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Transcript Exhibit(s)

Docket #(s): Chino Meadows II Water Co.
W-02370A-14-0231

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Date: October 7, 2015

Re: Chino Meadows II Water Company
W-02370A-14-0231
Evidentiary Hearing taken on 09-23-15

STATUS OF ORIGINAL EXHIBITS

EXHIBITS FILED WITH DOCKET CONTROL
(See attached exhibit index for all admitted exhibits)

EXHIBIT LATE FILED

Chino Meadows (A Exhibits)

A-3

Copy to:

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH, Chairman
BOB STUMP
ROBERT BURNS
DOUG LITTLE
TOM FORESE

IN THE MATTER OF THE APPLICATION OF CHINO MEADOWS II WATER CO., INC. FOR A RATE INCREASE.	DOCKET NO. W-02370A-14-0231 **NOTICE OF FILING REBUTTAL TESTIMONY**

Chino Meadows II Water Co., Inc. ("Chino Meadows") hereby provides notice of filing its rebuttal testimony in the above-captioned case.

Respectfully submitted on August 17, 2015, by:

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EXHIBIT
A-1
ADMITTED

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF CHINO MEADOWS II WATER COMPANY, INC. FOR APPROVAL OF A RATE INCREASE	DOCKET NO. W-02370A-14-0231

REBUTTAL TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
CHINO MEADOWS II WATER COMPANY, INC.
AUGUST 17, 2015

REBUTTAL TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
CHINO MEADOWS II WATER COMPANY, INC.
August 17, 2015

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EXECUTIVE SUMMARY

Mr. Jones responds to the direct testimony of the Arizona Corporation Commission's Utilities Division Staff, including their positions regarding rate base, operating income, cost of capital and rate design, focusing on the points of disagreement between Staff and the Company. Additionally, Mr. Jones sponsors the Company's rebuttal revenue requirement and updated schedules provided with this testimony as ***Exhibit RLJ-RB2***.

Mr. Jones' proposed revenue requirements and associated rate increases are summarized as follows:

	Revenue Requirement	Revenue Increase	% Increase
Chino Application	$497,378	$139,014	38.79%
Staff Direct	$357,985	$0	0.00%
Chino Rebuttal	$402,603	$44,618	12.46%

I INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Ray L. Jones. My business address is 18835 North Thompson Peak Parkway, Suite 215, Scottsdale, AZ 85255, and my business phone is (623) 341-4771.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS MATTER?

A. I am testifying on behalf of the Applicant, Chino Meadows II Water Company, Inc. ("Chino" or "Company").

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the owner and principal of ARICOR Water Solutions LC ("ARICOR"), a consulting firm providing services to the water and wastewater utility industry.

Q. WHAT WAS YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND BEFORE GOING TO WORK FOR ARICOR?

A. I began my working career with Citizens Utilities Company ("Citizens") in 1985 as a Staff Engineer for the Maricopa County water and wastewater division. I was employed at Citizens for 17 years, ascending to Vice President and General Manager for the Arizona water and wastewater operations. In 2002, American Water ("American") purchased the water and wastewater assets of Citizens, and I joined American as the President of Arizona-American Company. I left American in 2004 to start ARICOR.

I received a Bachelor of Science in Civil Engineering in 1985 from the University of Kansas, and a Master of Business Administration in 1991 from Arizona State University. I am a Registered Professional Engineer in Arizona and California and a Grade 3 Certified Operator in Arizona for all four water and wastewater classifications. I

specialize in water resource issues, regulatory strategies, rate case filings and water and wastewater utility management and operations.

In addition to my consulting practice, I am the Executive Director of the Water Utilities Association of Arizona ("WUAA"). Founded in 1961, WUAA is a non-profit association representing Arizona's private, regulated water and wastewater utilities.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. In my time with Citizens and American, I prepared or assisted in the preparation of multiple filings before the Arizona Corporation Commission ("Commission"), including rate applications and certificate of convenience and necessity ("CC&N") filings. Since starting ARICOR, I have prepared several filings and assisted in the preparation of several more filings before the Commission, including rate applications and CC&N filings. I have also provided testimony in all of these cases before the Commission. A summary of my regulatory work experience is included in my resume attached hereto as ***Exhibit RLJ-RB1***.

II <u>PURPOSE OF TESTIMONY</u>

Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY FILED BY STAFF IN THIS CASE?

A. Yes, I have reviewed the testimony of Teresa B. Hunsaker and Jian W. Liu.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I will respond to the direct testimony of Staff, including their positions regarding rate base, operating income, cost of capital and rate design, focusing on the points of disagreement between Staff and the Company. Additionally, I will sponsor the

Company's rebuttal revenue requirement and updated schedules provided with this testimony as ***Exhibit RLJ-RB2***.

III PRELIMINARY STATEMENTS AND GENERAL RESPONSE TO STAFF TESTIMONY AND POSITIONS

Q. HOW ARE THE COMPANY'S POSITIONS AND TESTIMONY IN THIS CASE INTERRELATED WITH THE POSITIONS AND TESTIMONY PRESENTED IN THE RATE APPLICATION OF THE COMPANY'S AFFILIATE, GRANITE MOUNTAIN WATER COMPANY ("GRANITE")?

A. Chino and Granite are sister companies operated from a common office using common staff. In addition, a third much smaller company, Antelope Lakes Water Company ("Antelope") is affiliated with Chino and Granite and operated from the common office using common staff as well. As discussed by Staff witness Hunsaker, the position taken in one case can impact the position in the other case, particularly with respect to allocated common costs. For this reason the positions taken in both cases, in addition to being evaluated independently, must be evaluated as a whole and in consideration of the overall impact to the combined operations of Chino and Granite.

Q. WHAT IS THE COMPANY'S INTITAL REATION TO STAFF'S TESTIMONY?

A. The Company thanks Staff for what is clearly a thorough evaluation of both Chino and Granite. Staff has done an excellent job of dealing with the complexity of the interrelation between the operations of Chino and Granite and presented positions in the cases that are mathematically consistent and complete across both of the rate filings. Staff's positions and proposed adjustments are presented in a detailed and understandable manner. Although the Company does not fully agree with all aspects of the various adjustments proposed by Staff, the Company believes the positions presented by Staff are

in large part reasonable. Therefore, the Company will accept most of Staff's proposed adjustments in an effort to limit issues and demonstrate the Company's commitment to improving its operations and meeting Staff's expectations concerning record keeping and cost accounting.

Q. WHAT ARE THE SIGNIFICANT OVERALL ISSUES THAT THE COMPANY WOULD LIKE TO ADDRESS?

A. The Company's most significant overall concern is with Staff's proposed allocation of common costs between Chino, Granite, and Antelope. The Company has historically used customer counts as a basis of allocation. Staff is proposing to move to a more complex 4-factor common cost allocation method that shifts costs and revenue away from Chino, the largest and most significant of the three affiliates. Staff's proposal significantly shifts costs and revenue to Granite and to a lesser degree to Antelope.

Both Granite and Antelope are new, small companies with, relative to Chino, fewer customers, higher levels of plant investment and, in the case of Granite, higher rates. Shifting costs to Granite—a company with fewer customers and significantly higher rates than Chino—will create revenue instability both for Granite and the water companies as a whole. Additionally, Granite is facing a significantly higher percentage increase in these interrelated cases. Accordingly, it is very likely that Granite will under-collect its authorized revenue by a significant magnitude. If the authorized revenue for Granite cannot be collected, common expenses may not be covered, which would harm the operations of both Chino and Granite.

It is also concerning that Staff's proposal would move the companies contrary to industry trends. The Commission and industry are exploring ways to encourage consolidation and to make it easier for small water companies to be acquired by larger, better capitalized

companies. Unfortunately, the cost shift embedded in Staff's recommendation would discourage consolidation or acquisition. The two companies, Chino and Granite, would be moved farther apart in terms of rates, increasing the complexity of any future consolidation or acquisition.

Q. HOW SIGNIFICANT IS THE CHANGE IN STAFF'S PROPOSED COST ALLOCATION?

A. It is very significant. The Company has historically used customer counts as the basis of most common cost allocations and currently uses customer count as the only method of allocating common costs. The resulting current common cost allocation is 88% to Chino and 12% to Granite. In contrast Staff's proposed allocation is only 70.12% to Chino with 26.93% going to Granite and 2.95% going to Antelope. This change in allocation shifts a very significant $49,006 in common costs away from Chino, where they are far more likely to be collected, to Granite and Antelope where they are almost certain to be under-collected and in the case of Antelope, not collected at all. The cost shift is so severe that the increase recommend by Staff for Granite is actually larger than what the Company originally requested, even though Staff has disallowed substantial costs and rate base proposed by Granite. In contrast, Staff recommends no increase at all for Chino.

The Company will present a more balanced, simplified approach to cost allocation that moves incrementally toward Staff's allocation while providing both Chino's and Granite's reasonable opportunities to recover the common costs related to the operation of both companies.

Q. ARE THERE OTHER AREAS OF DISAGREEMENT WITH STAFF THAT YOU WILL ADDRESS IN YOUR REBUTTAL TESTIMONY?

A. The only significant rate base disagreement concerns Staff's recommendation to disallow portions of its plant due to records being destroyed when the Company's offices were destroyed by fire. The loss of plant records was beyond the Company's control, so all documented plant costs should be allowed in its rate base. The only significant issue regarding expenses, other than the cost allocation issue previously discussed, is a partial disagreement with the disallowance of a portion of Mr. Levie's salary. The remaining differences are largely the fall-out impacts from the above discussed disputes.

IV REBUTTAL REVENUE REQUIREMENT

Q. WHAT IS CHINO'S REBUTTAL REVENUE REQUIREMENT?

A. Chino's rebuttal revenue requirement is shown on Schedule RLJ-1 Rebuttal. Chino is now requesting a revenue increase of $44,995, an increase of 12.57% over adjusted test year revenues of $357,985. The reduction in revenue requirement, as compared to the Company's original filing, is attributable to the Company adopting, either in whole or in part, a number of rate base and expense adjustments recommended by Staff.

Q. WOULD YOU SUMMARIZE CHINO'S AND STAFF'S REVENUE REQUIREMENT POSITIONS?

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

	Revenue Requirement	Revenue Increase	% Increase
Chino Application	$497,378	$139,014	38.79%
Staff Direct	$357,985	$0	0.00%
Chino Rebuttal	$402,603	$44,618	12.46%

V COMPANY'S REBUTTAL ADJUSTMENTS

A RATE BASE ADJUSTMENTS

Q. HAS THE COMPANY UPDATED ITS RATE BASE POSITION?

A. Yes. As discussed below and presented in Schedule RLJ-2, the Company has updated is position on rate base.

Accepted Rate Base Adjustments

Q. WHICH RATE BASE ADJUSTMENTS PROPOSED BY STAFF HAS THE COMPANY ACCEPTED?

A. The Company accepts Staff Adjustments No. 3, No. 4, No. 5 and No. 6, but opposes rate base adjustments 1, 2, 7, and 8.

Staff Rate Base ADJ No. 1 – Unsupported Plant

Q. WHY DOES THE COMPANY OPPOSE STAFF RATE BASE ADJUSTMENT NO. 1?

A. Staff Adjustment No. 1 would remove 10% of the cost of $42,759 of plant in service from rate base by increasing the Company's CIAC balance by $4,276. This reduction to rate base is reduced by intervening amortization of the CIAC balance. The Company has supported this plant through accounting records and there is no dispute that the amount represents plant in service. The Company cannot provide detailed invoices for the plant because all of the Company's records were destroyed when the Company's offices were destroyed by fire. Despite the Company's best efforts, the Company was only able to obtain duplicate support for some of its plant. Unfortunately, the Company was unable to obtain source documentation for this portion of the destroyed records because vendors were out of business or had purged their records. The fire was an event not within the Company's control and it has made all reasonable efforts to reconstruct its plant records.

The fire was damaging enough to the Company. Further damaging the Company financially by disallowing rate base would be punitive and should be rejected.

Staff Rate Base ADJ No. 2 – CIAC From Insurance Proceeds

Q. DOES THE COMPANY OPPOSE STAFF RATE BASE ADJUSTMENT NO. 2?

A. No. The Company has adopted the increase to CIAC of $6,130 as recommended by Staff. However, the Company believes that Staff has made a minor mistake in the calculation of the off-setting CIAC amortization by using the wrong amortization period (.5 years instead of 1.5 years). Additionally, the Company's Rebuttal CIAC amortization adjustment is calculated on a composite basis and takes into account the impact of Staff's other plant adjustments on the amortization rate. Although the differences are minor, the Company believes its Rebuttal CIAC amortization adjustment supported by Schedule RLJ-2 Rebuttal, Pages 5.1 and 5.2 is more comprehensive and should be adopted.

Staff Rate Base ADJ No. 7 – Accumulated Depreciation

Q. WHAT IS THE COMPANY'S DISAGREEMENT WITH STAFF RATE BASE ADJUSTMENT NO. 7?

A. There is no disagreement in methodology or underlying plant balances. However, Staff's Schedule TBH CM-11 contains a calculation error. The calculation of accumulated depreciation is overstated because it does not take into consideration the fully depreciated plant in Plant Accounts 330.1, 330.2, 331, 333, 339, and 345 per Decision No. 72896. The Company's accumulated depreciation adjustment [2.2] shown on Schedule RLJ-2, page 4, and supported by the calculation presented on Schedule RLJ-2 Rebuttal, Pages 6.1 to 6.5, should be used as the basis of determining the Company's accumulated depreciation balance.

Staff Rate Base ADJ No. 8 – Working Capital

Q. WHY DO THE COMPANY AND STAFF DISAGREE ON THE WORKING CAPITAL ALLOWANCE?

A. The difference is minor and due entirely to differences in adjusted test year expenses discussed in the following section of testimony. The Company has updated it working capital allowance to reflect its rebuttal position.

Summary of Rate Base Differences

Q. WHAT ARE THE COMPANY'S AND STAFF'S CURRENT RATE BASE POSITIONS?

A. Staff is recommending a rate base of $135,369 and the Company is recommending a rate base of $168,688, a difference of $33,299.

B INCOME STATEMENT ADJUSTMENTS

Q. HAS THE COMPANY UPDATED ITS INCOME STATEMENT POSITION?

A. Yes. As discussed below and presented in Schedule RLJ-3, the Company has updated is position on income statement items. We accept certain adjustments but oppose others.

Accepted Income Statement Adjustments

Q. WHICH INCOME STATEMENT ADJUSTMENTS PROPOSED BY STAFF HAS THE COMPANY ACCEPTED?

A, The Company accepts Staff Adjustments No. 1, No. 2, No. 3 and No. 4.

Staff Operating Income Adjustment No. 5 - Allocations

Q. WHAT ASPECTS OF STAFF INCOME STATEMENT NO. 5 DOES THE COMPANY OBJECT TO?

A. Staff Rate Base Adjustment No. 5 is a complex adjustment with multiple parts. The Company appreciates the work Staff put into the adjustment and contests only two very specific aspects of the adjustment. The Company disagrees with the full amount of Staff's disallowance of a portion of Mr. Levie's salary, and as previously discussed, the Company proposes a more balanced and simplified approach to cost allocation between Chino and Granite.

Q. WHAT ASPECT OF MR. LEVIE'S SALARY DISALLOWANCE DOES THE COMPANY WISH TO ADDRESS?

A. The Company objects to the deduction of 33% of total monthly hours as detailed on Line 14 of Schedule TBH CM-19g. The Company believes this deduction is unnecessary because the salary paid to Mr. Levie of $37,700 already includes a deduction for Mr. Levie's time away from the office. As noted by Ms. Hunsaker, Mr. Levie is only a half-time employee of Chino and Granite. However, Mr. Levie is a half-time employee because he spends time away from the office and managing his other businesses. To remove costs a second time as recommended by Staff would be duplicative.

The Company proposes a total salary for Mr. Levie of $33,027. This amount is arrived at by taking the actual salary paid to Mr. Levie of $37,700 and deducting the $4,673 deduction for duplication of effort with the Operations Manager as recommended by Staff. The Company's proposed pre-allocation salary of $33,027 is a very reasonable salary for the Company President, who serves as the chief executive and legal counsel for

both Chino and Granite, and should be adopted by the Commission. The resulting salary allocation to Chino for Mr. Levie is $26,587.

Q. WHAT IS THE COMPANY'S POSITION ON COST ALLOCATION?

A. As previously discussed, the Company is very concerned about the abrupt cost shift from Chino to Granite that would result from Staff's recommended 4-factor cost allocation. Chino is an established, mature company that provides 75% of the combined revenue of Chino and Granite. In contrast, Granite is a new, small company that is struggling to grow and does not produce sufficient revenue to provide an adequate return on the relatively high plant investment. Shifting operating costs from Chino to Granite through aggressive allocation of costs will destabilize the revenue of both companies and negatively impact the common operation's ability to cover its common expenses and ultimately harm the operations of both Chino and Granite.

Q. ARE THERE SPECIFIC CONCERNS WITH THE 4-FACTOR USED BY STAFF?

A. The Company's primary concern is with the result of the proposed allocation rather than the methodology itself. The Company does find the factors used to be unusual. I have never seen Revenues or Sales (gallons pumped) used in a 4-factor allocation. Additionally, the use of net plant, rather than gross plant is, in my experience, contrary to common practice and particularly problematic for Chino with its mature, depreciated rate base. Use of these four atypical factors introduces needless complexity for a small organization that needs simplicity to be successful.

Q. WHAT IS THE SPECIFIC ISSUE WITH THE USE OF NET PLANT?

A. As briefly explained earlier, Chino's authorized depreciation rates are clearly in excess of the actual physical depreciation of its plant. This has caused Chino's net plant balance to be unrealistically low and not representative of the scope of the Company's operation.

Gross plant would be a much better measure of the relative scope of Chino's operation. However, even gross plant falls somewhat short of presenting an accurate portrayal of Chino. This is because Chino was originally acquired by Mr. Levie through a bankruptcy sale and, pursuant to Commission orders, the Company's books reflect the discounted purchase price rather than the actual original cost of the original plant in service. Chino's aging plant further distorts the relationship between the two companies. Chino's older plant requires significant staff effort as compared to Granite's relatively new plant. This reality is not captured when comparing even gross plant balances. So, it would also be inappropriate to rely too heavily on gross plant as an allocation factor.

