-	-	-	-	-	-	-	-	-	1	-	1	117	652
35,001	40,000	-	-	-	1	-	-	-	1	1	-	-	-	3	120	765
40,001	45,000	-	-	-	-	-	-	-	-	-	-	-	1	1	121	807
45,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	121	807
50,001	60,000	-	1	-	-	-	-	-	-	-	-	-	-	1	122	862
60,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-	122	862
70,001	80,000	-	1	-	-	-	-	-	-	-	-	-	1	2	124	1,012
80,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	124	1,012
90,001	100,000	-	-	-	-	-	-	-	-	-	-	2	-	2	126	1,202
171,500	171,500	-	-	-	-	-	1	-	-	-	-	-	-	1	127	1,374
513,700	513,700	-	-	-	-	-	-	1	-	-	-	-	-	1	128	1,887
732,920	732,920	-	-	-	-	-	-	-	-	-	1	-	-	1	129	2,620
155,400	155,400	1	-	-	-	-	-	-	-	-	-	-	-	1	130	2,776
182,000	182,000	-	-	-	-	-	-	-	1	-	-	-	-	1	131	2,958
	-													-	131	2,958
Totals		9	9	9	11	11	10	11	13	13	12	12	11	131		

Average Usage	22,577
Median Usage	500
Average # Customers	11
Change in Number of Customers	2

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification 3/4 Inch Irrigation

Exhibit
Schedule H-5
Page 14
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-													-	-	-
1	1,000													-	-	-
1,001	2,000													-	-	-
2,001	3,000													-	-	-
3,001	4,000													-	-	-
4,001	5,000													-	-	-
5,001	6,000													-	-	-
6,001	7,000													-	-	-
7,001	8,000													-	-	-
8,001	9,000													-	-	-
9,001	10,000													-	-	-
10,001	12,000													-	-	-
12,001	14,000													-	-	-
14,001	16,000													-	-	-
16,001	18,000													-	-	-
18,001	20,000													-	-	-
20,001	25,000													-	-	-
25,001	30,000													-	-	-
30,001	35,000													-	-	-
35,001	40,000													-	-	-
40,001	45,000													-	-	-
45,001	50,000													-	-	-
50,001	60,000													-	-	-
60,001	70,000													-	-	-
70,001	80,000													-	-	-
80,001	90,000													-	-	-
90,001	100,000													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
Totals		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification 1 Inch Irrigation

Exhibit
Schedule H-5
Page 15
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-	2	2	2	2	1	1	2	2	1	2	1	2	20	20	-
1	1,000	-	-	-	-	1	1	-	-	1	-	-	-	3	23	2
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	23	2
2,001	3,000	-	-	1	-	-	-	-	-	-	-	-	-	1	24	4
3,001	4,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
4,001	5,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
7,001	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
8,001	9,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
10,001	12,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
12,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
14,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
16,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
18,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
20,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
25,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
30,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
35,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
40,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
45,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	24	4
50,001	60,000	-	-	-	-	-	-	-	1	1	1	1	1	5	29	279
60,001	70,000	-	-	-	-	1	1	1	-	-	-	-	-	3	32	474
70,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	474
80,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	474
90,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	32	474
129,150	129,150	-	-	-	1	-	-	-	-	-	-	-	-	1	33	603
	-													-	33	603
Totals		2	2	3	3	3	3	3	3	3	3	2	3	33		

Average Usage	18,277
Median Usage	-
Average # Customers	3
Change in Number of Customers	1

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification 1.5 Inch Irrigation

Exhibit
Schedule H-5
Page 16
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1	1,000	-	-	-	-	-	-	-	1	1	1	-	-	3	3	-
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
2,001	3,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
3,001	4,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
4,001	5,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
7,001	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
8,001	9,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
10,001	12,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
12,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
14,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
16,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
18,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
20,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
25,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
30,001	35,000	-	-	-	-	1	-	-	-	-	-	-	-	-	3	-
35,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	1	4	33
40,001	45,000	-	-	-	-	-	-	-	-	1	-	-	-	1	5	70
45,001	50,000	-	-	1	-	-	-	-	-	-	-	-	-	-	5	70
50,001	60,000	-	-	-	1	-	-	-	1	-	-	-	-	1	6	118
60,001	70,000	1	-	-	-	-	-	-	-	-	-	-	1	3	9	283
70,001	80,000	-	-	-	-	-	-	-	-	-	1	-	-	2	11	413
80,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	11	413
90,001	100,000	-	1	-	-	-	-	-	-	-	-	-	-	-	11	413
278,500	278,500	-	-	-	-	-	1	-	-	-	-	1	-	2	13	603
132,000	132,000	-	-	-	-	-	-	-	-	-	-	-	-	1	14	881
114,600	114,600	-	-	-	-	-	-	-	-	-	-	1	-	1	15	1,013
	-											-	1	1	16	1,128
	-													-	16	1,128
Totals		1	1	1	1	1	1	-	2	2	2	2	2	-	16	1,128
														16		

Average Usage	70,475
Median Usage	55,000
Average # Customers	1
Change in Number of Customers	1

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification 2 Inch Irrigation

Exhibit
Schedule H-5
Page 17
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-	1	1	1	1	1	1	-	-	-	-	-	-	6	6	-
1	1,000	-	-	-	-	-	-	-	-	-	-	-	-	-	6	-
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	6	-
2,001	3,000	-	-	-	1	1	1	-	-	-	-	-	-	3	9	8
3,001	4,000	-	-	1	-	-	-	-	-	-	-	-	-	1	10	11
4,001	5,000	-	-	-	-	-	-	-	-	-	-	-	-	-	10	11
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	10	11
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	-	10	11
7,001	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	10	11
8,001	9,000	-	1	-	-	-	-	1	-	-	-	-	-	2	12	28
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	28
10,001	12,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	28
12,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	28
14,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	28
16,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	28
18,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	28
20,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	28
25,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	28
30,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	28
35,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	12	28
40,001	45,000	-	-	-	-	-	-	-	-	-	-	-	1	1	13	71
45,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	13	71
50,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	13	71
60,001	70,000	1	-	-	-	-	-	-	-	-	-	-	-	1	14	136
70,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	14	136
80,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-	14	136
90,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	14	136
240,800	240,800	-	-	-	-	-	-	1	-	-	-	-	-	1	15	376
109,500	109,500	-	-	-	-	-	-	-	1	-	-	-	-	1	16	486
298,900	298,900	-	-	-	-	-	-	-	1	-	-	-	-	1	17	785
291,200	291,200	-	-	-	-	-	-	-	-	1	-	-	-	1	18	1,076
397,300	397,300	-	-	-	-	-	-	-	-	1	-	-	-	1	19	1,473
222,200	222,200	-	-	-	-	-	-	-	-	-	1	-	-	1	20	1,695
236,100	236,100	-	-	-	-	-	-	-	-	-	1	-	-	1	21	1,932
138,000	138,000	-	-	-	-	-	-	-	-	-	-	1	-	1	22	2,070
291,900	291,900	-	-	-	-	-	-	-	-	-	-	1	-	1	23	2,361
178,900	178,900	-	-	-	-	-	-	-	-	-	-	-	1	1	24	2,540
	-													-	24	2,540
	-													-	24	2,540
	-													-	24	2,540
	-													-	24	2,540
	-													-	24	2,540
	-													-	24	2,540
Totals		2	2	2	2	2	2	2	2	2	2	2	2	24		

Average Usage	105,846
Median Usage	26,000
Average # Customers	2
Change in Number of Customers	-

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification 3 Inch Irrigation

Exhibit
Schedule H-5
Page 18
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-													-	-	-
1	1,000													-	-	-
1,001	2,000													-	-	-
2,001	3,000													-	-	-
3,001	4,000													-	-	-
4,001	5,000													-	-	-
5,001	6,000													-	-	-
6,001	7,000													-	-	-
7,001	8,000													-	-	-
8,001	9,000													-	-	-
9,001	10,000													-	-	-
10,001	12,000													-	-	-
12,001	14,000													-	-	-
14,001	16,000													-	-	-
16,001	18,000													-	-	-
18,001	20,000													-	-	-
20,001	25,000													-	-	-
25,001	30,000													-	-	-
30,001	35,000													-	-	-
35,001	40,000													-	-	-
40,001	45,000													-	-	-
45,001	50,000													-	-	-
50,001	60,000													-	-	-
60,001	70,000													-	-	-
70,001	80,000													-	-	-
80,001	90,000													-	-	-
90,001	100,000													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
	-													-	-	-
Totals		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

Quail Creek Water Company
Test Year Ended December 31, 2013
Customer Classification 4 Inch Irrigation

Exhibit
Schedule H-5
Page 19
Witness: Bourassa

Usage From:	Usage To:	Month of Jan	Month of Feb	Month of Mar	Month of Apr	Month of May	Month of Jun	Month of Jul	Month of Aug	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year	Cumul-ative Billing	Cumul-ative Gals (1,000s)
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1	1,000	-	-	-	-	-	-	-	-	-	-	-	1	1	1	1
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1
2,001	3,000	-	-	1	-	-	-	-	-	-	-	-	-	1	2	3
3,001	4,000	-	1	-	-	-	-	-	-	-	-	-	-	1	3	7
4,001	5,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	7
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	7
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	7
7,001	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	7
8,001	9,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	7
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3	7
10,001	12,000	1	-	-	-	-	-	-	-	-	-	-	-	1	4	18
12,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	-	4	18
14,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	-	4	18
16,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	-	4	18
18,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	4	18
20,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	4	18
25,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	-	4	18
30,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	-	4	18
35,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-	4	18
40,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-	4	18
45,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	4	18
50,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	4	18
60,001	70,000	-	-	-	-	-	-	-	-	-	1	1	-	2	6	148
70,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	6	148
80,001	90,000	-	-	-	1	-	-	-	-	-	-	-	-	1	7	233
90,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	7	233
141,000	141,000	-	-	-	-	1	-	-	-	-	-	-	-	1	8	374
213,000	213,000	-	-	-	-	-	1	-	-	-	-	-	-	1	9	587
351,000	351,000	-	-	-	-	-	-	1	-	-	-	-	-	1	10	938
229,000	229,000	-	-	-	-	-	-	-	1	-	-	-	-	1	11	1,167
174,000	174,000	-	-	-	-	-	-	-	-	1	-	-	-	1	12	1,341
	-													-	12	1,341
	-													-	12	1,341
Totals		1	1	1	1	1	1	1	1	1	1	1	1	12		

Average Usage	111,709
Median Usage	80,000
Average # Customers	1
Change in Number of Customers	-

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Attorneys for Quail Creek Water Company, Inc.

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-_____

DIRECT TESTIMONY OF

THOMAS J. BOURASSA

COST OF CAPITAL

September 19, 2014

EXHIBIT
A-2
ADMITTED

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I. INTRODUCTION AND QUALIFICATION

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

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

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

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

A. This portion of my direct testimony focuses on cost of capital issues. I will testify in support of Quail Creek Water Company, Inc.'s ("QCW" or "Company") proposed rate of return on its fair value rate base ("FVRB"). I am sponsoring the Company's D Schedules, which are attached to this testimony. There are 19 schedules and 2 exhibits that support my cost of capital testimony. As noted above, I am also sponsoring direct testimony that addresses the Company's rate base, income statement (revenue and operating expenses), required increase in revenue, and its rate design and proposed rates and charges for service. For convenience, that testimony and my related schedules are contained in separate volumes.

Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.

A. I have determined that the cost of equity for the publicly traded water utilities falls in the range of 9.8 percent to 10.3 percent with the midpoint of the range at

10.1 percent. After considering the differences in business and financial risk between QCW and the publicly traded water utilities, the cost of equity for QCW falls in the range of 9.7 percent to 10.2 percent with a mid-point of 10.0 percent. I am recommending a return on equity ("ROE") of 10.0 percent for QCW.

Q. WHAT IS THE RECOMMENDED CAPITAL STRUCTURE FOR QCW?

A. The actual capital structure at the end of the test year (December 31, 2013) was 100 percent equity.

Q. WHAT IS THE WEIGHTED AVERAGE COST OF CAPITAL?

A. The weighted cost of capital based upon a pro forma capital structure consisting of 0 percent debt and 100 percent equity and a cost of equity of 10.0 percent is 10.0 percent as shown on Schedule D-1.

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

A. The cost of equity for QCW cannot be estimated directly because the Company's equity is not in the form of a publicly traded security and thus there is no market data for QCW. Consequently, I applied market based models (Discounted Cash Flow ("DCF"), Risk Premium Model ("RPM"), Capital Asset Pricing Model ("CAPM"), and Modified CAPM ("MCAPM")) using data from a sample of water utilities selected from the Value Line Investment Survey. There are seven water utilities in my sample: American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, SJW Corp., and York Water Company. As explained later in my testimony, these companies aren't really comparable to QCW, but they are water utilities with available market data and the Utilities Division Staff has relied on data for these water utilities in a number of recent water and sewer utility rate cases.

My DCF analyses indicate ROEs in the range of 9.4 percent to 9.6 percent with a midpoint of 9.5 percent. My RPM analysis indicates an ROE of 10.6 percent. My CAPM analyses, again using the same sample group, indicate that ROEs in the range of 9.5 percent to 11.4 percent are appropriate with a midpoint of 10.5 percent. All of the results on my market-based models are before consideration of the relative difference in risk (both business and financial) between the sample water companies and QCW.

My ROE estimates before consideration of the risk associated with an investment in QCW are in the range of 9.8 percent to 10.3 percent with a midpoint of 10.1 percent. My ROE estimates, after consideration of the business and financial risk associated with QCW compared to the water proxy group, are in the range of 9.7 percent to 10.2 percent with a midpoint of 10.0 percent. Given QCW's relatively small size compared to the larger publicly-traded utilities used in my sample, the regulatory methods and policies used in this jurisdiction, and difference in business and financial risk, it is my opinion that at the present time, a cost of equity of no less than 10.0 percent is warranted. A summary of my cost of equity analysis result is shown on Schedule D-4.1.

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

Q. HOW IS THE COST OF EQUITY TYPICALLY ANALYZED?

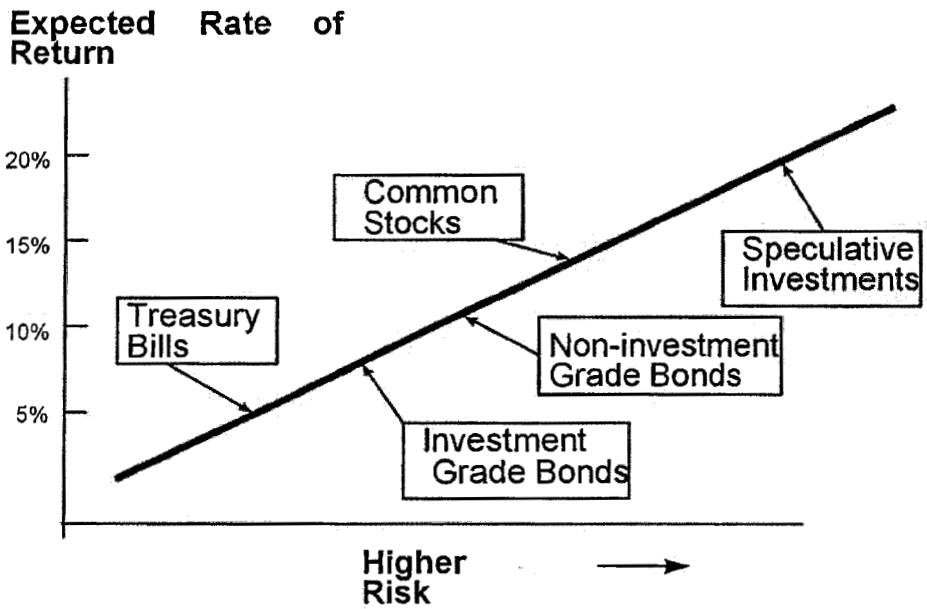
A. The cost of equity is the rate of return that equity investors expect to receive on their investment. Investors can choose from numerous investment options, not simply publicly traded stock. Investments have varying degrees of risk, ranging from relatively low risk assets such as Treasury securities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

to estimate the cost of equity rely on this basic concept.

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

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

The Capital Market Line (CML)



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

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

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

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

The capital markets reflect investor expectations and requirements each day through market prices. Prices for stocks and bonds change to reflect investor expectations and the relative attractiveness of one investment relative to others. While the example provided above seems straightforward, returns on common stocks are not directly observable in advance, in contrast to debt or preferred stocks with fixed payment terms. This means that these returns must be estimated from market data. Estimating the cost of equity capital should be a matter of informed

judgment about the relative risk of the investment in question and the expected rate of return characteristics of other alternative investments.

The estimation of a utility's cost of equity is complex. It requires an analysis of the factors influencing the cost of various types of capital, such as interest on long-term debt, dividends on preferred stock, and earnings on common equity. The data for such an analysis comes from highly competitive capital markets, where the firm raises funds by issuing common stock, selling bonds, and by borrowing (both long- and short-term) from banks and other financial institutions. In the capital markets, the cost of capital, whether the capital is in the form of debt or equity, is determined by two important factors: (1) the pure or real rate of interest, often called the risk-free rate of interest; and (2) the uncertainty or risk premium (the compensation the investor requires over and above the real or pure rate of interest for subjecting his capital to additional risk).

Q. PLEASE DISCUSS THESE FACTORS IN GREATER DETAIL.

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

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

the risk(s) (uncertainty) associated with an investment increase(s).

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

A. Yes. Conceptually,

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

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

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

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

Business risk, the basic risk associated with any business undertaking, is the uncertainty associated with the enterprise's day-to-day operations. In essence, it is a function of the normal day-to-day business environment, both locally and nationally. Business risks include the condition of the economy and capital markets, the state of labor markets, regional stability, government regulation, technological obsolescence, and other similar factors that may impact demand for the business product and its cost of production. For utilities, business risk also includes the volatility of revenues due to abnormal weather conditions, degree of operational leverage, regulation, and regulatory climate. Regulation, for example, can compound the business risk if it is unpredictable in reacting to cost increases, both in terms of the time lag and magnitude for recovery of such increases.

Regulatory lag makes it difficult to earn a reasonable return, particularly in an inflationary environment and/or when there is significant lag between the timing of investment in capital projects and its recognition in rates. Put simply, the greater the degree of uncertainty regarding the various factors affecting a company's business, the greater the risk of an investment in that company and the greater the compensation required by the investor.

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

Q. WHAT ABOUT CONSTRUCTION RISK?

A. Construction risk, the risk of both tying your capital up in projects that are not earning returns, or of not having sufficient capital to build the assets you need to keep generating returns, is an important component of financial risk. If a company has a large construction budget relative to internally generated cash flows, it will require external financing. It is important that companies have access to capital funds on reasonable terms and conditions. Utilities are more susceptible to construction risk for two reasons. First, water utilities generally have high capital requirements to build plant to serve customers. Second, utilities have a mandated obligation to serve leaving less flexibility both in the timing and discretion of scheduling capital projects. This is compounded by the limited ability to wait for more favorable market conditions to raise the capital necessary to fund the capital

projects, and then the lag between when plant can be built and when rates can be approved to provide returns on and of that capital.

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

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

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

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

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

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

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

320 U.S. at 603.

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

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

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

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

Q. HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY PROCEEDINGS?

A. Yes, but the application of the "reasonableness" criteria laid down by the Supreme Court has resulted in controversy. The typical method of computing the overall cost of capital is quite straightforward: it is the composite, weighted cost of the various classes of capital (debt, preferred stock, and common equity) used by the utility. Calculating the proportion that each class of capital bears to total capital does the weighting. However, there is no consensus regarding the best method of estimating the cost of equity capital. The increasing regulatory use of market-based finance models in equity return determination has not led to a universally accepted means of estimating the ROE. In addition, the market-based results are too often applied to a book-value investment base, which, as I will discuss,

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

V. THE ESTIMATED COST OF EQUITY FOR QCW

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

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

A. Again, estimating the cost of equity is a matter of informed judgment. The development of an appropriate rate of return for a regulated enterprise involves a determination of the level of risk associated with that enterprise and the determination of an appropriate return for that risk level. Practitioners employ various techniques that provide a link to actual capital market data and assist in defining the various relationships that underlie the equity cost estimation process.

Since QCW is not publicly traded, the information required to directly estimate its cost of equity is not available. Accordingly, as previously noted, I used a sample group of water utilities as a starting point to develop an appropriate cost of equity for QCW. An analysis of a proxy group serves as a starting point because no proxy group can be selected to be identical in risk to QCW. Therefore, the proxy group's results must be adjusted to reflect the unique relative risks, financial and business risks, of QCW, as I will discuss in detail below.

For the three models contained in my analysis, I use data from a sample of publicly traded water utilities, or proxy group, selected from the *Value Line Investment Survey* as a starting point in my analysis. There are seven water utilities in my sample: American States Water (AWR), Aqua America (WTR), California Water Company (CWT), Connecticut Water (CTWS), Middlesex Water (MSEX), SJW Corp. (SJW), and York Water Company (YORW).

The basis of selection for the proxy group of seven water companies was to select those companies which meet the following criteria: 1) they are included in the Water Company Group of AUS Utility Reports (August 2014); 2) they are followed by the *Value Line Investment Survey*; 3) they have at least ten years of historical financial and market information; 4) they have a *Value Line* adjusted beta; 5) they have not cut or omitted their common dividends during the five years ending 2013 or through the time of the preparation of this testimony; 6) they have 60 percent or greater of 2013 total net operating income derived from regulated water operations; and 7) which, at the time of the preparation of this testimony, had not publicly announced that they were involved in any major merger or acquisition activity.

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

A. No, but they are utilities for which market data is available. All of them are regulated, they primarily provide water service, although some provide both water and wastewater services, and their primary source of revenues is from regulated services. Therefore, they provide a useful starting point for developing a cost of equity for the Company recognizing that the proxy group is not perfectly comparable to QCW.

Q. BRIEFLY, WHY IS A COMPARABLE PROXY GROUP NECESSARY IN A COST OF CAPITAL ANALYSIS?

A. First, a fair rate of return for a specific utility is the return required by investors to hold correspondingly risky assets. Market data for a sample of comparable risk companies provides insight into the investors' required return and that satisfies the U.S. Supreme Court's decisions in *Bluefield* and *Hope* which I discussed earlier. The comparable earnings standard set forth in the *Hope* and *Bluefield* decisions

requires the rate of return afforded to utilities be similar to the return in businesses with similar or comparable risks. It follows that a proxy group of companies with comparable risk is the starting point in a cost of capital analysis.

Second, a primary objective of rate regulation is to determine an authorized ROE that is both fair to customers and provides satisfactory returns for QCW. The best estimate of that ROE is QCW's cost of equity. The cost of equity is a cost of service fairly recovered from customers through rates. It is also satisfactory to QCW because it is commensurate with returns an investor in QCW would expect to earn from investments of comparable risk. To estimate the cost of equity requires market data that reveal investors required returns. But, QCW is not publicly traded so there is no market information to determine the cost of equity. This necessitates the selection of a proxy group.

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

A. Schedule D-4.2 lists the percentages of regulated revenues, operating revenues, net plant, S&P bond ratings, allowed ROE's, *Value Line* betas, market capitalization, and market size category for the seven water utilities. Comparative data for QCW is also shown in Schedule D-4.2. The seven sample companies may be generally described as follows:

(1) American States Water (AWR) primarily serves the California market through Golden State Water Company, which provides water services to over 257,000 customers within 75 communities in 10 counties in the State of California, primarily in Los Angeles, San Bernardino, and Orange counties. AWR also owns an electric utility service provider with over 23,600 customers. AWR also provides contractual services to the U.S. government and private

entities located in 7 states through its subsidiary, American States Utility Services. Total operating revenues for AWR are over $472 million and net plant is over $972 million.

(2) Aqua America (WTR) owns regulated utilities in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Indiana, and Virginia, serving nearly 900,000 customers. WTR's utility base is diversified among residential water, commercial water, fire protection, industrial water, other water, and wastewater customers. Total operating revenues for WTR are nearly $769 million and net plant is over $4.16 billion.

(3) California Water Service Group (CWT) owns subsidiaries in California, New Mexico, Washington, and Hawaii serving nearly 502,000 customers. Operating revenues for CWT are over $584 million and net plant is nearly $1.5 billion.

(4) Connecticut Water Services (CTWS) owns subsidiaries in Connecticut and Maine, Massachusetts and Rhode Island serving nearly 122,000 customers. Revenues for CTWS are over $89 million and net plant is nearly $462 million.

(5) Middlesex Water (MSEX) owns subsidiaries in New Jersey, Delaware and Pennsylvania serving over 110,000 customers, and provides water service under contract to municipalities in central New Jersey serving a population of 219,000. Operating revenues for MSEX is over $114 million and net plant is nearly $447 million.

(6) SJW Corp. (SJW) owns San Jose Water, which provides water service in a 138 square mile area in San Jose, California, and surrounding communities serving nearly 228,000 customers.

SJW also owns operations in Texas serving approximately 11,000 connections. Operating revenues for SJW are nearly $277 million and net plant is nearly $870 million.

(7) York Water Company (YORW) provides water service in the state of Pennsylvania serving over 64,000 customers in more than 47 communities. Operating revenues for YORW are over $42 million and net plant is over $244 million.

Again, it is pretty obvious that these utilities are very different than QCW.

Q. HOW DOES QCW COMPARE TO THE SAMPLE WATER UTILITIES?

A. It is much smaller with fewer customers, a relatively small and limited service territory, far less revenues and far less net plant. At the end of the test year, the Company had approximately 2,000 water customers. The larger publicly traded water companies have many times the customers as does QCW. QCW's revenues totaled approximately $0.83 million, and net plant-in-service was approximately $5.9 million. The average revenues of my water proxy group is nearly 404 times greater than QCW and has over 214 times the net plant than QCW. The smallest of the publicly traded water utilities in my proxy group (York Water Company) has nearly 53 times the revenues and over 42 times the net plant than QCW. So, the water proxy group utilities are much larger and according the empirical financial data less risky than QCW.

Q. DO RECENT DEVELOPMENTS IN THE WATER UTILITY INDUSTRY ARE IMPACT INVESTMENTS?

A. Yes. On the whole, the water utility industry is expected to continue to confront increasing need for infrastructure upgrades and replacement, as well as possible additional demand. *Value Line Investment Survey* (July 18, 2014) continues to stress that many utilities have facilities that are decades old and in need of

significant maintenance and, in some cases, massive renovation and replacement. As infrastructure costs continue to climb, many smaller companies are at a serious disadvantage. *Value Line* notes that most of the companies in this sector lack the finances necessary to fund improvements on their own. This will require water utilities in this sector to rely heavily upon debt and equity offerings for funding. The additional funding will thwart share-earnings and dilute shareholder gains. A copy of the most recent Value Line report on the water industry along with each water utility in my proxy group is attached as **Exhibit TJB-COC-DT1**. Along with the industry as a whole, QCW faces these risks

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

A. First, water utilities are capital intensive and typically have relatively large construction budgets. As I have previously discussed in this testimony, firms with large capital budgets face construction risk (a form of financial risk). The size of a utility's capital budget relative to the size of the utility itself often increases construction risk. Large utilities are more able to fund their capital budgets from their earnings, cash flows, and short-term borrowings. For smaller utilities, like QCW, the ability to fund relatively large capital budgets from earnings, cash flows, and short-term debt is difficult, if not impossible, without reliance upon additional outside capital. A comparison of the operating margins over the last 5 years shows that the water proxy group had an average operating margin of nearly 29 percent while QCW's operating margin was just over 21 percent.

Second, smaller companies are simply less able to cope with significant events that affect sales, revenues and earnings. In general, the loss of revenues from a few larger customers or from trends in the reduction of water use by customers through conservation or the makeup of the customer base, for example,

would have a greater effect on a small company than on a much larger company with a larger customer base. In addition, the effect of extreme weather conditions, i.e., prolonged droughts or extremely wet weather will have a greater affect upon a small operating water utility than upon the much larger, more geographically diverse holding companies.

Third, there are a number of other factors including the differences in regulatory environments, differences in the type of test year used for rate making, and differences in the available regulatory mechanisms for recovery of costs outside of a rate case. The large water utilities in my water proxy group are generally not subject to the adverse impacts of an unfavorable regulatory environment of one jurisdiction.

All these factors have an impact on the ability of a smaller utility to actually earn its authorized return and leads to a greater variability of earnings for QCW compared to the water proxy group, which means greater risk.

Q. ARE THERE QUANTITATIVE MEASURES THAT CAN BE USED TO HELP IDENTIFY DIFFERENCES IN BUSINESS RISK?

A. Yes. There are a number of fundamental accounting based risk measures that can be used to assess the relative differences between firms and include: 1) the co-efficient of variance of ROE; 2) the co-efficient of variance of operating income; 3) the co-efficient of variance of operating margin, and 4) operating leverage. The first three are a reflection of the distributions of earnings. These are meaningful when measured against the distribution of earnings of alternative investments, like the water utilities in my water proxy group.

The co-efficient of variance of ROE can be quantified using a relatively simple formula:

[2] Co-efficient of Variance of ROE = Standard Deviation of ROE/Mean of ROE

The co-efficient of variance of operating income can be quantified using a relatively simple formula:

[3] Co-efficient of Variance of Operating Income = Standard Deviation of Operating Income/Mean of Operating Income

The co-efficient of variance of operating margin can be quantified using a relatively simple formula:

[4] Co-efficient of Variance of Operating Margin = Standard Deviation of Operating Margin/Mean of Operating Margin

The Operating Leverage formula is expressed as:

[5] Operating Leverage = Percentage Change in Operating Income/ Percentage Change in Sales

Using the business risk measures expressed in equations [2], [3], and [4], the greater the co-efficient of variation or operating leverage, the greater the risk to investors of not receiving expected returns.[1] Below are the computed co-efficient of variation for ROE, Operating Income, and Operating Margin, as well as Operating Leverage using the most recent 5 years of historical data for my water proxy group and QCW:

Company	Business Risk Co-efficient of variance_of ROE	Business Risk Co-efficient of variance_of Operating Income	Business Risk Co-efficient of variance_of Operating Margin	Operating Leverage
Water Proxy Group	0.1029	0.1530	0.0836	0.79
QCW	0..4178	0.1852	0.2074	1.00
Relative Risk of QCW	4.06	1.21	2.48	1.28

[1] Tuller, Lawrence W., *The Small Business Valuation Book*, Adams Media Corporation, 1994, p. 89.

This shows that QCW is 1.2 to 4.0 times more risky than the water proxy group.

Q. CAN METRICS LIKE A COMPANY'S CO-EFFICIENT OF ROE, OPERATING INCOME, AND OPERATING MARGIN, BE USED ALONG WITH MARKET DATA TO DEVELOP COMPANY-SPECIFIC RISK PREMIUMS?

A. Yes. *Duff & Phelps* publishes comparative risk characteristics using market data that provides a nexus between a market beta and the metrics operating margin, the coefficient of variation in operating margin, and the coefficient of variation in return on equity.[2] This information can be used to develop an implied beta for QCW for use in the CAPM. By comparing the results of the CAPM for the water proxy group with the CAPM for QCW using the implied beta, an indicated risk premium for QCW can be developed. As one would expect, the implied beta for QCW is higher than the beta of my water proxy group and a risk premium of 100 to 120 basis points over the cost of equity of the water proxy group is indicated. I will discuss this method and the implied beta for QCW in more detail in the Company Specific Risk Premium section of my testimony.

Q. WHAT ABOUT LIQUIDITY RISK, MR. BOURASSA?

A. A rational investor would not regard an investment in QCW as having the same level of risk as WTR or even CTWS, because of the previously mentioned small size characteristics of QCW, and the fact that an investment in QCW is relatively illiquid compared to the publicly traded water utilities. An investor in a publicly traded stock can sell his/her stock in a very short period of time if he/she is dissatisfied with the returns. An investor in a non-publicly traded stock does not have the ability to sell quickly. Consequently, investors will require a greater risk

[2] *2014 Valuation Handbook, Guide to Cost of Capital*, Duff & Phelps, LLC., Exhibits D-1 through D-2.

premium, often called liquidity risk. As a consequence of these differences in risk, the results produced by the DCF, RPM, and CAPM methodologies, utilizing data for the sample utilities, often understate the appropriate return on equity for a small-regulated water utility provider such as QCW.

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

A. Yes. Generally speaking, when a firm engages in debt financing, it exposes itself to greater risk. Once debt becomes significant relative to the total capital structure, the risk increases in a geometric fashion compared to the linear percentage increase in the debt ratio itself. This risk is illustrated by considering the effect of leverage on net earnings. For example, as leverage increases, the equity ratio falls. This creates two adverse effects. First, equity earnings decline rapidly and may even disappear. Second, the "cushion" of equity protection for debt falls. A decline in the protection afforded debt holders, or the possibility of a serious decline in debt protection, will act to increase the cost of debt financing. Therefore, one may conclude that each new financing, whether through debt or equity, impacts the marginal cost of future financing by any alternative method.

For a firm already perceived as being over-leveraged, this additional borrowing would cause the marginal cost of both equity and debt to increase. On the other hand, if the same firm instead successfully employed equity funding, this could actually reduce the real marginal cost of additional borrowing, even if the particular equity issuance occurred at a higher unit cost than an equivalent amount of debt.

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

A. Schedule D-4.2 shows that the debt and equity capital structure used to develop the

cost of capital for QCW contains 100 percent equity and 0 percent debt, compared to the average of the water utility sample of approximately 55 percent equity and 45 percent debt. Having less debt in its capital structure implies that QCW has lower financial risk as the sample water utilities. I will explain why this implication is really no more than implication, however, unless one lives in a world where the only risk is a simple financial risk analysis – i.e., how much debt do the entity have? Places where size and liquidity risk don't really matter do not exist in real world economics.

B. <u>Overview of the DCF, RPM, AND CAPM Methodologies</u>

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

A. These two broad approaches:

1) identify comparable-risk sample companies and estimate the cost of capital directly, or,

2) find the location of the CML and estimate the relative risk of the company, which jointly determines the cost of capital.

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

The Risk Premium Model ("RPM") model and Capital Asset Pricing Model ("CAPM") are examples methods falling into the second general approach.

An equity risk premium is made first by determining the relationship between the cost of equity and an interest rate over time. To implement these approaches, generally, it is assumed that the past relationship will continue on into the future. The RPM generally uses a small subset of the capital market evidence whereas the CAPM uses information on all securities rather than a small subset. I will explain the RPM and CAPM in more detail later. For now, both the RPM and CAPM reflect a risk-return relationship, often depicted graphically as the CML. The RPM and CAPM cost of equity estimates are the sum of a risk-free return and a risk premium.

Each of these methods measures investor expectations. In the final analysis, ROE estimates are subjective and should be based on sound, informed judgment rationally articulated and supported by competent evidence. I have applied three versions of the DCF, one version of the RPM, and two versions of the CAPM to "bracket" the fair cost of equity capital for the publicly traded water utilities in my proxy group. I then add 50 basis points to results of the models for the water proxy group to account for the differences in risk between the water proxy group and QCW.

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

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

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

model in its most general form is:

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

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

Equation [6] can be written to show that the current price (P_0) is also equal to

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

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

Equation [7] is a Market Price version of the DCF model. As with the general form of the DCF model in equation [6], in the Market Price approach the current stock price (P_0) is the present value of the expected cash inflows. The cash flows are comprised of dividends and the final selling price of the stock. The estimated cost of equity (k) is the rate of return investors expect if they bought the stock at today's price, held the stock and received dividends through the transition period, and then sold it for price (P_t).

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

A. Yes. Assume an investor buys a share of common stock for $40. If the expected dividend during the coming year is $2.00, then the expected dividend yield is

5 percent ($2.00/$40 = 5.0 percent). If the stock price is also expected to increase to $43.00 after one year, this $3.00 expected gain adds an additional 7.5 percent to the expected total rate of return ($3.00/$40 = 7.5 percent). Thus, the investor buying the stock at $40 per share expects a total return of 12.5 percent (5 percent dividend yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the appropriate measure of the cost of capital because this is the rate of return that caused the investor to commit $40 of his capital by purchasing the stock.

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

A. Under the assumption that future cash flow is expected to grow at a constant rate ("g"), equation [6] can be solved for k and rearranged into the simple form:

$$[8] \quad k = CF_1/P_0 + g$$

where CF_1/P_0 is the expected dividend yield and g is the expected long-term dividend (price) growth rate ("g"). The expected dividend yield is computed as the ratio of next period's expected dividend ("CF_1") divided by the current stock price ("P_0").

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

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

A. There are a number of reasons why caution must be used when applying the DCF model to utility stocks. First, a non-publicly traded company does not have a stock market price. Using the stock prices from a proxy group assumes that QCW's stock would be similarly priced and have similar dividend yields as the publicly traded water companies. Second, the stock price and dividend yield components may be unduly influenced by structural changes in the industry, such as mergers and acquisitions, which influence investor expectations. Third, the DCF model is based on a number of assumptions that may not be realistic given the current capital market environment. The traditional DCF model assumes that the stock price, book value, dividends, and earnings all grow at the same rate. This has not been historically true for the sample water utility companies.

Fourth, the application of the DCF model produces estimates of the cost of equity that are consistent with investor expectations <u>only</u> when the market price of a stock and the stock's book value are approximately the same. The DCF model will understate the cost of equity when the market-to-book ratio exceeds 1.0 and conversely will overstate the cost of equity when the market-to-book ratio is less than 1.0. The reason for this is that the market-derived return produced by the DCF is often applied to book value rate base by regulators.

Fifth, the assumption of a constant growth rate may be unrealistic, and there may be difficulty in finding an adequate proxy for the growth rate. Historical growth rates can be downward biased as a result of the impact of anemic historical growth rates in earnings, mergers and acquisitions, restructuring, unfavorable regulatory decisions, and even abnormal weather patterns. Further, by placing too much emphasis on the past, the estimation of future growth becomes circular.

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

A. First, I computed a current dividend yield (CF_0/P_0). The expected dividend yield (CF_1/P_0) is the current dividend yield (CF_0/P_0) times one plus the growth rate (g). I used the spot price for each of the stocks of the water utilities in the sample group on as reported by the *Value Line Investment Analyzer* for June 13, 2014 for P_0. The current dividend (CF_0) is the current indicated dividend as reported by Value Line. In my schedules, the current dividend yield is denoted as (D_0/P_0), where D_0 is the current dividend and P_0 is the spot stock price. (D_1/P_0) is used to denote the expected dividend yield in the schedules.

Q. DO YOU HAVE ANY CONCERNS REGARDING THE YIELDS ON WATER STOCK?

A. Yes. As noted by the *Value Line* Investment Survey for the Water Utility Industry (July 18, 2014), "Investors appear to be focusing almost exclusively on current income and overlooking risk. This has effected water utilities in that the yield spread between high- and low-quality stocks is now very compressed."

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

A. I have used two estimates of growth; one based on an average of historical and forecast growth and the other based only on forecast growth. For my average historical and forecast growth estimate, I average the 5-year historical average growth rates in the stock price, book value per share ("BVPS"), earnings per share ("EPS") and dividends per share ("DPS") with *Value Line's* forecast of EPS growth.[3] Using the historical average of growth in price, BVPS, EPS, and DPS is

[3] *See* Schedule D-4.4.

reasonable because investors know that, in equilibrium, common stock prices, BVPS, EPS and DPS will all grow at the same rate and would take information about changes in stock prices and growth in BVPS into account when they price utilities' stocks. As I stated earlier, a basic assumption of the DCF model is that the stock price, BVPS, EPS and DPS all grow at the same rate. For my forecast growth estimate, I have used the growth forecasts from *Value Line.*[4]

Q. WHY DID YOU INCORPORATE A HISTORICAL GROWTH RATE ESTIMATE INTO ONE OF YOUR GROWTH ESTIMATES?

A. Past growth rates may provide a reasonable basis for determining prospective growth rates. Their use assumes the past is a reflection of the future. While I believe the use of historical growth rates gives added recognition to the past, which is already incorporated into analyst estimates of growth, I nevertheless include a version of the DCF that reflects historical growth. I would point out, however, that historical growth rates may not be the best measure for the future. The empirical evidence indicates that analyst estimates of growth are the best measure of growth for use in the DCF for utility stocks.[5]

Q. WHY DID YOU USE FORECASTED GROWTH RATES IN YOUR GROWTH ESTIMATES?

A. The DCF model requires estimates of growth that investors expect in the future and not past estimates of growth that have already occurred. Accordingly, I use

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[4] *See* Schedule D-4.4.

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

analysts' forecasts of growth. Logically, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information.[6] To the extent that past results provide useful indications of future growth prospects, analysts' forecasts would already incorporate that information. In addition, a stock's current price reflects known historic information on that company, including its past earnings history. Any further recognition of the past will double count what has already occurred. Therefore, forward-looking growth rates should be used.

D. <u>Explanation of the RPM and Its Inputs</u>

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

A. The RPM is sometimes referred to as the "bond yield plus risk premium method". The general approach is to determine the spread between the return on debt and the return on equity and add this spread to the current debt yield to derive an estimate of the cost of equity. To implement the RPM, it is assumed that the past relationship will continue into the future. The RPM is widely used by analysts and investors.[7]

The RPM formula provides a formal risk-return relationship and is stated as:

(6) $k = K_d +$ Historical bond-equity spread

where k is the expected return on equity and K_d is the current cost of debt or debt yield.

Q. HOW DID YOU DETERMINE THE HISTORICAL BOND-EQUITY SPREAD?

A. I computed the bond-equity spread as the difference between the average total

[6] Gordon, Gordon, and Gould.

[7] Morin, Roger A., *New Regulatory Finance*, Public Utility Reports, Inc. (2006) at 108.

realized market return of my water proxy group and the average annual long-term treasury yields for the years 1999-2013 - a 15-year historical period.[8]

Q. WHY DID YOU USE TOTAL REALIZED MARKET RETURNS?

A. Total realized market returns are market based which makes this approach a market based approach. While the annual actual risk premium in any given year may not equal the required risk premium, over longer periods of time, the average actual risk premiums can provide a good estimate of the average risk premium required.

Q. WHAT DO YOU USE AS THE CURRENT COST OF DEBT (K_d)?

A. I use the expected U.S. Long-term Treasury rate for 2016-2018 as the basis for the risk free rate. Since the cost of capital is an opportunity cost and is prospective, it necessarily requires the use of a forward-looking bond yield. In recent years, interest rates have dropped to very low levels when compared to interest rates for similar securities in the past. From 1999 to 2007, the annual average rates for long-term Treasury bonds was 5.24 percent ranging from a low of 4.84 percent in 2007 to a high of 5.94 in 2000. In 2008, and during the recent recession, that annual average dropped to 4.24 percent and dropped further in 2012 to 2.9 percent.

The drop in long-term treasury rates has been largely attributed to the market intervention by the Federal Reserve through its quantitative easing programs. Long-term Treasury rates increased in 2013 to 3.45 percent and are expected to increase further as the Federal Reserve tapers the bond-buying program expected to end sometime in 2015. Notwithstanding these current low rates, 30-year Treasury rates are expected to bounce back up in 2016-2018. Analysts at *Value Line* expect that future average to be 4.5 percent. The consensus estimate made by analysts surveyed by the *Blue Chip Financial Forecasts* indicates analysts

[8] *See* Schedule D-4.9.

expect that average to be higher at 4.7 percent. For my analyses, I have relied upon the average of *Value Line Quarterly Forecast* forecasts and the consensus forecast reported by *Blue Chip Financial Forecasts* of 4.6 percent.[9]

Q. WHY DO YOU USE LONG-TERM U.S. TREASURY YIELDS?

A. The yields on long-term Treasury bonds match more closely with the perpetual nature of common stock investments.[10] Further, short-term rates are more volatile, fluctuate widely and are subject to more random disturbances than long-term rates. In short, long-term Treasury rates are preferred for these reasons and because long-term rates are more appropriately matched to securities with an indefinite life or long-term investment horizon.

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

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

A. Like the RPM, the CAPM is the sum of a risk-free rate plus a risk premium. And, like the RPM, it quantifies the additional return required by investors for bearing incremental risk. The CAPM was developed by William Sharpe and John Lintner in the mid-1960's and is a common topic in college finance textbooks. The CAPM provides a formal risk-return relationship premised on the idea that only market risk matters, as measure by beta. The traditional version of CAPM is represented by the formula:

$$[9] \quad k = R_f + \beta(R_m - R_f)$$

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

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[9] *See* Schedule D-4.8.

[10] Morin at 112.

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

A. Yes. I have concerns with using this model in most periods because mechanical application of the model may produce unreasonable results. The traditional CAPM only captures a single measure of systematic risk as measured by beta, but there are other forms of systematic risk priced by the market such as company size. A size premium is necessary because, even after adjusting for the beta risk of small stocks, they generally outperform larger stocks. Size may just be a proxy for other risks. Nevertheless, the empirical evidence indicates that beta alone does not measure the risk of smaller companies.[11]

Q. ARE THERE ALTERNATIVES TO THE TRADITIONAL CAPM?

A. Yes, alternative versions of the CAPM have been developed that provide more robust explanations of returns required by investors. A version of the CAPM called the Empirical CAPM or ECAPM was developed to recognize that estimations of R_f is higher than the return on long-term Treasuries. Dr. Roger Morin discusses ECAPM at pages 189-191 of his book, New Regulatory Finance. The ECPAM is represented as follows:

$$[10] \quad k = R_f + .25(R_m - R_f) + .75\beta(R_m - R_f)$$

Duff & Phelps suggest a version of the CAPM in which a size premium is included.[12] This modified CAPM ("MCAPM") is represented as follows:

$$[11] \quad k = R_f + \beta(R_m - R_f) + RP_s$$

where k is the expected return, R_f is the risk-free rate (or zero beta asset), R_m is the market return, $(R_m - R_f)$ is the market risk premium, β is beta, and RP_s is the size premium. The MCAPM recognizes the CAPM is incomplete and does not fully

[11] *Duff & Phelps* at 2-5.

[12] *Duff & Phelps* at 2-7.

account for the higher returns that are needed on small company stocks. In other words, the higher risks associated with smaller firms are not fully accounted for by beta.[13]

Q. IS FIRM SIZE A UNIQUE RISK?

A. No. The firm size is a systematic risk factor and is an adjustment to the pure CAPM.[14] Putting aside the empirical financial data, the need for a risk premium for size makes sense. Company size is a significant element of business risk for which investors expect to be compensated through greater returns. Smaller companies are simply less able to cope with significant events that affect sales, revenues, and earnings. For example, smaller companies face more risk exposure to business cycles and economic conditions, both nationally and locally. Additionally, the loss of revenues from a few larger customers would have a greater effect on a small company than on a much larger company with a larger, more diverse, customer base. Moreover, smaller companies are generally less diverse in their operations and have less financial flexibility.

Q. DID YOU EMPLOY EITHER OF THESE ALTERNATIVE CAPM METHODS AS PART OF YOUR ANALYSIS?

A. No. Instead, I conducted a risk study to develop an indicated additional risk premium for QCW. Based on this study I add a risk premium to the results of each method I use (the DCF, RPM, and the CAPM) as an alternative way of dealing with additional risk associated with QCW. Having said that, these two methods would produce an indicated cost of equity for my water proxy group in the range of 10.6 percent to 11.4 percent with a mid-point of 11 percent, which is significantly

---

[13] *Morningstar, Ibbotson SBBI 2013 Valuation Yearbook,* pp. 85-88.

[14] Shannon P. Pratt and Roger J. Grabowski. *Cost of Capital: Applications and Examples, Fourth Edition.* John Wiley and Sons, 2010, p. 56.

greater than my overall estimate for my water proxy group of 10.1 percent.

Q. WHAT IS THE RISK-FREE RATE (R_f)?

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

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

A. I use long-term expected Treasury bond rates as the measure of the risk-free return for use with CAPM cost of equity estimates from two sources: the *Blue Chip Financial Forecasts* and the *Value Line Quarterly Forecast.*[15] The appropriate choice for the risk-free rate is the expected return for long-term Treasury securities.[16] Thus, when determining an estimate of the risk-free rate, it is appropriate to adopt a return that is no less than the expected return on the long-term Treasury bond rate. Both of my CAPM estimates are based on expected yields of the long-term treasury rates for 2016 through 2018 (from *Blue Chip Financial Forecasts* and *Value Line Quarterly Forecasts*).[17] The 2016 to 2018 timeframe is the period when new rates will be in effect for the Company.

Q. WHAT IS BETA AND WHAT DOES IT MEASURE?

A. Beta is a measure of the relative risk of a security in relation to the market. In other words, it is a measure of the sensitivity of a security to the market as a

[15] *See* Schedule D-4.9.

[16] *Duff & Phelps* at 3-1.

[17] *See* Schedule D-4.8.

whole. This sensitivity is also known as systematic risk. It is estimated by regressing a security's excess returns against a market portfolio's excess returns. The slope of the regression line is the beta.

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

There are computational problems surrounding beta. It depends on the return data, the time period used, its duration, the choice of the market index, and whether annual, monthly, or weekly return figures are used. Betas are estimated with error. Based on empirical evidence, high betas will tend to have a positive error (risk is overestimated) and low betas will have a negative error (risk is underestimated).[18]

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

A. I used the average beta of the sample water utility companies. Betas were obtained from *Value Line Investment Analyzer* (weekly data as if June 5, 2014). *Value Line* is the source for estimated betas that I regularly employ. The average beta for my water proxy group as shown on Schedule D-4.2 is 0.71. I should note that because QCW is not publicly traded, QCW has no beta. In my expert opinion, I strongly believe that QCW, if it were publicly traded, would have a higher beta than the sample water utility companies.

Q. WHY WOULD QCW HAVE A HIGHER BETA?

A. As previously indicated, smaller companies are inherently more risky than larger companies. *Morningstar* reports that when betas (a measure of market risk) are properly estimated, betas are greater for small companies than for larger

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

companies.[19] *Morningstar* also finds that even after accounting for differences in beta risk, small firms require an additional risk premium over and above the added risk premium indicated by differences in beta risk.

Q. PLEASE EXPLAIN THE MARKET RISK PREMIUM.

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

Since expected returns are not directly observable, historical realized returns are often used as a proxy for expected returns on the basis that the historical market risk premium follows what is known in statistics as a "random walk." If the historical risk premium does follow the random walk, then one should expect the risk premium to remain at its historical mean. Based on this argument, the best estimate of the future market risk premium is the historical mean. *Duff & Phelps* provides historical market returns for various asset classes from 1926 to 2013. This publication also provides market risk premiums over U.S. Treasury bonds, which make it an excellent source for historical market risk premiums.

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

[19] *Ibbotson SBBI 2012 Valuation Yearbook*, Morningstar, Chapter 7.

of the overall period.

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

A. I used two market risk premium estimates: An historical market risk premium and a current market risk premium.

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

A. I used the *Duff & Phelps* measure of the average premium of the market over long-term treasury securities from 1926 through 2013, which uses the S&P 500 market index. The average historical market risk premium over long-term treasury securities is 6.96 percent.

Q. IS THE S&P 500 INDEX A LARGE COMPANY INDEX?

A. Yes. The S&P 500 consists of the 500 largest companies and only approximately 20 percent of the S&P 500 would be considered Mid-Cap companies. Further, there are no companies in the Low-Cap or Micro-Cap categories. Because it is heavily weighted with Large-Cap companies, the S&P 500 is essentially a large company index. *Morningstar* refers to the S&P 500 as a large company index and cautions that "if using a large company index to calculate the equity risk premium, an adjustment is usually needed to account for the different risk and return characteristics of small stocks."[20]

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

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

[20] *Morningstar, 2014 Ibbotson SBBI 2014 Classic Yearbook, p. 152.*

average of the median EPS, DPS and BVPS growth on the *Value Line* 1700 stocks. I then subtracted the historical monthly average 30-year Treasury yield for each month from the expected market returns to arrive at the expected market risk premiums. Finally, I averaged the computed market risk premiums to determine the current market risk premium for the last 12 months, 9 months, 6 months, and 3 months. The data and computations are shown on Schedule D-4.10. The recent 3 month average current market risk premium is 8.73 percent. Estimates of the current market risk premium have ranged from 8.2 percent to 8.91 percent over the past 12 months. My recommended market risk premium is based on the recent 3-month average estimate of 8.73 percent and is well within the past 12 month range.

F. <u>Financial Risk Adjustment</u>

Q. ARE YOU RECOMMENDING A FINANCIAL RISK ADJUSTMENT TO ACCOUNT FOR DIFFERENCES IN LEVERAGE BETWEEN YOUR WATER PROXY GROUP AND QCW?

A. Yes. I have included a downward financial risk adjustment to the cost of equity of 60 basis points based upon the Hamada method[21] to account for the difference in financial risk between QCW and the water proxy group.[22]

G. <u>Company Specific Risk Premium</u>

Q. PLEASE DISCUSS YOUR COMPANY-SPECIFIC RISK PREMIUM.

A. As I testified earlier, QCW is not directly comparable to the publicly traded water utilities in my water proxy group. The characteristics associated with small size, such as the lack of diversification, limited revenue and cash flow, relatively small customer base, lack of investment liquidity, and earnings volatility, increase the

[21] "Effects of the Firm's Capital Structure on Systematic Risk of Common Stock," *Journal of Finance*, Vol. 27 No. 2 (May 1972) 435 – 453.

[22] *See* Schedule D-4.14.

risks of smaller water utilities over the risks associated with the water proxy group.

Q. PLEASE DISCUSS SIZE RISK FOR SMALL UTILITY COMPANIES.

A. Investment risk increases as the firm size decreases, all else remaining constant. There is a great deal of empirical evidence that the firm size phenomenon exists. Morningstar's *Ibbotson SBBI 2013 Valuation Yearbook* (Chapter 7) reports that smaller companies have experienced higher returns that are not fully explainable by their higher betas and that beta is inversely related to company size. In other words, smaller companies not only have higher betas but higher returns than larger ones. Even after accounting for differences in beta risk, small companies require an additional risk premium over and above the added risk premium indicated by differences in beta risk. Dr. Zepp also reported evidence that the stocks of small water or wastewater utilities are more risky than the stocks of larger water utilities, such as those in the water utilities sample.[23] Even the California PUC conducted a study that showed smaller water utilities are more risky than larger ones.[24] Based on the evidence, it is clear that investors require higher returns on small company stocks than on large company stocks. I have included in Schedule D-4.15 the results of a *Morningstar* study using annual data reporting the size premium based upon firm size and return data (i) provided in Morningstar's *Ibbotson SBBI 2013 Valuation Yearbook* and information, and (ii) contained in Dr. Thomas M. Zepp's 2003 article in The Quarterly Review Economic and Finance. Based on these sources, I have estimated that a small company risk premium in the range of 99 to 367 basis points is appropriate for QCW.

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

[24] Staff Report on Issues Related to Small Water Utilities, June 10, 1991 and CPUC Decision 92-03-093.

Q. HAVE YOU CONDUCTED A COMPARATIVE RISK STUDY TO DEVELOP AN INDICATED RISK PREMIUM FOR QCW OVER THE WATER PROXY GROUP COST OF EQUITY?

A. Yes. Attached as **Exhibit TJB-COC-DT2** is the risk study I prepared. To conduct my risk study, I started by computing the 5-year historical operating margin, coefficient of variation of operating margin, coefficient of variation of ROE. Operating margin is a measure of profitability. The co-efficient of variation of operating margin is a measure of earnings variability. Both of these metrics are highly correlated with size and risk. Next, I cross-referenced these metrics with data published by *Duff & Phelps*[25] and identified the corresponding market portfolio beta for QCW and for my water proxy group. I then computed the relative difference in beta between QCW and my proxy group. Assuming that the relative difference in the market portfolio beta for the all publicly traded companies is the same for publicly traded water utilities, I then computed an implied beta for QCW using the difference in portfolio betas.[26] Finally, I used the CAPM to compute the indicated cost of equity for QCW and compared the results to the CAPM results for my water proxy group.[27]

Q. BASED ON YOUR COMPARATIVE RISK STUDY WHAT ADDITIONAL RISK PREMIUM IS INDICATED?

A. The indicated risk premium for QCW is in the range of 100 to 120 basis points which falls at the low end of the range of small company risk premiums based two other sources of data discussed above.

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[25] *Duff & Phelps*, Exhibits D-1 and D-2.

[26] *See* page 1 of **Exhibit TJB-COC-DT2**.

[27] *See* page 2 of **Exhibit TJB-COC-DT2**.

Q. WHAT COMPANY SPECIFIC-RISK PREMIUM DO YOU RECOMMEND FOR QCW?

A. To be conservative, I add an upward risk premium of 50 basis points to the results of my models, which is well below the bottom end of the range of my risk premium estimates. I also recommend a 60 basis point downward adjustment for the difference in financial risk between QCW and the water proxy group. In effect, the net downward adjustment to the indicated cost of equity is 10 basis points (50 basis points less 60 basis points). My recommended 10 percent return on equity is 10 basis points below the midpoint of the overall results for the water proxy group.

H. <u>Summary and Conclusions</u>

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

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

In the first part of my analysis, I applied two versions of the constant growth DCF model – one using historical and forecast growth and one using only forecast growth. The DCF models produce an indicated equity cost for the water proxy group in the range of 9.4 percent to 9.6 percent.[28]

In the second part of my analysis, I applied a risk premium model. I used historical annual total market returns for the water proxy group and historical average annual average long-term treasury yields to develop an equity risk premium to which I added the expected long-term treasury to estimate the current

[28] *See* Schedule D-4.7, pages 1 and 2.

cost of equity. My risk premium model produces an indicated cost of equity of 10.6 percent for the water proxy group.[29]

In the third part of my analysis, I applied two versions of the CAPM – a historical risk premium CAPM and a current market risk premium CAPM. The CAPM analyses produce an indicated cost of equity in the range of 9.5 percent to 10.8 percent for the water proxy group.[30]

The overall results on the DCF, CAPM, and RPM analyses for the water proxy group are in the range of 9.8 percent to 10.3 percent with a mid-point of 10.1 percent.

In the fourth part of my analysis, I reviewed the financial literature on the small firm size effect and determined that an appropriate risk premium for small utilities like QCW that should be applied to the DCF, RPM, and CAPM results is the range of 99 to 367 basis points.[31]

In the fifth part of my analysis, I conducted a comparative risk study using market based information and determined the indicated risk premium for QCW falls in the range of 100 to 120 basis points.[32] To be conservative, I recommend a risk premium of 50 basis points. Using my recommended risk premium of 50 basis points the additional risk premium, the DCF models produce an indicated equity cost for QCW in the range of 9.9 percent to 10.1 percent. My risk premium model produces an indicated cost of equity of 11.1 percent for QCW. My CAPM analyses produce an indicated cost of equity in the range of 10.0 percent to 11.3 percent for QCW. After adjusting for the difference in financial risk,

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[29] *See* Schedule D-4.9.

[30] *See* Schedule D-4.11.

[31] *See* Schedule D-4.12.

[32] *See* **Exhibit TJB-COC-DT2** and Schedule D-4.12.

the range of cost of equity estimates falls in the range of 9.7 to 10.2 percent with a midpoint of 10.0 percent.[33]

Q. WHAT EQUITY RETURN DO YOU RECOMMEND?

A. I am recommending a cost of equity of no less than 10.0 percent. I am recommending a 50 basis point risk premium for QCW which is well below the low end (100 basis points) of the indicated range of risk premiums based on my comparative risk study.

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

A. Yes.

[33] *See* Schedule D-4.1.

Quail Creek Water Company, Inc.

Direct Testimony of Thomas J. Bourassa
Cost of Capital

Exhibit TJB-COC-DT1

Water utility stocks have performed relatively well of late. Primarily purchased for their income and predictable earnings stream, these defensive stocks have managed to keep pace with the broader market averages during the most recent stock rally.

America's water infrastructure remains in terrible condition. Most systems were built decades ago and are now in desperate need of repair.

Large amounts of capital will be required to fund the necessary work.

Consolidation should accelerate in the years ahead as many small municipally owned water utilities do not have the wherewithal needed to modernize their pipelines.

The water utility consists of only nine stocks, as most systems are owned by municipalities.

Due to investors reaching for yield and ignoring risk, we believe that high-quality water utility stocks are attractive on a relative basis.

Keeping Pace With The Market

Water utility stocks are usually known for their defensive characteristics. During an economic slump, people may be able to defer buying a new car, but they will still need water. Like electric utilities, income-oriented investors are interested in water equities for the yield. Traditionally, this type of stock trails the market averages during rallies and outperforms during a market sell off. The Water Utility sector is currently ranked 51st out of 97 industries followed by *Value Line*. This isn't too bad considering that the stock market is near all-time highs. One similar sector that has performed incredibly well is electric utilities. Recently, this group's ranking has averaged between 10 and 20.

Infrastructure Is Badly In Need Of Repair

Water facilities in America are very old and in real need of being replaced. As is the case with highways, bridges, and airports, municipal governments have been skimping on capital expenditures for years, leaving such things as water pipelines, valves, and water treatment facilities in desperate need of modernization. According to the American Water Works Association (AWWA), $1 trillion will have to be spent over the next 25 years to modernize the nation's water infrastructure. A different industry group also found that only 30% of the budgets earmarked for such construction is currently being funded.

The Nature Of The Domestic Water Industry

There is a huge difference between the electric and water utility sectors. The water industry consists of tens of thousands of small municipally owned water companies. There are literally very few large publicly traded water utilities. And, only four that have market capitalization of over $1 billion. Meanwhile, there are at least 50 major publicly owned power companies that have much greater expertise and must answer to shareholders as well as customers.

Where Will The Funds Come From?

Many of the small municipally owned water authorities do not have the capital to pay for the construction needed to replace their aging facilities. They can issue municipal bonds but this market has changed considerably in the past decade. Without bond insurance and the AAA rating that previously was available, many of these authorities are shut out of the tax-free debt market. The large investor-owned water utilities have the ability to finance such expenditures with their access to the debt and equity markets. Thus, the consolidation trend will most likely continue. We expect to see the "Big Two", *American Water Works* and *Aqua America* to be the main buyers. *American States Water* and *California* may also absorb small utilities, to a lesser degree.

