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BEFORE THE ARIZONA CORPORATION COMMISSION

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2 COMMISSIONERS

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- 4 BOB STUMP
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- 5 DOUG LITTLE
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AZ CORP COMMISSION
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ORIGINAL

7 IN THE MATTER OF THE APPLICATION OF
8 GRANITE MOUNTAIN WATER COMPANY,
9 INC. FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02467A-14-0230

**STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY**

10 The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission")
11 hereby files the Surrebuttal Testimony of Staff witnesses Teresa B. Hunsaker and Dorothy Hains, in
12 the above-captioned matter.

13 RESPECTFULLY SUBMITTED this 10th day of September, 2015.

14 By _____


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19 filed this 10th day of September, 2015, with:

20 Docket Control
21 Arizona Corporation Commission
21 1200 West Washington Street
22 Phoenix, Arizona 85007

Arizona Corporation Commission

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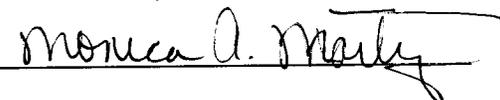
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28 

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)
GRANITE MOUNTAIN WATER CO. INC. FOR)
A RATE INCREASE.)
_____)

DOCKET NO W-02467A-14-0230

SURREBUTTAL

TESTIMONY

OF

TERESA B. HUNSAKER

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 10, 2015

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EXECUTIVE SUMMARY
GRANITE MOUNTAIN WATER COMPANY INC.
DOCKET NO. W-02467A-14-0230

Staff's surrebuttal testimony responds to Granite Mountain Water Company Inc. ("Granite Mountain", "GM" or Company) rebuttal testimony on the following issues:

1. Cost Allocations
2. Rate Base
 - a. Post-Test Year Plant in Service
 - b. Contributions in Aid of Construction ("CIAC") for Unsupported Plant and Amortization of CIAC
 - c. Cash Working Capital Allowance
3. Operating Income
 - a. Allocations to Water Companies
 - b. Depreciation Expense
 - c. Property Tax Expense
 - d. Income Tax Expense
4. Rate Design
5. Penalties
6. Other Issues

In direct testimony, Staff recommended a revenue increase in total operating revenue of \$185,719, a \$68,399 (58.30 percent) increase, to provide a \$34,625 operating income and an 8.03 percent rate of return on Staff's adjusted OCRB \$431,139. OCRB and FVRB are deemed to be the same.

However in Staff's surrebuttal testimony, Staff recommends a revenue increase in total operating revenue of \$169,647, a \$52,327 (44.60 percent) increase, to provide a \$34,287 operating income and an 8.03 percent rate of return on Staff's adjusted OCRB \$426,930 as shown on Surrebuttal Schedule TBH GM-1. Again, OCRB and FVRB are deemed to be the same.

The Company and Staff's recommended revenue requirements and associated rate increase are summarized as follows:

| | <u>Revenue Requirement</u> | <u>Revenue Change</u> | <u>% Change</u> |
|---------------------|----------------------------|-----------------------|-----------------|
| Company Application | \$181,668 | \$64,221 | 55.48% |
| Staff Direct | \$185,719 | \$68,399 | 58.30% |
| Company Rebuttal | \$177,270 | \$59,950 | 51.10% |
| Staff Surrebuttal | \$169,647 | \$52,327 | 44.60% |

1 **I. INTRODUCTION**

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

3 A. My name is Teresa B. Hunsaker. I am a Public Utilities Analyst III working for the Arizona
4 Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My
5 business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Teresa B. Hunsaker who filed direct testimony in this case?**

8 A. Yes.

9
10 **II. PURPOSE OF SURREBUTTAL TESTIMONY**

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

12 A. The purpose of my surrebuttal testimony in this proceeding is to testify on behalf of Staff
13 regarding the changes Staff made to its direct testimony and respond to the rebuttal testimony
14 of Mr. Ray L. Jones, witness for Granite Mountain Water Company Inc. ("Granite
15 Mountain", "GM" or "Company").

16
17 **Q. What issues will you address?**

18 A. I will address the issues listed below that are discussed in the rebuttal testimony of the
19 Company's witness Mr. Ray L. Jones.

20 1. Cost Allocations

21 2. Rate Base

22 a. Post Test Year Plant in Service

23 b. Contributions in Aid of Construction ("CIAC") for Unsupported Plant and
24 Amortization of CIAC

25 c. Cash Working Capital Allowance

- 1 3. Operating Income
- 2 a. Allocations to Water Companies
- 3 b. Depreciation Expense
- 4 c. Property Tax Expense
- 5 d. Income Tax Expense
- 6 4. Rate Design
- 7 5. Penalties
- 8 6. Other Issues
- 9

10 **Q. Is Staff enclosing new schedules?**

11 A. Yes. Staff has made changes to direct testimony schedules and has provided new surrebuttal
12 schedules.

13

14 **Q. Did you attempt to address every issue raised by Granite Mountain in its rebuttal
15 testimony?**

16 A. No. I limited my discussion to certain issues as outlined below. My silence on any particular
17 issue raised in the Company's rebuttal testimony does not indicate that I agree with the
18 Company's stated rebuttal position on the issue. Rather, where I do not respond, I rely on
19 my direct testimony.

20

21 **III. SUMMARY OF PROPOSED REVENUES**

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

23 A. Staff's recommended rates would produce total operating revenue of \$169,647, a \$52,327
24 (44.60 percent) increase, from Staff's adjusted test year revenue of \$117,320, to provide a
25 \$34,287 operating income and an 8.03 percent rate of return on Staff's adjusted OCRB of
26 \$426,930 as shown on Surrebuttal Schedule TBH GM-1. Staff's recommended rates would

1 increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,684 gallons
2 from \$41.21 to \$59.84, for an increase of \$18.63 or 45.21 percent as shown on Surrebuttal
3 Schedule TBH GM-27. OCRB and FVRB are deemed to be the same in Staff's Schedules.
4

5 **IV. COST ALLOCATIONS**

6 **Q. Did Staff review the Company's proposed allocations in the Company's rebuttal**
7 **testimony?**

8 A. Yes.
9

10 **Q. What was the Company's proposed common cost allocations?**

11 A. Granite Mountain is proposing the use of two allocators in determining common expense
12 allocations. Those two allocation factors would be based on customer count (weighted) and
13 gross plant. The Company's gross plant allocation percentage uses test year plant balances
14 and does not consider the impact of recognizing post-test year plant additions for Granite
15 Mountain. The result would be to allocate 19.5 percent of common cost to Granite
16 Mountain, 80.5 percent to Chino Meadows, and 0.0 percent to Antelope Lakes, all beginning
17 in 2016.
18

19 **Q. Does Staff accept the Company's proposal for cost allocation method? Please explain.**

20 A. No. Staff reviewed and analyzed several alternative scenarios including those proposed by the
21 Company. These scenarios included the inclusion of the post-test year plant for Granite
22 Mountain, using gross plant versus net plant and weighting the different factors. Although
23 Antelope Lakes has few customers, Company employees still service, repair and operate this
24 utility and therefore, costs should be allocated accordingly. Based on the review of numerous
25 different scenarios, Staff has modified its original 4-factor allocation recommendation and
26 now recommends the use of a simpler method.

1 **Q. What allocation basis is Staff now recommending?**

2 A. Staff is recommending the use of the following allocation percentages: Antelope Lakes 1.0
3 percent, Chino Meadows 75.0 percent and Granite Mountain 24.0 percent as shown on
4 Surrebuttal Schedule TBH GM-20e. Staff recommends that these allocation percentages be
5 considered to be fixed, and that the percentage not be changed for this case regardless of the
6 levels of post-test year plant ultimately allowed by the Commission. The reason Staff is
7 recommending the use of these specific allocation percentages is that the level of post-test
8 year plant to be allowed is still at issue and changes in the gross/net plant levels would drive a
9 different expense allocation mix if gross or net plant was one of the allocation factors, and we
10 do not believe that repeated recalculation of these allocators is required. However, Staff will
11 revisit the allocation basis issue in the next rate case. Therefore it recommends each utility
12 company should be prepared to support the reasonableness of the allocation basis.

13

14 **V. RATE BASE**

15 **Q. What changes did Staff make to Rate Base in surrebuttal testimony?**

16 A. Staff made changes to the following adjustments:

17 1. Rate Base Adjustment No. 1 – Post-Test Year Plant

18 2. Rate Base Adjustment No. 3 – Unsupported Plant treated as CIAC and the
19 Amortization of CIAC

20 3. Rate Base Adjustment No. 8 – Cash Working Capital Allowance

21

22 *Rate Base Adjustment No. 1 – Post-Test Year Plant in Service*

23 **Q. Did Staff review Granite Mountain's rebuttal testimony concerning post-test year
24 plant?**

25 A. Yes.

26

1 **Q. What were the Company's main concerns?**

2 A. Staff classifies the cost of a well meter of \$1,196 to Plant Account 334 instead of Plant
3 Account 311. The Company pointed out a mathematical error in Plant Account 311. The
4 Company and Staff disagree on the value of the easement, structures and well for Well No. 6.
5 Staff disagrees in the inclusion of cost for Tank No. 3 that is currently not in service. The
6 Company provided the cost of replacing a pump at Well No. 4.

7
8 **Q. Did Staff make changes to Rate Base Adjustment No. 1 – Post-Test Year Plant?**

9 A. Yes.

10

11 **Q. Please explain Staff's changes to Rate Base Adjustment No. 1 – Post-Test Year Plant**
12 **for the cost of the well meter?**

13 A. Staff reclassified the cost of the well meter of \$1,196 from Plant Account 334 to Plant
14 Account 311.

15

16 **Q. Did Staff make a mathematical error in its calculations for this adjustment in plant**
17 **account 311?**

18 A. Yes.

19

20 **Q. Did Staff correct the error in its schedules for this adjustment in plant account 311?**

21 A. Yes. Staff corrected the mathematical error in Plant Account 311.

22

23 **Q. Please explain Staff's changes to Rate Base Adjustment No. 1 – Post-Test Year Plant**
24 **for the value of the easement, structures and well for Well No. 6?**

25 A. Staff's Engineer has reviewed the appraisal provided by the Company and the Company's
26 rebuttal adjustments. Staff's Engineer has determined that the costs are reasonable for Well

1 No. 6 at \$16,000 and \$1,232 for Well House (Building 5). Staff has adjusted in 2015 the cost
2 estimates for the Well No. 6 (Acct. 307) from \$25,000 to \$16,000 and the Well House (Acct.
3 304) for Well No. 6 from \$0 to \$1,232. These adjustments result in a reduction of \$7,768 in
4 the estimated costs for Well No. 6 and Well House for Well No. 6 from \$25,000 to \$17,232.
5 Staff continues to disagree with the value of the easement and the structures not used and
6 useful to the Company. Staff continues to value the easement at \$12,200 based on the
7 County appraisal provided by the Company that was conducted near the time of the purchase
8 of the property for the purpose of acquiring Well No. 6.

9
10 **Q. Please explain Staff's changes to Rate Base Adjustment No. 1 – Post-Test Year Plant**
11 **for the cost of Tank No. 3?**

12 A. Staff's Engineer continues to consider Tank No. 3 as not used and useful therefore any costs
13 have not been included in plant in service.

14
15 **Q. Please explain Staff's changes to Rate Base Adjustment No. 1 – Post-Test Year Plant**
16 **for the cost of replacing the pump at Well No. 4?**

17 A. Staff included the cost of replacing the pump of \$9,449 at Well No. 4 as well as the post-test
18 year retirement of the replaced pump of \$4,680.

19
20 *Rate Base Adjustment No. 3 – Unsupported Plant treated as CIAC, Amortization of CIAC and Amortization of*
21 *CIAC Based on Composite Rates Adjustment*

22 **Q. Did Staff review Granite Mountain's rebuttal testimony concerning unsupported plant**
23 **treated as CIAC and Amortization of CIAC?**

24 A. Yes.

25
26

1 **Q. What was the Company's main concern?**

2 A. The Company raised concerns regarding Staff's recommendation to remove 10 percent of the
3 \$96,432 cost of plant in service from rate base, due to the Company not being able to provide
4 detailed invoices or copies of cancelled checks related to these plant additions.

5
6 **Q. Did Staff make changes to its initial Rate Base Adjustment No. 3 – Unsupported
7 Plant treated as CIAC and the Amortization of CIAC recommendation?**

8 A. Yes.

9
10 **Q. Please explain Staff's changes to Rate Base Adjustment No. 3 – Unsupported Plant
11 treated as CIAC?**

12 A. Staff corrected its previous adjustment for the amortization of the CIAC based on the
13 appropriate depreciation rates and amortization period added in 2013 as shown on
14 Surrebuttal Schedule TBH GM-7. This modification is being made in response to arguments
15 raised in the Company's rebuttal testimony.

16
17 **Q. Did Staff correct the error in its schedules for this adjustment?**

18 A. Yes. Staff corrected the adjustment for the amortization of the CIAC based on the
19 appropriate depreciation rates and amortization period as shown on Surrebuttal Schedule
20 TBH GM-7.

21
22 *Rate Base Adjustment No. 6 – Cash Working Capital Allowance*

23 **Q. Did Staff make any adjustments to its Cash Working Capital Allowance
24 recommendation?**

25 A. Yes. Staff's adjustment reflects Staff's calculation of the cash working capital based upon
26 Staff's corrected adjusted test year operating expenses and recommendations.

1 *Summary of Rate Base Adjustments*

2 **Q. What is Staff's current rate base recommendation?**

3 A. Staff's direct testimony recommended rate base was \$431,139 and Staff's surrebuttal
4 testimony recommended rate base is \$426,930, a decrease of \$4,209.