Q. ARE THERE SPECIFIC CONCERNS WITH ALLOCATION COSTS TO ANTELOPE?

A. Yes. Antelope is a very small company with two customers and no possibility of any near-term growth. The total revenues of Antelope in 2014 were $612.97, barely enough to pay the power bill and property taxes. Allocation of any costs to Antelope is premature and, put plainly, will not be collected and will harm the combined operation of the companies.

Q. WHAT IS THE COMPANY'S PROPOSAL?

A. The Company continues to believe that customer counts represent the simplest and most accurate way for Chino to allocate costs and that customer counts should dominate any cost allocation model between Chino and Granite. However, the Company acknowledges that plant balances are traditionally used in cost allocation and in an effort to move toward Staff's approach, proposes to include gross plant in the calculation. Specifically the Company has used test year customers, projected 2018 customers (five-year forward looking), and gross plant to arrive at a cost allocation. The Company weights the

customer counts 2.5x each for a total customer count weighting of five times, compared to gross plant which is given single weighting. The result is an allocation of 80.5% to Chino and 19.5% to Granite. The Company proposes to use this allocation on a going-forward basis beginning with 2016.

Q. HAS THE COMPANY PREPARED WORKPAPERS SHOWING HOW THE COMPANY'S TREATMENT OF MR. LEVIE'S SALARY AND ITS PROPOSED COST ALLOCATION AFFECT STAFF'S OPERATING INCOME ADJUSTMENT NO. 5?

A. In order to provide simplicity and clarity, the Company has recalculated Staff Operating Income Adjustment No. 5 using Staff's Excel workbook. The impacted Schedules are TBH CM-19a, TBH CM-19c, TBH CM-19e, and TBH CM-19g. Copies of those schedules as modified by the Company are attached as ***Exhibit RLJ-RB3.***

Depreciation Expense – Company ADJ IS-6 (Staff Income Statement ADJ No. 6)

Q. HAS COMPANY ADJUSTMENT IS-6 BEEN UPDATED?

A. Yes. The Company and Staff are in agreement regarding depreciation expense methodology with the difference in depreciation expense resulting from differing levels of CIAC being amortized due to the disagreement regarding Staff Rate Base ADJ NO. 1.

Q. WHAT ABOUT THE DIFFERENT POSITION ON DEPRECIATION RATES FOR PLANT ACCOUNTS 311 AND 341?

A. As is evidenced by the Company's zero net plant balances for Plant Accounts 311 and 341, the depreciation rates recommended by Staff and authorized by the Commission for Chino for these accounts are obviously excessive and in excess of the actual physical depreciation of these categories of plant. Since the Company has no net plant in these

accounts and therefore no depreciation expense, in an effort to limit issues, the Company will drop its request to change the depreciation rates for these accounts.

Property Tax – Company ADJ IS-7 – (Staff Income Statement ADJ No. 7)

Q. HAS COMPANY ADJUSTMENT IS-7 BEEN UPDATED?

A. Yes. The Company and Staff are now in complete agreement regarding the methodology for calculating property tax expense and agree on test year property tax expense. However, Property Tax Expense is included in the Gross Revenue Conversion Factor. Since the Company and Staff disagree on their revenue recommendations, the recommend property taxes at proposed rates are different.

Income Taxes ADJ IS-8 – (Staff Income Statement ADJ No.8)

Q. HAS COMPANY ADJUSTMENT IS-17 BEEN UPDATED?

A. Yes. The Company and Staff are now in complete agreement regarding the methodology for calculating income tax expense. The parties' test year income tax expense calculations disagree due to differing positions on test year expenses. Income Tax Expense is also included in the Gross Revenue Conversion Factor. Since the Company and Staff disagree on their revenue and expense recommendations the recommend income taxes at proposed rates are different.

VI RATE DESIGN

Q. HAS THE COMPANY PREPARED A RATE DESIGN TO SUPPORT ITS REQUESTED INCREASE?

A. Yes. The Company's proposed rate design is presented on Schedule RLJ-4. The rate design slightly lowers revenue collected from the base charge to 52.3% of revenue from 55.1% of revenue while slightly increasing commodity revenue. This rate design will promote revenue stability while encouraging conservation. Although the Company has

only 5/8" x 3/4" residential meters, it has proposed a rate design for larger meters. The proposed large meter rate design break-over points are consistent with the rate design for Granite supported by both Staff and the Company. Lastly, to avoid unnecessary complexity, the Company has not proposed separate rates for small commercial meters.

VII OTHER ISSUES

Code of Conduct

Q. WHAT IS THE COMPANY'S POSITION REGARDING THE DEVELOPMENT OF A CODE OF AFFILIATE CONDUCT (STAFF RECOMMENDATION NO. 6)?

A. The Company is committed to improving its record keeping and cost accounting to address the issues raised by Staff in this case and to separate the costs related to unregulated affiliates from the cost related to Chino and the regulated affiliates. The Company does not oppose development of a Code of Affiliate Conduct as recommended by Staff. The Company notes, however, that while a Code of Affiliate Conduct would govern relationships and transactions between the regulated and nonregulated affiliates, it would only be adopted by the regulated affiliates and applicable to the transactions recorded by the regulated affiliates that are under Commission jurisdiction.

4-Factor Allocation and Use of Detailed Time Sheets

Q. WHAT IS THE COMPANY'S POSITION REGARDING USE OF STAFF'S 4-FACTOR ALLOCATION METHOD AND DETAILED TIME SHEETS? (STAFF RECOMMENDATION NO. 5)?

A. For the reasons discussed in this testimony, the Company opposes the use of Staff's 4-factor allocation model and instead proposes to allocate common costs 80.5% to Chino and 19.5% to Granite on a going-forward basis beginning with 2016. In regard to the use of detailed time cards, the Company does not support this as a separate recommendation.

The Company believes the use of time cards can and should be incorporated into the Code of Affiliate Conduct.

Report of Corporate Cost Allocations

Q. WHAT IS THE COMPANY'S POSITION REGARDING THE ANNUAL FILING OF A REPORT OF CORPORATE COST ALLOCATIONS (STAFF RECOMMENDATION NO. 4)?

A. This recommendation is unnecessary. The Company intends, to the extent possible, to update its practices to eliminate cost allocations between its regulated and unregulated affiliates. The Company proposes to document these changes in the Code of Affiliate Conduct. Additionally, the current Staff recommendation is not detailed enough to allow the Company to determine what specifically would be reported.

Affiliate Receivables and Payables

Q. WHAT IS YOUR UNDERSTANDING OF STAFF'S RECOMMENDATIONS REGARDING AFFILIATE RECEIVEABLES AND PAYABLES (STAFF RECOMMENDATION No. 3)?

A. My understanding is that the recommendation contains a number of separate recommendations that are not all stated in the numbered recommendation. My understanding of the full recommendation is can be summarized as follows:

1. The Company should collect all receivables from affiliates within one year from the Decision in this case.

2. The Company should cease making any further personal loans or advances with Company funds.

3. The Company should pay all payables to affiliates within 24 months of the Decision in this case.

4. The Company should obtain specific authorization by the Commission for indebtedness payable, including amounts appearing in affiliate payable accounts.

Q. WHAT IS THE COMPANY'S POSITION ON THE RECOMMENDATIONS?

A. The Company accepts parts 1 and 2 of the recommendation with the understanding the part 2 applies only to affiliates. For example, the Company does occasionally advance funds to unaffiliated employees with the funds being recovered from future pay checks. The Company believes this practice is consistent with industry practices and that it should be able to continue the practice.

The Company is concerned with parts 3 and 4 of the recommendation concerning transactions between the regulated affiliates and is unable to support the recommendations at the current time. The Company will support the recommendation with respect to unregulated affiliates.

Q. WHAT ARE YOUR CONCERNS WITH PARTS 3 AND 4 OF THE RECOMMENDATION?

A. As discussed in this testimony, the regulated affiliates are operated using common facilities and common staff and they are at different stages in their life cycles, with Chino being established and Granite and Antelope being relatively new companies dealing with high plant costs. The Company believes that the ability to use excess funds from one of the regulated affiliates to support the cash needs of another regulated affiliate is in the public interest, and the practice is consistent with the industry and Commission efforts to explore consolidation of smaller companies. Moreover, tracking these funds through the

use of intercompany receivable/payable accounts is a convenient and efficient method to record the transactions that provides complete transparency to the Commission. As long as there is no interest charged and no expectation that the funds be repaid, as is the case here, there is no debt that requires approval by the Commission.

If Staff's recommendation is adopted, Chino and the other regulated companies would be forced to adopt burdensome, formalized policies and potentially obtain approvals prior to transferring funds. In all likelihood, the only solution to meeting the utilities' cash needs would be for the providing company to go through required corporate formalities and issue a potentially taxable dividend to Mr. Levie[1]. Mr. Levie would in-turn provide the after-tax portion of the dividend to the receiving company to be recorded as additional paid in capital. In the end, the companies would be in the same position—less any income tax effects— but efficiency and transparency would be lost. The Company requests that the Commission allow the Company to continue its current practice of tracking the transfer of funds from one regulated affiliate to another regulated affiliate through the use of intercompany receivable/payable accounts. If and to the extent this practice requires Commission approval, the Company asks the Commission to issue the required approval in this case or in the alternative waive the applicable requirement necessitating the approval.

[1] Note: Chino has multiple stockholders, all affiliated (family) with Mr. Levie.

Interim Manager

Q. WHAT IS THE COMPANY'S POSITION REGARDING STAFF'S REQUEST FOR AUTHORITY TO APPOINT AN INTERIM MANAGER IF THE COMPANY VIOLATES THE CODE OF AFFILIATE CONDUCT?

A. As I understand it, Staff asks for authority, without further action by the Commission, to appoint an interim manager if the Company violates the adopted Code of Affiliate Conduct. I am not an attorney, but I am told that this authority would violate Chino's due-process rights guaranteed by the United States Constitution. I am told further that the 14th Amendment of the United States Constitution requires that a party receive notice and a fair hearing before being deprived of personal or property rights, where the hearing includes at least notice of the hearing, a hearing with the right to produce witnesses and examine adverse witnesses, and to have a full consideration and determination according to evidence before the body with whom the hearing is held. If Staff continues to make this recommendation, the Company will address the legal issue in its brief.

To my knowledge, the Commission has heretofore justified appointment of an interim manager only in extraordinary circumstances, where public health and safety is jeopardized. And in every case, the appointment followed a public hearing where the affected utility had notice, an opportunity to appear and present evidence, and the Commission issued an order containing findings of fact and conclusion of law. Staff asks to bypass these due-process safeguards by delegating to itself the ability to appoint an interim manager if it determined in its sole discretion that Chino had violated the Affiliate Code of Conduct. Yet, it is difficult to understand the relationship of any provision suggested by Staff to public health and safety.

Further, Staff's request is not supported by the evidence in this case. The Company has been transparent and open in its dealings with Commission. There is no evidence of any willful violation of Commission rules or accounting standards. The Company has cooperated in accepting Staff's recommendations and otherwise correcting any accounting irregularities.

Finally, Staff's request would set dangerous precedent. In my experience, small water companies do not have and cannot afford the staffing or expertise necessary to understand and comply with every nuance of utility accounting and the Commission's rate-making requirements. Mistakes are made, and they happen even at the large water companies that have extensive staff dedicated to accounting and regulatory compliance. A continuing threat of confiscation of a small water company from its owner does not serve the public interest and would only make the difficult business of operating a small water company more difficult.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Exhibit RLJ-RB1

Resume Including Summary of Regulatory Experience

ARICOR
Water Solutions
Ray L. Jones P.E.
Principal

18835 North Thompson Peak Parkway, Suite 215
Scottsdale, Arizona 85255

EXPERTISE

Mr. Jones founded ARICOR Water Solutions in 2004. Through ARICOR Water Solutions, Mr. Jones offers a wide range of engineering and financial analysis services to the private and public sectors. Projects include development of regulatory strategies and preparing rate cases, including preparation of rate studies, cost of service studies, financial schedules and testimony for filings before the Arizona Corporation Commission. Services also include consultation on water and wastewater utility formation, management and operations, and valuation, including due diligence analysis, water resources strategy development and water rights valuation. ARICOR Water Solutions provides water, wastewater and water resource master planning, water and wastewater facilities design, and owner representation; including value engineering, program management and construction oversight. Lastly, ARICOR Water Solutions supports water solutions with contract operations and expert witness testimony and litigation support.

EMPLOYMENT HISTORY

2002 to 2004 — **Arizona-American Water Company**
President
Responsible for leadership of the Arizona business activities of Arizona-American Water Company. Key responsibilities include developing and evaluation new business opportunities, developing strategic plans, establishing effective government and community relations, insuring compliance with all regulatory requirements, and providing management and guidance to key operations and support personnel.

1998 to 2002 — **Citizens Water Resources, Arizona Operations**
Vice President and General Manager
Responsible for leadership of the Arizona regulated and unregulated business activities of Citizens Water Resources. Key responsibilities included developing and evaluation new business opportunities, developing strategic plans, establishing effective government and community relations, insuring compliance with all regulatory requirements, and providing management and guidance to key operations and support personnel.

1990 to 1998 — **Citizens Water Resources, Arizona Operations**
Engineering and Development Services Manager
Responsible for management of a diverse group of business growth related activities. Responsibilities include: marketing of operation and maintenance services (unregulated business growth), management of new development activity (regulated business growth), management of engineering functions (infrastructure planning and construction), management of water resources planning and compliance, management of growth-related regulatory functions (CC&N's and Franchises), and management of capital budgeting functions and capital accounting functions.

1985 to 1990 — **Citizens Water Resources, Arizona Operations**
Civil Engineer
Responsible for the planning, coordination and supervision of capital expansion and major maintenance and rehabilitation projects as assigned. Responsible for development of capital program for Maricopa County Operations.

EDUCATION

Arizona State University – Master of Business Administration (1991)
University of Kansas – Bachelor of Science in Civil Engineering (1985)

ARICOR
Water Solutions

PROFESSIONAL CERTIFICATION

Registered Professional Engineer – Civil Engineering – Arizona
Professional Engineer – Civil Engineering – California
Certified Operator – Wastewater Treatment, Wastewater Collection, Water Treatment, Water Distribution – Arizona

PROFESSIONAL AFFILIATIONS

- Executive Director – Water Utilities Association of Arizona
- Member - American Society of Professional Engineers
- Member – American Society of Civil Engineers
- Member - American Water Works Association
- Member - Arizona Water Association
- Member - Water Environment Federation

CIVIC AND COMMUNITY INVOLVEMENT

- Board of Directors – Greater Maricopa Foreign Trade Zone (2009 – Present)
- Advisory Member - Water Resources Development Commission (2010 – 2012)
- Chairman WESTMARC (2008)
- Director and Member of the Executive Committee- WESTMARC (1998 – 2010)
- Co-Chairman, WESTMARC Water Committee (2006 – 2007)
- Chairman-Elect WESTMARC (2007)
- Member – Corporate Contributions Committee, West Valley Fine Arts Council Diamond Ball (Chairman 2005)
- Member – Technical Advisory Committee – Governor's Water Management Commission (2001)
- Board Member, Manager & Past Chairman – North Valley Little League Softball

REGULATORY EXPERIENCE

Testimony has been provided before the Arizona Corporation Commission in the dockets listed below. Unless otherwise indicated testimony was provided on behalf of the utility.

Filing Year	Utility(ies)	Filing Type(s)	Docket(s)
1992	Sun City West Utilities Company	CC&N Extension (Expansion of Sun City West)	U-2334-92-244
1993	Sun City Water Company Sun City Sewer Company	CC&N Extension (Addition of Coyote Lakes)	U-1656-93-060 U-2276-93-060
1993	Tubac Valley Water Co., Inc.	CC&N Extension (Various Subdivisions on western border)	U-1595-93-241
1993	Sun City West Utilities Company	CC&N Extension (Expansion of Sun City West)	U-2334-93-293
1995	Citizens Utilities Company Sun City Water Company Sun City Sewer Company Sun City West Utilities Company Tubac Valley Water Company	Ratemaking	E-1032-95-417 U-1656-95-417 U-2276-95-417 U-2334-95-417 U-1595-95-417
1996	City Water Company Sun City Sewer Company	CC&N Extension (Acquisition of Youngtown)	U-1656-96-282 U-2276-96-282
1996	Citizens Utilities Company	CC&N Extension and Deletion (Realignment of Surprise Bdry.)	E-1032-96-518
1998	Sun City Water Company Sun City West Utilities Company	CAP Water Plan and Accounting Order (Sun Cities CAP plan)	W-01656A-98-0577 SW-02334A-98-0577

ARICOR Water Solutions

Filing Year	Utility(ies)	Filing Type(s)	Docket(s)
2000	Citizens Water Resources Company of Arizona Citizens Water Services Company of Arizona	CC&N Extension and Accounting Order (Anthen Jacka Property and Phoenix Treatment Agreement)	SW-3455-00-1022 SW-3454-00-1022
2000	Citizens Communications Company Citizens Water Services Company of Arizona	CC&N Extension and Approval of Hook-Up Fee (Verrado)	W-0132B-00-1043 SW-0354A-00-1043
2002	Arizona-American Water Company	Ratemaking	WS-01303A-02-0867 WS-01303A-02-0868 WS-01303A-02-0869 WS-01303A-02-0870 WS-01303A-02-0908
2004	Arizona-American Water Company Rancho Cabrillo Water Company Rancho Cabrillo Sewer Company	CC&N Transfer	WS-01303A-04-0089 W-01303A-04-0089 SW-03898A-04-0089
2004	Johnson Utilities Company, LLC (Representing Pulte Home Corporation)	CC&N Extension	WS-02987A-04-0288
2005	Perkins Mountain Utility Company Perkins Mountain Water Company	New CC&N & Initial Rates	WS-20379A-05-0489 W-20380A-05-0490
2005	West End Water Company	CC&N Extension	W-01157A-05-706
2005	Arizona-American Water Company	Approvals Associated with Construction of Surface Water Treatment Facility	W-01303A-05-0718
2006	Arizona-American Water Company	Ratemaking	WS-01303A-06-0403
2008	Sunrise Water Company	Ratemaking	W-02069A-08-0406
2009	Baca Float Water Company	Ratemaking	WS-01678A-09-0376
2009	Aubrey Water Company	Lost Water Evaluation (Rate Case Compliance)	W-03476A-06-0425
2009	White Horse Ranch Owner's Assn.	Ratemaking	W-04161A-09-0471
2010	Litchfield Park Service Company	Ratemaking	W-01427A-09-0104
2010	Chino Meadows II Water Company	Ratemaking	W-02370A-10-0519
2011	Pima Utility Company	Ratemaking	W-021999A-11-0329 WS-02199A-11-0330
2011	Tusayan Water Development Association, Inc. (Representing the Town of Tusayan)	Ratemaking	W-02350A-10-0163
2012	Valley Utilities Water Company, Inc.	Ratemaking	W-01412A-12-0195