INDUSTRY TIMELINESS: 51 (of 97)

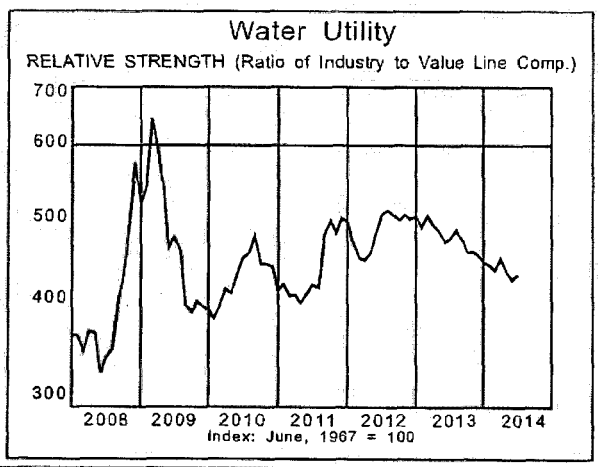
Large Appetite For Yield

With interest rates remaining low for an extended period of time, many investors are taking on more risk in search of additional income. This can be seen across the fixed income and equity markets. High-yield corporate (or junk) bonds, now carry interest rates of below 5%. Troubled economies such as Greece and Spain have seen the yields on their bonds narrow incredibly to the benchmark 10-year U.S. Treasury bond. Investors appear to be focusing almost exclusively on current income and overlooking risk. This has effected water utilities in that the yield spread between high- and low-quality stocks is now very compressed. Indeed, among the nine stocks in the industry, the yields range from only 2.6% to 3.6%. This is very tight on an historical basis. In layman's terms, it means that "quality is cheap" or that not as much current income has to be sacrificed in return for the potential of strong dividend growth, as in the past.

Conclusion

Based on our ranking system, *American Water Works* merits the strongest consideration, as it has a Timeliness of 1 (Highest). *California Water* also is ranked to outperform the broader market averages in the year ahead. As always, we advise our subscribers to read each page closely to understand the specific risks associated with each company before investing.

James A. Flood



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AMER. STATES WATER NYSE-AWR

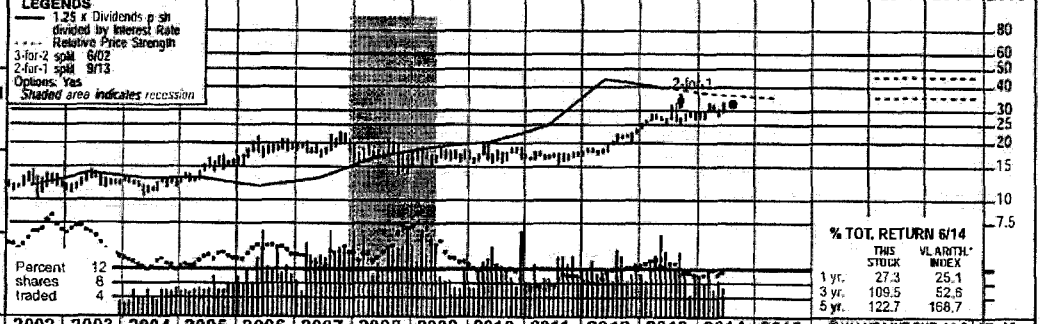
RECENT PRICE 32.29 | P/E RATIO 20.2 (Trailing: 21.0 Median: 21.0) | RELATIVE P/E RATIO 1.07 | DIV'D YLD 2.7% | VALUE LINE

TIMELINESS 3 Lowered 5/16/14
SAFETY 2 Raised 7/20/12
TECHNICAL 2 Lowered 7/11/14
BETA .70 (1.00 = Market)

High:	14.5	13.4	17.3	21.9	23.1	21.0	19.4	19.8	18.2	24.1	33.1	34.0	
Low:	10.8	10.4	12.2	15.1	16.8	13.5	14.9	15.6	15.3	17.0	24.0	27.0	

Target Price Range 2017 | 2018 | 2019

LEGENDS
— 1.25 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 6/02
2-for-1 split 9/13
Options: Yes
Shaded area indicates recession



2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+40%)	11%
Low	35	(+10%)	5%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	1	0	0	0	0	0	0	0
Options	0	0	0	1	0	0	0	1	0
to Sell	0	0	0	2	0	0	0	2	0

Institutional Decisions

	3Q2013	4Q2013	1Q2014
to Buy	72	79	79
to Sell	90	72	72
Hld's(000)	23953	23188	23233

% TOT. RETURN 6/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	27.3	25.1
3 yr.	109.5	52.6
5 yr.	122.7	168.7

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
5.51	6.45	6.08	6.53	6.89	6.99	6.81	7.03	7.88	8.75	9.21	9.74	10.71	11.12	12.12	12.19	**12.50**	**13.35**	Revenues per sh	**15.05**
1.02	1.13	1.10	1.26	1.27	1.04	1.11	1.32	1.45	1.65	1.69	1.70	2.11	2.13	2.48	2.65	**2.75**	**2.80**	"Cash Flow" per sh	**3.35**
.54	.60	.64	.67	.67	.39	.53	.66	.67	.81	.78	.81	1.11	1.12	1.41	1.61	**1.60**	**1.65**	Earnings per sh A	**1.95**
.42	.43	.43	.43	.44	.44	.44	.45	.46	.48	.50	.51	.52	.55	.64	.76	**.84**	**.92**	Div'd Decl'd per sh B■	**1.10**
1.56	2.15	1.51	1.59	1.34	1.86	2.51	2.12	1.95	1.45	2.23	2.09	2.12	2.13	1.77	2.52	**2.30**	**2.25**	Cap'l Spending per sh	**2.50**
5.74	5.91	6.37	6.61	7.02	6.98	7.51	7.86	8.32	8.77	8.97	9.70	10.13	10.84	11.80	12.72	**12.90**	**13.35**	Book Value per sh	**15.35**
26.87	26.87	30.24	30.24	30.36	30.42	33.50	33.60	34.10	34.46	34.60	37.06	37.26	37.70	38.53	38.72	**38.00**	**37.50**	Common Shs Outst'g C	**37.50**
15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	21.2	15.7	15.4	14.3	17.2	*Bold figures are*		Avg Ann'l P/E Ratio	**20.0**
.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.36	1.41	1.00	.97	.91	.97	*Value Line*		Relative P/E Ratio	**1.25**
5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%	3.0%	3.2%	3.1%	2.7%	*estimates*		Avg Ann'l Div'd Yield	**2.8%**

228.0	236.2	268.6	301.4	318.7	361.0	398.9	419.3	466.9	472.1	**475**	**500**	Revenues ($mill)	**565**
16.5	22.5	23.1	28.0	26.8	29.5	41.4	42.0	54.1	62.7	**61.0**	**60.0**	Net Profit ($mill)	**73.0**
37.4%	47.0%	40.5%	42.6%	37.8%	38.9%	43.2%	41.7%	39.9%	36.3%	**37.0%**	**40.0%**	Income Tax Rate	**40.0%**
--	--	12.2%	8.5%	6.9%	3.2%	5.8%	2.0%	2.5%	.5%	**.5%**	**2.5%**	AFUDC % to Net Profit	**2.5%**
47.7%	50.4%	48.6%	46.9%	46.2%	45.9%	44.3%	45.4%	42.2%	39.8%	**41.5%**	**43.0%**	Long-Term Debt Ratio	**42.5%**
52.3%	49.6%	51.4%	53.1%	53.8%	54.1%	55.7%	54.6%	57.8%	60.2%	**58.5%**	**57.0%**	Common Equity Ratio	**57.5%**
480.4	532.5	551.6	569.4	577.0	665.0	677.4	749.1	787.0	818.4	**840**	**875**	Total Capital ($mill)	**1000**
664.2	713.2	750.6	776.4	825.3	866.4	855.0	896.5	917.8	981.5	**1010**	**1050**	Net Plant ($mill)	**1180**
5.2%	5.4%	6.0%	6.7%	6.4%	5.9%	7.6%	7.1%	8.3%	8.9%	**8.5%**	**8.0%**	Return on Total Cap'l	**9.5%**
6.6%	8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.3%	11.9%	12.7%	**12.5%**	**12.0%**	Return on Shr. Equity	**12.5%**
6.6%	8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.3%	11.9%	12.7%	**12.5%**	**12.0%**	Return on Com Equity	**12.5%**
1.0%	2.8%	2.7%	3.9%	3.1%	3.2%	5.8%	5.3%	6.6%	6.8%	**6.0%**	**5.0%**	Retained to Com Eq	**5.5%**
84%	67%	67%	58%	64%	61%	47%	49%	45%	47%	**53%**	**58%**	All Div'ds to Net Prof	**56%**

CAPITAL STRUCTURE as of 3/31/14
Total Debt $356.3 mill. Due in 5 Yrs $7.6 mill.
LT Debt $326.0 mill. LT Interest $21.0 mill.
(LT interest earned: 5.7 x; total interest coverage: 5.4 x) (40% of Cap'l)
Leases, Uncapitalized: Annual rentals $2.2 mill.
Pension Assets-12/13 $127.5 mill. Oblig. $152.7 mill.
Pfd Stock None.

Common Stock 38,778,608 shs. as of 5/5/14

MARKET CAP: $1.3 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2012	2013	3/31/14
Cash Assets	23.5	38.2	74.9
Other	160.5	153.4	138.3
Current Assets	184.0	191.6	213.2
Accts Payable	40.6	49.8	42.6
Debt Due	3.3	6.3	30.3
Other	49.8	44.8	46.2
Current Liab.	93.7	100.9	119.1
Fix. Chg. Cov.	488%	531%	533%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	5.5%	6.5%	4.0%
"Cash Flow"	7.5%	8.5%	5.5%
Earnings	9.0%	13.0%	6.0%
Dividends	4.0%	6.5%	9.0%
Book Value	5.5%	6.5%	4.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	94.3	109.8	119.9	95.3	419.3
2012	107.6	114.3	133.5	111.5	466.9
2013	110.6	120.7	130.9	109.9	472.1
2014	101.9	**125**	**133.1**	**115**	**475**
2015	**120**	**130**	**135**	**115**	**500**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	.19	.34	.42	.17	1.12
2012	.27	.40	.49	.26	1.41
2013	.35	.43	.53	.30	1.61
2014	.28	**.42**	**.55**	**.30**	**1.60**
2015	**.30**	**.45**	**.58**	**.32**	**1.65**

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.13	.13	.13	.13	.52
2011	.13	.14	.14	.14	.55
2012	.14	.14	.1775	.1775	.64
2013	.1775	.1775	.2025	.2025	.76
2014	.2025	.2025			

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Sold Chaparral City Water of Arizona (6/11). Has 728 employees. Officers & directors own 2.9% of common stock (4/12 Proxy). Chairman: Lloyd Ross. President & CEO: Robert J. Sprowls. Inc: CA. Addr: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com.

Severe drought conditions in California should not have a material impact on American States Water's main subsidiary. State regulators have established mechanisms that allow Golden Gate Water Co. (GGWC) to pass through higher costs to consumers resulting from the drought. To date, conservation efforts have proved successful in lowering the demand for water and easing any rate shock over the higher monthly bills. GGWC will continue to pump and collect as much of its own water as possible because purchasing water (about 35% of total) on the California market is more expensive.

Share earnings will likely remain flattish through 2015. GGWC is earning close to the maximum allowed by state regulators. Thus, we don't expect much growth in utility operations in the near term. Due to solid cash generation, however, annual dividend hikes should remain healthy.

Longer term, nonregulated activities are a major plus. American States Utility Services (ASUS) operates the water systems at nine U.S. Army bases. Currently, this segment accounts for 22% of net income. Over the next few years, we expect profits from this segment to increase as the government continues to privatize the water services at more bases. This also represents a relatively low-risk opportunity for the company to earn a greater return on equity than permitted by regulators.

American States has the strongest balance sheet in the industry. The equity-to-total capital ratio has recently been in the 60% neighborhood as the company has been retiring outstanding debt. As a result, American States is the sole company in the industry with an A Financial Strength rating. Moreover, a 1.25 million share-buyback program through mid-2016 was just announced.

These shares have been on a roll. Over the past month, the price has risen about 18%, versus 5% for the broader market averages. And, while this run-up has diminished some of the equity's luster over the 2017-2019 time frame, it still offers better total return potential than others in the water group because of its solid dividend growth prospects.

James A. Flood *July 18, 2014*

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

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

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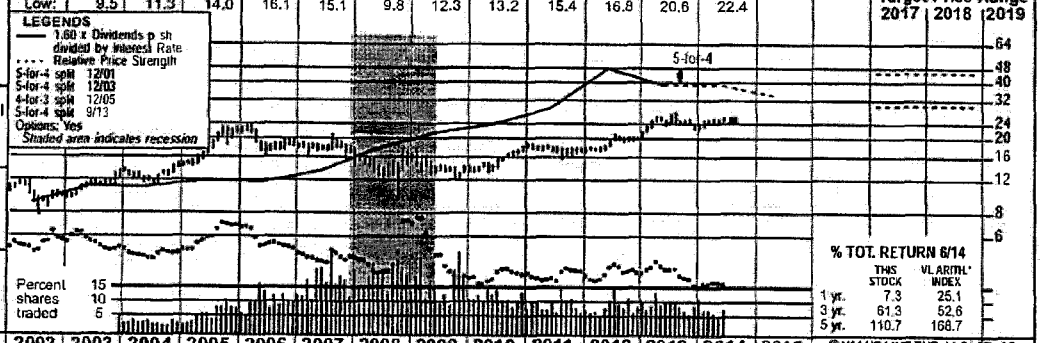
AQUA AMERICA NYSE-WTR

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

TIMELINESS 3 Lowered 5/24/13
SAFETY 2 Raised 4/20/12
TECHNICAL 2 Raised 7/11/14
BETA .70 (1.00 = Market)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
High:	13.4	14.8	23.4	23.8	21.3	17.6	17.2	18.4	19.0	21.5	28.1	26.3
Low:	9.5	11.3	14.0	16.1	15.1	9.8	12.3	13.2	15.4	16.8	20.6	22.4

Target Price Range 2017 | 2018 | 2019



2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+80%)	18%
Low	30	(+20%)	8%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	2	1	1	0	2	0	3	2	0
to Sell	0	1	1	3	1	1	1	4	1

Institutional Decisions

	3Q2013	4Q2013	1Q2014
to Buy	153	140	130
to Sell	154	149	145
Hld's(000)	65173	63710	62758

% TOT. RETURN 6/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	7.3	25.1
3 yr.	61.3	52.6
5 yr.	110.7	168.7

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
1.67	1.93	1.97	2.16	2.28	2.38	2.78	3.08	3.23	3.61	3.71	3.93	4.21	4.10	4.32	4.32	*4.60*	*4.90*	Revenues per sh	*5.60*
.49	.58	.61	.69	.76	.77	.87	.97	1.01	1.10	1.14	1.29	1.42	1.45	1.51	1.82	*1.95*	*2.00*	"Cash Flow" per sh	*2.90*
.32	.33	.37	.41	.43	.46	.51	.57	.56	.57	.58	.62	.72	.83	.87	1.16	*1.20*	*1.30*	Earnings per sh A	*1.55*
.20	.22	.23	.24	.26	.28	.29	.32	.35	.38	.41	.44	.47	.50	.54	.58	*.63*	*.69*	Div'd Decl'd per sh B■	*.90*
.65	.72	.93	.87	.96	1.06	1.23	1.47	1.64	1.43	1.58	1.66	1.89	1.90	1.98	1.73	*1.90*	*1.95*	Cap'l Spending per sh	*1.95*
2.57	2.74	3.08	3.32	3.49	4.27	4.71	5.04	5.57	5.85	6.26	6.50	6.81	7.21	7.90	8.63	*8.85*	*9.05*	Book Value per sh	*11.00*
90.25	133.50	139.75	142.47	141.49	154.31	158.97	161.21	165.41	166.75	169.21	170.61	172.46	173.60	175.43	177.93	*174.00*	*171.00*	Common Shs Outst'g C	*170.00*
22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	24.9	23.1	21.1	21.3	21.9	21.2	*Bold figures are*		Avg Ann'l P/E Ratio	*24.0*
1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	1.54	1.34	1.34	1.39	1.19	*Value Line*		Relative P/E Ratio	*1.50*
2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.1%	3.1%	2.8%	2.8%	2.4%	*estimates*		Avg Ann'l Div'd Yield	*2.4%*

CAPITAL STRUCTURE as of 3/31/14
Total Debt $1623.7 mill. Due in 5 Yrs $324.6 mill.
LT Debt $1498.0 mill. LT Interest $70.0 mill.
(Total interest coverage: 3.9x) (49% of Cap'l)

Pension Assets-12/13 $232.4 mill. Oblig. $281.2 mill.

Pfd Stock None
Common Stock 177,060,756 shares as of 4/23/14

MARKET CAP: $4.4 billion (Mid Cap)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		17-19
442.0	496.8	533.5	602.5	627.0	670.5	726.1	712.0	757.8	768.6	*800*	*835*	Revenues ($mill)	*950*
80.0	91.2	92.0	95.0	97.9	104.4	124.0	144.8	153.1	205.0	*210*	*225*	Net Profit ($mill)	*265*
39.4%	38.4%	36.6%	36.9%	39.7%	39.4%	39.2%	32.9%	39.0%	10.0%	*30.0%*	*30.0%*	Income Tax Rate	*30.0%*
--	--	--	--	--	--	--	--	2.9%	1.1%	*2.0%*	*2.0%*	AFUDC % to Net Profit	*2.0%*
50.0%	52.0%	51.6%	55.4%	54.1%	55.6%	56.6%	52.7%	52.7%	48.9%	*51.0%*	*51.0%*	Long-Term Debt Ratio	*52.0%*
50.0%	48.0%	48.4%	44.6%	45.9%	44.4%	43.4%	47.3%	47.3%	51.1%	*49.0%*	*49.0%*	Common Equity Ratio	*48.0%*
1497.3	1690.4	1904.4	2191.4	2306.6	2495.5	2706.2	2646.6	2929.7	3003.6	*3150*	*3325*	Total Capital ($mill)	*3950*
2069.8	2280.0	2506.0	2792.8	2997.4	3227.3	3469.3	3612.9	3936.2	4167.3	*4300*	*4400*	Net Plant ($mill)	*5000*
6.7%	6.9%	6.4%	5.9%	5.7%	5.6%	5.9%	6.9%	6.5%	8.0%	*8.5%*	*9.0%*	Return on Total Cap'l	*.5%*
10.7%	11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.6%	11.0%	13.4%	*13.5%*	*14.5%*	Return on Shr. Equity	*14.0%*
10.7%	11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.6%	11.0%	13.4%	*13.5%*	*14.5%*	Return on Com Equity	*14.0%*
4.6%	4.9%	3.7%	3.2%	2.8%	2.7%	3.7%	4.6%	4.3%	6.7%	*6.5%*	*7.0%*	Retained to Com Eq	*6.0%*
57%	56%	63%	67%	70%	72%	65%	60%	61%	50%	*53%*	*53%*	All Div'ds to Net Prof	*58%*

CURRENT POSITION ($MILL.)	2012	2013	3/31/14
Cash Assets	5.5	5.1	17.5
Receivables	92.9	95.4	89.9
Inventory (AvgCst)	11.8	11.4	11.8
Other	150.7	59.8	94.4
Current Assets	260.9	171.7	213.6
Accts Payable	55.5	65.8	31.5
Debt Due	125.4	123.0	125.7
Other	93.3	78.1	94.0
Current Liab.	274.2	266.9	251.2
Fix. Chg. Cov.	413%	368%	389%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	6.5%	4.0%	*4.5%*
"Cash Flow"	8.0%	8.0%	*10.0%*
Earnings	8.5%	11.0%	*8.5%*
Dividends	7.5%	7.0%	*9.0%*
Book Value	8.0%	6.0%	*5.5%*

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

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

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

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

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

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

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

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

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

James A. Flood *July 18, 2014*

(A) Diluted egs. Excl. nonrec. gains (losses): '99, (9¢); '00, 2¢; '01, 2¢; '02, 4¢; '03, 3¢; '12, 18¢. Excl. gain from disc. operations: '12, 7¢; '13, 9¢. May not sum due to rounding. Next earnings report due early August.
(B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount).
(C) In millions, adjusted for stock splits.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	95

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CALIFORNIA WATER NYSE-CWT

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

TIMELINESS 3 Raised 6/20/14
SAFETY 3 Lowered 7/27/07
TECHNICAL 2 Raised 7/4/14
BETA .70 (1.00 = Market)

High:	15.7	19.0	21.1	22.9	22.7	23.3	24.1	19.6	19.4	19.3	23.4	24.8	
Low:	11.6	13.0	15.6	16.4	17.1	13.8	16.7	16.9	16.7	16.8	18.4	20.3	

Target Price Range 2017 | 2018 | 2019

2017-19 PROJECTIONS

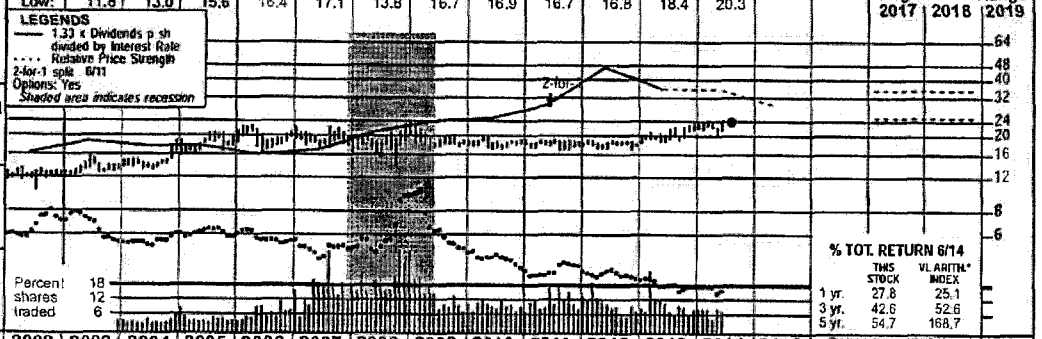
	Price	Gain	Ann'l Total Return
High	35	(+45%)	12%
Low	25	(+5%)	4%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	1	0	0	0	0	0	0	0
Options	1	0	0	0	0	0	0	1	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2013	4Q2013	1Q2014
to Buy	60	74	64
to Sell	51	52	58
Hld's(000)	27841	27908	29389



% TOT. RETURN 6/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	27.8	25.1
3 yr.	42.6	52.6
5 yr.	54.7	168.7

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
7.38	7.98	8.08	8.13	8.67	8.18	8.59	8.72	8.10	8.88	9.90	10.62	11.05	12.00	13.34	12.23	*12.60*	*13.25*	Revenues per sh	*16.50*
1.30	1.37	1.26	1.10	1.32	1.26	1.42	1.52	1.36	1.56	1.86	1.93	1.93	2.07	2.32	2.21	*2.20*	*2.40*	"Cash Flow" per sh	*3.00*
.73	.77	.66	.47	.63	.61	.73	.74	.67	.75	.95	.98	.91	.86	1.02	1.02	*1.00*	*1.20*	Earnings per sh A	*1.50*
.54	.54	.55	.56	.56	.56	.57	.57	.58	.58	.59	.59	.60	.62	.63	.64	*.65*	*.68*	Div'd Decl'd per sh B ■	*.94*
1.37	1.72	1.23	2.04	2.91	2.19	1.87	2.01	2.14	1.84	2.41	2.66	2.97	2.83	3.04	2.58	*2.65*	*3.35*	Cap'l Spending per sh	*3.20*
6.69	6.71	6.45	6.48	6.56	7.22	7.83	7.90	9.07	9.25	9.72	10.13	10.45	10.76	11.28	12.54	*12.90*	*13.30*	Book Value per sh C	*15.10*
25.24	25.87	30.29	30.36	30.36	33.86	36.73	36.78	41.31	41.33	41.45	41.53	41.67	41.82	41.98	47.74	*48.00*	*48.00*	Common Shs Outst'g D	*50.00*
17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.2	26.1	19.8	19.7	20.3	21.3	17.9	20.1	*Bold figures are*		Avg Ann'l P/E Ratio	*20.0*
.93	1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	1.39	1.19	1.31	1.29	1.34	1.14	1.13	*Value Line*		Relative P/E Ratio	*1.25*
4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%	3.0%	3.1%	3.1%	3.2%	3.4%	3.5%	3.1%	*estimates*		Avg Ann'l Div'd Yield	*3.1%*
						315.6	320.7	334.7	367.1	410.3	449.4	460.4	501.8	560.0	584.1	*605*	*635*	Revenues ($mill) E	*825*
						26.0	27.2	25.6	31.2	39.8	40.6	37.7	36.1	42.6	47.3	*48.0*	*58.0*	Net Profit ($mill)	*75.0*
						39.6%	42.4%	37.4%	39.9%	37.7%	40.3%	39.5%	40.5%	37.5%	30.3%	*34.5%*	*38.0%*	Income Tax Rate	*39.0%*
						3.2%	3.3%	10.6%	8.3%	8.6%	7.6%	4.2%	7.6%	8.0%	4.3%	*7.0%*	*8.5%*	AFUDC % to Net Profit	*7.0%*
						46.6%	46.3%	43.5%	42.9%	41.6%	47.1%	52.4%	51.7%	47.8%	41.6%	*43.0%*	*45.5%*	Long-Term Debt Ratio	*49.0%*
						50.8%	51.1%	55.9%	56.6%	58.4%	52.9%	47.6%	48.3%	52.2%	58.4%	*57.0%*	*54.5%*	Common Equity Ratio	*51.0%*
						565.9	568.1	670.1	674.9	690.4	794.9	914.7	931.5	908.2	1024.9	*1030*	*1185*	Total Capital ($mill)	*1435*
						800.3	862.7	941.5	1010.2	1112.4	1198.1	1294.3	1381.1	1457.1	1515.8	*1570*	*1600*	Net Plant ($mill)	*1850*
						6.1%	6.3%	5.2%	5.9%	7.1%	6.5%	5.5%	5.5%	6.3%	6.0%	*6.0%*	*7.5%*	Return on Total Cap'l	*6.5%*
						8.9%	9.3%	6.8%	8.1%	9.9%	9.6%	8.6%	8.0%	9.0%	7.9%	*8.0%*	*9.0%*	Return on Shr. Equity	*10.0%*
						9.0%	9.3%	6.8%	8.1%	9.9%	9.6%	8.6%	8.0%	9.0%	7.9%	*8.0%*	*9.0%*	Return on Com Equity	*10.0%*
						2.1%	2.1%	1.0%	1.8%	3.8%	3.8%	3.0%	2.3%	3.4%	3.4%	*3.0%*	*5.0%*	Retained to Com Eq	*4.0%*
						77%	78%	86%	77%	61%	60%	66%	71%	62%	56%	*65%*	*57%*	All Div'ds to Net Prof	*63%*

CAPITAL STRUCTURE as of 3/31/14
Total Debt $497.6 mill. Due in 5 Yrs $89.3 mill.
LT Debt $425.7 mill. LT Interest $28.0 mill.
(LT interest earned: 3.4x; total int. cov.: 3.2x)
(42% of Cap'l)
Pension Assets-12/13 $266.2 mill.
Oblig. $383.2 mill.
Pfd Stock None

Common Stock 47,803,849 shs.
as of 4/27/14

MARKET CAP: $1.1 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2012	2013	3/31/14
Cash Assets	38.8	27.5	21.7
Other	107.8	112.0	108.4
Current Assets	146.6	139.5	130.1
Accts Payable	46.8	55.1	50.7
Debt Due	136.3	54.7	71.9
Other	59.7	56.8	69.6
Current Liab.	242.8	166.6	192.2
Fix. Chg. Cov.	296%	301%	299%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	4.0%	7.0%	*4.5%*
"Cash Flow"	6.0%	6.5%	*5.5%*
Earnings	5.5%	4.0%	*7.5%*
Dividends	1.0%	1.5%	*7.0%*
Book Value	5.5%	4.5%	*4.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.)E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	98.1	131.4	169.3	103.0	501.8
2012	116.8	143.6	178.1	121.5	560.0
2013	111.4	154.6	184.4	133.7	584.1
2014	110.5	*155*	*195*	*144.5*	*605*
2015	*125*	*160*	*200*	*150*	*635*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.03	.29	.50	.04	.86
2012	.03	.31	.56	.12	1.02
2013	.01	.28	.61	.12	1.02
2014	d.11	*.27*	*.66*	*.18*	*1.00*
2015	*.05*	*.30*	*.67*	*.18*	*1.20*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.149	.149	.149	.149	.60
2011	.154	.154	.154	.154	.62
2012	.1575	.1575	.1575	.1575	.63
2013	.16	.16	.16	.16	.64
2014	.1625	.1625			

BUSINESS: California Water Service Group provides regulated and nonregulated water service to roughly 471,900 customers in 83 communities in California, Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '13: residential, 70%; business, 19%; public authorities, 5%; industrial, 5%; other 1%. '13 reported depreciation rate: 3.8%. Has 1,131 employees. President, Chairman, and Chief Executive Officer: Peter C. Nelson. Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwatergroup.com.

State regulators still have not ruled on California Water's petition for higher rates. In early July 2012, the utility filed a rate case with the California Public Utility Commission (CPUC) seeking increases in customers' bills of $92.7 million, $17.2 million and $16.9 million, in 2014, 2015, and 2016, respectively. Due to the size of the hikes, California Water worked with six different entities affected by the hikes, including the Office of Ratepayers Advocates. After lengthy negotiations, an agreement was reached with all parties involved in the discussions. According to the deal, annual rates would be raised by $45 million, $10 million, and $10 million over the 2014-2016 period. An administrative law judge has also recently signed off on the settlement.

The utility's fate continues to be in hands of regulators. Despite all of California Water's efforts, the CPUC has the final authority and is not bound by the recommendations mentioned above. Indeed, we are surprised by the delay in the final ruling.

Meanwhile, the first quarter was a major disappointment. Without the full rate relief, California Water lost $0.11 a share in the March period. And, while the increased costs should eventually be recovered, the time frame appears to now be 12 to 24 months, instead of collected over the remainder of 2014.

We are slashing our earnings estimate for 2014. Due to the CPUC's delay, we now expect the company's share earnings to only reach $1.00, $0.20 less than our previous number. We are also reducing our forecast for 2015 by $0.10, to $1.20.

Severe drought conditions in California should not have a near-term impact on the company. That's because mechanisms are in place that permit any increased costs related to the water shortage to be passed along to customers.

California Water shares hold modest appeal at this juncture. Investors might want to steer clear of this stock until the CPUC issues a final ruling. Moreover, the company's recent annual dividend increase of 1.6% was extremely unimpressive. For those insisting on owning a water utility, there are much better selections available in the group, in our opinion.

James A. Flood *July 18, 2014*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (4¢); '01, 2¢; '02, 4¢; '11, 4¢. Next earnings report due mid-August. (B) Dividends historically paid in late Feb., May, Aug., and Nov.
■ Div'd reinvestment plan available.
(C) Incl. intangible assets. In '13: $18.2 mill., $0.38/sh.
(D) In millions, adjusted for splits.
(E) Excludes non-reg. rev.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	90

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CONNECTICUT WATER NDQ-CTWS

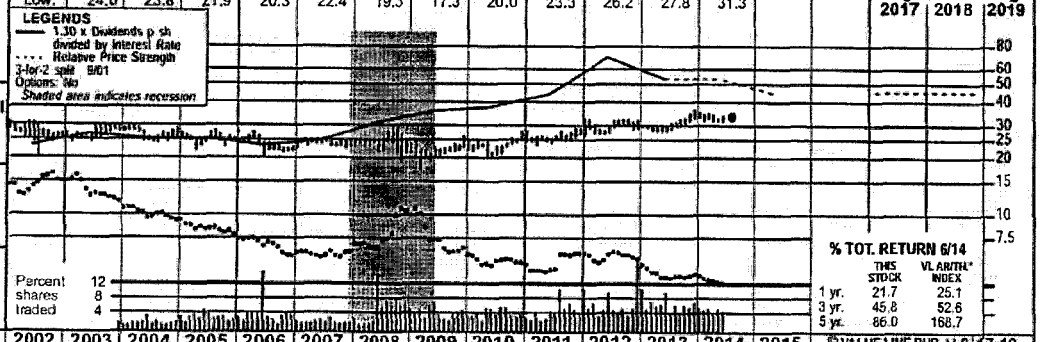
RECENT PRICE 33.21 | P/E RATIO 19.0 (Trailing: 19.7 / Median: 22.0) | RELATIVE P/E RATIO 1.01 | DIV'D YLD 3.1% | VALUE LINE

TIMELINESS 2 Raised 12/13/13
SAFETY 3 New 1/18/13
TECHNICAL 3 Lowered 3/14/14
BETA .65 (1.00 = Market)

High:	30.4	29.8	28.2	27.7	25.6	29.0	26.4	27.9	29.1	32.8	36.4	35.5
Low:	24.0	23.8	21.9	20.3	22.4	19.3	17.3	20.0	23.3	26.2	27.8	31.3

Target Price Range 2017 | 2018 | 2019

LEGENDS
— 1.30 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 8/01
Options: No
Shaded area indicates recession



2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+35%)	11%
Low	30	(-10%)	1%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	2	0	0	0	0	0
to Sell	0	0	0	2	0	0	0	0	0

Institutional Decisions

	3Q2013	4Q2013	1Q2014
to Buy	42	41	44
to Sell	31	35	27
Hld's(000)	4509	4350	4324

Percent shares traded 12 8 4

% TOT. RETURN 6/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	21.7	25.1
3 yr.	45.8	52.6
5 yr.	86.0	168.7

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
5.58	5.87	5.70	5.93	5.77	5.91	6.04	5.81	5.68	7.05	7.24	6.93	7.65	7.93	9.47	8.29	*8.45*	*8.70*	Revenues per sh	*11.65*
1.59	1.65	1.73	1.78	1.78	1.89	1.91	1.62	1.52	1.90	1.95	1.93	2.04	2.11	2.64	2.63	*2.75*	*2.85*	"Cash Flow" per sh	*3.00*
1.02	1.03	1.09	1.13	1.12	1.15	1.16	.88	.81	1.05	1.11	1.19	1.13	1.13	1.53	1.66	*1.75*	*1.85*	Earnings per sh A	*1.95*
.78	.79	.79	.80	.81	.83	.84	.85	.86	.87	.88	.90	.92	.94	.96	.98	*1.01*	*1.04*	Div'd Decl'd per sh B■	*1.16*
1.12	1.42	1.43	1.86	1.98	1.49	1.58	1.96	1.96	2.24	2.44	3.26	3.06	2.61	2.79	3.02	*2.95*	*2.90*	Cap'l Spending per sh	*2.75*
8.52	8.61	8.92	9.25	10.06	10.46	10.94	11.52	11.60	11.95	12.23	12.67	13.05	13.50	20.95	17.92	*18.95*	*20.85*	Book Value per sh D	*23.75*
6.60	7.26	7.26	7.65	7.94	7.97	8.04	8.17	8.27	8.38	8.46	8.57	8.68	8.76	8.85	11.04	*11.25*	*11.50*	Common Shs Outst'g C	*12.00*
15.5	18.2	18.2	21.5	24.3	23.5	22.9	28.6	29.0	23.0	22.2	18.4	20.7	23.0	19.4	18.4	*Bold figures are*		Avg Ann'l P/E Ratio	*20.0*
.81	1.04	1.18	1.10	1.33	1.34	1.21	1.52	1.57	1.22	1.34	1.23	1.32	1.44	1.23	1.03	*Value Line*		Relative P/E Ratio	*1.25*
4.9%	4.2%	4.0%	3.3%	3.0%	3.0%	3.1%	3.4%	3.6%	3.6%	3.6%	4.1%	3.9%	3.6%	3.2%	3.2%	*estimates*		Avg Ann'l Div'd Yield	*3.1%*

CAPITAL STRUCTURE as of 3/31/14
Total Debt $178.5 mill. Due in 5 Yrs $18.6 mill.
LT Debt $174.4 mill. LT Interest $7.2 mill.
(Total interest coverage: 4.4x)
(47% of Cap'l)
Leases, Uncapitalized: Annual rentals $.1 mill.
Pension Assets $56.8 mill.
Oblig. $64.2 mill.

Pfd Stock $0.8 mill. Pfd Divd NMF

Common Stock 11,080,435 shs.
as of 4/30/14
MARKET CAP: $375 million (Small Cap)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		17-19
48.5	47.5	46.9	59.0	61.3	59.4	66.4	69.4	83.8	91.5	*95.0*	*100*	Revenues ($mill)	*140*
9.4	7.2	6.7	8.8	9.4	10.2	9.8	9.9	13.6	18.3	*19.5*	*21.0*	Net Profit ($mill)	*23.5*
22.9%	--	23.5%	32.4%	27.2%	19.5%	35.2%	41.3%	32.0%	28.0%	*30.0%*	*31.0%*	Income Tax Rate	*33.0%*
--	--	--	--	1.7%	--	--	--	1.7%	2.0%	*2.0%*	*2.0%*	AFUDC % to Net Profit	*2.0%*
42.8%	44.9%	44.4%	47.8%	46.9%	50.6%	49.5%	53.2%	49.0%	46.9%	*45.5%*	*43.5%*	Long-Term Debt Ratio	*43.0%*
56.7%	54.6%	55.1%	51.8%	52.7%	49.1%	50.2%	46.5%	50.8%	52.9%	*54.5%*	*56.5%*	Common Equity Ratio	*57.0%*
155.1	172.3	174.1	193.2	196.5	221.3	225.6	254.2	364.6	373.6	*390*	*420*	Total Capital ($mill)	*500*
246.1	247.7	268.1	284.3	302.3	325.2	344.2	362.4	447.9	471.9	*490*	*490*	Net Plant ($mill)	*575*
7.0%	5.0%	4.9%	5.5%	5.9%	5.5%	5.4%	4.9%	4.8%	5.9%	*6.0%*	*6.0%*	Return on Total Cap'l	*6.0%*
10.6%	7.5%	6.9%	8.7%	9.0%	9.3%	8.6%	8.3%	7.3%	9.2%	*10.0%*	*9.0%*	Return on Shr. Equity	*8.5%*
10.6%	7.6%	7.0%	8.7%	9.1%	9.4%	8.7%	8.3%	7.3%	9.2%	*10.0%*	*9.0%*	Return on Com Equity	*8.5%*
3.1%	.3%	NMF	1.6%	1.9%	2.3%	1.6%	1.4%	2.8%	3.8%	*4.0%*	*3.5%*	Retained to Com Eq	*3.5%*
71%	95%	105%	82%	79%	76%	81%	83%	62%	59%	*58%*	*58%*	All Div'ds to Net Prof	*59%*

CURRENT POSITION ($MILL.)	2012	2013	3/31/14
Cash Assets	13.2	18.4	15.3
Accounts Receivable	11.5	12.3	11.4
Other	11.7	16.2	17.1
Current Assets	36.4	46.9	43.8
Accts Payable	10.0	10.8	6.5
Debt Due	3.0	4.1	4.1
Other	2.9	7.8	9.9
Current Liab.	15.9	22.7	20.5
Fix. Chg. Cov.	408%	375%	375%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	4.0%	5.0%	*5.5%*
"Cash Flow"	3.0%	6.5%	*3.5%*
Earnings	2.5%	8.0%	*5.0%*
Dividends	1.5%	2.0%	*3.0%*
Book Value	6.0%	8.0%	*5.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	16.0	17.4	20.6	15.4	69.4
2012	18.5	21.3	24.5	19.5	83.8
2013	19.7	22.6	27.6	21.6	91.5
2014	20.3	*23.7*	*29.0*	*22.0*	*95.0*
2015	*22.0*	*25.0*	*30.0*	*23.0*	*100*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2011	.26	.37	.39	.11	1.13
2012	.22	.47	.67	.17	1.53
2013	.24	.39	.86	.17	1.66
2014	.27	*.47*	*.76*	*.25*	*1.75*
2015	*.32*	*.48*	*.78*	*.27*	*1.85*

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.226	.228	.233	.233	.922
2011	.233	.233	.238	.238	.942
2012	.238	.238	.2425	.2425	.962
2013	.2425	.2425	.2475	.2475	.98
2014	.2475	.2475			

BUSINESS: Connecticut Water Service, Inc. is a non-operating holding company, whose income is derived from earnings of its wholly-owned subsidiary companies (regulated water utilities). Its largest subsidiary, Connecticut Water, accounted for about 85% of the holding company's net income in 2012, and provides water services to 400,000 people in 55 towns throughout Connecticut and Maine. Acquired The Maine Water Co., 1/12; Biddeford and Saco Water, 12/12. Inc.: CT. Has about 260 employees. Chairman/President/CEO: Eric W. Thornburg. Officers and directors own 2.2% of the common stock; BlackRock, Inc. 6.7%; The Vanguard Group, 5.3% (4/13 proxy). Address: 93 West Main Street, Clinton, CT 06413. Telephone: (860) 669-8636. Internet: www.ctwater.com.

Connecticut Water Services continues to benefit from a past regulatory ruling. Last year, the utility agreed to lower customer bills and not seek higher rates before 2015 in order to keep the benefits resulting from a tax refund. The settlement appeared to have worked out for both Connecticut Water and its customers. Indeed, in 2013, the company was able to break out of a five-year run of sluggish profits.

A more constructive regulatory environment could be a major positive. Connecticut's regulatory climate is rated as below average by *Value Line*. (This includes rulings on both electric and water utilities.) Should the Nutmeg state continue the trend of working with utilities, Connecticut Water's long-term prospects would be enhanced.

Earnings should show steady, mid-single-digit gains over this year and next. In Maine, which is responsible for 20% of total revenues, the company has merged its two water utilities. This should eliminate regulatory redundancies and help lower costs. Moreover, as the company continues to expand, it will be earning a return on a larger asset base. All told, we expect share net to increase by over 5%, in both 2014 and 2015.

Long-term dividend growth will probably be below the industry average. Connecticut Water's dividend history over the past five and 10 years has been not been nearly as robust as its peers. As profits continue to move higher, though, there should be more room for payout hikes. Investors should take note of the next board of directors' meeting in August, when the annual dividend increase will be announced. We think the company will finally break the five-year pattern of only increasing the dividend by $0.02 a share.

Connecticut Water is expanding its customer base. The company is currently working on two projects aimed at increasing revenues. Pipelines are being extended so that the town of Mansfield will become a new customer. A deal has also been reached to supply water to the University of Connecticut's main campus in Storrs.

These shares are timely. The stock has underperformed of late, making it somewhat appealing on a relative basis.

James A. Flood *July 18, 2014*

(A) Diluted earnings. Next earnings report due late July. Quarterly earnings do no add in '12 due to rounding.
(B) Dividends historically paid in mid-March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for split.
(D) Includes intangibles. In '13: $31.7 million/$2.87 a share.

Company's Financial Strength	B+
Stock's Price Stability	90
Price Growth Persistence	40
Earnings Predictability	85

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MIDDLESEX WATER NDQ-MSEX

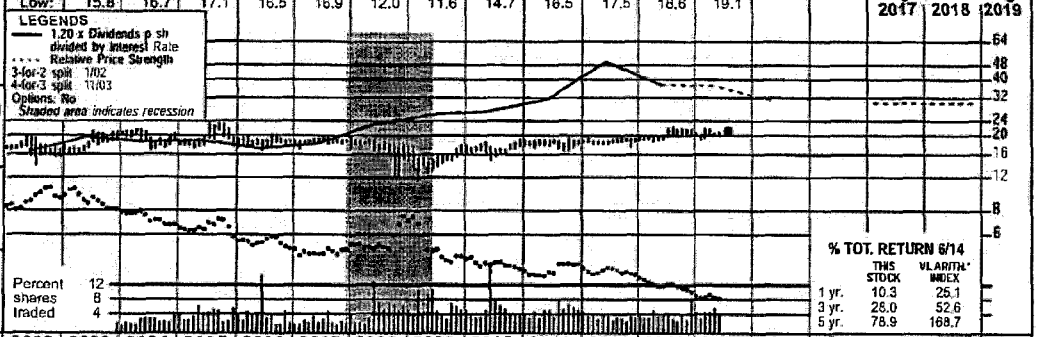
RECENT PRICE 21.14 | P/E RATIO 19.2 (Trailing: 20.5 / Median: 21.0) | RELATIVE P/E RATIO 1.02 | DIV'D YLD 3.6% | VALUE LINE

TIMELINESS 3 Lowered 4/11/14
SAFETY 2 New 10/21/11
TECHNICAL 3 Lowered 7/18/14
BETA .70 (1.00 = Market)

High:	21.2	21.8	23.5	20.5	20.2	19.8	17.9	19.3	19.4	19.6	22.5	22.1
Low:	15.8	16.7	17.1	16.5	16.9	12.0	11.6	14.7	16.5	17.5	18.6	19.1

Target Price Range 2017 | 2018 | 2019

LEGENDS
— 1.20 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 1/02
4-for-3 split 11/03
Options: No
Shaded area indicates recession



2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+40%)	12%
Low	20	(-5%)	3%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	1	0	0	0	1	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	2	0	0	0	2	0	0	0	0

Institutional Decisions

	3Q2013	4Q2013	1Q2014
to Buy	42	43	37
to Sell	29	32	34
Hld's(000)	6608	6384	6432

Percent shares traded 12 8 4

% TOT. RETURN 6/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	10.3	25.1
3 yr.	26.0	52.6
5 yr.	78.9	168.7

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
4.39	5.35	5.39	5.87	5.98	6.12	6.25	6.44	6.16	6.50	6.79	6.75	6.60	6.50	6.98	7.19	**7.75**	**8.00**	Revenues per sh	**9.35**
1.02	1.19	.99	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.46	1.56	1.72	**1.80**	**1.85**	"Cash Flow" per sh	**2.35**
.71	.76	.51	.66	.73	.61	.73	.71	.82	.87	.89	.72	.96	.84	.90	1.03	**1.10**	**1.15**	Earnings per sh A	**1.20**
.58	.60	.61	.62	.63	.65	.66	.67	.68	.69	.70	.71	.72	.73	.74	.75	**.76**	**.77**	Div'd Decl'd per sh B■	**.83**
2.68	2.33	1.32	1.25	1.59	1.87	2.54	2.18	2.31	1.66	2.12	1.49	1.90	1.50	1.36	1.26	**1.95**	**2.00**	Cap'l Spending per sh	**2.00**
6.60	6.95	6.98	7.11	7.39	7.60	8.02	8.26	9.52	10.05	10.03	10.33	11.13	11.27	11.48	11.82	**12.10**	**12.60**	Book Value per sh D	**13.20**
9.82	10.00	10.11	10.17	10.36	10.48	11.36	11.58	13.17	13.25	13.40	13.52	15.57	15.70	15.82	15.96	**16.10**	**16.25**	Common Shs Outst'g C	**17.00**
15.2	17.6	28.7	24.6	23.5	30.0	26.4	27.4	22.7	21.6	19.8	21.0	17.8	21.7	20.6	19.7	*Bold figures are*		Avg Ann'l P/E Ratio	**22.0**
.79	1.00	1.87	1.26	1.28	1.71	1.39	1.46	1.23	1.15	1.19	1.40	1.13	1.36	1.32	1.11	*Value Line*		Relative P/E Ratio	**1.40**
5.4%	4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	4.0%	4.0%	3.7%	*estimates*		Avg Ann'l Div'd Yield	**3.3%**

CAPITAL STRUCTURE as of 3/31/14
Total Debt $161.9 mill. Due in 5 Yrs $56.4 mill.
LT Debt $129.0 mill. LT Interest $5.0 mill.
(LT interest earned: 6.0x)
(40% of Cap'l)

Pension Assets-12/13 $46.4 mill.
Oblig. $56.0 mill.
Pfd Stock $2.9 mill. Pfd Div'd: $.1 mill.

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

MARKET CAP: $350 million (Small Cap)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		17-19
71.0	74.6	81.1	86.1	91.0	91.2	102.7	102.1	110.4	114.8	**125**	**130**	Revenues ($mill)	**155**
8.4	8.5	10.0	11.8	12.2	10.0	14.3	13.4	14.4	16.6	**17.0**	**18.0**	Net Profit ($mill)	**20.5**
31.1%	27.6%	33.4%	32.6%	33.2%	34.1%	32.1%	32.7%	33.9%	34.1%	**34.0%**	**33.0%**	Income Tax Rate	**34.0%**
--	--	--	--	--	--	6.8%	6.1%	3.4%	1.9%	**1.0%**	**1.0%**	AFUDC % to Net Profit	**2.0%**
53.8%	55.3%	49.5%	49.0%	45.6%	46.6%	43.1%	42.3%	41.5%	40.4%	**42.5%**	**43.5%**	Long-Term Debt Ratio	**43.5%**
42.5%	41.3%	47.5%	49.6%	51.8%	52.1%	55.8%	56.6%	57.4%	58.7%	**57.0%**	**56.0%**	Common Equity Ratio	**56.0%**
214.5	231.7	264.0	268.8	259.4	267.9	310.5	312.5	316.5	321.4	**340**	**365**	Total Capital ($mill)	**400**
262.9	288.0	317.1	333.9	366.3	376.5	405.9	422.2	435.2	446.5	**455**	**450**	Net Plant ($mill)	**500**
5.1%	5.0%	5.1%	5.6%	5.8%	5.0%	5.7%	5.2%	5.4%	5.9%	**6.0%**	**6.0%**	Return on Total Cap'l	**6.5%**
8.5%	8.2%	7.5%	8.6%	8.6%	7.0%	8.1%	7.5%	7.8%	8.7%	**8.5%**	**8.5%**	Return on Shr. Equity	**9.0%**
9.0%	8.6%	7.8%	8.7%	8.9%	7.0%	8.2%	7.5%	7.8%	8.7%	**8.5%**	**8.5%**	Return on Com Equity	**9.0%**
.9%	.6%	1.3%	1.8%	2.0%	.1%	2.1%	1.0%	1.4%	2.4%	**2.5%**	**2.5%**	Retained to Com Eq	**3.0%**
90%	94%	84%	79%	78%	98%	75%	87%	83%	73%	**72%**	**70%**	All Div'ds to Net Prof	**69%**

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

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	1.5%	1.0%	5.0%
"Cash Flow"	3.0%	1.5%	7.0%
Earnings	3.5%	1.5%	4.5%
Dividends	1.5%	1.5%	2.0%
Book Value	4.5%	3.0%	2.5%

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

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

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

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

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

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

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

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

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

James A. Flood *July 18, 2014*

(A) Diluted earnings. May not sum due to rounding. Next earnings report due mid-August.
(B) Dividends historically paid in mid-Feb., May, Aug., and November. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	B++
Stock's Price Stability	90
Price Growth Persistence	40
Earnings Predictability	80

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SJW CORP. NYSE-SJW

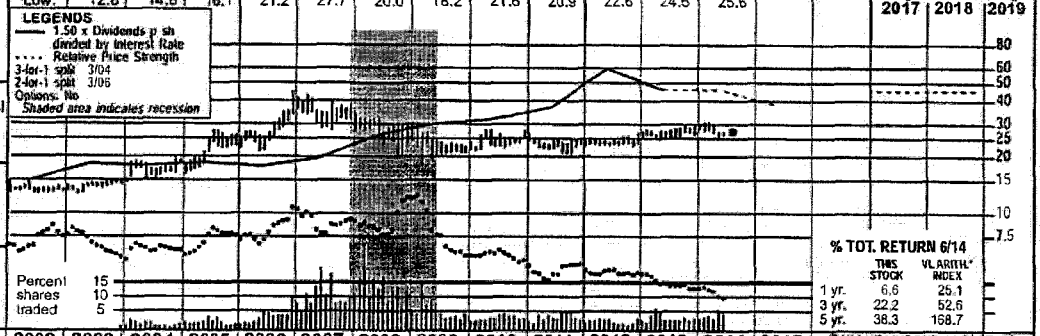
RECENT PRICE	27.30	P/E RATIO	21.8 (Trailing: 25.3 / Median: 24.0)	RELATIVE P/E RATIO	1.16	DIV'D YLD	2.8%	VALUE LINE

TIMELINESS 3 Raised 6/20/14
SAFETY 3 New 4/22/11
TECHNICAL 2 Raised 7/4/14
BETA .90 (1.00 = Market)

High:	15.0	19.6	27.8	45.3	43.0	35.1	30.4	28.2	26.8	26.9	30.1	30.9
Low:	12.6	14.8	16.1	21.2	27.7	20.0	18.2	21.6	20.9	22.6	24.5	25.6

Target Price Range 2017 | 2018 | 2019

LEGENDS
— 1.50 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-1 split 3/04
2-for-1 split 3/06
Options: No
Shaded area indicates recession



2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+65%)	16%
Low	30	(+10%)	6%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	1	0	0	0	0	0
Options	1	0	0	1	1	0	0	0	0
to Sell	1	0	0	1	1	0	0	0	0

Institutional Decisions

	3Q2013	4Q2013	1Q2014
to Buy	43	43	32
to Sell	29	30	39
Hld's(000)	10697	10770	10986

Percent shares traded 15 10 5

% TOT. RETURN 6/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	6.6	25.1
3 yr.	22.2	52.6
5 yr.	38.3	168.7

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
5.58	6.40	6.74	7.45	7.97	8.20	9.14	9.86	10.35	11.25	12.12	11.68	11.62	12.85	14.01	13.73	14.30	14.55	Revenues per sh	16.75
1.26	1.43	1.23	1.49	1.55	1.75	1.89	2.21	2.38	2.30	2.44	2.21	2.38	2.80	2.97	2.90	3.40	3.45	"Cash Flow" per sh	3.85
.76	.87	.58	.77	.78	.91	.87	1.12	1.19	1.04	1.08	.81	.84	1.11	1.16	1.12	1.25	1.40	Earnings per sh A	1.70
.39	.40	.41	.43	.46	.49	.51	.53	.57	.61	.65	.66	.68	.69	.71	.73	.75	.77	Div'd Decl'd per sh B■	.94
1.81	1.77	1.89	2.63	2.06	3.41	2.31	2.83	3.87	6.52	3.79	3.17	5.65	3.75	5.67	4.68	5.20	5.10	Cap'l Spending per sh	4.80
7.53	7.88	7.90	8.17	8.40	9.11	10.11	10.72	12.48	12.90	13.99	13.66	13.75	14.20	14.71	15.92	17.05	18.20	Book Value per sh	21.10
19.01	18.27	18.27	18.27	18.27	18.27	18.27	18.27	18.28	18.36	18.18	18.50	18.55	18.59	18.67	20.17	21.00	22.00	Common Shs Outst'g C	23.00
13.1	15.5	33.1	18.5	17.3	15.4	19.6	19.7	23.5	33.4	26.2	28.7	29.1	21.2	20.4	24.3	Bold figures are		Avg Ann'l P/E Ratio	22.0
.68	.88	2.15	.95	.94	.88	1.04	1.06	1.27	1.77	1.58	1.91	1.85	1.33	1.30	1.36	Value Line		Relative P/E Ratio	1.40
3.9%	3.0%	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	1.7%	2.3%	2.8%	2.8%	2.9%	3.0%	2.7%	estimates		Avg Ann'l Div'd Yield	2.5%

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

Leases, Uncapitalized: Annual rentals $5.5 mill.

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

Pfd Stock None.

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

MARKET CAP: $550 million (Small Cap)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		17-19
166.9	180.1	189.2	206.6	220.3	216.1	215.6	239.0	261.5	276.9	300	320	Revenues ($mill)	385
16.0	20.7	22.2	19.3	20.2	15.2	15.8	20.9	22.3	23.5	26.0	31.0	Net Profit ($mill)	39.0
42.1%	41.6%	40.8%	39.4%	39.5%	40.4%	38.8%	41.1%	41.1%	38.7%	41.0%	40.0%	Income Tax Rate	40.0%
2.1%	1.6%	2.1%	2.7%	2.3%	2.0%	--	--	2.0%	--	1.0%	1.5%	AFUDC % to Net Profit	3.0%
43.7%	42.6%	41.8%	47.7%	46.0%	49.4%	53.7%	56.6%	55.0%	51.1%	51.0%	52.0%	Long-Term Debt Ratio	53.5%
56.3%	57.4%	58.2%	52.3%	54.0%	50.6%	46.3%	43.4%	45.0%	48.9%	49.0%	48.0%	Common Equity Ratio	46.5%
328.3	341.2	391.8	453.2	470.9	499.6	550.7	607.9	610.2	656.2	730	835	Total Capital ($mill)	1035
456.8	484.8	541.7	645.5	684.2	718.5	785.5	756.2	831.6	898.7	960	1025	Net Plant ($mill)	1200
6.5%	7.6%	7.0%	5.7%	5.8%	4.4%	4.3%	4.9%	5.0%	5.0%	5.5%	5.5%	Return on Total Cap'l	6.0%
8.7%	10.6%	9.7%	8.2%	8.0%	6.0%	6.2%	7.9%	8.1%	7.3%	7.5%	8.0%	Return on Shr. Equity	8.0%
8.7%	10.6%	9.7%	8.2%	8.0%	6.0%	6.2%	7.9%	8.1%	7.3%	7.5%	8.0%	Return on Com Equity	8.0%
3.6%	5.6%	5.2%	3.5%	3.3%	1.2%	1.2%	3.1%	3.3%	2.8%	3.0%	3.5%	Retained to Com Eq	3.5%
58%	47%	46%	57%	59%	80%	80%	61%	59%	62%	60%	55%	All Div'ds to Net Prof	55%

CURRENT POSITION ($MILL.)	2012	2013	3/31/14
Cash Assets	2.5	2.3	3.1
Other	40.4	37.4	37.7
Current Assets	42.9	39.7	40.8
Accts Payable	8.5	12.6	10.7
Debt Due	20.7	23.0	37.5
Other	19.9	23.6	23.7
Current Liab.	49.1	59.2	71.9
Fix. Chg. Cov.	317%	268%	270%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	5.5%	4.0%	3.5%
"Cash Flow"	6.0%	4.0%	4.5%
Earnings	3.5%	.5%	7.0%
Dividends	4.5%	3.5%	5.0%
Book Value	5.5%	2.5%	6.0%

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

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

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

BUSINESS: SJW Corporation engages in the production, purchase, storage, purification, distribution, and retail sale of water. It provides water service to approximately 228,000 connections that serve a population of approximately one million people in the San Jose area and 11,000 connections that serve approximately 36,000 residents in a service area in the region between San Antonio and Austin, Texas. The company offers nonregulated water-related services, including water system operations, cash remittances, and maintenance contract services. SJW also owns and operates commercial real estate investments. Has about 379 employees. Chrm.: Charles J. Toeniskoetter. Inc.: CA. Address: 110 W. Taylor Street, San Jose, CA 95110. Tel.: (408) 279-7800. Int: www.sjwater.com.

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

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

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

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

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

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

James A. Flood *July 18, 2014*

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

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

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YORK WATER NDQ-YORW

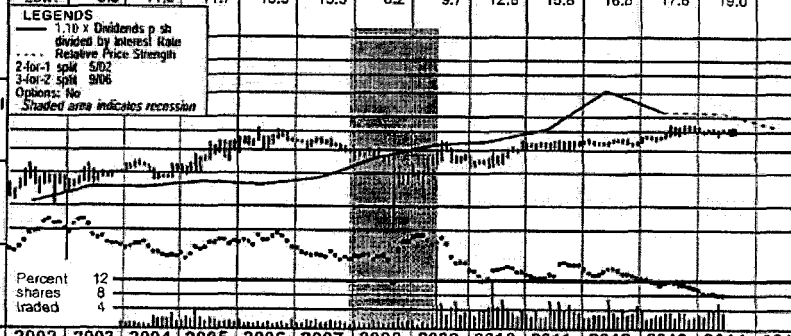
RECENT PRICE 20.19 | P/E RATIO 22.4 (Trailing: 27.3 / Median: 25.0) | RELATIVE P/E RATIO 1.19 | DIV'D YLD 2.9% | VALUE LINE

TIMELINESS 4 Raised 3/28/14
SAFETY 2 New 7/19/13
TECHNICAL 3 Lowered 7/18/14
BETA .75 (1.00 = Market)

High:	13.5	14.0	17.9	21.0	18.5	16.5	18.0	18.0	18.1	18.5	22.0	21.5
Low:	9.3	11.0	11.7	15.3	15.5	6.2	9.7	12.8	15.8	16.8	17.6	19.0

Target Price Range 2017 | 2018 | 2019

LEGENDS
— 1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 5/02
3-for-2 split 9/06
Options: No
Shaded area indicates recession



2017-19 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+50%)	13%
Low	19	(-5%)	2%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	2	5	0	0	6	0	1	4
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	1	0	0	0	0

Institutional Decisions

	3Q2013	4Q2013	1Q2014
to Buy	30	29	30
to Sell	23	24	21
Hld's(000)	3451	3528	3634

Percent shares traded 12 8 4

% TOT. RETURN 6/14

	THIS STOCK	VL ARITH.* INDEX
1 yr.	12.5	25.1
3 yr.	36.4	52.6
5 yr.	57.3	168.7

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	© VALUE LINE PUB. LLC	17-19
--	--	--	2.05	2.05	2.17	2.16	2.58	2.56	2.79	2.89	2.95	3.07	3.18	3.21	3.27	3.65	3.95	Revenues per sh	4.65
--	--	--	.59	.57	.65	.65	.79	.77	.86	.88	.95	1.07	1.09	1.12	1.19	1.35	1.45	"Cash Flow" per sh	1.75
--	--	--	.43	.40	.47	.49	.56	.58	.57	.57	.64	.71	.71	.72	.75	.90	.95	Earnings per sh A	1.10
--	--	--	.34	.35	.37	.39	.42	.45	.48	.49	.51	.52	.53	.54	.55	.57	.59	Div'd Decl'd per sh B	.74
--	--	--	.75	.66	1.07	2.50	1.59	1.85	1.69	2.17	1.18	.83	.74	.94	.76	.90	.85	Cap'l Spending per sh	1.00
--	--	--	3.79	3.90	4.06	4.65	4.85	5.84	5.97	6.14	6.92	7.19	7.45	7.73	7.98	7.95	8.20	Book Value per sh	8.90
--	--	--	9.46	9.55	9.63	10.33	10.40	11.20	11.27	11.37	12.56	12.69	12.79	12.92	12.98	12.60	12.20	Common Shs Outst'g C	11.80
--	--	--	17.8	26.9	24.5	25.7	26.3	31.2	30.3	24.6	21.9	20.7	23.9	24.4	26.3	Bold figures are		Avg Ann'l P/E Ratio	22.0
--	--	--	.91	1.47	1.40	1.36	1.40	1.68	1.61	1.48	1.46	1.32	1.50	1.55	1.48	Value Line		Relative P/E Ratio	1.40
--	--	--	4.4%	3.3%	3.2%	3.1%	2.9%	2.5%	2.8%	3.5%	3.6%	3.5%	3.1%	3.1%	2.8%	estimates		Avg Ann'l Div'd Yield	3.0%

CAPITAL STRUCTURE as of 3/31/14
Total Debt $84.9 mill. Due in 5 Yrs $19.5 mill.
LT Debt $84.9 mill. LT Interest $5.2 mill.
(Total interest coverage: 4.0x)
(45% of Cap'l)

Pension Assets 12/13 $27.1 mill.
Oblig. $32.1 mill.