5
6 **VI. OPERATING INCOME**

7 **Q. What changes did Staff make to Operating Income in its surrebuttal testimony?**

8 A. Staff made changes to the following adjustments:

- 9 1. Operating Income Adjustment No. 8 – Allocations to Water Companies
10 2. Operating Income Adjustment No. 9 – Depreciation Expense
11 3. Operating Income Adjustment No. 10 – Property Tax Expense
12 4. Operating Income Adjustment No. 11 – Income Tax Expense

13
14 *Operating Income Adjustment No. 8 – Allocations to Water Companies*

15 Changes to the 4-factor allocation discussed above in the Cost Allocation section.

16 **Q. Did Staff review Granite Mountain's rebuttal testimony concerning Allocations?**

17 A. Yes and Staff addressed the Company's concerns about the allocations in the Common Cost
18 Allocation section above. Staff also reviewed the Company's rebuttal testimony regarding
19 Mr. Levie's salary.

20
21 **Q. Does Staff's position change with regards to Mr. Levie's salary?**

22 A. No.

23
24 **Q. What percentage is Staff now recommending for allocations for Granite Mountain?**

25 A. Staff allocated 24 percent to Granite Mountain for common costs for the regulated
26 companies instead of 26.93 percent originally used in direct testimony. The change in the

1 percentage used resulted in a decrease of \$8,033 in common costs allocated to Granite
2 Mountain. The changes in the allocations are shown in Surrebuttal Schedules TBH GM-20a
3 and TBH GM-20e.
4

5 *Operating Income Adjustment No. 9 – Depreciation Expense*

6 **Q. Did Staff review Granite Mountain’s rebuttal testimony concerning Depreciation**
7 **Expense?**

8 A. Yes. The Company is concerned about the differing levels of CIAC amortization being used
9 by Staff, and the Company disagreement about Rate Base Adjustment No. 3 for Unsupported
10 Plant treated as CIAC.
11

12 **Q. Has Staff’s position change regarding the differing levels of CIAC amortization**
13 **changed?**

14 A. Yes. Staff has corrected errors in CIAC being amortized and Staff continues to recommend
15 Rate Base Adjustment No. 3 for Unsupported Plant treated as CIAC. Staff has adjusted the
16 CIAC amortization as shown on Surrebuttal Schedule TBH GM-21.
17

18 *Operating Income Adjustment No. 10 – Property Tax Expense*

19 **Q. Did Staff make any adjustments to Property Tax Expense?**

20 A. Yes. Staff recommends \$4,523 for test year property tax expense, a \$529 decrease to the
21 Company’s proposed amount, as shown on Surrebuttal Schedule TBH GM-22. Staff further
22 recommends adoption of its Gross Revenue Conversion Factor (“GRCF”) that includes a
23 factor for Property Tax Expense, as shown on Schedule TBH GM-2.
24

1 *Operating Income Adjustment No. 11 – Income Tax Expense*

2 **Q. Did Staff make any adjustments to Income Tax Expense?**

3 A. Yes. Staff applied the statutory state and federal income tax rates to Staff's revised test year
4 taxable income. Income tax expenses for the test year and recommended revenues are shown
5 on Surrebuttal Schedule TBM GM-11.
6

7 **VII. STAFF'S RECOMMENDED WATER RATE DESIGN**

8 **Q. Please provide a description of Staff's recommended rate design.**

9 A. Staff recommends increases in the minimum monthly charge for all meter sizes. Staff
10 recommends that the monthly minimum for the 5/8 x 3/4-inch meter be \$35.00. Staff
11 recommends break-over points at 3,000 and 10,000 gallons for the 5/8 x 3/4-inch meter.
12 Staff recommends an increase to commodity rates in all three tiers. First commodity tier rate
13 would increase by \$1.60 from \$4.40 per 1,000 gallons to \$6.00 per 1,000 gallons. Second
14 commodity tier rate would increase by \$3.90 from \$6.60 per 1,000 gallons to \$10.00 per 1,000
15 gallons. Third commodity tier rate would increase by \$4.10 from \$7.90 per 1,000 gallons to
16 \$12.00 per 1,000 gallons. The typical 5/8 x 3/4-inch meter bill with a median usage of 3,684
17 gallons would increase by \$18.63 from \$41.21 to \$59.84. Staff's recommended rates are
18 shown in Surrebuttal Schedule TBH GM-26 and the typical bill analysis for 5/8 x 3/4-inch
19 meter customers is shown in Surrebuttal Schedule TBH GM-27.
20

21 **Q. Did Staff omit proposed Service Charges by the Company in the Rate Design?**

22 A. Yes. Staff has corrected the Company's proposed Service Charges for Meter Re-Read (If
23 Correct) charge of \$15.00 as shown on Surrebuttal Schedule TBH GM-26.
24

1 **VIII. PENALTIES**

2 **Q. Did Staff review Granite Mountain's rebuttal testimony concerning Penalties?**

3 A. Yes. Staff continues to recommend penalties be imposed in an amount to be determined at
4 the discretion of the Administrative Law Judge and the Commission. The Company failed to
5 properly collect the funds due. Although the Company was previously ordered to
6 discontinue its practice of providing free water to relatives of Mr. Levie, and the Company
7 billed those relatives for water, the Company failed to collect the amounts charged, thereby
8 continuing its prohibited practice.

9
10 **IX. OTHER ISSUES**

11 **Q. Did Staff review Granite Mountain's rebuttal testimony concerning other issues**
12 **regarding the Code of Affiliate Conduct?**

13 A. Yes. The Company does not oppose the development of a Code of Affiliate Conduct as
14 recommended by Staff. However under the Company's current position, it would only be
15 adopted by the ACC-regulated affiliates.

16
17 **Q. What is Staff's position about the Code of Affiliate Conduct?**

18 A. Staff's position has not changed from its direct testimony. Staff would note that transactions
19 between affiliates are closely scrutinized through the audit process and in the current cases a
20 number of transactions required appropriate adjustments due to affiliate transactions between
21 regulated and unregulated affiliates as well as family members. While the Commission may
22 not order unregulated affiliates to abide by this Code of Affiliate Conduct, the Commission
23 expects the Company to operate pursuant to that Code in its dealings with the unregulated
24 affiliates. If the unregulated affiliates do not abide by the Code, additional time will be
25 required in future rate case audits, and higher rate case expense may result so voluntary

1 compliance by the unregulated affiliates would reduce possible disallowances and lower rate
2 case expense.

3
4 **Q. Did Staff review Granite Mountain's rebuttal testimony concerning other issues for**
5 **the Cost Allocations and Staff's recommended reporting of Corporate Cost**
6 **Allocations?**

7 A. Yes. The Company's position is addressed above in the Common Cost Allocation Section.
8 The Company deems the separate reporting to be unnecessary and proposes to have this
9 reporting addressed in the Code of Affiliate Conduct. The Company states that Staff's
10 current recommendation related to this reporting requirement is not detailed enough.

11
12 **Q. What is Staff's position about the Cost Allocations and the reporting of Corporate**
13 **Cost Allocations?**

14 A. Staff's position is addressed above in the Cost Allocation Section. Staff would agree that the
15 reporting requirements and reporting details should be addressed in the Code of Affiliate
16 Conduct but still deems this recommendation necessary.

17
18 **Q. Did Staff review Granite Mountain's rebuttal testimony concerning other issues for**
19 **the Affiliate Receivable and Payables?**

20 A. Yes. Recommendation 1: The Company's position is to accept that the Company should
21 collect all receivables from affiliates within one year of the Decision in this case. The
22 Company accepts this recommendation but does occasionally advance funds to unaffiliated
23 employees.

24

1 Recommendation 2: The Company's position is to accept that the Company should cease
2 making any further personal loans or advances with Company funds. The Company accepts
3 this recommendation but does occasionally advance funds to unaffiliated employees.

4
5 Recommendation 3: The Company's position does not accept the recommendation in its
6 entirety that the Company should pay all payables to affiliates within 24 months of the
7 Decision. However, the Company does support the recommendation with respect to
8 unregulated affiliates. The Company indicated that an issue may arise of a potentially taxable
9 dividend to Mr. Levie due to this recommendation.

10

11 Recommendation 4: The Company's position does not accept the recommendation in its
12 entirety that the Company should obtain specific authorization by the Commission for
13 indebtedness payable, including amounts appearing in affiliate payable accounts. However,
14 the Company does support the recommendation with respect to unregulated affiliates. The
15 Company indicated that an issue may arise of a potentially taxable dividend to Mr. Levie due
16 to this recommendation.

17

18 **Q. What is Staff's position about the other issues for the Affiliate Receivable and**
19 **Payables?**

20 A. Recommendation 1: Staff's position is that the Company should collect all receivables within
21 one year from the date of the Decision and the Company should not occasionally advance
22 funds to unaffiliated employees.

23

24 Recommendation 2: Staff's position is that the Company should cease making any further
25 personal loans or advances with Company funds and the Company should not occasionally
26 advance funds to unaffiliated employees.

1

2

Recommendation 3: Staff's position has not changed from direct testimony. The Company should pay all payables to affiliates within 24 months of the Decision in this case. Additionally, speculation of the potential taxable dividend to Mr. Levie is not relevant in this case. Staff notes that the Company is a "for profit" entity and a taxable dividend would seem appropriate.

3

4

5

6

7

8

9

10

Recommendation 4: Staff's position has not changed from direct testimony regarding indebtedness. Speculation on the potential taxable dividend to Mr. Levie is not relevant in this case.

11

12

Q. Did Staff review Granite Mountain's rebuttal testimony concerning Staff's recommendation regarding the appointment of an Interim Manager?

13

14

A. Yes. The Company is opposed to an interim manager without due process.

15

16

Q. What is Staff's position about the appointment of an Interim Manager?

17

A. Staff's position is that the Company is being provided its due process opportunities through this rate case.

18

19

20

Q. Does this conclude your surrebuttal testimony?

21

A. Yes, it does.

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | [A] | [B] |
|----------|---|-----------------------|---------------------|
| | | COMPANY ORIGINAL COST | STAFF ORIGINAL COST |
| 1 | Adjusted Rate Base - OCRB and FVRB | \$564,606 | \$426,930 |
| 2 | Adjusted Operating Income (Loss) | (\$8,153) | (\$6,672) |
| 3 | Current Rate of Return (L2 / L1) | -1.44% | -1.56% |
| 4 | Required Rate of Return | 8.031% | 8.031% |
| 5 | Required Operating Income (L4 * L1) | \$45,346 | \$34,287 |
| 6 | Operating Income Deficiency (L5 - L2) | \$53,499 | \$40,959 |
| 7 | Gross Revenue Conversion Factor | 1.200411 | 1.277557 |
| 8 | Increase (Decrease) In Gross Revenue (L7 * L6) | \$64,221 | \$52,327 |
| 9 | Adjusted Test Year Revenue | \$117,447 | \$117,320 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$181,668 | \$169,647 |
| 11 | Required Increase/(Decrease in Revenue) (%) (L8/L9) | 54.68% | 44.60% |

References:

Column [A]: Company Schedules A-1 Supplemental Page 1, Company's Schedule Supplemental Attachment No. 2 Page 2
Column [B]: Staff Schedules TBH GM-2, TBH GM-3, & TBH GM-15