ARICOR Water Solutions

Filing Year	Utility(ies)	Filing Type(s)	Docket(s)
2012	Far West Water & Sewer, Inc.	Ratemaking	WS-03478A-12-0307
2012	Sahuarita Water Company, LLC	Amend Off-Site Facilities Hook-Up Fee	W-03718A-09-0359
2012	New River Utility Company	Ratemaking	W-01737A-12-0478
2013	Far West Water & Sewer, Inc.	New Off-Site Facilities Hook-Up Fees	WS-03478A-13-0200
2012	Adman Mutual Water Company	Ratemaking	W-01997A-12-0501
2013	Far West Water & Sewer, Inc.	CC&N Extension	WS-03478A-13-0250
2013	Lago Del Oro Water Company	Ratemaking	W-01944A-13-0215
2013	Lago Del Oro Water Company	Financing	W-01944A-13-0242
2012	Sunrise Water Company	Financing	W-02069A-12-0261
2010	Far West Water & Sewer, Inc.	CC&N Extension	WS-03478A-10-0523
2014	Granite Mountain Water Co., Inc.	Ratemaking	W-02467A-14-0230
2014	Chino Meadows II Water Co., Inc.	Ratemaking	W-02370A-14-0231
2014	Quail Creek Water Company	Ratemaking	W-02514A-14-0343
2015	Cordes Lakes Water Company	Ratemaking	W-02060A-15-0245
2015	BN Leasing Corporation d.b.a. Aubrey Water Company	Ratemaking	W-03476A-15-0286

Chino Meadows II Water Company, Inc.
Docket No. W-02370A-14-0231
Rebuttal Testimony of Ray L. Jones

Exhibit RLJ-RB2
Rebuttal Schedules

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Computation of Increase in Gross Revenue Requirements

Line No.			Operating Margin Method
1	Adjusted Test Year Revenue	$	357,985
2			
3	Test Year Operating Income	$	28,195
4			
5	Test Year Opearting Margin		7.88%
6			
7	Required Operating Margin		15.00%
8			
9	Required Operating Income	$	60,390
10			
11	Operating Income Deficiency	$	32,196
12			
13	Gross Revenue Conversion Factor		1.3858
14			
15	Increase in Gross Revenue	$	44,618
16			
17	Adjusted Test Year Revenue	$	357,985
18			
19	Proposed Annual Revenue	$	402,603
20			
21	Percent Increase in Gross Revenue		12.46%
22			
23			
24			

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Summary of Original Cost Rate Base Elements

Line No.		Original Cost Rate Base*
1		
2	Gross Utility Plant in Service	$ 795,909
3		
4	Less: Accumulated Depreciation	(613,916)
5		
6	Net Utility Plant in Service	181,993
7		
8	Less:	
9	Advances in Aid of Construction	9,571
10		
11	Contributions in Aid of Construction	37,608
12	Accumulated Amortization of CIAC	(12,128)
13	Contributions in Aid of Construction - Net	25,480
14		
15	Customer Security Deposits	11,740
16	Deferred Income Taxes	-
17		
18	Plus:	
19	Working Capital	33,465
20	Net Regulatory Asset / (Liability)	-
21		
22	Rate Base	$ 168,668
23		
24	* including pro forma adjustments	
25		

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Original Cost Rate Base Pro forma Adjustments

Line No.		Actual End of Test Year	ADJ OC-1	ADJ OC-2	ADJ OC-3	ADJ OC-4	Rebuttal Adjustments	Total Pro Forma Adjustments	Adjusted End of Test Year
1									
2	Gross Utility Plant in Service	$ 843,924	$ -				$ (48,015)	$ (48,015)	$ 795,909
3									
4	Less: Accumulated Depreciation	(614,851)		(55,722)			56,657	935	(613,916)
5									
6	Net Utility Plant in Service	229,073	-	(55,722)	-	-	8,642	(47,080)	181,993
7									
8	Less:								
9	Advances in Aid of Construction	13,219					(3,649)	(3,649)	9,571
10									
11	Contributions in Aid of Construction	31,478			0		6,130	6,130	37,608
12	Accumulated Amortization of CIAC	(2,631)			(8,374)		(1,123)	(9,497)	(12,128)
13	Contributions in Aid of Construction - Net	28,847	-	-	(8,374)	-	5,007	(3,367)	25,480
14									
15	Customer Security Deposits	10,596				1,144		1,144	11,740
16	Deferred Income Taxes	-						-	-
17									
18	Plus:								
19	Working Capital	43,479					(10,015)	(10,015)	33,465
20	Net Regulatory Asset / (Liability)							-	-
21									
22	Rate Base	$ 219,890	$ -	$ (55,722)	$ 8,374	$ (1,144)	$ (2,730)	$ (51,223)	$ 168,668
23									
24									
25									
26									
27									

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Rate Base Adjustment OC-1

Plant In Service Balance

Line No.	Acct No.	Description	Actual End of Test Year	Book Adjustments - (Included on Schedule B.2.1) [1.1] NOT USED	[1.2] NOT USED	[1.3] Reclass Plant Entries	[1.4] Staff Adjustments No. 4, 5 & 6	Adjusted Book End of Test Year[1]	Rate Making Adjustments [1.5] NOT USED	[1.6] NOT USED	[1.7] NOT USED	Adjusted End of Test Year	
4	301	Organization Cost	$ 6,843	$ -			$ -	$ 6,843				$ 6,843	
5	302	Franchise Cost	-	-			-	-				-	
6	303	Land and Land Rights	15,204	-			-	15,204				15,204	
7	304	Structures & Improvements	44,339	-			-	44,339				44,339	
8	305	Collecting & Impounding Reservoirs	4,350	-			-	4,350				4,350	
9	306	Lake, River, Canal Intakes	-	-			-	-				-	
10	307	Wells & Springs	27,448	-			539	27,987				27,987	
11	308	Infiltration Galleries	-	-			-	-				-	
12	309	Raw Water Supply Mains	1,009	-			(0)	1,009				1,009	
13	310	Power Generation Equipment	12,401	-			-	12,401				12,401	
14	311	Pumping Equipment	46,268	-			-	46,268				46,268	
15	320	Water Treatment Equipment	6,406	-			(6,406)	-				-	
16	320.1	Water Treatment Plants	-	-			-	-				-	
17	320.2	Solution Chemical Feeders	-	-			6,406	6,406				6,406	
18	330	Distribution Reservoirs & Standpipes	51,684	-			(51,684)	-				-	
19	330.1	Storage Tanks	-	-			36,415	36,415				36,415	
20	330.2	Pressure Tanks	-	-			15,269	15,269				15,269	
21	331	Transmission & Distribution Mains	304,674	-			268	304,942				304,942	
22	333	Services	30,067	-			-	30,067				30,067	
23	334	Meters	89,777	-			-	89,777				89,777	
24	335	Hydrants	12,042	-			-	12,042				12,042	
25	336	Backflow Prevention Devices	-	-			-	-				-	
26	339	Other Plant & Misc Equipment	16,728	-			-	16,728				16,728	
27	340	Office Furniture & Equipment	9,346	-			(2,812)	6,534				6,534	
28	340.1	Computers & Software	-	-		10,107	494	10,601				10,601	
29	341	Transportation Equipment	96,569	-	-		(40,749)	55,820				55,820	
30	342	Stores Equipment	-	-			-	-				-	
31	343	Tools, Shop & Garage Equipment	1,274	-			-	1,274				1,274	
32	344	Laboratory Equipment	-	-			-	-				-	
33	345	Power Operated Equipment	31,461	-			(1,000)	30,461				30,461	
34	346	Communication Equipment	36,036	-		(10,107)	(8,729)	17,200				17,200	
35	347	Miscellaneous Equipment	-	-			3,975	3,975				3,975	
36	348	Other Tangible Plant	-	-			-	-				-	Total
37		TOTALS	$ 843,924	$ -	$ -	$ -	$ (48,015)	$ 795,909	$ -	$ -	$ -	$ 795,909	Equity Adj.
38												$ 843,924	
39		Plant In Service per Books											
40												$ (48,015)	
41		Increase / (Decrease) in Plant in Service											
42		[1] Adjusted plant in service balance including all book adjustments.											
43													

Accumulated Depreciation

Line No.	Acct No.	Description	Actual End of Test Year	Book Adjustments - (Included on Schedule B.2.1) Updated for Rebuttal Filing [2.1] Unbooked Plant Retirement	[2.2] Difference From Calc'd on B-2.1	[2.3] NOT USED	[2.4] NOT USED	Adjusted Book End of Test Year[1]	Rate Making Adjustments [2.5] NOT USED	[2.6] NOT USED	[2.7] NOT USED	Adjusted End of Test Year	
1													
2													
3													
4	301	Organization Cost			6,507			$ 6,507				$ 6,507	
5	302	Franchise Cost			-			-				-	
6	303	Land and Land Rights			-			-				-	
7	304	Structures & Improvements			35,228			35,228				35,228	
8	305	Collecting & Impounding Reservoirs			3,106			3,106				3,106	
9	306	Lake, River, Canal Intakes			-			-				-	
10	307	Wells & Springs			24,302			24,302				24,302	
11	308	Infiltration Galleries			-			-				-	
12	309	Raw Water Supply Mains			775			775				775	
13	310	Power Generation Equipment			1,288			1,288				1,288	
14	311	Pumping Equipment			46,268			46,268				46,268	
15	320	Water Treatment Equipment			-			-				-	
16	320	Water Treatment Plants			-			-				-	
17	320	Solution Chemical Feeders			6,406			6,406				6,406	
18	330	Distribution Reservoirs & Standpipes			-			-				-	
19	330.1	Storage Tanks			34,309			34,309				34,309	
20	330.2	Pressure Tanks			15,269			15,269				15,269	
21	331	Transmission & Distribution Mains			226,643			226,643				226,643	
22	333	Services			23,644			23,644				23,644	
23	334	Meters			85,496			85,496				85,496	
24	335	Hydrants			8,929			8,929				8,929	
25	336	Backflow Prevention Devices			-			-				-	
26	339	Other Plant & Misc Equipment			9,598			9,598				9,598	
27	340	Office Furniture & Equipment			(1,254)			(1,254)				(1,254)	
28	340.1	Computers & Software			4,855			4,855				4,855	
29	341	Transportation Equipment		40,749	12,741			53,490				53,490	
30	342	Stores Equipment			-			-				-	
31	343	Tools, Shop & Garage Equipment			808			808				808	
32	344	Laboratory Equipment			-			-				-	
33	345	Power Operated Equipment			19,336			19,336				19,336	
34	346	Communication Equipment			8,316			8,316				8,316	
35	347	Miscellaneous Equipment			596			596				596	
36	348	Other Tangible Plant			-			-				-	
37		TOTALS	$ 614,851	$ 40,749	$ 573,167	$ -	$ -	$ 613,916	$ -	$ -	$ -	$ 613,916	
38		Equity Adjustments (Attachment 3, pg 2))			$ 41,684	$ -	$ -		$ -	$ -			$ 41,684
39													
40		Accumulated Depreciation per Books										$ 614,851	
41													
42		Increase / (Decrease) in Accumulated Depreciation										$ (935)	
43													

44 [1] Adjusted accumulated depreciation balance including all book adjustments.

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Rate Base Adjustment OC-3

Contributions-In-Aid of Construction (CIAC) and Accumulated Amortization of CIAC

Line No.		CIAC	Accumulated Amortization
1			
2	Calculated Balance at 12/31/2013	$ 37,608	$ 12,128
3			
4	Book Balance at 12/31/2013	$ 31,478	$ 2,631
5			
6	Increase / (Decrease) in CIAC or AA CIAC	$ 6,130	$ 9,497
7			
8	Equity Adjustments (Attachment 3, pg 2))	$ (6,130)	$ 9,497
9			
10			
11			
12			
13			
14			

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Rate Base Adjustment OC-3

Schedule RLJ-2
Rebuttal
Page 5.2

Calculation of CIAC Balances

Line No.		Decision No. 72896 Balance 12/31/2009	2010 Additions	2010 Balance	2011 Additions	2011 Balance	2012 Additions	2012 Balance	2013 Additions	2013 Balance
1										
2	CIAC	23,984	(335)	23,649	-	23,649	7,829	31,478		37,608
3	Accepted Staff Adjustment			-		-	6,130	6,130		
4	Total CIAC	23,984		23,649		23,649		37,608		37,608
5										
6	Amortization Rate			8.4299%		8.1148%		7.8250%		7.6969%
7										
8	Amortization CIAC (half-yr convention)			2,008		1,919		2,397		2,895
9	Amortization AIF (half-yr convention)[1]									-
10	Adjustment for Prior Period Amortization									
11										
12	Accumulated Amortization of CIAC	2,910		4,918		6,837		9,233		12,128
13										
14	Net CIAC	21,074		18,731		16,812		28,375		25,480
15										
16										
17										

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

				Per Decision No. 72896 - 02/21/2012							Conform Current Books to 72896		
Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	[1] Plant In Service at 12/31/2009	[2] Less Post Test Year Plant	[3] Book Plant at 12/31/2009 [1]+[2]	[4] Accum. Depr. 12/31/2009	[5] Net Plant 12/31/2009 [3]-[4]	[6] Non or Fully Depreciated Plant[1]	[7] Depr'able Plant	[8] Book Plant at 12/31/2009	[9] Conforming Plant Adjustment [3]-[8]	[10] Adjusted Plant at 12/31/2009 [8]+[9]
1	301	Organization Cost	0.00%	6,843		6,843	6,507	336	6,843	-	6,843	-	6,843
2	302	Franchise Cost	0.00%			-		-		-		-	-
3	303	Land and Land Rights	0.00%	15,204		15,204		15,204	15,204	-	15,204	-	15,204
4	304	Structures & Improvements	3.33%	44,339		44,339	29,322	15,017		44,339	44,339	-	44,339
5	305	Collecting & Impounding Reservoirs	2.50%	4,350		4,350	2,671	1,679		4,350	4,350	-	4,350
6	306	Lake, River, Canal Intakes	2.50%			-	-	-		-		-	-
7	307	Wells & Springs	3.33%	27,448		27,448	21,849	5,600	9,096	18,352	27,448	-	27,448
8	308	Infiltration Galleries	6.67%			-	-	-		-		-	-
9	309	Raw Water Supply Mains	2.00%	1,009		1,009	694	315		1,009	1,009	-	1,009
10	310	Power Generation Equipment	5.00%			-		-		-		-	-
11	311	Pumping Equipment	12.50%	46,268		46,268	30,774	15,494		46,268	46,268	-	46,268
12	320	Water Treatment Equipment				-		-		-		-	-
13	320	Water Treatment Plants	3.33%			-		-		-		-	-
14	320	Solution Chemical Feeders	20.00%	6,406		6,406	2,830	3,576		6,406	6,406	-	6,406
15	330	Distribution Reservoirs & Standpipes				-		-		-		-	-
16	330.1	Storage Tanks	2.22%	36,415		36,415	32,418	3,997	15,120	21,295	36,415	-	36,415
17	330.2	Pressure Tanks	5.00%	15,269		15,269	13,593	1,676	6,541	8,728	15,269	-	15,269
18	331	Transmission & Distribution Mains	2.00%	268,037		268,037	216,783	51,254	167,988	100,049	268,037	-	268,037
19	333	Services	3.33%	30,067		30,067	20,596	9,471	7,181	22,886	30,067	-	30,067
20	334	Meters	8.33%	84,857		84,857	56,072	28,785		84,857	84,857	-	84,857
21	335	Hydrants	2.00%	12,042		12,042	7,966	4,076		12,042	12,042	-	12,042
22	336	Backflow Prevention Devices	6.67%			-		-		-		-	-
23	339	Other Plant & Misc Equipment	6.67%	16,728		16,728	5,483	11,245	1,305	15,423	16,728	-	16,728
24	340	Office Furniture & Equipment	6.67%	9,346		9,346	6,503	2,843		9,346	9,346	-	9,346
25	340.1	Computers & Software	20.00%	3,500	(3,500)	-		-		3,500		-	-
26	341	Transportation Equipment	20.00%	88,633		88,633	30,697	57,936		88,633	88,633	-	88,633
27	342	Stores Equipment	4.00%			-		-		-		-	-
28	343	Tools, Shop & Garage Equipment	5.00%	949		949	561	388		949	949	-	949
29	344	Laboratory Equipment	10.00%			-		-		-		-	-
30	345	Power Operated Equipment	5.00%	25,405		25,405	17,270	8,134	18,377	7,028	25,405	-	25,405
31	346	Communication Equipment	10.00%	22,084		22,084	6,239	15,844		22,084	22,084	-	22,084
32	347	Miscellaneous Equipment	10.00%			-		-		-		-	-
33	348	Other Tangible Plant	20.00%			-		-		-		-	-
34													
35		TOTAL		765,198	(3,500)	761,698	508,828	252,869	247,655	517,543	761,698	-	761,698
36													
37		Depreciable Plant											
38		Composite Depreciation Rate											
39													
40	[1] Per Staff Depreciation Calculation												

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Reconciliation of Plant Additions, Retirements and Accumulated Depreciatior