Pfd Stock None

Common Stock 12,944,260 shs.
as of 5/6/14

MARKET CAP: $250 million (Small Cap)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		17-19
22.5	26.8	28.7	31.4	32.8	37.0	39.0	40.6	41.4	42.4	46.0	48.0	Revenues ($mill)	55.0
4.8	5.8	6.1	6.4	6.4	7.5	8.9	9.1	9.3	9.7	11.5	12.0	Net Profit ($mill)	13.0
36.7%	36.7%	34.4%	36.5%	36.1%	37.9%	36.5%	35.3%	37.6%	37.6%	37.0%	36.0%	Income Tax Rate	37.0%
--	--	7.2%	3.6%	10.1%	--	1.2%	1.1%	1.1%	.8%	1.0%	1.0%	AFUDC % to Net Profit	1.5%
42.5%	44.1%	48.3%	46.5%	54.5%	45.7%	48.3%	47.1%	46.0%	45.1%	47.5%	49.5%	Long-Term Debt Ratio	50.0%
57.5%	55.9%	51.7%	53.5%	45.5%	54.3%	51.7%	52.9%	54.0%	54.9%	52.5%	50.5%	Common Equity Ratio	50.0%
83.6	90.3	126.5	125.7	153.4	160.1	176.4	180.2	184.8	188.4	190	195	Total Capital ($mill)	210
140.0	155.3	174.4	191.6	211.4	222.0	228.4	233.0	240.3	244.2	250	255	Net Plant ($mill)	270
7.6%	8.4%	6.2%	6.7%	5.7%	6.2%	6.5%	6.4%	6.4%	6.5%	7.5%	7.5%	Return on Total Cap'l	7.5%
10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.5%	12.0%	Return on Shr. Equity	12.0%
10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.5%	12.0%	Return on Com Equity	12.0%
2.1%	3.0%	2.2%	1.7%	1.4%	1.9%	2.7%	2.5%	2.4%	2.4%	4.0%	4.5%	Retained to Com Eq	4.0%
79%	74%	77%	82%	85%	78%	72%	73%	74%	74%	63%	62%	All Div'ds to Net Prof	67%

CURRENT POSITION ($MILL.)	2012	2013	3/31/14
Cash Assets	4.0	7.6	5.7
Accounts Receivable	6.4	3.8	3.4
Other	1.2	3.8	4.3
Current Assets	11.6	15.2	13.4
Accts Payable	1.1	1.8	1.6
Debt Due	.1	--	--
Other	4.3	6.0	6.5
Current Liab.	5.5	7.8	8.1
Fix. Chg. Cov.	414%	417%	417%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '17-'19
Revenues	4.5%	3.0%	6.5%
"Cash Flow"	6.5%	6.5%	7.5%
Earnings	5.5%	5.0%	7.0%
Dividends	4.5%	2.5%	5.5%
Book Value	7.0%	5.0%	2.5%

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

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

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.128	.128	.128	.128	.512
2011	.131	.131	.131	.131	.524
2012	.134	.134	.134	.134	.535
2013	.138	.138	.138	.138	.552
2014	.1431	.1431			

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

We are maintaining our 2014 earnings estimate for York Water. First-quarter results were a disappointment, coming in at $0.16 a share, $0.03 a share less than the consensus number. The period had a few unexpected expenses, plus the poor weather resulted in higher-than-budgeted maintenance costs. Since these charges probably won't recur, we think that per-share earnings can break out of their rut and increase 20% this year. (Share net was between $0.71 and $0.75 from 2010 to 2013.) Fueling the bottom line will be the higher rates that state regulators allowed the utility to implement on February 28th.

The bottom line will most likely rise modestly next year. Higher rates will be in effect for the full year, versus only 10 months in 2014. Together with better cost controls, this should result in at least a 5% share-net gain. Our estimates for both years could prove conservative should the company change tack and decide to execute its stock-buyback program in a shorter period of time (see below).

The share-repurchase program has still not gained any traction. In March 2013, management announced plans to repurchase 1.2 million shares, or over 9% of the company's outstanding equity. Sixteen months later and the number of shares outstanding have only been reduced by 40,000.

Dividend growth prospects are average at best. Compared to other water utilities, York has a high dividend-to-net profit ratio. This means that there is not a substantial amount of room for dividends to increase. And, though this percentage is on the decline, it most likely won't go low enough for annual dividends hikes to surpass the industry average.

Finances are adequate. Despite the need to spend to upgrade an aging infrastructure, capital expenditures should be manageable in the years ahead. Indeed, York should be able to fund the outlays without having to issue any new bonds. So, the debt-to-total equity ratio should remain close to a healthy 50% level.

York shares are rated to underperform the broader market averages over the next six- to 12-month period. Moreover, total return potential through 2017-2019 is below average, as well.

James A. Flood *July 18, 2014*

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

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

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Quail Creek Water Company, Inc.

Direct Testimony of Thomas J. Bourassa
Cost of Capital

Exhibit TJB-COC-DT2

Quail Creek Water Company
Comparative Risk Study
Beta Estimate Using Duff and Phelps Risk Study Portfolio Information

Line No.								
	A. Beta Estimates for Water Sample Group and Company							
1	Company	Portfolio 5	Operating Margin 39.06%	Portfolio 11	CV (Operating Margin)[1] 20.74%	Portfolio 13	CV (ROE)[1] 41.78%	
2	Water Proxy Group	2	28.96%	20	8.36%	24	10.29%	
			Portfolio Beta[2]		Portfolio Beta[3]		Portfolio Beta[3]	Average
3	Company		0.88		1.15		1.15	
4	Water Proxy Group		0.83		0.99		0.85	
5	Percentage Difference		6.0%		16.2%		35.3%	19.2%
	B. Assume percentage difference is the same for water utilities as companies in general							
6	Water Sample Group[5]		0.71		0.71		0.71	
7	Implied Beta for Company[6]		0.75		0.82		0.96	0.85

Notes:
[1] See Risk Study. CV stands for Coefficient of Variation,
[2] Source is Duff & Phelps 2104 Valuation Handbook, Risk Study, Exhibit D-1, Companies Ranked by Operating Margin.
[3] Source is Duff & Phelps 2104 Valuation Handbook, Risk Study, Exhibit D-2, Companies Ranked by CV (Operating Margin).
[5] Source is Table 3.
[6] Calculated by multiplying (1+ percentage difference in risk study betas) times 0.71 beta for the water sample group.

Quail Creek Water Company
Comparative Risk Study
Traditional Capital Asset Pricing Model (CAPM) Using Implied Beta
To Find Additional Risk Premium

Line No.		Rf[1]	+	Implied beta[2]	x	RP_M		=	k	CAPM Results From Schedule D-4.11	Indicated Company Risk Premium
1	Historical Market Risk Premium CAPM	4.6%	+	0.85	x	6.96%	[3]	=	10.5%	9.5%	1.0%
2	Currrent Market Risk Premium CAPM	4.6%	+	0.85	x	8.73%	[4]	=	12.0%	10.8%	1.2%

Notes:

[1] Forecasts of long-term treasury yields. See Scehdule D-4.9.

[2] Implied Beta computed from Duff and Phelps 2014 Valuation Handbook Risk Study information. See page 1 of exhibit.

[3] Historical Market Risk Premium from (Rp) from Morningstar Ibbotson 214 Classic Yearbook, Long-Horizon ERP on S&P 500. See Schedule D-4.11.

[4] See Schedule D-4.10

Quail Creek Water Company, Inc.

Direct Testimony of Thomas J. Bourassa
Cost of Capital

D Schedules

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

Exhibit
Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	End of Test Year Percent of Total	End of Test Year Cost Rate	End of Test Year Weighted Cost	Projected Capital Structure Dollar Amount	Projected Capital Structure Percent of Total	Projected Capital Structure Cost Rate	Projected Capital Structure Weighted Cost
1	Long-Term Debt	$ -	0.00%	0.00%	0.00%	$ -	0.00%	0.00%	0.00%
2									
3	Stockholder's Equity	5,777,616	100.00%	10.00%	10.00%	5,896,579	100.00%	10.00%	10.00%
4									
5	Totals	$ 5,777,616	100.00%		10.00%	$ 5,896,579	100.00%		10.00%
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22	SUPPORTING SCHEDULES:					RECAP SCHEDULES:			
23	D-1					A-3			
24	D-3								
25	D-4								
26	E-1								
27	Testimony								
28									
29									
30									

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

Exhibit
Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	Annual Interest	Effective Interest Rate	Weighted Cost	End of Projected Year Amount Outstanding	Annual Interest	Effective Interest Rate	Weighted Cost
1									
2			-	0.00%	0.00%	-	-	0.00%	0.00%
3			-	0.00%	0.00%	-	-	0.00%	0.00%
4			-	0.00%	0.00%		-	0.00%	0.00%
5			-	0.00%	0.00%		-	0.00%	0.00%
6			-	0.00%	0.00%		-	0.00%	0.00%
7			-	0.00%	0.00%		-	0.00%	0.00%
8			-	0.00%	0.00%		-	0.00%	0.00%
9			-	0.00%	0.00%		-	0.00%	0.00%
10			-	0.00%	0.00%		-	0.00%	0.00%
11			-	0.00%	0.00%		-	0.00%	0.00%
12									
13	Totals	$ -	-		0.00%	$ -	-		0.00%
14									
15									
16	Supporting Schdules:								
17	E-1								
18	E-2								
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									

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

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

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

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

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line No.		
1		
2	The Company is proposing a cost of common equity of	10.00% .
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	E-1	D-1
19	D-4.1 to D-4.15	
20		

Quail Creek Water Company
Summary of Results

Exhibit
Schedule D-4.1
Witness: Bourassa

Line No.		Indicated Cost of Equity for Water Sample Group			Indicated Cost of Equity for Quail Creek Water Company [1]		
1	DCF Constant Growth - Table 8	9.4%	to	9.6%	9.9%	to	10.1%
2	Risk Premium Model - Table 10		10.6%			11.1%	
3	CAPM - Table 12	9.5%	to	10.8%	10.0%	to	11.3%
4	Range of Cost of Equity Estimates	9.8%	to	10.3%	10.3%	to	10.8%
5	Financial Risk Adjustment - Table 16		0.0%			-0.60%	
6	Adjusted Range of Cost of Equity Estimates	9.8%	to	10.3%	9.7%	to	10.2%
7	Mid-point		10.1%			10.0%	
8	Cost of Equity Recommendation			10.0%			

Notes:
[1]Estimates include an equity risk premium of 50 basis points based on comparative risk study. See Testimony.

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

Exhibit
Schedule D-4.2
Witness: Bourassa

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. Amer. Water Works	AWK	71%	$ 458.4	$ 988.7	A+	A2	9.99	0.70	$ 1,243.7	Low-Cap
2	2. Aqua America	WTR	98%	$ 770.9	$ 4,233.8	AA-	NR	10.29	0.70	$ 4,379.8	Mid cap
3	3. California Water	CWT	100%	$ 587.0	$ 1,539.5	AA-	NR	9.99	0.70	$ 1,149.7	Low-Cap
4	4. Connecticut Water	CTWS	100%	$ 94.9	$ 483.8	A/A-	NR	9.75	0.65	$ 362.9	Micro-cap
5	5. Middlesex	MSEX	88%	$ 115.1	$ 451.4	A	NR	10.15	0.70	$ 328.2	Micro-cap
6	6. SJW Corp.	SJW	95%	$ 277.5	$ 915.0	A	NR	9.99	0.85	$ 547.3	Micro-cap
7	7. York Water Company	YORW	100%	$ 43.9	$ 247.1	A-	NR	NM	0.70	$ 258.5	Micro-cap
8	Average		93%	$ 335.4	$ 1,265.6			10.03	0.71	$ 1,181.4	
9	Quail Creek Water Company		100%	$ 0.8	$ 5.9	NR	NR	-			

Notes:
[1] AUS Utility Reports (August 2014).
[2] Value Line Analyzer Data (Weekly as of August 28, 2014)
[3] See Schdule D-4.16 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] Long-Term Debt	Book Value[1] Common Equity	Market Value[1] Long-Term Debt	Market Value[1] Common Equity
1	1. Amer. Water Works	AWR	39.8%	60.2%	20.8%	79.2%
2	2. Aqua America	WTR	48.9%	51.1%	25.1%	74.9%
3	3. California Water	CWT	41.6%	58.4%	27.0%	73.0%
4	4. Connecticut Water	CTWS	47.0%	53.0%	32.5%	67.5%
5	5. Middlesex	MSEX	40.7%	59.3%	28.3%	71.7%
6	6. SJW Corp.	SJW	51.0%	49.0%	38.0%	62.0%
7	7. York Water Company	YORW	45.0%	55.0%	24.7%	75.3%
8	Average		44.9%	55.1%	28.1%	71.9%
9	Quail Creek Water Company		100.0%	0.0%	N/A	N/A

[1] Value Line Analyzer Data (Weekly as of August 28, 2014)

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

Exhibit
Schedule D-4.4
Witness: Bourassa

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Historical Growth	[6] Value Line Projected Growth[2]	[7] Average of Historical and Proj. Grwth
		Five-year historical average annual changes						
1	1. Amer. Water Works	16.07%	6.50%	13.00%	6.50%	10.52%	6.00%	8.26%
2	2. Aqua America	11.70%	6.00%	11.00%	7.00%	8.92%	8.50%	8.71%
3	3. California Water	4.27%	4.50%	4.00%	1.50%	3.57%	7.50%	5.53%
4	4. Connecticut Water	12.77%	8.00%	8.00%	2.00%	7.69%	5.00%	6.35%
5	5. Middlesex	8.36%	3.00%	1.50%	1.50%	3.59%	4.50%	4.05%
6	6. SJW Corp.	4.38%	2.50%	NMF	3.50%	3.46%	7.00%	5.23%
7	7. York Water Company	8.44%	5.00%	5.00%	2.50%	5.23%	7.00%	6.12%
8	GROUP AVERAGE	9.43%	5.07%	7.08%	3.50%	6.14%	6.50%	6.32%

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 August 28, 2014.

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

Exhibit
Schedule D-4.5
Witness: Bourassa

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Value Line Growth[2]	[7] Average of Historical and Proj. Grwth
		Ten-year historical average annual changes						
1	1. Amer. Water Works	12.91%	5.50%	9.00%	4.00%	7.85%	6.00%	6.93%
2	2. Aqua America	10.31%	8.00%	8.50%	7.50%	8.58%	8.50%	8.54%
3	3. California Water	10.19%	5.50%	5.50%	1.00%	5.55%	7.50%	6.52%
4	4. Connecticut Water	6.58%	6.00%	2.50%	1.50%	4.14%	5.00%	4.57%
5	5. Middlesex	4.38%	4.50%	3.50%	1.50%	3.47%	4.50%	3.98%
6	6. SJW Corp.	12.91%	5.50%	3.50%	4.50%	6.60%	7.00%	6.80%
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%	6.50%	6.29%

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 August 28, 2014.

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_0/P_0)[1,2]
1	1. Amer. Water Works	$ 32.45	$ 0.87	2.68%	2.75%
2	2. Aqua America	$ 24.84	$ 0.66	2.66%	2.36%
3	3. California Water	$ 24.26	$ 0.66	2.72%	3.12%
4	4. Connecticut Water	$ 33.30	$ 1.03	3.09%	3.21%
5	5. Middlesex	$ 20.60	$ 0.77	3.74%	3.71%
6	6. SJW Corp.	$ 28.00	$ 0.76	2.71%	2.68%
7	7. York Water Company	$ 20.32	$ 0.58	2.85%	2.80%
8	GROUP AVERAGE			2.92%	2.95%

Notes:

[1] Stock prices as of Septmber 5, 2014. Indicated Dividend from Value Line Analyzer weekly as of August 28, 2014.

[2] Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. 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=Div Yld + g (Cols 2+3)
1	1. Amer. Water Works	2.68%	2.84%	+	6.00%	=	8.84%
2	2. Aqua America	2.66%	2.88%	+	8.50%	=	11.38%
3	3. California Water	2.72%	2.92%	+	7.50%	=	10.42%
4	4. Connecticut Water	3.09%	3.25%	+	5.00%	=	8.25%
5	5. Middlesex	3.74%	3.91%	+	4.50%	=	8.41%
6	6. SJW Corp.	2.71%	2.90%	+	7.00%	=	9.90%
7	7. York Water Company	2.85%	3.05%	+	7.00%	=	10.05%
8	Average	2.92%	3.11%		6.50%		9.61%

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 Schdule 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 Average of Historical and Proj. Grwth[3]		[4] Indicated Cost of Equity (COE) k=Div Yld + g (Cols 2+3)
1	1. Amer. Water Works	2.68%	2.90%	+	8.26%	=	11.16%
2	2. Aqua America	2.66%	2.89%	+	8.71%	=	11.60%
3	3. California Water	2.72%	2.87%	+	5.53%	=	8.40%
4	4. Connecticut Water	3.09%	3.29%	+	6.35%	=	9.64%
5	5. Middlesex	3.74%	3.89%	+	4.05%	=	7.93%
6	6. SJW Corp.	2.71%	2.86%	+	5.23%	=	8.09%
7	7. York Water Company	2.85%	3.03%	+	6.12%	=	9.15%
8	Average						9.42%

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 Scehdule D-4.5 Col. 7.

Quail Creek Water Company
Forecasts of Long-Term Interest Rates

Exhibit
Schedule D-4.8
Witness: Bourassa

Line No.		2015	2016	2017	Average
1	Long-term Treasury Rates				
2	Blue Chip Consensus Forecasts[1]	4.30%	4.70%	5.10%	
3	Value Line[2]	4.30%	4.50%	4.80%	
4	Average				4.6%
5	Aaa Corporate Bonds				
6	Blue Chip Consensus Forecasts[1]	5.10%	5.50%	5.90%	
7	Value Line[2]	4.80%	5.50%	5.80%	
8	Average				5.4%
9	Baa Corporate Bonds				
10	Blue Chip Consensus Forecasts[1]	5.80%	6.30%	6.80%	
11	Value Line[2]				
12	Average				6.3%

Notes:
[1] Blue Chip consensus forecasts (June 2014).
[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.		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		15-Year Average	4.7%	6.0%
17		Expected Long-term Treasury Bond Rate[3]		4.6%
18		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_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	+	Expected Growth (g)[3]	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate[4]	=	Expected Market Risk Premium (MRP)
1	June	2.54%	2.78%	+	9.50%	=	12.28%	-	3.40%	=	8.88%
2	July	2.40%	2.63%	+	9.50%	=	12.13%	-	3.61%	=	8.52%
3	Aug	2.53%	2.77%	+	9.50%	=	12.27%	-	3.76%	=	8.51%
4	Sept	2.47%	2.70%	+	9.50%	=	12.20%	-	3.79%	=	8.41%
5	Oct	2.37%	2.60%	+	9.50%	=	12.10%	-	3.68%	=	8.42%
6	Nov	2.42%	2.64%	+	9.50%	=	12.14%	-	3.80%	=	8.34%
7	Dec 2013	2.37%	2.59%	+	9.50%	=	12.09%	-	3.89%	=	8.20%
8	Jan 2014	2.43%	2.66%	+	9.83%	=	12.50%	-	3.77%	=	8.73%
9	Feb	2.39%	2.62%	+	9.50%	=	12.12%	-	3.66%	=	8.46%
10	Mar	2.40%	2.63%	+	9.50%	=	12.13%	-	3.62%	=	8.51%
11	Apr	2.37%	2.60%	+	9.50%	=	12.10%	-	3.52%	=	8.58%
12	May	2.37%	2.59%	+	9.42%	=	12.01%	-	3.39%	=	8.62%
13	June	2.34%	2.56%	+	9.33%	=	11.89%	-	3.42%	=	8.47%
14	July	2.42%	2.65%	+	9.50%	=	12.15%	-	3.33%	=	8.82%
15	Aug	2.38%	2.61%	+	9.50%	=	12.11%	-	3.20%	=	8.91%
16	Recommended	2.38%	2.61%	+	9.44%	=	12.05%	-	3.32%	=	8.73%
17	Short-term Trends										
18	Recent Twelve Months Avg	2.39%	2.62%	+	9.51%	=	12.13%	-	3.59%	=	8.54%
19	Recent Nine Months Avg	2.39%	2.61%	+	9.51%	=	12.12%	-	3.53%	=	8.59%
20	Recent Six Months Avg	2.38%	2.61%	+	9.46%	=	12.06%	-	3.41%	=	8.65%
21	Recent Three Months Avg	2.38%	2.61%	+	9.44%	=	12.05%	-	3.32%	=	8.73%

Notes:

[1] Average Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

[2] Expected Dividend Yield (D_1/P_0) equals current average dividend yield (D_0/P_0) 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.		Rf[1]	+	beta[2]	x	RP_M		=	k
1	Historical Market Risk Premium CAPM	4.6%	+	0.71	x	6.96%	[3]	=	9.5%
2	Currrent Market Risk Premium CAPM	4.6%	+	0.71	x	8.73%	[4]	=	10.8%
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 2014 Valuation Handbook, Appendix 3, Long-Horizon ERP.
[4] See Table 11.

Quail Creek Water Company
Financial Risk Computation
Unlevered Beta

Exhibit
Schedule D-4.12
Witness: Bourassa

Line No.		Company	VL Beta β_L [1]	Raw Beta Raw β_L [2]	Tax Rate t [3]	MV Debt D [4]	MV Equity E [4]		Unlevered Raw Beta β_U [5]
1									
2									
3									
4									
5	1.	American States	0.70	0.55	36.3%	20.8%	79.2%		0.47
6	2.	Aqua America	0.70	0.55	10.0%	25.1%	74.9%		0.42
7	3.	California Water	0.70	0.55	30.3%	27.0%	73.0%		0.44
8	4.	Connecticut Water	0.65	0.48	28.0%	32.5%	67.5%		0.36
9	5.	Middlesex	0.70	0.55	34.1%	28.3%	71.7%		0.44
10	6.	SJW Corp.	0.85	0.78	38.7%	38.0%	62.0%		0.57
11	7.	York Water	0.70	0.55	37.6%	24.7%	75.3%		0.46
12									
13		Sample Water Utilities	0.71	0.57	30.7%	28.1%	71.9%	#	0.45
14									
15									
16									
17									
18									
19									

20 [1] Value Line Investment Analyzer data. See Schedule D-4.1.
21 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:
22 Adjusted beta = .33 + (.67) * Raw beta
23 [2] Raw Beta = (VL beta - .33)/(.67)
24 [3] Effective tax rates for year ended December 31, 2013.
25 [4] See Schedule D-4.2.
26 [5] Raw B_u = Raw B_L/ (1+ (1-t)*D/E)
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[3]	Relevered Raw Beta $\beta_{RL}=\beta_U(1+(1-t)BD/EC))$ β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
1							
2							
3							
4							
5	Quail Creek Water Company	0.45	0.0%	100.0%	39.10%	0.45	0.63
6							
7							
8							
9							
10							
11							
12							
13	[1] Unlevered Beta fron Unlevered Beta tab in WP.						
14	[2] Proforma Capital Structure of Company per D-1						

15		BV (In Thousands)		MV (In Thousands)	MV %
16					
17	Long-term Debt	$ -	1.00	$ -	0.00%
18	Preferred Stock	$ -	1.00	-	0.0%
19	Common Stock	$ 5,778	2.18 (a)	12,606	100.0%
20	Total Capital	$ 5,778		$ 12,606	100.0%

21

22 (a) Current market-to-book ratio of sample water utilities. See work papers.

23

24 [3] Current Tax rate based on test year ending 12/31/2013. See Schedule C-5.

25

26

Quail Creek Water Company
Financial Risk Computation

Exhibit
Schedule D-4.14
Witness: Bourassa

Line No.											
1	**CAPM**										
2		**Rf**		+	**β**		x	**(Rp)**			**k**
3	Historical Market Risk Premium	4.6%	1	+	0.71	2	x	6.96%	3	=	9.5%
4	Current Market Risk Premium	4.6%	1	+	0.71	2	x	8.73%	4	=	10.8%
5											
6	Average										10.2%
7											
8											
9	**CAPM Relevered Beta**										
10		**Rf**		+	**β**		x	**(Rp)**			**k**
11	Historical Market Risk Premium	4.6%	1	+	0.63	5	x	6.96%	3	=	9.0%
12	Current Market Risk Premium	4.6%	1	+	0.63	5	x	8.73%	4	=	10.1%
13											
14	Average										9.6%
15											
16	Indicated Financial Risk Adjustment										**-0.6%**
17											
18											
19	[1] Forecast of long-term treasury yields. See Schedule D-4.8.										
20	[2] Value Line Investment Analyzer data. See Schedule D-4.1.										
21	[3] Historical Market Risk Premium from (Rp) Duff & Phelps 2014 Valuation Handbook Appendix3 Long-Horizon ERP 1926-2013.										
22	[4] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks										
23	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.10.										
24	[5] Relevered beta found on Relevered Beta. See Schedule D-4.15.										
25											

Quail Creek Water Company
Risk Premium[1]

Exhibit
Schedule D-4.15
Witness: Bourassa

Line No.		Beta(β)	Size Premium	Risk Premium for Small Water Utilities[7]
1	Mid-Cap Companies[2]	1.12	1.14%	
2	Low-Cap Companies[3]	1.23	1.87%	
3	Micro-Cap Companies[4]	1.36	3.84%	
4	Decile 10[5]	1.40	6.01%	3.12%

		Risk Premium for Small Water Utilities
5	Estimated Risk Premium for small utilities[6]	0.99%
6	Estimated Risk Premium for Quail Creek Water Company[8]	0.90% to 1.00%

[1] Data from Table 7-6 of Morningstar, *Ibbotson SBBI 2014 Classic Yearbook.*
[2] Mid-Cap companies includes companies with market capitalization between $2,432 million and $9,196 million.
[3] Low-Cap companies includes companies with market capitalization between $636.7 million and $2,431 million.
[4] Micro-Cap companies includes companies with market capitalization less than $636.7 million.
[5] Decile 10 includes companies with market capitalization less than $338 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 inidicated 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.	American States	$ 1,244	Low-Cap	1.87%	4.14%	0.14285714	0.59%
2.	Aqua America	$ 4,380	Mid-Cap	1.14%	4.87%	0.14285714	0.70%
3.	California Water	$ 1,150	Low-Cap	1.87%	4.14%	0.14285714	0.59%
4.	Connecticut Water	$ 363	Micro-Cap	3.84%	2.17%	0.14285714	0.31%
5.	Middlesex	$ 328	Micro-Cap	3.84%	2.17%	0.14285714	0.31%
6.	SJW Corp.	$ 547	Micro-Cap	3.84%	2.17%	0.14285714	0.31%
7.	York Water Company	$ 259	Micro-Cap	3.84%	2.17%	0.14285714	0.31%
			Average	2.89%	Wghtd Size Prem. for Small Utilities		3.12%

[8] Results of Comparative Risk Study. See Exhibit COC TJB-3 and Testimony.

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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

EXHIBIT
A-3
ADMITTED

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I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

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

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

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

A. Yes.

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

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

II. SUMMARY OF THE COMPANY'S REBUTTAL POSITION.

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

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

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

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

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

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

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

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

	Revenue Requirement	Revenue Incr.	% Increase
QCW-Direct	$1,256,504	$411,785	48.75%
Staff	$1,133,173	$288,454	34.15%
QCW-Rebuttal	$1,247,640	$402,921	47.70%

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

...

...

...

III. RATE BASE.

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

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

	OCRB	FVRB
QCW-Direct	$ 3,678,863	$ 3,678,863
Staff	$ 3,196,580	$ 3,196,580
QCW-Rebuttal	$ 3,674,950	$ 3,674,950

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

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

A. PLANT-IN-SERVICE (PIS).

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

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

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

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

---

[1] *See* Direct Testimony of John A. Cassidy ("Cassidy Dt.") at 16.

[2] Cassidy Dt. at 17.

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

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

1. <u>Differences Between the Parties on the PIS Balance</u>.

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

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

Q. PLEASE EXPLAIN THE WELL #16 COSTS.

A. As Mr. Jones testified in his direct testimony, Well #16 was constructed by an affiliate at a cost of $510,205 in 2009 and subsequently transferred to QCW.[4] The affiliate recorded the cost of Well #16 as a receivable (due from QCW to the affiliate) up to and until QCW paid the receivable in 2011.[5] The timing of the payment, as with all similar affiliate transactions, depended upon QCW's ability to pay for the plant that was transferred.

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[3] Cassidy Dt. at 15.

[4] *See* Direct Testimony of Ray L. Jones ("Jones Dt.") at 10.

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

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

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

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

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

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

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

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

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

A. Well #16 was approved for potable water use in October of 2006 and connected to the QCW system. Well 16 was placed into service in 2009 for two months during an operational testing phase. Tests ultimately determined that the well was non-productive and so it was taken out of service in 2009. In 2011, Well #16 was paid for by QCW and the cost was recorded on the books. Because the well was non-productive, QCW retired some of the equipment for Well #16 with costs totaling $258,211. QCW also capitalized certain other Well #16 plant costs totaling $251,984[8] in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA"). NARUC USOA allows for the capitalizing of non-productive wells drilled as part of a project resulting in a source of water within the same supply area.[9] In this instant case, that was the new well (Well #12), which was drilled and constructed to replace Well #16.

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

A. Staff does not recognize the plant addition of $510,205 or the plant retirement of $258,211 or the capitalization of $251,984.[10] In other words, Staff's proposed PIS

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

[7] *See* Jones Dt. at 10.

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

[9] NARUC USOA, p. 101.

[10] Cassidy Dt. at 15, 19.

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

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

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

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

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

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

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

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[11] Cassidy Dt. at 15.

[12] *Id.*

[13] Jones Rb. at 7-10.

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

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

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

B. <u>ACCUMULATED DEPRECIATION (A/D)</u>.

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

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

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[14] Difference in rate base of $461,857 is difference PIS of $249,432 plus A/D of $212,425 (not including the reduction in ADIT of approximately $92,000 which Staff does not 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).

[15] *See* Jones Rb. at 7.

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. <u>Difference Between the Parties on the A/D Balance</u>.

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.

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

Q. WHY DID STAFF USE THIS HIGHER DEPRECIATION RATE?

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

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

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

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[17] Cassidy Dt. at 19.

[18] Cassidy Dt. at 18-19.

[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.

[20] Cassidy Dt. at 18.

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

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

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

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

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

Q. WHAT MAKES UP THE REMAINING DIFFERENCE?

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

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[21] Cassidy Dt. at 19.

[22] *See* page 7-8, *supra.*

[23] *See id.*

[24] Cassidy Dt. at 19.

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

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

A. No.

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

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

C. <u>ACCUMULATED DEFERRED INCOME TAX (ADIT)</u>.

Q. PLEASE DISCUSS QCW'S PROPOSED ADIT ADJUSTMENTS.

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

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

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

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

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

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

A. Assuming all of Staff's PIS and A/D recommendations are taken into account, Staff's ADIT balance should be approximately $964,000, which is over $107,000 lower than Staff's recommended balance of $1,071,554.[27] And, because Staff's ADIT balance is over-stated by approximately $92,000, Staff's rate base is understated by over $92,000. Attached as **Exhibit TJB-RB1** is an exhibit showing the ADIT calculation based upon the Staff recommendations.

IV. INCOME STATEMENT (C SCHEDULES).

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

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

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

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

[27] *See* Staff Schedule JAC-3.

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

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

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

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

Rebuttal adjustments 6 and 7 are intentionally left blank.

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

V. RATE DESIGN (H SCHEDULES).

A. PROPOSED RATES.

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

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

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

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

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[28] Cassidy Dt. at 23.
[29] Cassidy Dt. at 21.
[30] Cassidy Dt. at 21-22.
[31] Cassidy Dt. at 22.

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

A. No.

B. <u>REBUTTAL TO STAFF DIRECT TESTIMONY ON RATE DESIGN.</u>

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

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

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

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

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

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

[32] *See* Decision No. 73573 at 43-44; Decision No. 74564 at 17-18.

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

Q. THANK YOU. PLEASE CONTINUE.

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

Q. HOW WERE THE COMPANY'S PROPOSED BREAK-OVER POINTS DETERMINED FOR THE ¾ INCH AND SMALLER METERED RESDIENTIAL CUSTOMERS?

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

Q. WHAT ABOUT THE 1 INCH AND LARGER METERS?

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

[33] *Id.*

[34] *Id.*

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

Q. HOW WERE THE COMPANY'S PROPOSED BREAK-OVER POINTS FOR THE 1 INCH AND LARGER METERED RESDIENTIAL CUSTOMERS DETERMINED?

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

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

A. Yes.

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

A. No.

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

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

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

C. <u>MISCELLANEOUS CHARGES</u>.

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

A. Yes.

D. <u>SERVICE LINE AND METER INSTALLATION CHARGES</u>.

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

A. Yes.

E. <u>PURCHASED POWER ADJUSTMENT MECHANISM (PPAM)</u>.

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

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

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

[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

Deferred Income Tax as of December 31, 2013

Line No.			Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate[5]	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
6		Plant-in-Service	$ 7,571,022 [1]								
7		Accum. Deprec.	(2,586,909) [1]								
8		CIAC	(535,758) [3]								
9	Fed.	Fixed Assets	$ 4,448,355	$ 1,807,071 [2]	100.0%	$ (2,641,284)	34.89%		-		(921,597)
11	State	Fixed Assets	$ 4,448,355	$ 1,807,071 [2]	100.0%	$ (2,641,284)	4.90%		-		(129,423)
13	Fed &State	AIAC		180,221 [4]	100.0%	$ 180,221 [4]	39.79%		$ 71,714		
16								$ -	$ 71,714	$ -	$ (1,051,020)
17		Net Asset (Liability)						$ (979,306)			
20		DIT Asset (Liability) per Direct						$ (1,071,725)			
22		Adjustment to DIT						$ (92,419)			

Footnotes - See page 2

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

Line No.		FEDERAL			STATE		
1	[1] **Per Staff.**						
2	**2 Computation of Net Tax Value December 31, 2013**						
3	Based on 2013 Tax Depreciation report (December 31, 2013)						
4	Unadjusted Cost at December 31, 2013 per federal and state tax depr. report	$ 7,545,070			$ 7,545,070		
5	Reconciling Items not on tax report:						
6	Proposed Plant Adjustments	(248,171)			(248,171)		
7							
8							
9							
10							
11	Net Unadjusted Cost tax Basis at December 31, 2013			$ 7,296,899			$ 7,296,899
12							
13	Reductions						
14	Accumulated Depreciation 2013 and prior per federal and state tax depr. report	$ (5,521,695)			$ (5,521,695)		
15							
16	Tax Depreication Related to Proposed Plant Adjustments	31,867			31,867		
17					-		
18					-		
19					-		
20				(5,489,828)			(5,489,828)
21				$ 1,807,071			$ 1,807,071
22	Net Reductions through December 31, 2013						
23	Net tax value of plant-in-service at December 31. 2013						
24							
25	[3] **CIAC (including impact of change to probability of realization)**						
26	Gross CIAC per adjusted book balances		$ 820,205				
27	CIAC reductions/addtions						
28	A.A per adjusted book balances	$ (284,447)					
29		-					
30			(284,447)				
31	Net CIAC before unrealized AIAC			$ 535,758			
32							
33	Unrealized AIAC Component						
34	AIAC per adjusted book balances		$ -				
35	Adjusted Net AIAC (see footnote 5 below)		70.0%				
36	Unrealized AIAC Component % (1-Realized AIAC Component)			$ -			
37				$ 535,758			
38	Total realizable CIAC						
39							
40	[4] **AIAC (including impact of change in probability of realization)**						
41	AIAC per adjusted book balances			$ -			
42	Less: Unrealized AIAC (from Note 3, above)			$ -			
43							
44	Subtotal			$ -			
45	Meter and Service Line Installation Charges per adjusted book balances			180,221			
46	Total realizable AIAC			$ 180,221			
47							
48	[5] Staff's effective tax rates as shown on Staff Schedule JAC-2.						
49							

EXHIBIT TJB-RB2

Quail Creek Water Company
Metered Revenue Breakdown Summary
Company Proposed Rates

Exhibit
Page 1

		Present Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
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 Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	Residential	$ 385,344	$ 174,495	$ 208,253	$ 66,842	$ 834,934
3/4 Inch	Residential	-	-	-	-	-
1 Inch	Residential	69,660	35,336	2,160	-	107,156
1 1/2 Inch	Residential	-	-	-	-	-
2 Inch	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	$ 12,312	$ 10,340	$ 7,931	$ -	$ 30,584
3/4 Inch	Commercial	-	-	-	-	-
1 Inch	Commercial	4,860	3,366	15,676	-	23,902
1 1/2 Inch	Commercial	3,240	2,082	12,940	-	18,262
2 Inch	Commercial	13,824	11,382	20,798	-	46,004
3 Inch	Commercial	-	-	-	-	-
6 Inch	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	$ 2,376	$ 2,181	$ 12,975	$ -	$ 17,532
3/4 Inch	Irrigation	-	-	-	-	-
1 Inch	Irrigation	1,620	616	2,583	-	4,819
1 1/2 Inch	Irrigation	2,160	2,640	5,643	-	10,443
2 Inch	Irrigation	3,456	2,702	10,107	-	16,265
3 Inch	Irrigation	-	-	-	-	-
4 Inch	Irrigation	5,400	3,230	2,889	-	11,519
Golf Course	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	-	-	-	-	-
		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%
	Cummulative %	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	
16	Requirement	$ 402,921
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		Present Rates	Proposed Rates	Dollar Increase	Percent Increase
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

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 7,825,043	$ 7,825,043
3	Less: Accumulated Depreciation	2,370,517	2,370,517
4			
5	Net Utility Plant in Service	$ 5,454,526	$ 5,454,526
6			
7	Less:		
8	Advances in Aid of Construction	-	-
9			
10	Contributions in Aid of Construction	820,205	820,205
11			
12	Accumulated Amortization of CIAC	(284,447)	(284,447)
13			
14	Customer Meter Deposits	180,221	180,221
15	Custmer Security Deposits	-	-
16	Accumulated Deferred Income Tax	1,063,597	1,063,597
17			
18			
19	Plus:		
20			
21	Deferred Regulatory Assets	-	-
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	$ 3,674,950	$ 3,674,950
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	SUPPORTING SCHEDULES:		
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 Test Year	Proforma Adjustment	Rebuttal Adjusted at end of Test Year
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
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
47	B-2, pages 2			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.		Adjusted at End of Test Year	Proforma Adjustments 1 Plant-in-Service	2 Accumulated Depreciation	3 ADIT	4 Intentionally Left Blank	5 Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
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	$ 5,851	$ (17,720)	$ -	$ -	$ -	$ 5,454,526
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	-						
15								-
16	Contributions in Aid of							
17	Construction (CIAC)	820,205						
18								820,205
19	Accumulated Amort of CIAC	(284,447)						
20								(284,447)
21	Customer Meter Deposits	180,221						
22	Customer Security Deposits	-						180,221
23	Accumulated Deferred Income Taxes (ADIT)	1,071,725			(8,128)			-
24								1,063,597
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

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Actual Orginal Cost	A Remove Capitalized Interest	B Capitalize New Source Testing	C Retirement Correction 1998	D Adjustments to Reconcile Plant to Reconstruction	E Intentionally Left Blank	Adjusted Original Cost
6	301	Organization Cost	$ 37,295						$ 37,295
7	302	Franchise Cost	-				-		-
8	303	Land and Land Rights	92,895				-		92,895
9	304	Structures and Improvements	75,442	(18)			-		75,424
10	305	Collecting and Impounding Res.	-				-		-
11	306	Lake River and Other Intakes	-				-		-
12	307	Wells and Springs	834,248	(2,561)	4,013		-		835,700
13	308	Infiltration Galleries and Tunnels	-				-		-
14	309	Supply Mains	-				-		-
15	310	Power Generation Equipment	37,618				-		37,618
16	311	Electric Pumping Equipment	1,137,275	(173)		4,590	-		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
22	330.2	Pressure Tanks	32,236				-		32,236
23	331	Trans. and Dist. Mains	3,194,161				-		3,194,161
24	333	Services	891,232				-		891,232
25	334	Meters	90,315				-		90,315
26	335	Hydrants	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
30	340.1	Computers and Software	-				-		-
31	341	Transportation Equipment	-				-		-
32	342	Stores Equipment	-				-		-
33	343	Tools and Work Equipment	2,399				-		2,399
34	344	Laboratory Equipment	-				-		-
35	345	Power Operated Equipment	-				-		-
36	346	Communications Equipment	57,194				-		57,194
37	347	Miscellaneous Equipment	-				-		-
38	348	Other Tangible Plant	1,056				-		1,056
39		Loss on Plant Disposition	-	-					-
40		TOTALS	$ 7,819,192	$ (2,752)	$ 4,013	$ 4,590	$ -	$ -	$ 7,825,043
41									
42	Adjusted Plant-in-Service								$ 7,819,192
43									
44	Increase (decrease) in Plant-in-Service								$ 5,851
45									
46	Adjustment to Plant-in-Service								$ 5,851
47									
48	SUPPORTING SCHEDULES								
49	B-2, pages 3.1 to 3.4								
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	Remove Capitalized Interest			
2				
3				
4	Acct.		Orginal	
5	No.	Description	Cost	
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	SUPPORTING SCHEDULE			
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.		Orginal
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

Acct. No.	Description	Year	Per Direct	Per Rebuttal	PIS Adjustment
311	Electric Pumping Equipment	2011	303,221	298,631	4,590
	TOTALS				$ 4,590

SUPPORTING SCHEDULE
Testimony

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.

1 Reconciliation of Plant to Plant Reconstruction

Line No.	Acct. No.	Description	Adjusted Cost per Direct	B-2 Adjustments	Adjusted Cost per Rebuttal	Plant Per Reconstruction	Plant 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

				Per Decision No. 61611 - 04/01/1999					Current Books		
Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	[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]+[2]		[3]-[4]			[6]-[7]
1	301	Organization Cost	4.08%	37,295		37,295	12,434	24,861	37,295	12,434	24,861
2	302	Franchise Cost	0.00%			-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	65,000		65,000	-	65,000	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%	162,035		162,035	55,689	106,346	162,035	55,689	106,346
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%	55,410		55,410	49,974	5,436	55,410	49,974	5,436
12	320	Water Treatment Equipment	4.08%			-	-	-	-	-	-
13	320.1	Water Treatment Plants	4.08%			-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%			-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	180,280		180,280	37,566	142,714	-	-	-
16	330.1	Storage Tanks	4.08%			-	-	-	180,280	37,566	142,714
17	330.2	Pressure Tanks	4.08%			-	-	-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	446,017		446,017	109,957	336,060	446,017	109,957	336,060
19	333	Services	4.08%	3,171		3,171	1,322	1,849	3,171	1,322	1,849
20	334	Meters	4.08%	1,698		1,698	1,698	-	1,698	1,698	-
21	335	Hydrants	4.08%	23,325		23,325	6,482	16,843	23,325	6,482	16,843
22	336	Backflow Prevention Devices	4.08%			-	-	-	-	-	-
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%	6,000		6,000	6,000	-	6,000	6,000	-
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%			-	-	-	-	-	-
33	348	Other Tangible Plant	4.08%	1,056		1,056	352	704	1,056	352	704
34											
35		TOTAL		981,285	-	981,285	281,474	699,811	981,285	281,474	699,811
36											
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 3.6
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1998 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	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%	-	-	-	-	-	-		6,611	162,035	62,300	99,735
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%	-	-	-	-	-	-		2,261	55,410	52,235	3,175
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		7,355	180,280	44,921	135,359
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		18,198	446,017	128,155	317,862
19	333	Services	4.08%	-	-	-	-	-	-		129	3,171	1,451	1,719
20	334	Meters	4.08%	-	-	-	-	-	-		-	1,698	1,698	-
21	335	Hydrants	4.08%	-	-	-	-	-	-		952	23,325	7,434	15,891
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		-	6,000	6,000	-
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%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	395	660
34														
35		TOTAL		-	-	-	-	-	-	-	37,070	981,285	318,544	662,741
36														
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 Deprec. Rate	1999 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	15,477	21,818
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%	-	-	-	-	-	-		6,611	162,035	68,911	93,124
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%	-	-	-	-	-	-		2,261	55,410	54,495	915
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		7,355	180,280	52,277	128,003
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		18,198	446,017	146,352	299,665
19	333	Services	4.08%	-	-	-	-	-	-		129	3,171	1,581	1,590
20	334	Meters	4.08%	-	-	-	-	-	-		-	1,698	1,698	-
21	335	Hydrants	4.08%	-	-	-	-	-	-		952	23,325	8,385	14,939
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	6,000	6,000		-	-	-	-
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%	1,750	-	1,750	-	-	-		36	1,750	36	1,714
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	438	617
34														
35		TOTAL		1,750	-	1,750	-	6,000	6,000	-	37,106	977,035	349,650	627,385
36														
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 3.8
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2000 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	16,999	20,296
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	65,000	-	65,000
4	304	Structures & Improvements	4.08%	4,894	-	4,894	-	-	-		100	4,894	100	4,794
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	75,522	86,513
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%	37,557	-	37,557	-	15,000	15,000		2,721	77,967	42,216	35,751
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		7,355	180,280	59,632	120,648
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		18,198	446,017	164,550	281,467
19	333	Services	4.08%	-	-	-	-	-	-		129	3,171	1,710	1,461
20	334	Meters	4.08%	1,183	-	1,183	-	-	-		93	2,881	1,791	1,090
21	335	Hydrants	4.08%	-	-	-	-	-	-		952	23,325	9,337	13,988
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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%	897	-	897	-	-	-		90	2,647	125	2,522
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	481	574
34														
35		TOTAL		44,531	-	44,531	-	15,000	15,000	-	37,813	1,006,566	372,464	634,102
36														
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 3.9
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2001 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (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%	8,924	-	8,924	-	14,337	14,337		3,071	72,554	30,950	41,604
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		7,355	180,280	66,988	113,292
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		18,198	446,017	182,747	263,270
19	333	Services	4.08%	-	-	-	-	-	-		129	3,171	1,839	1,331
20	334	Meters	4.08%	228	-	228	-	-	-		122	3,109	1,913	1,195
21	335	Hydrants	4.08%	-	-	-	-	-	-		952	23,325	10,289	13,036
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	-	-	-		237	8,962	362	8,600
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	524	531
34														
35		TOTAL		15,468	-	15,468	-	14,337	14,337	-	38,439	1,007,697	396,566	611,131
36														
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 3.10
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2002 Plant Additions	Plant Adjustments	Capitalized Interest	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-		-	-	-	-		1,522	37,295	20,042	17,253
2	302	Franchise Cost	0.00%	-	-		-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	27,895	-		27,895	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	18,398	-	(18)	18,380	-	-	-		575	23,273	874	22,399
5	305	Collecting & Impounding Reservoirs	4.08%	-	-		-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-		-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	27,578	-	(9)	27,569	-	-	-		7,173	189,604	89,307	100,297
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%	169,714	-	(173)	169,541	-	-	-		6,419	242,095	37,369	204,727
12	320	Water Treatment Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
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%	-	-		-	-	-	-		7,355	180,280	74,343	105,937
17	330.2	Pressure Tanks	4.08%	-	-		-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	190,448	-		190,448	-	-	-		22,083	636,465	204,830	431,635
19	333	Services	4.08%	57,676	-		57,676	-	-	-		1,306	60,847	3,145	57,701
20	334	Meters	4.08%	-	-		-	-	-	-		127	3,109	2,040	1,069
21	335	Hydrants	4.08%	27,395	-		27,395	-	-	-		1,511	50,720	11,799	38,920
22	336	Backflow Prevention Devices	4.08%	-	-		-	-	-	-		-	-	-	-
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%	707	-		707	-	-	-		14	707	14	693
29	344	Laboratory Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	1,340	-		1,340	-	-	-		393	10,302	755	9,547
32	347	Miscellaneous Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-		-	-	-	-		43	1,056	567	488
34															
35		TOTAL		521,151	-	(200)	520,951	-	-	-	-	48,520	1,528,648	445,086	1,083,562
36															
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 3.11
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2003 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	21,564	15,731
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		950	23,273	1,824	21,450
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,604	97,042	92,561
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%	-	-	-	-	-	-		9,877	242,095	47,246	194,849
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		7,355	180,280	81,699	98,581
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	228,624	-	228,624	-	-	-		30,632	865,089	235,462	629,627
19	333	Services	4.08%	49,285	-	49,285	-	-	-		3,488	110,132	6,633	103,498
20	334	Meters	4.08%	4,163	-	4,163	-	-	-		212	7,272	2,252	5,020
21	335	Hydrants	4.08%	28,800	-	28,800	-	-	-		2,657	79,520	14,456	65,064
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	707	43	664
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	2,730	-	2,730	-	-	-		476	13,032	1,231	11,801
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	610	445
34														
35		TOTAL		313,602	-	313,602	-	-	-	-	64,976	1,842,250	510,062	1,332,187
36														
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 3.12
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2004 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	23,086	14,210
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		950	23,273	2,773	20,500
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,604	104,778	84,825
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	31,758	-	31,758	-	-	-		648	31,758	648	31,110
11	311	Pumping Equipment	4.08%	478,260	-	478,260	-	-	-		19,634	720,355	66,880	653,475
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	676,294	-	676,294	-	-	-		21,152	856,574	102,850	753,724
17	330.2	Pressure Tanks	4.08%	32,236	-	32,236	-	-	-		658	32,236	658	31,578
18	331	Transmission & Distribution Mains	4.08%	152,378	-	152,378	-	-	-		38,404	1,017,467	273,866	743,601
19	333	Services	4.08%	66,728	-	66,728	-	-	-		5,855	176,860	12,488	164,372
20	334	Meters	4.08%	13,737	-	13,737	-	-	-		577	21,008	2,829	18,180
21	335	Hydrants	4.08%	33,497	-	33,497	-	-	-		3,928	113,017	18,384	94,633
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	707	72	635
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	22,104	-	22,104	-	-	-		983	35,136	2,214	32,922
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	653	402
34														
35		TOTAL		1,506,992	-	1,506,992	-	-	-	-	102,116	3,349,242	612,178	2,737,063
36														
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 3.13
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2005 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	24,607	12,688
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	5,180	-	5,180	-	-	-		1,055	28,453	3,828	24,625
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,604	112,514	77,090
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,296	31,758	1,944	29,815
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-		29,390	720,355	96,270	624,084
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	137,799	718,775
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	1,973	30,263
18	331	Transmission & Distribution Mains	4.08%	338,638	663,178	1,001,816	-	-	-		61,950	2,019,283	335,816	1,683,468
19	333	Services	4.08%	71,348	69,718	141,066	-	-	-		10,094	317,926	22,582	295,345
20	334	Meters	4.08%	31,341	-	31,341	-	-	-		1,497	52,350	4,325	48,025
21	335	Hydrants	4.08%	42,926	87,308	130,235	-	-	-		7,268	243,252	25,652	217,600
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	707	101	606
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-		1,434	35,136	3,647	31,489
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	696	359
34														
35		TOTAL		489,434	820,205	1,309,639	-	-	-	-	159,576	4,658,881	771,754	3,887,127
36														
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 3.14
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2006 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	26,129	11,167
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		1,161	28,453	4,989	23,464
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,604	120,250	69,354
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	1,236	-	1,236	-	-	-		1,321	32,994	3,265	29,730
11	311	Pumping Equipment	4.08%	6,264	-	6,264	-	-	-		29,518	726,618	125,789	600,830
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	172,747	683,827
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	3,288	28,948
18	331	Transmission & Distribution Mains	4.08%	130,193	-	130,193	-	-	-		85,043	2,149,476	420,858	1,728,618
19	333	Services	4.08%	52,505	-	52,505	-	-	-		14,042	370,431	36,624	333,807
20	334	Meters	4.08%	17,067	-	17,067	-	-	-		2,484	69,417	6,809	62,608
21	335	Hydrants	4.08%	21,806	-	21,806	-	-	-		10,370	265,057	36,021	229,036
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	707	130	577
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-		1,434	35,136	5,081	30,055
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	740	316
34														
35		TOTAL		229,071	-	229,071	-	-	-	-	190,965	4,887,951	962,719	3,925,232
36														
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 3.15
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2007 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	27,651	9,645
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		1,161	28,453	6,150	22,303
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,604	127,986	61,618
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,346	32,994	4,611	28,384
11	311	Pumping Equipment	4.08%	1,691	-	1,691	-	-	-		29,681	728,309	155,469	572,840
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	207,695	648,879
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	4,603	27,633
18	331	Transmission & Distribution Mains	4.08%	431,026	-	431,026	-	-	-		96,492	2,580,502	517,350	2,063,152
19	333	Services	4.08%	192,670	-	192,670	-	-	-		19,044	563,101	55,668	507,433
20	334	Meters	4.08%	9,439	-	9,439	-	-	-		3,025	78,856	9,834	69,022
21	335	Hydrants	4.08%	70,900	-	70,900	-	-	-		12,261	335,957	48,282	287,676
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	1,416	-	1,416	-	-	-		29	1,416	29	1,387
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	707	159	549
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	4,980	-	4,980	-	-	-		1,535	40,116	6,616	33,500
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	783	273
34														
35		TOTAL		712,122	-	712,122	-	-	-	-	210,166	5,600,073	1,172,885	4,427,188
36														
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 3.16
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2008 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	29,172	8,123
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	4,325	-	4,325	-	-	-		1,249	32,778	7,399	25,379
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	990	(990)	-	-	-	-		7,736	189,604	135,721	53,882
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,346	32,994	5,957	27,037
11	311	Pumping Equipment	4.08%	87,378	-	87,378	-	47,642	47,642		30,526	768,045	138,353	629,693
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	242,643	613,931
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	5,919	26,318
18	331	Transmission & Distribution Mains	4.08%	363,405	-	363,405	-	-	-		112,698	2,943,907	630,048	2,313,859
19	333	Services	4.08%	144,958	-	144,958	-	-	-		25,932	708,060	81,600	626,460
20	334	Meters	4.08%	-	-	-	-	-	-		3,217	78,856	13,051	65,805
21	335	Hydrants	4.08%	65,437	-	65,437	-	-	-		15,042	401,394	63,324	338,071
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-		58	1,416	87	1,329
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	707	188	520
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	4,700	-	4,700	-	-	-		1,733	44,817	8,349	36,468
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	826	230
34														
35		TOTAL		671,194	(990)	670,204	-	47,642	47,642	-	237,393	6,222,635	1,362,636	4,859,999
36														
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 3.17
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009 Plant Additions	Plant Adjustments	Capitalized Interest	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-		-	-	-	-		1,522	37,295	30,694	6,602
2	302	Franchise Cost	0.00%	-	-		-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-		-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-		-	-	-	-		1,337	32,778	8,737	24,042
5	305	Collecting & Impounding Reservoirs	4.08%	-	-		-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-		-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	251,984	(2,552)	249,432	-	-	-		12,824	439,035	148,546	290,489
8	308	Infiltration Galleries	4.08%	-	-		-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-		-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	4,624	-		4,624	-	-	-		1,440	37,618	7,397	30,221
11	311	Pumping Equipment	4.08%	536,600	(253,063)		283,538	-	-	-		37,120	1,051,583	175,473	876,110
12	320	Water Treatment Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
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%	-	-		-	-	-	-		34,948	856,574	277,591	578,983
17	330.2	Pressure Tanks	4.08%	-	-		-	-	-	-		1,315	32,236	7,234	25,002
18	331	Transmission & Distribution Mains	4.08%	88,544	-		88,544	-	-	-		121,918	3,032,451	751,966	2,280,485
19	333	Services	4.08%	42,432	-		42,432	-	-	-		29,754	750,491	111,354	639,137
20	334	Meters	4.08%	-	-		-	-	-	-		3,217	78,856	16,269	62,587
21	335	Hydrants	4.08%	22,336	-		22,336	-	-	-		16,833	423,730	80,156	343,574
22	336	Backflow Prevention Devices	4.08%	-	-		-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-		-	-	-	-		58	1,416	144	1,271
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	707	216	491
29	344	Laboratory Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	1,175	-		1,175	-	-	-		1,852	45,992	10,201	35,790
32	347	Miscellaneous Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-		-	-	-	-		43	1,056	869	187
34															
35		TOTAL		695,710	(1,079)	(2,552)	692,079	-	-	-	-	264,212	6,914,714	1,626,847	5,287,866
36															
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 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	32,215	5,080
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		1,337	32,778	10,074	22,704
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		17,913	439,035	166,458	272,577
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,535	37,618	8,932	28,686
11	311	Pumping Equipment	4.08%	13,723	-	13,723	76,170	-	76,170		41,631	989,136	140,934	848,202
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	312,540	544,034
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	8,549	23,687
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		123,724	3,032,451	875,690	2,156,761
19	333	Services	4.08%	-	-	-	-	-	-		30,620	750,491	141,974	608,517
20	334	Meters	4.08%	5,224	-	5,224	-	-	-		3,324	84,080	19,593	64,488
21	335	Hydrants	4.08%	-	-	-	-	-	-		17,288	423,730	97,444	326,286
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-		58	1,416	202	1,214
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	707	245	462
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	3,937	-	3,937	-	-	-		1,957	49,929	12,158	37,771
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	912	144
34														
35		TOTAL		22,884	-	22,884	76,170	-	76,170	-	277,243	6,861,428	1,827,921	5,033,507
36														
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	2011 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (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%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	15,263	-	15,263	-	-	-		1,649	48,041	11,723	36,318
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	469,316	(76,664)	392,652	-	-	-		25,923	831,687	192,381	639,306
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,535	37,618	10,467	27,151
11	311	Pumping Equipment	4.08%	298,688	-	298,688	510,205	(211,574)	298,631		40,358	989,193	(117,340)	1,106,532
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		192	-	192	(192)
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%	-	-	-	-	-	-		34,948	856,574	347,488	509,086
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	9,864	22,372
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		123,724	3,032,451	999,414	2,033,037
19	333	Services	4.08%	1,664	-	1,664	-	-	-		30,654	752,155	172,628	579,527
20	334	Meters	4.08%	-	-	-	-	-	-		3,430	84,080	23,023	61,057
21	335	Hydrants	4.08%	-	-	-	-	-	-		17,288	423,730	114,733	308,997
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-		58	1,416	260	1,156
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	707	274	433
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	8,461	-	8,461	-	4,980	4,980		2,108	53,410	9,286	44,124
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	955	101
34														
35		TOTAL		793,392	(76,664)	716,728	510,205	(206,594)	303,611	-	284,776	7,274,545	1,809,085	5,465,460
36														
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 3.20
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	35,259	2,037
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	12,843	-	12,843	-	-	-		2,222	60,884	13,945	46,939
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		33,933	831,687	226,314	605,373
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,535	37,618	12,002	25,616
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-		40,359	989,193	(76,980)	1,066,173
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		(192)	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	382,436	474,138
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	11,179	21,057
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		123,724	3,032,451	1,123,138	1,909,313
19	333	Services	4.08%	9,089	-	9,089	-	-	-		30,873	761,244	203,502	557,743
20	334	Meters	4.08%	1,026	-	1,026	-	-	-		3,451	85,106	26,474	58,631
21	335	Hydrants	4.08%	-	-	-	-	-	-		17,288	423,730	132,021	291,709
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	655	-	655	-	-	-		71	2,071	331	1,740
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%	809	-	809	-	-	-		45	1,517	320	1,197
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	3,784	-	3,784	-	-	-		2,256	57,194	11,543	45,651
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	998	58
34														
35		TOTAL		28,205	-	28,205	-	-	-	-	293,395	7,302,750	2,102,480	5,200,271
36														
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 3.21
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2013 Plant Additions	Plant Adjustments	Capitalize Testing Exp	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-		-	-	-	-	(36,780)	1,522	37,295	0	37,295
2	302	Franchise Cost	0.00%	-	-		-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-		-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	14,540	-		14,540	-	-	-		2,781	75,424	16,725	58,698
5	305	Collecting & Impounding Reservoirs	4.08%	-	-		-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-		-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	4,013	4,013	-	-	-		34,015	835,700	260,329	575,372
8	308	Infiltration Galleries	4.08%	-	-		-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-		-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-		-	-	-	-		1,535	37,618	13,537	24,081
11	311	Pumping Equipment	4.08%	152,499	-		152,499	-	-	-		43,470	1,141,692	(33,510)	1,175,202
12	320	Water Treatment Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
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%	-	-		-	-	-	-		34,948	856,574	417,384	439,190
17	330.2	Pressure Tanks	4.08%	-	-		-	-	-	-		1,315	32,236	12,495	19,741
18	331	Transmission & Distribution Mains	4.08%	161,710	-		161,710	-	-	-		127,023	3,194,161	1,250,160	1,944,001
19	333	Services	4.08%	129,987	-		129,987	-	-	-		33,711	891,232	237,212	654,019
20	334	Meters	4.08%	5,209	-		5,209	-	-	-		3,579	90,315	30,053	60,262
21	335	Hydrants	4.08%	53,451	-		53,451	-	-	-		18,379	477,182	150,399	326,782
22	336	Backflow Prevention Devices	4.08%	-	-		-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-		-	-	-	-		84	2,071	416	1,655
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%	883	-		883	-	-	-		80	2,399	399	2,000
29	344	Laboratory Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	-	-		-	-	-	-		2,334	57,194	13,876	43,318
32	347	Miscellaneous Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-		-	-	-	-		43	1,056	1,041	15
34															
35		TOTAL		518,280	-	4,013	522,293	-	-	-	(36,780)	304,817	7,825,043	2,370,517	5,454,526
36															
37															
38															

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

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Acct. No.	Description	Per Books Accum. Depr.	A 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.
6	301	Organization Cost	$ 36,273			$ (36,780)	$ 507		$ (0)	$ 0
7	302	Franchise Cost	-				-		-	-
8	303	Land and Land Rights	-				-		-	-
9	304	Structures and Improvements	16,734	(8)			-		0	16,725
10	305	Collecting and Impounding Res.	-				-		-	-
11	306	Lake River and Other Intakes	-				-		-	-
12	307	Wells and Springs	258,516	(473)	82		2,204		(0)	260,329
13	308	Infiltration Galleries and Tunnels	-				-		-	-
14	309	Supply Mains	-				-		-	-
15	310	Power Generation Equipment	13,537				-		-	13,537
16	311	Electric Pumping Equipment	(39,241)	(81)			754	5,058	0	(33,510)
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	377,367				2,452		37,566	417,384
22	330.2	Pressure Tanks	12,495				-		-	12,495
23	331	Trans. and Dist. Mains	1,244,095				6,066		-	1,250,160
24	333	Services	237,169				43		-	237,212
25	334	Meters	30,053				-		-	30,053
26	335	Hydrants	150,082				317		-	150,399
27	336	Backflow Prevention Devices	-				-		-	-
28	339	Other Plant and Misc. Equip.	-				-		-	-
29	340	Office Furniture and Fixtures	416				-		(0)	416
30	340.1	Computers and Software	-				-		-	-
31	341	Transportation Equipment	-				-		-	-
32	342	Stores Equipment	-				-		-	-
33	343	Tools and Work Equipment	399				-		-	399
34	344	Laboratory Equipment	-				-		-	-
35	345	Power Operated Equipment	-				-		-	-
36	346	Communications Equipment	13,876				-		-	13,876
37	347	Miscellaneous Equipment	-				-		-	-
38	348	Other Tangible Plant	1,027				14		-	1,041
39		Loss on Plant Disposition	-							-
40		TOTALS	$ 2,352,796	$ (562)	$ 82	$ (36,780)	$ 49,923	$ 5,058	$ 0	$ 2,370,517
41										
42	Adjusted Accumulated Depreciation									$ 2,352,796
43										
44	Increase (decrease) in Accumulated Depreciation									$ 17,720
45										
46	Adjustment to Accumulated Depreciation									$ 17,720
47										
48	SUPPORTING SCHEDULES									
49	B-2, pages 4.1 to 4.6									
50										

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

Acct. No.	Description	Adjustment	Year	Rate	No. of Years	A/D Adjustment
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

Acct. No.	Description	Adjustment	Year	Rate	No. of Years	A/D Adjustment
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.		A/D
5	No.	Description	Adjustment
6	301	Organization Cost	(36,780)
7			
8			
9			
10			
11			
12			
13			
14			
15			
16		TOTALS	$ (36,780)
17			
18			
19	SUPPORTING SCHEDULE		
20			
21			

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 No.