GROSS REVENUE CONVERSION FACTOR

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|--|--|---------------------|----------------------------|-----------|
| <i>Calculation of Gross Revenue Conversion Factor:</i> | | | | |
| 1 | Revenue | 100.00% | | |
| 2 | Uncollectible Factor (Line 11) | 0.53% | | |
| 3 | Revenues (L1 - L2) | 99.47% | | |
| 4 | Combined Federal and State Income Tax and Property Tax Rate (Line 23) | 21.20% | | |
| 5 | Subtotal (L3 - L4) | 78.27% | | |
| 6 | Revenue Conversion Factor (L1 / L5) | 127.76% | | |
| <i>Calculation of Uncollectible Factor:</i> | | | | |
| 7 | Unity | 100.00% | | |
| 8 | Combined Federal and State Tax Rate (Line 17) | 20.10% | | |
| 9 | One Minus Combined Income Tax Rate (L7 - L8) | 79.90% | | |
| 10 | Uncollectible Rate | 0.66% | | |
| 11 | Uncollectible Factor (L9 * L10) | 0.53% | | |
| <i>Calculation of Effective Tax Rate:</i> | | | | |
| 12 | Operating Income Before Taxes (Arizona Taxable Income) | 100.00% | | |
| 13 | Arizona State Income Tax Rate | 6.00% | | |
| 14 | Federal Taxable Income (L12 - L13) | 94.00% | | |
| 15 | Applicable Federal Income Tax Rate (Line 53) | 15.00% | | |
| 16 | Effective Federal Income Tax Rate (L14 * L15) | 14.10% | | |
| 17 | Combined Federal and State Income Tax Rate (L13 + L16) | | 20.10% | |
| <i>Calculation of Effective Property Tax Factor</i> | | | | |
| 18 | Unity | 100.00% | | |
| 19 | Combined Federal and State Income Tax Rate (L17) | 20.10% | | |
| 20 | One Minus Combined Income Tax Rate (L18 - L19) | 79.90% | | |
| 21 | Property Tax Factor | 1.38% | | |
| 22 | Effective Property Tax Factor (L20 * L21) | | 1.10% | |
| 23 | Combined Federal and State Income Tax and Property Tax Rate (L17 + L22) | | | 21.20% |
| 24 | Required Operating Income | \$34,287 | | |
| 25 | Adjusted Test Year Operating Income (Loss) | (6,672) | | |
| 26 | Required Increase in Operating Income (L24 - L25) | | \$40,959 | |
| 27 | Income Taxes on Recommended Revenue (Col. [C], L52) | \$7,252 | | |
| 28 | Income Taxes on Test Year Revenue (Col. [A], L52) | (3,052) | | |
| 29 | Required Increase in Revenue to Provide for Income Taxes (L27 - L28) | | 10,304 | |
| 30 | Recommended Revenue Requirement | \$169,647 | | |
| 31 | Uncollectible Rate (Line 10) | 0.66% | | |
| 32 | Uncollectible Expense on Recommended Revenue (L30 * L31) | \$1,115 | | |
| 33 | Adjusted Test Year Uncollectible Expense | \$772 | | |
| 34 | Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33) | | 343 | |
| 35 | Property Tax with Recommended Revenue | \$5,243 | | |
| 36 | Property Tax on Test Year Revenue | 4,523 | | |
| 37 | Increase in Property Tax Due to Increase in Revenue (L35 - L36) | | 721 | |
| 38 | Total Required Increase in Revenue (L26 + L29 + L34 + L37) | | \$52,326 | |
| <i>Calculation of Income Tax:</i> | | | | |
| 39 | Revenue | Test Year \$117,320 | Staff Recommended \$52,327 | \$169,647 |
| 40 | Operating Expenses Excluding Income Taxes | 127,044 | 1,064 | 128,108 |
| 41 | Synchronized Interest (L56) | 5,460 | | 5,460 |
| 42 | Arizona Taxable Income (L39 - L40 - L41) | (\$15,184) | | \$36,079 |
| 43 | Arizona State Income Tax Rate | 6.00% | | 6.00% |
| 44 | Arizona Income Tax (L42 * L43) | (\$911) | | \$2,165 |
| 45 | Federal Taxable Income (L42 - L44) | (\$14,273) | | \$33,914 |
| 46 | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15% | (2,141) | | 5,087 |
| 47 | Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25% | 0 | | 0 |
| 48 | Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34% | 0 | | 0 |
| 49 | Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39% | 0 | | 0 |
| 50 | Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34% | 0 | | 0 |
| 51 | Total Federal Income Tax | (2,141) | | 5,087 |
| 52 | Combined Federal and State Income Tax (L44 + L51) | (\$3,052) | | \$7,252 |
| 53 | Applicable Federal Income Tax Rate (Col. [C], L51 - Col. [A], L51) / [Col. [C], L45 - Col. [A], L45] | | | 15.0000% |
| <i>Calculation of Interest Synchronization:</i> | | | | |
| 54 | Rate Base | \$426,930 | | |
| 55 | Weighted Average Cost of Debt | 1.279% | | |
| 56 | Synchronized Interest (L45 * L46) | \$5,460 | | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|---|------------------|--------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Plant in Service | \$1,095,441 | (\$124,712) | \$970,728 |
| 2 | Less: Accumulated Depreciation | 532,491 | 5,552 | 538,043 |
| 3 | Net Plant in Service | \$562,950 | (\$130,264) | \$432,685 |
| | <i>LESS:</i> | | | |
| 4 | Advances in Aid of Construction (AIAC) | \$8,256 | (\$2,235) | \$6,022 |
| 5 | Service Line and Meter Advances | \$0 | \$0 | \$0 |
| 6 | Contributions in Aid of Construction (CIAC) | \$0 | \$9,643 | \$9,643 |
| 7 | Less: Accumulated Amortization | 0 | 309 | 309 |
| 8 | Net CIAC | \$0 | \$9,334 | \$9,334 |
| 9 | Total Advances and Contributions | \$8,256 | \$7,099 | \$15,355 |
| 10 | Customer Deposits | \$750 | \$0 | \$750 |
| 11 | Accumulated Deferred Income Taxes | \$0 | \$0 | \$0 |
| | <i>ADD: Working Capital</i> | | | |
| 12 | Cash Working Capital Allowance | 10,662 | (313) | 10,349 |
| 13 | Total Rate Base | \$564,606 | (\$137,676) | \$426,930 |

References:

Column [A], Company Schedule Attachment No. 1 Supplemental, Page 1
Column [B]: Schedule TBH GM-4
Column [C]: Column [A] + Column [B]

SUMMARY OF RATE BASE ADJUSTMENTS

| LINE NO. | ACCT NO. | PLANT IN SERVICE Plant Description | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] |
|----------|----------|--|--|-----------------------------------|---|--|---|---------------------------------------|--|-------------------|
| | | | Company as Adjusted with Post-Test Plant | Adj No. 1 Post-Test Year Plant | ADJ No. 2 Reclass Plant to Appropriate Classifications | ADJ No. 3 Unsupported Plant Treated as CIAC | ADJ No. 4 AIAC not paid during Test Year | ADJ No. 5 Accumulated Depreciation | ADJ No. 6 Working Capital Allowance | STAFF AS ADJUSTED |
| | | | Ref: Sch TBH GM-5 | Ref: Sch TBH GM-5 | Ref: Sch TBH GM-6 | Ref: Sch TBH GM-7 | Ref: Sch TBH GM-8 | Ref: Sch TBH GM-9 | Ref: Sch TBH GM-10 | |
| 1 | 301 | Organization Cost | \$110 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$110 |
| 2 | 302 | Franchises | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | 303 | Land and Land Rights | 0 | 14,700 | 0 | 0 | 0 | 0 | 0 | 14,700 |
| 4 | 304 | Structures and Improvements | 21,608 | 9,605 | 36,913 | 0 | 0 | 0 | 0 | 68,126 |
| 5 | 307 | Wells and Springs ¹ | 113,472 | (53,065) | 539 | 0 | 0 | 0 | 0 | 60,946 |
| 6 | 309 | Supply Mains | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 | 310 | Power Generation Equipment | 0 | 0 | 912 | 0 | 0 | 0 | 0 | 912 |
| 8 | 311 | Pumping Equipment | 105,182 | 17,637 | (912) | 0 | 0 | 0 | 0 | 121,906 |
| 9 | 320 | Water Treatment Equipment | 1,661 | 0 | (1,661) | 0 | 0 | 0 | 0 | 0 |
| 10 | 320.1 | Water Treatment Plants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 | 320.2 | Solution Chemical Feeders | 416 | 5,669 | 1,661 | 0 | 0 | 0 | 0 | 7,745 |
| 12 | 330 | Distribution Reservoirs and Standpipes | 7,775 | 0 | (7,775) | 0 | 0 | 0 | 0 | 0 |
| 13 | 330.1 | Storage Tanks ² | 250,705 | (144,000) | (36,288) | 0 | 0 | 0 | 0 | 70,417 |
| 14 | 330.2 | Pressure Tanks | 55,213 | 0 | 0 | 0 | 0 | 0 | 0 | 55,213 |
| 15 | 331 | Transmission and Distribution Mains ³ | 445,165 | 4,869 | 0 | 0 | 0 | 0 | 0 | 450,034 |
| 16 | 333 | Services | 55,853 | 81 | 0 | 0 | 0 | 0 | 0 | 55,934 |
| 17 | 334 | Meters and Meter Installations | 6,652 | 0 | 0 | 0 | 0 | 0 | 0 | 6,652 |
| 18 | 335 | Hydrants | 8,774 | 0 | 0 | 0 | 0 | 0 | 0 | 8,774 |
| 19 | 336 | Backflow Prevention Devices | 1,027 | 402 | 0 | 0 | 0 | 0 | 0 | 1,428 |
| 20 | 339 | Other Plant and Miscellaneous Equipment | 4,850 | 0 | 0 | 0 | 0 | 0 | 0 | 4,850 |
| 21 | 340 | Office Furniture and Equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 22 | 340.1 | Computers and Software | 3,500 | 0 | 0 | 0 | 0 | 0 | 0 | 3,500 |
| 23 | 341 | Transportation Equipment | 7,456 | 0 | 19,000 | 0 | 0 | 0 | 0 | 26,456 |
| 24 | 343 | Tools, Shop, and Garage Equipment | 149 | 0 | (149) | 0 | 0 | 0 | 0 | 0 |
| 25 | 344 | Laboratory Equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 26 | 345 | Power Operated Equipment | 5,000 | 0 | 0 | 0 | 0 | 0 | 0 | 5,000 |
| 27 | 346 | Communication Equipment | 853 | 0 | 7,150 | 0 | 0 | 0 | 0 | 8,003 |
| 28 | 347 | Miscellaneous Equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 29 | 348 | Other Tangible Equipment | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 20 |
| 30 | | Rounding | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| 31 | | Total Plant in Service | \$1,095,441 | (\$144,103) | \$19,391 | \$0 | \$0 | \$0 | \$0 | \$970,728 |
| 32 | | Less: Accumulated Depreciation | 532,491 | 0 | 0 | 0 | 0 | 5,552 | 0 | 538,043 |
| 33 | | Net Plant in Service | \$562,950 | (\$144,103) | \$19,391 | \$0 | \$0 | (\$5,552) | \$0 | \$432,685 |
| 34 | | LESS: | | | | | | | | |
| 36 | | Advances in Aid of Construction (AIAC) | \$8,256 | \$0 | \$0 | \$0 | (\$2,235) | \$0 | \$0 | \$6,022 |
| 37 | | Meter Deposits - Service Line & Meter Advances | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 39 | | Contributions in Aid of Construction (CIAC) | \$0 | \$0 | \$0 | \$9,643 | 0 | 0 | 0 | \$9,643 |
| 40 | | Less: Accumulated Amortization of CIAC | 0 | 0 | 0 | 309 | 0 | 0 | 0 | 309 |
| 41 | | Net CIAC | \$0 | \$0 | \$0 | \$9,334 | \$0 | \$0 | \$0 | \$9,334 |
| 43 | | Total Advances and Net Contributions | \$8,256 | \$0 | \$0 | \$9,334 | (\$2,235) | \$0 | \$0 | \$15,355 |
| 45 | | Customer Deposits | \$750 | \$0 | \$0 | \$0 | 0 | 0 | 0 | \$750 |
| 46 | | Accumulated Deferred Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 48 | | ADD: Working Capital | | | | | | | | |
| 49 | | Prepayments | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 50 | | Cash Working Capital Allowance | 10,662 | 0 | 0 | 0 | 0 | 0 | (313) | 10,349 |
| 51 | | Total Rate Base | \$564,606 | (\$144,103) | \$19,391 | (\$9,334) | \$2,235 | (\$5,552) | (\$313) | \$426,930 |

RATE BASE ADJUSTMENT NO. 1 - POST-TEST YEAR ("PTY") PLANT

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|---|-----------------------------------|--------------------------|--------------------------|
| | | COMPANY AS FILED WITH PTY PLANT | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Acct No. 303 - Land and Land Rights | \$0 | \$14,700 | \$14,700 |
| 2 | Acct No. 304 - Structures & Improvements | 21,608 | 9,605 | 31,213 |
| 3 | Acct No. 307 - Wells and Springs ¹ | 113,472 | (53,065) | 60,407 |
| 4 | Acct No. 311 - Pumping Equipment | 105,182 | 17,637 | 122,819 |
| 5 | Acct No. 320.2 - Solution Chemical Feeders | 416 | 5,669 | 6,085 |
| 6 | Acct No. 330.1 - Storage Tanks ² | 250,705 | (144,000) | 106,705 |
| 7 | Acct No. 331 - Transmission and Distribution Mains ³ | 445,165 | 4,869 | 450,034 |
| 8 | Acct No. 333 - Services | 55,853 | 81 | 55,934 |
| 9 | Acct No. 334 - Meters and Meter Installations | 6,652 | 0 | 6,652 |
| 10 | Acct No. 336 - Backflow Prevention Devices | 1,027 | 402 | 1,428 |
| 11 | TOTAL PLANT RECLASSIFICATIONS | \$1,000,079 | (\$144,103) | \$855,976 |
| 12 | | | | |
| 13 | | | | |
| 14 | PLANT RECLASSIFICATIONS AND DISALLOWANCES | | | |
| 15 | | | | |
| 16 | | | | |
| 17 | DESCRIPTION | COMPANY AS FILED PTY PLANT | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 18 | 2013 Plant Addition, Acct No. 303 - Land Survey | \$0 | \$500 | \$500 |
| 19 | 2015 Plant Addition, Acct No. 303 - Land and Land Rights for Easements/Water Rights | 0 | 14,200 | 14,200 |
| 20 | Acct No. 303 - Land and Land Rights | 0 | 14,700 | 14,700 |
| 21 | | | | |
| 22 | 2013 Plant Addition, Acct No. 304 - Structures & Improvements | 0 | 5,292 | 5,292 |
| 23 | 2013 Plant Removal (Disallowed), Acct No. 304 - Structures & Improvements | 0 | (3,500) | (3,500) |
| 24 | 2014 Plant Addition, Acct No. 304 - Structures & Improvements | 0 | 4,286 | 4,286 |
| 25 | 2015 Plant Addition, Acct No. 304 - Structures & Improvements ⁵ | 0 | 3,528 | 3,528 |
| 26 | Acct No. 304 - Structures & Improvements | 0 | 9,605 | 9,605 |
| 27 | | | | |
| 28 | 2013 Plant Addition, Acct No. 307 - Wells and Springs | 0 | 5,634 | 5,634 |
| 29 | 2014 Plant Addition, Acct No. 307 - Wells and Springs | 0 | 126 | 126 |
| 30 | 2015 Plant Addition, Acct No. 307 - Wells and Springs - Reclassified and Adjusted Land ^{4,5} | 75,000 | (58,825) | 16,175 |
| 31 | Acct No. 307 - Wells and Springs | 75,000 | (53,065) | 21,935 |
| 32 | | | | |
| 33 | 2014 Plant Addition, Acct No. 311 - Pumping Equipment | 0 | 17,234 | 17,234 |
| 34 | 2015 Plant Addition, Acct No. 311 - Pumping Equipment | 0 | 403 | 403 |
| 35 | Acct No. 311 - Pumping Equipment | 0 | 17,637 | 17,637 |
| 36 | | | | |
| 37 | 2014 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders ⁴ | 0 | 4,574 | 4,574 |
| 38 | 2015 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders | 0 | 1,095 | 1,095 |
| 39 | Acct No. 320.2 - Solution Chemical Feeders | 0 | 5,669 | 5,669 |
| 40 | | | | |
| 41 | 2013 PTY Removal - Staff's Adjustment (\$144,000 included by Company) Not used and useful. | 144,000 | (144,000) | 0 |
| 42 | Acct No. 330.1 - Storage Tanks | 144,000 | (144,000) | 0 |
| 43 | | | | |
| 44 | 2013 Plant Addition, Acct No. 331 - Transmission and Distribution Mains | 30,000 | (24,700) | 5,300 |
| 45 | 2014 Plant Addition, Acct No. 331 - Transmission and Distribution Mains | 0 | 29,569 | 29,569 |
| 46 | Acct No. 331 - Transmission and Distribution Mains | 30,000 | 4,869 | 34,869 |
| 47 | | | | |
| 48 | 2014 Plant Addition, Acct No. 333 - Services | 0 | 81 | 81 |
| 49 | Acct No. 333 - Services | 0 | 81 | 81 |
| 50 | | | | |
| 51 | 2014 Plant Additions, Acct No. 334 - Meters and Meter Installations | 0 | 0 | 0 |
| 52 | Acct No. 334 - Meters and Meter Installations | 0 | 0 | 0 |
| 53 | | | | |
| 54 | 2014 Plant Addition, Acct No. 336 - Backflow Prevention Devices | 0 | 402 | 402 |
| 55 | Acct No. 336 - Backflow Prevention Devices | 0 | 402 | 402 |
| 56 | | | | |
| 57 | Total | \$249,000 | (\$144,103) | \$104,897 |