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2010 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Unbooked Retirements	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	0.00%			-			-		-	6,843	6,507	336
2	302	Franchise Cost	0.00%			-			-		-	-	-	-
3	303	Land and Land Rights	0.00%			-			-		-	15,204	-	15,204
4	304	Structures & Improvements	3.33%			-			-		1,476	44,339	30,799	13,540
5	305	Collecting & Impounding Reservoirs	2.50%			-			-		109	4,350	2,780	1,570
6	306	Lake, River, Canal Intakes	2.50%			-			-		-	-	-	-
7	307	Wells & Springs	3.33%			-			-		611	27,448	22,460	4,989
8	308	Infiltration Galleries	6.67%			-			-		-	-	-	-
9	309	Raw Water Supply Mains	2.00%			-			-		20	1,009	714	295
10	310	Power Generation Equipment	5.00%	933		933			-		23	933	23	910
11	311	Pumping Equipment	12.50%			-			-		5,783	46,268	36,557	9,711
12	320	Water Treatment Equipment				-			-		-	-	-	-
13	320	Water Treatment Plants	3.33%			-			-		-	-	-	-
14	320	Solution Chemical Feeders	20.00%			-			-		1,281	6,406	4,111	2,295
15	330	Distribution Reservoirs & Standpipes				-			-		-	-	-	-
16	330.1	Storage Tanks	2.22%			-			-		473	36,415	32,890	3,525
17	330.2	Pressure Tanks	5.00%			-			-		436	15,269	14,030	1,239
18	331	Transmission & Distribution Mains	2.00%	552		552			-		2,007	268,589	218,789	49,799
19	333	Services	3.33%			-			-		762	30,067	21,358	8,709
20	334	Meters	8.33%	3,780		3,780			-		7,226	88,637	63,298	25,339
21	335	Hydrants	2.00%			-			-		241	12,042	8,207	3,835
22	336	Backflow Prevention Devices	6.67%			-			-		-	-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-			-		1,029	16,728	6,512	10,216
24	340	Office Furniture & Equipment	6.67%			-			-		623	9,346	7,127	2,219
25	340.1	Computers & Software	20.00%		4,282	4,282			-		428	4,282	428	3,854
26	341	Transportation Equipment	20.00%	(2,813)		(2,813)	3,000		3,000		16,864	82,820	41,747	41,072
27	342	Stores Equipment	4.00%			-			-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%	324		324			-		56	1,274	617	657
29	344	Laboratory Equipment	10.00%			-			-		-	-	-	-
30	345	Power Operated Equipment	5.00%	2,813		2,813			-		422	28,218	17,692	10,526
31	346	Communication Equipment	10.00%	5,006	(4,282)	724			-		2,245	22,808	8,484	14,324
32	347	Miscellaneous Equipment	10.00%			-			-		-	-	-	-
33	348	Other Tangible Plant	20.00%			-			-		-	-	-	-
34														
35		TOTAL		10,596	-	10,596	3,000	-	3,000	-	42,115	769,294	545,130	224,163
36														
37		Depreciable Plant										499,591		
38		Composite Depreciation Rate										8.4299%		
39														

40 [1] Per Staff Depreciation Calculation

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Reconciliation of Plant Additions, Retirements and Accumulated Depreciatior

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Unbooked Retirements	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	0.00%			-			-		-	6,843	6,507	336
2	302	Franchise Cost	0.00%			-			-		-	-	-	-
3	303	Land and Land Rights	0.00%			-			-		-	15,204	-	15,204
4	304	Structures & Improvements	3.33%			-			-		1,476	44,339	32,275	12,064
5	305	Collecting & Impounding Reservoirs	2.50%			-			-		109	4,350	2,889	1,461
6	306	Lake, River, Canal Intakes	2.50%			-			-		-	-	-	-
7	307	Wells & Springs	3.33%			-			-		611	27,448	23,071	4,377
8	308	Infiltration Galleries	6.67%			-			-		-	-	-	-
9	309	Raw Water Supply Mains	2.00%			-			-		20	1,009	734	275
10	310	Power Generation Equipment	5.00%	5,300		5,300			-		179	6,233	202	6,031
11	311	Pumping Equipment	12.50%			-			-		5,783	46,268	42,340	3,927
12	320	Water Treatment Equipment				-			-		-	-	-	-
13	320	Water Treatment Plants	3.33%			-			-		-	-	-	-
14	320	Solution Chemical Feeders	20.00%			-			-		1,281	6,406	5,393	1,013
15	330	Distribution Reservoirs & Standpipes				-			-		-	-	-	-
16	330.1	Storage Tanks	2.22%			-			-		473	36,415	33,363	3,052
17	330.2	Pressure Tanks	5.00%			-			-		436	15,269	14,466	803
18	331	Transmission & Distribution Mains	2.00%	36,353		36,353			-		2,376	304,942	221,165	83,777
19	333	Services	3.33%			-			-		762	30,067	22,120	7,947
20	334	Meters	8.33%			-			-		7,383	88,637	70,682	17,956
21	335	Hydrants	2.00%			-			-		241	12,042	8,448	3,594
22	336	Backflow Prevention Devices	6.67%			-			-		-	-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-			-		1,029	16,728	7,540	9,188
24	340	Office Furniture & Equipment	6.67%			-	9,346		9,346		312	0	(1,908)	1,908
25	340.1	Computers & Software	20.00%			-			-		856	4,282	1,285	2,997
26	341	Transportation Equipment	20.00%	13,749		13,749			-		17,939	96,569	59,686	36,882
27	342	Stores Equipment	4.00%			-			-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-			-		64	1,274	680	593
29	344	Laboratory Equipment	10.00%			-			-		-	-	-	-
30	345	Power Operated Equipment	5.00%			-			-		492	28,218	18,184	10,034
31	346	Communication Equipment	10.00%			-	5,608		5,608		2,000	17,200	4,876	12,324
32	347	Miscellaneous Equipment	10.00%			-			-		-	-	-	-
33	348	Other Tangible Plant	20.00%			-			-		-	-	-	-
34														
35		TOTAL		55,402	-	55,402	14,954	-	14,954	-	43,823	809,742	573,999	235,742
36														
37		Depreciable Plant										540,040		
38		Composite Depreciation Rate										8.1148%		
39														

40 [1] Per Staff Depreciation Calculation

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Reconciliation of Plant Additions, Retirements and Accumulated Depreciatior

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Unbooked Retirements	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	0.00%			-			-		-	6,843	6,507	336
2	302	Franchise Cost	0.00%			-			-		-	-	-	-
3	303	Land and Land Rights	0.00%			-			-		-	15,204	-	15,204
4	304	Structures & Improvements	3.33%			-			-		1,476	44,339	33,752	10,587
5	305	Collecting & Impounding Reservoirs	2.50%			-			-		109	4,350	2,997	1,352
6	306	Lake, River, Canal Intakes	2.50%			-			-		-	-	-	-
7	307	Wells & Springs	3.33%			-			-		611	27,448	23,682	3,766
8	308	Infiltration Galleries	6.67%			-			-		-	-	-	-
9	309	Raw Water Supply Mains	2.00%			-			-		20	1,009	754	255
10	310	Power Generation Equipment	5.00%	6,167		6,167			-		466	12,401	668	11,732
11	311	Pumping Equipment	12.50%			-			-		3,927	46,268	46,268	-
12	320	Water Treatment Equipment				-			-		-	-	-	-
13	320	Water Treatment Plants	3.33%			-			-		-	-	-	-
14	320	Solution Chemical Feeders	20.00%			-			-		1,013	6,406	6,406	-
15	330	Distribution Reservoirs & Standpipes				-			-		-	-	-	-
16	330.1	Storage Tanks	2.22%			-			-		473	36,415	33,836	2,579
17	330.2	Pressure Tanks	5.00%			-			-		436	15,269	14,902	366
18	331	Transmission & Distribution Mains	2.00%	-		-			-		2,739	304,942	223,904	81,038
19	333	Services	3.33%			-			-		762	30,067	22,882	7,185
20	334	Meters	8.33%			-			-		7,383	88,637	78,065	10,572
21	335	Hydrants	2.00%			-			-		241	12,042	8,688	3,353
22	336	Backflow Prevention Devices	6.67%			-			-		-	-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-			-		1,029	16,728	8,569	8,159
24	340	Office Furniture & Equipment	6.67%		6,534	6,534			-		218	6,534	(1,690)	8,223
25	340.1	Computers & Software	20.00%		6,130	6,130			-		1,469	10,412	2,754	7,658
26	341	Transportation Equipment	20.00%			-			-		19,314	96,569	79,000	17,569
27	342	Stores Equipment	4.00%			-			-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-			-		64	1,274	744	529
29	344	Laboratory Equipment	10.00%			-			-		-	-	-	-
30	345	Power Operated Equipment	5.00%	2,243		2,243			-		548	30,461	18,732	11,729
31	346	Communication Equipment	10.00%	8,757	(8,757)	-			-		1,720	17,200	6,596	10,604
32	347	Miscellaneous Equipment	10.00%		3,975	3,975			-		199	3,975	199	3,776
33	348	Other Tangible Plant	20.00%			-			-		-	-	-	-
34														
35		TOTAL		17,167	7,882	25,049	-	-	-	-	44,218	834,791	618,217	216,573
36														
37		Depreciable Plant										565,088		
38		Composite Depreciation Rate										7.8250%		
39														

40 [1] Per Staff Depreciation Calculation

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Reconciliation of Plant Additions, Retirements and Accumulated Depreciatior

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2013 Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Unbooked Retirements	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	0.00%			-			-		-	6,843	6,507	336
2	302	Franchise Cost	0.00%			-			-		-	-	-	-
3	303	Land and Land Rights	0.00%			-			-		-	15,204	-	15,204
4	304	Structures & Improvements	3.33%			-			-		1,476	44,339	35,228	9,111
5	305	Collecting & Impounding Reservoirs	2.50%			-			-		109	4,350	3,106	1,244
6	306	Lake, River, Canal Intakes	2.50%			-			-		-	-	-	-
7	307	Wells & Springs	3.33%		539	539			-		620	27,987	24,302	3,685
8	308	Infiltration Galleries	6.67%			-			-		-	-	-	-
9	309	Raw Water Supply Mains	2.00%			-			-		20	1,009	775	235
10	310	Power Generation Equipment	5.00%			-			-		620	12,401	1,288	11,112
11	311	Pumping Equipment	12.50%			-			-		-	46,268	46,268	-
12	320	Water Treatment Equipment				-			-		-	-	-	-
13	320	Water Treatment Plants	3.33%			-			-		-	-	-	-
14	320	Solution Chemical Feeders	20.00%			-			-		-	6,406	6,406	-
15	330	Distribution Reservoirs & Standpipes				-			-		-	-	-	-
16	330.1	Storage Tanks	2.22%			-			-		473	36,415	34,309	2,106
17	330.2	Pressure Tanks	5.00%			-			-		366	15,269	15,269	-
18	331	Transmission & Distribution Mains	2.00%			-			-		2,739	304,942	226,643	78,299
19	333	Services	3.33%			-			-		762	30,067	23,644	6,423
20	334	Meters	8.33%	1,140		1,140			-		7,431	89,777	85,496	4,281
21	335	Hydrants	2.00%			-			-		241	12,042	8,929	3,112
22	336	Backflow Prevention Devices	6.67%			-			-		-	-	-	-
23	339	Other Plant & Misc Equipment	6.67%			-			-		1,029	16,728	9,598	7,130
24	340	Office Furniture & Equipment	6.67%			-			-		436	6,534	(1,254)	7,788
25	340.1	Computers & Software	20.00%		189	189			-		2,101	10,601	4,855	5,746
26	341	Transportation Equipment	20.00%			-		40,749	40,749		15,239	55,820	53,490	2,330
27	342	Stores Equipment	4.00%			-			-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	5.00%			-			-		64	1,274	808	466
29	344	Laboratory Equipment	10.00%			-			-		-	-	-	-
30	345	Power Operated Equipment	5.00%	1,000	(1,000)	-			-		604	30,461	19,336	11,124
31	346	Communication Equipment	10.00%	59	(59)	-			-		1,720	17,200	8,316	8,884
32	347	Miscellaneous Equipment	10.00%			-			-		398	3,975	596	3,379
33	348	Other Tangible Plant	20.00%			-			-		-	-	-	-
34														
35		TOTAL		2,199	(331)	1,868	-	40,749	40,749	-	36,448	795,909	613,916	181,993
36														
37		Depreciable Plant										473,533		
38		Composite Depreciation Rate										7.6969%		
39														

40 [1] Per Staff Depreciation Calculation

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Computation of Working Capital

Line No.			
1			
2	Operation and Maintenance Expense	$	235,542
3	Less depreciation, taxes, purchased		
4	power and purchased water		
5	Factor - 1/8		0.1250
6		$	29,443
7			
8	Purchased Power and Purchased Water	$	23,955
9	Factor - 1/24		0.0417
10		$	998
11			
12	Total Cash Working Capital	$	30,441
13			
14			

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Adjusted Test Year Income Statement

Schedule RLJ-3
Rebuttal
Page 1

Line No.			Actual for Test Year Ended 12/31/2013	Total Pro forma Adjustments	Test Year Results After Pro forma Adjustments	Proposed Rate Increase	Adjusted With Rate Increase
1	**Revenues**						
2	460	*Unmetered Water Revenue*	$ -	$ -	$ -		$ -
3	461	Metered Water Revenues	339,618	5,623	345,241	44,618	389,859
4	471	Miscellaneous Service Revenue	12,744	-	12,744	-	12,744
5	**Total Revenues**		$ 352,362	$ 5,623	$ 357,985	$ 44,618	$ 402,603
6	**Operating Expenses**						
7	601	Salaries and Wages	$ 164,965	$ (35,652)	$ 129,314		$ 129,314
8	603	Salaries and Wages - Officers and Directors	31,700	(5,113)	26,587		26,587
9	604	Employee Pension and Benefits	-	-	-		-
10	610	Purchased Water	40	-	40		40
11	615	Purchased Power	24,401	(485)	23,915		23,915
12	618	Chemicals	425	(45)	380		380
13	620	Repairs and Maintenance	8,899	127	9,026		9,026
14	621	Office Supplies Expense	30,594	(17,865)	12,729		12,729
15	631	Contractual Services - Engineering	-	-	-		-
16	632	Contractual Services - Accounting	620	-	620		620
17	633	Contractual Services - Legal	-	-	-		-
18	634	Contractual Services - Management Fees	-	-	-		-
19	635	Contractual Services - Testing	4,791	37	4,828		4,828
20	636	Contractual Services - Other	10,837	(2,554)	8,283		8,283
21	641	Rent - Buildings	-	9,056	9,056		9,056
22	642	Rent - Equipment	-	-	-		-
23	650	Transportation Expense	24,752	(7,252)	17,499		17,499
24	656	Insurance - Vehicle	-	-	-		-
25	657	Insurance - General Liability	8,964	(2,466)	6,497		6,497
26	658	Insurance - Workman's Compensation	-	-	-		-
27	659	Insurance - Other	2,667	(520)	2,146		2,146
28	660	Advertising Expense	-	-	-		-
29	666	Regulatory Commission Expense - Rate Case	-	15,000	15,000		15,000
30	667	Regulatory Expense - Other	445	-	445		445
31	668	Water Resource Conservation Expense	-	-	-		-
32	670	Bad Debt Expense	-	4,833	4,833	602	5,435
33	675	Miscellaneous Expense	10,284	(6,985)	3,298		3,298
34	403	Depreciation Expense	28,644	(9,551)	19,093		19,093
35	408	Taxes Other Than Income	-	11,414	11,414		11,414
36	408.11	*Property Taxes*	18,173	(479)	17,693	735	18,429
37	409	Income Tax	50	7,043	7,093	11,085	18,178
38	**Total Operating Expenses**		$ 371,249	$ (41,458)	$ 329,791	$ 12,422	$ 342,213
39	**Operating Income**		$ (18,887)	$ 47,082	$ 28,195	$ 32,196	$ 60,390
40	**Other Income (Expense)**						
41	419	*Interest and Dividend Income*	$ -	$ -	$ -		$ -
42	421	Non-Utility Income	684	-	684		684
43	426	Miscellaneous Non-Utility Expenses	(5,000)	-	(5,000)		(5,000)
44	427	Interest Expense	(1,451)	554	(896)		(896)
45	**Total Other Income (Expense)**		$ (5,767)	$ 554	$ (5,212)	$ -	$ (5,212)
46	**Net Income (Loss)**		$ (24,653)	$ 47,636	$ 22,983	$ 32,196	$ 55,178
47							

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Income Statement Pro forma Adjustments

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Line No.			Actual for Test Year Ended 12/31/2013	ADJ IS-1 Correct Underbilled Revenue	ADJ IS-1A Eliminate Revenue Adjustments	ADJ IS-2 2014 Salary Increase	ADJ IS-3 Reclass Cust. Deposit Interest	ADJ IS-4 Reclass Bad Debt Expense	Witness: Rebuttal Adjustments Staff Adj. No. 1	Staff Adj. No. 2	Staff Adj. No. 3	Staff Adj. No. 4	Staff Adj. No. 5
		Revenues											
1	460	Unmetered Water Revenue	$ -										
2	461	Metered Water Revenues	339,618	3,314	2,688				(379)				
3	471	Miscellaneous Service Revenue	12,744										
4		**Total Revenues**	$ 352,362	$ 3,314	$ 2,688	$ -	$ -	$ -	$ (379)	$ -	$ -	$ -	$ -
5		**Operating Expenses**											
6	601	Salaries and Wages	$ 164,965			$ 15,000							($50,652)
7	603	Salaries and Wages - Officers and Directors	31,700										(5,113)
8	604	Employee Pension and Benefits	-										
9	610	Purchased Water	40										
10	615	Purchased Power	24,401										(485)
11	618	Chemicals	425										(45)
12	620	Repairs and Maintenance	8,899										127
13	621	Office Supplies Expense	30,594										(17,865)
14	631	Contractual Services - Engineering	-										
15	632	Contractual Services - Accounting	620										
16	633	Contractual Services - Legal	-										
17	634	Contractual Services - Management Fees	-										
18	635	Contractual Services - Testing	4,791							37			
19	636	Contractual Services - Other	10,837										(2,554)
20	641	Rent - Buildings	-										9,056
21	642	Rent - Equipment	-										
22	650	Transportation Expense	24,752										(7,252)
23	656	Insurance - Vehicle	-										
24	657	Insurance - General Liability	8,964										(2,466)
25	658	Insurance - Workman's Compensation	-										
26	659	Insurance - Other	2,667										(520)
27	660	Advertising Expense	-										
28	666	Regulatory Commission Expense - Rate Case	-								1,667		
29	667	Regulatory Expense - Other	445										
30	668	Water Resource Conservation Expense	-										
31	670	Bad Debt Expense	-					1,990				2,843	
32	675	Miscellaneous Expense	10,284				554	(1,990)					(5,550)
33	403	Depreciation Expense	28,644										
34	408	Taxes Other Than Income	-										11,414
35	408	Property Taxes	18,173										
36	409	Income Tax	50										
37		**Total Operating Expenses**	$ 371,249	$ -	$ -	$ 15,000	$ 554	$ -	$ -	$ 37	$ 1,667	$ 2,843	$ (71,906)
38		**Operating Income**	$ (18,887)	$ 3,314	$ 2,688	$ (15,000)	$ (554)	$ -	$ (379)	$ (37)	$ (1,667)	$ (2,843)	$ 71,906
39		**Other Income (Expense)**											
40	419	Interest and Dividend Income	$ -										
41	421	Non-Utility Income	684										
42	426	Miscellaneous Non-Utility Expenses	(5,000)										
43	427	Interest Expense	(1,451)				554						
44		**Total Other Income (Expense)**	$ (5,767)	$ -	$ -	$ -	$ 554	$ -	$ -	$ -	$ -	$ -	$ -
45		**Net Income (Loss)**	$ (24,653)	$ 3,314	$ 2,688	$ (15,000)	$ -	$ -	$ (379)	$ (37)	$ (1,667)	$ (2,843)	$ 71,906