1 Correction to Depreication Expense 1998

Line No.	Acct. No.	Description	Per Rebuttal	Per Direct	A/D Adjustment
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
40		TOTALS	$ 35,549	$ (13,867)	$ 49,416

42 SUPPORTING SCHEDULE
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

Line No.	Acct. No.	Description		Year	Per Direct	Per Rebuttal	A/D Adjustment
6	311	Electric Pumping Equipment	Retirement		303,221	298,631	4,590
10	311	Electric Pumping Equipment	Depreciation	2011	Depr Rate 4.08%	Years 2.50	468
16							$ 5,058

18 SUPPORTING SCHEDULE
19 B-2, page 3.3
20

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.

1 Reconciliation of A/D to A/D Reconstruction

Acct. No.	Description	A/D Adjusted per Direct	B-2 Adjustments	A/D Adjusted Per Rebuttal	A/D Per Reconstruction	A/D Adjustment
301	Organization Cost	36,273	(36,273)	0	0	(0)
302	Franchise Cost	-	-	-	-	-
303	Land and Land Rights	-	-	-	-	-
304	Structures and Improvements	16,734	(8)	16,725	16,725	0
305	Collecting and Impounding Res.	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-
307	Wells and Springs	258,516	1,813	260,329	260,329	(0)
308	Infiltration Galleries and Tunnels	-	-	-	-	-
309	Supply Mains	-	-	-	-	-
310	Power Generation Equipment	13,537	-	13,537	13,537	-
311	Electric Pumping Equipment	(39,241)	5,731	(33,510)	(33,510)	0
320	Water Treatment Equipment	-	-	-	-	-
320.1	Water Treatment Plant	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-
330	Dist. Reservoirs & Standpipe	-	37,566	37,566	-	(37,566)
330.1	Storage tanks	377,367	2,452	379,818	417,384	37,566
330.2	Pressure Tanks	12,495	-	12,495	12,495	-
331	Trans. and Dist. Mains	1,244,095	6,066	1,250,160	1,250,160	-
333	Services	237,169	43	237,212	237,212	-
334	Meters	30,053	-	30,053	30,053	-
335	Hydrants	150,082	317	150,399	150,399	-
336	Backflow Prevention Devices	-	-	-	-	-
339	Other Plant and Misc. Equip.	-	-	-	-	-
340	Office Furniture and Fixtures	416	-	416	416	(0)
340.1	Computers and Software	-	-	-	-	-
341	Transportation Equipment	-	-	-	-	-
342	Stores Equipment	-	-	-	-	-
343	Tools and Work Equipment	399	-	399	399	-
344	Laboratory Equipment	-	-	-	-	-
345	Power Operated Equipment	-	-	-	-	-
346	Communications Equipment	13,876	-	13,876	13,876	-
347	Miscellaneous Equipment	-	-	-	-	-
348	Other Tangible Plant	1,027	14	1,041	1,041	-
	Loss on Plant Disposition		-	-	-	-
	TOTALS	$ 2,352,796	$ 17,720	$ 2,370,517	$ 2,370,517	$ 0

SUPPORTING SCHEDULE
B-2, pages 4.1 through 4.2
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

Exhibit
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

Deferred Income Tax as of December 31, 2013

Line No.			Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
1		**Deferred Income Tax as of December 31, 2013**									
6		Plant-in-Service	$ 7,825,043 [1]								
7		Accum. Deprec.	(2,370,517) [1]								
8		CIAC	(535,758) [3]								
9	Fed.	Fixed Assets	$ 4,918,768	$ 2,025,324 [2]	100.0%	$ (2,893,444)	34.30%		-		(992,466)
11	State	Fixed Assets	$ 4,918,768	$ 2,025,324 [2]	100.0%	$ (2,893,444)	4.90%		-		(141,779)
13	Fed &State	AIAC		180,221 [4]	100.0%	$ 180,221 [4]	39.20%		$ 70,648		
16								$ -	$ 70,648	$ -	$ (1,134,245)
17		Net Asset (Liability)						$ (1,063,597)			
20		DIT Asset (Liability) per Direct						$ (1,071,725)			
22		Adjustment to DIT						$ (8,128)			

29 Footnotes - See page 5.1

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

Exhibit
Rebuttal Schedule B-2
Page 5.1
Witness: Bourassa

Line No.		FEDERAL			STATE		
1	[1] **Per adjusted book balances**						
2	[2] **Computation of Net Tax Value December 31, 2013**						
3	Based on 2013 Tax Depreciation report (December 31, 2013)						
4	Unadjusted Cost at December 31, 2013 per federal and state tax depr. report	$ 7,545,070			$ 7,545,070		
5	Reconciling Items not on tax report:						
6	Proposed Plant Adjustments	1,261			1,261		
7							
8							
9							
10							
11	Net Unadjusted Cost tax Basis at December 31, 2013			$ 7,546,331			$ 7,546,331
12							
13	Reductions						
14	Accumulated Depreciation 2013 and prior per federal and state tax depr. report	$ (5,521,695)			$ (5,521,695)		
15							
16	Tax Depreication Related to Proposed Plant Adjustments	688			688		
17					-		
18					-		
19					-		
20							
21				(5,521,007)			(5,521,007)
22	Net Reductions through December 31, 2013			$ 2,025,324			$ 2,025,324
23	Net tax value of plant-in-service at December 31, 2013						
24							
25	[3] **CIAC (including impact of change to probability of realization)**						
26	Gross CIAC per adjusted book balances		$ 820,205				
27	CIAC reductions/addtions						
28	A.A per adjusted book balances	$ (284,447)					
29		-					
30			(284,447)				
31	Net CIAC before unrealized AIAC			$ 535,758			
32							
33	Unrealized AIAC Component						
34	AIAC per adjusted book balances		$ -				
35	Adjusted Net AIAC (see footnote 5 below)		70.0%				
36	Unrealized AIAC Component % (1-Realized AIAC Component)			$ -			
37				$ 535,758			
38	Total realizable CIAC						
39							
40	[4] **AIAC (including impact of change in probability of realization)**						
41	AIAC per adjusted book balances			$ -			
42	Less: Unrealized AIAC (from Note 3, above)			$ -			
43							
44	Subtotal			$ -			
45	Meter and Service Line Installation Charges per adjusted book balances			180,221			
46	Total realizable AIAC			$ 180,221			
47							

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		Adjusted Test Year	
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	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
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		$ 844,719	$ -	$ 844,719	$ 402,921	$ 1,247,640
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**	$ 725,756	$ (6,717)	$ 719,039	$ 161,105	$ 880,145
34	**Operating Income**	$ 118,963	$ 6,717	$ 125,680	$ 241,815	$ 367,495
35	**Other Income (Expense)**					
36	Interest Income	-	-	-		-
37	Other income	-	-	-		-
38	Interest Expense	-	-	-		-
39	Other Expense	-	-	-		-
40		-	-	-		-
41	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
42	**Net Profit (Loss)**	$ 118,963	$ 6,717	$ 125,680	$ 241,815	$ 367,495
43						
44	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
45	C-1, page 2				A-1	
46						
47						

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

Exhibit
Rebuttal Schedule C-1
Page 2
Witness: Bourassa

Line No.		LABEL>>>>> Adjusted Book Results	1 Depreciation	2 Property Taxes	3 Water Testing Expense	4 Transportation Expense	5 Misc Expense	6 Intentionally Left Blank	7 Intentionally Left Blank	8 Income Taxes	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													
6	**Operating Expenses**	$ 844,719	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 844,719	$ 402,921	$ 1,247,640
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**	$ 725,756	$ 600	$ -	$ (5,256)	$ (2,136)	$ (4,787)	$ -	$ -	$ 4,862	$ 719,039	$ 161,105	$ 880,145
34	**Operating Income**	$ 118,963	$ (600)	$ -	$ 5,256	$ 2,136	$ 4,787	$ -	$ -	$ (4,862)	$ 125,680	$ 241,815	$ 367,495
35	**Other Income (Expense)**												
36	Interest Income	-							-		-		-
37	Other income	-							-		-		-
38	*Interest Expense*	-							-		-		-
39	Other Expense	-							-		-		-
40		-							-		-		-
41	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
42	**Net Profit (Loss)**	$ 118,963	$ (600)	$ -	$ 5,256	$ 2,136	$ 4,787	$ -	$ -	$ (4,862)	$ 125,680	$ 241,815	$ 367,495
43													
44	SUPPORTING SCHEDULES:												
45	C-2												
46													

RECAP SCHEDULES:
C-1, page 1

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

Exhibit
Rebuttal Schedule C-2
Page 1
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Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	
		Depreciation	Property Taxes	Water Testing Expense	Transportation Expense	Misc Expense	Intentionally Left Blank	Subtotal
4	Revenues				-		-	-
6	Expenses	600	-	(5,256)	(2,136)	(4,787)	-	(11,579)
8	Operating							
9	Income	(600)	-	5,256	2,136	4,787	-	11,579
11	Interest							
12	Expense							-
13	Other							
14	Income /							-
15	Expense							
17	Net Income	(600)	-	5,256	2,136	4,787	-	11,579

Line No.		Adjustments to Revenues and Expenses						
		7	8	9	10	11	12	
		Intentionally Left Blank	Income Taxes	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Subtotal
25	Revenues							-
27	Expenses	-	4,862	-	-	-	-	(6,717)
29	Operating							
30	Income	-	(4,862)	-	-	-	-	6,717
32	Interest							
33	Expense	-						-
34	Other							
35	Income /	-						-
36	Expense							
38	Net Income	-	(4,862)	-	-	-	-	6,717

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

Exhibit
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Depreciation Expense

Line No.	Acct. No.	Description	Original Cost	Non-Depr. or Fully Depr. Plant	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1							
2							
5	301	Organization Cost	$ 37,295		$ 37,295	0.00%	$ -
6	302	Franchise Cost	-	-	-	0.00%	-
7	303	Land and Land Rights	92,895	(92,895)	-	0.00%	-
8	304	Structures and Improvements	75,424		75,424	3.33%	2,512
9	305	Collecting and Impounding Res.	-		-	2.50%	-
10	306	Lake River and Other Intakes	-		-	2.50%	-
11	307	Wells and Springs	835,700		835,700	3.33%	27,829
12	308	Infiltration Galleries and Tunnels	-		-	6.67%	-
13	309	Supply Mains	-		-	2.00%	-
14	310	Power Generation Equipment	37,618		37,618	5.00%	1,881
15	311	Electric Pumping Equipment	1,141,692		1,141,692	12.50%	142,711
16	320	Water Treatment Equipment	-		-	3.33%	-
17	320.1	Water Treatment Plant	-		-	3.33%	-
18	320.2	Chemical Solution Feeders	-		-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	-		-	2.22%	-
20	330.1	Storage tanks	856,574		856,574	2.22%	19,016
21	330.2	Pressure Tanks	32,236		32,236	5.00%	1,612
22	331	Trans. and Dist. Mains	3,194,161		3,194,161	2.00%	63,883
23	333	Services	891,232		891,232	3.33%	29,678
24	334	Meters	90,315		90,315	8.33%	7,523
25	335	Hydrants	477,182		477,182	2.00%	9,544
26	336	Backflow Prevention Devices	-		-	6.67%	-
27	339	Other Plant and Misc. Equip.	-		-	6.67%	-
28	340	Office Furniture and Fixtures	2,071		2,071	6.67%	138
29	340.1	Computers and Software	-		-	20.00%	-
30	341	Transportation Equipment	-		-	20.00%	-
31	342	Stores Equipment	-		-	4.00%	-
32	343	Tools and Work Equipment	2,399		2,399	5.00%	120
33	344	Laboratory Equipment	-		-	10.00%	-
34	345	Power Operated Equipment	-		-	5.00%	-
35	346	Communications Equipment	57,194		57,194	10.00%	5,719
36	347	Miscellaneous Equipment	-		-	10.00%	-
37	348	Other Tangible Plant	1,056		1,056	10.00%	106
38		TOTALS	$ 7,825,043	$ (92,895)	$ 7,732,147		$ 312,272
39							
40	Less: Amortization of Contributions				Gross CIAC	Amort. Rate	
41	331	Trans. and Dist. Mains			$ 663,178	2.00%	$ (13,264)
42	333	Services			$ 69,718	3.33%	(2,322)
43	335	Hydrants			$ 87,308	2.00%	(1,746)
44		Total CIAC			$ 820,205		$ (17,331)
45	Total Depreciation Expense						$ 294,940
46							
47	Adjusted Test Year Depreciation Expense						294,340
48							
49	Increase (decrease) in Depreciation Expense						$ 600
50							
51	Adjustment to Revenues and/or Expenses						$ 600
52							
53	SUPPORTING SCHEDULE						
54	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
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Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 844,719	$ 844,719
2	Weight Factor	3	2
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 Mutilplier	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	2,432	2,432
18	Total Property Taxes (Line 16 + Line 17)	$ 35,106	
19	Test Year Property Taxes	$ 35,106	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	$ -	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 40,301
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 35,106
24	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 5,195**
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			
33			
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Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and Expenses
Adjustment Number 3

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Water Testing Expense

Line No.			
1			
2			
3	Staff Reccommended Water Testing Expense	$	7,608
4			
5	Test Year Water Testing Expense		12,864
6			
7	Increase (decrease) in Water Testing Expense	$	(5,256)
8			
9			
10	Adjustment to Revenue and/or Expense	$	(5,256)
11			
12			
13			
14			
15			
16	Reference		
17	Staff Schedule JAC-9		
18			
19			
20			

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

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Transportation Expense

Line No.			
1			
2	Staff Reccommended Transportation Expense	$	10,931
3			
4	Test Year Transportation Expense		13,067
5			
6	Increase (decrease) in Transportation Expense	$	(2,136)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(2,136)
10			
11			
12			
13			
14			
15	Reference		
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

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Miscellaneous Expense

Line No.			
1			
2	Staff Reccommended Miscellaneous Expense	$	7,954
3			
4	Test Year Miscellaneous Expense		12,741
5			
6	Increase (decrease) in Miscellaneous Expense	$	(4,787)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(4,787)
10			
11			
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14			
15	Reference		
16	Staff Schedule JAC-11		
17			
18			
19			
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Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and Expenses
Adjustment Number 6

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

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Rebuttal Schedule C-2
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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

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Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Computed Income Tax	$ 62,095	$ 218,005
5	Test Year Income tax Expense	57,233	62,095
6	Adjustment to Income Tax Expense	$ 4,862	$ 155,910
7			
8			
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13	SUPPORTING SCHEDULE		
14	C-3, page 2		
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Quail Creek Water Company
Test Year Ended December 31, 2013
Computation of Gross Revenue Conversion Factor

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Rebuttal Schedule C-3
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Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
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 = Gross Revenue Conversion Factor	
14	Operating Income %	1.6662
15		
16		
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25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1
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Quail Creek Water Company
Test Year Ended December 31, 2013

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GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	[E]	[F]
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	Uncollecible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.9844%					
5	Subtotal (L3 - L4)	60.0156%					
6	**Revenue Conversion Factor (L1 / L5)**	1.666234					
	Calculation of Uncollectible Factor:						
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%				
	Calculation of Effective Tax Rate:						
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%				
	Calculation of Effective Property Tax Factor						
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	AdjustedTest 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]
		Test Year			Company Recommended		
		Total Water	Intentionally Left Blank	Water	Total Water	Intentionally Left Blank	Water
	Calculation of Income Tax:						
39	Revenue	$ 844,719		$ 844,719	$ 1,247,640		$ 1,247,640
40	Operating Expenses Excluding Income Taxes	656,945		656,945	662,140		662,140
41	Synchronized Interest (L47)	-		-	-		-
42	Arizona Taxable Income (L39 - L40 - L41)	$ 187,775		$ 187,775	$ 585,501		$ 585,500
43	Arizona State Income Tax Rate	4.9000%		4.9000%	4.9000%		4.9000%
44	Arizona Income Tax (L42 x L43)	$ 9,201		$ 9,201	$ 28,690		$ 28,690
45	Federal Taxable Income (L42- L44)	$ 178,574		$ 178,574	$ 556,812		$ 556,811
46							
47	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 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
49	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500		$ 8,500	$ 8,500		$ 8,500
50	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 30,644		$ 30,644	$ 91,650		$ 91,650
51	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -		$ -	$ 75,416		$ 75,416
52							
53	Total Federal Income Tax	$ 52,894		$ 52,894	$ 189,316		$ 189,316
54	Combined Federal and State Income Tax (L35 + L42)	$ 62,095		$ 62,095	$ 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:		Water
58	Rate Base		$ 3,674,950
59	Weighted Average Cost of Debt		0.0000%
60	Synchronized Interest (L59 X L60)		$ -

Quail Creek Water Company
Revenue Summary
Test Year Ended December 31, 2013

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Rebuttal Schedule H-1
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Witness: Bourassa

Line No.	Meter Size	Classification	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	$ 654,321	$ 937,763	$ 283,442	43.32%	77.46%	75.16%
2	3/4 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
3	1 Inch	Residential	64,595	97,874	33,279	51.52%	7.65%	7.84%
4	1 1/2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
5	2 Inch	Residential	3,424	5,825	2,401	70.14%	0.41%	0.47%
6								
7	5/8x3/4 Inch	Commercial	$ 20,007	$ 32,272	$ 12,264	61.30%	2.37%	2.59%
8	3/4 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
9	1 Inch	Commercial	11,118	20,627	9,509	85.53%	1.32%	1.65%
10	1 1/2 Inch	Commercial	9,942	18,667	8,725	87.75%	1.18%	1.50%
11	2 Inch	Commercial	28,157	49,080	20,922	74.30%	3.33%	3.93%
12	3 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
13	6 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
14								
15	5/8x3/4 Inch	Irrigation	$ 10,246	$ 19,096	$ 8,850	86.38%	1.21%	1.53%
16	3/4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
17	1 Inch	Irrigation	2,514	4,451	1,937	77.04%	0.30%	0.36%
18	1 1/2 Inch	Irrigation	3,957	7,121	3,164	79.96%	0.47%	0.57%
19	2 Inch	Irrigation	9,033	16,553	7,520	83.25%	1.07%	1.33%
20	3 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
21	4 Inch	Irrigation	6,753	10,780	4,027	59.62%	0.80%	0.86%
22								
23								
24								
25								
26								
27	**Subtotals of Revenues**		$ 824,068	$ 1,220,108	$ 396,040	48.06%	97.56%	97.79%
28								
29	**Revenue Annualizations:**							
30	5/8x3/4 Inch	Residential	$ 9,969	$ 13,922	$ 3,953	39.66%	1.18%	1.12%
31	3/4 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
32	1 Inch	Residential	(44)	(67)	(23)	51.78%	-0.01%	-0.01%
33	1 1/2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
34	2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
35								
36	5/8x3/4 Inch	Commercial	$ 1,589	$ 2,476	$ 887	55.87%	0.19%	0.20%
37	3/4 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
38	1 Inch	Commercial	2,037	3,582	1,545	75.85%	0.24%	0.29%
39	1 1/2 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
40	2 Inch	Commercial	(1,765)	(2,960)	(1,194)	67.65%	-0.21%	-0.24%
41	3 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
42	6 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
43								
44	5/8x3/4 Inch	Irrigation	$ (36)	$ (98)	$ (62)	170.69%	0.00%	-0.01%
45	3/4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
46	1 Inch	Irrigation	152	245	93	61.18%	0.02%	0.02%
47	1 1/2 Inch	Irrigation	2,006	3,635	1,629	81.21%	0.24%	0.29%
48	2 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
49	3 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
50	4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
51								
52	**Subtotal Revenue Annualization**		$ 13,906	$ 20,735	$ 6,829	49.11%	1.65%	2.45%
53								
54	**Total Revenues w/ Annualization**		$ 837,974	$ 1,240,843	$ 402,869	48.08%	99.20%	99.46%
55	**Misc Revenues**		7,353	7,353	-	0.00%	0.87%	0.59%
56	**Reconciling Amount**		(608)	(556)	52	-8.55%	-0.07%	-0.04%
57	**Total Revenues**		$ 844,719	$ 1,247,640	$ 402,921	47.70%	100.00%	100.00%
58								
59								

Quail Creek Water Company
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2013

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		Average Number of Customers at 12/31/2013	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	5/8x3/4 Inch	Residential	1,757	5,725	$ 31.03	$ 43.33	$ 12.30	39.64%	88.85%
2	3/4 Inch	Residential	-	-	$ 20.00	$ 28.30	$ 8.30	41.50%	0.00%
3	1 Inch	Residential	129	5,965	41.70	62.99	21.29	51.05%	6.53%
4	1 1/2 Inch	Residential	-	-	50.00	70.75	20.75	41.50%	0.00%
5	2 Inch	Residential	1	73,325	285.31	475.03	189.72	66.49%	0.05%
6									
7	5/8x3/4 Inch	Commercial	53	5,808	$ 31.26	48.11	16.85	53.90%	2.70%
8	3/4 Inch	Commercial	-	-	20.00	28.30	8.30	41.50%	0.00%
9	1 Inch	Commercial	8	34,704	122.17	215.52	93.35	76.40%	0.38%
10	1 1/2 Inch	Commercial	3	80,778	276.18	497.28	221.10	80.06%	0.15%
11	2 Inch	Commercial	9	70,019	276.05	456.08	180.03	65.22%	0.43%
12	3 Inch	Commercial	-	-	150.00	212.25	62.25	41.50%	0.00%
13	6 Inch	Commercial	-	-	500.00	707.50	207.50	41.50%	0.00%
14									
15	5/8x3/4 Inch	Irrigation	11	22,577	$ 78.21	$ 139.58	$ 61.37	78.46%	0.55%
16	3/4 Inch	Irrigation	-	-	20.00	28.30	8.30	41.50%	0.00%
17	1 Inch	Irrigation	3	18,277	76.18	121.40	45.22	59.36%	0.14%
18	1 1/2 Inch	Irrigation	1	70,475	247.33	438.25	190.92	77.19%	0.07%
19	2 Inch	Irrigation	2	105,846	376.37	661.36	284.99	75.72%	0.10%
20	3 Inch	Irrigation	-	-	150.00	212.25	62.25	41.50%	0.00%
21	4 Inch	Irrigation	1	111,709	562.78	870.92	308.13	54.75%	0.05%
22									
23									
24									
25									
26									
27									
28									
29	Totals		1,978						
30									100.00%
31	Actual Year End Number								
32	of Customers:		2,011						
33									
34									
35									
36									

Quail Creek Water Company
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2013

Exhibit
Rebuttal Schedule H-2
Page 2
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		Average Number of Customers at 12/31/2013	Median Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	5/8x3/4 Inch	Residential	1,757	4,500	$ 27.60	$ 37.66	$ 10.06	36.44%	88.85%
2	3/4 Inch	Residential	-	-	$ 20.00	$ 28.30	$ 8.30	41.50%	0.00%
3	1 Inch	Residential	129	4,500	$ 37.60	$ 56.21	$ 18.61	49.49%	6.53%
4	1 1/2 Inch	Residential	-	-	$ 50.00	$ 70.75	$ 20.75	41.50%	0.00%
5	2 Inch	Residential	1	70,000	$ 276.00	$ 455.97	$ 179.97	65.21%	0.05%
6									
7	5/8x3/4 Inch	Commercial	53	2,500	$ 22.00	$ 32.80	$ 10.80	49.09%	2.70%
8	3/4 Inch	Commercial	-	-	$ 20.00	$ 28.30	$ 8.30	41.50%	0.00%
9	1 Inch	Commercial	8	6,500	$ 43.20	$ 65.47	$ 22.27	51.55%	0.38%
10	1 1/2 Inch	Commercial	3	-	$ 50.00	$ 70.75	$ 20.75	41.50%	0.15%
11	2 Inch	Commercial	9	42,500	$ 199.00	$ 309.96	$ 110.96	55.76%	0.43%
12	3 Inch	Commercial	-	-	$ 150.00	$ 212.25	$ 62.25	41.50%	0.00%
13	6 Inch	Commercial	-	-	$ 500.00	$ 707.50	$ 207.50	41.50%	0.00%
14									
15	5/8x3/4 Inch	Irrigation	11	500	$ 16.40	$ 23.54	$ 7.14	43.54%	0.55%
16	3/4 Inch	Irrigation	-	-	20.00	28.30	8.30	41.50%	0.00%
17	1 Inch	Irrigation	3	-	25.00	35.38	10.38	41.50%	0.14%
18	1 1/2 Inch	Irrigation	1	55,000	204.00	349.58	145.58	71.36%	0.07%
19	2 Inch	Irrigation	2	26,000	152.80	233.57	80.77	52.86%	0.10%
20	3 Inch	Irrigation	-	-	150.00	212.25	62.25	41.50%	0.00%
21	4 Inch	Irrigation	1	80,000	474.00	724.12	250.12	52.77%	0.05%
22									
23									
24									
25									
26									
27									
28									
29	Totals		1,978						100.00%
30									
31	Actual Year End Number								
32	of Customers:		2,011						
33									
34									
35									
36									

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

Exhibit
Rebuttal Schedule H-3
Page 1

Line No.	Monthly Usage Charge for:	Present Rates	Proposed Rates	Change	Percent Change
1	Meter Size (All Classes):				
2	5/8x3/4 Inch	$ 15.00	$ 21.23	$ 6.23	41.50%
2	3/4 Inch	20.00	28.30	8.30	41.50%
3	1 Inch	25.00	35.38	10.38	41.50%
4	1 1/2 Inch	50.00	70.75	20.75	41.50%
5	2 Inch	80.00	113.20	33.20	41.50%
6	3 Inch	150.00	212.25	62.25	41.50%
7	4 Inch	250.00	353.75	103.75	41.50%
8	6 Inch	500.00	707.50	207.50	41.50%
9	Standpipe	-	-	-	NM
10					
11					
12	Gallons In Minimum (all classes)	-	-		
13					
14					
15					
16					
17					
18					

Line No.	Commodity Rates (per 1,000 gallons)	Block	Present Rate	Proposed Rate
19				
20				
21	5/8x3/4 Inch (all classes)	Over Minimum	$ 2.80	
22				
23	5/8x3/4 Inch - Residential	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	1 gallons to 10,000 gallons		$ 4.63
28		over 10,000 gallons		$ 5.73
29				
30	3/4 Inch Meter (all classes)	Over Minimum	$ 2.80	
31				
32	3/4 Inch Meter - Residential	1 gallons to 4,000 gallons		$ 3.53
33		4,001 gallons to 10,000 gallons		$ 4.63
34		over 10,000 gallons		$ 5.73
35				
36	3/4 Inch Meter - Non-residential	1 gallons to 10,000 gallons		$ 4.63
37		over 10,000 gallons		$ 5.73
38				
39				
40				
41				
42				
43	NM = not meaningful			
44	NT = No Tariff			
45				

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

Exhibit
Rebuttal Schedule H-3
Page 2

Line No.		Block	Present Rate	Proposed Rate
1				
2				
3	**Commodity Rates (per 1,000 gallons)**			
4	1 Inch Meter (all classes)	Over Minimum	$ 2.80	
5				
6	1 Inch Meter (all classes)	1 gallons to 17,000 gallons		$ 4.63
7		over 17,000 gallons		$ 5.73
8				
9	1.5 Inch Meter (all classes)	Over Minimum	$ 2.80	
10				
11	1.5 Inch Meter - (all classes)	1 gallons to 33,000 gallons		$ 4.63
12		over 33,000 gallons		$ 5.73
13				
14	2 Inch Meter (all classes)	Over Minimum	$ 2.80	
15				
16	2 Inch Meter - (all classes)	1 gallons to 53,000 gallons		$ 4.63
17		over 53,000 gallons		$ 5.73
18				
19	3 Inch Meter (all classes)	Over Minimum	$ 2.80	
20				
21	3 Inch Meter - (all classes)	1 gallons to 100,000 gallons		$ 4.63
22		over 100,000 gallons		$ 5.73
23				
24	4 Inch Meter (all classes)	Over Minimum	$ 2.80	
25				
26	4 Inch Meter (all classes)	1 gallons to 167,000 gallons		$ 4.63
27		over 167,000 gallons		$ 5.73
28				
29	6 Inch Meter - (all classes)	1 gallons to 334,000 gallons		$ 4.63
30		over 334,000 gallons		$ 5.73
31				
32				
33	Standpipe*	All gallons	$ 2.80	$ 5.73
34				
35	* Includes hydrant or construction water.			
36	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

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]
5/8 x 3/4 Inch			$ 350.00	$ 385.00	$ 135.00	$ 520.00
3/4 Inch			$ 400.00	415.00	205.00	620.00
1 Inch			$ 470.00	465.00	265.00	730.00
1 1/2 Inch			$ 695.00	520.00	475.00	995.00
2 Inch Turbo			$ 1,225.00	800.00	995.00	1,795.00
2 Inch, Compound			$ 1,820.00	800.00	1,840.00	2,640.00
3 Inch Turbo			$ 1,735.00	1,015.00	1,620.00	2,635.00
3 Inch, compound			$ 2,410.00	1,135.00	2,495.00	3,630.00
4 Inch Turbo			$ 2,700.00	1,430.00	2,570.00	4,000.00
4 Inch, compound			$ 3,455.00	1,610.00	3,545.00	5,155.00
6 Inch Turbo			$ 5,115.00	2,150.00	4,925.00	7,075.00
6 Inch, compound			$ 6,650.00	2,270.00	6,820.00	9,090.00

[1] Based on ACC Staff Engineering Memo dated Feburary 21, 2008

Other Charges:

Establishment	$ 25.00	$ 25.00
Establishment (after hours)	$ 45.00	Remove
Reestablishment within 12 months	**	**
Reconnection/Delinguent	$ 25.00	$ 25.00
Meter Test (if correct)	$ 25.00	$ 25.00
Meter Re-read (if correct)	$ 15.00	$ 15.00
Deposit	*	*
Deposit Interest	*	*
NSF Check	$ 15.00	$ 15.00
Deferred Payment, per month	1.5% per month	1.5% per month
Late Payment Fee (per month)	***	***
After hours service charge	NT	$ 50.00

Monthly Service Charge of Fire Sprinklers

4" or Smaller	****	****
6"	****	****
8"	****	****
10"	****	****
Larger than 10"	****	****

* Per Commission Rule A.A.C R-14-2-403(b)
** Number of months off the system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).
*** 1.5% per month or a minimum of $3.50.
**** 1% of monthly minimum for a comparable sized meter connection, but no less than $5.00 per month (requires separate service line).

NT = No Tariff

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Attorneys for Quail Creek Water Company, Inc.

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

COST OF CAPITAL

JUNE 3. 2015

EXHIBIT
A-4
ADMITTED

TABLE OF CONTENTS

I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY 1

II. SUMMARY OF REBUTTAL TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY 1

I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

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

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

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

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

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

A. SUMMARY OF QCW'S REBUTTAL RECOMMENDATION.

Q. WHAT IS YOUR RECOMMENDED COST OF CAPITAL?

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

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

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL ANALYSIS?

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

Q. HAVE YOU CHANGED ANY OF YOUR METHODS?

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

---

[1] *See* QCW Direct Schedule D-4.1.

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

B. SUMMARY OF THE STAFF RECOMMENDATIONS.

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

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

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

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

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[3] *Id.* at 3.

[4] *Id.* at 28-29.

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

[6] Cassidy COC Dt. at 40.

[7] *Id.* at 29-30.

[8] *Id.* at. 29.

[9] *Id.* at 30.

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

A. No.

Q. DOES THE COMPANY AGREE WITH THE STAFF RECOMMENDATION?

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

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

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

...

...

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

C. REBUTTAL TO THE COST OF EQUITY RECOMMENDATIONS OF STAFF.

Q. STAFF ONLY USED THE DCF MODEL TO ESTIMATE THE COST OF EQUITY?

A. Yes. Staff uses two versions of the DCF model – a constant growth DCF and a multi-stage DCF. Staff has not incorporated estimates derived from its CAPM (using Staff's typical inputs) because current market conditions have led to unusually low results from its CAPM.[11]

Q. IS THE USE OF ONLY ONE METHODOLOGY TO ESTIMATE THE COST OF EQUITY APPROPRIATE?

A. No. As Dr. Morin states:

> Each methodology requires the exercise of considerable judgment on the reasonableness of the assumptions underlying the methodology and on the reasonableness of the proxies used to validate a theory. *The inability of the DCF model to account for changes in relative market valuation, discussed below, is a vivid example of the potential shortcomings of the DCF model when applied to a given company.* Similarly, the inability of the CAPM to account for variables that affect security returns other than beta tarnishes its use. [Emphasis added.]
>
> No one individual method provides the necessary level of precision for determining a fair return, but each method provides useful evidence to facilitate the exercise of an informed judgment. Reliance on any single method or preset formula is inappropriate when dealing with investor expectations because of possible measurement difficulties and vagaries in individual companies' market data.
>
> When measuring equity costs, which essentially deals with the measurement of investor expectations, no single methodology provides a foolproof panacea. Each methodology requires the exercise of considerable judgment on the reasonableness of the assumptions underlying the methodology and on the reasonableness

[11] Cassidy COC Dt. at 3-4.

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

Q. IS THE DCF A SUPERIOR METHODOLOGY?

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

> While it is certainly appropriate to use the DCF methodology to estimate the cost of equity, there is no proof that the DCF produces a more accurate estimate of the cost of equity than other methodologies. Sole reliance on the DCF model ignores the capital market evidence and financial theory formalized in the CAPM and other risk premium methods. The DCF model is one of many tools to be employed in conjunction with other 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]

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

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

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

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

[13] *Id.* at 431.

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

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

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

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

---

[14] *Id.* at 434.

[15] Cassidy COC Dt. at 4.

[16] *Blue Chip Financial Forecasts*, April 2015.

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

> To the extent that increase (decreases) in relative market valuation are anticipated by investors, especially myopic investors with short-term investment horizons, the standard DCF model will understate (overstate) the cost of equity.
>
> Another way of stating this point is that the DCF model does not account for the ebb and flow of investor sentiments over the course of the business cycle. The problem was particularly acute in the mid 1990's and mid 2000's where investors, faced with very low returns on short-term fixed-income securities and an uncertain market outlook, sought higher yields offered by utility stocks in a so-called flight to quality, boosting their stock price and lowering the dividend yield.[19]

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

A. No. At Mr. Cassidy's average DCF estimate of 8.9 percent, QCW would have no realistic opportunity to actually earn Mr. Cassidy's market-based rate of return. For example, the average market price per share of the water proxy group is $28.44[20] and the average book value per share is $12.50.[21] Under these circumstances, Mr. Cassidy's 8.9 percent market-based cost rate implies an annual return per share

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

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

[19] Morin at 433.

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

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

of $2.53[22] consisting of $0.77 in dividends[23] and $1.76 in growth (market-price appreciation).[24] However, application of an 8.9 percent return rate to book value per share ($12.50) produces an opportunity to earn a total annual return of just $1.11.[25] With annual dividends of $0.77,[26] the utility could reasonably expect market-price appreciation of just $0.34,[27] or only 1.19 percent.[28]

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

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

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

---

[22] 8.9 percent times 28.44.

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

[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.

[25] 8.9 percent times $12.50.

[26] $1.11 times average payout ratio of 60 percent.

[27] $1.11 minus $0.77.

[28] $0.34 divided by $28.44.

[29] Morin at 435.

[30] *Id.* at 292.

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

D. <u>RESPONSES TO CRITICISMS OF THE COMPANY'S COST OF CAPITAL ANALYSIS</u>.

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

A. No. Putting aside the quotes from Dr. Morin and the 1-year, 3-year, and 5-year total returns for the water proxy group discussed on page 8, a recent Wall Street Journal article notes that estimates of the equity risk premium for the S&P 500 as of the end of April 2015 was one of the highest estimates going back to 1960.[34] This evidence

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[31] Cassidy COC Dt. at 30.

[32] *Blue Chip Financial Forecasts*, April 2015.

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

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

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

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

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

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

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

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

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

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

[35] Direct Testimony of Juan C. Manrique (Docket No. SW-01428A-09-0103) at 30; Direct Testimony of Juan C. Manrique (Docket No. WS-02676A-09-0257) at 29; Direct 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.

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

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

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

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

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

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

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

[37] Morin at 112-113.

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

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

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

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

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

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[38] Cassidy COC Dt. at 37.

[39] Morin at 165-166; *see also* Direct Testimony of Thomas J. Bourassa – Cost of Capital ("Bourassa COC Dt.") at 36-37.

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

[41] *See* page 12, *supra*.

[42] Morin at 172.

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

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

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

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

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

[44] *Id.* at 579.

[45] *Id.*

[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").

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

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

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

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

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

[47] Duff & Phelps, *2015 Valuation Handbook*. Exhibit 7.3, Decile 10z.

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

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

A. No.

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

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

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[48] Paschall, *supra.*

[49] *Id.* at 580.

[50] Zepp, *supra.*

[51] *Id.*

Q. DOES MR. CASSIDY DISPUTE YOUR ASSESSMENTS OF THE RELATIVE BUSINESS RISK BETWEEN THE PUBLICLY TRADED UTILTIES AND QCW?

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

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

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

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

A. Yes.

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[52] Bourassa COC Dt. at 18.

[53] *Id.* at 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

Line No.	Item of Capital	End of Test Year 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%
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22	SUPPORTING SCHEDULES:			
23	D-1			
24	D-3			
25	D-4			
26	Testimony			
27				
28				
29				
30				

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 Amount Outstanding	Annual Interest	Effective Interest Rate	Weighted Cost	End of Projected Year Amount Outstanding	Annual Interest	Effective Interest Rate	Weighted Cost
1									
2			-	0.00%	0.00%	-	-	0.00%	0.00%
3			-	0.00%	0.00%	-	-	0.00%	0.00%
4			-	0.00%	0.00%		-	0.00%	0.00%
5			-	0.00%	0.00%		-	0.00%	0.00%
6			-	0.00%	0.00%		-	0.00%	0.00%
7			-	0.00%	0.00%		-	0.00%	0.00%
8			-	0.00%	0.00%		-	0.00%	0.00%
9			-	0.00%	0.00%		-	0.00%	0.00%
10			-	0.00%	0.00%		-	0.00%	0.00%
11									
12									
13	Totals	$ -	-		0.00%	$ -	-		0.00%
14									
15									
16	Supporting Schdules:								
17	E-1								
18	E-2								
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									

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

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% .
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	E-1	D-1
19	D-4.1 to D-4.15	
20		

Quail Creek Water Company
Summary of Results

Exhibit
Schedule D-4.1
Witness: Bourassa

Line No.		Indicated Cost of Equity for Water Sample Group			Indicated Cost of Equity for Quail Creek Water Company [1]		
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:
[1]Estimates include an equity risk premium of 100 basis points based on comparative risk study. See Testimony.

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

Exhibit
Schedule D-4.2
Witness: Bourassa

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 Schdule 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] Long-Term Debt	Book Value[1] Common Equity	Market Value[1] Long-Term Debt	Market Value[1] Common Equity
1	1. American States Water	AWR	39.8%	60.2%	18.1%	81.9%
2	2. Aqua America	WTR	48.9%	51.1%	23.9%	76.1%
3	3. California Water	CWT	41.6%	58.4%	27.2%	72.8%
4	4. Connecticut Water	CTWS	47.0%	53.0%	30.9%	69.1%
5	5. Middlesex	MSEX	40.7%	59.3%	26.7%	73.3%
6	6. SJW Corp.	SJW	51.0%	49.0%	35.5%	64.5%
7	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.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Historical Growth	[6] Value Line Projected Growth[2]	[7] Average of Historical and Proj. Grwth
		Five-year historical average annual changes						
1	1. American States Water	16.07%	6.50%	13.00%	6.50%	10.52%	6.50%	8.51%
2	2. Aqua America	11.70%	6.00%	11.00%	7.00%	8.92%	8.00%	8.46%
3	3. California Water	4.27%	4.50%	4.00%	1.50%	3.57%	7.00%	5.28%
4	4. Connecticut Water	12.77%	8.00%	8.00%	2.00%	7.69%	6.50%	7.10%
5	5. Middlesex	8.36%	3.00%	1.50%	1.50%	3.59%	5.50%	4.55%
6	6. SJW Corp.	4.38%	2.50%	NMF	3.50%	3.46%	6.50%	4.98%
7	7. York Water Company	8.44%	5.00%	5.00%	2.50%	5.23%	7.00%	6.12%
8	GROUP AVERAGE	9.43%	5.07%	7.08%	3.50%	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.

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

Exhibit
Schedule D-4.5
Witness: Bourassa

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Value Line Growth[2]	[7] Average of Historical and Proj. Grwth
		Ten-year historical average annual changes						
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_0/P_0)[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=Div Yld + g (Cols 2+3)
1	1. American States Water	2.28%	2.42%	+	6.50%	=	8.92%
2	2. Aqua America	2.64%	2.85%	+	8.00%	=	10.85%
3	3. California Water	2.79%	2.99%	+	7.00%	=	9.99%
4	4. Connecticut Water	3.04%	3.24%	+	6.50%	=	9.74%
5	5. Middlesex	3.58%	3.78%	+	5.50%	=	9.28%
6	6. SJW Corp.	2.62%	2.79%	+	6.50%	=	9.29%
7	7. York Water Company	2.68%	2.87%	+	7.00%	=	9.87%
8	Average	2.80%	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 Schdule 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=Div Yld + g (Cols 2+3)
1	1. American States Water	2.28%	2.47%	+	8.51%	=	10.98%
2	2. Aqua America	2.64%	2.86%	+	8.46%	=	11.32%
3	3. California Water	2.79%	2.94%	+	5.28%	=	8.22%
4	4. Connecticut Water	3.04%	3.26%	+	7.10%	=	10.36%
5	5. Middlesex	3.58%	3.74%	+	4.55%	=	8.29%
6	6. SJW Corp.	2.62%	2.75%	+	4.98%	=	7.73%
7	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 Scehdule D-4.5 Col. 7.

Quail Creek Water Company
Forecasts of Long-Term Interest Rates

Exhibit
Schedule D-4.8
Witness: Bourassa

Line No.		2016	2017	2018	Average
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	Average				4.2%
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%	
8	Average				5.2%
9	Baa Corporate Bonds				
10	Blue Chip Consensus Forecasts[1]	5.60%	6.10%	6.60%	
11	Value Line[2]				
12	Average				6.1%

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.		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_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[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_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
[2] Expected Dividend Yield (D_1/P_0) equals current average dividend yield (D_0/P_0) 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.		Rf[1]	+	beta[2]	x	RP_M		=	k
1	Historical Market Risk Premium CAPM	4.2%	+	0.74	x	7.00%	[3]	=	9.4%
2	Currrent 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.

Quail Creek Water Company
Financial Risk Computation
Unlevered Beta

Exhibit
Schedule D-4.12
Witness: Bourassa

Line No.		Company	VL Beta β_L[1]	Raw Beta Raw β_L[2]	Tax Rate t[3]	MV Debt D[4]	MV Equity E[4]		Unlevered Raw Beta β_U[5]
1									
2									
3									
4									
5	1.	American Water Worl	0.70	0.55	36.3%	18.1%	81.9%		0.48
6	2.	Aqua America	0.75	0.63	10.0%	23.9%	76.1%		0.49
7	3.	California Water	0.75	0.63	30.3%	27.2%	72.8%		0.50
8	4.	Connecticut Water	0.70	0.55	28.0%	30.9%	69.1%		0.42
9	5.	Middlesex	0.75	0.63	34.1%	26.7%	73.3%		0.51
10	6.	SJW Corp.	0.80	0.70	38.7%	35.5%	64.5%		0.52
11	7.	York Water	0.75	0.63	37.6%	22.2%	77.8%		0.53
12									
13		Sample Water Utilitie:	0.74	0.62	30.7%	26.4%	73.6%	#	0.49
14									
15									
16									
17									
18									
19									

20 [1] Value Line Investment Analyzer data. See Schedule D-4.1.
21 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:
22 Adjusted beta = .33 + (.67) * Raw beta
23 [2] Raw Beta = (VL beta - .33)/(.67)
24 [3] Effective tax rates for year ended December 31, 2013.
25 [4] See Schedule D-4.2.
26 [5] Raw B_u = Raw B_L/ (1+ (1-t)*D/E)
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_U[1]	MV Book Debt BD[2]	MV Equity Capital EC[2]	Tax Rate t[3]	Relevered Raw Beta $\beta_{RL}=\beta_U(1+(1-t)BD/EC))$ β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
1							
2							
3							
4							
5	Quail Creek Water Company	0.49	0.0%	100.0%	39.20%	0.49	0.66
6							
7							
8							
9							
10							
11							
12							
13	[1] Unlevered Beta fron Unlevered Beta tab in WP.						
14	[2] Proforma Capital Structure of Company per D-1						

15		BV (in Thousands)		MV (in Thousands)	MV %
16					
17	Long-term Debt	$ -	1.00	$ -	0.00%
18	Preferred Stock	$ -	1.00	-	0.0%
19	Common Stock	$ 5,778	2.37	(a) 13,688	100.0%
20	Total Capital	$ 5,778		$ 13,688	100.0%

21
22 (a) Current market-to-book ratio of sample water utilities. See work papers.
23
24 [3] Current Tax rate based on test year ending 12/31/2013. See Schedule C-5.
25
26

Quail Creek Water Company
Financial Risk Computation

Exhibit
Schedule D-4.14
Witness: Bourassa

Line No.											
1	**CAPM**										
2		**Rf**		+	**β**		x	**(Rp)**			**k**
3	Historical Market Risk Premium	4.2%	1	+	0.74	2	x	7.00%	3	=	9.4%
4	Current Market Risk Premium	4.2%	1	+	0.74	2	x	9.25%	4	=	11.0%
5											
6	Average										10.2%
7											
8											
9	**CAPM Relevered Beta**										
10		**Rf**		+	**β**		x	**(Rp)**			**k**
11	Historical Market Risk Premium	4.2%	1	+	0.66	5	x	7.00%	3	=	8.8%
12	Current Market Risk Premium	4.2%	1	+	0.66	5	x	9.25%	4	=	10.3%
13											
14	Average										9.6%
15											
16	Indicated Financial Risk Adjustment										**-0.6%**
17											
18											
19	[1] Forecast of long-term treasury yields. See Schedule D-4.8.										
20	[2] Value Line Investment Analyzer data. See Schedule D-4.1.										
21	[3] Historical Market Risk Premium from (Rp) Duff & Phelps 2015 Valuation Handbook Appendix3 Long-Horizon ERP 1926-2013.										
22	[4] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks										
23	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.10.										
24	[5] Relevered beta found on Relevered Beta. See Schedule D-4.15.										
25											

Quail Creek Water Company
Risk Premium[1]

Exhibit
Schedule D-4.15
Witness: Bourassa

Line No.		Beta(β)	Size Premium	Risk Premium for Small Water Utilities[7]
1	Mid-Cap Companies[2]	1.12	1.07%	
2	Low-Cap Companies[3]	1.22	1.80%	
3	Micro-Cap Companies[4]	1.35	3.74%	
4	Decile 10[5]	1.40	5.78%	3.25%

		Risk Premium for Small Water Utilities
5	Estimated Risk Premium for small utilities[6]	0.99%
6	Estimated Risk Premium for Quail Creek Water Company[8]	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 inidicated risk premiums for the sample water utlities 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. American States	$ 1,472	Low-Cap	1.80%	3.98%	0.14285714	0.57%
2. Aqua America	$ 4,667	Mid-Cap	1.07%	4.71%	0.14285714	0.67%
3. California Water	$ 1,143	Low-Cap	1.80%	3.98%	0.14285714	0.57%
4. Connecticut Water	$ 391	Micro-Cap	3.74%	2.04%	0.14285714	0.29%
5. Middlesex	$ 356	Micro-Cap	3.74%	2.04%	0.14285714	0.29%
6. SJW Corp.	$ 609	Micro-Cap	1.80%	3.98%	0.14285714	0.57%
7. York Water Company	$ 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.

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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

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

JULY 27, 2015

EXHIBIT
A-5
ADMITTED

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I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT AND REBUTTAL TESTIMONIES IN THIS PROCEEDING?

A. Yes.

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

A. Yes.

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

A. To respond to Staff's surrebuttal testimony filed on July 1, 2015 in this rate case. More specifically, this first volume of my rejoinder testimony relates to rate base, income statement and rate design for QCW. In a second, separate volume of my rejoinder testimony, I present an update to the Company's requested cost of capital as well as provide responses to Staff's surrebuttal testimony on the cost of capital, the rate of return applied to the fair value rate base, and the determination of operating income.

II. SUMMARY OF THE COMPANY'S REJOINDER POSITION.

Q. WHAT REVENUE INCREASE IS QCW PROPOSING IN ITS REJOINDER FILING?

A. The Company proposes a total revenue requirement of $1,247,640, which constitutes an increase in revenues of $402,921, or 47.70 percent over adjusted test year revenues. This is the same as the Company's rebuttal revenue requirement.

Q. HOW DOES THE COMPANY'S REQUEST COMPARE TO STAFF'S RECOMMENDATIONS AT THIS STAGE OF THE PROCEEDING?

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

	Revenue Requirement	Revenue Incr.	% Increase
Staff-Surrebuttal	$1,128,014	$283,295	33.54%
QCW-Rejoinder	$1,247,640	$402,921	47.70%

The difference between QCW and Staff on the revenue requirement is due almost entirely to the different rate base recommendations, depreciation expense, and recommended rate of return. In addition, the Company and Staff disagree on Staff's various recommendations for accounting and other Commission-directives. Mr. Jones also addresses these latter issues in his rejoinder testimony.

III. RATE BASE.

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

A. Yes, at this stage of the proceeding the rate bases proposed by QCW and Staff are as follows:

	OCRB	FVRB
Staff-Surrebuttal	$ 3,196,580	$ 3,196,580
QCW-Rejoinder	$ 3,674,950	$ 3,674,950

Q. IS THE COMPANY PROPOSING ANY ADDITIONAL ADJUSTMENTS TO RATE BASE AT THIS STAGE OF THE PROCEEDING?

A. No. The Company's proposed adjustments to the rate base were discussed in my direct and rebuttal testimonies. The adjustments to OCRB are detailed on Rejoinder Schedules B-2, pages 3 through 5. Rejoinder Schedule B-2, pages 1 and 2, summarize the Company's proposed adjustments and the rebuttal OCRB.

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

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

A. The Company recommends a PIS balance of $7,825,043, whereas Staff recommends a PIS balance of $7,571,022 – a difference of $254,021. I discussed the reasons for these differences in my rebuttal testimony.[1] In summary, the differences are:

1. Staff does not recognize the capitalization of $507,653[2] of costs related to Well 16 or the subsequent Well 16 related of $258,211. As a result, the Company's PIS balance is $249,442 higher than Staff's; and
2. Staff has not adopted the Company's proposed correction to PIS of $4,590, reflecting a correction to the reported retirements for account 311- Pumping Equipment in 2011 and related to Well 16. As a result, the Company's PIS balance is $4,590 higher than Staff's.

Q. DO YOU HAVE A RESPONSE TO THE SURREBUTTAL TESTIMONY OF STAFF REGARDING THE WELL 16 COSTS?

A. Beyond agreeing with Mr. Jones' rejoinder testimony, wherein he explains why Staff's position is flawed and its recommendations overreaching and unnecessary, I would emphasize the following points.

First, based on the totality of the facts and circumstances regarding Well 16, I firmly believe that the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA") accounting rules and instructions apply. Those rules allow for recovery of the costs of non-productive

[1] *See* Rebuttal Testimony of Thomas J. Bourassa ("Bourassa Rb.") at 4-8.

[2] Originally $510,209 but the Company and Staff both remove $2,552 of capitalized interest. *See* Bourassa Rb. at 6.

wells. In my view, Staff is attempting to obfuscate the intent of those rules by injecting extraneous NARUC affiliate guidelines, deferral accounting standards, and trumped up accusations that QCW's accounting threatens ratepayers in this case. Staff does not and cannot deny that QCW would be in the exact same place today on all accounting and recording matters had a non-affiliate company constructed the plant. The only difference might be that had a non-affiliate constructed it, the cost could have been much higher because a non-affiliate would have charged overhead and profit, increasing the cost of the plant.

Q. HOW CAN THE COMMISSION BE CERTAIN THAT RATEPAYERS ARE NOT HARMED BY THE PRACTICES OF QCW AND ITS AFFILIATES?

A. A better question is what legitimate reason has Staff given the Commission to raise such concerns? The answer is none. Ratepayers have never subsidized the affiliate through the plant transactions with QCW and were never harmed by the affiliate transactions. They have, as I just stated above, benefited through lower cost plant.[3] Further, whether the deferred liabilities were properly recorded in the past or not, there is no plant transaction detail that Staff has requested that was not provided. There are no open questions about the plant costs that I am aware of, and the Company and its affiliates have abandoned the practice of deferring the costs of plant built by affiliates.[4] In my view, Staff's complaints about the proper recording of deferred liabilities are much ado about nothing. Staff has been well aware of the framework used by QCW and its affiliates and has never complained about the accounting of or use of deferred payment for plant in the recent cases for QCW's affiliates, or over the past several decades.

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[3] Bourassa Rb. at 5:10-19. *See also* Rebuttal Testimony of Ray L. Jones at 8-9; Rejoinder Testimony of Ray L. Jones at 4:15 – 5:2.

[4] Rejoinder Testimony of Steven Soriano at 4:19 – 5:16.

In the end, I am forced to agree with Mr. Jones. It certainly appears that Staff simply does not like the fact that NARUC USOA allows for the recovery of the costs of non-productive wells and has gone on the offensive to keep this Company from that recovery on investment. In a state heavily reliant on groundwater but always facing the risk of not finding it, Staff's view leads to a pretty chilling policy message from my perspective. I certainly would have to counsel my utility clients that if you pay to search for water supplies you better find water no matter what it costs.

B. <u>ACCUMULATED DEPRECIATION (A/D)</u>.

Q. PLEASE DISCUSS THE DIFFERENCE BETWEEN THE RECOMMENDED A/D BALANCES OF QCW 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. I discussed the differences in my rebuttal testimony. In summary, the differences are:

1. Staff uses a 5.0 percent depreciation rate for the 15 months subsequent to the last test year and up to the date of the last decision, whereas the Company uses 4.08 percent. The resulting A/D difference is that Staff's A/D balance is higher than the Company's by approximately $10,008.
2. Staff does not recognize any of the Well 16 costs or the retirement of the Well 16 pumping equipment. The resulting difference is that Staff's A/D balance is higher than the Company's by $258,221 related to the retirements, and that Staff's A/D balance is lower than the Company's by $45,796 related to costs that were not retired.
3. Staff has not recognized the Company's rebuttal correction to A/D for a retirement amount in 2011. As a result Staff's A/D balance is lower than the Company's by $5,058.

4. Staff's A/D reflects "fully depreciated" vintage year PIS balances which results in Staff's A/D balance being lower than the Company's by approximately $984.

Q. HAS STAFF CORRECTED THE DEPRECIATION RATE FROM 5.0 PERCENT TO 4.08 PERCENT FOR THE 15 MONTHS SUBSEQUENT TO THE PRIOR TEST YEAR AND THROUGH THE DATE OF THE PRIOR DECISION?

A. No. Staff claims that it continues to rely on the reasons set forth in its direct testimony.[5] Staff stated in its direct testimony that it assumed a 5 percent depreciation rate because that was the typical depreciation rate being adopted at the time, and Staff could not find evidence of the Commission authorizing a depreciation rate.[6]

Q. BUT DIDN'T YOU TESTIFY THAT 4.08 PERCENT WAS USED TO TRUE-UP THE A/D BALANCE AT THE END OF THE TEST YEAR IN THE PRIOR CASE, AND THAT THE COMMISSION ADOPTED THE A/D BALANCE IN ITS DECISION?

A. Yes, and I referenced the Staff Report and the decision from the prior case in my rebuttal testimony.[7] It appears Staff could not find the evidence because Staff ignored my testimony.

Q. DID THE COMMISSION SPECIFICALLY STATE AN AUTHORIZED DEPRECIATION RATE IN THE PRIOR DECISION?

A. No, which is hardly unusual. The Commission doesn't always specify the adopted

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[5] Surrebuttal Testimony of John A. Cassidy (Revenue Requirement and Rate Design) ("Cassidy Sb.") at 6:5-10.

[6] Direct Testimony of John A. Cassidy at 18-19.

[7] Bourassa Rb. at 10:13-14 & n.19.

depreciation rate(s) and one often has to go back through the record in the prior case to find out what depreciation rate(s) was (were) used to true-up A/D through the end of the test year. It has always been my experience that if the Commission adopts an A/D balance that used a particular depreciation rate through the end of the test year, then by default, the Commission has approved the depreciation rate that was used. Until now, I have never had a dispute with Staff under similar circumstances so I am understandably confused by Staff's unwillingness to acknowledge the evidence in this case.

Q. DO YOU HAVE ANY COMMENT WITH RESPECT TO THE DIFFERENCES IN THE A/D BALANCES RELATED TO THE WELL 16 COSTS AND RETIREMENTS?

A. No. I discussed the dispute between Staff and the Company regarding Well 16 previously on pages 3 and 5. The A/D difference identified above is a direct result of this dispute.

Q. IS THE CORRECTION TO A/D FOR $5,058 ALSO RELATED TO WELL 16?

A. Yes.

Q. DID STAFF PROVIDE ANY TESTIMONY REGARDING THE DIFFERENCE IN A/D DUE TO STAFF'S "FULLY DEPRECIATED" VINTAGE YEAR PIS BALANCES?

A. No. Accordingly, I cannot provide anything in addition to the response I provided in my rebuttal testimony.[8]

[8] Bourassa Rb. at 12:3-14.

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

Q. PLEASE DISCUSS THE DIFFERENCE BETWEEN THE RECOMMENDED ADIT BALANCES OF QCW AND STAFF.

A. The Company recommends an ADIT liability balance of $1,063,597, whereas Staff recommends an A/D balance of $1,071,664 – a difference of $8,128. Staff admits that it should have made an adjustment to ADIT, but asserts the Company did not provide Staff with the necessary information.[9]

Q. WHAT ADDITIONAL INFORMATION IS NEEDED BY STAFF?

A. I am not sure. Staff never requested any additional information.

Q. DO YOU BELIEVE ANY ADDITIONAL INFORMATION IS NECESSARY?

A. No. The ADIT computation methodology set forth on the Company's ADIT schedule (Rejoinder Schedule B-2, pages 5 and 5.1) provides all the necessary information to compute the ADIT balance. The same information has been available throughout this proceeding. One needs only to reflect changes to the PIS, CIAC, AIAC, and tax balances based upon the party's recommendations in the case. This is how I determined that, based upon the Staff's recommendations, the Staff ADIT balance is overstated by $92,000.[10]

IV. INCOME STATEMENT (C SCHEDULES).

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

A. The Company rejoinder adjustments to revenues and/or expenses are detailed on Rejoinder Schedule C-2, pages 1-9. The rejoinder income statement with

[9] Cassidy Sb. at 6:20-21.

[10] Bourassa Rb. at 13:1-8.

adjustments is summarized on Rejoinder Schedule C-1, pages 1-2. The Company is not proposing any changes to the adjustments it proposed in its rebuttal testimony.[11]

Q. ARE THERE ANY DISAGREEMENTS WITH STAFF ON RECOMMENDED ADJUSTMENTS TO REVENUES AND OR EXPENSES?

A. No. Differences in each of the parties' recommended depreciation and amortization expense are due to differences in recommended depreciable PIS balances. The difference in property tax expense and income tax expense is due to differences in the parties' recommended revenues.

V. RATE DESIGN (H SCHEDULES).

A. PROPOSED RATES.

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

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

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

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

B. REJOINDER TO STAFF SURREBUTTAL TESTIMONY ON RATE DESIGN.

Q. HAS STAFF MODIFIED ITS RATE DESIGN BASED UPON YOUR REBUTTAL TESTIMONY?

A. Yes. Staff has modified its break-over points, which now generally agree with the Company's break-over points.[12]

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[11] Bourassa Rb. at 13-14.

[12] Break-over points are the same except for the 6 inch meter. The Company recommends

Q. DO THE STAFF AND COMPANY RATE DESIGNS PROVIDE FOR SIMILAR REVENUE RECOVERY BETWEEN THE MONTHLY FIXED CHARGES AND THE COMMODITY RATES?

A. Yes. The Company and the Staff rate designs provide approximately 45 percent revenue recovery from the monthly fixed charges and 55 percent from the commodity rates. Revenue recovery among the commodity rates is also similar.[13]

Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?

A. Yes.

---

a break-over point of 333,000 gallons whereas Staff recommends 334,000 gallons.

[13] *See* **Exhibit TJB-RJ1**.