¹ Company included \$75,000 for PTY Plant. Company provided an estimate in response to Data Request ("DR") GM TBH 1.50. \$50,000 for Easements and Water Rights (Land) and \$25,000 for Well.

² Company proposed PTY Plant for Acct. No. 330.1 - Storage Tanks \$144,000 For Storage Tank 3.

³ Company proposed PTY Plant for Acct. No. 331 - Transmission & Distribution Mains \$30,000 from Well No. 6 to Transmission Lines.

⁴ Vendor provided Staff an Invoice (RW Turner Sons Invoice 13535) totaling \$10,085.76 yet billed the Company \$9,567.62 due to a Change Order for the Pellet Coordinator (Credit of \$518.14).

⁵ Surrebuttal Staff Adjustment to PTY Plant - Staff's Engineer has reviewed the appraisal provided by the Company and the Company's rebuttal adjustments. Staff's Engineer has determined that the costs are reasonable for Well No. 6 at \$16,000 and \$1,232 for Well House (Building 5). Staff has adjusted in 2015 the cost estimates for the Well No. 6 (Acct. 307) from \$25,000 to \$16,000 and the Well House (Acct. 304) for Well No. 6 from \$0 to \$1,232. These adjustments result in reduction of \$7,768 in the estimated costs for Well No. 6 and Well House for Well No. 6 from \$25,000 to \$17,232.

References:

- Column [A]: Company Schedules B-2 and Attachment No. 1, Supplemental Page 2.
- Column [B]: Testimony, TBH, Company's response to DR GM TBH 1.50
- Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - RECLASSIFY PLANT TO APPROPRIATE CLASSIFICATIONS

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|--|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Acct No. 304 - Structures & Improvements | \$21,608 | \$36,913 | \$58,520 |
| 2 | Acct No. 307 - Wells & Springs | 113,472 | 539 | 114,011 |
| 3 | Acct No. 310 - Power Generation Equipment | 0 | 912 | 912 |
| 4 | Acct No. 311 - Pumping Equipment | 105,182 | (912) | 104,270 |
| 5 | Acct No. 320 - Water Treatment Equipment | 1,661 | (1,661) | 0 |
| 6 | Acct No. 320.2 - Solution Chemical Feeders | 416 | 1,661 | 2,077 |
| 7 | Acct No. 330 - Distr Reserv & Standpipes | 7,775 | (7,775) | 0 |
| 8 | Acct No. 330.1 - Storage Tanks | 250,705 | (36,288) | 214,417 |
| 9 | Acct No. 341 - Transportation Equipment | 7,456 | 19,000 | 26,456 |
| 10 | Acct No. 343 - Tools, Shop & Garage Equip | 149 | (149) | 0 |
| 11 | Acct No. 346 - Communication Equipment | 853 | 7,150 | 8,003 |
| 12 | Rounding | 0 | 1 | 1 |
| 13 | TOTAL PLANT RECLASSIFICATIONS | \$509,276 | \$19,391 | \$528,667 |
| 14 | | | | |
| 15 | | | | |
| 16 | PLANT RECLASSIFICATIONS | | | |
| 17 | | | | |
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| 57 | | | | |
| 58 | Total | \$19,000 | \$391 | \$19,391 |

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental 5.2 - 5.6

Column [B]: Testimony, TBH, Company's response to DR GM TBH 1.3

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

RATE BASE ADJUSTMENT NO. 3 - UNSUPPORTED PLANT TREATED AS CIAC

| LINE NO. | DESCRIPTION | [A] | [B] | [C] | | | |
|----------|---|---------------------------------|--------------------------------|--------------------------|----------------------|-------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED | | | |
| 1 | CIAC, Unsupported Plant Treated as CIAC | \$0 | \$9,643 | \$9,643 | | | |
| 2 | Amort of CIAC, Unsupported Plant Treated as CIAC | 0 | 309 | 309 | | | |
| 3 | Net CIAC, Unsupported Plant Treated as CIAC | \$0 | \$9,334 | \$9,334 | | | |
| 4 | | | | | | | |
| 5 | | | | | | | |
| 6 | UNSUPPORTED PLANT TREATED AS CIAC | | | | | | |
| 7 | | | | | | | |
| 8 | | Plant Selected In Sample | Unsupported Plant Costs | Staff as Adjusted | | | |
| 9 | DESCRIPTION | | | | | | |
| 10 | 2009 Plant Addition, Acct No. 304 - Structures & Improvements | \$0 | \$33,057 | \$33,057 | | | |
| 11 | Acct No. 304 - Structures & Improvements Subtotal | 0 | 33,057 | 33,057 | | | |
| 12 | | | | | | | |
| 13 | 2009 Plant Addition, Acct No. 330.1 - Storage Tanks | 0 | 38,822 | 38,822 | | | |
| 14 | 2010 Plant Addition, Acct No. 330.1 - Storage Tanks | 0 | 14,477 | 14,477 | | | |
| 15 | Acct No. 330.1 - Storage Tanks Subtotal | 0 | 53,299 | 53,299 | | | |
| 16 | | | | | | | |
| 17 | 2009 Plant Addition, Acct No. 331 - Transmission & Distribution Mains | 0 | 2,961 | 2,961 | | | |
| 18 | Acct No. 331 - Transmission & Distribution Mains Subtotal | 0 | 2,961 | 2,961 | | | |
| 19 | | | | | | | |
| 20 | 2010 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders | 0 | 416 | 416 | | | |
| 21 | Acct No. 320.2 - Solution Chemical Feeders Subtotal | 0 | 416 | 416 | | | |
| 22 | | | | | | | |
| 23 | 2010 Plant Addition, Acct No. 346 - Communication Equipment | 0 | 6,700 | 6,700 | | | |
| 24 | Acct No. 346 - Communication Equipment Subtotal | 0 | 6,700 | 6,700 | | | |
| 25 | | | | | | | |
| 26 | TOTAL UNSUPPORTED PLANT | \$0 | \$96,432 | \$96,432 | | | |
| 27 | | | | | | | |
| 28 | | Total | | \$96,432 | | | |
| 29 | | | x | 10% | | | |
| 30 | | | | \$9,643 | | | |
| 31 | | | | | | | |
| 32 | | | | | | | |
| 33 | CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT | | | | | | |
| 34 | | | | | | | |
| 35 | Year Added | Plant Additions | Unsupported Plant | Year Transferred To CIAC | 10% Plant in Service | Depreciation Rate | Amortization of CIAC |
| 36 | 2009 | Structures & Improvements | \$33,057 | 2013 | 3,306 | 3.33% | \$110 |
| 37 | 2009 | Storage Tanks | 38,822 | 2013 | 3,882 | 2.22% | 86 |
| 38 | 2009 | Trans. & Distr. Mains | 2,961 | 2013 | 296 | 2.00% | 6 |
| 39 | 2010 | Solution Chemical Feeders | 416 | 2013 | 42 | 20.00% | 8 |
| 40 | 2010 | Storage Tanks | 14,477 | 2013 | 1,448 | 2.20% | 32 |
| 41 | 2010 | Communication Equip. | 6,700 | 2013 | 670 | 10.00% | 67 |
| 42 | | Total | \$96,432 | | \$9,643 | | \$309 |
| 43 | | | | | | | |
| 44 | | | | | | | |

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental 5.2 - 5.6
Column [B]: Testimony, TBH
Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - AIAC REFUNDS NOT RECOGNIZED IN TEST YEAR

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|--|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | 2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction | \$8,256 | \$0 | \$8,256 |
| 2 | 2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction Payments Due Customers | 0 | (2,235) | (2,235) |
| 3 | Total AIAC paid in 2014 for 2013 refunds due customers | \$8,256 | (\$2,235) | \$6,022 |

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental Page 2

Column [B]: Testimony, TBH, Company's response to DR's GM TBH 1.19 and GM TBH 2.6.

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

RATE BASE ADJUSTMENT NO. 5 - ACCUMULATED DEPRECIATION

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|--------------------------|-------------------------|--------------------------|--------------------------|
| 1 | Accumulated Depreciation | \$532,491 | \$5,552 | \$ 538,043 |

References:

- Column [A]: Company's Application - Attachment No. 1 Supplemental 5.1 - 5.6
- Column [B]: Testimony, TBH, Company Data Request Responses
- Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 6 - CASH WORKING CAPITAL ALLOWANCE

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|--------------------------------|---|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Cash Working Capital Allowance | \$10,662 | (\$313) | \$10,349 |
| 2 | | | | |
| 3 | | Operation & Maintenance* | | \$79,713 |
| 4 | | Multiplied by | X | 1/8 |
| 5 | | | | \$9,964 |
| 6 | | | | |
| 7 | | Purchased Power & Purchased Water | | \$9,241 |
| 8 | | Multiplied by | X | 1/24 |
| 9 | | | | \$385 |
| 10 | | | | |
| 11 | | Total Cash Working Capital Allowance | | \$10,349 |
| 12 | | | | |
| 13 | | | | |

* Less depreciation, taxes, purchased power and purchased water

References:

- Column [A]: Company 's Application Attachment No. 1 Supplemental Page 1
- Column [B]: Testimony, TBH, Company Data Request Responses
- Column [C] Column [A] + Column [B]

OPERATING INCOME - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

| LINE NO. | DESCRIPTION | [A] | [B] | | [C] | [D] | [E] |
|----------|---------------------------------|----------------------------|-----------------------------|---------|-----------------------------|------------------------|-------------------|
| | | COMPANY TEST YEAR AS FILED | STAFF TEST YEAR ADJUSTMENTS | ADJ NO. | STAFF TEST YEAR AS ADJUSTED | STAFF PROPOSED CHANGES | STAFF RECOMMENDED |
| | REVENUES: | | | | | | |
| 1 | Metered Water Sales | \$114,273 | \$0 | | \$114,273 | \$52,327 | \$166,600 |
| 2 | Water Sales - Unmetered | 0 | 0 | | 0 | 0 | 0 |
| 3 | Other Operating Revenues | 3,174 | (127) | 1 | \$3,047 | 0 | 3,047 |
| 4 | Total Revenues | \$117,447 | (\$127) | | \$117,320 | \$52,327 | \$169,647 |
| 5 | | | | | | | |
| | EXPENSES: | | | | | | |
| 7 | Salaries and Wages | \$38,942 | (\$389) | 8 | \$38,553 | \$0 | \$38,553 |
| 8 | Salaries and Wages - Officers | 6,000 | (896) | | 5,104 | 0 | 5,104 |
| 9 | Employee Pensions & Benefits | 0 | 0 | 8 | 0 | 0 | 0 |
| 10 | Purchased Power | 8,950 | 291 | 8 | 9,241 | 0 | 9,241 |
| 11 | Fuel for Power Production | 0 | 0 | | 0 | 0 | 0 |
| 12 | Chemicals | 47 | 66 | 8 | 113 | 0 | 113 |
| 13 | Repairs and Maintenance | 4,339 | (2,048) | 2,8 | 2,291 | 0 | 2,291 |
| 14 | Office Supplies & Expense | 8,314 | (3,164) | 3,8 | 5,150 | 0 | 5,150 |
| 15 | Contractual Services | 11,353 | (6,406) | 4,8 | 4,947 | 0 | 4,947 |
| 16 | Water Testing | 5,380 | (3,530) | 5,8 | 1,850 | 0 | 1,850 |
| 17 | Rents | 0 | 2,700 | 8 | 2,700 | 0 | 2,700 |
| 18 | Transportation Expenses | 5,453 | (236) | 6,8 | 5,217 | 0 | 5,217 |
| 19 | Insurance - General Liability | 1,292 | 645 | 8 | 1,937 | 0 | 1,937 |
| 20 | Insurance - Health and Life | 0 | 640 | 8 | 640 | 0 | 640 |
| 21 | Reg. Comm. Exp. | 321 | 0 | | 321 | 0 | 321 |
| 22 | Reg. Comm. Exp. - Rate Case | 3,333 | 6,667 | 7 | 10,000 | 0 | 10,000 |
| 23 | Miscellaneous Expense | 102 | 16 | 8 | 118 | 0 | 118 |
| 24 | Bad Debt Expense | 772 | 0 | | 772 | 343 | 1,115 |
| 25 | Depreciation Expense | 27,096 | 3,069 | 9 | 30,165 | 0 | 30,165 |
| 26 | Taxes Other Than Income | 0 | 0 | | 0 | 0 | 0 |
| 27 | Property Taxes | 5,052 | (529) | 10 | 4,523 | 721 | 5,243 |
| 28 | Payroll Taxes | 0 | 3,403 | 8 | 3,403 | 0 | 3,403 |
| 29 | Income Taxes | (1,147) | (1,905) | 11 | (3,052) | 10,304 | 7,252 |
| 30 | Rounding | 1 | 0 | | 1 | 0 | 1 |
| 31 | Total Operating Expenses | \$125,600 | (\$1,608) | | \$123,992 | \$11,368 | \$135,360 |
| 32 | | | | | | | |
| 33 | Operating Income (Loss) | (\$8,153) | \$1,481 | | (\$6,672) | \$40,959 | \$34,287 |