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Income Statement Pro forma Adjustments

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Line No.		Updated Rebuttal Adjustments: ADJ IS-5 Rate Case Expense	ADJ IS-6 Adjust Depreciation Expense	ADJ IS-7 Adjust Property Taxes	ADJ IS-8 Income Taxes	Total Adjustments	Test Year Adjusted Results
	Revenues						
1	460 Unmetered Water Revenue					$ -	$ -
2	461 Metered Water Revenues					5,623	345,241
3	471 Miscellaneous Service Revenue					-	12,744
4	**Total Revenues**	$ -	$ -	$ -	$ -	$ 5,623	$ 357,985
5	**Operating Expenses**						
6	601 Salaries and Wages					$ (35,652)	$ 129,314
7	603 Salaries and Wages - Officers and Directors					(5,113)	26,587
8	604 Employee Pension and Benefits					-	-
9	610 Purchased Water					-	40
10	615 Purchased Power					(485)	23,915
11	618 Chemicals					(45)	380
12	620 Repairs and Maintenance					127	9,026
13	621 Office Supplies Expense					(17,865)	12,729
14	631 Contractual Services - Engineering					-	-
15	632 Contractual Services - Accounting					-	620
16	633 Contractual Services - Legal					-	-
17	634 Contractual Services - Management Fees					-	-
18	635 Contractual Services - Testing					37	4,828
19	636 Contractual Services - Other					(2,554)	8,283
20	641 Rent - Buildings					9,056	9,056
21	642 Rent - Equipment					-	-
22	650 Transportation Expense					(7,252)	17,499
23	656 Insurance - Vehicle					-	-
24	657 Insurance - General Liability					(2,466)	6,497
25	658 Insurance - Workman's Compensation					-	-
26	659 Insurance - Other					(520)	2,146
27	660 Advertising Expense					-	-
28	666 Regulatory Commission Expense - Rate Case	13,333				15,000	15,000
29	667 Regulatory Expense - Other					-	445
30	668 Water Resource Conservation Expense					-	-
31	670 Bad Debt Expense					4,833	4,833
32	675 Miscellaneous Expense					(6,985)	3,298
33	403 Depreciation Expense		(9,551)			(9,551)	19,093
34	408 Taxes Other Than Income					11,414	11,414
35	408 Property Taxes			(479)		(479)	17,693
36	409 Income Tax				7,043	7,043	7,093
37	**Total Operating Expenses**	$ 13,333	$ (9,551)	$ (479)	$ 7,043	$ (41,458)	$ 329,791
38	**Operating Income**	$ (13,333)	$ 9,551	$ 479	$ (7,043)	$ 47,082	$ 28,195
39	**Other Income (Expense)**						
40	419 Interest and Dividend Income					$ -	$ -
41	421 Non-Utility Income					-	684
42	426 Miscellaneous Non-Utility Expenses					-	(5,000)
43	427 Interest Expense					554	(896)
44	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ 554	$ (5,212)
45	**Net Income (Loss)**	$ (13,333)	$ 9,551	$ 479	$ (7,043)	$ 47,636	$ 22,983

Line No.			
1	Correct Underbilled Revenue		
2			
3	For the 5/8" x 3/4" Class, usage between 8,001 gallons and 11,000 gallons		
4	was billed at $3.20 per 1,000 gallons rather than $4.20 per 1,000 gallons.		
5			
6	5/8" x 3/4" Class usage between 8,001 gallons and 11,000 gallons	3,314,356	gallons
7	Rate Differential	$ 1.00	
8	Underbilled Revenue	3,314.36	
9			
10			
11	Increase/(Decrease) in Metered Revenue	$ 3,314.36	
12			
13			

Line No.

1 Reverse Improper Revenue Adjustments
2
3 In February 2013 eleven accounts were written off and sent to collections.
4 Rather than booking an adjustment to Accounts Receivable, an adjustment
5 was improperly booked to the Revenue account.
6
7 In December 2013, 45 accounts had duplicate meter reading entered in the
8 billing system. These duplicate meter reading were adjusted in December prior
9 to issuing November bills. The company's billing system vendor caused these
10 adjustments to be retroactively applied to November bills prior to issueing the
11 November bills. Since the vendor caused the adjustment to be retroactively
12 applied, revenue reports for both November and December reflected the
13 adjustments. The December adjustment is a duplicate that should not be
14 deducted from Revenue.
15

16	Incorrect February Revenue Adjustment	$ (1,271.97)	
17	Duplicate December Revenue Adjustment	(1,416.09)	
18	Total Revenue Adjustments to be Reversed	$ (2,688.06)	
19			
20	Increase/(Decrease) in Metered Revenue		$ 2,688.06

21
22

Line No.			
1	Adjust for 2014 Salary Increase		
2			
3	Total 2014 increase in employee salary	$ 20,000.00	
4	Percentage Allocated to Chino Meadows	75%	
5	Salary increase for Granite Mountain	$ 15,000.00	
6			
7	Increase/(Decrease) in Salaries and Wages		$ 15,000.00
8			
9			

Line No.			
1	Reclass Customer Deposit Interest		
2			
3			
4	Customer Deposit Interest Charged to Interest Expense	554.43	
5			
6	Increase/(Decrease) in Interest Expense		$ (554.43)
7			
8	Increase/(Decrease) in Miscellaneous Expense		$ 554.43
9			

Line No.			
1	Reclass Bad Debt Expense		
2			
3			
4	Customer Bad Debt Charged to Miscellaneous Expense	1989.9	
5			
6	Increase/(Decrease) in Miscellaneous Expense		$ (1,989.90)
7			
8	Increase/(Decrease) in Bad Debt Expense		$ 1,989.90
9			

Adjust Rate Case Expense

Line No.			
1	Estimated Rate Case Expense	$	40,000
2			
3	Amortization Period (Years)		3
4			
5	Annualized Rate Case Expense	$	13,333
6			
7	Test Year Rate Case Expense		-
8			
9	Increase / (Decrease) in Rate Case Expense		13,333
10			

Adjust Depreciation Expense to Reflect Adjusted Plant Balances

Line No.	Acct	Description	Adjusted Test Year Balance 12/31/2013	Fully Depreciated Plant	Depreciable Plant	Proposed Depreciation Rate	Depreciation Expense
1							
2	301	Organization Cost	$ 6,843		$ 6,843	0.00%	$ -
3	302	Franchise Cost	-		-	0.00%	-
4	303	Land and Land Rights	15,204		15,204	0.00%	-
5	304	Structures & Improvements	44,339		44,339	3.33%	1,476
6	305	Collecting & Impounding Reservoirs	4,350		4,350	2.50%	109
7	306	Lake, River, Canal Intakes	-		-	2.50%	-
8	307	Wells & Springs	27,987	(9,096)	18,891	3.33%	629
9	308	Infiltration Galleries	-		-	6.67%	-
10	309	Raw Water Supply Mains	1,009		1,009	2.00%	20
11	310	Power Generation Equipment	12,401		12,401	5.00%	620
12	311	Pumping Equipment	46,268	(46,268)	-	12.50%	-
13	320	Water Treatment Equipment	-		-	3.33%	-
14	320.1	Water Treatment Plants	-		-	3.33%	-
15	320.2	Solution Chemical Feeders	6,406	(6,406)	0	20.00%	0
16	330	Distribution Reservoirs & Standpipes	-		-	2.22%	-
17	330.1	Storage Tanks	36,415	(15,120)	21,295	2.22%	473
18	330.2	Pressure Tanks	15,269	(15,269)	-	5.00%	-
19	331	Transmission & Distribution Mains	304,942	(167,988)	136,954	2.00%	2,739
20	333	Services	30,067	(7,181)	22,886	3.33%	762
21	334	Meters	89,777		89,777	8.33%	7,478
22	335	Hydrants	12,042		12,042	2.00%	241
23	336	Backflow Prevention Devices	-		-	6.67%	-
24	339	Other Plant & Misc Equipment	16,728	(1,305)	15,423	6.67%	1,029
25	340	Office Furniture & Equipment	6,534		6,534	6.67%	436
26	340.1	Computers & Software	10,601		10,601	20.00%	2,120
27	341	Transportation Equipment	55,820	(55,820)	-	20.00%	-
28	342	Stores Equipment	-		-	4.00%	-
29	343	Tools, Shop & Garage Equipment	1,274		1,274	5.00%	64
30	344	Laboratory Equipment	-		-	10.00%	-
31	345	Power Operated Equipment	30,461	(18,377)	12,084	5.00%	604
32	346	Communication Equipment	17,200		17,200	10.00%	1,720
33	347	Miscellaneous Equipment	3,975		3,975	10.00%	398
34	348	Other Tangible Plant	-	-	-	20.00%	-
35		TOTALS	$ 795,909	$ (342,829)	$ 453,080		$ 20,918
36							
37		Less: Amortization of CIAC	$ 37,608			4.8529%	$ 1,825
38							
39		Adjusted Test Year Depreciation Expense					$ 19,093
40							
41		Test Year Depreciation Expense					$ 28,644
42							
43		Increase / (Decrease) in Depreciation Expense					$ (9,551)

Adjust Property Tax Expense to Reflect Adjusted Test Year and Proposed Revenues

Line No.	Description	Company As Adjusted	Company Proposed
1	Adjusted Test Year Revenue	$ 357,985	$ 357,985
2	Adjusted Test Year Revenue	357,985	357,985
3	Adjusted Test Year Revenue	357,985	
4	Proposed Revenues after Increase		402,603
5	Average of three year's of revenue	357,985	372,858
6	Average of three year's of revenue, times 2	715,971	745,716
7	Add:		
8	Construction Work In Progress at 10%	-	-
9	Deduct:		
10	Net Book Value of Transportation Equipment	-	-
11			
12	Full Cash Value	715,971	745,716
13	Assessment Ratio	18.5%	18.5%
14	Assessed Value	132,455	137,957
15	Property Tax Rate (2012 Tax Year)	13.3582%	13.3582%
16			
17	Adjusted Test Year Property Tax	$ 17,693	
18	Recorded Test Year Property Tax	18,173	
19	Test Year Adjustment	$ (479)	
20			
21	Property Tax at Proposed Rates		$ 18,429
22	Adjusted Test Year Property Tax		17,693
23	Increase in Property Tax due to Rate Increase		$ 735
24			
25	Calculation of Property Tax Factor		
26	Increase to Property Tax Expense		$ 735
27	Increase in Revenue Requirement		$ 44,618
28	Property Tax Factor (L25 / L26)		1.6475%
29			

30			2013				
31	CALCULATION OF TAX RATE		Value	Ratio	Tax Value	Tax	Rate
32		947-25-131	583,000	19.5%	113,685	15,186	13.3582%

Adjust Income Tax Expense to Reflect Adjusted Test Year and Proposed Revenues

Line No.	Description			Adjusted Test Year	Proposed with Increase
1					
2	Calculation of Income Tax:				
3	Revenue			$ 357,985	$ 402,603
4	Less: Operating Expenses (Excluding Income Taxes)			322,698	324,035
5	Less: Synchronized Interest			-	-
6	Arizona Taxable Income			$ 35,288	$ 78,568
7					
8	All Income at 6.0000%			$ 2,117	$ 4,714
9					
10					
11					
12					
13	Arizona Income Tax			$ 2,117	$ 4,714
14	Federal Taxable Income			$ 33,170	$ 73,854
15					
16	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%			$ 4,976	$ 7,500
17	Federal Tax on Second Income Bracket ($50,001 - 75,000) @ 25%			$ -	5,963
18	Federal Tax on Third Income Bracket ($75,001 - 100,000) @ 34%			$ -	-
19	Federal Tax on Fourth Income Bracket ($100,001 - 335,000) @ 39%			$ -	-
20	Federal Tax on Fifth Income Bracket ($335,001 - 10,000,000) @ 34%			$ -	-
21	Federal Tax on Sixth Income Bracket ($10,000,001 - 15,000,000) @ 35%			$ -	-
22	Federal Tax on Seventh Income Bracket ($15,000,001 - 18,333,333) @ 38%			$ -	-
23	Federal Tax on Eighth Income Bracket ($18,333,334 - .....) @ 35%			$ -	-
24					
25	Total Federal Income Tax			$ 4,976	$ 13,463
26					
27	Combined Federal and State Income Tax			$ 7,093	$ 18,178
28					
29	Effective State Tax Rate			6.0000%	6.0000%
30	Effective Federal Tax Rate			15.0000%	18.2299%
31	Effective Combined Tax Rate			20.1000%	23.1361%
32					
33	Applicable Arizona State Income Tax Rate (Rate Applicable to Revenue Increase)				6.0000%
34	Applicable Federal Income Tax Rate (Rate Applicable to Revenue Increase)				20.8633%
35					
36	Calculation of Interest Synchronization				
37	Rate Base	$	168,668		
38	Weighted Average Cost of Debt		0.000%		
39	Synchronized Interest	$	-		
40					
41	Income Tax Adjustments				
42	Test Year Income Taxes - Booked			$ 50	
43	Increase / (decrease) in Income Taxes (L21 - L32)			7,043	
44					
45	Test Year Income Taxes - Adjusted				$ 7,093
46	Increase / (decrease) in Federal Income Taxes (L21 - L35)				11,085
47					
48					

Line No.	Calculation of Gross Revenue Conversion Factor		
1	Revenue	100.0000%	
2	Uncollectable Factor (Line 11)	1.0043%	
3	Revenue (L1 - L2)	98.9957%	
4	*Combined Income Tax and Property Tax Rate (Line 23)*	26.8371%	
5	Operating Income Percentage (L3 -L4)	72.1587%	
6	Gross Revenue Conversion Factor (L1 / L5)	1.385835	
	Calculation of Uncollectable Factor		
7	Unity	100.0000%	
8	Combined Federal and State Tax Rate (Line 17)	25.6115%	
9	One Minus Combined Federal and State Tax Rate (L7 - L8)	74.3885%	
10	Uncollectable Rate (Line 26)	1.3500%	
11	Uncollectable Factor (L9 * L10)	1.0043%	
	Calculation of Effective Tax Rate		
12	Operating Income Before Taxes	100.0000%	
13	Applicable Arizona State Tax Rate (from Schedule C-2)	6.0000%	
14	Federal Taxable Income (L12 - L13)	94.0000%	
15	Applicable Federal Tax Rate (from Schedule C-2)	20.8633%	
16	Effective Federal Tax Rate (L14 * L15)	19.6115%	
17	Combined Federal and State Tax Rate (L13 + L16)		25.6115%
	Calculation of Effective Property Tax Rate		
18	Unity	100.0000%	
19	Combined Federal and State Tax Rate (Line 17)	25.6115%	
20	One Minus Combined Income Tax Rate (L18 - L19)	74.3885%	
21	Property Tax Factor (from Schedule C-2)	1.6475%	
22	Effective Property Tax Factor (L20 * L21)		1.2256%
23	Combined Federal and State Income Tax Rate and Property Tax Rate (L17 + L22)		26.8371%

	Calculation of Uncollectable Rate		
24	Bad Debt Expense (from Schedule C-1)	$	4,833
25	Total Revenues (from Schedule C-1)		357,985
26	Uncollectable Rate (L24 / L25)		1.3500%
27	Revenue Increase (from Schedule C-1)	$	44,618
28	Uncollectable Rate (Line 26)		1.3500%
29	Bad Debt Expense due to Increase	$	602

30	Supporting Schedules:	Recap Schedules:
31		A-1

Line No.	**General Water Service Rates**		Present	Proposed	Base Charge			Volume Charge		
2			Rate Tiers	Rate Tiers	Present	Proposed		Present	Proposed	
3	Description		(gallons)	(gallons)	Rate	Rate	Change	Rate	Rate	Change
4										
5	R1 - 5/8" x 3/4" Meter	Tier 1	3,000	3,000	$ 17.75	$ 19.00	$ 1.25	$ 2.40	$ 2.85	$ 0.45
6		Tier 2	8,000	8,000				$ 3.20	$ 3.85	$ 0.65
7		Tier 3	999,999,000	999,999,000				$ 4.20	$ 5.10	$ 0.90
8	R2 - 3/4" Meter	Tier 1	3,000	3,000	$ 26.63	$ 28.50	$ 1.87	$ 2.40	$ 2.85	$ 0.45
9		Tier 2	8,000	8,000				$ 3.20	$ 3.85	$ 0.65
10		Tier 3	999,999,000	999,999,000				$ 4.20	$ 5.10	$ 0.90
11	R3 - 1" Meter	Tier 1	3,000	-	$ 44.38	$ 47.50	$ 3.12	$ 2.40		
12		Tier 2	8,000	15,000				$ 3.20	$ 3.85	$ 0.65
13		Tier 3	999,999,000	999,999,000				$ 4.20	$ 5.10	$ 0.90
14	R4 - 1.5" Meter	Tier 1	3,000	-	$ 88.75	$ 95.00	$ 6.25	$ 2.40		
15		Tier 2	8,000	30,000				$ 3.20	$ 3.85	$ 0.65
16		Tier 3	999,999,000	999,999,000				$ 4.20	$ 5.10	$ 0.90
17	R5 - 2" Meter	Tier 1	3,000	-	$ 142.00	$ 152.00	$ 10.00	$ 2.40		
18		Tier 2	8,000	50,000				$ 3.20	$ 3.85	$ 0.65
19		Tier 3	999,999,000	999,999,000				$ 4.20	$ 5.10	$ 0.90
20	R6 - 3" Meter	Tier 1	3,000	-	$ 266.25	$ 304.00	$ 37.75	$ 2.40		
21		Tier 2	8,000	100,000				$ 3.20	$ 3.85	$ 0.65
22		Tier 3	999,999,000	999,999,000				$ 4.20	$ 5.10	$ 0.90
23	R7 - 4" Meter	Tier 1	3,000	-	$ 443.75	$ 475.00	$ 31.25	$ 2.40		
24		Tier 2	8,000	150,000				$ 3.20	$ 3.85	$ 0.65
25		Tier 3	999,999,000	999,999,000				$ 4.20	$ 5.10	$ 0.90
26	R8 - 6" Meter	Tier 1	3,000	-	$ 887.50	$ 950.00	$ 62.50	$ 2.40		
27		Tier 2	8,000	300,000				$ 3.20	$ 3.85	$ 0.65
28		Tier 3	999,999,000	999,999,000				$ 4.20	$ 5.10	$ 0.90
29	Hydrant Meter	Tier 3	999,999,000	999,999,000	n/t	By Meter Size		n/t	$ 5.10	n/a
30										