A-C & H
SCHEDULES

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

Exhibit
Rejoinder Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base		$ 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		
16	Requirement		$ 402,921
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			

23	**Customer**		**Present**	**Proposed**	**Dollar**	**Percent**
24	**Classification**		**Rates**	**Rates**	**Increase**	**Increase**
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
Rejoinder Schedule B-1
Page 1
Witness: Bourassa

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

Line No.		Adjusted at End of Test Year	Proforma Adjustment	Rebuttal Adjusted at end of Test Year
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
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
47	B-2, pages 2			B-1
48				
49				
50				
51				

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

Exhibit
Rejoinder Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustments 1 Plant-in-Service	2 Accumulated Depreciation	3 ADIT	4 Intentionally Left Blank	5 Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
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	$ 5,851	$ (17,720)	$ -	$ -	$ -	$ 5,454,526
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	-						-
15								
16	Contributions in Aid of							
17	Construction (CIAC)	820,205						820,205
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:						RECAP SCHEDULES:	
38	B-2, pages 3-5						B-1	
39								
40								
41								

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

Exhibit
Rejoinder Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Actual Orginal Cost	A Remove Capitalized Interest	B Capitalize New Source Testing	C Retirement Correction 1998	D Adjustments to Reconcile Plant to Reconstruction	E Intentionally Left Blank	Adjusted Original Cost
6	301	Organization Cost	$ 37,295						$ 37,295
7	302	Franchise Cost	-				-		-
8	303	Land and Land Rights	92,895				-		92,895
9	304	Structures and Improvements	75,442	(18)			-		75,424
10	305	Collecting and Impounding Res.	-				-		-
11	306	Lake River and Other Intakes	-				-		-
12	307	Wells and Springs	834,248	(2,561)	4,013		-		835,700
13	308	Infiltration Galleries and Tunnels	-				-		-
14	309	Supply Mains	-				-		-
15	310	Power Generation Equipment	37,618				-		37,618
16	311	Electric Pumping Equipment	1,137,275	(173)		4,590	-		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
22	330.2	Pressure Tanks	32,236				-		32,236
23	331	Trans. and Dist. Mains	3,194,161				-		3,194,161
24	333	Services	891,232				-		891,232
25	334	Meters	90,315				-		90,315
26	335	Hydrants	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
30	340.1	Computers and Software	-				-		-
31	341	Transportation Equipment	-				-		-
32	342	Stores Equipment	-				-		-
33	343	Tools and Work Equipment	2,399				-		2,399
34	344	Laboratory Equipment	-				-		-
35	345	Power Operated Equipment	-				-		-
36	346	Communications Equipment	57,194				-		57,194
37	347	Miscellaneous Equipment	-				-		-
38	348	Other Tangible Plant	1,056				-		1,056
39		Loss on Plant Disposition	-	-					-
40		TOTALS	$ 7,819,192	$ (2,752)	$ 4,013	$ 4,590	$ -	$ -	$ 7,825,043
41									$ 7,819,192
42	Adjusted Plant-in-Service								
43									$ 5,851
44	Increase (decrease) in Plant-in-Service								
45									$ 5,851
46	Adjustment to Plant-in-Service								
47									$ 5,851
48	SUPPORTING SCHEDULES								
49	B-2, pages 3.1 to 3.4								
50									

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

Exhibit
Rejoinder Schedule B-2
Page 3.1
Witness: Bourassa

Line No.				
1	Remove Capitalized Interest			
2				
3				
4	Acct.		Orginal	
5	No.	Description	Cost	
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	SUPPORTING SCHEDULE			
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
Rejoinder Schedule B-2
Page 3.2
Witness: Bourassa

Line No.			
1	Capitalize New Source Water Testing		
2			
3			
4	Acct.		Orginal
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
Rejoinder Schedule B-2
Page 3.3
Witness: Bourassa

Line No.

1 Correction to Retirement in 2011

Acct. No.	Description	Year	Per Direct	Per Rebuttal	PIS Adjustment
311	Electric Pumping Equipment	2011	303,221	298,631	4,590
	TOTALS				$ 4,590

SUPPORTING SCHEDULE
Testimony

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

Exhibit
Rejoinder Schedule B-2
Page 3.4
Witness: Bourassa

Line No.

1 Reconciliation of Plant to Plant Reconstruction

Line No.	Acct. No.	Description	Adjusted Cost per Direct	B-2 Adjustments	Adjusted Cost per Rebuttal	Plant Per Reconstruction	Plant 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
Rejoinder Schedule B-2
Page 3.5
Witness: Jones/Bourassa

				Per Decision No. 61611 - 04/01/1999					Current Books		
Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	[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]+[2]		[3]-[4]			[6]-[7]
1	301	Organization Cost	4.08%	37,295		37,295	12,434	24,861	37,295	12,434	24,861
2	302	Franchise Cost	0.00%			-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	65,000		65,000	-	65,000	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%	162,035		162,035	55,689	106,346	162,035	55,689	106,346
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%	55,410		55,410	49,974	5,436	55,410	49,974	5,436
12	320	Water Treatment Equipment	4.08%			-	-	-	-	-	-
13	320.1	Water Treatment Plants	4.08%			-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%			-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	180,280		180,280	37,566	142,714	-	-	-
16	330.1	Storage Tanks	4.08%			-	-	-	180,280	37,566	142,714
17	330.2	Pressure Tanks	4.08%			-	-	-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	446,017		446,017	109,957	336,060	446,017	109,957	336,060
19	333	Services	4.08%	3,171		3,171	1,322	1,849	3,171	1,322	1,849
20	334	Meters	4.08%	1,698		1,698	1,698	-	1,698	1,698	-
21	335	Hydrants	4.08%	23,325		23,325	6,482	16,843	23,325	6,482	16,843
22	336	Backflow Prevention Devices	4.08%			-	-	-	-	-	-
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%	6,000		6,000	6,000	-	6,000	6,000	-
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%			-	-	-	-	-	-
33	348	Other Tangible Plant	4.08%	1,056		1,056	352	704	1,056	352	704
34											
35		TOTAL		981,285	-	981,285	281,474	699,811	981,285	281,474	699,811
36											
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
Rejoinder Schedule B-2
Page 3.6
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1998 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	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%	-	-	-	-	-	-		6,611	162,035	62,300	99,735
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%	-	-	-	-	-	-		2,261	55,410	52,235	3,175
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		7,355	180,280	44,921	135,359
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		18,198	446,017	128,155	317,862
19	333	Services	4.08%	-	-	-	-	-	-		129	3,171	1,451	1,719
20	334	Meters	4.08%	-	-	-	-	-	-		-	1,698	1,698	-
21	335	Hydrants	4.08%	-	-	-	-	-	-		952	23,325	7,434	15,891
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		-	6,000	6,000	-
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%	-	-	-	-	-	-		43	1,056	395	660
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-					
34														
35		TOTAL		-	-	-	-	-	-	-	37,070	981,285	318,544	662,741
36														
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
Rejoinder Schedule B-2
Page 3.7
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1999 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	15,477	21,818
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%	-	-	-	-	-	-		6,611	162,035	68,911	93,124
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%	-	-	-	-	-	-		2,261	55,410	54,495	915
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		7,355	180,280	52,277	128,003
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		18,198	446,017	146,352	299,665
19	333	Services	4.08%	-	-	-	-	-	-		129	3,171	1,581	1,590
20	334	Meters	4.08%	-	-	-	-	-	-		-	1,698	1,698	-
21	335	Hydrants	4.08%	-	-	-	-	-	-		952	23,325	8,385	14,939
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	6,000	6,000		-	-	-	-
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%	1,750	-	1,750	-	-	-		36	1,750	36	1,714
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	438	617
34														
35		TOTAL		1,750	-	1,750	-	6,000	6,000	-	37,106	977,035	349,650	627,385
36														
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
Rejoinder Schedule B-2
Page 3.8
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2000 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	16,999	20,296
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	65,000	-	65,000
4	304	Structures & Improvements	4.08%	4,894	-	4,894	-	-	-		100	4,894	100	4,794
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	75,522	86,513
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%	37,557	-	37,557	-	15,000	15,000		2,721	77,967	42,216	35,751
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		7,355	180,280	59,632	120,648
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		18,198	446,017	164,550	281,467
19	333	Services	4.08%	-	-	-	-	-	-		129	3,171	1,710	1,461
20	334	Meters	4.08%	1,183	-	1,183	-	-	-		93	2,881	1,791	1,090
21	335	Hydrants	4.08%	-	-	-	-	-	-		952	23,325	9,337	13,988
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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%	897	-	897	-	-	-		90	2,647	125	2,522
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	481	574
34														
35		TOTAL		44,531	-	44,531	-	15,000	15,000	-	37,813	1,006,566	372,464	634,102
36														
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
Rejoinder Schedule B-2
Page 3.9
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2001 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (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%	8,924	-	8,924	-	14,337	14,337		3,071	72,554	30,950	41,604
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		7,355	180,280	66,988	113,292
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		18,198	446,017	182,747	263,270
19	333	Services	4.08%	-	-	-	-	-	-		129	3,171	1,839	1,331
20	334	Meters	4.08%	228	-	228	-	-	-		122	3,109	1,913	1,195
21	335	Hydrants	4.08%	-	-	-	-	-	-		952	23,325	10,289	13,036
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	-	-	-		237	8,962	362	8,600
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	524	531
34														
35		TOTAL		15,468	-	15,468	-	14,337	14,337	-	38,439	1,007,697	396,566	611,131
36														
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
Rejoinder Schedule B-2
Page 3.10
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2002 Plant Additions	Plant Adjustments	Capitalized Interest	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-		-	-	-	-		1,522	37,295	20,042	17,253
2	302	Franchise Cost	0.00%	-	-		-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	27,895	-		27,895	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	18,398	-	(18)	18,380	-	-	-		575	23,273	874	22,399
5	305	Collecting & Impounding Reservoirs	4.08%	-	-		-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-		-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	27,578	-	(9)	27,569	-	-	-		7,173	189,604	89,307	100,297
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%	169,714	-	(173)	169,541	-	-	-		6,419	242,095	37,369	204,727
12	320	Water Treatment Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
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%	-	-		-	-	-	-		7,355	180,280	74,343	105,937
17	330.2	Pressure Tanks	4.08%	-	-		-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	190,448	-		190,448	-	-	-		22,083	636,465	204,830	431,635
19	333	Services	4.08%	57,676	-		57,676	-	-	-		1,306	60,847	3,145	57,701
20	334	Meters	4.08%	-	-		-	-	-	-		127	3,109	2,040	1,069
21	335	Hydrants	4.08%	27,395	-		27,395	-	-	-		1,511	50,720	11,799	38,920
22	336	Backflow Prevention Devices	4.08%	-	-		-	-	-	-		-	-	-	-
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%	707	-		707	-	-	-		14	707	14	693
29	344	Laboratory Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	1,340	-		1,340	-	-	-		393	10,302	755	9,547
32	347	Miscellaneous Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-		-	-	-	-		43	1,056	567	488
34															
35		TOTAL		521,151	-	(200)	520,951	-	-	-	-	48,520	1,528,648	445,086	1,083,562
36															
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
Rejoinder Schedule B-2
Page 3.11
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2003 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	21,564	15,731
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		950	23,273	1,824	21,450
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,604	97,042	92,561
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%	-	-	-	-	-	-		9,877	242,095	47,246	194,849
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		7,355	180,280	81,699	98,581
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	228,624	-	228,624	-	-	-		30,632	865,089	235,462	629,627
19	333	Services	4.08%	49,285	-	49,285	-	-	-		3,488	110,132	6,633	103,498
20	334	Meters	4.08%	4,163	-	4,163	-	-	-		212	7,272	2,252	5,020
21	335	Hydrants	4.08%	28,800	-	28,800	-	-	-		2,657	79,520	14,456	65,064
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	707	43	664
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	2,730	-	2,730	-	-	-		476	13,032	1,231	11,801
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	610	445
34														
35		TOTAL		313,602	-	313,602	-	-	-	-	64,976	1,842,250	510,062	1,332,187
36														
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
Rejoinder Schedule B-2
Page 3.12
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2004 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	23,086	14,210
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		950	23,273	2,773	20,500
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,604	104,778	84,825
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	31,758	-	31,758	-	-	-		648	31,758	648	31,110
11	311	Pumping Equipment	4.08%	478,260	-	478,260	-	-	-		19,634	720,355	66,880	653,475
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	676,294	-	676,294	-	-	-		21,152	856,574	102,850	753,724
17	330.2	Pressure Tanks	4.08%	32,236	-	32,236	-	-	-		658	32,236	658	31,578
18	331	Transmission & Distribution Mains	4.08%	152,378	-	152,378	-	-	-		38,404	1,017,467	273,866	743,601
19	333	Services	4.08%	66,728	-	66,728	-	-	-		5,855	176,860	12,488	164,372
20	334	Meters	4.08%	13,737	-	13,737	-	-	-		577	21,008	2,829	18,180
21	335	Hydrants	4.08%	33,497	-	33,497	-	-	-		3,928	113,017	18,384	94,633
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	707	72	635
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	22,104	-	22,104	-	-	-		983	35,136	2,214	32,922
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	653	402
34														
35		TOTAL		1,506,992	-	1,506,992	-	-	-	-	102,116	3,349,242	612,178	2,737,063
36														
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
Rejoinder Schedule B-2
Page 3.13
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2005 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	24,607	12,688
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	5,180	-	5,180	-	-	-		1,055	28,453	3,828	24,625
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,604	112,514	77,090
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,296	31,758	1,944	29,815
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-		29,390	720,355	96,270	624,084
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	137,799	718,775
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	1,973	30,263
18	331	Transmission & Distribution Mains	4.08%	338,638	663,178	1,001,816	-	-	-		61,950	2,019,283	335,816	1,683,468
19	333	Services	4.08%	71,348	69,718	141,066	-	-	-		10,094	317,926	22,582	295,345
20	334	Meters	4.08%	31,341	-	31,341	-	-	-		1,497	52,350	4,325	48,025
21	335	Hydrants	4.08%	42,926	87,308	130,235	-	-	-		7,268	243,252	25,652	217,600
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	707	101	606
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-		1,434	35,136	3,647	31,489
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	696	359
34														
35		TOTAL		489,434	820,205	1,309,639	-	-	-	-	159,576	4,658,881	771,754	3,887,127
36														
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
Rejoinder Schedule B-2
Page 3.14
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2006 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	26,129	11,167
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		1,161	28,453	4,989	23,464
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,604	120,250	69,354
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	1,236	-	1,236	-	-	-		1,321	32,994	3,265	29,730
11	311	Pumping Equipment	4.08%	6,264	-	6,264	-	-	-		29,518	726,618	125,789	600,830
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	172,747	683,827
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	3,288	28,948
18	331	Transmission & Distribution Mains	4.08%	130,193	-	130,193	-	-	-		85,043	2,149,476	420,858	1,728,618
19	333	Services	4.08%	52,505	-	52,505	-	-	-		14,042	370,431	36,624	333,807
20	334	Meters	4.08%	17,067	-	17,067	-	-	-		2,484	69,417	6,809	62,608
21	335	Hydrants	4.08%	21,806	-	21,806	-	-	-		10,370	265,057	36,021	229,036
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
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	707	130	577
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-		1,434	35,136	5,081	30,055
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	740	316
34														
35		TOTAL		229,071	-	229,071	-	-	-	-	190,965	4,887,951	962,719	3,925,232
36														
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
Rejoinder Schedule B-2
Page 3.15
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2007 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	27,651	9,645
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		1,161	28,453	6,150	22,303
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		7,736	189,604	127,986	61,618
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,346	32,994	4,611	28,384
11	311	Pumping Equipment	4.08%	1,691	-	1,691	-	-	-		29,681	728,309	155,469	572,840
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	207,695	648,879
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	4,603	27,633
18	331	Transmission & Distribution Mains	4.08%	431,026	-	431,026	-	-	-		96,492	2,580,502	517,350	2,063,152
19	333	Services	4.08%	192,670	-	192,670	-	-	-		19,044	563,101	55,668	507,433
20	334	Meters	4.08%	9,439	-	9,439	-	-	-		3,025	78,856	9,834	69,022
21	335	Hydrants	4.08%	70,900	-	70,900	-	-	-		12,261	335,957	48,282	287,676
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	1,416	-	1,416	-	-	-		29	1,416	29	1,387
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	707	159	549
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	4,980	-	4,980	-	-	-		1,535	40,116	6,616	33,500
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	783	273
34														
35		TOTAL		712,122	-	712,122	-	-	-	-	210,166	5,600,073	1,172,885	4,427,188
36														
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
Rejoinder Schedule B-2
Page 3.16
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2008 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	29,172	8,123
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	4,325	-	4,325	-	-	-		1,249	32,778	7,399	25,379
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	990	(990)	-	-	-	-		7,736	189,604	135,721	53,882
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,346	32,994	5,957	27,037
11	311	Pumping Equipment	4.08%	87,378	-	87,378	-	47,642	47,642		30,526	768,045	138,353	629,693
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	242,643	613,931
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	5,919	26,318
18	331	Transmission & Distribution Mains	4.08%	363,405	-	363,405	-	-	-		112,698	2,943,907	630,048	2,313,859
19	333	Services	4.08%	144,958	-	144,958	-	-	-		25,932	708,060	81,600	626,460
20	334	Meters	4.08%	-	-	-	-	-	-		3,217	78,856	13,051	65,805
21	335	Hydrants	4.08%	65,437	-	65,437	-	-	-		15,042	401,394	63,324	338,071
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-		58	1,416	87	1,329
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	707	188	520
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	4,700	-	4,700	-	-	-		1,733	44,817	8,349	36,468
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	826	230
34														
35		TOTAL		671,194	(990)	670,204	-	47,642	47,642	-	237,393	6,222,635	1,362,636	4,859,999
36														
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
Rejoinder Schedule B-2
Page 3.17
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009 Plant Additions	Plant Adjustments	Capitalized Interest	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-		-	-	-	-		1,522	37,295	30,694	6,602
2	302	Franchise Cost	0.00%	-	-		-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-		-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-		-	-	-	-		1,337	32,778	8,737	24,042
5	305	Collecting & Impounding Reservoirs	4.08%	-	-		-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-		-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	251,984	(2,552)	249,432	-	-	-		12,824	439,035	148,546	290,489
8	308	Infiltration Galleries	4.08%	-	-		-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-		-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	4,624	-		4,624	-	-	-		1,440	37,618	7,397	30,221
11	311	Pumping Equipment	4.08%	536,600	(253,063)		283,538	-	-	-		37,120	1,051,583	175,473	876,110
12	320	Water Treatment Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
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%	-	-		-	-	-	-		34,948	856,574	277,591	578,983
17	330.2	Pressure Tanks	4.08%	-	-		-	-	-	-		1,315	32,236	7,234	25,002
18	331	Transmission & Distribution Mains	4.08%	88,544	-		88,544	-	-	-		121,918	3,032,451	751,966	2,280,485
19	333	Services	4.08%	42,432	-		42,432	-	-	-		29,754	750,491	111,354	639,137
20	334	Meters	4.08%	-	-		-	-	-	-		3,217	78,856	16,269	62,587
21	335	Hydrants	4.08%	22,336	-		22,336	-	-	-		16,833	423,730	80,156	343,574
22	336	Backflow Prevention Devices	4.08%	-	-		-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-		-	-	-	-		58	1,416	144	1,271
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	707	216	491
29	344	Laboratory Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	1,175	-		1,175	-	-	-		1,852	45,992	10,201	35,790
32	347	Miscellaneous Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-		-	-	-	-		43	1,056	869	187
34															
35		TOTAL		695,710	(1,079)	(2,552)	692,079	-	-	-	-	264,212	6,914,714	1,626,847	5,287,866
36															
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
Rejoinder Schedule B-2
Page 3.18
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2010 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	32,215	5,080
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-		1,337	32,778	10,074	22,704
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		17,913	439,035	166,458	272,577
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,535	37,618	8,932	28,686
11	311	Pumping Equipment	4.08%	13,723	-	13,723	76,170	-	76,170		41,631	989,136	140,934	848,202
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	312,540	544,034
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	8,549	23,687
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		123,724	3,032,451	875,690	2,156,761
19	333	Services	4.08%	-	-	-	-	-	-		30,620	750,491	141,974	608,517
20	334	Meters	4.08%	5,224	-	5,224	-	-	-		3,324	84,080	19,593	64,488
21	335	Hydrants	4.08%	-	-	-	-	-	-		17,288	423,730	97,444	326,286
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-		58	1,416	202	1,214
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	707	245	462
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	3,937	-	3,937	-	-	-		1,957	49,929	12,158	37,771
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	912	144
34														
35		TOTAL		22,884	-	22,884	76,170	-	76,170	-	277,243	6,861,428	1,827,921	5,033,507
36														
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
Rejoinder Schedule B-2
Page 3.19
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (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%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	15,263	-	15,263	-	-	-		1,649	48,041	11,723	36,318
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	469,316	(76,664)	392,652	-	-	-		25,923	831,687	192,381	639,306
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,535	37,618	10,467	27,151
11	311	Pumping Equipment	4.08%	298,688	-	298,688	510,205	(211,574)	298,631		40,358	989,193	(117,340)	1,106,532
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		192	-	192	(192)
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%	-	-	-	-	-	-		34,948	856,574	347,488	509,086
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	9,864	22,372
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		123,724	3,032,451	999,414	2,033,037
19	333	Services	4.08%	1,664	-	1,664	-	-	-		30,654	752,155	172,628	579,527
20	334	Meters	4.08%	-	-	-	-	-	-		3,430	84,080	23,023	61,057
21	335	Hydrants	4.08%	-	-	-	-	-	-		17,288	423,730	114,733	308,997
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-		58	1,416	260	1,156
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	707	274	433
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	8,461	-	8,461	-	4,980	4,980		2,108	53,410	9,286	44,124
32	347	*Miscellaneous Equipment*	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	955	101
34														
35		TOTAL		793,392	(76,664)	716,728	510,205	(206,594)	303,611	-	284,776	7,274,545	1,809,085	5,465,460
36														
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
Rejoinder Schedule B-2
Page 3.20
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-		1,522	37,295	35,259	2,037
2	302	Franchise Cost	0.00%	-	-	-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	12,843	-	12,843	-	-	-		2,222	60,884	13,945	46,939
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-		33,933	831,687	226,314	605,373
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-		1,535	37,618	12,002	25,616
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-		40,359	989,193	(76,980)	1,066,173
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-		(192)	-	-	-
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%	-	-	-	-	-	-		34,948	856,574	382,436	474,138
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-		1,315	32,236	11,179	21,057
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-		123,724	3,032,451	1,123,138	1,909,313
19	333	Services	4.08%	9,089	-	9,089	-	-	-		30,873	761,244	203,502	557,743
20	334	Meters	4.08%	1,026	-	1,026	-	-	-		3,451	85,106	26,474	58,631
21	335	Hydrants	4.08%	-	-	-	-	-	-		17,288	423,730	132,021	291,709
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	655	-	655	-	-	-		71	2,071	331	1,740
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%	809	-	809	-	-	-		45	1,517	320	1,197
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	3,784	-	3,784	-	-	-		2,256	57,194	11,543	45,651
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-		43	1,056	998	58
34														
35		TOTAL		28,205	-	28,205	-	-	-	-	293,395	7,302,750	2,102,480	5,200,271
36														
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
Rejoinder Schedule B-2
Page 3.21
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2013 Plant Additions	Plant Adjustments	Capitalize Testing Exp	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-		-	-	-	-	(36,780)	1,522	37,295	0	37,295
2	302	Franchise Cost	0.00%	-	-		-	-	-	-		-	-	-	-
3	303	Land and Land Rights	0.00%	-	-		-	-	-	-		-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	14,540	-		14,540	-	-	-		2,781	75,424	16,725	58,698
5	305	Collecting & Impounding Reservoirs	4.08%	-	-		-	-	-	-		-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-		-	-	-	-		-	-	-	-
7	307	Wells & Springs	4.08%	-	-	4,013	4,013	-	-	-		34,015	835,700	260,329	575,372
8	308	Infiltration Galleries	4.08%	-	-		-	-	-	-		-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-		-	-	-	-		-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-		-	-	-	-		1,535	37,618	13,537	24,081
11	311	Pumping Equipment	4.08%	152,499	-		152,499	-	-	-		43,470	1,141,692	(33,510)	1,175,202
12	320	Water Treatment Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
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%	-	-		-	-	-	-		34,948	856,574	417,384	439,190
17	330.2	Pressure Tanks	4.08%	-	-		-	-	-	-		1,315	32,236	12,495	19,741
18	331	Transmission & Distribution Mains	4.08%	161,710	-		161,710	-	-	-		127,023	3,194,161	1,250,160	1,944,001
19	333	Services	4.08%	129,987	-		129,987	-	-	-		33,711	891,232	237,212	654,019
20	334	Meters	4.08%	5,209	-		5,209	-	-	-		3,579	90,315	30,053	60,262
21	335	Hydrants	4.08%	53,451	-		53,451	-	-	-		18,379	477,182	150,399	326,782
22	336	Backflow Prevention Devices	4.08%	-	-		-	-	-	-		-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-		-	-	-	-		84	2,071	416	1,655
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%	883	-		883	-	-	-		80	2,399	399	2,000
29	344	Laboratory Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
31	346	Communication Equipment	4.08%	-	-		-	-	-	-		2,334	57,194	13,876	43,318
32	347	Miscellaneous Equipment	4.08%	-	-		-	-	-	-		-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-		-	-	-	-		43	1,056	1,041	15
34															
35		TOTAL		518,280	-	4,013	522,293	-	-	-	(36,780)	304,817	7,825,043	2,370,517	5,454,526
36															
37															
38															

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

Exhibit
Rejoinder Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

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.
				Adjustments						
6	301	Organization Cost	$ 36,273			$ (36,780)	$ 507		$ (0)	$ 0
7	302	Franchise Cost	-				-		-	-
8	303	Land and Land Rights	-				-		-	-
9	304	Structures and Improvements	16,734	(8)			-		0	16,725
10	305	Collecting and Impounding Res.	-				-		-	-
11	306	Lake River and Other Intakes	-				-		-	-
12	307	Wells and Springs	258,516	(473)	82		2,204		(0)	260,329
13	308	Infiltration Galleries and Tunnels	-				-		-	-
14	309	Supply Mains	-				-		-	-
15	310	Power Generation Equipment	13,537				-		-	13,537
16	311	Electric Pumping Equipment	(39,241)	(81)			754	5,058	0	(33,510)
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	377,367				2,452		37,566	417,384
22	330.2	Pressure Tanks	12,495				-		-	12,495
23	331	Trans. and Dist. Mains	1,244,095				6,066		-	1,250,160
24	333	Services	237,169				43		-	237,212
25	334	Meters	30,053				-		-	30,053
26	335	Hydrants	150,082				317		-	150,399
27	336	Backflow Prevention Devices	-				-		-	-
28	339	Other Plant and Misc. Equip.	-				-		-	-
29	340	Office Furniture and Fixtures	416				-		(0)	416
30	340.1	Computers and Software	-				-		-	-
31	341	Transportation Equipment	-				-		-	-
32	342	Stores Equipment	-				-		-	-
33	343	Tools and Work Equipment	399				-		-	399
34	344	Laboratory Equipment	-				-		-	-
35	345	Power Operated Equipment	-				-		-	-
36	346	Communications Equipment	13,876				-		-	13,876
37	347	Miscellaneous Equipment	-				-		-	-
38	348	Other Tangible Plant	1,027				14		-	1,041
39		Loss on Plant Disposition	-							-
40		TOTALS	$ 2,352,796	$ (562)	$ 82	$ (36,780)	$ 49,923	$ 5,058	$ 0	$ 2,370,517
41										
42		Adjusted Accumulated Depreciation								$ 2,352,796
43										
44		Increase (decrease) in Accumulated Depreciation								$ 17,720
45										
46		Adjustment to Accumulated Depreciation								$ 17,720
47										
48		SUPPORTING SCHEDULES								
49		B-2, pages 4.1 to 4.6								
50										

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

Exhibit
Rejoinder Schedule B-2
Page 4.1
Witness: Bourassa

Line No.

1 Adjustment to A/D for Capitalized Interest Removal

Acct. No.	Description	Adjustment	Year	Rate	No. of Years	A/D Adjustment
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
Rejoinder Schedule B-2
Page 4.2
Witness: Bourassa

Line No.

1 Adjustment to A/D for Capitalized Water Testing Expense

Acct. No.	Description	Adjustment	Year	Rate	No. of Years	A/D Adjustment
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
Rejoinder Schedule B-2
Page 4.3
Witness: Bourassa

Line No.			
1	Remove A/D for Non-Depreciable Accounts		
2			
3			
4	Acct.		A/D
5	No.	Description	Adjustment
6	301	Organization Cost	(36,780)
7			
8			
9			
10			
11			
12			
13			
14			
15			
16		TOTALS	$ (36,780)
17			
18			
19	SUPPORTING SCHEDULE		
20			
21			

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

Exhibit
Rejoinder Schedule B-2
Page 4.4
Witness: Bourassa

Line No.

1 Correction to Depreication Expense 1998

Line No.	Acct. No.	Description	Per Rebuttal	Per Direct	A/D Adjustment
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
40		TOTALS	$ 35,549	$ (13,867)	$ 49,416

42 SUPPORTING SCHEDULE
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
Rejoinder Schedule B-2
Page 4.5
Witness: Bourassa

Line No.								
1	Correction to A/D for Retirement Correction in 2011							
2								
3								
4	Acct.					Per	Per	A/D
5	No.	Description				Direct	Rebuttal	Adjustment
6	311	Electric Pumping Equipment	Retirement			303,221	298,631	4,590
7								
8						Depr		
9				Year		Rate	Years	
10	311	Electric Pumping Equipment	Depreciation	2011		4.08%	2.50	468
11								
12								
13								
14								
15								
16								$ 5,058
17								
18	SUPPORTING SCHEDULE							
19	B-2, page 3.3							
20								

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

Exhibit
Rejoinder Schedule B-2
Page 4.6
Witness: Bourassa

Line No.

1 Reconciliation of A/D to A/D Reconstruction

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
6	301	Organization Cost	36,273	(36,273)	0	0	(0)
7	302	Franchise Cost	-	-	-	-	-
8	303	Land and Land Rights	-	-	-	-	-
9	304	Structures and Improvements	16,734	(8)	16,725	16,725	0
10	305	Collecting and Impounding Res.	-	-	-	-	-
11	306	Lake River and Other Intakes	-	-	-	-	-
12	307	Wells and Springs	258,516	1,813	260,329	260,329	(0)
13	308	Infiltration Galleries and Tunnels	-	-	-	-	-
14	309	Supply Mains	-	-	-	-	-
15	310	Power Generation Equipment	13,537	-	13,537	13,537	-
16	311	Electric Pumping Equipment	(39,241)	5,731	(33,510)	(33,510)	0
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	-	(37,566)
21	330.1	Storage tanks	377,367	2,452	379,818	417,384	37,566
22	330.2	Pressure Tanks	12,495	-	12,495	12,495	-
23	331	Trans. and Dist. Mains	1,244,095	6,066	1,250,160	1,250,160	-
24	333	Services	237,169	43	237,212	237,212	-
25	334	Meters	30,053	-	30,053	30,053	-
26	335	Hydrants	150,082	317	150,399	150,399	-
27	336	Backflow Prevention Devices	-	-	-	-	-
28	339	Other Plant and Misc. Equip.	-	-	-	-	-
29	340	Office Furniture and Fixtures	416	-	416	416	(0)
30	340.1	Computers and Software	-	-	-	-	-
31	341	Transportation Equipment	-	-	-	-	-
32	342	Stores Equipment	-	-	-	-	-
33	343	Tools and Work Equipment	399	-	399	399	-
34	344	Laboratory Equipment	-	-	-	-	-
35	345	Power Operated Equipment	-	-	-	-	-
36	346	Communications Equipment	13,876	-	13,876	13,876	-
37	347	Miscellaneous Equipment	-	-	-	-	-
38	348	Other Tangible Plant	1,027	14	1,041	1,041	-
39		Loss on Plant Disposition		-	-	-	-
40		TOTALS	$ 2,352,796	$ 17,720	$ 2,370,517	$ 2,370,517	$ 0

43 SUPPORTING SCHEDULE
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

Exhibit
Rejoinder Schedule B-2
Page 5
Witness: Bourassa

Deferred Income Tax as of December 31, 2013

Line No.			Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
6		Plant-in-Service	$ 7,825,043 [1]								
7		Accum. Deprec.	(2,370,517) [1]								
8		CIAC	(535,758) [3]								
9	Fed.	Fixed Assets	$ 4,918,768	$ 2,025,324 [2]	100.0%	$ (2,893,444)	34.30%		-		(992,466)
11	State	Fixed Assets	$ 4,918,768	$ 2,025,324 [2]	100.0%	$ (2,893,444)	4.90%		-		(141,779)
13	Fed &State	AIAC		180,221 [4]	100.0%	$ 180,221 [4]	39.20%		$ 70,648		
16								$ -	$ 70,648	$ -	$ (1,134,245)
17		Net Asset (Liability)						$ (1,063,597)			
20		DIT Asset (Liability) per Direct						$ (1,071,725)			
22		Adjustment to DIT						$ (8,128)			

Footnotes - See page 5.1

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

Exhibit
Rejoinder Schedule B-2
Page 5.1
Witness: Bourassa

Line No.		FEDERAL			STATE		
1	[1] **Per adjusted book balances**						
2	[2] **Computation of Net Tax Value December 31, 2013**						
3	Based on 2013 Tax Depreciation report (December 31, 2013)						
4	Unadjusted Cost at December 31, 2013 per federal and state tax depr. report	$ 7,545,070			$ 7,545,070		
5	Reconciling Items not on tax report:						
6	Proposed Plant Adjustments	1,261			1,261		
7							
8							
9							
10							
11	Net Unadjusted Cost tax Basis at December 31, 2013						
12				$ 7,546,331			$ 7,546,331
13	Reductions						
14	Accumulated Depreciation 2013 and prior per federal and state tax depr. report	$ (5,521,695)			$ (5,521,695)		
15							
16	Tax Depreication Related to Proposed Plant Adjustments	688			688		
17					-		
18					-		
19					-		
20							
21							
22	Net Reductions through December 31, 2013			(5,521,007)			(5,521,007)
23	Net tax value of plant-in-service at December 31, 2013			$ 2,025,324			$ 2,025,324
24							
25	[3] **CIAC (including impact of change to probability of realization)**						
26	Gross CIAC per adjusted book balances		$ 820,205				
27	CIAC reductions/addtions						
28	A.A per adjusted book balances	$ (284,447)					
29		-					
30							
31	Net CIAC before unrealized AIAC		(284,447)				
32				$ 535,758			
33	Unrealized AIAC Component						
34	AIAC per adjusted book balances		$ -				
35	Adjusted Net AIAC (see footnote 5 below)		70.0%				
36	Unrealized AIAC Component % (1-Realized AIAC Component)			$ -			
37							
38	Total realizable CIAC			$ 535,758			
39							
40	[4] **AIAC (including impact of change in probability of realization)**						
41	AIAC per adjusted book balances			$ -			
42	Less: Unrealized AIAC (from Note 3, above)			$ -			
43							
44	Subtotal			$ -			
45	Meter and Service Line Installation Charges per adjusted book balances			180,221			
46	Total realizable AIAC			$ 180,221			
47							

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

Exhibit
Rejoinder Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	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		Adjusted Test Year	
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	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
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
Rejoinder 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		$ 844,719	$ -	$ 844,719	$ 402,921	$ 1,247,640
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**	$ 725,756	$ (6,717)	$ 719,039	$ 161,105	$ 880,145
34	**Operating Income**	$ 118,963	$ 6,717	$ 125,680	$ 241,815	$ 367,495
35	**Other Income (Expense)**					
36	Interest Income	-	-	-		-
37	Other income	-	-	-		-
38	Interest Expense	-	-	-		-
39	Other Expense	-	-	-		-
40		-	-	-		-
41	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
42	**Net Profit (Loss)**	$ 118,963	$ 6,717	$ 125,680	$ 241,815	$ 367,495
43						
44	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
45	C-1, page 2				A-1	
46						
47						

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

Exhibit
Rejoinder Schedule C-1
Page 2
Witness: Bourassa

Line No.		LABEL>>>>> Adjusted Book Results	1 Depreciation	2 Property Taxes	3 Water Testing Expense	4 Transportation Expense	5 Misc Expense	6 Intentionally Left Blank	7 Intentionally Left Blank	8 Income Taxes	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		$ 844,719	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 844,719	$ 402,921	$ 1,247,640
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**	$ 725,756	$ 600	$ -	$ (5,256)	$ (2,136)	$ (4,787)	$ -	$ -	$ 4,862	$ 719,039	$ 161,105	$ 880,145
34	**Operating Income**	$ 118,963	$ (600)	$ -	$ 5,256	$ 2,136	$ 4,787	$ -	$ -	$ (4,862)	$ 125,680	$ 241,815	$ 367,495
35	**Other Income (Expense)**												
36	Interest Income	-							-		-		-
37	Other income	-							-		-		-
38	Interest Expense	-							-		-		-
39	Other Expense	-							-		-		-
40		-									-		-
41	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
42	**Net Profit (Loss)**	$ 118,963	$ (600)	$ -	$ 5,256	$ 2,136	$ 4,787	$ -	$ -	$ (4,862)	$ 125,680	$ 241,815	$ 367,495
43													
44	SUPPORTING SCHEDULES:												
45	C-2												
46													

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

Exhibit
Rejoinder Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1 Depreciation	2 Property Taxes	3 Water Testing Expense	4 Transportation Expense	5 Misc Expense	6 Intentionally Left Blank	Subtotal
1								
2								
3								
4	Revenues				-		-	-
5								
6	Expenses	600	-	(5,256)	(2,136)	(4,787)	-	(11,579)
7								
8	Operating							
9	Income	(600)	-	5,256	2,136	4,787	-	11,579
10								
11	Interest							
12	Expense							-
13	Other							
14	Income /							
15	Expense							-
16								
17	Net Income	(600)	-	5,256	2,136	4,787	-	11,579
18								
19								

Adjustments to Revenues and Expenses

		7 Intentionally Left Blank	8 Income Taxes	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Intentionally Left Blank	12 Intentionally Left Blank	Subtotal
20								
21								
22								
23								
24								
25	Revenues							-
26								
27	Expenses	-	4,862	-	-	-	-	(6,717)
28								
29	Operating							
30	Income	-	(4,862)	-	-	-	-	6,717
31								
32	Interest							
33	Expense	-						-
34	Other							
35	Income /	-						
36	Expense							-
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
Rejoinder Schedule C-2
Page 2
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Depreciation Expense

Line No.	Acct. No.	Description	Original Cost	Non-Depr. or Fully Depr. Plant	Adjusted Original Cost	Proposed Rates	Depreciation Expense
5	301	Organization Cost	$ 37,295		$ 37,295	0.00%	$ -
6	302	Franchise Cost	-	-	-	0.00%	-
7	303	Land and Land Rights	92,895	(92,895)	-	0.00%	-
8	304	Structures and Improvements	75,424		75,424	3.33%	2,512
9	305	Collecting and Impounding Res.	-		-	2.50%	-
10	306	Lake River and Other Intakes	-		-	2.50%	-
11	307	Wells and Springs	835,700		835,700	3.33%	27,829
12	308	Infiltration Galleries and Tunnels	-		-	6.67%	-
13	309	Supply Mains	-		-	2.00%	-
14	310	Power Generation Equipment	37,618		37,618	5.00%	1,881
15	311	Electric Pumping Equipment	1,141,692		1,141,692	12.50%	142,711
16	320	Water Treatment Equipment	-		-	3.33%	-
17	320.1	Water Treatment Plant	-		-	3.33%	-
18	320.2	Chemical Solution Feeders	-		-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	-		-	2.22%	-
20	330.1	Storage tanks	856,574		856,574	2.22%	19,016
21	330.2	Pressure Tanks	32,236		32,236	5.00%	1,612
22	331	Trans. and Dist. Mains	3,194,161		3,194,161	2.00%	63,883
23	333	Services	891,232		891,232	3.33%	29,678
24	334	Meters	90,315		90,315	8.33%	7,523
25	335	Hydrants	477,182		477,182	2.00%	9,544
26	336	Backflow Prevention Devices	-		-	6.67%	-
27	339	Other Plant and Misc. Equip.	-		-	6.67%	-
28	340	Office Furniture and Fixtures	2,071		2,071	6.67%	138
29	340.1	Computers and Software	-		-	20.00%	-
30	341	Transportation Equipment	-		-	20.00%	-
31	342	Stores Equipment	-		-	4.00%	-
32	343	Tools and Work Equipment	2,399		2,399	5.00%	120
33	344	Laboratory Equipment	-		-	10.00%	-
34	345	Power Operated Equipment	-		-	5.00%	-
35	346	Communications Equipment	57,194		57,194	10.00%	5,719
36	347	Miscellaneous Equipment	-		-	10.00%	-
37	348	Other Tangible Plant	1,056		1,056	10.00%	106
38		TOTALS	$ 7,825,043	$ (92,895)	$ 7,732,147		$ 312,272
39							
40	Less: Amortization of Contributions				Gross CIAC	Amort. Rate	
41	331	Trans. and Dist. Mains			$ 663,178	2.00%	$ (13,264)
42	333	Services			$ 69,718	3.33%	(2,322)
43	335	Hydrants			$ 87,308	2.00%	(1,746)
44		Total CIAC			$ 820,205		$ (17,331)
45	Total Depreciation Expense						$ 294,940
46							
47	Adjusted Test Year Depreciation Expense						294,340
48							
49	Increase (decrease) in Depreciation Expense						$ 600
50							
51	Adjustment to Revenues and/or Expenses						$ 600
52							
53	SUPPORTING SCHEDULE						
54	B-2, page 3						

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

Exhibit
Rejoinder Schedule C-2
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 844,719	$ 844,719
2	Weight Factor	3	2
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 Mutilplier	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	2,432	2,432
18	Total Property Taxes (Line 16 + Line 17)	$ 35,106	
19	Test Year Property Taxes	$ 35,106	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	$ -	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 40,301
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 35,106
24	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 5,195**
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			
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Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rejoinder Schedule C-2
Page 4
Witness: Bourassa

Water Testing Expense

Line No.			
1			
2			
3	Staff Reccommended Water Testing Expense	$	7,608
4			
5	Test Year Water Testing Expense		12,864
6			
7	Increase (decrease) in Water Testing Expense	$	(5,256)
8			
9			
10	Adjustment to Revenue and/or Expense	$	(5,256)
11			
12			
13			
14			
15			
16	Reference		
17	Staff Schedule JAC-9		
18			
19			
20			

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

Exhibit
Rejoinder Schedule C-2
Page 5
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Transportation Expense

Line No.			
1			
2	Staff Reccommended Transportation Expense	$	10,931
3			
4	Test Year Transportation Expense		13,067
5			
6	Increase (decrease) in Transportation Expense	$	(2,136)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(2,136)
10			
11			
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13			
14			
15	Reference		
16	Staff Schedule JAC-10		
17			
18			
19			
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Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rejoinder Schedule C-2
Page 6
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Miscellaneous Expense

Line No.			
1			
2	Staff Reccommended Miscellaneous Expense	$	7,954
3			
4	Test Year Miscellaneous Expense		12,741
5			
6	Increase (decrease) in Miscellaneous Expense	$	(4,787)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(4,787)
10			
11			
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13			
14			
15	Reference		
16	Staff Schedule JAC-11		
17			
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19			
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Quail Creek Water Company
Test Year Ended December 31, 2013
Adjustment to Revenues and Expenses
Adjustment Number 6

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Rejoinder Schedule C-2
Page 7
Witness: Bourassa

Intentionally Left Blank

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

Exhibit
Rejoinder 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
Rejoinder Schedule C-2
Page 9
Witness: Bourassa

Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Computed Income Tax	$ 62,095	$ 218,005
5	Test Year Income tax Expense	57,233	62,095
6	Adjustment to Income Tax Expense	$ 4,862	$ 155,910
7			
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13	SUPPORTING SCHEDULE		
14	C-3, page 2		
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Quail Creek Water Company
Test Year Ended December 31, 2013
Computation of Gross Revenue Conversion Factor

Exhibit
Rejoinder Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
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 = Gross Revenue Conversion Factor	
14	Operating Income %	1.6662
15		
16		
17		
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25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1
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Quail Creek Water Company
Test Year Ended December 31, 2013

Exhibit
Rejoinder Schedule C-3
Page 2
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GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)
	Calculation of Gross Revenue Conversion Factor:			
1	Revenue	100.0000%		
2	Uncollecible Factor (Line 11)	0.0000%		
3	Revenues (L1 - L2)	100.0000%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.9844%		
5	Subtotal (L3 - L4)	60.0156%		
6	**Revenue Conversion Factor (L1 / L5)**	1.666234		
	Calculation of Uncollectible Factor:			
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%	
	Calculation of Effective Tax Rate:			
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%	
	Calculation of Effective Property Tax Factor			
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	AdjustedTest 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]
		Test Year			Company Recommended		
	Calculation of Income Tax:	Total Water	Intentionally Left Blank	Water	Total Water	Intentionally Left Blank	Water
39	Revenue	$ 844,719		$ 844,719	$ 1,247,640		$ 1,247,640
40	Operating Expenses Excluding Income Taxes	656,945		656,945	662,140		662,140
41	Synchronized Interest (L47)	-		-	-		-
42	Arizona Taxable Income (L39 - L40 - L41)	$ 187,775		$ 187,775	$ 585,501		$ 585,500
43	Arizona State Income Tax Rate	4.9000%		4.9000%	4.9000%		4.9000%
44	Arizona Income Tax (L42 x L43)	$ 9,201		$ 9,201	$ 28,690		$ 28,690
45	Federal Taxable Income (L42- L44)	$ 178,574		$ 178,574	$ 556,812		$ 556,811
46							
47	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 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
49	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500		$ 8,500	$ 8,500		$ 8,500
50	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 30,644		$ 30,644	$ 91,650		$ 91,650
51	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -		$ -	$ 75,416		$ 75,416
52							
53	Total Federal Income Tax	$ 52,894		$ 52,894	$ 189,316		$ 189,316
54	Combined Federal and State Income Tax (L35 + L42)	$ 62,095		$ 62,095	$ 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:	Water
58	Rate Base	$ 3,674,950
59	Weighted Average Cost of Debt	0.0000%
60	Synchronized Interest (L59 X L60)	$ -

Quail Creek Water Company
Revenue Summary
Test Year Ended December 31, 2013

Exhibit
Rejoinder Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Classification	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	$ 654,321	$ 937,763	$ 283,442	43.32%	77.46%	75.16%
2	3/4 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
3	1 Inch	Residential	64,595	97,874	33,279	51.52%	7.65%	7.84%
4	1 1/2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
5	2 Inch	Residential	3,424	5,825	2,401	70.14%	0.41%	0.47%
6								
7	5/8x3/4 Inch	Commercial	$ 20,007	$ 32,272	$ 12,264	61.30%	2.37%	2.59%
8	3/4 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
9	1 Inch	Commercial	11,118	20,627	9,509	85.53%	1.32%	1.65%
10	1 1/2 Inch	Commercial	9,942	18,667	8,725	87.75%	1.18%	1.50%
11	2 Inch	Commercial	28,157	49,080	20,922	74.30%	3.33%	3.93%
12	3 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
13	6 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
14								
15	5/8x3/4 Inch	Irrigation	$ 10,246	$ 19,096	$ 8,850	86.38%	1.21%	1.53%
16	3/4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
17	1 Inch	Irrigation	2,514	4,451	1,937	77.04%	0.30%	0.36%
18	1 1/2 Inch	Irrigation	3,957	7,121	3,164	79.96%	0.47%	0.57%
19	2 Inch	Irrigation	9,033	16,553	7,520	83.25%	1.07%	1.33%
20	3 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
21	4 Inch	Irrigation	6,753	10,780	4,027	59.62%	0.80%	0.86%
22								
23								
24								
25								
26								
27	**Subtotals of Revenues**		$ 824,068	$ 1,220,108	$ 396,040	48.06%	97.56%	97.79%
28								
29	**Revenue Annualizations:**							
30	5/8x3/4 Inch	Residential	$ 9,969	$ 13,922	$ 3,953	39.66%	1.18%	1.12%
31	3/4 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
32	1 Inch	Residential	(44)	(67)	(23)	51.78%	-0.01%	-0.01%
33	1 1/2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
34	2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
35								
36	5/8x3/4 Inch	Commercial	$ 1,589	$ 2,476	$ 887	55.87%	0.19%	0.20%
37	3/4 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
38	1 Inch	Commercial	2,037	3,582	1,545	75.85%	0.24%	0.29%
39	1 1/2 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
40	2 Inch	Commercial	(1,765)	(2,960)	(1,194)	67.65%	-0.21%	-0.24%
41	3 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
42	6 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
43								
44	5/8x3/4 Inch	Irrigation	$ (36)	$ (98)	$ (62)	170.69%	0.00%	-0.01%
45	3/4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
46	1 Inch	Irrigation	152	245	93	61.18%	0.02%	0.02%
47	1 1/2 Inch	Irrigation	2,006	3,635	1,629	81.21%	0.24%	0.29%
48	2 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
49	3 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
50	4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
51								
52	**Subtotal Revenue Annualization**		$ 13,906	$ 20,735	$ 6,829	49.11%	1.65%	2.45%
53								
54	**Total Revenues w/ Annualization**		$ 837,974	$ 1,240,843	$ 402,869	48.08%	99.20%	99.46%
55	**Misc Revenues**		7,353	7,353	-	0.00%	0.87%	0.59%
56	**Reconciling Amount**		(608)	(556)	52	-8.55%	-0.07%	-0.04%
57	**Total Revenues**		$ 844,719	$ 1,247,640	$ 402,921	47.70%	100.00%	100.00%
58								
59								

Quail Creek Water Company
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2013

Exhibit
Rejoinder Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		Average Number of Customers at 12/31/2013	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	5/8x3/4 Inch	Residential	1,757	5,725	$ 31.03	$ 43.33	$ 12.30	39.64%	88.85%
2	3/4 Inch	Residential	-	-	$ 20.00	$ 28.30	$ 8.30	41.50%	0.00%
3	1 Inch	Residential	129	5,965	41.70	62.99	21.29	51.05%	6.53%
4	1 1/2 Inch	Residential	-	-	50.00	70.75	20.75	41.50%	0.00%
5	2 Inch	Residential	1	73,325	285.31	475.03	189.72	66.49%	0.05%
6									
7	5/8x3/4 Inch	Commercial	53	5,808	$ 31.26	48.11	16.85	53.90%	2.70%
8	3/4 Inch	Commercial	-	-	20.00	28.30	8.30	41.50%	0.00%
9	1 Inch	Commercial	8	34,704	122.17	215.52	93.35	76.40%	0.38%
10	1 1/2 Inch	Commercial	3	80,778	276.18	497.28	221.10	80.06%	0.15%
11	2 Inch	Commercial	9	70,019	276.05	456.08	180.03	65.22%	0.43%
12	3 Inch	Commercial	-	-	150.00	212.25	62.25	41.50%	0.00%
13	6 Inch	Commercial	-	-	500.00	707.50	207.50	41.50%	0.00%
14									
15	5/8x3/4 Inch	Irrigation	11	22,577	$ 78.21	$ 139.58	$ 61.37	78.46%	0.55%
16	3/4 Inch	Irrigation	-	-	20.00	28.30	8.30	41.50%	0.00%
17	1 Inch	Irrigation	3	18,277	76.18	121.40	45.22	59.36%	0.14%
18	1 1/2 Inch	Irrigation	1	70,475	247.33	438.25	190.92	77.19%	0.07%
19	2 Inch	Irrigation	2	105,846	376.37	661.36	284.99	75.72%	0.10%
20	3 Inch	Irrigation	-	-	150.00	212.25	62.25	41.50%	0.00%
21	4 Inch	Irrigation	1	111,709	562.78	870.92	308.13	54.75%	0.05%
22									
23									
24									
25									
26									
27									
28									
29	Totals		1,978						100.00%
30									
31	Actual Year End Number								
32	of Customers:		2,011						
33									
34									
35									
36									

Quail Creek Water Company
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2013

Exhibit
Rejoinder Schedule H-2
Page 2
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size		Average Number of Customers at 12/31/2013	Median Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	5/8x3/4 Inch	Residential	1,757	4,500	$ 27.60	$ 37.66	$ 10.06	36.44%	88.85%
2	3/4 Inch	Residential	-	-	$ 20.00	$ 28.30	$ 8.30	41.50%	0.00%
3	1 Inch	Residential	129	4,500	$ 37.60	$ 56.21	$ 18.61	49.49%	6.53%
4	1 1/2 Inch	Residential	-	-	$ 50.00	$ 70.75	$ 20.75	41.50%	0.00%
5	2 Inch	Residential	1	70,000	$ 276.00	$ 455.97	$ 179.97	65.21%	0.05%
6									
7	5/8x3/4 Inch	Commercial	53	2,500	$ 22.00	$ 32.80	$ 10.80	49.09%	2.70%
8	3/4 Inch	Commercial	-	-	$ 20.00	$ 28.30	$ 8.30	41.50%	0.00%
9	1 Inch	Commercial	8	6,500	$ 43.20	$ 65.47	$ 22.27	51.55%	0.38%
10	1 1/2 Inch	Commercial	3	-	$ 50.00	$ 70.75	$ 20.75	41.50%	0.15%
11	2 Inch	Commercial	9	42,500	$ 199.00	$ 309.96	$ 110.96	55.76%	0.43%
12	3 Inch	Commercial	-	-	$ 150.00	$ 212.25	$ 62.25	41.50%	0.00%
13	6 Inch	Commercial	-	-	$ 500.00	$ 707.50	$ 207.50	41.50%	0.00%
14									
15	5/8x3/4 Inch	Irrigation	11	500	$ 16.40	$ 23.54	$ 7.14	43.54%	0.55%
16	3/4 Inch	Irrigation	-	-	20.00	28.30	8.30	41.50%	0.00%
17	1 Inch	Irrigation	3	-	25.00	35.38	10.38	41.50%	0.14%
18	1 1/2 Inch	Irrigation	1	55,000	204.00	349.58	145.58	71.36%	0.07%
19	2 Inch	Irrigation	2	26,000	152.80	233.57	80.77	52.86%	0.10%
20	3 Inch	Irrigation	-	-	150.00	212.25	62.25	41.50%	0.00%
21	4 Inch	Irrigation	1	80,000	474.00	724.12	250.12	52.77%	0.05%
22									
23									
24									
25									
26									
27									
28									
29	Totals		1,978						100.00%
30									
31	Actual Year End Number								
32	of Customers:		2,011						
33									
34									
35									
36									

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

Exhibit
Rejoinder Schedule H-3
Page 1

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%
2	3/4 Inch	20.00	28.30	8.30	41.50%
3	1 Inch	25.00	35.38	10.38	41.50%
4	1 1/2 Inch	50.00	70.75	20.75	41.50%
5	2 Inch	80.00	113.20	33.20	41.50%
6	3 Inch	150.00	212.25	62.25	41.50%
7	4 Inch	250.00	353.75	103.75	41.50%
8	6 Inch	500.00	707.50	207.50	41.50%
9	Standpipe	-	-	-	NM
10					
11					
12	Gallons In Minimum (all classes)	-	-		
13					
14					
15					
16					
17					
18					

Line No.	Commodity Rates (per 1,000 gallons)	Block	Present Rate	Proposed Rate
19				
20				
21	5/8x3/4 Inch (all classes)	Over Minimum	$ 2.80	
22				
23	5/8x3/4 Inch - Residential	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	1 gallons to 10,000 gallons		$ 4.63
28		over 10,000 gallons		$ 5.73
29				
30	3/4 Inch Meter (all classes)	Over Minimum	$ 2.80	
31				
32	3/4 Inch Meter - Residential	1 gallons to 4,000 gallons		$ 3.53
33		4,001 gallons to 10,000 gallons		$ 4.63
34		over 10,000 gallons		$ 5.73
35				
36	3/4 Inch Meter - Non-residential	1 gallons to 10,000 gallons		$ 4.63
37		over 10,000 gallons		$ 5.73
38				
39				
40				
41				
42				
43	NM = not meaningful			
44	NT = No Tariff			
45				

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

Exhibit
Rejoinder Schedule H-3
Page 2

Line No.	Commodity Rates (per 1,000 gallons)	Block	Present Rate	Proposed Rate
1				
2				
3	**Commodity Rates (per 1,000 gallons)**	**Block**	**Present Rate**	**Proposed Rate**
4	1 Inch Meter (all classes)	Over Minimum	$ 2.80	
5				
6	1 Inch Meter (all classes)	1 gallons to 17,000 gallons		$ 4.63
7		over 17,000 gallons		$ 5.73
8				
9	1.5 Inch Meter (all classes)	Over Minimum	$ 2.80	
10				
11	1.5 Inch Meter - (all classes)	1 gallons to 33,000 gallons		$ 4.63
12		over 33,000 gallons		$ 5.73
13				
14	2 Inch Meter (all classes)	Over Minimum	$ 2.80	
15				
16	2 Inch Meter - (all classes)	1 gallons to 53,000 gallons		$ 4.63
17		over 53,000 gallons		$ 5.73
18				
19	3 Inch Meter (all classes)	Over Minimum	$ 2.80	
20				
21	3 Inch Meter - (all classes)	1 gallons to 100,000 gallons		$ 4.63
22		over 100,000 gallons		$ 5.73
23				
24	4 Inch Meter (all classes)	Over Minimum	$ 2.80	
25				
26	4 Inch Meter (all classes)	1 gallons to 167,000 gallons		$ 4.63
27		over 167,000 gallons		$ 5.73
28				
29	6 Inch Meter - (all classes)	1 gallons to 334,000 gallons		$ 4.63
30		over 334,000 gallons		$ 5.73
31				
32				
33	Standpipe*	All gallons	$ 2.80	$ 5.73
34				
35	* Includes hydrant or construction water.			
36	NT = No Tariff			

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

Exhibit
Rejoinder Schedule H-3
Page 3
Witness: Bourassa

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]
5/8 x 3/4 Inch			$ 350.00	$ 385.00	$ 135.00	$ 520.00
3/4 Inch			$ 400.00	415.00	205.00	620.00
1 Inch			$ 470.00	465.00	265.00	730.00
1 1/2 Inch			$ 695.00	520.00	475.00	995.00
2 Inch Turbo			$ 1,225.00	800.00	995.00	1,795.00
2 Inch, Compound			$ 1,820.00	800.00	1,840.00	2,640.00
3 Inch Turbo			$ 1,735.00	1,015.00	1,620.00	2,635.00
3 Inch, compound			$ 2,410.00	1,135.00	2,495.00	3,630.00
4 Inch Turbo			$ 2,700.00	1,430.00	2,570.00	4,000.00
4 Inch, compound			$ 3,455.00	1,610.00	3,545.00	5,155.00
6 Inch Turbo			$ 5,115.00	2,150.00	4,925.00	7,075.00
6 Inch, compound			$ 6,650.00	2,270.00	6,820.00	9,090.00

[1] Based on ACC Staff Engineering Memo dated Feburary 21, 2008

Other Charges:

Establishment	$ 25.00	$ 25.00
Establishment (after hours)	$ 45.00	Remove
Reestablishment within 12 months	**	**
Reconnection/Delinguent	$ 25.00	$ 25.00
Meter Test (if correct)	$ 25.00	$ 25.00
Meter Re-read (if correct)	$ 15.00	$ 15.00
Deposit	*	*
Deposit Interest	*	*
NSF Check	$ 15.00	$ 15.00
Deferred Payment, per month	1.5% per month	1.5% per month
Late Payment Fee (per month)	***	***
After hours service charge	NT	$ 50.00

Monthly Service Charge of Fire Sprinklers

4" or Smaller	****	****
6"	****	****
8"	****	****
10"	****	****
Larger than 10"	****	****

* Per Commission Rule A.A.C R-14-2-403(b)
** Number of months off the system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).
*** 1.5% per month or a minimum of $3.50.
**** 1% of monthly minimum for a comparable sized meter connection, but no less than $5.00 per month (requires separate service line).

NT = No Tariff

EXHIBIT TJB-RJI

Quail Creek Water Company
Metered Revenue Breakdown Summary
Present Rates

Exhibit
Page 1

		Present Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	Residential	$ 321,120	$ 343,170	$ -	$ -	$ 664,290
3/4 Inch	Residential	-	-	-	-	-
1 Inch	Residential	38,700	25,851	-	-	64,551
1 1/2 Inch	Residential	-	-	-	-	-
2 Inch	Residential	960	2,464	-	-	3,424
Subtotal		$ 360,780	$ 371,484	$ -	$ -	$ 732,264
		43.05%	44.33%	0.00%	0.00%	87.39%
5/8x3/4 Inch	Commercial	$ 10,260	$ 11,336	$ -	$ -	$ 21,596
3/4 Inch	Commercial	-	-	-	-	-
1 Inch	Commercial	2,700	10,455	-	-	13,155
1 1/2 Inch	Commercial	1,800	8,142	-	-	9,942
2 Inch	Commercial	7,680	18,712	-	-	26,392
3 Inch	Commercial	-	-	-	-	-
6 Inch	Commercial	-	-	-	-	-
Subtotal		$ 22,440	$ 48,644	$ -	$ -	$ 71,084
		0.00%	0.00%	0.00%	0.00%	0.00%
5/8x3/4 Inch	Irrigation	$ 1,980	$ 8,230	$ -	$ -	$ 10,210
3/4 Inch	Irrigation	-	-	-	-	-
1 Inch	Irrigation	900	1,766	-	-	2,666
1 1/2 Inch	Irrigation	1,200	4,763	-	-	5,963
2 Inch	Irrigation	1,920	7,113	-	-	9,033
3 Inch	Irrigation	-	-	-	-	-
4 Inch	Irrigation	3,000	3,753	-	-	6,753
Golf Course	Irrigation	-	-	-	-	-
Subtotal		9,000	25,625	-	-	34,625
		1.07%	3.06%	0.00%	0.00%	4.13%
5/8x3/4 Inch	Construction	-	-	-	-	-
		0.00%	0.00%	0.00%	0.00%	0.00%
	TOTALS	$ 392,220	$ 445,754	$ -	$ -	$ 837,974
	Percent of Total	46.81%	53.19%	0.00%	0.00%	100.00%
	Cummulative %	46.81%	100.00%	100.00%	100.00%	

Quail Creek Water Company
Metered Revenue Breakdown Summary
Company Proposed Rates

Exhibit
Page 2

		Present Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
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 3

		Present Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	Residential	$ 385,344	$ 220,072	$ 168,222	$ 51,572	$ 825,210
3/4 Inch	Residential	-	-	-	-	-
1 Inch	Residential	69,660	38,063	1,482	-	109,205
1 1/2 Inch	Residential	-	-	-	-	-
2 Inch	Residential	1,728	2,221	1,916	-	5,864
Subtotal		$ 456,732	$ 260,355	$ 171,620	$ 51,572	$ 940,279
		40.76%	23.23%	15.31%	4.60%	83.90%
5/8x3/4 Inch	Commercial	$ 12,312	$ 11,461	$ 7,246	$ -	$ 31,018
3/4 Inch	Commercial	-	-	-	-	-
1 Inch	Commercial	4,860	3,883	15,116	-	23,859
1 1/2 Inch	Commercial	3,240	2,093	12,947	-	18,280
2 Inch	Commercial	13,824	11,736	21,018	-	46,579
3 Inch	Commercial	-	-	-	-	-
6 Inch	Commercial	-	-	-	-	-
Subtotal		$ 34,236	$ 29,173	$ 56,327	$ -	$ 119,736
		3.05%	2.60%	5.03%	0.00%	10.68%
5/8x3/4 Inch	Irrigation	$ 2,376	$ 2,489	$ 12,614	$ -	$ 17,480
3/4 Inch	Irrigation	-	-	-	-	-
1 Inch	Irrigation	1,620	740	2,448	-	4,807
1 1/2 Inch	Irrigation	2,160	2,661	5,763	-	10,583
2 Inch	Irrigation	3,456	2,777	10,113	-	16,347
3 Inch	Irrigation	-	-	-	-	-
4 Inch	Irrigation	5,400	4,426	1,603	-	11,429
Golf Course	Irrigation	-	-	-	-	-
Subtotal		$ 15,012	$ 13,093	$ 32,541	$ -	$ 60,646
		1.34%	1.17%	2.90%	0.00%	5.41%
5/8x3/4 Inch	Construction	-	-	-	-	-
		0.00%	0.00%	0.00%	0.00%	0.00%
	TOTALS	$ 505,980	$ 302,621	$ 260,488	$ 51,572	$ 1,120,662
	Percent of Total	45.15%	27.00%	23.24%	4.60%	100.00%
	Cummulative %	45.15%	72.15%	95.40%	100.00%	

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Attorneys for Quail Creek Water Company, Inc.