References:

- Column [A]: Company Application Attachment No. 2 Supplemental Page 1
- Column [B]: Schedule TBH GM-16
- Column [C]: Column [A] + Column [B]
- Column [D]: Schedules TBH GM-1 and TBH GM-2
- Column [E]: Column [C] + Column [D]

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Surrebuttal Schedule TBH GM-13

OPERATING INCOME ADJUSTMENT NO. 1 - UNAUTHORIZED SURCHARGE - OTHER REVENUE

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|---------------------------|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Other Revenue - Surcharge | \$3,174 | (\$127) | \$3,047 |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH, DR GM TBH 1.31

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

OPERATING INCOME ADJUSTMENT NO. 2 - REPAIRS AND MAINTENANCE

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|--|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Repairs and Maintenance | \$4,339 | (\$1,792) | \$2,547 |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | Repairs & Maintenance | | | |
| 6 | <u>To reclass cost of culvert from expenses to PTY Plant</u> | | | |
| 7 | Payment for materials for culvert at Short Spur for new well | | \$3,292 | |
| 8 | Monies for half of the culvert for new well at Short Spur | | (1,500) | |
| 9 | Total reclass to CWIP | | | (\$1,792) |
| 10 | | | | |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH, DR GM TBH 1.31

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

Granite Mountain Water Co., Inc.
 Docket No. W-02467A-14-0230
 Test Year Ended December 31, 2013

Surrebuttal Schedule TBH GM-15

OPERATING INCOME ADJUSTMENT NO. 3 - OFFICE SUPPLIES

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|--|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Office Supplies | \$8,314 | (\$1,727) | \$6,587 |
| 2 | | | | |
| 3 | Office Supplies | | | |
| 4 | Disallowed Expenses for Mr. Levie's Office Phone for Prop. Mgmt. | | (\$1,727) | |

References:

- Column [A]: Company Application Attachment No. 2 Supplemental Page 1
- Column [B]: Testimony, TBH
- Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 4 - CONTRACTUAL SERVICES

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|---|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Contractual Services | \$11,353 | (\$7,531) | \$3,822 |
| 2 | | | | |
| 3 | | | | |
| 4 | Contractual Services | | | |
| 5 | Engineering Expenses - Reclass to CWIP | (\$3,500) | | |
| 6 | New well testing on Short Spur - Reclass to CWIP | (3,045) | | |
| 7 | Contact Labor for rate case preparation - Reclass to Rate Case Expenses | (345) | | |
| 8 | Ariccor Watr Solutions - Reclass to Rate Case Expenses | (641) | | |
| 9 | Total Contractual Services Reclassification | | (\$7,531) | |

References:

- Column [A]: Company Application Attachment No. 2 Supplemental Page 1
- Column [B]: Testimony, TBH
- Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5 - WATER TESTING

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|---|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Water Testing | \$5,380 | (\$3,530) | \$1,850 |
| 2 | | | | |
| 3 | Reclassification of Water Testing Expenses | | | |
| 4 | Well No. 6 ADEQ Expenses - Reclass to CWIP | | (\$2,500) | |
| 5 | Storage Tank #3 ADEQ Expenses - Reclass to CWIP | | (1,800) | |
| 6 | Total Water Testing Reclassification | | | (\$4,300) |
| 7 | | | | |
| 8 | Water Testing Costs Per Table 4 - Engineering Report | | | |
| 9 | Actual Water Testing Costs | | \$1,850 | |
| 10 | Total Normalized Water Testing Costs | | | \$1,850 |
| 11 | | | | |
| 12 | | | | |

References:

- Column [A]: Company Application Attachment No. 2 Supplemental Page 1
- Column [B]: Testimony, TBH, Engineering Report in Exhibit 1
- Column [C]: Column [A] + Column [B]

Granite Mountain Water Co., Inc.
 Docket No. W-02467A-14-0230
 Test Year Ended December 31, 2013

Surrebuttal Schedule TBH GM-18

OPERATING INCOME ADJUSTMENT NO. 6 - TRANSPORTATION

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|--|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Transportation Expenses | \$5,453 | (\$900) | \$4,553 |
| 2 | | | | |
| 3 | Transportation | | | |
| 4 | Disallowed Expenses for Gas Reimbursements | (\$900) | (\$900) | |

OPERATING INCOME ADJUSTMENT NO. 7 - RATE CASE

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|-------------------|------------------|-----------------------------------|------------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS (Col C - Col A) | STAFF AS ADJUSTED |
| 1 | Rate Case Expense | \$3,333 | \$6,667 | \$10,000 |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | | | |
| 6 | | Rate Case | Staff Adjusted | |
| 7 | Company | Expense as filed | Rate Case Expense | Normalize over 3 years |
| 8 | Chino Meadows | \$40,000 | \$45,000 | \$5,000 |
| 9 | Granite Mountain | 10,000 | 30,000 | 20,000 |
| 10 | Total | \$50,000 | \$75,000 | \$25,000 |

References:

- Column [A]: Company Application Attachment No. 2 Supplemental Page 1
- Column [B]: Testimony, Data Request Responses TBH ? Supplemental & TBH?
- Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS

| LINE NO. | DESCRIPTION | COMPANY AS FILED | | STAFF ADJUSTMENTS AS ADJUSTED | | Chino Meadows Direct | Chino Meadows Normalize | Staff Adjustments Disallowance | Portion allocated to unregulated Companies | Amount allocated to unregulated Companies | Amount allocated to regulated Companies | Granite Mountain Adjusted 4-factor allocation | Amount to be allocated to Granite Mountain | Granite Mountain Direct |
|----------|-------------------------------|------------------|------------|-------------------------------|-----|----------------------|-------------------------|--------------------------------|--|---|---|---|--|-------------------------|
| | | [A] | [B] | [C] | [D] | | | | | | | | | |
| 1 | Salaries and Wages | \$38,942 | (\$389) | \$38,553 | | | | | 0% | \$0 | \$160,638 | 24.00% | \$38,553 | \$0 |
| 2 | Salaries and Wages - Officers | 6,000 | (896) | 5,104 | | | | | 0% | 0 | 21,266 | 24.00% | \$5,104 | 0 |
| 3 | Purchased Power | 8,950 | 291 | 9,241 | | | | | 10% | 249 | 2,244 | 24.00% | \$538 | 8,702 |
| 4 | Chemicals | 47 | 66 | 113 | | | | | 0% | 0 | 472 | 24.00% | 113 | 0 |
| 5 | Repairs and Maintenance | 4,339 | (257) | 4,082 | | | | | 0% | 0 | 8,530 | 24.00% | 2,047 | 2,035 |
| 6 | Office Supplies & Expense | 8,314 | (1,438) | 6,876 | | | | | 10% | 1,757 | 15,812 | 24.00% | 3,795 | 3,081 |
| 7 | Rents | 0 | 2,700 | 2,700 | | | | | 25% | 3,750 | 11,250 | 24.00% | 2,700 | 0 |
| 8 | Contractual Services | 11,353 | 1,125 | 12,478 | | | | | 0% | 0 | 6,726 | 24.00% | 1,614 | 10,863 |
| 9 | Transportation Expenses | 5,453 | 664 | 6,117 | | | | | 0% | 0 | 21,739 | 24.00% | 5,217 | 900 |
| 10 | Insurance - General Liability | 1,292 | 645 | 1,937 | | | | | 15% | 1,424 | 8,072 | 24.00% | 1,937 | 0 |
| 11 | Insurance - Health and Life | 0 | 640 | 640 | | | | | 10% | 296 | 2,667 | 24.00% | 640 | 0 |
| 12 | Miscellaneous Expenses | 102 | 16 | 118 | | | | | 0% | 0 | 490 | 24.00% | 118 | 0 |
| 13 | Payroll Taxes | 0 | 3,403 | 3,403 | | | | | 0% | 0 | 14,179 | 24.00% | 3,403 | 0 |
| 14 | Total | \$84,792 | \$6,570 | \$91,362 | | | | | | \$7,477 | \$274,085 | | \$65,780 | \$25,582 |
| 15 | | | | | | | | | | | | | | |
| 16 | | | | | | | | | | | | | | |
| 17 | | | | | | | | | | | | | | |
| 18 | | | | | | | | | | | | | | |
| 19 | | | | | | | | | | | | | | |
| 20 | Salaries and Wages | \$179,965 | (\$15,718) | \$164,247 | | | | | | | | | | |
| 21 | Salaries and Wages - Officers | 31,700 | 0 | 31,700 | | | | | | | | | | |
| 22 | Purchased Power | 24,401 | 0 | 24,401 | | | | | | | | | | |
| 23 | Chemicals | 425 | 0 | 425 | | | | | | | | | | |
| 24 | Repairs and Maintenance | 8,899 | 1,281 | 10,180 | | | | | | | | | | |
| 25 | Office Supplies & Expense | 30,594 | (12,000) | 18,594 | | | | | | | | | | |
| 26 | Rents | 0 | 12,000 | 12,000 | | | | | | | | | | |
| 27 | Contractual Services | 11,457 | (500) | 10,957 | | | | | | | | | | |
| 28 | Transportation Expenses | 24,752 | 1,817 | 26,569 | | | | | | | | | | |
| 29 | Insurance - General Liability | 8,964 | 0 | 8,964 | | | | | | | | | | |
| 30 | Insurance - Health and Life | 2,667 | 0 | 2,667 | | | | | | | | | | |
| 31 | Miscellaneous Expenses | 8,848 | (3,397) | 5,451 | | | | | | | | | | |
| 32 | Payroll Taxes | 0 | 15,718 | 15,718 | | | | | | | | | | |
| 33 | Total | \$332,672 | (\$799) | \$331,873 | | | | | | | | | | |

References:
 Column [A]: Company Application Attachment No. 2 Supplemental Page 1
 Column [B]: Column [C] - Column [A]
 Column [C]: Col [F] + Col [Q]
 Column [D]: Chino Meadow Schedule TBH CM-14
 Column [E]: Chino Meadows general ledger provided in DR CM TBH 1.3
 Column [F]: Schedule TBH CM-19b
 Column [G]: Schedule TBH CM-19c
 Column [H]: Schedule TBH CM-19d
 Column [I]: Chino Meadows Schedule TBH CM-20a, Co. [I]
 Column [J]: Col [D] + Col [E] + Col [F] + Col [G] + Col [H] - Col [I]
 Column [K]: Testimony, TBH
 Column [L]: Col [J] + Col [K]
 Column [M]: Col [J] - Col [L]
 Column [N]: Schedule TBH GM-20e
 Column [P]: Col [M] + Col [N]