31	**Monthly Service Charge for Fire Sprinkler**		
32		Present	Proposed
33		Rates	Rates
34	4" or Smaller	***	n/t
35	6"	***	n/t
36	8"	***	n/t
37	10"	***	n/t
38			

39 *** 2.00 percent of Monthly Usage Charge for a Comparable Sized Meter Connection, but no less than
40 $10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate
41 and distinct from the primary water service line.
42

Line No.	**Other Service Charges**	Present Rates	Proposed Rates	
3	Establishment	$ 25.00	$ 25.00	
4	Reconnection (Delinquent)	$ 30.00	$ 30.00	
5	After Hours Charge (flat rate)	$ 25.00	$ 25.00	
6	Meter Test (If correct)	$ 20.00	$ 25.00	
7	Deposit Requirement (Residential)	2 times the average bill	2 times the average bill	Per A.C.C. R14-2-403.B.
8	Deposit Interest	6% per year	6% per year	Per A.C.C. R14-2-403.B.
9	Re-Establishment (Within 12 Months)	Number of Months off system times the monthly minimum charge	Number of Months off system times the monthly minimum charge	Per A.A.C. R14-2-403.D
10	NSF Check	$ 20.00	$ 20.00	
11	Deferred Payment, Per Month	1.5%	1.5%	
12	Meter Re-Read (If correct)	$ 15.00	$ 15.00	
13	Moving Customer Meter at Customer Request			
14	Late Charge per month	1.5%	1.5%	

15
16 In addition to the collection of regular rates, the utility will collect from its
17 customers a proportionate share of any privilege, sales, use, and franchise tax,
18 per Commission rule A.A.C. 14-2-409(D)(5).
19
20 All items billed at cost shall include labor, materials and parts, overheads and all applicable taxes.
21
22 n/t - no tariff
23

24	**Service Line and Meter Installation Charges**	Present Rates			Proposed Rates		
25		Srv. Line	Meter	Total	Srv. Line	Meter	Total
26	5/8" x 3/4" Meter	$ 406	$ 95	$ 501	$ 450	$ 150	$ 600
27	3/4" Meter	$ 413	$ 162	$ 575	$ 450	$ 250	$ 700
28	1" Meter	$ 441	$ 209	$ 650	$ 575	$ 300	$ 875
29	1 1/2" Meter	$ 395	$ 321	$ 716	$ 675	$ 500	$ 1,175
30	2" Meter	$ 727	$ 845	$ 1,572	$ 1,000	$ 1,500	$ 2,500
31	3" Meter	$ 952	$ 1,448	$ 2,400	$ 1,300	$ 2,000	$ 3,300
32	4" Meter	$ 1,310	$ 2,206	$ 3,516	$ 1,800	$ 3,500	$ 5,300
33	6" Meter	$ 2,160	$ 4,756	$ 6,916	$ 2,800	$ 6,000	$ 8,800

34
35 All advances and/or contributions are to include labor, materials and parts, overheads and all applicable taxes,
36 including gross-up taxes for Federal and State taxes, if applicable.
37
38 All items billed at cost shall include labor, materials and parts, overheads and all applicable taxes.
39
40 n/t - no tariff
41

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Analysis of Revenue by Detailed Class

Schedule RLJ-4
Rebuttal
Page 3

Line No.	Description	Average Number Customers	Average Consumption	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Amount	Proposed Increase %
1							
2	Unmetered Water Revenue						
3	Fire Service	-		$ -	$ -	$ -	
4							
5	Metered Water Revenue						
6	R1 - 5/8" x 3/4" Meter	895	4,931	$ 346,110	$ 390,444	$ 44,334	12.81%
7	R2 - 3/4" Meter	-	-	-	-	-	
8	R3 - 1" Meter	-	-	-	-	-	
9	R4 - 1.5" Meter	-	-	-	-	-	
10	R5 - 2" Meter	-	-	-	-	-	
11	R6 - 3" Meter	-	-	-	-	-	
12	R7 - 4" Meter	-	-	-	-	-	
13	R8 - 6" Meter	-	-	-	-	-	
14	Hydrant Meter						
15							
16	**Totals:**						
17	Unmetered Water Revenue						
18	Fire Service	-		$ -	$ -	$ -	
19							
20	Metered Water Revenue						
21	All Customers	895	59,192	346,110	390,444	44,334	12.81%
22							
23	Other Water Revenue			$ 12,744	$ 12,744	-	0.00%
24							
25	Total	895		$ 358,854	$ 403,188	$ 44,334	12.35%
26							

Supplemental Schedule
Breakdown of Metered Water Revenue at Current Rates
By Rate Components

Line No.	Description	Revenue at Current Rates: Base Charge	1st Tier	2nd Tier	3rd Tier	Total Revenue
1						
2	R1 - 5/8" x 3/4" Meter	$ 190,706	$ 64,900	$ 58,952	$ 31,551	$ 346,110
3	R2 - 3/4" Meter	-	-	-	-	-
4	R3 - 1" Meter	-	-	-	-	-
5	R4 - 1.5" Meter	-	-	-	-	-
6	R5 - 2" Meter	-	-	-	-	-
7	R6 - 3" Meter	-	-	-	-	-
8	R7 - 4" Meter					
9	R8 - 6" Meter	-	-	-	-	-
10	R9 - 8" Meter	-	-	-	-	-
11	Hydrant Meter					-
12						
13	Total Revenue	$ 190,706	$ 64,900	$ 58,952	$ 31,551	$ 346,110
14						
15	Percentage of Total	55.10%	18.75%	17.03%	9.12%	100.00%
16						

Supplemental Schedule
Breakdown of Metered Water Revenue at Proposed Rates
By Rate Components

Line No.	Description	Revenue at Proposed Rates: Base Charge	1st Tier	2nd Tier	3rd Tier	Total Revenue
1						
2	R1 - 5/8" x 3/4" Meter	$ 204,136	$ 77,069	$ 70,927	$ 38,312	$ 390,444
3	R2 - 3/4" Meter	-	-	-	-	-
4	R3 - 1" Meter	-	-	-	-	-
5	R4 - 1.5" Meter	-	-	-	-	-
6	R5 - 2" Meter	-	-	-	-	-
7	R6 - 3" Meter	-	-	-	-	-
8	R7 - 4" Meter					
9	R8 - 6" Meter	-	-	-	-	-
10	R9 - 8" Meter	-	-	-	-	-
11	Hydrant Meter					-
12						-
13	Total Revenue	$ 204,136	$ 77,069	$ 70,927	$ 38,312	$ 390,444
14						
15	Percentage of Total Revenue	52.28%	19.74%	18.17%	9.81%	100.00%
16						
17	Percentage Increase by Tier	7.04%	18.75%	20.31%	21.43%	12.81%
18						

Supplemental Schedule
Metered Water Revenue at Proposed Rates
Analysis of Increases by Rate Tier

Line No.		Base Charge	1st Tier	2nd Tier	3rd Tier	Total Revenue
1	Revenue at Current Rates	$ 190,706	$ 64,900	$ 58,952	$ 31,551	$ 346,110
2	Revenue at Company's Proposed Rates	204,136	77,069	70,927	38,312	390,444
3	Increase in Rates	$ 13,430	$ 12,169	$ 11,975	$ 6,761	$ 44,334
4						
5	Percentage Increase by Tier	7.0%	18.8%	20.3%	21.4%	12.8%
6	Percentage of Increase within Tier	30.3%	27.4%	27.0%	15.2%	100.0%
7						
8						
9						
10		Base	1st	2nd	3rd	Total
11		Charge	Tier	Tier	Tier	Revenue
12	Revenue at Current Rates	$ 190,706	$ 64,900	$ 58,952	$ 31,551	$ 346,110
13	Revenue at Company's Proposed Rates	$ 204,136	$ 77,069	$ 70,927	$ 38,312	$ 390,444
14						
15	Percentage of Total Revenue					
16	Current Rates	55.1%	18.8%	17.0% #	9.1%	100.0%
17	Company's Proposed Rates	52.3%	19.7%	18.2% #	9.8%	100.0%
18	Change	-2.8%	1.0%	1.1%	0.7%	0.0%
19						
20						

Chino Meadows II Water Co., Inc.
Test Year Ended December 31, 2013
Bill Count

Meter Size: 5/8" x 3/4"
Rate Code: R1

Rate Tiers	Present Rates	Proposed Rates
Tier One Breakover (M gal):	3	3
Tier Two Breakover (M gal):	8	8
Tier Three Breakover (M gal):	999,999	999,999

Charges	Present Rates	Proposed Rates
Base Charge:	$ 17.75	$ 19.00
Tier One Rate:	$ 2.40	$ 2.85
Tier Two Rate:	$ 3.20	$ 3.85
Tier Three Rate:	$ 4.20	$ 5.10

Line No.	Block	Number of Bills in Block	Average Consumption in Block 50%	Consumption in Block	Cumulative Bills No.	Cumulative Bills % of Total	Cumulative Consumption Amount	Cumulative Consumption % of Total
1	- - -	248			248	2.31%	-	0.00%
2	1 - 1,000	733	507	371,645	981	9.13%	371,645	0.70%
3	1,001 - 2,000	1,249	1,518	1,896,321	2,230	20.76%	2,267,966	4.28%
4	2,001 - 3,000	1,565	2,509	3,926,836	3,795	35.32%	6,194,802	11.69%
5	3,001 - 4,000	1,610	3,489	5,617,828	5,405	50.31%	11,812,630	22.30%
6	4,001 - 5,000	1,376	4,481	6,166,015	6,781	63.11%	17,978,645	33.94%
7	5,001 - 6,000	1,114	5,480	6,104,714	7,895	73.48%	24,083,359	45.46%
8	6,001 - 7,000	735	6,463	4,750,190	8,630	80.32%	28,833,549	54.43%
9	7,001 - 8,000	536	7,475	4,006,731	9,166	85.31%	32,840,280	61.99%
10	8,001 - 9,000	381	8,510	3,242,395	9,547	88.86%	36,082,675	68.11%
11	9,001 - 10,000	271	9,491	2,572,010	9,818	91.38%	38,654,685	72.97%
12	10,001 - 12,000	355	10,924	3,877,865	10,173	94.69%	42,532,550	80.29%
13	12,001 - 14,000	177	12,883	2,280,340	10,350	96.33%	44,812,890	84.59%
14	14,001 - 16,000	117	14,876	1,740,480	10,467	97.42%	46,553,370	87.88%
15	16,001 - 18,000	94	16,972	1,595,330	10,561	98.30%	48,148,700	90.89%
16	18,001 - 20,000	52	18,926	984,160	10,613	98.78%	49,132,860	92.74%
17	20,001 - 25,000	70	22,087	1,546,090	10,683	99.43%	50,678,950	95.66%
18	25,001 - 30,000	28	27,000	756,010	10,711	99.69%	51,434,960	97.09%
19	30,001 - 35,000	12	31,955	383,460	10,723	99.80%	51,818,420	97.81%
20	35,001 - 40,000	9	38,432	345,890	10,732	99.89%	52,164,310	98.47%
21	40,001 - 50,000	6	42,990	257,940	10,738	99.94%	52,422,250	98.95%
22	50,001 - 60,000	3	52,430	157,290	10,741	99.97%	52,579,540	99.25%
23	60,001 - 70,000	1	67,740	67,740	10,742	99.98%	52,647,280	99.38%
24	70,001 - 80,000	-		-	10,742	99.98%	52,647,280	99.38%
25	80,001 - 90,000	-		-	10,742	99.98%	52,647,280	99.38%
26	90,001 - 100,000	1	97,550	97,550	10,743	99.99%	52,744,830	99.56%
27	231,670 - 231,670	1	231,670	231,670	10,744	100.00%	52,976,500	100.00%
28					10,744	100.00%	52,976,500	100.00%
29					10,744	100.00%	52,976,500	100.00%
30					10,744	100.00%	52,976,500	100.00%
31								
32	Totals	10,744		52,976,500	10,744		52,976,500	
33								
34	Total Bills	10,744						

Average Number of Customers	895	
Average Consumption (gallons)	4,931	
Median Consumption (gallons)	3,469	

	Current Rates Units	Current Rates Revenue	Proposed Rates Units	Proposed Rates Revenue
Base Charge	10,744	$ 190,706	10,744	$ 204,136
Usage (gallons)				
Tier One	27,041,802	$ 64,900	27,041,802	$ 77,069
Tier Two	18,422,478	58,952	18,422,478	70,927
Tier Three	7,512,220	31,551	7,512,220	38,312
Usage Totals	52,976,500		52,976,500	
Revenue Totals		$ 346,110		$ 390,444

Meter Size: 5/8" x 3/4"
Rate Code: R1

Line No.	Rate Schedules			Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1	**Present Rates:**			-	$ 17.75	$ 19.00	$ 1.25	7.04%
2	Base Charge:	$	17.75	1,000	$ 20.15	$ 21.85	$ 1.70	8.44%
3				2,000	$ 22.55	$ 24.70	$ 2.15	9.53%
4				3,000	$ 24.95	$ 27.55	$ 2.60	10.42%
5	Tier One Rate:	$	2.40	4,000	$ 28.15	$ 31.40	$ 3.25	11.55%
6	Tier Two Rate:	$	3.20	5,000	$ 31.35	$ 35.25	$ 3.90	12.44%
7	Tier Three Rate:	$	4.20	6,000	$ 34.55	$ 39.10	$ 4.55	13.17%
8				7,000	$ 37.75	$ 42.95	$ 5.20	13.77%
9	Tier One Breakover (M gal):		3	8,000	$ 40.95	$ 46.80	$ 5.85	14.29%
10	Tier Two Breakover (M gal):		8	9,000	$ 45.15	$ 51.90	$ 6.75	14.95%
11	Tier Three Breakover (M gal):		999,999	10,000	$ 49.35	$ 57.00	$ 7.65	15.50%
12				12,000	$ 57.75	$ 67.20	$ 9.45	16.36%
13				14,000	$ 66.15	$ 77.40	$ 11.25	17.01%
14	**Proposed Rates:**			16,000	$ 74.55	$ 87.60	$ 13.05	17.51%
15	Base Charge:	$	19.00	18,000	$ 82.95	$ 97.80	$ 14.85	17.90%
16				20,000	$ 91.35	$ 108.00	$ 16.65	18.23%
17				25,000	$ 112.35	$ 133.50	$ 21.15	18.83%
18	Tier One Rate:	$	2.85	30,000	$ 133.35	$ 159.00	$ 25.65	19.24%
19	Tier Two Rate:	$	3.85	35,000	$ 154.35	$ 184.50	$ 30.15	19.53%
20	Tier Three Rate:	$	5.10	40,000	$ 175.35	$ 210.00	$ 34.65	19.76%
21				45,000	$ 196.35	$ 235.50	$ 39.15	19.94%
22	Tier One Breakover (M gal):		3	50,000	$ 217.35	$ 261.00	$ 43.65	20.08%
23	Tier Two Breakover (M gal):		8	60,000	$ 259.35	$ 312.00	$ 52.65	20.30%
24	Tier Three Breakover (M gal):		999,999	70,000	$ 301.35	$ 363.00	$ 61.65	20.46%
25				80,000	$ 343.35	$ 414.00	$ 70.65	20.58%
26				90,000	$ 385.35	$ 465.00	$ 79.65	20.67%
27				100,000	$ 427.35	$ 516.00	$ 88.65	20.74%
28								
29				Average Usage				
30				4,931	$ 31.13	$ 34.98	$ 3.85	12.37%
31				Median Usage				
32				3,469	$ 26.45	$ 29.36	$ 2.91	11.00%
33								
34								

Chino Meadows II Water Company, Inc.
Docket No. W-02370A-14-0231
Rebuttal Testimony of Ray L. Jones

Exhibit RLJ-RB3
Updated Staff Schedules Used as Company Workpaper

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
Test Year Ended December 31, 2013

Schedule TBH CM-19a
Company Workpaper

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Salaries and Wages	$179,965	($50,652)	$129,313
2	Salaries and Wages - Officers	31,700	(5,113)	26,587
3	Purchased Power	24,401	(485)	23,916
4	Chemicals	425	(45)	380
5	Repairs and Maintenance	8,899	127	9,026
6	Office Supplies & Expense	30,594	(17,865)	12,729
7	Rents	0	9,056	9,056
8	Contractual Services	11,457	(2,554)	8,903
9	Transportation Expenses	24,752	(7,252)	17,500
10	Insurance - General Liability	8,964	(2,466)	6,498
11	Insurance - Health and Life	2,667	(520)	2,147
12	Miscellaneous Expenses	8,848	(5,550)	3,298
13	Payroll Taxes	0	11,414	11,414
14	Total	$332,672	($71,906)	$260,766
15				