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

REJOINDER TESTIMONY
OF
THOMAS J. BOURASSA
COST OF CAPITAL

JULY 27, 2015

EXHIBIT
A-6
ADMITTED

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I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

Q. HAVE YOU ALSO PREPARED REJOINDER TESTIMONY ON RATE BASE ISSUES IN THIS DOCKET?

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

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

A. I will respond to the surrebuttal testimony of Staff cost of capital witness, John Cassidy.

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

A. SUMMARY OF QCW'S REJOINDER RECOMMENDATION.

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL ANALYSIS?

A. No. I updated my cost of capital analysis in my rebuttal testimony filed June 3, 2015. I updated my cost of capital in rebuttal because of the significant period of time between the Company's direct filing and its rebuttal filing. I did not feel the need to provide an additional update here because my rebuttal update is less than two months old. As such, the rejoinder schedules attached mirror my rebuttal schedules.

Q. WHAT IS YOUR RECOMMENDED COST OF CAPITAL?

A. I continue to recommend a return on equity of at least 10.0 percent, which is below the mid-point of the range of my DCF, Risk Premium, and CAPM analyses of 10.1 percent for the publicly traded water utilities ("water proxy group"). Ten percent is also well below the mid-point of the range of 10.5 percent for QCW, which takes into account a downward financial risk adjustment of 60 basis points, and which recognizes the Company's lower financial risk compared to the water proxy group, and an upward risk adjustment for QCW of 100 basis points to recognize the higher risk of an investment in QCW compared to the water proxy group.[1] I also recommend a capital structure consisting of 100 percent equity. Based on these recommendations, the weighted average cost of capital ("WACC") is 10.0 percent. Therefore, I recommend a return of at least 10.0 percent be applied to QCW's fair value rate base ("FVRB").

B. <u>SUMMARY OF THE STAFF RECOMMENDATIONS</u>.

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

A. Staff has updated its cost of capital analysis in its surrebuttal testimony and now recommends a cost of equity of 9.4 percent based on the average cost of equity produced by its DCF models.[2] Staff continues to recommend a capital structure consisting of 100 percent equity.[3] Based on Staff's recommended capital structure, Staff determined the WACC for QCW to be 9.4 percent.[4]

---

[1] *See* Rejoinder Schedule D-4.1.

[2] *See* Surrebuttal Testimony of John A. Cassidy (Cost of Capital) ("Cassidy COC Sb.") at 21:11-13.

[3] Cassidy COC Sb. at 21:8-9.

[4] Surrebuttal Schedule JAC-1.

C. RESPONSES TO STAFF'S SURREBUTTAL CRITICISMS OF THE COMPANY'S COST OF CAPITAL ANALYSIS.

Q. PLEASE RESPOND TO MR. CASSIDY'S SURREBUTTAL TESTIMONY ON PAGES 6 AND 7 THAT QCW SHOULD BE REQUIRED TO REBALANCE ITS CAPITAL STRUCTURE BECAUSE QCW IS COMPARABLE TO PIMA UTILITY COMPANY AND LAGO DEL ORO WATER COMPANY.

A. Mr. Cassidy's testimony is misinforming. While I would agree with Mr. Cassidy that all three utilities are Class B utilities,[5] they are not comparable in terms of size. Pima Utility Company ("Pima") and Lago Del Oro Water Company ("Lago") are 4.8 to 5 times and 2.4 to 3 times larger than QCW, respectively, depending on the point of view. Pima has over 10,000 water and wastewater customers with authorized revenues of approximately $5.95 million,[6] and Lago has over 6,000 water customers and authorized revenues of approximately $3 million.[7] When comparing these to QCW, which has approximately 2,000 water customers and is seeking approximately $1.25 million in authorized revenues, the three utilities are not as similar as Mr. Cassidy's simplified analysis portrays.

Q. PLEASE RESPOND TO MR. CASSIDY'S SURREBUTTAL TESTIMONY ON PAGE 8 THAT RELIANCE ON THE STUDY CONDUCTED BY SCOTT AND MARTIN FOR INSIGHT ON WHY SMALLER FIRMS TEND TO HAVE LESS DEBT IS FLAWED BECAUSE THE STUDY LOOKED AT UNREGULATED FIRMS.

A. I have a number of comments. First, basic financial theory tells us three things about

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[5] Cassidy COC Sb. at 7:13.

[6] *See* Decision No. 73573 (November 21, 2012).

[7] *See* Decision No. 74564 (June 20, 2014).

debt: 1) debt magnifies the equity risk; 2) debt magnifies equity risk at an ever increasing rate; and 3) the required rate of return on equity goes up at an ever increasing rate as you add more and more debt.[8] This is true regardless of whether a firm is regulated or unregulated.

Second, risk increases as size decreases. The empirical financial data and studies support this.[9] Further, rather than simply pointing out the reasons for higher business risks associated with small utilities operating in Arizona (e.g., lack of resources, small customer base, lack of geographical diversification, lack of access to capital markets, high capital requirements, inability to earn authorized revenues), I have quantified the higher business risk associated with QCW compared to the water proxy group,[10] which analysis Mr. Cassidy ignores.

Third, I do not disagree with Mr. Cassidy that business risk is generally greater for non-regulated firms.[11] But, that's not the point. Regardless of the magnitude of business risk, firms tend to offset higher business risk with lower financial risk. It is not a stretch to suggest that smaller utilities would tend to offset the higher business risks with lower financial risk. In fact, I believe it is especially true given that the Commission generally ignores the business risks associated with small size despite being well aware of the issues and risks associated with the smaller water and wastewater utilities in Arizona.

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[8] The Brattle Group, "The Effect of Debt on the Cost of Equity in a Regulatory Setting," Edison Electric Institute, Washington D.C. (2005), p. 14.

[9] Rebuttal Testimony of Thomas J. Bourassa (Cost of Capital) ("Bourassa COC Rb.") at 13-17; Direct Testimony of Thomas J. Bourassa (Cost of Capital) ("Bourassa COC Dt.") at 15-20, 31-32, 34-35, 38-39.

[10] Bourassa COC Dt. at 17:15 – 19:16; Bourassa COC Rb. at 17:1-7.

[11] Cassidy COC Sb. at 8.

Q. HAVE RATEPAYERS BEEN HARMED BY THE COMPANY'S DECISION NOT TO BORROW MONEY TO PAY FOR PLANT BEING PAID FOR AND CONSTRUCTED BY AN AFFILIATE?

A. I don't see how. Rates did not change because of the delay in payment by the utility for the plant. Adding debt would have required that the Company seek new rates much sooner, and the new rates would have had an impact on ratepayers much earlier. Further, adding long-term debt, especially for a utility with a relatively small customer base, would have increased risk. As a firm becomes riskier, both equity and debt costs become higher, and the customers will pay those higher costs of capital through rates. In the case of QCW, that increased risk would also have meant that QCW would be less financially stable.

Q. PLEASE RESPOND TO MR. CASSIDY'S SURREBUTTAL TESTIMONY ON PAGE 10 THAT STAFF'S COST OF EQUITY ESTIMATE, WHICH INCORPORATES STAFF'S CAPM INTO THE ANALYSIS, IS 8.2 PERCENT WITHOUT STAFF'S 60 BASIS POINT ECONOMIC ASSESSMENT ADJUSTMENT AND 8.8 PERCENT WITH STAFF'S 60 BASIS POINT ECONOMIC ASSESSMENT ADJUSTMENT.

A. The Staff testimony on its CAPM confirms that there is something wrong with Staff's CAPM approach, which yields a cost of equity estimate of just 7.6 percent.[12] This is far below returns that are expected for the water proxy group. Even Staff's overall result of 8.8 percent, including the 60 basis point upward adjustment, is far below returns that are expected for the water proxy group. The currently authorized return for the water proxy group is 9.63 percent.[13] The projected returns for the water proxy group are 10.2 percent for 2015, 10.2 percent for 2016, and 10.9 percent

[12] *See* Cassidy COC Sb., Exhibit JAC-A. *See also* Cassidy COC Sb. at 10.

[13] *See* Rejoinder Schedule D-4.2.

for 2018-20.[14] The low result produced by Staff's CAPM confirms why Staff has abandoned consideration of its CAPM in its analysis. The result simply does not pass the smell test. I completely disagree with Staff that an 8.8 percent equity return is on the low side or reasonableness;[15] it is well below the low side of reasonableness.

Q. IF THE CAPM RESULTS DO NOT PASS THE SMELL TEST, WHY IS IT A PROBLEM THAT STAFF ISN'T USING THE CAPM?

A. The issue is not with the CAPM itself – although one must understand its limitations – but whether the inputs employed are sound and the results make sense given the current market facts and circumstances. This is why I use several measures to estimate equity return, and why I am critical of Staff's reliance on only one – the DCF – without any checks and balances.

Q. THANK YOU. WOULD YOU PLEASE RESPOND TO MR. CASSIDY'S SURREBUTTAL TESTIMONY ON PAGES 11 AND 12 REGARDING THE CURRENT MRP FOR THE S&P 500 RFERENCED IN THE WALL STREET JOURNAL ARTICLE YOU CITED IN YOUR REBUTTAL TESTIMONY?

A. Mr. Cassidy misses the point of my testimony. The MRP is one of the highest estimates going back to 1960, and the cost of equity is not necessarily lower because of recent stock price increases, as Mr. Cassidy suggests.[16] Using the 5.8 percent as a comparison to my 9.25 percent current MRP is misplaced, which is why I did not use it or make reference to it. We have no details regarding how the 5.8 percent was computed. We know that it is a historical measurement (going back to 1960) rather than forward looking as my current MRP[17] and we also know that the S&P 500, upon

[14] Value Line Ratings & Reports, July 17, 2015.

[15] Cassidy COC Sb. at 11:1-5.

[16] *See* Direct Testimony of John A. Cassidy (Cost of Capital) at 35.

[17] The historical MRP's Staff and the Company typically employ are based upon measurements across 88 years (1926 to 2014).

which it is based, is a large company index. *Morningstar* refers to the S&P 500 as a large company index and cautions that "if using a large company index to calculate the equity risk premium, an adjustment is usually made to account for the different risk and return characteristics of small stocks."[18] That said, we do not know whether it is an arithmetic mean or a geometric mean,[19] or whether it is measured by the difference between total market returns on the S&P 500 and total returns on long-term government bonds or the difference between total market returns on the S&P 500 and income returns on long-term government bonds.[20]

Q. DOES COMPARING YOUR 9.25 PERCENT CURRENT MRP TO THE 5.8 PERCENT REPORTED BY THE WALL STREET JOURNAL OR TO THE STAFF CURRENT MRP ESTIMATE OF 6.9 PERCENT PROVE THAT YOUR CURRENT MRP IS OVERSTATED?

A. No. I would note that Staff's current MRP, like my current MRP, is higher than the 5.8 percent. I would also note that Staff's 6.9 percent current MRP is less than the historical long-term MRP of 7.0 percent, suggesting that the current MRP is lower, not higher as reported in the *Wall Street Journal* article. This contradiction suggests that Staff's method of estimating the current MRP is flawed.

Q. DO THE COMPARISONS DEMONSTRATE THAT YOUR CURRENT MRP CAPM IS NOT REPRESENTATIVE OF CURRENT MARKET CONDITIONS?

A. No. Simply comparing the MRP estimates doesn't prove anything. I have thoroughly explained my approach to estimating the current MRP and how it is

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[18] *Morningstar, Ibbotson SBBI 2013 Valuation Yearbook,* Chapter 7.

[19] Arithmetic means are the correct measurement for cost of capital estimation.

[20] Staff typically uses MRP based upon the difference between market returns on stocks and income returns on government bonds. Use of income returns on government bonds in the measurement is the correct approach for cost of capital estimation.

different and more appropriate than Staff's approach to estimating the current MRP.[21] Mr. Cassidy has not yet explained why using projected 3-5 year stock price appreciation potential in a DCF model used to derive the current MRP is more appropriate than using a 3-5 year earnings growth and a projected 3-5 year dividend growth as a proxy for growth in a DCF model used to derive the current MRP.

Q. ISN'T STOCK PRICE APPRECIATION ANOTHER TERM FOR STOCK PRICE GROWTH?

A. Yes, and I fail to follow Mr. Cassidy's explanation on pages 16 and 17 of his surrebuttal testimony of how stock price appreciation and stock price growth are different. It is a distinction without a difference. Rather than simply concede that Staff uses stock price growth in a DCF to estimate the current MRP, Mr. Cassidy confuses the issue first by re-explaining the DCF model and its components, and then by admitting that Staff uses stock price appreciation to estimate the growth component.[22] It follows that I also did not understand Mr. Cassidy's explanation of why stock price appreciation is an "ideal metric" for the growth component.[23]

Q. IS 3-5 YEAR STOCK PRICE APPRECIATION AN IDEAL METRIC FROM WHICH TO COMPUTE THE CURRENT MRP?

A. Staff thinks so.[24] Mr. Cassidy does not explain why the 3-5 year dividend growth and 3-5 year earnings growth employed in my current MRP estimate are any less "ideal." The projected dividend growth and projected earnings growth employed in my DCF model used to derive the current MRP are 3-5 year estimates just as in Staff's price appreciation potential. And, considering that Staff uses projected

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[21] *See* Bourassa COC Rb. at 11-13.

[22] Cassidy COC Sb. at 16-17.

[23] *Id.*

[24] *Id.*

dividend growth and projected earnings growth in its DCF growth rate estimate for its own DCF model, it's curious that Staff does not also use these same metrics in its DCF to derive its current MRP.

Q. DOES STAFF'S DCF APPROACH USED TO CALCULATE THE CURRENT MRP MISSTATE THE CURRENT MRP?

A. Yes. In calculating the current MRP in the Staff Exhibit JAC-A, Staff calculates the MRP of 6.9 percent, comprised of a 2.0 percent dividend rate plus a price appreciation rate of 7.79 percent, less a current 30 year Treasury rate of 2.88 percent. This detail is found in Staff's work papers and is reproduced in **Exhibit TJB-COC-RJ1, page 1**.

The 7.79 percent number is arrived at by taking a *Value Line*[25] forecasted market price appreciation rate of 35 percent over the next 3–5 years. Staff annualized that rate over a 4 year period to arrive at 7.79 percent. Although that is a middle-time estimate, there is no other justification for spreading that return over 4 years. In fact, if market participants were in complete agreement with this forecast, the argument could be made that the market would move to this point earlier in order to capture these returns. If that 35 percent return were annualized over a 3-year period, then the annualized market appreciation rate of return would be 10.52 percent or a difference of 2.73 percent in total. This would lead to a current MRP of 9.64 percent rather than Staff's estimate of 6.9 percent. That has a very large impact on the Staff's pro forma estimate of QCW's cost of equity that has been based upon a model input of 4 rather than 3 years.

Q. HOW WOULD THIS MODIFICATION OF THE CURRENT MRP COMPUTATION HAVE CHANGED THE RESULTS OF STAFF'S CAPM

[25] Value Line Summary and Index, May 29, 2015.

AND STAFF'S OVERALL ESTIMATE AS SHOWN ON EXHIBIT JAC-A?

A. Staff's CAPM results would have been 8.6 percent rather than 8.2 percent, and Staff's overall results would have been 9.5 percent rather than 8.8 percent.[26] Adding 100 basis points for the additional risk associated with QCW to the 9.5 percent result yields 10.5 percent, which is higher than my recommendation of 10.0 percent.

Q. MR. CASSIDY CONTINUES TO CRITICIZE YOU ON THE USE OF FORECASTED INTEREST RATES IN BOTH YOUR CAPM AND RISK PREMIUM MODELS. PLEASE COMMENT.

A. I previously responded to Staff regarding the use of forecasted (projected) interest rates and will not repeat that testimony here.[27]

Q. IS THE USE OF A FORECASTED INTEREST RATE RATHER THAN A SPOT RATE IN YOUR CURRENT MRP CAPM CONTRADICTORY TO DR. MORIN'S EXAMPLE IN HIS TEXT BOOK AS MR. CASSIDY SUGGESTS ON PAGE 14 OF HIS SURREBUTTAL TESTIMONY?

A. No. Dr. Morin does not say that use of a spot rate is required to use the approach. I chose a forecasted interest rate rather than a spot interest rate, which even Mr. Cassidy admits Dr. Morin supports.[28]

Q. IS THE BETA ESTIMATE FOR THE WATER PROXY GROUP EMPLOYED IN YOUR ANLAYSIS OVERSTATED AS SUGGESTED BY MR. CASSIDY ON PAGE 15 OF HIS SURREBUTTAL TESTIMONY?

A. No. My beta estimates for the water proxy group were obtained from the *Value Line* Analyzer software, which provides more up to date information than the printed version of the *Value Line* Ratings and Reports. I note that Mr. Cassidy relies on the

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[26] **Exhibit TJB-COC-RJ1, page 2.**

[27] Bourassa COC Rb. at 12-13.

[28] Cassidy COC Sb. at 14.

April 17, 2015 quarterly publication for his beta information. The most recent issue of *Value Line* Rating and Reports (July 17, 2015) reflects the same betas for the water proxy group as is used in my analysis. So, it is Mr. Cassidy's beta estimates that appear misstated; mine are correct.[29]

I realize Staff does not use the *Value Line* Analyzer software to obtain *Value Line* data. However, Staff should know that I use the software as I have been using this source since at least 2007 and have consistently referenced this source in my schedules. Staff should have refrained from criticizing me until such time as they could substantiate their criticism. This would have saved time and money. I have attached copies of the *Value Line* Rating and Reports for each of the publicly traded water utilities in **Exhibit TJB-COC-RJ2**.

Q. OKAY. NEXT, ON PAGES 17 AND 18 OF HIS SURREBUTTAL, MR. CASSIDY CRITICZES YOU FOR USING A FORECAST INTEREST RATE IN YOUR RISK PREMIUM MODEL AND RESTATES YOUR RISK PREMIUM MODEL ESTIMATE. PLEASE RESPOND.

A. Again, I previously responded to Staff regarding the use of forecasted (projected) interest rates and will not repeat that testimony here.[30] That said, I would note that the historical average annual interest rate is 4.5 percent, which is above the forecast interest rate of 4.2 percent. Current long-term U.S. Treasury yields are about 2.9 percent, suggesting that current risk premium is higher than the historical risk premium of 6.4 percent as shown on Schedule D-4.9. In other words, the higher risk premium associated with the lower current interest rate would not necessarily have changed the overall indicated cost of equity from my risk premium model. Further, since the forecast interest rate of 4.2 percent is lower than the historical annual

[29] Cassidy COC Sb. at 16.

[30] Bourassa COC Rb. at 12-13.

average of 4.5 percent, my risk premium model may understate the indicated cost of equity.

Q. WHY WOULD YOU EXPECT THE RISK PREMIUM TO BE HIGHER BECAUSE CURRENT INTREST RATES ARE BELOW THE LONG-TERM AVERAGE?

A. Because risk premiums tend to vary inversely with interest rates. There is a theoretical reason, and many sources of empirical data support the proposition that equity risk premiums increase when interest rates decrease. Harris and Marston found an inverse relationship, [31] as did Roger Morin in a study reported in chapter 4 of his 2006 book, *New Regulatory Finance*. This is important because future 30-year Treasury rates are expected to be lower than averages of long-term Treasury bond rates, which prevailed during the periods used to determine risk premiums. The average of 30-year Treasury bond rates expected in 2016-2018 of 4.2 percent is higher than rates are currently, but lower than Treasury bond rates were during most years used to determine historical relationships between interest rates and equity costs (and thus, risk premiums) reported in Rejoinder Schedule D-4.9.

Q. DOES MR. CASSIY'S RESTATEMENT OF YOUR RISK PREIMIUM MODEL TO 9.0 PERCENT CHANGE YOUR OPINION AS TO THE RETURN REQUIRED FOR QCW?

A. No. Assuming Mr. Cassidy is correct, adding 100 basis points for the additional risk associated with QCW to his 9.0 percent result yields 10.0 percent, which is the same as my recommendation of 10.0 percent for QCW.

[31] Harris and Marston, "Estimating Shareholders Risk Premia Using Analysts' Growth Rates," Financial Management, Summer 1992.

Q. DOES THIS CONCLUDE YOUR REJOINDER COST OF CAPITAL TESTIMONY?

A. Yes.

D SCHEDULES

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

Exhibit
Rejoinder Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year 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%
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22	SUPPORTING SCHEDULES:			
23	D-1			
24	D-3			
25	D-4			
26	Testimony			
27				
28				
29				
30				

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

Exhibit
Rejoinder Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	Annual Interest	Effective Interest Rate	Weighted Cost	End of Projected Year Amount Outstanding	Annual Interest	Effective Interest Rate	Weighted Cost
1									
2			-	0.00%	0.00%	-	-	0.00%	0.00%
3			-	0.00%	0.00%	-	-	0.00%	0.00%
4			-	0.00%	0.00%		-	0.00%	0.00%
5			-	0.00%	0.00%		-	0.00%	0.00%
6			-	0.00%	0.00%		-	0.00%	0.00%
7			-	0.00%	0.00%		-	0.00%	0.00%
8			-	0.00%	0.00%		-	0.00%	0.00%
9			-	0.00%	0.00%		-	0.00%	0.00%
10			-	0.00%	0.00%		-	0.00%	0.00%
11									
12									
13	Totals	$ -	-		0.00%	$ -	-		0.00%
14									
15									
16	Supporting Schdules:								
17	E-1								
18	E-2								
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									

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

Exhibit
Rejoinder Schedule D-3
Page 1
Witness: Bourassa

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

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

Exhibit
Rejoinder Schedule D-4
Page 1
Witness: Bourassa

Line No.		
1		
2	The Company is proposing a cost of common equity of	10.00% .
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	E-1	D-1
19	D-4.1 to D-4.15	
20		

Quail Creek Water Company
Summary of Results

Exhibit
Rejoinder Schedule D-4.1
Witness: Bourassa

Line No.		Indicated Cost of Equity for Water Sample Group			Indicated Cost of Equity for Quail Creek Water Company [1]		
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:
[1]Estimates include an equity risk premium of 100 basis points based on comparative risk study. See Testimony.

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

Exhibit
Rejoinder Schedule D-4.2
Witness: Bourassa

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 Schdule D-4.15 for definitions of size category

Quail Creek Water Company
Capital Structures

Exhibit
Rejoinder Schedule D-4.3
Witness: Bourassa

Line No.	Company	Symbol	Book Value[1] Long-Term Debt	Book Value[1] Common Equity	Market Value[1] Long-Term Debt	Market Value[1] Common Equity
1	1. American States Water	AWR	39.8%	60.2%	18.1%	81.9%
2	2. Aqua America	WTR	48.9%	51.1%	23.9%	76.1%
3	3. California Water	CWT	41.6%	58.4%	27.2%	72.8%
4	4. Connecticut Water	CTWS	47.0%	53.0%	30.9%	69.1%
5	5. Middlesex	MSEX	40.7%	59.3%	26.7%	73.3%
6	6. SJW Corp.	SJW	51.0%	49.0%	35.5%	64.5%
7	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
Rejoinder Schedule D-4.4
Witness: Bourassa

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Historical Growth	[6] Value Line Projected Growth[2]	[7] Average of Historical and Proj. Grwth
		Five-year historical average annual changes						
1	1. American States Water	16.07%	6.50%	13.00%	6.50%	10.52%	6.50%	8.51%
2	2. Aqua America	11.70%	6.00%	11.00%	7.00%	8.92%	8.00%	8.46%
3	3. California Water	4.27%	4.50%	4.00%	1.50%	3.57%	7.00%	5.28%
4	4. Connecticut Water	12.77%	8.00%	8.00%	2.00%	7.69%	6.50%	7.10%
5	5. Middlesex	8.36%	3.00%	1.50%	1.50%	3.59%	5.50%	4.55%
6	6. SJW Corp.	4.38%	2.50%	NMF	3.50%	3.46%	6.50%	4.98%
7	7. York Water Company	8.44%	5.00%	5.00%	2.50%	5.23%	7.00%	6.12%
8	GROUP AVERAGE	9.43%	5.07%	7.08%	3.50%	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.

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

Exhibit
Rejoinder Schedule D-4.5
Witness: Bourassa

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Value Line Growth[2]	[7] Average of Historical and Proj. Grwth
		Ten-year historical average annual changes						
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
Rejoinder 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_0/P_0)[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
Rejoinder 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=Div Yld + g (Cols 2+3)
1	1. American States Water	2.28%	2.42%	+	6.50%	=	8.92%
2	2. Aqua America	2.64%	2.85%	+	8.00%	=	10.85%
3	3. California Water	2.79%	2.99%	+	7.00%	=	9.99%
4	4. Connecticut Water	3.04%	3.24%	+	6.50%	=	9.74%
5	5. Middlesex	3.58%	3.78%	+	5.50%	=	9.28%
6	6. SJW Corp.	2.62%	2.79%	+	6.50%	=	9.29%
7	7. York Water Company	2.68%	2.87%	+	7.00%	=	9.87%
8	Average	2.80%	2.99%		6.71%		9.71%

Notes:

1 Spot Dividend Yield = D0/P0. See Rejoinder 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 Schdule D-4.5, Col. 6.

Quail Creek Water Company
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Rejoinder 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=Div Yld + g (Cols 2+3)
1	1. American States Water	2.28%	2.47%	+	8.51%	=	10.98%
2	2. Aqua America	2.64%	2.86%	+	8.46%	=	11.32%
3	3. California Water	2.79%	2.94%	+	5.28%	=	8.22%
4	4. Connecticut Water	3.04%	3.26%	+	7.10%	=	10.36%
5	5. Middlesex	3.58%	3.74%	+	4.55%	=	8.29%
6	6. SJW Corp.	2.62%	2.75%	+	4.98%	=	7.73%
7	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 Scehdule D-4.5 Col. 7.

Quail Creek Water Company
Forecasts of Long-Term Interest Rates

Exhibit
Rejoinder Schedule D-4.8
Witness: Bourassa

Line No.		2016	2017	2018	Average
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	Average				4.2%
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%	
8	Average				5.2%
9	Baa Corporate Bonds				
10	Blue Chip Consensus Forecasts[1]	5.60%	6.10%	6.60%	
11	Value Line[2]				
12	Average				6.1%

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
Rejoinder Schedule D-4.9
Witness: Bourassa

Line No.		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 Rejoinder Schedule D-4.8.

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

Exhibit
Rejoinder Schedule D-4.10
Witness: Bourassa

Line No.	Month	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[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_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
[2] Expected Dividend Yield (D_1/P_0) equals current average dividend yield (D_0/P_0) 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
Rejoinder Schedule D-4.11
Witness: Bourassa

Line No.		Rf[1]	+	beta[2]	x	RP_M		=	k
1	Historical Market Risk Premium CAPM	4.2%	+	0.74	x	7.00%	[3]	=	9.4%
2	Currrent 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 Rejoinder Schedule D-4.8.
2 Value Line Investment Analyzer data. See Rejoinder Schedule D-4.3.
3 Historical Market Risk Premium Duff & Phelps 2015 Valuation Handbook, Appendix 3, Long-Horizon ERP.
4 See Table 11.

Quail Creek Water Company
Financial Risk Computation
Unlevered Beta

Exhibit
Rejoinder Schedule D-4.12
Witness: Bourassa

Line No.		Company	VL Beta β_L [1]	Raw Beta Raw β_L [2]	Tax Rate t[3]	MV Debt D[4]	MV Equity E[4]		Unlevered Raw Beta β_U [5]
5	1.	American Water Worl	0.70	0.55	36.3%	18.1%	81.9%		0.48
6	2.	Aqua America	0.75	0.63	10.0%	23.9%	76.1%		0.49
7	3.	California Water	0.75	0.63	30.3%	27.2%	72.8%		0.50
8	4.	Connecticut Water	0.70	0.55	28.0%	30.9%	69.1%		0.42
9	5.	Middlesex	0.75	0.63	34.1%	26.7%	73.3%		0.51
10	6.	SJW Corp.	0.80	0.70	38.7%	35.5%	64.5%		0.52
11	7.	York Water	0.75	0.63	37.6%	22.2%	77.8%		0.53
13		Sample Water Utilitie:	0.74	0.62	30.7%	26.4%	73.6%	#	0.49

1 Value Line Investment Analyzer data. See Rejoinder 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 Rejoinder Schedule D-4.2.

5 Raw B_u = Raw B_L/ (1+ (1-t)*D/E)

Quail Creek Water Company
Financial Risk Computation
Relevered Beta

Exhibit
Rejoinder Schedule D-4.13
Witness: Bourassa

Line No.		Unlevered Raw Beta β_U[1]	MV Book Debt BD[2]	MV Equity Capital EC[2]	Tax Rate t[3]	Relevered Raw Beta $\beta_{RL}=\beta_U(1+(1-t)BD/EC))$ β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
1							
2							
3							
4							
5	Quail Creek Water Company	0.49	0.0%	100.0%	39.20%	0.49	0.66
6							
7							
8							
9							
10							
11							
12							
13	[1] Unlevered Beta fron Unlevered Beta tab in WP.						
14	[2] Proforma Capital Structure of Company per D-1						
15							
16		BV (in Thousands)			MV (in Thousands)	MV %	
17	Long-term Debt	$ -	1.00		$ -	0.00%	
18	Preferred Stock	$ -	1.00		-	0.0%	
19	Common Stock	$ 5,778	2.37	(a)	13,688	100.0%	
20	Total Capital	$ 5,778			$ 13,688	100.0%	
21							
22	(a) Current market-to-book ratio of sample water utilities. See work papers.						
23							
24	[3] Current Tax rate based on test year ending 12/31/2013. See Schedule C-5.						
25							
26							

Quail Creek Water Company
Financial Risk Computation

Exhibit
Rejoinder Schedule D-4.14
Witness: Bourassa

Line No.											
1	**CAPM**										
2		**Rf**		+	**β**		x	**(Rp)**			**k**
3	Historical Market Risk Premium	4.2%	1	+	0.74	2	x	7.00%	3	=	9.4%
4	Current Market Risk Premium	4.2%	1	+	0.74	2	x	9.25%	4	=	11.0%
5											
6	Average										
7											10.2%
8											
9	**CAPM Relevered Beta**										
10		**Rf**		+	**β**		x	**(Rp)**			**k**
11	Historical Market Risk Premium	4.2%	1	+	0.66	5	x	7.00%	3	=	8.8%
12	Current Market Risk Premium	4.2%	1	+	0.66	5	x	9.25%	4	=	10.3%
13											
14	Average										
15											9.6%
16	Indicated Financial Risk Adjustment										
17											**-0.6%**
18											

19 1 Forecast of long-term treasury yields. See Rejoinder Schedule D-4.8.
20 2 Value Line Investment Analyzer data. See Rejoinder Schedule D-4.1.
21 3 Historical Market Risk Premium from (Rp) Duff & Phelps 2015 Valuation Handbook Appendix3 Long-Horizon ERP 1926-2013.
22 4 Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks
23 and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rejoinder Schedule D-4.10.
24 5 Relevered beta found on Relevered Beta. See Rejoinder Schedule D-4.15.
25

Quail Creek Water Company
Risk Premium[1]

Exhibit
Rejoinder Schedule D-4.15
Witness: Bourassa

Line No.		Beta(β)	Size Premium	Risk Premium for Small Water Utilities[7]
1	Mid-Cap Companies[2]	1.12	1.07%	
2	Low-Cap Companies[3]	1.22	1.80%	
3	Micro-Cap Companies[4]	1.35	3.74%	
4	Decile 10[5]	1.40	5.78%	3.25%

		Risk Premium for Small Water Utilities
5	Estimated Risk Premium for small utilities[6]	0.99%
6	Estimated Risk Premium for Quail Creek Water Company[8]	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 inidicated risk premiums for the sample water utlities 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.	American States	$ 1,472	Low-Cap	1.80%	3.98%	0.14285714	0.57%
2.	Aqua America	$ 4,667	Mid-Cap	1.07%	4.71%	0.14285714	0.67%
3.	California Water	$ 1,143	Low-Cap	1.80%	3.98%	0.14285714	0.57%
4.	Connecticut Water	$ 391	Micro-Cap	3.74%	2.04%	0.14285714	0.29%
5.	Middlesex	$ 356	Micro-Cap	3.74%	2.04%	0.14285714	0.29%
6.	SJW Corp.	$ 609	Micro-Cap	1.80%	3.98%	0.14285714	0.57%
7.	York Water Company	$ 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.

EXHIBIT
TJB-COC-RJ1

Quail Creek Water Company, Inc. Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

Pro Forma Restatement of Surrebuttal Schedule JAC-3
As if Staff's Cost of Equity Estimate were based on the Average of
Staff's DCF and CAPM Cost of Equity Estimation Models

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0 [1]	+	g [2]	=	k
Constant Growth DCF Estimate			2.8%	+	5.6%	=	8.4%
Multi-Stage DCF Estimate						=	9.1%
Average DCF Estimate							8.8%
CAPM Method	Rf	+	b [5]	x	(Rp)	=	k
Historical Market Risk Premium [3]	1.9%	+	0.72	x	7.5% [6]	=	7.3%
Current Market Risk Premium [4]	2.9%	+	0.72	x	6.9% [7]	=	7.9%
Average CAPM Estimate							7.6%
			Staff's Estimated Cost of Equity				8.2%
			Economic Assessment Adjustment				0.6%
			Sub-Total				8.8%
			Financial Risk Adjustment				0.0%
			Total				8.8%

1 MSN Money and Value Line
2 Schedule JAC-8
3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at www.ustreas.gov
4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at www.ustreas.gov
5 Value Line
6 Historical Market Risk Premium (Rp) calculated from 2014 Ibbotson SBBI Classic Yearbook data
7 Testimony

Calculation of current market risk premium

Long-Term Treasury		Beta of Market		Current		
2.88%	+	1.00	x	6.91%	=	9.79%
		Expected Div. Yield		Expected Growth		COE Est.
Value Line Stocks		2.00%	+	7.79%	=	9.79%

Value Line Appreciation Potential **35%**

Treasury Yields: **5/27/2015** [8]

5-YR	**1.53%**
7-YR	**1.90%**
10-YR	**2.14%**
AVG:	1.86%

Expected Dividend Yield and Appreciation Potential
updated as per May 29, 2015 Value Line Summary & Index
Value Line Median Estimated Dividend Yield: 2.0%
Value Line 3-5 year Price Appreciation Potential: 35%

8 From http://www.ustreas.gov

Quail Creek Water Company, Inc. Cost of Capital Calculation
Final Cost of Equity Estimates
Sample Water Utilities

Pro Forma Restatement of Surrebuttal Schedule JAC-3
As if Staff's Cost of Equity Estimate were based on the Average of
Staff's DCF and CAPM Cost of Equity Estimation Models

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0 [1]	+	g [2]	=	k
Constant Growth DCF Estimate			2.8%	+	6.3%	=	9.1%
Multi-Stage DCF Estimate						=	9.2%
Average DCF Estimate							**9.2%**
CAPM Method	Rf	+	b [5]	x	(Rp)	=	k
Historical Market Risk Premium[3]	1.9%	+	0.72	x	7.5% [6]	=	7.3%
Current Market Risk Premium[4]	2.9%	+	0.72	x	9.6% [7]	=	9.8%
Average CAPM Estimate							**8.6%**
			Staff's Estimated Cost of Equity				**8.9%**
			Economic Assessment Adjustment				0.6%
			Sub-Total				**9.5%**
			Financial Risk Adjustment				0.0%
			Total				**9.5%**

1 MSN Money and Value Line
2 Schedule JAC-8
3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at www.ustreas.gov
4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at www.ustreas.gov
5 Value Line
6 Historical Market Risk Premium (Rp) calculated from 2014 Ibbotson SBBI Classic Yearbook data
7 Testimony

Calculation of current market risk premium

Long-Term Treasury		**Beta of Market**		**Current**		
2.88%	+	1.00	x	**9.64%**	=	12.52%
		Expected Div. Yield		**Expected Growth**		**COE Est.**
Value Line Stocks		**2.00%**	+	**10.52%**	=	12.52%

Value Line Appreciation Potential **35%**

Treasury Yields: **5/27/2015** [8]

5-YR	**1.53%**
7-YR	**1.90%**
10-YR	**2.14%**
AVG:	1.86%

Expected Dividend Yield and Appreciation Potential
updated as per May 29, 2015 Value Line Summary & Index
Value Line Median Estimated Dividend Yield: 2.0%
Value Line 3-5 year Price Appreciation Potential: 35%

8 From http://www.ustreas.gov

EXHIBIT
TJB-COC-RJ2

AMER. STATES WATER NYSE-AWR

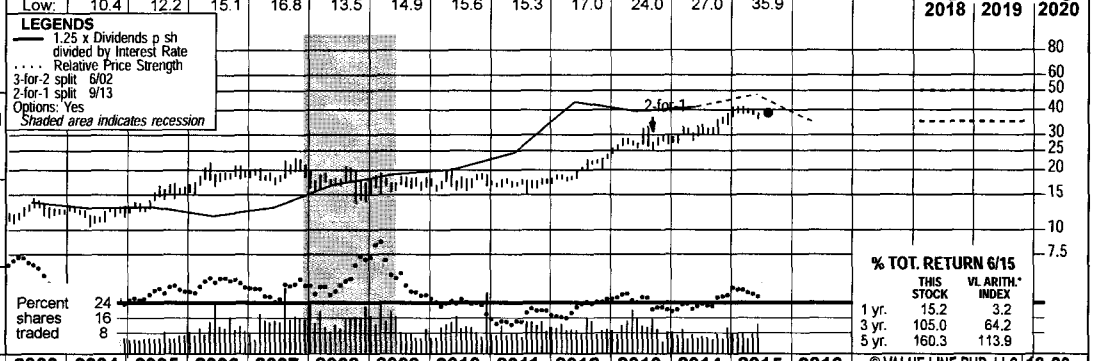
RECENT PRICE **38.79** | P/E RATIO **24.2** (Trailing: 24.1 / Median: 20.0) | RELATIVE P/E RATIO **1.27** | DIV'D YLD **2.3%** | VALUE LINE

TIMELINESS 2 Raised 6/5/15
SAFETY 2 Raised 7/20/12
TECHNICAL 2 Raised 7/3/15
BETA .70 (1.00 = Market)

High:	13.4	17.3	21.9	23.1	21.0	19.4	19.8	18.2	24.1	33.1	38.7	41.7	
Low:	10.4	12.2	15.1	16.8	13.5	14.9	15.6	15.3	17.0	24.0	27.0	35.9	

Target Price Range 2018 | 2019 | 2020

LEGENDS
— 1.25 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 6/02
2-for-1 split 9/13
Options: Yes
Shaded area indicates recession



2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+30%)	9%
Low	35	(-10%)	Nil

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	1	0	1	0	1	0
to Sell	0	1	0	3	0	1	0	1	0

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	81	99	86
to Sell	86	87	93
Hld's(000)	23032	23380	23637

% TOT. RETURN 6/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	15.2	3.2
3 yr.	105.0	64.2
5 yr.	160.3	113.9

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
6.45	6.08	6.53	6.89	6.99	6.81	7.03	7.88	8.75	9.21	9.74	10.71	11.12	12.12	12.19	12.17	**12.35**	**13.35**	Revenues per sh	**15.35**
1.13	1.10	1.26	1.27	1.04	1.11	1.32	1.45	1.65	1.69	1.70	2.11	2.13	2.48	2.65	2.67	**2.70**	**2.80**	"Cash Flow" per sh	**3.70**
.60	.64	.67	.67	.39	.53	.66	.67	.81	.78	.81	1.11	1.12	1.41	1.61	1.57	**1.60**	**1.65**	Earnings per sh A	**2.15**
.43	.43	.43	.44	.44	.44	.45	.46	.48	.50	.51	.52	.55	.64	.76	.83	**.88**	**.93**	Div'd Decl'd per sh B■	**1.12**
2.15	1.51	1.59	1.34	1.88	2.51	2.12	1.95	1.45	2.23	2.09	2.12	2.13	1.77	2.52	1.89	**2.05**	**2.10**	Cap'l Spending per sh	**2.40**
5.91	6.37	6.61	7.02	6.98	7.51	7.86	8.32	8.77	8.97	9.70	10.13	10.84	11.80	12.72	13.24	**13.80**	**14.25**	Book Value per sh	**15.45**
26.87	30.24	30.24	30.36	30.42	33.50	33.60	34.10	34.46	34.60	37.06	37.26	37.70	38.53	38.72	38.29	**38.00**	**37.50**	Common Shs Outst'g C	**37.50**
17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	21.2	15.7	15.4	14.3	17.2	20.1	*Bold figures are*		Avg Ann'l P/E Ratio	**20.5**
.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.36	1.41	1.00	.97	.91	.97	1.06	*Value Line*		Relative P/E Ratio	**1.30**
4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%	3.0%	3.2%	3.1%	2.7%	2.6%	*estimates*		Avg Ann'l Div'd Yield	**2.5%**
						236.2	268.6	301.4	318.7	361.0	398.9	419.3	466.9	472.1	465.8	**470**	**500**	Revenues ($mill)	**575**
						22.5	23.1	28.0	26.8	29.5	41.4	42.0	54.1	62.7	61.1	**61.0**	**62.5**	Net Profit ($mill)	**80.0**
						47.0%	40.5%	42.6%	37.8%	38.9%	43.2%	41.7%	39.9%	36.3%	38.4%	**38.5%**	**38.0%**	Income Tax Rate	**38.0%**
						--	12.2%	8.5%	6.9%	3.2%	5.8%	2.0%	2.5%	2.5%	.5%	**.5%**	**1.0%**	AFUDC % to Net Profit	**2.0%**
						50.4%	48.6%	46.9%	46.2%	45.9%	44.3%	45.4%	42.2%	39.8%	39.1%	**41.0%**	**43.0%**	Long-Term Debt Ratio	**42.0%**
						49.6%	51.4%	53.1%	53.8%	54.1%	55.7%	54.6%	57.8%	60.2%	60.9%	**59.0%**	**57.0%**	Common Equity Ratio	**58.0%**
						532.5	551.6	569.4	577.0	665.0	677.4	749.1	787.0	818.4	832.6	**890**	**935**	Total Capital ($mill)	**1070**
						713.2	750.6	776.4	825.3	866.4	855.0	896.5	917.8	981.5	1003.5	**1060**	**1120**	Net Plant ($mill)	**1240**
						5.4%	6.0%	6.7%	6.4%	5.9%	7.6%	7.1%	8.3%	8.9%	8.6%	**9.0%**	**8.5%**	Return on Total Cap'l	**8.5%**
						8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.3%	11.9%	12.7%	12.0%	**11.5%**	**11.5%**	Return on Shr. Equity	**13.0%**
						8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.3%	11.9%	12.7%	12.0%	**11.5%**	**11.5%**	Return on Com Equity	**13.0%**
						2.8%	2.7%	3.9%	3.1%	3.2%	5.8%	5.3%	6.6%	6.8%	5.7%	**5.0%**	**5.0%**	Retained to Com Eq	**6.0%**
						67%	67%	58%	64%	61%	47%	49%	45%	47%	53%	**55%**	**56%**	All Div'ds to Net Prof	**52%**

CAPITAL STRUCTURE as of 3/31/15
Total Debt $326.0 mill. **Due in 5 Yrs** $41.6 mill.
LT Debt $325.7 mill. **LT Interest** $21.5 mill.
(40% of Cap'l)

Leases, Uncapitalized: Annual rentals $0.4 mill.
Pension Assets-12/14 $140.6 mill.
Oblig. $185.2 mill.
Pfd Stock None.

Common Stock 37,779,984 shs.
as of 5/1/15

MARKET CAP: $1.5 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2013	2014	3/31/15
Cash Assets	38.2	76.0	74.7
Other	153.4	133.5	114.7
Current Assets	191.6	209.5	189.4
Accts Payable	49.8	41.9	37.0
Debt Due	6.3	.3	.3
Other	44.8	57.1	59.4
Current Liab.	100.9	99.3	96.7
Fix. Chg. Cov.	531%	533%	545%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	6.0%	5.5%	4.0%
"Cash Flow"	8.5%	9.0%	6.0%
Earnings	11.0%	14.0%	6.5%
Dividends	5.5%	8.5%	8.0%
Book Value	6.0%	6.5%	4.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	107.6	114.3	133.5	111.5	466.9
2013	110.6	120.7	130.9	109.9	472.1
2014	102.0	115.6	138.3	109.9	465.8
2015	100.9	*117.1*	*140*	*112*	*470*
2016	*105*	*125*	*150*	*120*	*500*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.27	.40	.49	.26	1.41
2013	.35	.43	.53	.30	1.61
2014	.28	.39	.54	.36	1.57
2015	.32	*.44*	*.54*	*.30*	*1.60*
2016	*.31*	*.46*	*.57*	*.31*	*1.65*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.13	.14	.14	.14	.55
2012	.14	.14	.1775	.1775	.64
2013	.1775	.1775	.2025	.2025	.76
2014	.2025	.2025	.213	.213	.83
2015	.213	.213			

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden States Water Company, it supplies water to 258,191 customers in 75 communities and 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to 23,716 customers in the city of Big Bear Lake and in areas of San Bernardino County. Sold Chaparral City Water of Arizona (6/11). Has 707 employees. Blackrock, Inc., owns 9.8% of out. shares; Vanguard, 8.5%; off. & dir. 1.5%. (4/15 Proxy). Chairman: Lloyd Ross. President & CEO: Robert J. Sprowls. Inc: CA. Addr: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com.

American States Water's main subsidiary should not be impacted by the ongoing drought in California. As is the case with two other water utilities in this group, the company's main business is located in the Golden State. Governor Jerry Brown implemented mandatory restrictions on water usage aimed at reducing demand about 25%. A decline in consumption used to have a negative impact on a utility's bottom line. This has not been the case for the last few years, as the California Public Utility Commission (CPUC) changed the way companies operating under its jurisdiction calculated net income. Based on the new structure, utilities' income is more of a fixed rate charge (similar to a service fee) rather than one determined by the quantity of water sold.

Earnings growth probably will not be too impressive over the next two years. One reason is that American States is close to the allowed return on equity that is set by the CPUC. All told, we expect the company's share earnings to only rise 2% in 2015, followed by a 3% gain in 2016.

American States' balance sheet is strong for a water utility. Of the nine members in this industry, only one of the company's peers can match its A Financial Strength rating. Indeed, American States was the only regulated company to end last year with an equity-to-total capital ratio over the 60% level. Like the rest of the industry, the company has a large projected capital budget through late in the decade. And even though certain of its financial metrics will decline through that time, American States should remain in sound financial condition.

Short-term and technical-investors may find these shares of interest. Early last month, our proprietary system raised the ranking of American States' stock one notch to 2 (Above Average) for year-ahead relative price performance. On July 3rd, the Technical rank was also raised to 2.

On the other hand, long-term investors may want to wait on the sidelines for now. Total return prospects for American Water shares through 2018-2020 are subpar, as they are already trading within our projected Target Price Range.

James A. Flood *July 17, 2015*

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

Company's Financial Strength	A
Stock's Price Stability	85
Price Growth Persistence	75
Earnings Predictability	85

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AQUA AMERICA NYSE-WTR

RECENT PRICE **25.64** | P/E RATIO **20.5** (Trailing: 20.7 Median: 23.0) | RELATIVE P/E RATIO **1.08** | DIV'D YLD **2.8%** | VALUE LINE

TIMELINESS 3 Lowered 5/24/13
SAFETY 2 Raised 4/20/12
TECHNICAL 3 Raised 6/12/15
BETA .75 (1.00 = Market)

High:	14.8	23.4	23.8	21.3	17.6	17.2	18.4	19.0	21.5	28.1	28.2	28.1	
Low:	11.3	14.0	16.1	15.1	9.8	12.3	13.2	15.4	16.8	20.6	22.4	24.4	

Target Price Range 2018 | 2019 | 2020

2018-20 PROJECTIONS

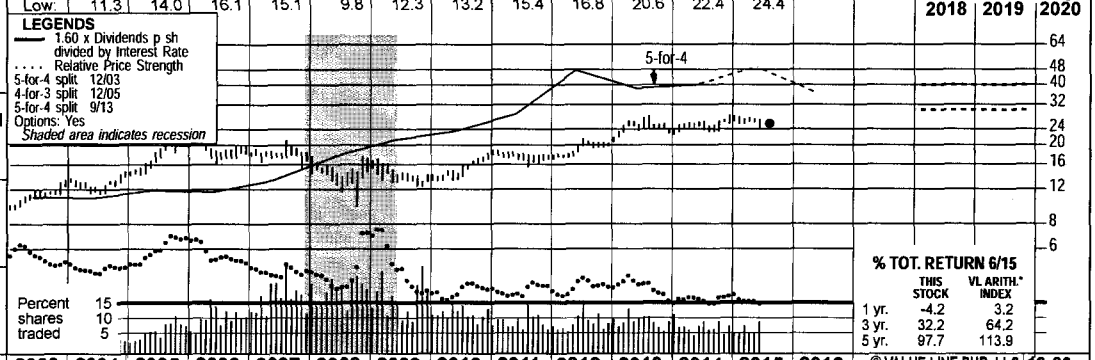
	Price	Gain	Ann'l Total Return
High	40	(+55%)	14%
Low	30	(+15%)	7%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	1	0	0	2	1	1	0	0	0
to Sell	2	1	2	5	2	2	1	1	1

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	139	137	153
to Sell	126	140	133
Hld's(000)	80311	81382	81133



% TOT. RETURN 6/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	-4.2	3.2
3 yr.	32.2	64.2
5 yr.	97.7	113.9

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
1.93	1.97	2.16	2.28	2.38	2.78	3.08	3.23	3.61	3.71	3.93	4.21	4.10	4.32	4.32	4.37	**4.55**	**4.70**	Revenues per sh	**5.70**
.58	.61	.69	.76	.77	.87	.97	1.01	1.10	1.14	1.29	1.42	1.45	1.51	1.82	1.89	**2.35**	**2.50**	"Cash Flow" per sh	**3.05**
.33	.37	.41	.43	.46	.51	.57	.56	.57	.58	.62	.72	.83	.87	1.16	1.20	**1.25**	**1.30**	Earnings per sh A	**1.65**
.22	.23	.24	.26	.28	.29	.32	.35	.38	.41	.44	.47	.50	.54	.58	.63	**.71**	**.77**	Div'd Decl'd per sh B■	**.98**
.72	.93	.87	.96	1.06	1.23	1.47	1.64	1.43	1.58	1.66	1.89	1.90	1.98	1.73	1.84	**1.95**	**2.00**	Cap'l Spending per sh	**2.00**
2.74	3.08	3.32	3.49	4.27	4.71	5.04	5.57	5.85	6.26	6.50	6.81	7.21	7.90	8.63	9.27	**9.65**	**10.05**	Book Value per sh	**11.40**
133.50	139.78	142.47	141.49	154.31	158.97	161.21	165.41	166.75	169.21	170.61	172.46	173.60	175.43	177.93	178.59	**176.50**	**175.00**	Common Shs Outst'g C	**170.00**
21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	24.9	23.1	21.1	21.3	21.9	21.2	20.8	*Bold figures are*		Avg Ann'l P/E Ratio	**21.5**
1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	1.54	1.34	1.34	1.39	1.19	1.10	*Value Line*		Relative P/E Ratio	**1.35**
3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.1%	3.1%	2.8%	2.8%	2.4%	2.5%	*estimates*		Avg Ann'l Div'd Yield	**3.1%**

CAPITAL STRUCTURE as of 3/31/15
Total Debt $1675.1 mill. **Due in 5 Yrs** $437.0 mill.
LT Debt $1595.0 mill. **LT Interest** $70.0 mill.
(49% of Cap'l)

Pension Assets-12/14 232.4 mill.
Oblig. $281.2 mill.

Pfd Stock None
Common Stock 177,069,729 shares
as of 4/23/15

MARKET CAP: $4.5 billion (Mid Cap)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		18-20
496.8	533.5	602.5	627.0	670.5	726.1	712.0	757.8	768.6	779.9	**805**	**825**	Revenues ($mill)	**970**
91.2	92.0	95.0	97.9	104.4	124.0	144.8	153.1	205.0	213.9	**225**	**230**	Net Profit ($mill)	**280**
38.4%	39.6%	38.9%	39.7%	39.4%	39.2%	32.9%	39.0%	10.0%	10.5%	**18.0%**	**20.0%**	Income Tax Rate	**27.0%**
--	--	--	--	--	--	--	--	1.1%	2.4%	**2.0%**	**2.5%**	AFUDC % to Net Profit	**3.0%**
52.0%	51.6%	55.4%	54.1%	55.6%	56.6%	52.7%	52.7%	48.9%	48.5%	**49.5%**	**50.0%**	Long-Term Debt Ratio	**50.0%**
48.0%	48.4%	44.6%	45.9%	44.4%	43.4%	47.3%	47.3%	51.1%	51.5%	**50.5%**	**50.0%**	Common Equity Ratio	**50.0%**
1690.4	1904.4	2191.4	2306.6	2495.5	2706.2	2646.8	2929.7	3003.6	3216.0	**3370**	**3505**	Total Capital ($mill)	**3955**
2280.0	2506.0	2792.8	2997.4	3227.3	3469.3	3612.9	3936.2	4167.3	4402.0	**4550**	**4700**	Net Plant ($mill)	**5000**
6.9%	6.4%	5.9%	5.7%	5.6%	5.9%	6.9%	6.6%	8.0%	7.8%	**8.0%**	**7.5%**	Return on Total Cap'l	**8.5%**
11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.6%	11.0%	13.4%	12.9%	**13.0%**	**13.0%**	Return on Shr. Equity	**14.5%**
11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.6%	11.0%	13.4%	12.9%	**13.0%**	**13.0%**	Return on Com Equity	**14.5%**
4.9%	3.7%	3.2%	2.8%	2.7%	3.7%	4.6%	4.3%	6.7%	6.1%	**5.5%**	**5.5%**	Retained to Com Eq	**6.0%**
56%	63%	67%	70%	72%	65%	60%	61%	50%	52%	**57%**	**53%**	All Div'ds to Net Prof	**59%**

CURRENT POSITION ($MILL.)	2013	2014	3/31/15
Cash Assets	5.1	4.1	9.3
Receivables	95.4	97.0	95.4
Inventory (AvgCst)	11.4	12.8	12.6
Other	59.8	38.6	46.9
Current Assets	171.7	152.5	164.2
Accts Payable	65.8	60.0	34.7
Debt Due	123.0	70.0	80.1
Other	78.1	95.3	90.3
Current Liab.	266.9	225.3	205.1

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	5.5%	3.0%	4.5%
"Cash Flow"	8.0%	8.0%	9.5%
Earnings	8.5%	13.0%	8.0%
Dividends	7.5%	7.0%	9.0%
Book Value	7.5%	6.5%	5.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	164.0	191.7	214.6	187.5	757.8
2013	180.0	195.7	204.3	188.6	768.6
2014	182.7	195.3	210.5	191.4	779.9
2015	190.3	*200*	*215*	*199.7*	*805*
2016	*190*	*205*	*220*	*210*	*825*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	.15	.24	.29	.19	.87
2013	.26	.30	.36	.24	1.16
2014	.24	.31	.38	.27	1.20
2015	.27	*.32*	*.39*	*.27*	*1.25*
2016	*.26*	*.33*	*.41*	*.30*	*1.30*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.124	.124	.124	.132	.50
2012	.132	.132	.132	.14	.54
2013	.14	.14	.152	.152	.58
2014	.152	.152	.165	.165	.63
2015	.165	.165			

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Has 1,617 employees. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '14: residential, 68%; commercial, 17%; industrial & other, 15%. Officers and directors own .8% of the common stock; Vangurad Group, 6.6%; State Street Capital Corp., 6.3%; Blackrock, Inc, 6.1% (4/14 Proxy). Chairman: Nicholas DeBenedictis. CEO: Christopher Franklin. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Tel.: 610-525-1400. Internet: www.aquaamerica.com.

We expect Aqua America to raise the dividend at least 7% in the third quarter. The water utility should maintain its tradition of hiking the annual payout by more than the industry average.

We think earnings gains will be modest through 2016. Aqua had a better-than-expected first quarter, but we are sticking with our 2015 earnings estimate of a $0.05 gain to $1.25, followed next year by a similar nickel increase to $1.30. Our share-earnings forecasts could prove conservative as they don't include gains from assets sales, which have added between $0.06 and $0.10 a share to bottom line over the past three years.

Nonregulated operations have long-term potential. Despite a lot of fanfare, these businesses will most likely account for only 4%-5% of revenues in 2015. Still, margins and growth prospects are higher than in the utility sector.

Aqua is on pace to make about 25 acquisitions this year. There are over 50,000 municipal and private waters companies in the U.S. Most are small and do not have the capital required to meet new environmental standards and to update and modernize their infrastructure. As the second largest water utility in the country, Aqua can cut redundancies and reduce costs of the purchased water systems while improving the service. This strategy is responsible for the company's strong earnings record as it has made 300 acquisitions to date.

A new CEO has been selected. There had been some concern regarding Nicholas DeBenedictis stepping down after 23 years at the helm, in which the company's market capitalization rose from $100 million to $4.3 billion. Chris Franklin, a 20-year veteran of Aqua, was chosen as the replacement and Wall Street seemed satisfied with the selection.

These neutrally ranked shares should appeal to patient, income-oriented investors seeking to diversify into the water utility industry. The stock's total return potential out to 2018-2020 is close to the average of all equities in the *Value Line* universe. This stock appears worthwhile on a risk-adjusted basis as it has a very low Beta, solid finances, and well-defined earnings.

James A. Flood *July 17, 2015*

(A) Diluted egs. Excl. nonrec. gains (losses): '99, (9¢); '00, 2¢; '01, 2¢; '02, 4¢; '03, 3¢; '12, 18¢. Excl. gain from disc. operations: '12, 7¢; '13, 9¢; '14, 11¢. May not sum due to rounding. Next earnings report due mid-Aug.
(B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount).
(C) In millions, adjusted for stock splits.

Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	60
Earnings Predictability	100

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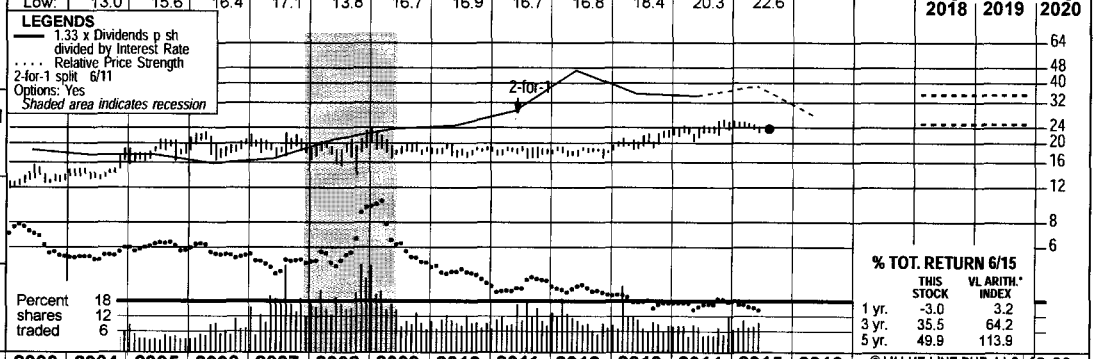
CALIFORNIA WATER NYSE-CWT

RECENT PRICE	23.70	P/E RATIO	19.0 (Trailing: 17.8 / Median: 20.0)	RELATIVE P/E RATIO	1.00	DIV'D YLD	2.9%	VALUE LINE

TIMELINESS 3 Raised 6/20/14
SAFETY 3 Lowered 7/27/07
TECHNICAL 2 Raised 7/3/15
BETA .75 (1.00 = Market)

High:	19.0	21.1	22.9	22.7	23.3	24.1	19.8	19.4	19.3	23.4	26.4	26.0
Low:	13.0	15.6	16.4	17.1	13.8	16.7	16.9	16.7	16.8	18.4	20.3	22.6

Target Price Range
2018 | 2019 | 2020



2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+50%)	12%
Low	25	(+5%)	4%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	1	0	0	0	0	0	0	3	0
to Sell	0	0	0	3	2	0	0	2	0

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	53	81	79
to Sell	53	59	67
Hld's(000)	29552	29654	29379

% TOT. RETURN 6/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	-3.0	3.2
3 yr.	35.5	64.2
5 yr.	49.9	113.9

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
7.98	8.08	8.13	8.67	8.18	8.59	8.72	8.10	8.88	9.90	10.82	11.05	12.00	13.34	12.23	12.50	**12.80**	**13.25**	Revenues per sh	**16.80**
1.37	1.26	1.10	1.32	1.26	1.42	1.52	1.36	1.56	1.86	1.93	1.93	2.07	2.32	2.21	2.47	**2.60**	**2.65**	"Cash Flow" per sh	**3.20**
.77	.66	.47	.63	.61	.73	.74	.67	.75	.95	.98	.91	.86	1.02	1.02	1.19	**1.25**	**1.25**	Earnings per sh A	**1.55**
.54	.55	.56	.56	.56	.57	.57	.58	.58	.59	.59	.60	.62	.63	.64	.65	**.67**	**.69**	Div'd Decl'd per sh B ■	**.97**
1.72	1.23	2.04	2.91	2.19	1.87	2.01	2.14	1.84	2.41	2.66	2.97	2.83	3.04	2.58	2.76	**2.50**	**2.60**	Cap'l Spending per sh	**3.10**
6.71	6.45	6.48	6.56	7.22	7.83	7.90	9.07	9.25	9.72	10.13	10.45	10.76	11.28	12.54	13.11	**13.75**	**14.25**	Book Value per sh C	**16.00**
25.87	30.29	30.36	30.36	33.86	36.73	36.78	41.31	41.33	41.45	41.53	41.67	41.82	41.98	47.74	47.81	**48.00**	**48.00**	Common Shs Outst'g D	**50.00**
17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.2	26.1	19.8	19.7	20.3	21.3	17.9	20.1	19.7	*Bold figures are*		Avg Ann'l P/E Ratio	**20.0**
1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	1.39	1.19	1.31	1.29	1.34	1.14	1.13	1.04	*Value Line*		Relative P/E Ratio	**1.25**
4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%	3.0%	3.1%	3.1%	3.2%	3.4%	3.5%	3.1%	2.8%	*estimates*		Avg Ann'l Div'd Yield	**3.2%**

CAPITAL STRUCTURE as of 3/31/15
Total Debt $534.7 mill. **Due in 5 Yrs** $165.8 mill.
LT Debt $419.0 mill. **LT Interest** $20.0 mill.
(40% of Cap'l)

Pension Assets-12/14 $306.3 mill.
Oblig. $390.6 mill.

Pfd Stock None

Common Stock 47,880.233 shs.
as of 4/27/15

MARKET CAP: $1.1 billion (Mid Cap)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		18-20
320.7	334.7	367.1	410.3	449.4	460.4	501.8	560.0	584.1	597.5	**615**	**635**	Revenues ($mill) E	**840**
27.2	25.6	31.2	39.8	40.6	37.7	36.1	42.6	47.3	56.7	**57.5**	**57.5**	Net Profit ($mill)	**77.5**
42.4%	37.4%	39.9%	37.7%	40.3%	39.5%	40.5%	37.5%	30.3%	33.0%	**28.5%**	**29.5%**	Income Tax Rate	**36.0%**
3.3%	10.6%	8.3%	8.6%	7.6%	4.2%	7.6%	8.0%	4.3%	2.7%	**2.0%**	**4.5%**	AFUDC % to Net Profit	**5.0%**
48.3%	43.5%	42.9%	41.6%	47.1%	52.4%	51.7%	47.8%	41.6%	40.1%	**43.0%**	**43.5%**	Long-Term Debt Ratio	**41.5%**
51.1%	55.9%	56.6%	58.4%	52.9%	47.6%	48.3%	52.2%	58.4%	59.9%	**57.0%**	**56.5%**	Common Equity Ratio	**58.5%**
568.1	670.1	674.9	690.4	794.9	914.7	931.5	908.2	1024.9	1045.9	**1160**	**1215**	Total Capital ($mill)	**1370**
862.7	941.5	1010.2	1112.4	1198.1	1294.3	1381.1	1457.1	1515.8	1590.4	**1660**	**1730**	Net Plant ($mill)	**1820**
6.3%	5.2%	5.9%	7.1%	6.5%	5.5%	5.5%	6.3%	6.0%	6.3%	**6.5%**	**6.0%**	Return on Total Cap'l	**7.0%**
9.3%	6.8%	8.1%	9.9%	9.6%	8.6%	8.0%	9.0%	7.9%	9.1%	**9.0%**	**8.5%**	Return on Shr. Equity	**9.5%**
9.3%	6.8%	8.1%	9.9%	9.6%	8.6%	8.0%	9.0%	7.9%	9.1%	**9.0%**	**8.5%**	Return on Com Equity	**9.5%**
2.1%	1.0%	1.8%	3.8%	3.8%	3.0%	2.3%	3.4%	3.4%	4.1%	**4.0%**	**3.5%**	Retained to Com Eq	**3.5%**
78%	86%	77%	61%	60%	66%	71%	62%	56%	55%	**56%**	**58%**	All Div'ds to Net Prof	**63%**

CURRENT POSITION ($MILL.)	2013	2014	3/31/15
Cash Assets	27.5	19.6	33.3
Other	112.0	134.5	126.0
Current Assets	139.5	154.1	159.3
Accts Payable	55.1	59.4	57.7
Debt Due	54.7	85.7	115.7
Other	56.8	72.6	80.5
Current Liab.	166.6	217.7	253.9

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	4.0%	5.0%	*5.0%*
"Cash Flow"	6.0%	5.5%	*5.5%*
Earnings	5.0%	4.0%	*7.5%*
Dividends	1.5%	2.0%	*7.0%*
Book Value	5.5%	5.0%	*5.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.)E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	116.8	143.6	178.1	121.5	560.0
2013	111.4	154.6	184.4	133.7	584.1
2014	110.5	158.4	191.2	137.4	597.5
2015	122.0	**160**	**193**	**140**	**615**
2016	**120**	**170**	**200**	**145**	**635**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	.03	.31	.56	.12	1.02
2013	.01	.28	.61	.12	1.02
2014	d.11	.36	.70	.24	1.19
2015	.03	**.35**	**.72**	**.15**	**1.25**
2016	**.03**	**.35**	**.72**	**.15**	**1.25**

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.154	.154	.154	.154	.62
2012	.1575	.1575	.1575	.1575	.63
2013	.16	.16	.16	.16	.64
2014	.1625	.1625	.1625	.1625	.65
2015	.1675	.1675			

BUSINESS: California Water Service Group provides regulated and nonregulated water service to 477,900 customers in 85 communities in the state of California. Accounts for over 94% of total customers. Also operates in Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '14: residential, 68%; business, 19%; industrial, 5%; public authorities, 3%; other 5%. '14 reported depreciation rate: 4.0%. Has 1,105 employees. President, Chairman, and CEO: Peter C. Nelson. Inc.: DE. Address: 1720 North First St., San Jose, CA 95112-4598. Tel.: 408-367-8200. Internet: www.calwatergroup.com.

The state's historic drought should result in a sharp decline in demand by California Water's customers. In response to the lack of rainfall, Governor Brown mandated a 25% reduction in urban, potable water use. The new regulations are established to achieve water use decreases of between 8% and 36%, compared to the amount consumed in 2013. Surcharges will be assigned to those who fail to meet the new regulations.

The conservation measures should not have a major impact on the company. In order to cut water usage, California established mechanisms that changed how water utilities make a profit. According to the new methodology, revenues and earnings were switched from a "quantity based" to a "fixed-rate charge" system. Basically, a water company will not be penalized if demand falls. Revenues are now constructed to be more like a service fee.

We expect earnings to increase by a decent amount this year and be flat in 2016. As a result of a petition for higher rates filed in 2012, California Water was allowed to institute higher rates in the second half of 2014. This should enable share earnings to rise 5%, to $1.25, in 2015, and remain unchanged in 2016.

A new rate case was recently filed. California water utilities are required to file rate cases every three years. California Water is seeking hikes of $95 million in 2017, $23 million in 2018, and $23 million in 2019. Like most of its peers, the utility is spending to upgrade and modernize its pipeline infrastructure. A final decision by regulators (the CPUC) is expected in 2017.

California regulators have generally been constructive in dealing with water utilities. One of the most important factors affecting a utility is how a state treats companies under its jurisdiction. The CPUC realizes that maintenance work on water infrastructure has been neglected in the past and more money must be spent to improve services.

These shares' total return potential through late decade is slightly below average. Still, conservative investors willing to accept less of a payoff in exchange for low volatility might find this stock suitable.

James A. Flood *July 17, 2015*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (4¢); '01, 2¢; '02, 4¢; '11, 4¢. Next earnings report due mid-Aug. (B) Dividends historically paid in late Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available. (C) Incl. intangible assets. In '14 : $7.3 mill., $0.15/sh. (D) In millions, adjusted for splits. (E) Excludes non-reg. rev.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	40
Earnings Predictability	85

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CONNECTICUT WATER NDQ-CTWS

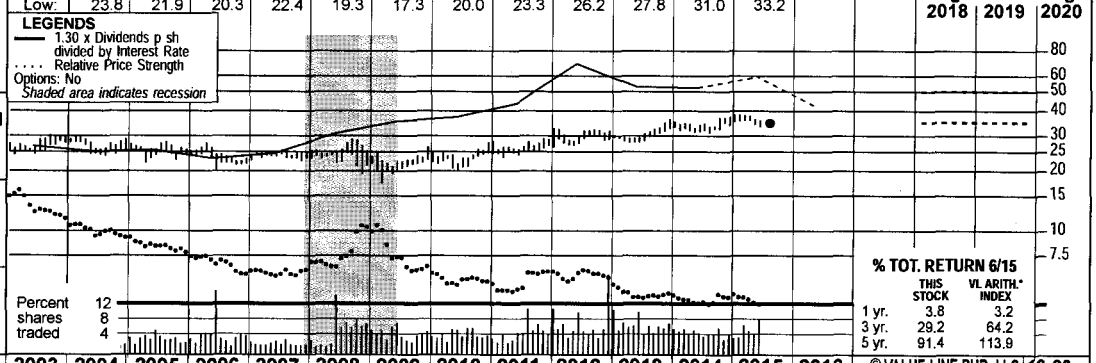
RECENT PRICE **34.88** | P/E RATIO **17.4** (Trailing: 18.1 / Median: 21.0) | RELATIVE P/E RATIO **0.92** | DIV'D YLD **3.1%** | VALUE LINE

TIMELINESS 3 Lowered 11/21/14
SAFETY 3 New 1/18/13
TECHNICAL 3 Raised 5/29/15
BETA .70 (1.00 = Market)

High:	29.8	28.2	27.7	25.6	29.0	26.4	27.9	29.1	32.8	36.4	37.5	38.6
Low:	23.8	21.9	20.3	22.4	19.3	17.3	20.0	23.3	26.2	27.8	31.0	33.2

Target Price Range 2018 | 2019 | 2020

LEGENDS
— 1.30 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: No
Shaded area indicates recession



2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+45%)	12%
Low	35	(Nil)	3%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	50	36	37
to Sell	34	46	40
Hld's(000)	4299	4296	4289

Percent shares traded 12 8 4

% TOT. RETURN 6/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	3.8	3.2
3 yr.	29.2	64.2
5 yr.	91.4	113.9

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
5.87	5.70	5.93	5.77	5.91	6.04	5.81	5.68	7.05	7.24	6.93	7.65	7.93	9.47	8.29	8.45	**8.65**	**9.00**	Revenues per sh	**12.50**
1.65	1.73	1.78	1.78	1.89	1.91	1.62	1.52	1.90	1.95	1.93	2.04	2.11	2.64	2.63	2.97	**3.20**	**3.35**	"Cash Flow" per sh	**3.60**
1.03	1.09	1.13	1.12	1.15	1.16	.88	.81	1.05	1.11	1.19	1.13	1.13	1.53	1.66	1.92	**2.00**	**2.10**	Earnings per sh A	**2.25**
.79	.79	.80	.81	.83	.84	.85	.86	.87	.88	.90	.92	.94	.96	.98	1.01	**1.05**	**1.09**	Div'd Decl'd per sh B■	**1.30**
1.42	1.43	1.86	1.98	1.49	1.58	1.96	1.96	2.24	2.44	3.28	3.06	2.61	2.79	3.02	4.11	**4.60**	**4.15**	Cap'l Spending per sh	**2.85**
8.61	8.92	9.25	10.06	10.46	10.94	11.52	11.60	11.95	12.23	12.67	13.05	13.50	20.95	17.92	18.83	**20.10**	**21.15**	Book Value per sh D	**24.15**
7.26	7.28	7.65	7.94	7.97	8.04	8.17	8.27	8.38	8.46	8.57	8.68	8.76	8.85	11.04	11.12	**11.20**	**11.35**	Common Shs Outst'g C	**12.00**
18.2	18.2	21.5	24.3	23.5	22.9	28.6	29.0	23.0	22.2	18.4	20.7	23.0	19.4	18.4	17.5	*Bold figures are*		Avg Ann'l P/E Ratio	**19.0**
1.04	1.18	1.10	1.33	1.34	1.21	1.52	1.57	1.22	1.34	1.23	1.32	1.44	1.23	1.03	.92	*Value Line*		Relative P/E Ratio	**1.20**
4.2%	4.0%	3.3%	3.0%	3.0%	3.1%	3.4%	3.6%	3.6%	3.6%	4.1%	3.9%	3.6%	3.2%	3.2%	3.0%	*estimates*		Avg Ann'l Div'd Yield	**2.8%**

CAPITAL STRUCTURE as of 3/31/15
Total Debt $185.6 mill. **Due in 5 Yrs** $19.3 mill.
LT Debt $177.7 mill. **LT Interest** $7.0 mill.
(46% of Cap'l)

Leases, Uncapitalized: Annual rentals $.1 mill.
Pension Assets-12/14 $61.6 mill.
Oblig. $79.8 mill.

Pfd Stock $0.8 mill. **Pfd Divd** NMF

Common Stock 11,152,145 shs.
as of 4/30/15
MARKET CAP: $400 million (Small Cap)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		18-20
47.5	46.9	59.0	61.3	59.4	66.4	69.4	83.8	91.5	94.0	**97.0**	**102**	Revenues ($mill)	**150**
7.2	6.7	8.8	9.4	10.2	9.8	9.9	13.6	18.3	21.3	**23.0**	**24.0**	Net Profit ($mill)	**27.0**
--	23.5%	32.4%	27.2%	19.5%	35.2%	41.3%	32.0%	28.0%	14.4%	**18.0%**	**19.5%**	Income Tax Rate	**30.0%**
--	--	--	1.7%	--	--	--	1.7%	2.0%	2.4%	**2.5%**	**2.5%**	AFUDC % to Net Profit	**2.0%**
44.9%	44.4%	47.8%	46.9%	50.6%	49.5%	53.2%	49.0%	46.9%	45.7%	**45.5%**	**47.5%**	Long-Term Debt Ratio	**47.5%**
54.6%	55.1%	51.8%	52.7%	49.1%	50.2%	46.5%	50.8%	52.9%	54.1%	**54.5%**	**52.5%**	Common Equity Ratio	**52.5%**
172.3	174.1	193.2	196.5	221.3	225.6	254.2	364.6	373.6	386.8	**420**	**455**	Total Capital ($mill)	**550**
247.7	268.1	284.3	302.3	325.2	344.2	362.4	447.9	471.9	506.9	**535**	**560**	Net Plant ($mill)	**675**
5.0%	4.9%	5.5%	5.9%	5.5%	5.4%	4.9%	4.8%	5.9%	6.4%	**6.5%**	**6.5%**	Return on Total Cap'l	**6.0%**
7.5%	6.9%	8.7%	9.0%	9.3%	8.6%	8.3%	7.3%	9.2%	10.1%	**10.0%**	**10.0%**	Return on Shr. Equity	**9.5%**
7.6%	7.0%	8.7%	9.1%	9.4%	8.7%	8.3%	7.3%	9.2%	10.2%	**10.0%**	**10.0%**	Return on Com Equity	**9.5%**
.3%	NMF	1.6%	1.9%	2.3%	1.6%	1.4%	2.8%	3.8%	4.8%	**4.5%**	**4.5%**	Retained to Com Eq	**4.0%**
95%	105%	82%	79%	76%	81%	83%	62%	59%	53%	**53%**	**52%**	All Div'ds to Net Prof	**58%**

CURRENT POSITION ($MILL.)	2013	2014	3/31/15
Cash Assets	18.4	2.5	2.3
Accounts Receivable	12.3	12.0	11.4
Other	16.2	21.7	22.5
Current Assets	46.9	36.2	36.2
Accts Payable	10.8	10.0	7.2
Debt Due	4.1	4.4	7.9
Other	7.8	9.2	10.0
Current Liab.	22.7	23.6	25.1

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	4.0%	4.5%	6.0%
"Cash Flow"	4.0%	7.5%	4.5%
Earnings	4.0%	9.0%	4.5%
Dividends	2.0%	2.0%	5.0%
Book Value	6.5%	9.5%	4.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	18.5	21.3	24.5	19.5	83.8
2013	19.7	22.6	27.6	21.6	91.5
2014	20.3	25.4	27.6	20.7	94.0
2015	20.0	**26.5**	**29.0**	**21.5**	**97.0**
2016	**22.5**	**27.5**	**30.0**	**22.0**	**102.0**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.22	.47	.67	.17	1.53
2013	.24	.39	.86	.17	1.66
2014	.27	.67	.76	.22	1.92
2015	.28	**.67**	**.80**	**.25**	**2.00**
2016	**.36**	**.62**	**.85**	**.27**	**2.10**

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.233	.233	.238	.238	.942
2012	.238	.238	.2425	.2425	.962
2013	.2425	.2425	.2475	.2475	.98
2014	.2475	.2475	.2575	.2575	1.01
2015	.2575	.2575			

BUSINESS: Connecticut Water Service, Inc. is a non-operating holding company, whose income is derived from earnings of its wholly-owned subsidiary companies (regulated water utilities). In 2014, 93% of net income was derived from these activities. Provides water services to 400,000 people in 77 municipalities throughout Connecticut and Maine. Acquired The Maine Water Company, January, 2012; Biddeford and Saco Water, December, 2012. Incorporated: Connecticut. Has 265 employees. Chairman/President/Chief Executive Officer: Eric W. Thornburg. Officers and directors own 2.3% of the common stock; BlackRock, Inc. 7.0%; (4/15 proxy). Address: 93 West Main Street, Clinton, CT 06413. Telephone: (860) 669-8636. Internet: www.ctwater.com.

Connecticut Water Service should record decent bottom-line results over the next two years. Following a very successful 2014, we think the company will be able to post increases in share net of 4% in 2015, and 5% in 2016. Higher rates being permitted in Maine, an IRS tax rebate, and cost savings, will all contribute to the gains.

Dividend growth prospects have improved. The utility has only been able to increase its annual payout an average of 2% annually over both the last five- and 10 year-periods. In 2014, the trend was broken, as the dividend was hiked 3%. Moreover, when the board meets in September, the quarterly dividend could be boosted another $0.01 a share, to around $0.2675. This would be a 4% increase, which would put the utility closer, but still below, the industry norm.

The company has been successful in expanding the business. Unless located in a service area experiencing strong economic growth, it can be hard for a utility to grow its customer base. Over the past several years, Connecticut Water has made two decent size acquisitions, and has been able to improve margins by wringing duplicate costs from the consolidated operations. Moreover, the utility will be expanding the pipeline infrastructure to supply the University of Connecticut and the greater Mansfield area. A key permit was approved in late May and construction should take around 18 months to complete.

Connecticut Water might not be big, but it is solid. With a market capitalization of only $400 million, the utility is on the small side. Still, the balance sheet is healthy, and should remain so for the foreseeable future. This is very positive in light of the larger amounts that have to be spent to replace an aging distribution system. (The industry is in the midst of a major refurbishing program.)

Shares of Connecticut Water are expected to perform in line with the broader market averages in the year ahead. The dividend yield is 100 basis points above that of the typical stock in the *Value Line* universe. Potential total return through 2018-2020 is lower than the average equity, however.

James A. Flood *July 17, 2015*

(A) Diluted earnings. Next earnings report due mid-August. Quarterly earnings do not add in 2012 due to rounding.
(B) Dividends historically paid in mid-March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for split.
(D) Includes intangibles. In 2014: $31.7 million/$2.85 a share.

Company's Financial Strength	B+
Stock's Price Stability	90
Price Growth Persistence	50
Earnings Predictability	85

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MIDDLESEX WATER NDQ-MSEX

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
22.46	19.5	(Trailing: 19.5 Median: 21.0)	1.03	3.5%	VALUE LINE

TIMELINESS 3 Lowered 4/11/14
SAFETY 2 New 10/21/11
TECHNICAL 2 Raised 7/17/15
BETA .75 (1.00 = Market)

High:	21.8	23.5	20.5	20.2	19.8	17.9	19.3	19.4	19.6	22.5	23.7	23.8
Low:	16.7	17.1	16.5	16.9	12.0	11.6	14.7	16.5	17.5	18.6	19.1	21.2

Target Price Range
2018 | 2019 | 2020

2018-20 PROJECTIONS

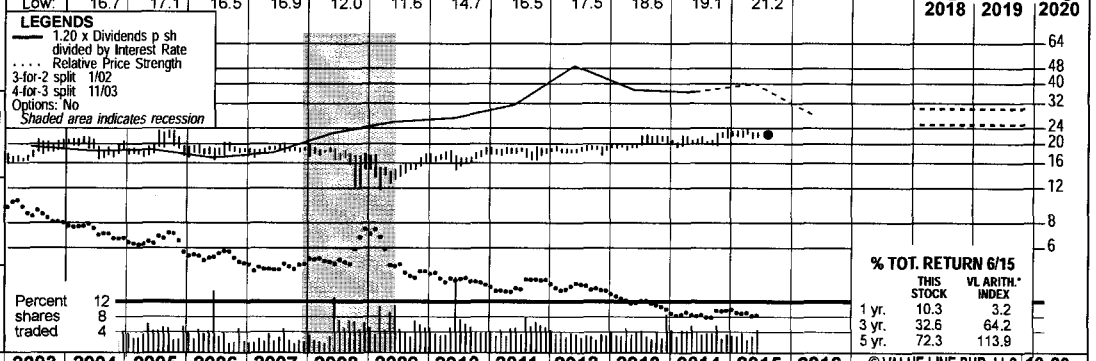
	Price	Gain	Ann'l Total Return
High	30	(+35%)	11%
Low	25	(+10%)	4%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	0	1	0	1	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	1	0	0	0	1	0	0	0

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	32	39	40
to Sell	40	37	38
Hld's(000)	6339	6372	6413



% TOT. RETURN 6/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	10.3	3.2
3 yr.	32.6	64.2
5 yr.	72.3	113.9

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
5.35	5.39	5.87	5.98	6.12	6.25	6.44	6.16	6.50	6.79	6.75	6.60	6.50	6.98	7.19	7.26	*7.40*	*7.70*	Revenues per sh	*9.10*
1.19	.99	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.46	1.56	1.72	1.84	*1.95*	*2.00*	"Cash Flow" per sh	*2.25*
.76	.51	.66	.73	.61	.73	.71	.82	.87	.89	.72	.96	.84	.90	1.03	1.13	*1.15*	*1.20*	Earnings per sh A	*1.35*
.60	.61	.62	.63	.65	.66	.67	.68	.69	.70	.71	.72	.73	.74	.75	.76	*.77*	*.78*	Div'd Decl'd per sh B■	*.85*
2.33	1.32	1.25	1.59	1.87	2.54	2.18	2.31	1.66	2.12	1.49	1.90	1.50	1.36	1.26	1.40	*1.80*	*2.00*	Cap'l Spending per sh	*2.00*
6.95	6.98	7.11	7.39	7.60	8.02	8.26	9.52	10.05	10.03	10.33	11.13	11.27	11.48	11.82	12.24	*12.75*	*13.25*	Book Value per sh	*14.30*
10.00	10.11	10.17	10.36	10.48	11.36	11.58	13.17	13.25	13.40	13.52	15.57	15.70	15.82	15.96	16.12	*16.25*	*16.25*	Common Shs Outst'g C	*17.00*
17.6	28.7	24.6	23.5	30.0	26.4	27.4	22.7	21.6	19.8	21.0	17.8	21.7	20.8	19.7	18.5	*Bold figures are*		Avg Ann'l P/E Ratio	*20.5*
1.00	1.87	1.26	1.28	1.71	1.39	1.46	1.23	1.15	1.19	1.40	1.13	1.36	1.32	1.11	.98	*Value Line*		Relative P/E Ratio	*1.30*
4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	4.0%	4.0%	3.7%	3.7%	*estimates*		Avg Ann'l Div'd Yield	*3.1%*
						74.6	81.1	86.1	91.0	91.2	102.7	102.1	110.4	114.8	117.1	*120*	*125*	Revenues ($mill)	*155*
						8.5	10.0	11.8	12.2	10.0	14.3	13.4	14.4	16.6	18.4	*18.6*	*18.6*	Net Profit ($mill)	*23.0*
						27.6%	33.4%	32.6%	33.2%	34.1%	32.1%	32.7%	33.9%	34.1%	35.0%	*34.5%*	*34.0%*	Income Tax Rate	*34.0%*
						--	--	--	--	--	6.8%	6.1%	3.4%	1.9%	1.7%	*1.0%*	*1.5%*	AFUDC % to Net Profit	*2.5%*
						55.3%	49.5%	49.0%	45.6%	46.6%	43.1%	42.3%	41.5%	40.4%	40.5%	*40.5%*	*42.0%*	Long-Term Debt Ratio	*43.5%*
						41.3%	47.5%	49.6%	51.8%	52.1%	55.8%	56.6%	57.4%	58.7%	58.8%	*58.5%*	*57.5%*	Common Equity Ratio	*56.5%*
						231.7	264.0	268.8	259.4	267.9	310.5	312.5	316.5	321.4	335.8	*350*	*375*	Total Capital ($mill)	*430*
						288.0	317.1	333.9	366.3	376.5	405.9	422.2	435.2	446.5	465.4	*485*	*505*	Net Plant ($mill)	*550*
						5.0%	5.1%	5.6%	5.8%	5.0%	5.7%	5.2%	5.4%	5.9%	6.3%	*6.5%*	*6.0%*	Return on Total Cap'l	*6.5%*
						8.2%	7.5%	8.6%	8.6%	7.0%	8.1%	7.5%	7.8%	8.7%	9.2%	*9.0%*	*9.0%*	Return on Shr. Equity	*9.5%*
						8.6%	7.8%	8.7%	8.9%	7.0%	8.2%	7.5%	7.8%	8.7%	9.3%	*9.0%*	*9.0%*	Return on Com Equity	*9.5%*
						.6%	1.3%	1.8%	2.0%	.1%	2.1%	1.0%	1.4%	2.4%	3.1%	*3.0%*	*3.0%*	Retained to Com Eq	*3.5%*
						94%	84%	79%	78%	98%	75%	87%	83%	73%	67%	*67%*	*65%*	All Div'ds to Net Prof	*63%*

CAPITAL STRUCTURE as of 3/31/15
Total Debt $158.9 mill. **Due in 5 Yrs** $49.8 mill.
LT Debt $137.8 mill. **LT Interest** $4.6 mill.

(41% of Cap'l)

Pension Assets-12/14 $51.6 mill.
Oblig. $75.0 mill.
Pfd Stock $2.4 mill. **Pfd Div'd:** $.2 mill.

Common Stock 16,141,954 shs.
as of 4/30/15

MARKET CAP: $375 million (Small Cap)

CURRENT POSITION ($MILL.)	2013	2014	3/31/15
Cash Assets	4.8	2.7	5.0
Other	21.0	20.2	20.6
Current Assets	25.8	22.9	25.6
Accts Payable	6.3	6.4	7.0
Debt Due	33.8	24.9	15.5
Other	12.6	12.6	21.1
Current Liab.	52.7	43.9	43.6

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	1.5%	1.5%	6.5%
"Cash Flow"	3.5%	3.0%	5.5%
Earnings	4.0%	4.5%	5.0%
Dividends	1.5%	1.5%	2.0%
Book Value	4.5%	3.0%	2.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	23.5	27.4	32.4	27.1	110.4
2013	27.0	29.1	31.3	27.4	114.8
2014	27.1	29.2	32.7	28.1	117.1
2015	28.8	*30.0*	*33.0*	*28.2*	*120*
2016	*29.0*	*31.0*	*35.0*	*30.0*	*125*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.11	.24	.38	.17	.90
2013	.20	.28	.36	.19	1.03
2014	.20	.29	.42	.22	1.13
2015	.22	*.30*	*.43*	*.20*	*1.15*
2016	*.22*	*.32*	*.45*	*.21*	*1.20*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.183	.183	.183	.185	.73
2012	.185	.185	.185	.1875	.74
2013	.1875	.1875	.1875	.19	.75
2014	.19	.19	.19	.1925	.76
2015	.1925	.1925			

BUSINESS: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey, Delaware, and Pennsylvania. It also operates water and wastewater systems under contract on behalf of municipal and private clients in NJ and DE. Its Middlesex System provides water services to 60,000 retail customers, primarily in Middlesex County, New Jersey. In 2014, the Middlesex System accounted for 60% of operating revenues. At 12/31/14, the company had 282 employees. Incorporated: NJ. President, CEO, and Chairman: Dennis W. Doll. Officers & directors own 3.5% of the common stock; BlackRock Institutional Trust Co., 6.6% (4/15 proxy). Add.: 1500 Ronson Road, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: www.middlesexwater.com.

Middlesex Water has the highest dividend yield in the water utility group. The average yield for the nine member industry is about 2.6%, versus the company's 3.5%.

Generous yields are not necessarily a positive. The reason investors demand a premium from Middlesex is due to its subpar dividend growth prospects. Indeed, over the past 10 years, payout hikes have increased only 1.5% annually. On the positive side, the company's earnings have been rising at a faster pace, which is reflected in an improved payout ratio.

We believe there are better options available for accounts seeking to own shares in a water utility. Historically, utility stocks with lower yields and better distributions prospects, outperform equities that have above-average yields and below-average dividend growth prospects.

We are sticking with our previous earnings estimates. Mostly as a result of rate relief, Middlesex's first-quarter share earnings came in at a solid $0.22, versus our $0.21 forecast. All told, we expect the bottom line to increase a modest $0.02 a share this year, to $1.15 a share. For 2016, we are anticipating a rise in share earnings of $0.05, to $1.20.

The utility has petitioned state regulars for a rate hike. Earlier this year, a request was filed in New Jersey to raise customers' bills by $9.5 million, or 13.5%. As is the case with most water companies, Middlesex needs to allocate more funds to repair and upgrade its pipeline infrastructure. Thanks to a relatively reasonable existing price structure, the size of the proposed rate increase is not as burdensome as it may sound. If the regulators allow the request to be implemented, the average bill of a residential customer would only go up by about $25 a quarter. Predicting when a decision will be finalized is difficult, but it could take well more than a year. A very positive ruling by mid-2016, however, would most likely cause us to up our full-year earnings estimate.

Finances are in good shape. Based on its $375 million market capitalization, Middlesex is a small entity. Still, using most financial metrics, the company's balance sheet compares favorably to most in this group.

James A. Flood *July 17, 2015*

(A) Diluted earnings. May not sum due to rounding. Next earnings report due mid-August.
(B) Dividends historically paid in mid-Feb., May, Aug., and November.■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	B++
Stock's Price Stability	90
Price Growth Persistence	40
Earnings Predictability	80

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SJW CORP. NYSE-SJW

RECENT PRICE **30.82** | P/E RATIO **21.3** (Trailing: 11.3 / Median: 24.0) | RELATIVE P/E RATIO **1.12** | DIV'D YLD **2.6%** | VALUE LINE

TIMELINESS 3 Raised 5/8/15
SAFETY 3 New 4/22/11
TECHNICAL 3 Lowered 7/10/15
BETA .80 (1.00 = Market)

High:	19.6	27.8	45.3	43.0	35.1	30.4	28.2	26.8	26.9	30.1	33.7	35.7
Low:	14.6	16.1	21.2	27.7	20.0	18.2	21.6	20.9	22.6	24.5	25.5	28.6

Target Price Range 2018 | 2019 | 2020

2018-20 PROJECTIONS

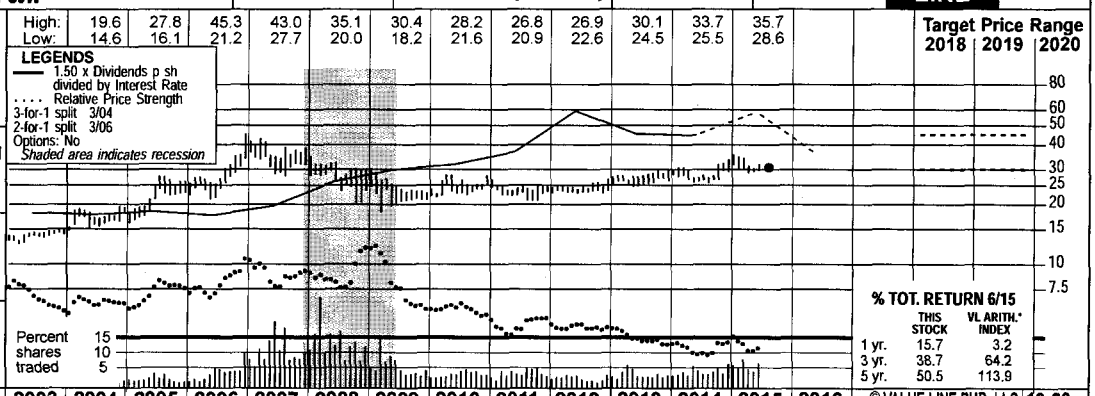
	Price	Gain	Ann'l Total Return
High	45	(+45%)	12%
Low	30	(-5%)	2%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	1	1	0	0	2	0	1	3	0
Options	0	0	0	1	0	0	0	0	0
to Sell	0	1	0	1	0	0	1	0	0

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	38	49	61
to Sell	45	47	47
Hld's(000)	10784	10867	10898



% TOT. RETURN 6/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	15.7	3.2
3 yr.	38.7	64.2
5 yr.	50.5	113.9

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
6.40	6.74	7.45	7.97	8.20	9.14	9.86	10.35	11.25	12.12	11.68	11.62	12.85	14.01	13.73	15.76	*14.40*	*14.30*	Revenues per sh	*17.60*
1.43	1.23	1.49	1.55	1.75	1.89	2.21	2.38	2.30	2.44	2.21	2.38	2.80	2.97	2.90	4.42	*3.50*	*3.60*	"Cash Flow" per sh	*3.90*
.87	.58	.77	.78	.91	.87	1.12	1.19	1.04	1.08	.81	.84	1.11	1.18	1.12	2.54	*1.45*	*1.45*	Earnings per sh A	*1.75*
.40	.41	.43	.46	.49	.51	.53	.57	.61	.65	.66	.68	.69	.71	.73	.75	*.78*	*.81*	Div'd Decl'd per sh B■	*1.05*
1.77	1.89	2.63	2.06	3.41	2.31	2.83	3.87	6.62	3.79	3.17	5.65	3.75	5.67	4.68	5.02	*5.00*	*4.95*	Cap'l Spending per sh	*4.90*
7.88	7.90	8.17	8.40	9.11	10.11	10.72	12.48	12.90	13.99	13.66	13.75	14.20	14.71	15.92	17.75	*18.30*	*19.05*	Book Value per sh	*21.30*
18.27	18.27	18.27	18.27	18.27	18.27	18.27	18.28	18.36	18.18	18.50	18.55	18.59	18.67	20.17	20.29	*20.50*	*21.00*	Common Shs Outst'g C	*23.00*
15.5	33.1	18.5	17.3	15.4	19.6	19.7	23.5	33.4	26.2	28.7	29.1	21.2	20.4	24.3	11.2	*Bold figures are*		Avg Ann'l P/E Ratio	*22.0*
.88	2.15	.95	.94	.88	1.04	1.05	1.27	1.77	1.58	1.91	1.85	1.33	1.30	1.37	.59	*Value Line*		Relative P/E Ratio	*1.40*
3.0%	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	1.7%	2.3%	2.8%	2.8%	2.9%	3.0%	2.7%	2.6%	*estimates*		Avg Ann'l Div'd Yield	*2.8%*

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		18-20
180.1	189.2	206.6	220.3	216.1	215.6	239.0	261.5	276.9	319.7	*295*	*300*	Revenues ($mill)	*405*
20.7	22.2	19.3	20.2	15.2	15.8	20.9	22.3	23.5	51.8	*29.5*	*30.0*	Net Profit ($mill)	*40.0*
41.6%	40.8%	39.4%	39.5%	40.4%	38.8%	41.1%	41.1%	38.7%	32.5%	*37.0%*	*36.0%*	Income Tax Rate	*38.0%*
1.6%	2.1%	2.7%	2.3%	2.0%	--	--	--	2.0%	1.0%	*1.0%*	*1.0%*	AFUDC % to Net Profit	*1.5%*
42.6%	41.8%	47.7%	46.0%	49.4%	53.7%	56.6%	55.0%	51.1%	51.6%	*51.0%*	*50.0%*	Long-Term Debt Ratio	*53.5%*
57.4%	58.2%	52.3%	54.0%	50.6%	46.3%	43.4%	45.0%	48.9%	48.4%	*49.0%*	*50.0%*	Common Equity Ratio	*46.5%*
341.2	391.8	453.2	470.9	499.6	550.7	607.9	610.2	656.2	744.5	*775*	*805*	Total Capital ($mill)	*1025*
484.8	541.7	645.5	684.2	718.5	785.5	756.2	831.6	898.7	963.0	*1000*	*1055*	Net Plant ($mill)	*1200*
7.6%	7.0%	5.7%	5.8%	4.4%	4.3%	4.9%	5.0%	5.0%	8.3%	*5.0%*	*5.0%*	Return on Total Cap'l	*5.5%*
10.6%	9.7%	8.2%	8.0%	6.0%	6.2%	7.9%	8.1%	7.3%	14.4%	*7.5%*	*8.0%*	Return on Shr. Equity	*8.0%*
10.6%	9.7%	8.2%	8.0%	6.0%	6.2%	7.9%	8.1%	7.3%	14.4%	*7.5%*	*8.0%*	Return on Com Equity	*8.0%*
5.6%	5.2%	3.5%	3.3%	1.2%	1.2%	3.1%	3.3%	2.8%	10.2%	*3.0%*	*3.5%*	Retained to Com Eq	*3.5%*
47%	46%	57%	59%	80%	80%	61%	59%	62%	29%	*54%*	*56%*	All Div'ds to Net Prof	*59%*

CAPITAL STRUCTURE as of 3/31/15
Total Debt $396.5 mill. **Due in 5 Yrs** $21.2 mill.
LT Debt $384.2 mill. **LT Interest** $18.1 mill.
(52% of Cap'l)

Leases, Uncapitalized: Annual rentals $5.5 mill.

Pension Assets-12/14 $91.4 mill.
Oblig. $128.7 mill.

Pfd Stock None.

Common Stock 20,341,489 shs.
as of 4/22/15

MARKET CAP: $625 million (Small Cap)

CURRENT POSITION ($MILL.)	2013	2014	3/31/15
Cash Assets	2.3	2.4	5.4
Other	37.4	65.7	57.7
Current Assets	39.7	68.1	63.1
Accts Payable	12.6	7.0	11.8
Debt Due	23.0	13.8	12.3
Other	23.6	23.9	24.6
Current Liab.	59.2	44.7	48.7
Fix. Chg. Cov.	268%	270%	286%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	5.5%	4.5%	*4.0%*
"Cash Flow"	7.0%	8.0%	*4.5%*
Earnings	6.5%	10.5%	*6.5%*
Dividends	4.0%	3.0%	*5.5%*
Book Value	6.0%	3.5%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	51.1	65.6	82.4	62.4	261.5
2013	50.1	74.2	85.2	67.4	276.9
2014	54.6	70.4	125.4	69.3	319.7
2015	62.1	*73.0*	*89.0*	*70.9*	*295*
2016	*60.0*	*75.0*	*90.0*	*75.0*	*300*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.06	.28	.53	.31	1.18
2013	.07	.37	.44	.24	1.12
2014	.04	.34	1.88	.28	2.54
2015	.23	*.37*	*.53*	*.32*	*1.45*
2016	*.09*	*.41*	*.57*	*.38*	*1.45*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.173	.173	.173	.173	.69
2012	.1775	.1775	.1775	.1775	.71
2013	.1825	.1825	.1825	.1825	.73
2014	.1875	.1875	.1875	.1875	.75
2015	.1950	.195			

BUSINESS: SJW Corporation engages in the production, purchase, storage, purification, distribution, and retail sale of water. It provides water service to approximately 229,000 connections that serve a population of approximately one million people in the San Jose area and 12,000 connections that serve approximately 36,000 residents in a service area in the region between San Antonio and Austin, Texas. The company offers nonregulated water-related services. Also owns and operates commercial real estate investments. Has about 395 employees. Officers & directors (including Nancy O. Moss) own 27.9% of outstanding shares. Chrm.: Charles J. Toeniskoetter. Inc.: CA. Address: 110 W. Taylor Street, San Jose, CA 95110. Tel.: (408) 279-7800. Int: www.sjwater.com.

A new pricing structure will most surely have an impact on the amount of water consumed by SJW's customers. Faced with the ongoing drought, California's governor established rules aimed at reducing water usage approximately 25%. The mandatory program, which went into effect on June 1st, also contains other restrictions and fines.

Water utilities operating in the state should not be affected, however. The California Public Utility Commission had already instituted policies that changed the methodology of how water companies generate profits. Now, SJW can promote conservation and not see its net income decline.

SJW's bottom line should do well this year. First-quarter results were considerably above expectations as the company benefited from an unusual one-time gain and an earlier decision to extend rate relief into 2015. For the full year, we think SJW's share net will reach $1.45. If last year's profits weren't impacted by a one-time gain, the comparison would appear better.

Capital spending will remain at relatively high levels out to late decade. All of the regulated utilities we cover are in the midst of extensive programs intended to replace antiquated pipes and related structures. The industry had been deferring these expenditures until the past few years because companies weren't sure that any investments made would be recouped. Once states, such as California, began working closer with water companies, more capital began to be spent on improving systems.

Earnings momentum should stall in 2016. This will be partially due to there not being any unforeseen one-time gains in our estimate, as has been the case in 2014 and 2015. Another factor adding some uncertainty is how much surface water will be available. Should supplies remain tight, more-expensive options, including drilling and buying on the open market, would be required.

Shares of SJW do not have much appeal at this juncture. Over the pull to 2018-2020, the stock's total return potential is lower than the typical stock in our universe.

James A. Flood *July 17, 2015*

(A) Diluted earnings. Excludes nonrecurring losses : '03, $1.97; '04, $3.78; '05, $1.09; '06, $16.36; '08, $1.22; '10, $0.46. Next earnings report due mid-August. Quarterly earnings may not add due to rounding.
(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	30
Earnings Predictability	55

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YORK WATER NDQ-YORW

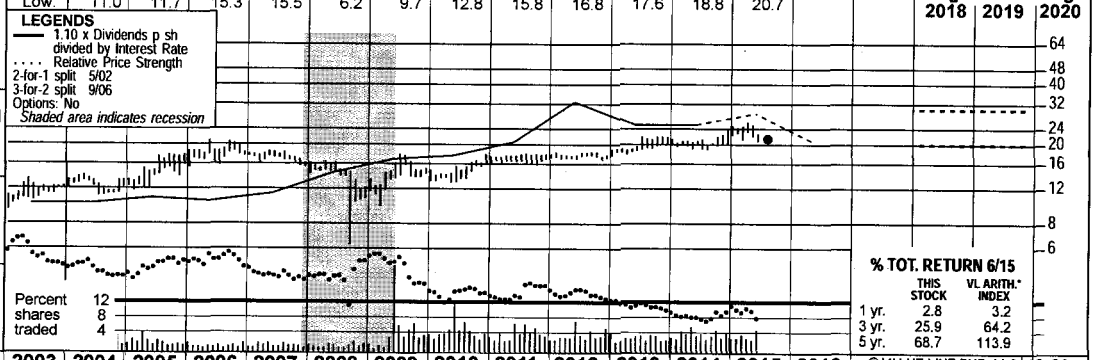
RECENT PRICE	21.47	P/E RATIO	22.6 (Trailing: 23.1 / Median: 25.0)	RELATIVE P/E RATIO	1.19	DIV'D YLD	2.9%	VALUE LINE

TIMELINESS 3 Raised 3/27/15
SAFETY 3 Lowered 7/17/15
TECHNICAL 2 Raised 6/26/15
BETA .75 (1.00 = Market)

High:	14.0	17.9	21.0	18.5	16.5	18.0	18.0	18.1	18.5	22.0	24.3	26.0
Low:	11.0	11.7	15.3	15.5	6.2	9.7	12.8	15.8	16.8	17.6	18.8	20.7

Target Price Range 2018 | 2019 | 2020

LEGENDS
— 1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 5/02
3-for-2 split 9/06
Options: No
Shaded area indicates recession



2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+40%)	12%
Low	20	(-5%)	2%

Insider Decisions

	A	S	O	N	D	J	F	M	A
to Buy	2	1	4	0	0	4	0	2	4
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	3Q2014	4Q2014	1Q2015
to Buy	30	32	33
to Sell	30	24	29
Hld's(000)	3656	3767	3841

% TOT. RETURN 6/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	2.8	3.2
3 yr.	25.9	64.2
5 yr.	68.7	113.9

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
--	--	2.05	2.05	2.17	2.18	2.58	2.56	2.79	2.89	2.95	3.07	3.18	3.21	3.27	3.58	*3.85*	*4.00*	Revenues per sh	*4.75*
--	--	.59	.57	.65	.65	.79	.77	.86	.88	.95	1.07	1.09	1.12	1.19	1.36	*1.50*	*1.55*	"Cash Flow" per sh	*1.75*
--	--	.43	.40	.47	.49	.56	.58	.57	.57	.64	.71	.71	.72	.75	.89	*.95*	*1.00*	Earnings per sh A	*1.15*
--	--	.34	.35	.37	.39	.42	.45	.48	.49	.51	.52	.53	.54	.55	.57	*.60*	*.63*	Div'd Decl'd per sh B	*.79*
--	--	.75	.66	1.07	2.50	1.69	1.85	1.69	2.17	1.18	.83	.74	.94	.76	1.10	*1.10*	*1.20*	Cap'l Spending per sh	*1.15*
--	--	3.79	3.90	4.06	4.65	4.85	5.84	5.97	6.14	6.92	7.19	7.45	7.73	7.98	8.15	*8.15*	*8.65*	Book Value per sh	*9.60*
--	--	9.46	9.55	9.63	10.33	10.40	11.20	11.27	11.37	12.56	12.69	12.79	12.92	12.98	12.83	*12.50*	*12.50*	Common Shs Outst'g C	*12.00*
--	--	17.8	26.9	24.5	25.7	26.3	31.2	30.3	24.6	21.9	20.7	23.9	24.4	26.3	23.1	*Bold figures are*		Avg Ann'l P/E Ratio	*22.5*
--	--	.91	1.47	1.40	1.36	1.40	1.68	1.61	1.48	1.46	1.32	1.50	1.55	1.48	1.22	*Value Line*		Relative P/E Ratio	*1.40*
--	--	4.4%	3.3%	3.2%	3.1%	2.9%	2.5%	2.8%	3.5%	3.6%	3.5%	3.1%	3.1%	2.8%	2.8%	*estimates*		Avg Ann'l Div'd Yield	*3.0%*

CAPITAL STRUCTURE as of 3/31/15
Total Debt $84.8 mill. **Due in 5 Yrs** $30.5 mill.
LT Debt $84.8 mill. **LT Interest** $5.1 mill.
(45% of Cap'l)

Pension Assets 12/14 $30.6 mill.
Oblig. $40.9 mill.

Pfd Stock None

Common Stock 12,858,271 shs.
as of 5/5/15
MARKET CAP: $275 million (Small Cap)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		18-20
26.8	28.7	31.4	32.8	37.0	39.0	40.6	41.4	42.4	45.9	*48.0*	*50.0*	Revenues ($mill)	*57.0*
5.8	6.1	6.4	6.4	7.5	8.9	9.1	9.3	9.7	11.5	*12.0*	*12.5*	Net Profit ($mill)	*14.0*
36.7%	34.4%	36.5%	36.1%	37.9%	38.5%	35.3%	37.6%	37.6%	29.8%	*29.5%*	*29.5%*	Income Tax Rate	*36.5%*
--	7.2%	3.6%	10.1%	--	1.2%	1.1%	1.1%	.8%	1.8%	*1.5%*	*1.5%*	AFUDC % to Net Profit	*1.0%*
44.1%	48.3%	46.5%	54.5%	45.7%	48.3%	47.1%	46.0%	45.1%	44.8%	*47.5%*	*47.0%*	Long-Term Debt Ratio	*48.0%*
55.9%	51.7%	53.5%	45.5%	54.3%	51.7%	52.9%	54.0%	54.9%	55.2%	*52.5%*	*53.0%*	Common Equity Ratio	*52.0%*
90.3	126.5	125.7	153.4	160.1	176.4	180.2	184.8	188.4	189.4	*195*	*205*	Total Capital ($mill)	*220*
155.3	174.4	191.6	211.4	222.0	228.4	233.0	240.3	244.2	253.2	*260*	*265*	Net Plant ($mill)	*280*
8.4%	6.2%	6.7%	5.7%	6.2%	6.5%	6.4%	6.4%	6.5%	7.4%	*7.5%*	*7.5%*	Return on Total Cap'l	*8.0%*
11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.0%	*11.5%*	*11.5%*	Return on Shr. Equity	*12.0%*
11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.0%	*11.5%*	*11.5%*	Return on Com Equity	*12.0%*
3.0%	2.2%	1.7%	1.4%	1.9%	2.7%	2.5%	2.4%	2.4%	3.9%	*4.5%*	*4.5%*	Retained to Com Eq	*3.5%*
74%	77%	82%	85%	78%	72%	73%	74%	74%	64%	*63%*	*63%*	All Div'ds to Net Prof	*69%*

CURRENT POSITION ($MILL.)	2013	2014	3/31/15
Cash Assets	7.6	1.5	.5
Accounts Receivable	3.8	4.0	4.0
Other	3.8	5.7	5.2
Current Assets	15.2	11.2	9.7
Accts Payable	1.8	1.6	1.5
Debt Due	--	--	--
Other	6.0	4.3	4.6
Current Liab.	7.8	5.9	6.1
Fix. Chg. Cov.	417%	424%	437%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	4.5%	3.0%	*5.5%*
"Cash Flow"	7.0%	6.5%	*6.5%*
Earnings	5.5%	6.0%	*6.5%*
Dividends	4.0%	2.5%	*5.0%*
Book Value	6.5%	4.5%	*3.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	9.6	10.4	11.0	10.4	41.4
2013	10.1	10.7	10.9	10.7	42.4
2014	10.6	11.8	12.0	11.5	45.9
2015	11.2	*12.0*	*12.5*	*12.3*	*48.0*
2016	*11.5*	*12.5*	*13.0*	*13.0*	*50.0*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.15	.17	.22	.18	.72
2013	.17	.18	.19	.21	.75
2014	.16	.22	.23	.28	.89
2015	.20	*.25*	*.25*	*.25*	*.95*
2016	*.20*	*.26*	*.28*	*.26*	*1.00*

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.131	.131	.131	.131	.524
2012	.134	.134	.134	.134	.535
2013	.138	.138	.138	.138	.552
2014	.1431	.1431	.1431	.1431	.572
2015	.1495	.1495			

BUSINESS: The York Water Company is the oldest investor-owned regulated water utility in the United States. It has operated continuously since 1816. As of December 31, 2014, the company's average daily availability was 35.2 million gallons and its service territory had an estimated population of 190,000. Has more than 65,100 customers. Residential customers accounted for 63% of 2014 revenues; commercial and industrial (29%); other (8%). It also provides sewer billing services. Incorporated: PA. York had 106 full-time employees at 12/31/14. President/CEO: Jeffrey R. Hines. Officers/directors own 1.1% of the common stock (4/15 proxy). Address: 130 East Market Street York, Pennsylvania 17401. Telephone: (717) 845-3601. Internet: www.yorkwater.com.

York Water has been turning in solid results recently. For the fourth consecutive quarter, the utility posted strong year-over-year earnings comparisons. In the March period, share earnings rose 25%, mostly due to a lower tax rate and higher tariffs implemented in March.

Wall Street seemingly has not been impressed, however. Since our April report, the price of the stock has decreased 14%. We think some investors may have viewed the equity as overpriced. Another possibility is that a major institutional shareholder sold its entire position all at once, which can substantially move the price of a stock with a market capitalization of only $275 million.

Future bottom-line comparisons are expected to be decent. York should continue to benefit from a reduced tax rate, the higher fees that regulators allowed the company to charge its customers, and an ongoing program aimed at reducing costs that is proving to be successful. However, with a small customer base in a region not expected to experience much economic growth, demand for water should be fairly subdued. All in all, we think earnings per share should rise $0.06 a share (6.7%) in 2015, and $0.05 a share (5.3%) next year.

The capital budget has expanded. York's spending to upgrade and modernize its infrastructure rose 40% in 2014. Over the next three-to five-year period, we think similar annual outlays will be required for this process. The company will not differ too much from other water utilities, as the industry is in the midst of increasing funds spent on improving current pipelines and equipment.

York's finances appear healthy enough to handle this burden. While we expect some of the utility's financial metrics to decline through the end of the decade, they still should remain better than the industry norm. For example, even if its equity-to-total capital ratio declines as it takes on more debt, the ratio should remain a solid 52% by late decade.

York shares are expected to be market performers in the year ahead. And while long-term total return prospects have improved due to the dip in the stock price, we believe there are more-attractive candidates available in the group.

James A. Flood *July 17, 2015*

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

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	55
Earnings Predictability	95

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Attorneys for Quail Creek Water Company, Inc.

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-_____

DIRECT TESTIMONY OF

STEVEN SORIANO

September 19, 2014

EXHIBIT
A-7
ADMITTED

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/9521982.1/036331.0002

I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Steven Soriano. My business address is 9532 E. Riggs Road, Sun Lakes, Arizona 85248.

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

A. On behalf of the Applicant Quail Creek Water Company, Inc. ("QCW" or "Company").

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

A. I am employed as a Vice-President for Robson Communities, Inc. I also hold the titles of Vice-President and Assistant Secretary for QCW, and function as QCW's General Manager. I am also the VP and GM of all of the other Robson affiliated utilities.

Q. WHAT IS THE RELATIONSHIP BETWEEN ROBSON COMMUNITIES, INC. AND QCW?

A. Robson Communities, Inc. provides accounting and administrative services to a group of affiliated companies collectively referred to in this testimony as "Robson." QWC is one of the Robson affiliates. QCW provides water service to customers in the Quail Creek and Stone House developments, which are located in the Town of Sahuarita, Arizona in Pima County. Quail Creek is being developed by Robson Ranch Quail Creek, LLC, a Robson affiliate. Stone House is being developed by Stone House Development, Inc., a 50/50 joint venture between Diamond Ventures, Inc. and Robson. The Stone House development is managed by Diamond Ventures, Inc. and operated as a Diamond Ventures development.

Q. IS ROBSON THE PARENT OF QCW?

A. No. QWC is owned by the shareholders listed on **Exhibit SS-DT1**.

Q. DOES THE ROBSON FAMILY OF COMPANIES INCLUDE OTHER WATER AND WASTEWATER UTILITIES REGULATED BY THE ARIZONA CORPORATION COMMISSION?

A. Yes, in addition to QCW, the Robson affiliates include the following water and wastewater utilities:

Ridgeview Utility Company
SaddleBrooke Utility Company
Lago Del Oro Water Company
Picacho Water Company
Picacho Sewer Company
Pima Utility Company
Mountain Pass Utility Company
Santa Rosa Water Company
Santa Rosa Utility Company

Q. WHAT ARE YOUR RESPONSIBILITIES FOR QCW?

A. I oversee the operations and business management functions for the Company. I am responsible for the daily operations and administration of the utility, for the financial and operating results, for capital and operating cost budgeting, for rate case planning and oversight, and rate setting policies and procedures.

Q. WHAT WAS YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND BEFORE GOING TO WORK WITH ROBSON?

A. Before joining Robson in 1995, I was employed as an auditor and a CPA with Kenneth Leventhal/Ernst and Young in Phoenix. In 1991, I received my degree in business administration and accounting from State University of New York at Buffalo.

Q. WHAT OTHER POSITIONS HAVE YOU HELD WITH ROBSON?

A. During my employment with Robson I have, at times, managed the various companies' construction, engineering, marketing, finance and mortgage operations. Additionally, the people operating the independent living and assisted living multifamily projects report to me.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes. I filed direct and rebuttal testimony in Pima Utility Company's 2011 rate case (consolidated Docket Nos. W-02199A-11-0329 and SW-02199A-11-0330), and direct testimony in Lago Del Oro Water Company's 2013 rate case (Docket No. W-01944A-13-0215).

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

A. To support QCW's application for a determination of fair value and the setting of new rates. Specifically, I will provide background on the Company and summarize significant capital improvements completed by the Company.

II. OVERVIEW OF QCW

Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY.

A. The Company is a water utility providing water service to customers in Pima County. As of year-end 2013, QCW served approximately 2,011 water connections. Mr. Jones provides specific detail on the Company's plant and water resources in his direct testimony.

Q. WHEN WAS THE COMPANY'S LAST RATE CASE?

A. The Company's last rate case was filed based on a test year ending December 31, 1997, with current rates being approved in Decision No. 61611 (April 1, 1999) and becoming effective April 1, 1999.

Q. WHY HAS QCW WAITED SO LONG BETWEEN RATE CASES?

A. As I have previously testified in earlier cases for QCW affiliates, under the direction of my predecessor, the Robson affiliated utilities tended to avoid rate cases. I have begun the process of bringing the various Robson affiliated utilities in for new rates. Pima Utility Company's and Lago Del Oro Water Company's rate cases have been completed and now we are filing for QCW. It is my intent to

bring all our water and sewer utilities in for rate cases over the next few years and thereafter will do so on a more regular basis.

Q. DOES QCW NEED RATE RELIEF?

A. Yes. Since QCW's last case, the Company has added nearly 2,000 customers and dramatically increased its investment in plant facilities. The impact of this investment on rate base together with the impact of steadily increasing expenses and regulatory requirements have left QWC with rates that no longer cover the cost of service, which costs includes a return on the fair value of the plant and facilities.

Q. HAVE THERE BEEN MAJOR CHANGES TO QCW'S OPERATIONS SINCE THE LAST RATE CASE THAT YOU WOULD LIKE TO ADDRESS?

A. As stated, the Company has grown from less than 100 customers to over 2,000 customers since the last case, so obviously major changes have occurred. Mr. Jones provides a detailed explanation of the expansions to the water system and the major plant additions since the last case in his direct testimony. QCW became a Robson affiliate in 1999. As a Robson affiliated utility, QCW is managed and staffed by a workforce shared with other Robson affiliates and enjoys economies of scale that a stand-alone utility would not have.

III. <u>MISCELLANEOUS ISSUES</u>

Q. WHAT IS THE COMPANY'S COMPLIANCE STATUS?

A. To the best of my knowledge, QCW is currently in compliance with the rules and regulations of Pima County, ADEQ, ADWR, and the Commission.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Quail Creek Water Company, Inc.

Direct Testimony of Steven Soriano

Exhibit SS-DT1

Quail Creek Water Company
List of Shareholders
As of December 31, 2013

SHAREHOLDER	OWNERSHIP %
Arlington Property Management Company	1.00%
Edward J. Robson Revocable Trust	32.40%
Steven S. Robson Subchapter S Trust	18.60%
Robert D. Robson Subchapter S Trust	12.00%
Lynda R. Robson 2006 Irrevocable Trust	12.00%
Mark E. Robson 2006 Irrevocable Trust	12.00%
Kimberly A. Robson 2006 Irrevocable Trust	12.00%
Total	100.00%

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Attorneys for Quail Creek Water Company, Inc.

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

REJOINDER TESTIMONY
OF
STEVEN SORIANO

JULY 27, 2015

EXHIBIT
A-8
ADMITTED

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I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Steven Soriano. My business address is 9532 E. Riggs Road, Sun Lakes, Arizona 85248.

Q. ARE YOU THE SAME STEVEN SORIANO WHO FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

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

A. No. I am still employed as a Vice-President for Robson Communities, Inc. ("Robson"), and I hold the titles of Vice-President and Assistant Secretary for the Applicant, Quail Creek Water Company, Inc. ("QCW" or "Company").

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

A. Yes.

II. REJOINDER TO SURREBUTTAL TESTIMONY OF JAMES R. ARMSTRONG.

A. Robson Utilities Business Model.

Q. WOULD YOU SUMMARIZE THE BUSINESS MODEL USED BY THE ROBSON UTILITIES?

A. Each of our utilities is a separate legal entity that stands alone from a financial and ratemaking perspective. The stockholders of each utility have a lot of commonality with each other and the other utilities in the Robson family of companies, but each ownership is unique and each utility is financially independent from the other affiliates. There are no parent/subsidiary relationships and one entity does not own any other entity.

There is also common operation, administration and management. By sharing operating personnel all of the utilities, including QCW, enjoy economies of scale that otherwise would not be available. Additional efficiency is obtained by using Robson affiliates to provide certain services to the utilities. Robson Communities, Inc., my employer, provides accounting and administrative services to the utilities, including QCW. Other Robson affiliates provide construction and project management for the utilities. In the case of QCW, Robson Ranch Quail Creek, LLC performs this function.

Q. WHY ARE THE UTILITIES MANAGED AND OPERATED IN THIS WAY?

A. The primary reason is to use shared services to provide a broader range of services to the utilities by achieving economies of scale. This model allows the utilities to maintain relatively small operating staffs and rely on larger, more sophisticated affiliated entities to provide services that the individual utilities could not afford to provide for themselves. The end result is that administrative and management costs are lower than they otherwise would be. Additionally, the utilities are able to plan, design and construct needed utility plant without incurring the cost and overhead of employing project managers, engineers and personnel that would otherwise be required and increase the cost.

Q. HAS THIS MODEL BEEN SUCCESSFUL?

A. I believe it has. QCW and its affiliates provide high-quality, reliable service to their customers. The plant facilities are well planned, properly constructed, meet regulatory requirements and serve their respective communities in a reliable manner. The rates authorized for the companies, including QCW, have been relatively stable over time and tend to be on the lower end of water rates for comparable communities.