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS RECLASSIFICATIONS

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|--|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Salaries and Wages | \$179,965 | (\$15,718) | \$164,247 |
| 2 | Salaries and Wages - Officers | 31,700 | 0 | 31,700 |
| 3 | Purchased Power | 24,401 | 0 | 24,401 |
| 4 | Chemicals | 425 | 0 | 425 |
| 5 | Repairs and Maintenance | 8,899 | 1,281 | 10,180 |
| 6 | Office Supplies & Expense | 30,594 | (12,000) | 18,594 |
| 7 | Rents | 0 | 12,000 | 12,000 |
| 8 | Contractual Services | 11,457 | (500) | 10,957 |
| 9 | Transportation Expenses | 24,752 | 1,817 | 26,569 |
| 10 | Insurance - General Liability | 8,964 | 0 | 8,964 |
| 11 | Insurance - Health and Life | 2,667 | 0 | 2,667 |
| 12 | Miscellaneous Expenses | 8,848 | (3,397) | 5,451 |
| 13 | Payroll Taxes | 0 | 15,718 | 15,718 |
| 14 | | | | |
| 15 | Salaries and Wages | | | |
| 16 | Payroll taxes included as salaries and wages | (\$15,718) | (\$15,718) | |
| 17 | | | | |
| 18 | Repairs and Maintenance | | | |
| 19 | To reclass expense to plant | (\$539) | | |
| 20 | Amount originally booked to Granite Mountain to be included in the cost pool | 1,820 | \$1,281 | |
| 21 | | | | |
| 22 | Office Supplies & Expense | | | |
| 23 | Rent - Misclassified as Office Supplies | (\$12,000) | (\$12,000) | |
| 24 | | | | |
| 25 | Rents | | | |
| 26 | Rent - Misclassified as Office Supplies | \$12,000 | \$12,000 | |
| 27 | | | | |
| 28 | Contractual Services | | | |
| 29 | Survey for Granite Mountain Well No. 6 Site | (\$500) | (\$500) | |
| 30 | | | | |
| 31 | Transportation Expenses | | | |
| 32 | Amount originally booked to Granite Mountain to be included in the cost pool | \$1,817 | \$1,817 | |
| 33 | | | | |
| 34 | Miscellaneous Expenses | | | |
| 35 | To correct for bad debt expenses included in miscellaneous expenses | (\$3,000) | | |
| 36 | Adjustment - Less Security Deposits Corrections | (554) | | |
| 37 | To adjust for bad debts recovered and collection fees included in miscellaneous expenses | 157 | (\$3,397) | |
| 38 | | | | |
| 39 | Payroll Taxes | | | |

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS DISALLOWED

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|---|-------------------------|--------------------------|--------------------------|
| 1 | Salaries and Wages | \$179,965 | (\$17,444) | \$162,521 |
| 2 | Salaries and Wages - Officers | 31,700 | (16,434) | 15,266 |
| 3 | Purchased Power | 24,401 | (46) | 24,355 |
| 4 | Chemicals | 425 | 0 | 425 |
| 5 | Repairs and Maintenance | 8,899 | (124) | 8,775 |
| 6 | Office Supplies & Expense | 30,594 | (2,804) | 27,790 |
| 7 | Rents | 0 | 0 | 0 |
| 8 | Contractual Services | 11,457 | (1,232) | 10,225 |
| 9 | Transportation Expenses | 24,752 | (7,380) | 17,372 |
| 10 | Insurance - General Liability | 8,964 | (1,058) | 7,906 |
| 11 | Insurance - Health and Life | 2,667 | 0 | 2,667 |
| 12 | Miscellaneous Expenses | 8,848 | (2,301) | 6,547 |
| 13 | Payroll Taxes | 0 | (1,539) | (1,539) |
| 14 | | | | |
| 15 | | | | |
| 16 | Salaries and Wages | | | |
| 17 | Non-regulated salaries and wages | (\$17,444) | (\$17,444) | |
| 18 | | | | |
| 19 | Salaries and Wages - Officers | | | |
| 20 | Pay adjusted to reflect actual time worked | (\$11,761) | | |
| 21 | Duties assigned to office manager | (4,673) | (16,434) | |
| 22 | | | | |
| 23 | Purchased Power | | | |
| 24 | To adjust for late fees | (\$46) | (\$46) | |
| 25 | | | | |
| 26 | Repairs and Maintenance | | | |
| 27 | To adjust for personal expense | (\$124) | (\$124) | |
| 28 | | | | |
| 29 | Office Supplies & Expense | | | |
| 30 | Interest and Late Fees | (\$44) | | |
| 31 | Mrs. Levie Phone & Charges, Collect Calls, Paul International Call & Plan | (1,888) | | |
| 32 | Meals | (218) | | |
| 33 | Miscellaneous Personal Expenses | (524) | | |
| 34 | 2010 Expense | (130) | (\$2,804) | |
| 35 | | | | |
| 36 | Contractual Services | | | |
| 37 | Legal Fees for Fire | (\$1,232) | (\$1,232) | |
| 38 | | | | |
| 39 | Transportation Expenses | | | |
| 40 | Gas Reimbursement \$100 per month - Company no longer providing | (\$800) | | |
| 41 | Personal Use Purchases - Tires | (2,497) | | |
| 42 | Out of State Gasoline Purchase | (2,229) | | |
| 43 | Bulk Delivery of Gasoline to Paul's Home (530 gallons) | (1,854) | (\$7,380) | |
| 44 | | | | |
| 45 | Insurance - General Liability | | | |
| 46 | Remove Vehicle AZ-1 TBH 1.39 Unregulated Associated Co. | (\$1,058) | (\$1,058) | |
| 47 | | | | |
| 48 | Miscellaneous Expenses | | | |
| 49 | Gifts | (\$1,559) | | |
| 50 | Meals | (683) | | |
| 51 | Donations | (60) | (\$2,301) | |
| 52 | | | | |

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS NORMALIZATION

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|---|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Salaries and Wages | \$179,965 | \$13,834 | \$193,799 |
| 2 | Salaries and Wages - Officers | 31,700 | 0 | 31,700 |
| 3 | Purchased Power | 24,401 | 0 | 24,401 |
| 4 | Chemicals | 425 | 0 | 425 |
| 5 | Repairs and Maintenance | 8,899 | 0 | 8,899 |
| 6 | Office Supplies & Expense | 30,594 | (208) | 30,386 |
| 7 | Rents | 0 | 0 | 0 |
| 8 | Contractual Services | 11,457 | 0 | 11,457 |
| 9 | Transportation Expenses | 24,752 | (186) | 24,566 |
| 10 | Insurance - General Liability | 8,964 | 594 | 9,558 |
| 11 | Insurance - Health and Life | 2,667 | 0 | 2,667 |
| 12 | Miscellaneous Expenses | 8,848 | 0 | 8,848 |
| 13 | Payroll Taxes | 0 | 0 | 0 |
| 14 | | | | |
| 15 | | | | |
| 16 | Salaries and Wages | | | |
| 17 | Normalize salaries and benefits | \$13,834 | \$13,834 | |
| 18 | | | | |
| 19 | Office Supplies & Expense | | | |
| 20 | Normalize Carbonite over 3 years | (\$94) | | |
| 21 | Normalize GoDaddy 5 year contract | (114) | (\$208) | |
| 22 | | | | |
| 23 | Transportation Expenses | | | |
| 24 | Normalize Vehicle Registration for 2 years | (\$186) | (\$186) | |
| 25 | | | | |
| 26 | Insurance - General Liability | | | |
| 27 | Normalize Insurance Policy adjustment for refunds | \$594 | \$594 | |

OPERATING INCOME ADJUSTMENT NO. 8 - 4-FACTOR ALLOCATION CALCULATION

| | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] |
|----------|------------------|----------------|------------------|----------------------|------------------------|----------------------|------------------|-----------------------------|------------------|----------------|---------------------------|
| Line No. | Company | Customer count | Customer count % | Net Plant in service | Net Plant in service % | Total Annual Revenue | Annual Revenue % | Total Annual Gallons Pumped | Gallons Pumped % | 4-factor % | Staff Adjusted 4-factor % |
| 1 | Antelope Lakes | 2 | 0.20% | \$62,347 | 11.34% | \$613 | 0.13% | 95 | 0.13% | 2.95% | 1.00% |
| 2 | Chino Meadows | 899 | 87.96% | 173,351 | 31.54% | 357,364 | 75.17% | 64,140 | 85.81% | 70.12% | 75.00% |
| 3 | Granite Mountain | 121 | 11.84% | 313,950 | 57.12% | 117,447 | 24.70% | 10,510 | 14.06% | 26.93% | 24.00% |
| 4 | Total | 1,022 | | \$549,648 | | \$475,424 | | 74,745 | | 100.00% | 100.00% |

References:

Column [A]: The Customer counts for Chino Meadows and Granite Mountain the applications; and for Antelope Lakes, the 2013 Annual Report, p. 12 as of 12/31/2013

Column [B]: Column [A] / Line 4.

Column [C]: The Net Plant in service information for Chino Meadows and Granite Mountain are from the applications & Schedule TBH-4; the information for Antelope Lakes is from the 2013 Annual Report on Revised Balance Sheet, p. 6 as of

Column [D]: Column [C] / Line 4.

Column [E]: The Total Annual Revenue information for Chino Meadows and Granite Mountain are from the applications; the information for Antelope Lakes, is from the 2013 Annual Report, p. 8 as of 12/31/2013

Column [F]: Column [E] / Line 4.

Column [G]: The Total Annual Gallons Pumped information for Chino Meadows and Granite Mountain is from the application; the information for Antelope Lakes, is from the 2013 Annual Report on Revised Balance Sheet, p. 12 as of 12/31/2013

Column [H]: Column [G] / Line 4.

Column [I]: Average of Columns [B, D, F, and H].

Column [J]: Staff Adjusted 4-factor percentage. Discussed in Surrebuttal Testimony.

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS SALARIES & WAGES CALCULATION

| LINE NO. | [A] 2014 Current Salaries | [B] 2014 Current or Estimated Hourly Rate | [C] 2014 Current or Estimated Salary and Wages | [D] 2014 Current or Estimated Payroll Taxes | [E] Non-Regulated ¹ Hours | [F] 2014 Non-Regulated Salary and Wages | [G] 2014 Non-Regulated Payroll Taxes | [H] Staff Adjusted Salaries and Wages | [I] Staff Adjusted Payroll Taxes |
|----------|------------------------------|--|---|--|---|--|---|--|-------------------------------------|
| 1 | Barney ² | \$26.61 | \$55,356 | \$4,670 | 10% | \$5,536 | \$467 | \$49,821 | \$4,203 |
| 2 | Nelson | 14.50 | 30,160 | 2,714 | 5% | 1,508 | 136 | 28,652 | 2,579 |
| 3 | Lopez | 17.50 | 36,400 | 3,276 | | | | 36,400 | 3,276 |
| 4 | Feichter | 14.50 | 30,160 | 2,714 | | | | 30,160 | 2,714 |
| 5 | Magnussen | 12.50 | 26,000 | 2,340 | 40% | 10,400 | 936 | 15,600 | 1,404 |
| 6 | Rounding | 0.00 | 5 | 3 | | | | 5 | 3 |
| 7 | Total | | \$178,082 | \$15,718 | | \$17,444 | \$1,539 | \$160,638 | \$14,179 |

¹ Hours per week/2,080 hours per year. Percentages provided by Chino Meadows (CM) and Granite Mountain (GM) in DRs CM TBH-2.12h, CM TBH-2.5 and GM TBH-2.5g.
² Per TBH 1.25g. Barney \$13,000 bonuses to adjust pay to match responsibilities.

References:
 Column [A]: Company Schedule C-2
 Column [B]: Testimony, TBH
 Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS OFFICER'S SALARIES CALCULATION

| | | [A] |
|----------|--|--|
| LINE NO. | DESCRIPTION | Officer Salary Hours worked per month |
| 1 | Supervision and management of company personnel | 12 |
| 2 | Oversight of company operations | 6 |
| 3 | Provide strategic direction | 6 |
| 4 | Review company financial data including payables, receivable, revenue and expenses | 12 |
| 5 | Provide legal representation for Company | 8 |
| 6 | Review payroll and sign checks | 4 |
| 7 | Review and authorize all vendor payments | 4 |
| 8 | Acquire regulate and oversee company loans and long-term debts | 8 |
| 9 | Meeting with operations management to review capital program and address operational issues and ensure proper facilities and equipment are available | 20 |
| 10 | Develop and review company processes and procedures to ensure regulatory compliance | 8 |
| 11 | Review & advise Company on manuals such as employee handbook & emergency response manual | 1 |
| 12 | Total Monthly Hours | 89 |
| 13 | | |
| 14 | Less hours out of town (33 percent of the total monthly hours) | 29.37 |
| 15 | Adjusted Hours | 59.63 |
| 16 | | |
| 17 | Adjusted Hours * \$36.25 ¹ * 12 months | \$25,939 |
| 18 | Less Additional Increase for Operations Manager from 2013 to 2014 ² | (4,673) |
| 19 | Adjusted Officers Salary | \$21,266 |
| 20 | ¹ Based on Annual Salary of Mr. Levie (Half Time Employee) \$31,700 for Chino Meadows and \$6,000 for Granite Mountain = | |
| 21 | \$37,700. Annual Salary / 1,040 hours per year (52 weeks x 20 hours per week) = Hourly Rate of \$36.25 | |
| 22 | ² Operations Manager's Salary for 2013 was \$50,683 and for 2014 was \$55,356. The additional increase is \$4,673. | |

References:

Column [A] : Per DRs CM TBH 1.26.g, CM TBH 2.12, CM TBH 3.7 and GM TBH 2.5

OPERATING INCOME ADJUSTMENT NO. 9 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

| LINE NO. | ACCT NO. | DESCRIPTION | [A] | [B] | [C] | [D] | [E] |
|----------|----------|---|----------------------------|--|-----------------------------------|-------------------|--------------------------------------|
| | | | PLANT In SERVICE Per Staff | Non-Depreciable or Fully Depreciated PLANT | DEPRECIABLE PLANT (Col A - Col B) | DEPRECIATION RATE | DEPRECIATION EXPENSE (Col C x Col D) |
| 1 | 301 | Organization Cost | \$110 | \$110 | \$0 | 0.00% | \$0 |
| 2 | 302 | Franchises | 0 | 0 | 0 | 0.00% | 0 |
| 3 | 303 | Land and Land Rights | 14,700 | 14,700 | 0 | 0.00% | 0 |
| 4 | 304 | Structures and Improvements | 68,126 | 0 | 68,126 | 3.33% | 2,269 |
| 5 | 307 | Wells and Springs | 60,946 | 0 | 60,946 | 3.33% | 2,029 |
| 6 | 309 | Supply Mains | 0 | 0 | 0 | 2.00% | 0 |
| 7 | 310 | Power Generation Equipment | 912 | 0 | 912 | 5.00% | 46 |
| 8 | 311 | Pumping Equipment | 121,906 | 108,950 | 12,956 | 12.50% | 1,620 |
| 9 | 320 | Water Treatment Equipment | | | | | |
| 10 | 320.1 | Water Treatment Plants | 0 | | 0 | 3.33% | 0 |
| 11 | 320.2 | Solution Chemical Feeders | 7,745 | 2,077 | 5,668 | 20.00% | 1,134 |
| 12 | 330 | Distribution Reservoirs and Standpipes | | | | | |
| 13 | 330.1 | Storage Tanks | 70,417 | 0 | 70,417 | 2.22% | 1,563 |
| 14 | 330.2 | Pressure Tanks | 55,213 | 0 | 55,213 | 5.00% | 2,761 |
| 15 | 331 | Transmission and Distribution Mains | 450,034 | 0 | 450,034 | 2.00% | 9,001 |
| 16 | 333 | Services | 55,934 | 0 | 55,934 | 3.33% | 1,863 |
| 17 | 334 | Meters and Meter Installations | 6,652 | 0 | 6,652 | 8.33% | 554 |
| 18 | 335 | Hydrants | 8,774 | 0 | 8,774 | 2.00% | 175 |
| 19 | 336 | Backflow Prevention Devices | 1,428 | 0 | 1,428 | 6.67% | 95 |
| 20 | 339 | Other Plant and Miscellaneous Equipment | 4,850 | 0 | 4,850 | 6.67% | 323 |
| 21 | 340 | Office Furniture and Equipment | 0 | 0 | 0 | 6.67% | 0 |
| 22 | 340.1 | Computers and Software | 3,500 | 0 | 3,500 | 20.00% | 700 |
| 23 | 341 | Transportation Equipment | 26,456 | 0 | 26,456 | 20.00% | 5,291 |
| 24 | 343 | Tools, Shop, and Garage Equipment | 0 | 0 | 0 | 5.00% | 0 |
| 25 | 344 | Laboratory Equipment | 0 | 0 | 0 | 10.00% | 0 |
| 26 | 345 | Power Operated Equipment | 5,000 | 0 | 5,000 | 5.00% | 250 |
| 27 | 346 | Communication Equipment | 8,003 | 0 | 8,003 | 10.00% | 800 |
| 28 | 347 | Miscellaneous Equipment | 0 | 0 | 0 | 10.00% | 0 |
| 29 | 348 | Other Tangible Equipment | 20 | 20 | 0 | 0.00% | 0 |
| 30 | | Rounding | 1 | 0 | 1 | 0.00% | 0 |
| 31 | | Total Plant | \$970,728 | \$125,857 | \$844,871 | | \$30,474 |
| 32 | | | | | | | |
| 33 | | | | | | | |
| 37 | | | | | | | |
| 38 | | | | | | | |
| 39 | | | | | | | |
| 40 | | | | | | | |
| 41 | | | | | | | |
| 42 | | | | | | | |
| 43 | | | | | | | |

| Amortization of Plant based on Appropriate Depreciation Rates: | | | |
|--|------------------|--------------------|----------------------|
| Description | Plant in Service | Depreciation Rates | Amortization of CIAC |
| Structures & Improvements | 3,306 | 3.33% | \$110 |
| Storage Tanks | 3,882 | 2.22% | 86 |
| Trans. & Distr. Mains | 296 | 2.00% | 6 |
| Solution Chemical Feeders | 42 | 20.00% | 8 |
| Storage Tanks | 1,448 | 2.20% | 32 |
| Communication Equip. | 670 | 10.00% | 67 |
| Totals | \$9,643 | | \$309 |

| | |
|--|----------------|
| Amortization of CIAC (Depreciation Rates Identified): | \$309 |
| CIAC Plant in Service (Depreciation Rates Identified): | \$9,643 |
| Depreciation Expense Before Amortization of CIAC: | \$30,474 |
| Less Amortization of CIAC: | 309 |
| Test Year Depreciation Expense - Staff: | \$30,165 |
| Depreciation Expense - Company: | 27,096 |
| Staff's Total Adjustment: | \$3,069 |

References:
Column [A]: Schedule TBH GM-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO 10 - PROPERTY TAX EXPENSE

| LINE NO. | Property Tax Calculation | [A] STAFF AS ADJUSTED | [B] STAFF RECOMMENDED |
|----------|--|-----------------------------|-----------------------------|
| 1 | Staff Adjusted Test Year Revenues | \$117,320 | \$117,320 |
| 2 | Weight Factor | 2 | 2 |
| 3 | Subtotal (Line 1 * Line 2) | \$234,640 | \$234,640 |
| 4 | Staff Recommended Revenue, Per Schedule TBH-1 | 117,320 | 169,647 |
| 5 | Subtotal (Line 4 + Line 5) | \$351,960 | \$404,287 |
| 6 | Number of Years | 3 | 3 |
| 7 | Three Year Average (Line 5 / Line 6) | \$117,320 | \$134,762 |
| 8 | Department of Revenue Mutilplier | 2 | 2 |
| 9 | Revenue Base Value (Line 7 * Line 8) | \$234,640 | \$269,525 |
| 10 | Plus: 10% of CWIP - Schedule TBH-24 | 5,451 | 5,451 |
| 11 | Less: Net Book Value of Licensed Vehicles - Schedule TBH-19 Line 23 | \$21,165 | \$21,165 |
| 12 | Full Cash Value (Line 9 + Line 10 - Line 11) | \$218,926 | \$253,811 |
| 13 | Assessment Ratio | 18.50% | 18.50% |
| 14 | Assessment Value (Line 12 * Line 13) | \$40,501 | \$46,955 |
| 15 | Composite Property Tax Rate | 11.17% | 11.17% |
| 16 | Staff Test Year Adjusted Property Tax (Line 14 * Line 15) | \$4,523 | \$0 |
| 17 | Company Proposed Property Tax | \$5,052 | |
| 18 | Staff Test Year Adjustment (Line 16-Line 17) | (\$529) | |
| 19 | Property Tax - Staff Recommended Revenue (Line 14 * Line 15) | | \$5,243 |
| 20 | Staff Test Year Adjusted Property Tax Expense (Line 16) | | 4,523 |
| 21 | Increase in Property Tax Expense Due to Increase in Revenue Requirement | | 721 |
| 22 | Increase to Property Tax Expense | | \$721 |
| 23 | Increase in Revenue Requirement | | \$52,327 |
| 24 | Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20) | | 1.38% |

OPERATING INCOME ADJUSTMENT NO. 11 - TEST YEAR INCOME TAXES

| LINE NO. | DESCRIPTION | (A) | (B) |
|----------|--|------------|-----------|
| | <i>Calculation of Income Tax:</i> | Test Year | |
| 1 | Revenue | \$117,320 | |
| 2 | Less: Operating Expenses - Excluding Income Taxes | 127,044 | |
| 3 | Less: Synchronized Interest (L17) | 5,460 | |
| 4 | Arizona Taxable Income (L1 - L2 - L3) | (\$15,184) | |
| 5 | Arizona State Income Tax Rate | 6.000% | |
| 6 | Arizona Income Tax (L4 x L5) | | (\$911) |
| 7 | Federal Taxable Income (L4 - L6) | (\$14,273) | |
| 8 | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15% | (2,141) | |
| 9 | Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25% | 0 | |
| 10 | Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34% | 0 | |
| 11 | Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39% | 0 | |
| 12 | Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34% | 0 | |
| 13 | Total Federal Income Tax | | (\$2,141) |
| 14 | Combined Federal and State Income Tax (L6 + L13) | | (\$3,052) |
| 15 | | | |
| 16 | | | |
| 17 | <i>Calculation of Interest Synchronization:</i> | | |
| 18 | Rate Base | \$426,930 | |
| 19 | Weighted Average Cost of Debt | 1.279% | |
| 20 | Synchronized Interest (L16 x L17) | \$5,460 | |
| 21 | | | |
| 22 | | | |
| 23 | Income Tax - Per Staff | (\$3,052) | |
| 24 | Income Tax - Per Company | (1,147) | |
| 25 | Staff Adjustment | (\$1,905) | |

PROPERTY TAX ADJUSTMENT NO. 1 - ADJUSTMENTS TO CONSTRUCTION WORK IN PROGRESS AND ADDITIONS FOR STORAGE TANK NO. 3

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|--|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Company Proposed Construction Work in Progress | \$8,591 | \$45,918 | \$54,509 |
| 2 | | | | |
| 3 | Construction Work in Progress | | | |
| | Well No. 6 - Disallowed Prep work and installing 2 pipes. back hoe Bobcat and gradework at Short Spur. No Support Provided by Company, Work performed by Daniel Levie, Check Cancelled and offset against his balance due on his water accounts outside of test year. Per DR TBH 3.10. | | (\$3,500) | |
| 4 | | | | |
| 5 | Reclass from Water Testing - Storage Tank #3 ADEQ Expenses | | 1,800 | |
| 6 | Removal of expenses that were reclassified to GMWC Well #6 | | (89) | |
| 7 | Removal of Expenses from Well #5 Shane Dr. | | (3,198) | |
| 8 | Building Permits Yavapai County 5/22/14 | | 465 | |
| 9 | Building Permits Yavapai County 6/18/14 | | 415 | |
| 10 | Reclass from Well No. 6 - Storage Tank #3 ADEQ Extension Expenses 2/9/2015 | | 400 | |
| | Draw No. 1 Dave Larson 9/12/2014 - Payment included in Invoice 32477.1 to Chapman Electrical 2/12/2015 as Misc. Pymt. Total \$12,600 for Draw 1 & 2. | | 6,300 | |
| 11 | | | | |
| | Draw No. 2 Dave Larson 9/19/2014 - Payment included in Invoice 32477.1 to Chapman Electrical 2/12/2015 as Misc. Pymt. Total \$12,600 for Draw 1 & 2. | | 6,300 | |
| 12 | | | | |
| | Chapman Electrical 1/20/2015 Invoice 32477 | | 34,225 | |
| 13 | | | | |
| | Chapman Electrical 4/17/2015 Invoice 32477.1 | | 2,800 | \$45,918 |
| 14 | | | | |
| 15 | | | | |
| 16 | Total CWIP for Property Tax Calculation on TBH-22 Line 10 | | X 10% | \$ 5,451 |

References:

Column [A]: Company Balance Sheet Acct. No. 105

Column [B]: Testimony, TBH

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

RELATED PARTY TRANSACTIONS - COMPANY FAILED TO APPROPRIATELY COLLECT REVENUE PURSUANT TO DECISION 71869 (UNCOLLECTED RELATED PARTY TRANSACTIONS IN TEST YEAR)

| [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] | [M] | [N] | [O] | [P] |
|----------------|----------------------------------|-----|------------------|----------------|------------|----------|-----------|------------|--------------------------|--------------|------------|------------------------------|--|-------------------|--|
| Water Acct No. | Name on Account | | Balance 12/31/12 | Account Status | Water | Taxes | Surcharge | Penalty | Adjustments ¹ | Payments | Total | Staff Adjusted Revenues 2013 | Staff Adjusted Balance Due 12/31/13 ¹ | Date Range | # of Bills Not Appropriately Collected |
| 80.002.01 | Levie, Daniel P ² | | \$3,369.03 | Active | \$2,873.68 | \$208.53 | \$3.03 | \$811.41 | (\$1,564.42) | \$0.00 | \$2,332.23 | \$3,688.12 | \$7,265.68 | 11.13 to 12.31.13 | 24 |
| 81.002.01 | Levie, Daniel P ³ | | 4,381.13 | Active | 2,386.77 | 157.77 | 2.30 | 831.54 | 0.00 | 0.00 | 3,378.38 | 3,220.61 | \$7,759.51 | 11.13 to 12.31.13 | 29 |
| 80.001.02 | Granite Mtn Stables ⁴ | | 428.15 | Active | 2,009.92 | 135.93 | 1.99 | 111.29 | 0.00 | (1,530.00) | 729.13 | 593.20 | \$1,157.28 | 11.13 to 12.31.13 | 40 |
| 80.012.00 | Levie, Daniel P ⁵ | | 244.38 | Active | 842.40 | 48.94 | 0.72 | 50.44 | 0.00 | 0.00 | 942.50 | 893.56 | \$1,186.88 | 11.13 to 12.31.13 | 29 |
| Totals | | | \$8,422.69 | | \$8,112.77 | \$551.17 | \$8.04 | \$1,604.68 | (\$1,564.42) | (\$1,530.00) | \$7,382.24 | \$8,395.49 | \$17,369.35 | | 122 |

¹ Staff did not include any adjustments in the Adjusted Revenues.
² Per Decision 71869 Page 23 Line 16, Identified as Daniel's Home Property. Adjustment for Water Leak and Late Fees GM TBH 2.9, Balance paid by Mr. Paul Levie \$5,701.26. However, DT GM TBH 3.10 states Check for \$2,201.26 and offset for \$3,500 for check to Mr. Daniel Levie for work on Culvert for \$3,500 Check 5403 (voided) in GM TBH 2.15. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 12/2011 to 11/2013.
³ Payment made by Mr. Paul Levie per DR GM TBH 3.10 for \$7,759.51. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 7/2011 to 11/2013.
⁴ Per Decision 71869 Page 23 Line 17, Identified as Stables Property. Sporadic Payments made in 5 payments through Test year. Not properly collected on since 9/2010.
⁵ Payment made by Mr. Paul Levie per DR GM TBH 3.10 for \$7,759.51. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 7/2011 to 11/2013.