16		[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[P]
17				Staff Adjustments									
18							Chino Meadows						
19	DESCRIPTION	Company as filed	Original amount allocated to Granite Mountain	Reclassification	Disallowance	Normalize	Direct	Cost to be Allocated	Portion allocated to unregulated affiliate companies	Amount allocated to unregulated affiliate companies	Amount allocated to regulated companies	Chino Meadows allocation	Amount to be allocated to Chino Meadows
20	Salaries and Wages	$179,965	$0	($15,718)	(17,444)	13,834	$0	$160,638	0%	$0	$160,638	80.50%	$129,313
21	Salaries and Wages - Officers	31,700	6,000	0	(4,673)	0	0	33,027	0%	0	33,027	80.50%	26,587
22	Purchased Power	24,401	247	0	(46)	0	22,110	2,493	10%	249	2,244	80.50%	1,806
23	Chemicals	425	47	0	0	0	0	472	0%	0	472	80.50%	380
24	Repairs and Maintenance	8,899	633	1,281	(124)	0	2,159	8,530	0%	0	8,530	80.50%	6,867
25	Office Supplies & Expense	30,594	1,988	(12,000)	(2,804)	(208)	0	17,569	10%	1,757	15,812	80.50%	12,729
26	Rents	0	3,000	12,000	0	0	0	15,000	25%	3,750	11,250	80.50%	9,056
27	Contractual Services	11,457	490	(500)	(1,232)	0	3,489	6,726	0%	0	6,726	80.50%	5,415
28	Transportation Expenses	24,752	2,736	1,817	(7,380)	(186)	0	21,739	0%	0	21,739	80.50%	17,500
29	Insurance - General Liability	8,964	996	0	(1,058)	594	0	9,496	15%	1,424	8,072	80.50%	6,498
30	Insurance - Health and Life	2,667	296	0	0	0	0	2,963	10%	296	2,667	80.50%	2,147
31	Miscellaneous Expenses	8,848	245	(3,397)	(2,301)	0	2,903	490	0%	0	490	80.50%	395
32	Payroll Taxes	0	0	15,718	(1,539)	0	0	14,179	0%	0	14,179	80.50%	11,414
33	Total	$332,672	$16,678	($799)	($38,601)	$14,034	$30,661	$293,323		$7,477	$285,846		$230,106

Calcualtion of Cost Shift			
Staff	$274,085	70.12%	192,188
Company		88.00%	241,195
		Cost Shift	(49,006)

References:
Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Column [C] - Column [A]
Column [C]: Col [I] + Col [P]
Column [D]: Company Schedule C-2
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 general ledger provided in DR CM TBH 1.3
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 CM-19e
Column [P]: Col [M] * Col [N]

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
Test Year Ended December 31, 2013

Schedule TBH CM-19c
Company Workpaper

OPERATING INCOME ADJUSTMENT NO. 5 - 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	(4,673)	27,027
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	Unregulated salaries and wages - Schedule TBH CM-19f Line 7	($17,444)	($17,444)	
18				
19	**Salaries and Wages - Officers**			
20	Pay adjusted to reflect actual time worked	$0		
21	Duties assigned to office manager	(4,673)	(4,673)	
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 DR CM 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				
53	**Payroll Taxes**			
54	Non-regulated payroll taxes - Schedule TBH CM-19f Line 7	($1,539)	($1,539)	

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
Test Year Ended December 31, 2013

Schedule TBH CM-19e
Company Workpaper

OPERATING INCOME ADJUSTMENT NO. 5 - 4-FACTOR ALLOCATION CALCULATION

		Weight 2.5x		Weight 2.5x		Weight 1x		
Line No.	Company	Customer Count Test Year	Customer Count % Test Year	Customer Count 2018 Projected	Customer Count % 2018 Projected	Gross Plant in Service	Gross Plant in Service %	SimplifiedAllocation Factor %
1	Antelope Lakes	2		2		$116,938		
2								
3	Chino Meadows	899	88.14%	899	85.86%	795,909	47.90%	**80.5%**
4	Granite Mountain	121	11.86%	148	14.14%	865,831	52.10%	**19.5%**
5	**Total**	**1,020**		**1,047**		**$1,661,740**		**100.0%**
6								
7	Note: Antelope Lakes shown for refernece only, not used in cost allocation model.							
8								

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
Test Year Ended December 31, 2013

Schedule TBH CM-19g
Company Workpaper

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS OFFICER'S SALARIES CALCULATION

LINE NO.	DESCRIPTION	[A] 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	Caluclated Salary - Monthly Hours * $36.25 * 12 months	38,715
15	Actual Salary	37,700
16		
17	Lower of Calculated Salary and Actual Salary	$37,700
18	Less Additional Increase for Operations Manager from 2013 to 2014[2]	(4,673)
19	**Adjusted Officers Salary**	$33,027
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]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Column [C] - Column [A]
Column [C]: As calculated by Staff on line 24
Column [D] : Per DRs CM TBH 1.26.g, CM TBH 2.12 and CM TBH 3.7

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF CHINO MEADOWS II WATER COMPANY, INC. FOR APPROVAL OF A RATE INCREASE	DOCKET NO. W-02370A-14-0231

REJOINDER TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
CHINO MEADOWS II WATER COMPANY, INC.
SEPTEMBER 18, 2015

EXHIBIT
A-2
ADMITTED

REJOINDER TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
CHINO MEADOWS II WATER COMPANY, INC.
September 18, 2015

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II RESPONSE TO STAFF'S SURREBUTTAL TESTIMONY 1

EXECUTIVE SUMMARY

Mr. Jones responds to the surrebuttal testimony of the Arizona Corporation Commission's Utilities Division Staff. Mr. Jones addresses the allocation of costs between Chino and Granite and Staff's failure to incorporate changes to expense recommendations into the revenue requirement of the Company.

The Company's proposed revenue requirements, associated rate increases and all other positions are unchanged from its rebuttal testimony.

I INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Ray L. Jones. My business address is 18835 North Thompson Peak Parkway, Suite 215, Scottsdale, AZ 85255, and my business phone is (623) 341-4771.

Q. ARE YOU THE SAME RAY L. JONES WHO PREVIOUSLY SUBMITTED REBUTTAL TESTIMONY IN THIS DOCKET??

A. Yes.

II RESPONSE TO STAFF'S SURREBUTTAL TESTIMONY

Q. HAVE YOU REVIEWED STAFF'S SURREBUTTAL TESTIMONY IN THIS CASE?

A. Yes, I reviewed the testimony provided by Teresa B. Hunsaker.

Q. WHAT WAS YOUR OVERALL ASSESSMENT OF STAFF'S SURREBUTTAL TESTIMONY?

A. It is evident that Staff reviewed the Company's rebuttal testimony and considered the Company's positions and concerns. In fact, Staff's surrebuttal position has incorporated some of the Company's suggestions and includes movement on the Company's most significant issue, cost allocation between Chino and Granite. However, Staff failed to update Chino's recommended revenue requirement to reflect its revised allocations. Inexplicably, Staff's revenue requirement remains unchanged from Staff's direct testimony.[1]

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[1] This is even more inexplicable because Staff does incorporate the reduction in expenses for Granite resulting from the updated allocation of costs into a reduced revenue requirement for Granite.

In the end, Staff's surrebuttal testimony is nothing more than a collection of seemingly reasonable responses to the Company's rebuttal position—actually wholly ignored—which ultimately produce the absurd outcome where Staff's seemingly reasonable response leave the combined operations of Chino and Granite worse off than if Staff had not "updated" its position.

Q. WOULD YOU EXPLAIN?

As more fully explained in the Company's rebuttal testimony, the Company's most significant overall concern is the allocation of common costs between Chino and Granite. The Company has historically allocated costs based on customer counts, which are currently 88% Chino 12% Granite.[2] Staff's direct position, allocating only 70.12% of costs to Chino and 26.93% to Granite, dramatically shifted a very significant $49,006 in costs and related revenue from Chino.[3] The Company was concerned with this shift because Granite has fewer customers, lower water sales, higher levels of plant investment and higher rates. Shifting costs to Granite would create revenue instability for the water companies as a whole. Since Granite's water sales are only 15.5% of the combined total sales for Chino and Granite, each $10,000 shift in costs lowers rates for Chino by about $0.25 per 1,000 gallons while increasing rates in Granite by about $1.06 per 1,000 gallons. Due to this disparate impact to rates, aggressive shifting of costs to Granite is certain to increase revenue instability because Granite would almost certainly under-collect its authorized revenue by a significant magnitude.

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[2] Antelope Lakes has only 2 customers equaling 0.20% of total combined customers.

[3] Staff's cost allocation recommendation shifts $40,921 in costs to Granite and $8,096 in costs to Antelope Lakes as compared to the Company's current customer based allocation. This testimony will only address the shift to Granite. See the Company's rebuttal for discussion of the negative impacts of shifting costs to Antelope Lakes.

Staff has responded to the Company's concerns by altering its cost allocation model to allocate more costs to Chino and fewer to Granite. Staff's current recommendation is 74% to Chino and 25% to Granite. This recommendation results in an additional $10,634 in expense allocated to Chino compared to Staff's original recommendation. This, on its face, appears to at least partially address the Company's cost allocation concerns. However, because Staff failed to increase Chino's revenue requirement to recover these additional expenses, neither Chino nor Granite will be able to recover these expenses. So instead of Granite being unlikely to recover $10,634 in common expenses, Staff would instead guarantee that neither Granite nor Chino would recover these $10,634 in common expenses. The net effect of Staff's incomplete allocation would make the combined operations of Chino and Granite are worse off.

Q. HOW SHOULD THE COMMISSION RESOLVE THIS PROBLEM?

A. The Commission should adopt the Company's more balanced, simplified approach to cost allocation. The Company's recommendation is a significant, yet reasonable, shift from the current customer based allocation. The Company's recommendation is an allocation of 80.5% to Chino and 19.5% to Granite. This recommendation shifts a still significant $20,556 in costs to Granite, addressing Staff's cost allocation concerns, while still providing both Chino's and Granite a reasonable opportunity to recover the common costs related to the operation of both companies.

Furthermore, this cost allocation must be incorporated into updated revenue requirement for Chino by setting Chino's revenue requirement using a 15% operating margin as recommended by the Company. As explained in the Company's application:

> Chino Meadows has a small and declining rate base due to the age of plant facilities, and the above-discussed mismatch between historically recorded depreciation expense and actual plant depletion. For a company with a very small rate bases, traditional ratemaking may yield inadequate Operating Income, which

provides a dangerously small margin over expenses. A company with inadequate Operating Income may find it difficult or even impossible to cover increasing or fluctuating costs, to deal with emergencies or other contingencies, and to attract new capital for system improvements.

In Chino Meadow's case, traditional rate making would result in an Operating Margin of only 4.16%, assuming a 10.0% return on rate base. This is well below the Operating Margins the Commission typically provides companies with small or negative rate bases. Therefore, Chino Meadows has calculated a revenue requirement based on an Operating Margin of 15.0%, consistent with the California PUC policy for small water utilities (less than 2,000 customers). This approach is also consistent with past Commission Decisions for small companies with small or negative rate base.

Q. WHY IS THIS COST ALLOCATION ISSUE IMPORTANT TO CHINO AND GRANITE?

A. Chino and Granite are both small companies facing the numerous challenges and issues faced by small companies throughout Arizona. Like other small water companies, Chino and Granite need to be properly positioned for consolidation and, until that can occur, they need to remain viable and have sufficient earnings to encourage investment in infrastructure.

Chino has increased rates by less than one percent over the past 20 years and is only requesting a modest increase in this case. In contrast, Granite is attempting to recover significant investment in new plant and is facing a large rate increase. Staff proposes to keep Chino rates unchanged by significantly shifting costs to Granite. Both Chino and Granite need sufficient revenue to allow for future improvements and attract new investment into their water systems.

The abrupt cost shift from Chino to Granite proposed by Staff will destabilize the revenue of both companies, further reduce the common operation's ability to cover its common expenses, and further harm the operations of both Chino and Granite. Ultimately, the

proposed cost shift could impair the Companies' ability to implement the operational improvements desired by Staff and committed to by the Companies.

Lastly, Staff's proposal moves the companies contrary to industry trends. The Commission and industry are exploring ways to encourage consolidation and to make it easier for small water companies to be acquired by larger, better capitalized companies. Even California has taken steps to improve the financial health of its small water companies and make them more attractive for new investment. Unfortunately, the cost shift embedded in Staff's recommendation runs contrary to these Commission, industry, and neighboring-state regulatory policies.

Q. HAS THE COMPANY UPDATED ITS POSITION FROM ITS REBUTTAL TESTIMOMY?

A. The Company's position is unchanged.

Q. WHAT ARE THE CURRENT AREAS OF DISAGREEMENT BETWEEN STAFF AND THE COMPANY?

A. The Company opposes Staff Rate Base Adjustment No. 1 removing 10% of the cost of $42,759 of plant in service from rate base by increasing the Company's CIAC balance by $4,276.

The Company and Staff have minor differences in their approach to the calculation of amortization of CIAC related to Staff Rate Base Adjustment No. 2.4 The Company uses an approach based solely on composite depreciation rates while Staff uses a more complex approach mixing composite rates and account specific rates to calculate CIAC

[4] The Company's concern would also apply to Staff Rate Base No. 1 if adopted by the Commission.

amortization. The Company recommends using only composite depreciation rates consistent with normal Commission practice and past Commission orders for the Company. The Company believes that the added complexity is unnecessary and will lead to confusion and disagreement regarding future CIAC amortization balances.

There are three areas of disagreement between the Company and Staff regarding expenses. First, as discussed above, the Company and Staff are recommending different allocation percentages between Chino and Granite. Second the parties disagree on the salary level of Mr. Levie. Lastly the Company and Staff propose differing levels of depreciation expense due to the differing levels of CIAC (Rate Base Adjustment No. 1) and minor differences in CIAC amortization calculation methodology.

The Company and Staff are in agreement regarding the methodology for calculating the level of working capital, property tax expense and income tax expense. However, since the Company and Staff disagree on their revenue and expense recommendations the specific recommendations for these items are different.

The parties have not altered their positions on the recommended code of conduct and related recommendations. Accordingly, several additional items remain in dispute.

Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?

A. Yes.

EXHIBIT A-4 judicial notice

any bid proposal prepared by the load-serving entity or entity affiliated with the load-serving entity and of any benchmark or reference cost the load-serving entity has developed for use in evaluating bids. The independent monitor shall take steps to secure the load-serving entity's bid proposal and any benchmark or reference cost so that they are inaccessible to any bidder, the load-serving entity, and any entity affiliated with the load-serving entity.

J. Upon Staff's request, the independent monitor shall provide status reports to Staff throughout the RFP process.

Historical Note

New Section made by final rulemaking at 16 A.A.R. 2150, effective December 20, 2010 (Supp. 10-4).

ARTICLE 8. PUBLIC UTILITY HOLDING COMPANIES AND AFFILIATED INTERESTS

R14-2-801. Definitions

In this Article, unless the context otherwise requires:

1. "Affiliate," with respect to the public utility, shall mean any other entity directly or indirectly controlling or controlled by, or under direct or indirect common control with, the public utility. For purposes of this definition, the term "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any entity, shall mean the power to direct the management policies of such entity, whether through ownership of voting securities, or by contract, or otherwise.
2. "Commission." The Arizona Corporation Commission.
3. "Entity." A corporation, partnership, limited partnership, joint venture, trust, estate, or natural person.
4. "Holding Company" or "Public Utility Holding Company." Any affiliate that controls a public utility.
5. "Reorganize" or "Reorganization." The acquisition or divestiture of a financial interest in an affiliate or a utility, or reconfiguration of an existing affiliate or utility's position in the corporate structure or the merger or consolidation of an affiliate or a utility.
6. "Subsidiary." Any affiliate controlled by a utility.
7. "System of Accounts. The accounting system or systems prescribed for utilities by the Commission.
8. "Utility" or "Public Utility. Any Class A investor-owned public service corporation subject to the jurisdiction of the Arizona Corporation Commission.

Historical Note

Adopted effective July 30, 1992 (Supp. 92-3).

R14-2-802. Applicability

A. These rules are applicable to all Class A investor-owned utilities under the jurisdiction of the Commission and are applicable to all transactions entered into after the effective date of these rules.

B. Information furnished to the Commission in compliance with these rules will not be open to public inspection, or made public, except on order of the Commission, or by the Commission, or a Commissioner in the course of a hearing or proceeding.

Historical Note

Adopted effective July 30, 1992 (Supp. 92-3).

R14-2-803. Organization of Public Utility Holding Companies

A. Any utility or affiliate intending to organize a public utility holding company or reorganize an existing public utility holding company will notify the Commission's Utilities Division in writing at least 120 days prior thereto. The notice of intent will include the following information:

1. The names and business addresses of the proposed officers and directors of the holding company;
2. The business purposes for establishing or reorganizing the holding company;
3. The proposed method of financing the holding company and the resultant capital structure;
4. The resultant effect on the capital structure of the public utility;
5. An organization chart of the holding company that identifies all affiliates and their relationships within the holding company;
6. The proposed method for allocating federal and state income taxes to the subsidiaries of the holding company;
7. The anticipated changes in the utility's cost of service and the cost of capital attributable to the reorganization;
8. A description of diversification plans of affiliates of the holding company; and
9. Copies of all relevant documents and filings with the United States Securities and Exchange Commission and other federal or state agencies.
10. The contemplated annual and cumulative investment in each affiliate for the next five years, in dollars and as a percentage of projected net utility plant, and an explanation of the reasons supporting the level of investment and the reasons this level will not increase the risks of investment in the public utility.
11. An explanation of the manner in which the utility can assure that adequate capital will be available for the construction of necessary new utility plant and for improvements in existing utility plant at no greater cost than if the utility or its affiliate did not organize or reorganize a public utility holding company.

B. The Commission staff will, within 30 days after receipt of the notice of intent, notify the Applicant of any questions which it has concerning the notice or supporting information. The Commission will, within 60 days from the receipt of the notice of intent, determine whether to hold a hearing on the matter or approve the organization or reorganization without a hearing.

C. At the conclusion of any hearing on the organization or reorganization of a utility holding company, the Commission may reject the proposal if it determines that it would impair the financial status of the public utility, otherwise prevent it from attracting capital at fair and reasonable terms, or impair the ability of the public utility to provide safe, reasonable and adequate service.

Historical Note

Adopted effective July 30, 1992 (Supp. 92-3).

R14-2-804. Commission Review of Transactions Between Public Utilities and Affiliates

A. A utility will not transact business with an affiliate unless the affiliate agrees to provide the Commission access to the books and records of the affiliate to the degree required to fully audit, examine or otherwise investigate transactions between the public utility and the affiliate. In connection therewith, the Commission may require production of books, records, accounts, memoranda and other documents related to these transactions.

B. A utility will not consummate the following transactions without prior approval by the Commission:

1. Obtain a financial interest in any affiliate not regulated by the Commission, or guarantee, or assume the liabilities of such affiliate;
2. Lend to any affiliate not regulated by the Commission, with the exception of short-term loans for a period less than 12 months in an amount less than $100,000; or

3. Use utility funds to form a subsidiary or divest itself of any established subsidiary.

C. The Commission will review the transactions set forth in subsection (B) above to determine if the transactions would impair the financial status of the public utility, otherwise prevent it from attracting capital at fair and reasonable terms, or impair the ability of the public utility to provide safe, reasonable and adequate service.