B. Rejoinder to Mr. Armstrong.

Q. WHAT WAS YOUR OVERALL REACTION TO MR. ARMSTRONG'S TESTIMONY REGARDING QCW'S ACCOUNTING PRACTICES?

A. I was taken aback by the testimony. I have been the General Manger of the Robson utilities since 2010. In that time, as I discussed in my direct testimony in this case, I have begun the process of bringing each of the utilities under the Robson umbrella into the Commission for rate cases. I have engaged consultants experienced in utility regulation in Arizona to review and provide advice on various aspects of our operations and to assist with these rate cases. QCW is the third company to seek rate relief.[1]

Based on the 2011 case for Pima Utility Company ("Pima") and the 2013 case for Lago Del Oro Water Company ("Lago"), I understood Staff to be generally satisfied with our operations. My philosophy is to manage the utilities in an effective manner that meets the expectations of our regulators, and based on the Pima and Lago cases, I believed everything was generally in good working order. This is why I was quite surprised at the nature and tenor of Mr. Armstrong's testimony and the recommendations it contains.

Q. THANK YOU, MR. SORIANO. WOULD YOU PLEASE ADDRESS THE DISUPTE OVER WELL 16, WHICH DISPUTE APPEARS TO UNDERLIE THE ALLEGATIONS AND RECOMMENDATIONS MADE BY STAFF IN THIS RATE CASE?

A. Yes. Well 16 was an existing well acquired by Robson Ranch Quail Creek, LLC ("RRQC") when it purchased the Quail Creek development. The well was designated as a source of supply for potable water to be developed by QCW and to

[1] *See* Direct Testimony of Steven Soriano at 3:22 – 4:2.

be used to provide water utility service. Consistent with our business model, RRQC undertook rehabilitation and development of the well on QCW's behalf. The well project was completed in 2006, connected to the QCW water system, and QCW took over operation of the well. Unfortunately, the well did not perform in an acceptable manner due to excessive sand production and we were forced to remove it from service in 2009.

Q. WHAT WAS THE RELATIONSHIP BETWEEN QCW AND RRQC WITH RESPECT TO WELL 16?

A. QCW does not employ project managers, engineers or other personnel necessary to develop a well. Instead, QCW relies on RRQC to construct plant improvements, such as the rehabilitation of Well 16 on its behalf. RRQC provides these services at cost without any profit or markup.

Q. DID RRQC RECEIVE ANY DIRECT BENEIFT FROM THE WELL?

A. No. As explained in Mr. Jones's rebuttal testimony, the well was never utilized by RRQC or any other Robson affiliate. The well was rehabilitated and constructed by RRQC for the exclusive use of QCW in the provision of potable water service.[2] It just didn't work out as hoped.

Q. DID QCW PAY FOR WELL 16 ON A DEFERRED BASIS?

A. Yes, it did. The well was paid for in 2011 and the asset was recorded on QCW's books at that time. As mentioned earlier, I took over management of the utilities in 2010 and discovered that it had been our practice for utilities to pay for assets transferred from constructing affiliates when the funds became available, rather than when the assets were placed into service. During the Lago case I contracted with Mr. Jones to review our utilities and determine which ones needed rate cases.

[2] *See* Rebuttal Testimony of Ray L. Jones at 3-4.

With this data in hand, I have been able to put a plan in place to discontinue the practice of deferred payment for assets and instead allow the utilities, on a going forward basis, to make payment for assets at the time they are placed into service. In QCW's case, I was able to raise the capital, and the last of the deferred payment assets was paid for in 2011.

Q. SO DEFERRED ASSET PAYMENTS ARE NOT SOMETHING THE COMMISSION SHOULD BE CONCERNED ABOUT ON A GOING FORWARD BASIS?

A. No, this practice has been discontinued with the last of the deferred payments being made in September 2014. As of September 2014 it is the practice of all of our utilities, including QCW, to record the acquisition of all assets constructed by an affiliate on an accrual basis during the year that construction is completed and they are placed into service. Full payment to the constructing affiliate will be made within 12 months of recording the asset. The utilities expect to use a combination of retained earnings, additional paid in capital from shareholders, and, to the extent approved by the Commission, new debt to fund the plant additions.

Q. WILL THIS BE AN ONGOING ISSUE FOR THE COMMISSION FOR THOSE UTILITIES THAT HAVE NOT YET FILED FOR NEW RATES SINCE YOU TOOK OVER MANAGEMENT?

A. No. While the remaining utilities have recorded some deferred asset entries on their books, they have discontinued this practice as of September 2014. In order to remove this as an issue in future rate cases for those companies, before the end of this year, those companies will book adjustments to accumulated depreciation consistent with the adjustments approved in the Lago case and proposed in this case. Once those adjustments are made, those utilities' books and plant records will be exactly the same as if the plant transactions had been recorded at the time the plant was placed

into service. This will eliminate the issue from future rate cases.

Q. DID QCW OR ANY OF THE ROBSON AFFILIATES BENEFIT FROM THIS ARRANGMENT AT RATEPAYERS' EXPENSE?

A. Not in any way of which I am aware. In fact, the nonutility affiliates essentially subsidized service to our utility customers by paying for plant and waiting for several years to get the money back. I understand that Staff doesn't like this model, but that should not be because our customers have ever been harmed. Nor will they be in the future.

Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?

A. Yes.

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Attorneys for Quail Creek Water Company, Inc.

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-_____

DIRECT TESTIMONY OF

RAY L. JONES

September 19, 2014

EXHIBIT
A-9
ADMITTED

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I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

A. On behalf of the Applicant Quail Creek Water Company, Inc. ("QCW" or "Company").

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

A. I am the owner and principal of ARICOR Water Solutions LC ("ARICOR").

Q. WHAT WAS YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND BEFORE GOING TO WORK FOR ARICOR?

A. I began my working career with Citizens Utilities Company ("Citizens") in 1985 as a Staff Engineer for the Maricopa County water and wastewater division. I was employed at Citizens for 17 years, ascending to Vice President and General Manager for the Arizona water and wastewater operations. In 2002, American Water ("American") purchased the water and wastewater assets of Citizens and I joined American as the President of Arizona-American Company. I left American in 2004 to start ARICOR.

I received a Bachelor of Science in Civil Engineering in 1985 from the University of Kansas, and a Master of Business Administration in 1991 from Arizona State University. I am a Registered Professional Engineer in Arizona and California and a Grade 3 Certified Operator in Arizona for all four water and wastewater classifications. I specialize in water resource issues, regulatory strategies, rate case filings and water and wastewater utility management and operations. My resume is attached as **Exhibit RLJ-DT1**.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. In my time with Citizens and American, I prepared or assisted in the preparation of multiple filings before the Arizona Corporation Commission ("Commission"), including rate applications and CC&N filings. Since starting ARICOR, I have prepared several filings and assisted in the preparation of several more filings before the Commission, including rate applications and CC&N filings. I have also provided testimony in all of these cases before the Commission. A summary of my regulatory work experience is included in my resume attached as **Exhibit RLJ-DT1**.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. To support QCW's application for rate relief. Specifically, I will provide an overview of QCW's water system and operations, provide support for plant additions, discuss a review of QCW's Plant in Service and the impact of that review on B-2 Schedules.

II. QCW'S WATER SYSTEM AND OPERATIONS

Q. WHAT IS YOUR RELATIONSHIP TO QCW?

A. I provide consulting services to the water and wastewater companies affiliated with Robson, including QCW. Specifically, I assist and advise QCW on a variety of matters related to their ownership and operation of their water system. In my capacity as a consultant to QCW, I have become familiar with their facilities and operations.

Q. WHO IS ROBSON?

A. By "Robson" I am referring to a group of companies affiliated with Robson Communities, Inc. QCW is one of several water and wastewater utilities regulated by the Commission that is affiliated with Robson Communities, Inc. The Quail Creek community, which includes most of the residential neighborhoods served by

QCW, was developed by Robson Ranch Quail Creek, LLC, which is also affiliated with QCW and Robson Communities, Inc. As further explained in Mr. Soriano's direct testimony, QCW is one of several affiliated water and wastewater utilities providing service in Arizona.[1] The Robson model achieves economies of scale through shared operations, administration and management.

Q. WOULD YOU DESCRIBE QCW'S WATER SYSTEM?

A. QCW's water system is a groundwater-based system serving the master planned communities of Quail Creek and Stone House, both located in the Town of Sahuarita. Sahuarita is located just north of Green Valley about 15 miles south of Tucson, Arizona. QCW's customer base is approximately 95% residential customers, with a small number of commercial customers and irrigation customers. Approximately 93% of residential customers are served by 5/8"x3/4" meters with the remaining residential customers served by 1" and 2" meters. Commercial and irrigation customers are served by meters ranging from 5/8"x3/4" to 4" in size. At year-end 2013, QCW served 2,011 total customers.

QCW's water system consists of a looped distribution system, three wells, two water storage tanks and one booster station. There are two pressure zones. Two ground storage tanks located at Water Plant No. 1 serve as gravity storage for the lower pressure zone with all three wells feeding into the lower pressure zone. A booster station located at Water Plant No. 1 pumps from the storage tanks to provide service to the upper pressure zone. The system is designed to provide reliable service through the use of gravity storage in the lower zone and a backup generator for the booster station serving the upper pressure zone. The system is designed to provide a 1,250 gallon per minute fire flow.

[1] Direct Testimony of Steven Soriano ("Soriano Dt.") at 2:1-10.

A detailed description of QCW's major water system components is attached as **Exhibit RLJ-DT2**.

Q. WHAT IS YOUR OPINION OF QCW'S WATER FACILITIES AND OPERATIONS?

A. My observations indicate that QCW's water facilities are well designed, well maintained, and provide reliable service to the community. QCW's operations staff is highly knowledgeable regarding water system operations and operates the systems in an effective and efficient manner.

Q. WOULD YOU SUMMARIZE QCW'S WATER CONSERVATION PROGRAM?

A. QCW is located in the Tucson Active Management Area and is enrolled as a regulated tier I municipal provider in ADWR's Modified Non-Per Capita Conservation Program ("NPCCP"). As a part of the program, QCW reviewed its water system and proposed Best Management Practices ("BMPs") for implementation in the QCW service area. On June 24, 2010, ADWR approved the following BMPs for QCW -

- Meter Repair and/or Replacement Program

In addition to the BMPs required by ADWR, QCW has voluntarily implemented the following additional BMPs.

- Customer High Water Use Inquiry Resolution
- Customer High Water Use Notification
- Leak Detection Program
- Water Waste Investigation and Information

In addition to the five BMPs, QCW has implemented a Public Education Program as required by the NPCCP.

Q. WHAT ARE THE COMPONENTS OF QCW'S PUBLIC EDUCATION PROGRAM?

A. QCW provides water conservation education through two primary communication channels. QCW provides water wise tips to each of its customers through a note on the water bill during most months. QCW also makes Water Wise pamphlets available at the Quail Creek Water office or, when requested, by mail.

Q. DOES QCW HAVE A PROGRAM TO ADDRESS WATER LOSSES?

A. Yes. All water providers in the Tucson Active Management Area are required to track and report water losses to ADWR. QCW closely monitors this data and implements corrective action as warranted.

Q. HAS QCW DONE A GOOD JOB CONTROLLING WATER LOSS?

A. Yes, QCW's water loss remains well below 10 percent as the Company reported the following lost and unaccounted for water to ADWR for the past three years.

- 2011 – 3.89%
- 2012 – 6.97%
- 2013 – 7.78%

III. PLANT ADDITIONS SINCE LAST RATE CASE

Q. WHAT IS QCW'S MOST RECENT TEST YEAR USED FOR RATEMAKING?

A. The Company's last rate case was filed based on a test year ending December 31, 1997.

Q. PLEASE DESCRIBE THE MAJOR WATER PLANT ADDITIONS ADDED SINCE THE LAST WATER TEST YEAR.

A. At the time of the last rate case there were 67 customers and the system consisted of a single water tank at Water Plant No. 1 and Well No. 13. Since QCW joined Robson Communities in 1999, the Company has added distribution facilities for

twenty-four subdivisions. To serve these new customers, QCW has expanded Water Plant No. 1 to include a second water tank and a booster station for the upper pressure zone. QCW has also added two wells, Well No. 12 and Well No. 13, to the system.

IV. PLANT IN SERVICE REVIEW

Q. DID YOU REVIEW QCW'S PLANT IN SERVICE AND ASSIST WITH PREPARATION OF THE B-2 SCHEDULES FOR THIS FILING?

A. Yes, I conducted an on-site inspection of QCW's facilities and completed a comprehensive review of QCW's fixed asset records and prepared portions of the B-2 Schedules for this filing.

Q. PLEASE DESCRIBE THE SCOPE OF YOUR REVIEW OF QCW'S FIXED ASSET RECORDS.

A. QCW provided me a comprehensive listing of all fixed asset ledger entries, including accumulated depreciation entries. Working with QCW management and operations personnel, each individual ledger entry was reviewed to determine the following:

- Is the asset entry an appropriate plant entry per the NARUC system of accounts?
- Is the asset entry charged to the correct NARUC plant account?
- Has accumulated depreciation been properly recorded?

Q. WHAT CONCLUSIONS DID YOU REACH AFTER YOUR FIXED ASSET RECORD REVIEW?

A. I found QCW's records to be generally in good order and in compliance with the NARUC system of accounts. The asset entries were generally complete with detailed descriptions and suitable backup documentation. I also found a few items that needed attention including the following:

- QCW was not using the composite depreciation rate authorized in the Company's previous rate order to calculate depreciation.
- Plant retirements were not made in strict adherence to NARUC.
- Three assets on QCW's books were developer owned assets ("Developer Owned Assets").
- A few asset items were physically retired, but not retired on QCW's books ("Unbooked Plant Retirements").
- Some assets were classified to the wrong NARUC plant account or required further breakdown to additional NARUC plant accounts.
- Some developer-funded plant related to the Stone House development was not included in QCW's assets ("Unbooked Contributed Plant").
- The purchase of some assets had been deferred beyond the actual in-service date for the facilities ("Deferred Plant Purchases").

Q. HOW WAS QCW CALCULATING DEPRECIATION EXPENSE AND WHAT IMPACT DID IT HAVE ON PLANT BALANCES?

A. QCW was using individual rates for each NARUC account rather than the composite rate of 4.08% authorized in Decision No. 61611. Since use of the individual rates results in a composite depreciation rate less than the authorized 4.08%, accumulated depreciation was being understated.

Q. WAS THIS CORRECTED BEFORE THE RATE APPLICATION WAS FILED?

A. Yes. I will explain the steps I took to address the concerns I discovered later in my direct testimony.

Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE CONCERNS YOU FOUND. WHAT ISSUES DID YOU IDENTIFY WITH RECORDED PLANT RETIREMENTS?

A. There were two concerns identified. First, the Company was not debiting the full original cost of retired plant to accumulated depreciation as required by NARUC. Instead, QCW was debiting accumulated depreciation by the amount of

accumulated depreciation actually recorded prior to the plant retirement. This causes the accumulated depreciation to be overstated.

The second issue involves the drilling of a new water supply well. NARUC requires the cost of "test wells and nonproductive wells drilled as part of a project resulting in a source of water within the same supply area" to be included in the cost of the final production well. Prior to drilling Well 12, QCW first drilled a nonproductive well (Well 16). Rather than charging the cost of the nonproductive well to Well 12, QCW recorded a retirement of the nonproductive well costs.

Q. WHAT DEVELOPER OWNED ASSETS WERE IDENTIFED ON QCW'S BOOKS?

A. Three assets with a combined value of $78,733 were identified. The assets were related to repair of a developer owned well ($990), pump repairs at a developer owned recharge well ($1,079), and the cost of an aquifer protection permit for recharge wells ($76,664).

Q. WHAT UNBOOKED PLANT RETIREMENTS WERE IDENTIFIED?

A. I identified pumps and piping at Well 11 and Well 13 that had been replaced without the original equipment being retired. I also identified a minor piece of SCADA equipment installed for a nonproductive Well 16 that had not been retired. The total cost of these Unbooked Plant Retirements was $128,730.

Q. WHAT IS THE STONE HOUSE DEVELOPMENT?

A. Stone House is a luxury residential community, with custom homesites, being developed by Diamond Ventures, Inc. Stone House is located immediately adjacent to Robson's Quail Creek development and is planned for 228 homesites. Development of Stone House began in 2005. As discussed in the testimony of

Mr. Soriano, Robson has an ownership interest in Stone House but does not manage or operate the Stone House development.[2]

Q. AND THE UNBOOKED CONTRIBUTED PLANT YOU IDENTIFIED WAS RELATED TO STONE HOUSE?

A. Yes, several items of plant related to the Stone House development were not recorded in the Company's plant records as follows:

Plant Item	Cost	Comment
Stone House - 16" 500 LF	$23,111	Portion of project not QCW Funded
Stone House - 8" 3,260 LF	100,367	Cost of Stone House Off-Site Main
Stone House On-Site Mains	539,700	Cost of Stone House On-Site Mains
Stone House On-Site Services	69,716	Cost of Stone House On-Site Services
Stone House On-Site Hydrants	87,308	Cost of Stone House On-Site Hydrants
TOTAL	$820,205	

Since these assets were not recorded, Plant in Service, Accumulated Depreciation, Contributions in Aid of Construction and Accumulated Amortization of CIAC were all understated.

Q. WHAT IS THE NATURE OF THE DEFERRED PLANT PURCHASES?

A. QCW uses an affiliate to manage and finance construction of plant expansion projects on its behalf. Once the projects are complete, QCW purchases the plant from the affiliate at actual cost without markup or overhead. In some instances these plant purchases were deferred beyond the year in which the facilities were placed into service.

[2] *See* Soriano Dt. at 1:13-23.

The deferral of a plant purchase causes a portion of the useful lives of the plant items to be consumed prior to the plant being booked. This loss of life should be recognized through an adjustment to accumulated depreciation at the time the plant is booked. The Deferred Plant Purchases and the required accumulated depreciation adjustment are summarized by project as follows:

Project	Year In Service	Year Asset Purch.	Project Cost	Accumulated Depreciation Adjustment
Unit 15 Water Distribution System	2007	2011	$ 221,062	$ 36,077
Unit 23 Water Distribution System	2007	2011	184,133	30,051
Unit 24 Water Distribution System	2008	2011	174,844	21,401
McGibbon Water Line Extension	2005	2011	90,390	22,127
Well 11	2002	2009	193,816	55,354
Well 16	2009	2011	510,205	41,633
Water Plant No.1, 2nd Tank	2004	2010	450,000	110,160
Water Plant No. 1, Booster Station	2004	2011	776,457	221,756
	TOTAL		$ 2,600,907	$ 538,559

Q. HAS THE COMMISSION ADDRESSED THE TREATMENT OF DEFERRED PLANT PURCHASES IN THE PAST?

A. Yes. QCW's affiliate, Lago Del Oro Water Company, faced this same issue in its recent rate case. In Decision No. 74564 (June 20, 2014), the Commission adopted adjustments to accumulated depreciation to recognize the loss of useful life for ratemaking. I have used the same procedure adopted in that case to calculate the required adjustments for QCW here.

Q. WHAT ACTIONS DID YOU TAKE AFTER YOUR FIXED ASSET REVIEW?

A. I constructed an Excel spreadsheet for each service listing all fixed assets entries currently on QCW books. Each line item in the listing was coded to indicate the following:

- Which entries were previously included in rate base and the NARUC account plant account for those entries.
- Which entries are Plant Additions since the last rate case and the correct NARUC plant account for those entries.
- Entries that need further breakdown to additional NARUC plant accounts.
  - For these entries additional lines were added to provide the required additional detail.
- For Deferred Plant Purchases, the actual Plant in Service year was noted and used for calculating accumulated depreciation.

Line items were added to properly reflect plant balances as follows:

- Developer Owned Assets were adjusted to have a zero value.
- Retirement detail was added for Unbooked Plant Retirements.
  - For any asset that was removed from service but a retirement was not recorded, a line item was added to the spreadsheet to record the Unbooked Plant Retirement. The new line item includes the description of the original asset, the NARUC plant account, the retirement date, the retirement amount and, if replaced, the asset number of the new asset.
- Asset detail was added for Unbooked Contributed Plant.
  - For each developer contributed asset, a line item was added to the spreadsheet to record the contributed plant. The new line item includes a description of the asset, the NARUC plan account and the value of the asset.
- Adjustments to record retirements in strict adherence with NARUC.
- For booked retirements, line items were added to the spreadsheet to show the original asset and its retirement.

Q. WHAT DID YOU DO NEXT?

A. The updated asset entries were used to prepare B-2 Schedule pages 3.5 to 3.21 and are the basis for the Plant in Service adjustments shown on Schedule B-2, Page 3, (Column A and Column B) and Accumulated Depreciation adjustments shown on B-2, Page 4 (Column A, Column B and Column C). The B-2 Schedule, pages 3.5 to 3.21 were constructed as follows:

- The book balances for plant and accumulated depreciation at the end of the last test year were reconciled to the balances indicated in the appropriate decision.
- Since accumulated depreciation was calculated on a composite basis in the last rate case, accumulated depreciation was allocated to the individual plant accounts.
- From these reconciled beginning balances, plant additions, adjustments, retirements, depreciation, plant balances and accumulated depreciation were calculated and brought forward for each year from the previous test year to year-end 2012.
  - Depreciation was calculated using a 4.08% depreciation rate as specified in LDO's last rate order.

In addition, the entries were used to prepare B-2 Schedule Page 5.1 detailing Contributions-in-aid of Construction and Accumulated Amortization of CIAC. B-2 Schedule Page 5.1 is the basis for the adjustments to Contributions-in-aid of Construction and Accumulated Amortization of CIAC shown on Schedule B-2, Page 5.

Q. WHAT IS THE END RESULT OF YOUR REVIEW AND CONSTRUCTION OF THE B-2 DETAIL SCHEDULES?

A. The result is calculated Plant in Service balances, accumulated depreciation balances, Contributions-in-aid of Construction and Accumulated Amortization of CIAC balances for year-end 2013 that are consistent with the NARUC system of accounts and tie back to the previous rate order. These balances are the appropriate balances to use in determining QCW's rate base and depreciation expense. For convenience, I have summarized my findings and the reconciliation I described above in the following table:

Plant In Service	
Water Plant In Service Per Books	$6,958,696
Remove Developer Owned Assets	(78,733)
Record Unbooked Contributions	820,205
Record Unbooked Plant Retirements	(128,370)
Retirement Adjustments (conforming to NARUC)	251,984
Adjusted Water Plant In Service	$7,823,782
Accumulated Depreciation	
Accumulated Depreciation Per Books	$1,054,550
Record Unbooked Plant Retirements	(128,370)
Retirement Adjustments (conforming to NARUC)	251,984
Adjustment of Deferred Plant Purchases	538,559
Adjustment to Reconcile Book to Calculated	501,563
Adjusted Accumulated Depreciation	2,404,777
Contributions-in-aid of Construction	
Contributions-in-aid of Construction per Books	$0
Adjusted Contributions-in-aid of Construction	$820,205
Accumulated Amortization of CIAC	
Accumulated Amortization of CIAC per Books	$0
Adjusted Accumulated Amortization of CIAC	$284,447

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Quail Creek Water Company, Inc.

Direct Testimony of Ray L. Jones

Exhibit RLJ-DT1

ARICOR
Water Solutions

25213 N. 49th Drive
Phoenix, AZ 85083

Ray L. Jones P.E.
Principal

EXPERTISE

Mr. Jones formed ARICOR Water Solutions in 2004. Through ARICOR Water Solutions, Mr. Jones offers a wide range of engineering and financial analysis services to the private and public sectors. Projects include development of regulatory strategies and preparing rate cases, including preparation of rate studies, cost of service studies, financial schedules and testimony for filings before the Arizona Corporation Commission. Services also include consultation on water and wastewater utility formation, management and operations, and valuation, including due diligence analysis, water resources strategy development and water rights valuation. ARICOR Water Solutions provides water, wastewater and water resource master planning, water and wastewater facilities design, and owner representation; including value engineering, program management and construction oversight. Lastly, ARICOR Water Solutions supports water solutions with contract operations and expert witness testimony and litigation support.

EMPLOYMENT HISTORY

2002 to 2004 — **Arizona-American Water Company**
President
Responsible for leadership of the Arizona business activities of Arizona-American Water Company. Key responsibilities include developing and evaluation new business opportunities, developing strategic plans, establishing effective government and community relations, insuring compliance with all regulatory requirements, and providing management and guidance to key operations and support personnel.

1998 to 2002 — **Citizens Water Resources, Arizona Operations**
Vice President and General Manager
Responsible for leadership of the Arizona regulated and unregulated business activities of Citizens Water Resources. Key responsibilities included developing and evaluation new business opportunities, developing strategic plans, establishing effective government and community relations, insuring compliance with all regulatory requirements, and providing management and guidance to key operations and support personnel.

1990 to 1998 — **Citizens Water Resources, Arizona Operations**
Engineering and Development Services Manager
Responsible for management of a diverse group of business growth related activities. Responsibilities include: marketing of operation and maintenance services (unregulated business growth), management of new development activity (regulated business growth), management of engineering functions (infrastructure planning and construction), management of water resources planning and compliance, management of growth-related regulatory functions (CC&N's and Franchises), and management of capital budgeting functions and capital accounting functions.

1985 to 1990 — **Citizens Water Resources, Arizona Operations**
Civil Engineer
Responsible for the planning, coordination and supervision of capital expansion and major maintenance and rehabilitation projects as assigned. Responsible for development of capital program for Maricopa County Operations.

EDUCATION

Arizona State University – Master of Business Administration (1991)
University of Kansas – Bachelor of Science in Civil Engineering (1985)

ARICOR
Water Solutions

PROFESSIONAL CERTIFICATION

Registered Professional Engineer – Civil Engineering – Arizona
Professional Engineer – Civil Engineering – California
Certified Operator – Wastewater Treatment, Wastewater Collection, Water Treatment, Water Distribution – Arizona

PROFESSIONAL AFFILIATIONS

- Director - Water Utilities Association of Arizona (1998 – 2004)
- Member - American Society of Professional Engineers
- Member - American Water Works Association
- Member - Arizona Water Pollution Control Association
- Member - Water Environment Federation

CIVIC AND COMMUNITY INVOLVEMENT

- Advisory Member - Water Resources Development Commission (2010 – 2012)
- Board of Directors – Greater Maricopa Foreign Trade Zone (2009 – Present)
- Chairman WESTMARC (2008)
- Director and Member of the Executive Committee- WESTMARC (1998 – 2010)
- Co-Chairman, WESTMARC Water Committee (2006 – 2007)
- Chairman-Elect WESTMARC (2007)
- Member – Corporate Contributions Committee, West Valley Fine Arts Council Diamond Ball (Chairman 2005)
- Member – Technical Advisory Committee – Governor's Water Management Commission (2001)
- Board Member, Manager & Past Chairman – North Valley Little League Softball

REGULATORY EXPERIENCE

Testimony has been provided before the Arizona Corporation Commission in the dockets listed below. Unless otherwise indicated testimony was provided on behalf of the utility.

Filing Year	Utility(ies)	Filing Type(s)	Docket(s)
1992	Sun City West Utilities Company	CC&N Extension (Expansion of Sun City West)	U-2334-92-244
1993	Sun City Water Company Sun City Sewer Company	CC&N Extension (Addition of Coyote Lakes)	U-1656-93-060 U-2276-93-060
1993	Tubac Valley Water Co., Inc.	CC&N Extension (Various Subdivisions on western border)	U-1595-93-241
1993	Sun City West Utilities Company	CC&N Extension (Expansion of Sun City West)	U-2334-93-293
1995	Citizens Utilities Company Sun City Water Company Sun City Sewer Company Sun City West Utilities Company Tubac Valley Water Company	Ratemaking	E-1032-95-417 U-1656-95-417 U-2276-95-417 U-2334-95-417 U-1595-95-417
1996	City Water Company Sun City Sewer Company	CC&N Extension (Acquisition of Youngtown)	U-1656-96-282 U-2276-96-282
1996	Citizens Utilities Company	CC&N Extension and Deletion (Realignment of Surprise Bdry.)	E-1032-96-518
1998	Sun City Water Company Sun City West Utilities Company	CAP Water Plan and Accounting Order (Sun Cities CAP plan)	W-01656A-98-0577 SW-02334A-98-0577

ARICOR
Water Solutions

Filing Year	Utility(ies)	Filing Type(s)	Docket(s)
2000	Citizens Water Resources Company of Arizona Citizens Water Services Company of Arizona	CC&N Extension and Accounting Order (Anthen Jacka Property and Phoenix Treatment Agreement)	SW-3455-00-1022 SW-3454-00-1022
2000	Citizens Communications Company Citizens Water Services Company of Arizona	CC&N Extension and Approval of Hook-Up Fee (Verrado)	W-0132B-00-1043 SW-0354A-00-1043
2002	Arizona-American Water Company	Ratemaking	WS-01303A-02-0867 WS-01303A-02-0868 WS-01303A-02-0869 WS-01303A-02-0870 WS-01303A-02-0908
2004	Arizona-American Water Company Rancho Cabrillo Water Company Rancho Cabrillo Sewer Company	CC&N Transfer	WS-01303A-04-0089 W-01303A-04-0089 SW-03898A-04-0089
2004	Johnson Utilities Company, LLC (Representing Pulte Home Corporation)	CC&N Extension	WS-02987A-04-0288
2005	Perkins Mountain Utility Company Perkins Mountain Water Company	New CC&N & Initial Rates	WS-20379A-05-0489 W-20380A-05-0490
2005	West End Water Company	CC&N Extension	W-01157A-05-706
2005	Arizona-American Water Company	Approvals Associated with Construction of Surface Water Treatment Facility	W-01303A-05-0718
2006	Arizona-American Water Company	Ratemaking	WS-01303A-06-0403
2008	Sunrise Water Company	Ratemaking	W-02069A-08-0406
2009	Baca Float Water Company	Ratemaking	WS-01678A-09-0376
2009	Aubrey Water Company	Lost Water Evaluation (Rate Case Compliance)	W-03476A-06-0425
2009	White Horse Ranch Owner's Assn.	Ratemaking	W-04161A-09-0471
2010	Litchfield Park Service Company	Ratemaking	W-01427A-09-0104
2010	Chino Meadows II Water Company	Ratemaking	W-02370A-10-0519
2011	Pima Utility Company	Ratemaking	W-021999A-11-0329 WS-02199A-11-0330
2011	Tusayan Water Development Association, Inc. (Representing the Town of Tusayan)	Ratemaking	W-02350A-10-0163
2012	Valley Utilities Water Company, Inc.	Ratemaking	W-01412A-12-0195

ARICOR Water Solutions

Filing Year	Utility(ies)	Filing Type(s)	Docket(s)
2012	Far West Water & Sewer, Inc.	Ratemaking	WS-03478A-12-0307
2012	Sahuarita Water Company, LLC	Amend Off-Site Facilities Hook-Up Fee	W-03718A-09-0359
2012	New River Utility Company	Ratemaking	W-01737A-12-0478
2013	Far West Water & Sewer, Inc.	New Off-Site Facilities Hook-Up Fees	WS-03478A-13-0200
2012	Adman Mutual Water Company	Ratemaking	W-01997A-12-0501
2013	Far West Water & Sewer, Inc.	CC&N Extension	WS-03478A-13-0250
2013	Lago Del Oro Water Company	Ratemaking	W-01944A-13-0215
2013	Lago Del Oro Water Company	Financing	W-01944A-13-0242
2012	Sunrise Water Company	Financing	W-02069A-12-0261
2010	Far West Water & Sewer, Inc.	CC&N Extension	WS-03478A-10-0523
2014	Granite Mountain Water Co., Inc.	Ratemaking	W-02467A-14-0230
2014	Chino Meadows II Water Co., Inc.	Ratemaking	W-02370A-14-0231

September 2015

Quail Creek Water Company, Inc.

Direct Testimony of Ray L. Jones

Exhibit RLJ-DT2

QUAIL CREEK WATER COMPANY
Major Water System Components
September 17, 2014

General

Quail Creek Water Company's ("Quail Creek") water system is a groundwater-based system serving the master planned communities of Quail Creek and Stone House, both located in the Town of Sahuarita, Arizona in Pima County.

Quail Creek currently serves approximately 2,011 customers. Quail Creek's customer base is approximately 95% residential customers, with a small number of commercial customers and irrigation customers. Approximately 93% of residential customers are served by 5/8"x3/4" meters with the remaining residential customers served by 1" and 2" meters. Commercial and irrigation customers are served by meters ranging from 5/8"x3/4" to 4" in size.

Quail Creek Water System

Quail Creek's water system consists of a looped distribution system, three wells, two water storage tanks and one booster station. There are two pressure zones. Two ground storage tanks located at Water Plant No. 1 serve as gravity storage for the lower pressure zone with all three wells feeding into the lower pressure zone. A booster station located at Water Plant No. 1 pumps from the storage tanks to provide service to the upper pressure zone. The system is designed to provide reliable service through the use of gravity storage in the lower zone and a backup generator for the booster station serving the upper pressure zone. The system is designed to provide a 1,250 gallon per minute fire flow.

The Quail Creek water system facilities are summarized below:

Water Plants No. 1:

WP #1 – 2 – 750,000 gallon storage tanks with cathodic protection
4 – Booster pumps
1 – 13,000 gallon hydropneumatic tank
1 – Natural gas driven backup generator
Associated piping and electrical gear

Wells:

Well 11 – 55-608597 – Equipped with submersible pump and motor, chlorine solution feeder and related piping and electrical gear. Pumps to low pressure zone.

Well 12 – 55-219145 – Equipped with line shaft turbine pump and motor, chlorine solution feeder and related piping and electrical gear. Pumps to low pressure zone.

Well 13 – 55-608522 – Equipped with line shaft turbine pump and motor, chlorine solution feeder and related piping and electrical gear. Pumps to low pressure zone.

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Attorneys for Quail Creek Water Company, Inc.

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

RAY L. JONES

JUNE 3, 2015

EXHIBIT
A-10
ADMITTED

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I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Ray L. Jones, P.E. My business address is 18835 North Thompson Peak Parkway, Suite 215, Scottsdale, Arizona 85255.

Q. ARE YOU THE SAME RAY L. JONES THAT FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

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

A. No, I am still owner and principal of ARICOR Water Solutions LC, and I am testifying on behalf of the Applicant Quail Creek Water Company, Inc. ("QCW" or "Company"). Additionally, as of December 15, 2014, in addition to my consulting practice, I am the Executive Director of the Water Utilities Association of Arizona ("WUAA"). Founded in 1961, WUAA is a non-profit association representing Arizona's private, regulated water and wastewater utilities.

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

A. Yes.

Q. WHAT WILL YOU ADDRESS IN THIS REBUTTAL TESTIMONY?

A. I will address Staff's recommended treatment of the costs associated with Well 16 and set forth QCW's response. I will also address the Staff recommendation regarding Best Management Practices.

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

A. Well 16 Costs.

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

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

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

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

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

[2] Note: The actual impact to rate base is reduced by the effect of intervening depreciation of the plant in service balance. Those rate base impacts are fall out calculation impacts 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.

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

- 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. THEN WHAT IS THE BASIS OF MR. CASSSIDY'S DISSALOWANCE?

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

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

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

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

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

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

[5] NARUC, *Guidelines For Cost Allocations And Affiliate Transactions*, 1st paragraph, p. 1.
[6] *Id.*

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

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

into service by QCW.

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

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

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

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

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

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

[8] Cassidy Dt. at 14.

[9] Cassidy Dt. at 15.

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

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

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

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

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

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.

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

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

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

B. <u>Staff Recommendation for Written Contract and Bids</u>.

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

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

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

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

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

III. <u>BEST MANAGEMENT PRACTICES</u>.

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

A. Yes. Staff recommends that QCW file seven Best Management Practices ("BMPs") that were approved by ADWR for implementation by QCW that substantially conform to the templates created by Staff for the Commission's consideration.[10]

Q. DOES QCW SUPPORT STAFF'S RECOMMENDATION?

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

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

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

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

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

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

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

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

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

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

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.

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Attorneys for Quail Creek Water Company, Inc.

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

REJOINDER TESTIMONY

OF

RAY L. JONES

JULY 27, 2015

EXHIBIT
A-11
ADMITTED

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I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Ray L. Jones, P.E. My business address is 18835 North Thompson Peak Parkway, Suite 215, Scottsdale, Arizona 85255.

Q. ARE YOU THE SAME RAY L. JONES THAT FILED DIRECT AND REBUTTAL TESTIMONIES IN THIS PROCEEDING?

A. Yes.

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

A. No. I am still owner and principal of ARICOR Water Solutions LC, and Executive Director of the Water Utilities Association of Arizona, and I am testifying on behalf of the Applicant Quail Creek Water Company, Inc. ("QCW" or "Company").

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

A. Yes.

Q. WHAT WILL YOU ADDRESS IN THIS REJOINDER TESTIMONY?

A. I will address Staff's recommended treatment of the costs associated with Well 16. I will also respond to Staff's allegations concerning QCW's accounting and recording practices and Staff's associated recommendations.

II. REJOINDER TO SURREBUTTAL TESTIMONY OF JOHN A. CASSIDY.

Q. HAS STAFF CHANGED ITS POSITION REGARDING WELL 16 COSTS?

A. Unfortunately, no. Staff disregards the clear and plain language of the NARUC System of Accounts and continues to recommend that all costs incurred by the Company for the construction of Well 16 be ignored for ratemaking purposes.

Q. CAN YOU SUMMARIZE STAFF'S POSITION ON THE WELL 16 COSTS AS EXPRESSED IN ITS SURREBUTTAL TESTIMONY?

A. Staff's surrebuttal testimony on the Well No. 16 issue boils down to two basic arguments:

1. Because Well 16 was only "marginally operationally useful" the cost should have remained in NARUC Account 105, Construction Work in Progress (CWIP), and never been transferred to NARUC Plant Account 307. According to Mr. Cassidy, these costs are not eligible to be included in rate base; and
2. The NARUC System of Accounts is not controlling because it applies only to regulated utilities, not unregulated affiliates. However, the NARUC Guidelines for Cost Allocations and Affiliate Transactions (Guidelines) are controlling.

Q. WHAT IS YOUR RESPONSE TO STAFF'S FIRST SURREBUTTAL ARGUMENT – THE WELL 16 COSTS SHOULD HAVE REMAINED IN CWIP?

A. I disagree.

First, Well 16 *was* placed into service. As I stated in my rebuttal testimony "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."[1]

Second, NARUC Account 105 establishes that plant accounted for in CWIP is "utility plant in process of construction but not ready for service."[2] Staff ignores this plain language and instead uses phrases like "very short in-service life" to

[1] Rebuttal Testimony of Ray L. Jones ("Jones Rb.") at 11:19-20.

[2] Surrebuttal Testimony of John A. Cassidy (Revenue Requirement and Rate Design) ("Cassidy Sb."), Attachment 1.

justify its conclusion that Well 16 "was not really in-service."[3] Again, however, as I testified in rebuttal, "QCW took possession of Well 16 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."[4] In other words, the "process of construction" was complete and the well was "ready for service." QCW's decision to record the cost of Well 16 in a plant in service account was proper.

Lastly, and perhaps most significantly, the inclusion of Well 16 costs in Account 307 is not contingent upon or in any way limited by the "in-service status" of the well. I have no idea where Staff came up with that idea, but NARUC is clear – Account 307 includes the cost of "wells, casings and appurtenances, including the cost of test wells and *nonproductive wells* drilled as part of a project resulting in a source of water within the same supply area."[5]

Simply put, NARUC recognizes the complexity and difficulty of developing a well-based water supply and allows for the cost of failed wells to be included in rate base. Staff's position that Well 16 costs should be disallowed because the construction process was not fully completed or because the well was not in service for a sufficiently long period of time is contrary to both the plain language of the NARUC System of Accounts and the obvious intent of the rule.

So, in summary, Well 16 was most certainly placed into service. Furthermore, whether or not Well 16 was placed into service, the plain language of the NARUC System of Accounts allows the cost of Well 16 – a nonproductive well – to be included in Account 307. Staff's attempts to thwart the applicable NARUC

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[3] Cassidy Sb. at 3:3.

[4] Jones Rb. at 11:12-14.

[5] NARUC, *Uniform System of Accounts for Class A Water Utilities*, p. 101 (emphasis added).

allowance for the costs of a well that turned out to be non-productive should be disregarded.

Q. BUT WHAT ABOUT STAFF'S CLAIM THAT THE UNIFORM SYSTEM OF ACCOUNTS IS NOT CONTROLLING BECAUSE IT ONLY APPLIES TO REGULATED UTILITIES?

A. This argument is based on Staff's misleading description of the nature of the relationship between QCW and its affiliate. The costs in question are costs incurred by a regulated utility to find new water supply, recorded on the books of a regulated utility and presented by a regulated utility in a rate case filed with the Commission. This is not about recovery of costs residing on the books of the unregulated affiliate, nor is QCW arguing directly or implying that the NARUC System of Accounts applies to QCW's non-regulated affiliate or that recovery of any costs in this case is dependent upon the NARUC System of Accounts being applicable to QCW's non-regulated affiliate.

Q. WHY DOES QCW USE AN AFFILIATE TO CONSTRUCT PLANT, SUCH AS WELL 16?

A. Mr. Soriano addresses the use of affiliated entities to pay for and construct plant, for QCW and all of the affiliated utilities in the Robson family of companies, in his rejoinder testimony.[6] In summary, QCW uses an affiliate because the affiliate can complete the projects more efficiently and at a lower cost to the Company and its customers than QCW could itself. As I testified in my rebuttal, the arrangement between QCW and its affiliate allows QCW to design and construct water utility plant without incurring the cost of directly employing project managers, engineers, or accounting personnel that otherwise would be necessary. Instead, an affiliate,

[6] Rejoinder Testimony of Steven Soriano ("Soriano Rj.") at 2.

with extensive experience in construction and possessing substantial resources, performs the work on an as needed basis at the actual cost, no profit or markup.[7]

Q. SO IS STAFF CORRECT THAT, UNDER THIS ARRANGMENT, THE RISK THAT PLANT WILL NOT BE INCLUDED IN RATE BASE IS ON THE AFFILIATE DURING CONSTRUCTION?

A. No, absolutely not. That testimony is directly contrary to how business works in the real world. The affiliate assumes traditional contractor risk, such as labor issues, defective materials and equipment, defective construction and damage during construction. But, QCW, as owner of the assets, retains the risks of ownership, which in the case of well drilling and rehabilitation includes all risk associated with nonperformance of the well itself.

Q. IN YOUR EXPERIENCE, IS IT NORMAL THAT THE OWNER TAKES THE RISK OF WELL NONPERFORMANCE?

A. Yes it is. I have been involved in numerous well drilling and rehabilitation projects during my 30 plus year career in the Arizona utility business. In each instance, the owner of the well took the risk of a nonperforming or failed well. I have never seen the risk of a failed well placed on a contracted hydrogeologist, design engineer, drilling contractor or other entity contracted with the owner during the well construction process. This is because the owner of the well is the only entity that will receive a long-term benefit from the well that is of sufficient value to justify taking the risk of well failure. The profit a contractor makes on the cost of construction is not and cannot be sufficient to allow a contractor to absorb the financial risk of a nonperforming well.

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[7] Jones Rb. at 8:18-23.

This is certainly the case here. QCW's affiliate does not receive any profit, administrative mark-up or other benefit from the well, so there is simply no basis for Staff to put the risk of a nonperforming well on the affiliate.

Q. IN THE ABSENCE OF A WRITTEN AGREEMENT, ISN'T STAFF CORRECT THOUGH IN ASSUMING THAT THE AFFILIATE BORE THE RISK RELATED TO THE NONPERFORMACE OF WELL 16?

A. No, such speculation is simply counter to business reality and common sense. As explained above, risk taken must be in relation to benefit received or the parties, affiliated or not, will not undertake the transaction in the first place. In my experience, the lack of a written contract does not change the fundamental basis of contractual arrangements, nor require one party to accept risk that is clearly disproportionate to the benefit received. With all due respect, the argument that QCW's affiliate took the utility's risk of a non-productive well is really just ridiculous.

Q. THANK YOU, MR. JONES. TURNING BACK TO NARUC, WHAT ABOUT STAFF'S ARGUMENT THAT THE "GUIDELINES" ARE CONTROLLING?

A. To begin with, Staff admits in surrebuttal that the Guidelines are not "rules" as represented in Staff's direct filing.[8] Nevertheless, Staff continues to claim that the Guidelines are controlling because the NARUC System of Accounts applies only to regulated utilities.[9] In other words, Staff is arguing first, that QCW cannot follow the NARUC System of Accounts provision that includes the cost of non-productive wells because QCW's affiliate drilled and paid for the well, and second, that the

[8] *See* Direct Testimony of John A. Cassidy ("Cassidy Dt.") at 15:1-4; Cassidy Sb. at 4:13-21.

[9] Cassidy Sb. at 4:21-22.

Guidelines, a supplementary document to the NARUC System of Accounts, apply and preclude recovery by QCW. This sort of strained reasoning by Staff to avoid allowing recovery of the cost of the non-productive well should fail. The NARUC System of Accounts is always the controlling document regarding accounting for a regulated utility. And once Staff's bar to recovery under NARUC – the fact that the affiliate built and paid for the plant – is removed, there is no basis whatsoever for a guidance document to somehow supersede the NARUC System of Accounts.

Q. BUT THE GUIDELINES ARE SUPPOSED TO PROVIDE GUIDANCE. ARE THEY APPLICABLE TO THIS CASE?

A. The Guidelines were designed to help prevent cross-subsidization by energy utility customers of unregulated business activities by energy utility affiliates.

Specifically, the Guidelines Staff relies upon were developed pursuant to a NARUC resolution passed in 1998 entitled "Resolution Regarding Cost Allocation for the Energy Industry" and were prepared without any involvement from the water industry. The Guidelines themselves state the purpose:

> 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.[10]

[10] NARUC, Guidelines For Cost Allocations And Affiliate Transactions, p. 1 (emphasis added).

Clearly, the Guidelines were prepared to address *cost allocations* between *gas and electric utilities* and their unregulated subsidiaries. I am not certain they were ever intended to be or are applicable to the water industry, and they most certainly were not intended to supersede the NARUC System of Accounts for water utilities.

Q. OKAY, FAIR ENOUGH, BUT THE GUIDELINES STILL RELATE TO AFFIILATE TRANSACTIONS AND WE DO HAVE SUCH TRANSACTIONS PRESENT IN THIS CASE, CORRECT?

A. Yes, there is an affiliate transaction underlying the disputed Well 16 costs, so if we were to turn to the Guidelines for some insight as to how that transaction should be looked at in a regulatory setting, we find that the prevailing premise of the Guidelines is that allocation methods *"should not result in subsidization."* Accordingly, to the extent the Guidelines are applicable to the water industry, the appropriate regulatory investigation is one of cost and subsidization. In other words, does the transaction recorded on the regulated utilities books result in subsidization of the unregulated affiliate?

Q. THAT'S A GOOD QUESTION, MR. JONES. WOULD YOU GO AHEAD AND ANSWER IT PLEASE?

A. The answer is that the subject transaction – the funding and construction of Well 16 by the affiliate and subsequent, albeit delayed, reimbursement of the actual cost by QCW – did not result in any subsidization of the business of an unregulated affiliate by QCW's ratepayers. Well 16, productive or not, is of no value to QCW's affiliate. The Company's testimony that its affiliate constructed Well 16 at actual cost without applying any overhead or markup is uncontroverted. Staff has provided no evidence of subsidization or other harm to the ratepayers. Staff has not even alleged that subsidization occurred. Since there is no subsidization of the utility's affiliate,

the underlying transaction is not in any way contrary to the Guidelines. The Guidelines, whether applicable to water utilities or not, should have no further impact on the ratemaking consideration of the cost associated with the affiliate transaction. They should certainly not be used as means of denying the recovery on and of reasonable and prudent investment, which seems to be precisely what Staff is trying to do with the Guidelines in this rate case.

III. REJOINDER TO SURREBUTTAL TESTIMONY OF JAMES R. ARMSTRONG.

A. QCW Accounting and Financial Reporting.

Q. HAVE YOU READ MR. ARMSTONG'S TESTIMONY REGARDING QCW'S ACCOUNTING AND FINANCIAL REPORTING PRACTICES?

A. Yes, I have read Mr. Armstrong's surrebuttal testimony. He did not file direct testimony in this rate case.

Q. WHAT IS YOUR OVERALL REACTION TO MR. ARMSTRONG'S TESTIMONY?

A. Frankly, I am puzzled. I have been working with the Robson family of utilities since 2010, and in that time have assisted with rate case filings for QCW affiliates – Pima Utility Company ("Pima") in 2011 and Lago Del Oro Water Company ("Lago") in 2013. I have found the Robson family of utilities to be well-managed utilities that provide reliable service to generally satisfied customers. I believed Staff to have the same impression of the utility companies.

In those previous cases, as is typical, Staff recommended various rate base and income statement adjustments, and the companies and Staff addressed those proposed adjustments in their respective testimonies. This was all done in a very non-controversial manner, with the Staff, and Pima and Lago, ultimately coming to agreement on most items. Staff did not raise concerns about the manner in which

the Robson utilities were using affiliates to fund and construct plant or the underlying recording and reporting practices used by a QCW affiliate. In fact, I have reviewed rate case files for QCW and its affiliates going back decades and this seems to be the first time Staff has ever expressed a concern over the Company's accounting practices. There is nothing new about the accounting and reporting in this case to justify Staff's shift from decades of silence to recommending the sort of punitive measures in Staff's surrebuttal filing in this case.

Q. WHAT IS YOUR OPINION OF THE ACCOUNTING AND REPORTING PRACTICES USED BY QCW AND THE OTHER AFFILIATED UTILITIES?

A. QCW, like Pima and Lago and the several other affiliated utilities operating in Arizona, uses a sophisticated enterprise-wide accounting system that records transactions with a high level of detail. The professional accounting staff are able to provide detail and support for transactions that would be unavailable for companies using less sophisticated accounting systems. Overall, it is my opinion based on my over 30 years of experience with utilities regulated by the Commission, that the Robson utilities accounting records generally and the QCW accounting records specifically are quite good, meeting or exceeding industry norms.

Q. WERE YOU REQUIRED TO UNDERTAKE ANY INAPPROPRIATE OR EXTRAORDINARY MEASURES TO HELP PREPARE THIS CASE FOR FILING?

A. No. As I explained in my direct testimony, in preparing this case I conducted a detailed review of QCW's fixed asset and related accounting records. I performed similar reviews in the previous cases for Pima and Lago. In all cases, I found the records to be generally in good order and compliance with the NARUC System of Accounts. The entries were generally complete with detailed descriptions and suitable backup documentation.

There were a few items that needed attention and I prepared schedules and adjustments for filing with the rate case to deal with those items. The adjustments to the various plant accounts, accumulated depreciation balances, CIAC balances and AIAC balances made in this case are typical of those routinely made in rate cases. It is my observation that when a utility filing a rate case does not conduct such a review, Commission Staff will do its own review and recommend the same types of adjustments. QCW's goal in authorizing me to review fixed asset and related accounting records was to insure that the Company filed the "cleanest" rate case possible that resulted in the smallest amount of work for Staff.

Q. BUT, MR. JONES, DIDN'T YOU ACKNOWLEDGE THAT THE ROBSON UTILITIES HAVE HAD ACCOUNTING ISSUES?

A. No, I did not. Mr. Armstrong claims I did and references page 8, lines 4 to 6 of my rebuttal testimony.[11] Speaking of the cost allocation and affiliate transaction model used by QCW and its affiliates, I testified that the "arrangement is well vetted over an extended period of time."[12] My point was simply that over many years there haven't been any accounting issues raised with the cost allocation and affiliate transaction model. This is hardly an agreement with Staff's position that there are "accounting issues," a position with which I strongly disagree.

Q. IN YOUR OPINION, HAS QCW FOLLOWED THE NARUC SYSTEM OF ACCOUNTS IN AN ACCEPTABLE MANNER?

A. Yes. QCW follows the NARUC System of Accounts, and QCW keeps its accounts and records so as to be able to furnish accurately and expeditiously statements of all transactions with associated companies.

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[11] Surrebuttal Testimony of James R. Armstrong ("Armstrong Sb.") at 4:19-21.

[12] Jones Rb. at 8:4-5.

Q. WAS QCW ABLE TO PROVIDE, IN A TIMELY MANNER, THE INFORMATION REQUESTED BY STAFF IN SUPPORT OF AFFILIATE TRANSACTIONS?

A. Yes. The Company provided all requested information in a timely manner. The provided records included, from both QCW and affiliates, general ledger detail, job cost reports, check requests, check copies, and various other supporting documentation. To my knowledge, Staff received everything they requested in order to conduct their work.

Q. WHAT ABOUT QCW'S RECORDING OF CERTAIN ITEMS OF PLANT ON A DEFERRED BASIS?

A. QCW did record some plant constructed by its affiliate on a deferred basis. The recording of the plant was deferred until the point in time that QCW paid the affiliate for the plant rather than recoding the plant at the time it was placed into service. It is this deferred recording of plant that seems to be at the core of Staff's accounting concerns. As Mr. Soriano explains in his rejoinder testimony, beginning in 2011, the Robson utility affiliates began implementation of a plan to eliminate the practice of recording and paying for assets on a deferred basis. By the end of 2014, recording and payment for all assets previously deferred was completed. Recording and purchasing assets on a deferred basis is not indicative of the manner in which QCW and its affiliates record plant transactions today.[13]

Q. WAS STAFF MADE AWARE OF THE DEFERRED TRANSACTIONS IN THIS CASE?

A. Yes. The deferred transactions were discussed at length in my direct testimony. In addition to disclosing the transactions, we explained that QCW made adjustments

[13] Soriano Rj. at 5.

consistent with the adjustments agreed to by Staff and the Company and approved by the Commission in the recent Lago rate case where nearly identical deferred transactions were in place.[14] The net result of the adjustments is that the Company's books and records are exactly the same as if the plant transactions would have been recorded at the time the plant was placed into service.

Q. HAS STAFF CHALLENGED THE COMPANY'S PROPOSED TREATEMENT OF THESE DEFERRED TRANSACTIONS?

A. With the exception of the dispute over the Well 16 costs, Staff has accepted the Company's proposed adjustments.

Q. WHAT IS DIFFERENT ABOUT WELL 16?

A. Nothing, except that Staff and the Company disagree about whether costs for Well 16 should be included in the Company's rate base.

Q. IS THE DISPUTE AN ACCOUNTING ISSUE?

A. No it is not. If the well were currently in service, I have no doubt that Staff would treat Well 16 exactly the same as the other assets recorded on a deferred basis, in this case and past cases involving affiliates. Instead, it appears to me that Staff doesn't believe the cost of a non-productive well should be in rate base despite the plain language of the NARUC System of Accounts.

As I stated earlier, Mr. Armstrong's testimony is puzzling to me. There is nothing different in the Company's accounting practices in this case than in the case of its affiliate Lago. In the Lago case, the issue of deferred plant purchases was addressed in a cooperative way. I thought all parties involved understood that the practice was in the process of being discontinued, but that it would need to be addressed again in the future as other cases cleaned up the past recording of deferred

[14] Direct Testimony of Ray L. Jones at 9-13.

plant. Mr. Armstrong was the head of the Finance section in that case too, so I assume he is aware of this history and in agreement with the resolution put in place in the Lago case. I just do not understand why now, after successful resolution of the Lago case and at this late stage in this case, Mr. Armstrong presents this new line of testimony.

Perhaps there is a misunderstanding, but it seems that in this case, instead of arguing its position on Well 16 costs in a straightforward manner, Staff has created a red herring with an extensive discussion of resolved accounting issues related to discontinued practices. I think Staff's position is a solution looking for a problem. The only question that the Commission should be concerned with is whether or not the NARUC System of Accounts allows the cost of nonproductive Well 16 to be included in rate base. When the Company recorded the transaction with its affiliate is irrelevant as are the remaining supposed QCW accounting issues arising from Mr. Armstrong's surrebuttal testimony.

B. <u>Staff Recommendations Regarding QCW's Accounting and Recording Practices</u>.

Q. HOW DO YOU RESPOND TO THE RECOMMENDATIONS MADE BY MR. ARMSTRONG TO INCORPORATE VARIOUS DIRECTIVES RELATED TO THE COMPANY'S ACCOUNTING PRACTICES INTO THE DECISION IN THIS CASE?

A. In my opinion, these directives are entirely unnecessary, punitive in nature, and unsupported by the facts in this case.

Q. WHAT IS YOUR SPECIFIC RESPONSE TO DIRECTIVE NO. 1 REGARDING WRITTEN CONTRACTS?

A. This recommendation is duplicative of the recommendation made by Mr. Cassidy in his testimonies. The Company has addressed the recommendation in response to

Mr. Cassidy and already agreed to enter into a written contract with its affiliate in the future. There is no need to address it further.[15]

Q. WHAT ABOUT THE RECOMMENDATION FOR A CODE OF CONDUCT?

A. This recommendation is not supported by the facts in this case and unnecessary. It appears that Staff is asking QCW to essentially adopt Global Water's Code of Conduct. My understanding is that the Global Water Code of Conduct resulted from extensive disagreements between Staff, Global Water and numerous interveners regarding a new and nontraditional business model deployed by Global Water. Global Water was under severe financial stress that threatened Global Water's ability to provide basic service to customers. The Code of Conduct was agreed to in settlement negotiations where presumably the parties were able to reach some level of understanding regarding what the Code of Conduct would contain. None of these facts are present in this case. The Global Water Code of Conduct is not a one size fits all solution for all companies, is not acceptable to QCW, and Staff's recommendation to just enforce one like it upon QCW, subject to the content being "acceptable in all respects to Staff,"[16] should be rejected.

Q. WHAT ABOUT THE RECOMMENDATION THAT THE COMPANY'S 2015 ANNUAL REPORT REFLECT PROPER ACCRUAL ACCOUNTING AND BE ACCOMPANIED BY AN EXPLANATORY ATTACHMENT?

A. This is also unnecessary. The Company's books and records have always been done on an accrual basis. Presumably, this requirement is intended to address the deferred recording of plant. However, as stated by the Company and as shown in Mr. Armstrong's Exhibit (Staff Surrebuttal 1), this practice ended in 2011 for QCW.

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[15] Jones Rb. at 13:7-8 ("QCW will enter into a written contract with its affiliate governing the design and construction of utility plant facilities.").

[16] Armstrong Sb. at 12:5.

Upon issuance of the Decision in this case, as a routine matter, the Company will record the adjustments approved by the Commission on its books and report the updated balances on the 2015 Annual Report to the Commission. No additional directive from the Commission is required. As for an explanation of the adjustments made, the decision in this case should fully explain the adjustments adopted. To the extent Staff requires anything further in the way of explanation or clarification, the Company is always willing to cooperatively work with Staff and provide needed documentation.

Q. WHAT IS YOUR RESPONSE TO MR. ARMSTONG'S FINAL RECOMMENDATION REGARDING SPECIAL ACCOUNTING REQUIREMENTS FOR FUTURE EARLY PLANT RETIREMENTS?

A. First, the recommendation is confusing and I don't think I really understand what is expected. It is also unnecessary and apparently punitive.

Q. WHY DO YOU CONSIDER THE RECOMMENDATION UNNECESSARY?

A. As far as I am aware, there has been exactly one instance in the entire history of QCW and its affiliates where a material "early" retirement has occurred. That instance is Well 16. This is why I characterized these recommendations as a solution looking for a problem. This recommendation will provide nothing of use to the Commission that is not already available to the Commission. As evidenced in this case, the Company's current accounting system tracks each asset in extensive detail separately from all other assets. There were no questions Staff asked about Well 16 that the Company was unable to answer in detail. The Company's current accounting system makes all necessary information available for Staff and the Commission to decide in the context of a rate case if the retirement of any specific asset warrants treatment under Accounting Instruction 27 H.

Q. WHAT DO YOU FIND CONFUSING ABOUT THE RECOMMENDATION?

A. Staff's recommendation requires the Company to conduct some sort of analysis each time it records a retirement as to whether or not it should create a "potential" regulatory asset. Apparently, this "potential" regulatory asset could be created when an asset is retired prior to reaching 75 percent or its original estimate useful life, as defined by the depreciation rate authorized for the particular asset, if the retirement resulted in a reduction of the depreciation reserve of the asset class by more than 25 percent. The creation of the "potential" regulatory asset appears to be subject to an undefined burden of proof for the Company to explain why such early retirements occurred. Lastly, the creation of the "potential" regulatory asset would be subject to Staff's recommendations in a future rate case based upon a specific evaluation of the evidence presented.

I find this recommendation extremely confusing. I do not know what Staff means by a "potential" regulatory asset and I am unsure as to what the Company would actually need to do in terms of record keeping and accounting to implement the recommendation to the satisfaction of Staff. Additionally, in the end, the outcome is no different than in this case. At the time of some future rate case, the Company would presumably present its "potential" regulatory assets resulting from an early retirement and recommend some sort of treatment of the asset for ratemaking purposes. Staff would presumably either agree with the Company or make an alternative recommendation. Ultimately the Commission would adopt a decision either creating an actual regulatory asset or recording a normal retirement. If a regulatory asset is created, the Commission would decide how to amortize the asset and whether such amortization would be included in the Company's revenue requirement. It should be obvious that the recommendation by Mr. Armstrong is unworkable and will not benefit the ratemaking process.

Q. DO YOU HAVE ANY OTHER CONCERNS WITH THIS RECOMMENDATION?

Yes. The recommendation does not appear to fully recognize the impact of the broad group method of depreciating assets used by the Company. Under the broad group method, groups of assets with varying individual asset lives are assigned a depreciation rate for the group; there is no depreciation rate assigned to a particular asset. The Company would be unable to determine if a specific asset had reached 75 percent of its estimated useful life since there is no depreciation rate for each specific asset.

Mr. Armstrong also makes reference to the Commission's reviewing and ultimately approving a plan that "could ultimately amortize (and thus remove) the impacts associated with the early retirement from the books of the utility, instead of leaving this early retirement impact stranded forever within the utility's accumulated depreciation reserve balance."[17] Under the broad group method of depreciation, retirement of an asset simply reduces the accumulated depreciation balance for the group as a whole. The remaining group would continue to depreciate and the accumulated depreciation balance for the group would grow and decrease rate base. No impact of a retirement, no matter how large or how early, is ever stranded. This is just another reason why these pointless and perplexing recommendations should be rejected.

Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?

A. Yes.

[17] Armstrong Sb. at 13:15-18.