References:
 Column [A]: Company C-1
 Column [B]: Testimony, GM TBH 1.42, GM TBH 2.15, GM TBH 2.9, GM TBH 3.10, GM TBH 3.11
 Column [C]: Column [A] + Column [B]

| RATE DESIGN | | | | | |
|---|---------------|--|------------------------|--|-------------------------|
| Monthly Usage Charge | Present Rates | | Company Proposed Rates | | Staff Recommended Rates |
| <u>Meter Size (All Classes):</u> | | | | | |
| 5/8 x 3/4 Inch | \$ 25.00 | | \$ 38.50 | | \$ 35.00 |
| 3/4 Inch | 37.50 | | 57.75 | | 52.50 |
| 1 Inch | 62.50 | | 96.25 | | 87.50 |
| 1 1/2 Inch | 125.00 | | 192.50 | | 175.00 |
| 2 Inch | 200.00 | | 308.00 | | 280.00 |
| 3 Inch | 400.00 | | 616.00 | | 560.00 |
| 4 Inch | 625.00 | | 962.50 | | 875.00 |
| 6 Inch | 1,250.00 | | 1,925.00 | | 1,750.00 |
| <u>Commodity Charge - Per 1,000 Gallons</u> | | | | | |
| <u>5/8" x 3/4" Meter (Residential)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | N/A |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | N/A |
| Over 8,000 gallons | N/A | | 12.00 | | N/A |
| First 3,000 gallons | N/A | | N/A | | 6.00 |
| 3,001 to 10,000 gallons | N/A | | N/A | | 10.00 |
| Over 10,000 gallons | N/A | | N/A | | 12.00 |
| <u>5/8" x 3/4" Meter (Commercial)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | N/A |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | N/A |
| Over 8,000 gallons | N/A | | 12.00 | | N/A |
| First 10,000 gallons | N/A | | N/A | | 10.00 |
| Over 10,000 gallons | N/A | | N/A | | 12.00 |
| <u>3/4" Meter (Residential)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | N/A |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | N/A |
| Over 8,000 gallons | N/A | | 12.00 | | N/A |
| First 3,000 gallons | N/A | | N/A | | 6.00 |
| 3,001 to 10,000 gallons | N/A | | N/A | | 10.00 |
| Over 10,000 gallons | N/A | | N/A | | 12.00 |
| <u>3/4" Meter (Commercial)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | N/A |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | N/A |
| Over 8,000 gallons | N/A | | 12.00 | | N/A |
| First 10,000 gallons | N/A | | N/A | | 10.00 |
| Over 10,000 gallons | N/A | | N/A | | 12.00 |

| | | | | | |
|------------------------------------|------|--|-------|--|-------|
| <u>1" Meter (All Classes)</u> | | | | | |
| First 10,000 gallons | 6.60 | | 10.00 | | N/A |
| Over 10,000 gallons | 7.90 | | 12.00 | | N/A |
| First 15,000 gallons | N/A | | N/A | | 10.00 |
| Over 15,000 gallons | N/A | | N/A | | 12.00 |
| <u>1 1/2" Meter (All Classes)</u> | | | | | |
| First 20,000 gallons | 6.60 | | 10.00 | | N/A |
| Over 20,000 gallons | 7.90 | | 12.00 | | N/A |
| First 30,000 gallons | N/A | | N/A | | 10.00 |
| Over 30,000 gallons | N/A | | N/A | | 12.00 |
| <u>2" Meter (All Classes)</u> | | | | | |
| First 40,000 gallons | 6.60 | | 10.00 | | N/A |
| Over 40,000 gallons | 7.90 | | 12.00 | | N/A |
| First 50,000 gallons | N/A | | N/A | | 10.00 |
| Over 50,000 gallons | N/A | | N/A | | 12.00 |
| <u>3" Meter (All Classes)</u> | | | | | |
| First 144,000 gallons | 6.60 | | 10.00 | | N/A |
| Over 144,000 gallons | 7.90 | | 12.00 | | N/A |
| First 100,000 gallons | N/A | | N/A | | 10.00 |
| Over 100,000 gallons | N/A | | N/A | | 12.00 |
| <u>4" Meter (All Classes)</u> | | | | | |
| First 225,000 gallons | 6.60 | | 10.00 | | N/A |
| Over 225,000 gallons | 7.90 | | 12.00 | | N/A |
| First 150,000 gallons | N/A | | N/A | | 10.00 |
| Over 150,000 gallons | N/A | | N/A | | 12.00 |
| <u>6" Meter (All Classes)</u> | | | | | |
| First 450,000 gallons | 6.60 | | 10.00 | | N/A |
| Over 450,000 gallons | 7.90 | | 12.00 | | N/A |
| First 300,000 gallons | N/A | | N/A | | 10.00 |
| Over 300,000 gallons | N/A | | N/A | | 12.00 |
| <u>Construction/Standpipe</u> | | | | | |
| All Gallons | 7.90 | | 12.00 | | 12.00 |
| <u>Hydrant Meter by Meter Size</u> | | | | | |
| <u>(Not Individually Assigned)</u> | | | | | |
| All Usage, Per 1,000 Gallons | 7.90 | | 12.00 | | 12.00 |

| Typical Bill Analysis | | | | | | |
|---|--------------------|----------|--------------------|----------------|--------------------|------------------|
| General Service 5/8 x 3/4-Inch Meter | | | | | | |
| Company Proposed | Gallons | | Present Rates | Proposed Rates | Dollar Increase | Percent Increase |
| Average Usage | 6,411 | | \$ 58.51 | \$ 93.01 | \$ 34.50 | 58.96% |
| Median Usage | 3,684 | | 41.21 | 65.74 | \$ 24.53 | 59.53% |
| Staff Recommended | | | | | | |
| Average Usage | 6,411 | | \$ 58.51 | \$ 87.11 | \$ 28.60 | 48.87% |
| Median Usage | 3,684 | | 41.21 | 59.84 | \$ 18.63 | 45.21% |
| Present & Proposed Rates (Without Taxes) | | | | | | |
| General Service 5/8 x 3/4-Inch Meter | | | | | | |
| | Present | | Company Proposed | % | Staff Recommended | % |
| | 5/8" x 3/4" | | 5/8" x 3/4" | | 5/8" x 3/4" | |
| | Minimum Charge | \$ 25.00 | Minimum Charge | \$ 38.50 | Minimum Charge | \$ 35.00 |
| | 1st Tier Rate | 4.40 | 1st Tier Rate | 6.80 | 1st Tier Rate | 6.00 |
| | 1st Tier Breakover | 4,000 | 1st Tier Breakover | 3,000 | 1st Tier Breakover | 3,000 |
| | 2nd Tier Rate | 6.60 | 2nd Tier Rate | 10.00 | 2nd Tier Rate | 10.00 |
| | 2nd Tier Breakover | 10,000 | 2nd Tier Breakover | 8,000 | 2nd Tier Breakover | 10,000 |
| | 3rd Tier Rate | 7.90 | 3rd Tier Rate | 12.00 | 3rd Tier Rate | 12.00 |
| Gallons | | | | | | |
| Consumption | Rates | | Rates | Increase | Rates | Increase |
| - | \$ 25.00 | | \$ 38.50 | 54.00% | \$ 35.00 | 40.00% |
| 1,000 | 29.40 | | 45.30 | 54.08% | 41.00 | 39.46% |
| 2,000 | 33.80 | | 52.10 | 54.14% | 47.00 | 39.05% |
| 3,000 | 38.20 | | 58.90 | 54.19% | 53.00 | 38.74% |
| 4,000 | 42.60 | | 68.90 | 61.74% | 63.00 | 47.89% |
| 5,000 | 49.20 | | 78.90 | 60.37% | 73.00 | 48.37% |
| 6,000 | 55.80 | | 88.90 | 59.32% | 83.00 | 48.75% |
| 7,000 | 62.40 | | 98.90 | 58.49% | 93.00 | 49.04% |
| 8,000 | 69.00 | | 108.90 | 57.83% | 103.00 | 49.28% |
| 9,000 | 75.60 | | 120.90 | 59.92% | 113.00 | 49.47% |
| 10,000 | 82.20 | | 132.90 | 61.68% | 123.00 | 49.64% |
| 11,000 | 90.10 | | 144.90 | 60.82% | 135.00 | 49.83% |
| 12,000 | 98.00 | | 156.90 | 60.10% | 147.00 | 50.00% |
| 13,000 | 105.90 | | 168.90 | 59.49% | 159.00 | 50.14% |
| 14,000 | 113.80 | | 180.90 | 58.96% | 171.00 | 50.26% |
| 15,000 | 121.70 | | 192.90 | 58.50% | 183.00 | 50.37% |
| 16,000 | 129.60 | | 204.90 | 58.10% | 195.00 | 50.46% |
| 17,000 | 137.50 | | 216.90 | 57.75% | 207.00 | 50.55% |
| 18,000 | 145.40 | | 228.90 | 57.43% | 219.00 | 50.62% |
| 19,000 | 153.30 | | 240.90 | 57.14% | 231.00 | 50.68% |
| 20,000 | 161.20 | | 252.90 | 56.89% | 243.00 | 50.74% |
| 25,000 | 200.70 | | 312.90 | 55.90% | 303.00 | 50.97% |
| 30,000 | 240.20 | | 372.90 | 55.25% | 363.00 | 51.12% |
| 35,000 | 279.70 | | 432.90 | 54.77% | 423.00 | 51.23% |
| 40,000 | 319.20 | | 492.90 | 54.42% | 483.00 | 51.32% |
| 45,000 | 358.70 | | 552.90 | 54.14% | 543.00 | 51.38% |
| 50,000 | 398.20 | | 612.90 | 53.92% | 603.00 | 51.43% |
| 75,000 | 595.70 | | 912.90 | 53.25% | 903.00 | 51.59% |
| 100,000 | 793.20 | | 1,212.90 | 52.91% | 1,203.00 | 51.66% |

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)
GRANITE MOUNTAIN WATER CO. INC. FOR)
A PERMANENT INCREASE IN ITS WATER)
RATES AND CHARGES)
_____)

DOCKET NO. W-02467A-14-0230

SURREBUTTAL

TESTIMONY

OF

DOROTHY HAINS, P. E.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

September 10, 2015

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1 **I. INTRODUCTION**

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

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

5
6 **Q. Are you the same Dorothy Hains who has previously filed testimony in this Granite
7 Mountain Water Company (“GMC” or “Company”) rate proceeding?**

8 A. Yes.

9
10 **Q. What is the purpose of your Surrebuttal Testimony?**

11 A. In my Surrebuttal Testimony, I will respond to Mr. Ray L. Jones’ Rebuttal Testimony
12 regarding Post Test Year plant.

13
14 **II. POST TEST YEAR PLANT**

15 **Q. The Company argued that the 500,000 gallon storage tank should be included in
16 calculating rates for this rate proceeding. Does Staff agree with the Company? Please
17 explain.**

18 A. No. The construction of the 500,000 gallons storage tank has not been completed, therefore,
19 this plant item is Not Used and Useful and should not be included in calculating rates for this
20 rate proceeding.

21
22 **Q. Did the Company install a well meter at Well No. 6?**

23 A. Yes, the Company did install a 2-inch well meter for recording flow at Well No. 6. Since the
24 National Association of Regulatory Utility Commissioner’s (“NARUC”) definition for “wells”
25 excludes the well meter, and Mr. Jones correctly points out that well meters are listed in

1 NARUC's definition of "pumping equipment," Staff is willing to accept the Company's
2 position. The \$1,196 well meter expense should be reclassified to NARUC Account No. 311
3 (Pumping Equipment) from NARUC Account No. 334 (Meters and Meter Installations).

4

5 **Q. The Company proposes to include in rates post test year plant improvements of**
6 **\$16,000 for the Well and \$1,232 for a well house (Building No. 5). Does Staff agree with**
7 **the Company that these plant improvements should be included in rate base? Please**
8 **explain.**

9 **A.** Staff has determined that the Company's cost of \$16,000 for the addition of Well No. 6 and
10 \$1,232 for a well house (Building No. 5) were reasonable.

11

12 **Q. The Company also requests that \$13,000 for Structures and Improvements be included**
13 **in this rate base. Does Staff agree with the Company? Please explain.**

14 **A.** No. Staff disagrees with the Company. The \$13,000 was the price for three sheds on the
15 APN # 102-09-010D lot on which Well No. 6 is located. The Company shares the office
16 space, the tool shed, and parts storage building with Chino Meadow Water Company in Chino
17 Valley, which is about ten miles north of the Company's service area. During the site
18 inspection, Staff observed personal belongings and furniture stored in the sheds. Often the
19 Company's on-site operator uses his own tools to perform the service. Therefore, Staff
20 disagrees that the customers will benefit from these improvements, contrary to the suggestion
21 by the Company.

22

23 **Q. What is Staff's comment about \$46,000 for the cost of Land?**

24 **A.** The Company provided Staff with an April 14, 2015 Appraisal Report by Huck Appraisal
25 Office, the Report regarding the parcel located in APN #102-09-008D, Yavapai County. This

1 appraisal determined that the parcel consists of 44,594 square feet. Staff determined that only
2 12,200 square feet, which portion includes the easement from W Short Spur Trail to the Well
3 No. 6 Site and the Right of Way along W Short Spur Trail to Williamson Valley Highway, will
4 benefit customers. Assuming a unit cost of \$1 per square foot, the cost of the land would be
5 \$12,200 not \$46,000.

6

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

8 **A. Yes, it does.**