D. Every transaction in violation of subsection (A) or (B) above is void, and the transaction shall not be made on the books of any public service corporation.

E. The system of accounts used by the public utility will include the necessary accounting records needed to record and compile transactions with each affiliate.

Historical Note
Adopted effective July 30, 1992 (Supp. 92-3).

R14-2-805. Annual Filing Requirements of Diversification Activities and Plans

A. On or before April 15th of each calendar year, all public utilities meeting the requirements of R14-2-802 and public utility holding companies will provide the Commission with a description of diversification plans for the current calendar year that have been approved by the Boards of Directors. As part of these filings, each public utility meeting the requirements of R14-2-802 will provide the Commission the following information:

1. The name, home office location and description of the public utility's affiliates with whom transactions occur, their relationship to each other and the public utility, and the general nature of their business;
2. A brief description of the business activities conducted by the utility's affiliates with whom transactions occurred during the prior year, including any new activities not previously reported;
3. A description of plans for the utility's subsidiaries to modify or change business activities, enter into new business ventures or to acquire, merge or otherwise establish a new business entity;
4. Copies of the most recent financial statements for each of the utility's subsidiaries;
5. An assessment of the effect of current and planned affiliated activities on the public utility's capital structure and the public utility's ability to attract capital at fair and reasonable rates;
6. The bases upon which the public utility holding company allocates plant, revenue and expenses to affiliates and the amounts involved; an explanation of the derivation of the factors; the reasons supporting that methodology and the reasons supporting the allocation;
7. An explanation of the manner in which the utility's capital structure, cost of capital and ability to raise capital at reasonable rates have been affected by the organization or reorganization of the public utility holding company;
8. The dollar amount transferred between the utility and each affiliate during the annual period, and the purpose of each transfer;
9. Contracts or agreements to receive, or provide management, engineering, accounting, legal, financial or other similar services between a public utility and an affiliate;
10. Contracts or agreements to purchase or sell goods or real property between a public utility and an affiliate; and
11. Contracts or agreements to lease goods or real property between a public utility and an affiliate.

B. After reviewing the diversification plans, the Commission may, within 90 days after plans have been provided, request additional information, or order a hearing, or both, should it conclude after its review that the business activities would impair the financial status of the public utility, otherwise prevent it from attracting capital at fair and reasonable terms, or impair the ability of the public utility to provide safe, reasonable and adequate service.

Historical Note
Adopted effective July 30, 1992 (Supp. 92-3).

R14-2-806. Waiver from the Provisions of this Article

A. The Commission may waive compliance with any of the provisions of this Article upon a finding that such waiver is in the public interest.

B. Any affected entity may petition the Commission for a waiver by filing a verified application for waiver setting forth with specificity the circumstances whereby the public interest justifies noncompliance with all or part of the provisions of this Article.

C. If the Commission fails to approve, disapprove, or suspend for further consideration an application for waiver within 30 days following filing of a verified application for waiver, the waiver shall become effective on the 31st day following filing of the application.

Historical Note
Adopted effective July 30, 1992 (Supp. 92-3).

ARTICLE 9. CUSTOMER-OWNED PAY TELEPHONES

R14-2-901. Definitions

In this Article, unless the context otherwise requires:

1. "Affiliate" means any other entity directly or indirectly controlling or controlled by, or under direct or indirect common control with, a customer of record. For purposes of this subsection, the term "control, (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any entity, means the power to direct the management policies of such entity, whether through the ownership of voting securities, by contract, or otherwise.
2. "Customer of record" means a premises owner or vendor, who has either applied to, or who has obtained from, an LEC an access line to be a COPT provider.
3. "Customer-owned pay telephone (COPT) provider" means an entity authorized by the Commission to provide public pay telephone service to end-users and which is not a certificated LEC on the effective date of this Article. For purposes of compliance with Article 5 of this Chapter, "COPT provider" does not mean a "utility" as defined in R14-2-501(24).
4. "'800' service" means calls to telephone numbers which normally can be reached without charge to the calling party by dialing 1-800 plus 7 digits.
5. "Entity" means a corporation, partnership, limited partnership, joint venture, trust, estate, or natural person.
6. "Local exchange company (LEC)" means a company which is certificated to operate the local public switched telecommunications network.
7. "Public access line (PAL)" means any LEC tariff under which COPT providers are authorized to obtain access to the local and interexchange telecommunications network.

Historical Note
Adopted effective September 16, 1992 (Supp. 92-3).

Editor's Note: The following Section was amended under an exemption from the Attorney General approval provisions of the Arizona Administrative Procedure Act (State ex. rel. Corbin v. Arizona Corporation Commission, 174 Ariz. 216 848 P.2d 301

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 CHINO MEADOWS II WATER CO. INC. FOR A RATE INCREASE.	))))	DOCKET NO W-02370A-14-0231

DIRECT

TESTIMONY

OF

TERESA B. HUNSAKER

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 15, 2015

EXHIBIT
S-1
ADMITTED

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EXECUTIVE SUMMARY

CHINO MEADOWS II WATER COMPANY INC.

DOCKET NO. W-02370A-14-0231

Chino Meadows II Water Company Inc. ("Chino Meadows", "CM" or "Company") is an Arizona for-profit Class C public service corporation engaged in providing water utility services to approximately 900 customers within Yavapai County, Arizona. Chino Meadows current rates were approved in Decision No. 72896, dated February 21, 2012.

On June 30, 2014, the Company filed a rate increase application as ordered in Commission Decision No. 72896. The Decision required Chino Meadows to file its next general rate case using the same test year as that used in the next rate case for Granite Mountain Water Company Inc. ("Granite Mountain" or "GM") in order to eliminate further disputes related to cost allocations. Chino Meadows and Granite Mountain, in Docket No. W-02370A-14-0230, both used a 2013 test year.

The Company proposed a $139,014, or 38.79 percent revenue increase over test year revenues of $358,364 to $497,378. The proposed revenue increase would produce an operating income of $74,604 for a 15.0 percent requested operating margin. The Company is not requesting rates based on rate of return because the Company claims a rate increase calculated using a traditional return on rate base approach would not generate adequate revenue. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons from $26.45 to $35.89, for an increase of $9.44 or 35.69 percent.

Staff recommends that the Company's current rates remain the same because the Company's existing rates will produce a 15 percent operating margin, which is the level requested by the Company. Staff's recommended rates would produce total operating revenue of $357,985, a $0 (0.00 percent) increase, over the Staff's adjusted test year revenue of $357,985 and adjusted test year expense of $301,230, to produce a $56,754 operating income and an operating margin of 15.85 percent as shown on Schedule TBH CM-1A. Staff's recommended rates would result in no change for the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons at $26.45, as shown on Schedule TBH CM-25A.

Staff has developed an alternative rate recommendation based on traditional rate of return analysis. Staff's Alternative Recommendation results in a decrease in the current rates. These recommended rates would produce total operating revenue of $299,772, a $58,212 (16.26 percent) decrease, from the Staff's adjusted test year revenue of $357,985, to provide a $13,537 operating income and a 10.00 percent rate of return on Staff adjusted OCRB of $135,369, as shown on Schedule TBH CM-1B. This recommendation results in a 4.52 percent operating margin. Staff's recommended rates would decrease the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons from $26.45 to $21.16, for a decrease of $5.29 or 20.01 percent, as shown on Schedule TBH CM-25B.

Staff recommends:

1. The Commission approve the Staff-recommended rates and charges as shown on Schedule TBH CM-24A.

2. The Company be ordered to file with Docket Control, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

3. The Company be ordered to repay outstanding notes payable involving affiliates within one year. Further, Staff recommends the Company discontinue the practice of recording notes receivable involving affiliates for a period that exceeds one year without prior Commission approval. Further, Staff recommends that the Company refrain from making personal loans or advances with Company funds.

4. The Company provide an annual report of the accounting of all Corporate Cost Allocations. The reports should be reconciled to the amounts billed and paid by each regulated and unregulated affiliate company. This annual report should be filed in this docket by April 15th for the previous calendar year. Such filing requirement would cease with the filing of the Company's next rate case.

5. The Commission order the Company to use a 4-factor allocation method for indirect expenses between regulated affiliated companies in its next rate case, and the regulated water company employees be required to utilize detailed time sheets to trace and allocate payroll cost to each regulated and unregulated affiliate.

6. The Company develop and submit a Code of Affiliate Conduct related to affiliate activities and transactions, as discussed in Staff's Testimony within 90 days of an order approving new rates in this docket. Such Code of Affiliate Conduct would be applicable to Chino Meadows and all regulated and unregulated affiliates.

7. The Commission provide the authority for Staff to immediately install an interim manager if the Company violates any part of the Code of Affiliate Conduct.

I. INTRODUCTION

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

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

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

A. In my capacity as a Public Utilities Analyst, I analyze and examine accounting, financial, statistical and other information included in utility rate, financing and other applications. In addition, I prepare written reports based on my analyses and present Staff's recommendations to the Commission on utility revenue requirements, rate design and other issues. I am also responsible for testifying at formal hearings on these matters.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science Degree in Accounting from the University of Nevada, Las Vegas and an Associate Degree in Business Management from Clark County Community College. I attended the National Association of Regulatory Utility Commissioners ("NARUC") Utilities Rate School in San Diego in May 2014.

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

A. I am presenting Staff's analysis and recommendations regarding the application of Chino Meadows II Water Company Inc. ("Chino Meadows," "CM" or "Company") for a permanent rate increase. I will present Staff's testimony and schedules addressing rate base, operating revenues and expenses, revenue requirement and rate design. Mr. Jian Liu is presenting Staff's engineering analysis and related recommendations.

Q. What is the basis of your testimony and recommendations in this case?

A. I performed a regulatory audit of the Company's application and records to determine whether sufficient, relevant, and reliable evidence exists to support the Company's requested rate increase. The regulatory audit consisted of examining and testing financial information, accounting records, and other supporting documentation and verifying that the accounting principles applied were in accordance with the Commission-adopted NARUC Uniform System of Accounts ("USoA"). In preparing its case, Staff visited the Company's facilities to conduct a plant inspection. Staff also reviewed previous rate and other Commission decisions applicable to this Company and affiliated companies.

Q. How is your testimony organized?

A. My testimony is presented in eleven Sections. Section I is this introduction. Section II provides a background of the Company. Section III is a summary of consumer service issues. Section IV presents compliance status. Section V is a summary of proposed revenues. Section VI describes cost allocations. Section VII describes the rate base adjustments and recommendations. Section VIII describes the operating income adjustments and recommendations. Section IX discusses notes receivable and notes payable. Section X discusses rate design. Section XI discusses the service charges.

II. BACKGROUND

Q. Please provide the relevant background information associated with the Company's application for a rate increase.

A. The Company is a Class C water system providing service to approximately 900 customers in Yavapai County, Arizona. Chino Meadows' current rates were approved in Decision No. 72896, dated February 21, 2012. On June 30, 2014, the Company filed a rate increase application as ordered in Decision No. 72896. Decision No. 72896 required the Company to

file its next general rate case using the same test year as is used in the next rate case for its regulated sister utility Granite Mountain Water Company Inc. ("Granite Mountain" or "GM") in order to eliminate further disputes related to cost allocations. Pursuant to Decision No. 74384, Granite Mountain is required to file a permanent rate case application using a test year ending December 31, 2013, no later than June 30, 2014. Additionally, Chino Meadows has another sister utility, Antelope Lakes Water Company Inc. ("Antelope Lakes").

Q. Please describe pertinent information provided with this application.

A. On June 30, 2014, Chino Meadows and Granite Mountain filed permanent rate cases using a test year ending December 31, 2013. The Chino Meadows rate application requested funds to cover an operating loss; produce an operating income of $74,803[1], plus additional funding to cover increasing and fluctuating costs, to deal with emergencies or other contingencies, and to attract new capital for system improvements. On July 24, 2014 the initial application was found insufficient.

On August 25, 2014, the Company docketed its revised Application. On September 8, 2014, the Company docketed Amended Current and Proposed Rates and Charges, and Amended Current and Proposed Service Charges.[2] On September 18, 2014, the Company docketed Second Amended pages to the short form application.[3]

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[1] The narrative accompanying the application indicated the rate increase was needed to provide the Company an Operating Margin of 15 percent.

[2] On September 17, 2014, the Company docketed an Amended Application due to understated test year revenues by $2,688.06. The Amended Application replaced the narrative description of application for rate adjustment, statements in support of rate request, current and proposed rates and charges, comparative statement of income and expense and the supporting attachments.

[3] The following pages were amended: Pages 6, 13A, 13B, 14, 18, 19, 22 and 23. This was the Second Amendment to Pages 6 and 19. The Second Amended application replaced statements in support of rate request, plant additions and retirements by year, plant summary, water use data sheet, comparative statement of income and expense, balance sheet, and supplemental financial data.

Q. Did Staff's concurrent audit of these two unconsolidated rate case applications result in recommendations that flowed between the two filings so that, for example, a recommendation in the Granite Mountain case had to be accommodated in Staff's testimony and schedules in the Chino Meadows filing?

A. Yes. This was especially true with regard to the recommendations being made by Staff that were subject to cost re-allocation considerations. Unfortunately this lengthened Staff's testimony in both dockets, and resulted in numerous cross-utility impact acknowledgments in both sets of testimony that I am supporting. Staff believes that if the Commission adopts Staff's recommendations regarding the development of a Code-of-Affiliate Conduct that would be applicable to both of these regulated utilities and all regulated and unregulated affiliates, such efforts and cross-references can be avoided in future rate case filings docketed by these utilities.

III. CONSUMER SERVICE

Q. Please provide a brief summary of customer complaints received by the Commission regarding Chino Meadows.

A. Staff reviewed the Commission's records for the period January 1, 2012, through January 23, 2015, and found that, there were no complaints in years 2012 and 2013; for year 2014, there was one complaint regarding quality of service; and for year 2015, there were no complaints. All complaints have been resolved and closed. In 2014, there were two Consumer Comments filed opposing this rate case.

IV. COMPLIANCE

Q. Please provide a summary of the compliance status of Chino Meadows.

A. A review of the Commission's Compliance database indicates that there are currently no delinquencies for the Company. The Company is current on its property and sales tax payments.

V. SUMMARY OF PROPOSED REVENUES

Q. Please summarize Chino Meadows' proposals in this filing.

A. The Company-proposed rates, as filed, produce total operating revenue of $497,378, a $139,014 (38.79 percent) increase, over the test year revenue of $358,364, to provide a $74,604 operating income. The Company asserts that its requested rate increase will provide a 15.0 percent operating margin. The Company is not requesting a rate of return on a proposed $171,398 fair value rate base ("FVRB") which is also the proposed original cost rate base ("OCRB") because the Company claims a rate increase calculated using a traditional return on rate base approach would not generate adequate revenue. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons from $26.45 to $35.89, for an increase of $9.44 or 35.69 percent.

Q. Please summarize Staff's recommended revenue.

A. Staff recommends that the Company's current rates remain the same because the Company's existing rates will produce more than a 15 percent operating margin, which is the level requested by the Company. Staff's recommended rates will produce total operating revenue of $357,985, a $0 (0.00 percent) increase, over the Staff's adjusted test year revenue of $357,985 and adjusted test year expense of $301,230, to produce a $56,754 operating income and an operating margin of 15.85 percent as shown on Schedule TBH CM-1A. Staff's

recommended rates would result in no change for the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons at $26.45, as shown on Schedule TBH CM-25A.

Staff's Alternative Recommendation

Staff has developed an alternative rate recommendation based on traditional rate of return analysis. Staff's Alternative Recommendation results in a decrease in the current rates. These recommended rates would produce total operating revenue of $299,772, a $58,212 (16.26 percent) decrease, from the Staff's adjusted test year revenue of $357,985, to provide a $13,537 operating income and a 10.00 percent rate of return on Staff adjusted OCRB of $135,369, as shown on Schedule TBH CM-1B. This recommendation results in a 4.52 percent operating margin. Staff's recommended rates would decrease the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons from $26.45 to $21.16, for a decrease of $5.29 or 20.01 percent, as shown on Schedule TBH CM-25B.

Rate Base Adjustments

Q. Please summarize Staff's rate base adjustments for Chino Meadows.

A. Unsupported Plant Treated as Contributions in Aid of Construction ("CIAC") – This adjustment increases CIAC by $4,276 due to unsupported plant.

CIAC for Plant Paid with Insurance Proceeds – This adjustment increased CIAC by $6,130 due to funds received from insurance proceeds less amortization for the Office fire.

Advances in Aid of Construction ("AIAC") Refunds – This adjustment decreases AIAC by $3,649 to reflect Staff's adjustment of AIAC because the Company inadvertently missed the 2013 payments. The missed payments were paid in 2014.

Amortization of CIAC – This adjustment increases accumulated amortization of CIAC by $805 to reflect the amortization of CIAC on the Staff-recommended CIAC additions.

Reclassify and Plant Additions to Appropriate Classifications – This adjustment for $8,689 increases plant in service for plant additions and reclassifications to the appropriate NARUC classifications.

Plant Not Used and Useful – This adjustment removes $55,703 for plant that has been determined to not be used and useful.

Removal of Plant Additions – This adjustment decreases the Plant Additions by $1,000 reflecting adjustments for items that should not be included in plant.

Accumulated Depreciation – This adjustment decreases accumulated depreciation by $33,636 to reflect Staff's calculation based on Staff's recommended plant.

Cash Working Capital ("CWC") Allowance – This adjustment decreases the allowance by $15,699 to reflect calculation of the CWC allowance using Staff's recommend operating expenses. In the future, Staff will require a lead-lag or similar study to support its cash working capital allowance.

Operating Income Adjustments

Q. Please summarize Staff's operating income adjustments for Chino Meadows.

A. Surcharge – This adjustment decreases the operating other revenues for a surcharge not included in its tariff by $379.

Water Testing – This adjustment increases the operating expenses for water testing by $37 to reflect Staff's recommended annual water testing costs.

Rate Case Expense – This adjustment increases operating expense by $1,667 to reflect an appropriate amount for Chino Meadows.

Bad Debt – This adjustment increases operating expense by $2,843 to reflect an error in the pro-forma adjustment by the Company ($4,990 actual less $1,990 Company pro-forma) less collection fees of $157.

Allocations – The total of all the adjustments decreases operating expenses by $109,821. The adjustments impact thirteen expense classifications. The adjustments include reclassifications, disallowances and normalizations prior to the appropriate allocations.

Depreciation Expense – This adjustment decreases depreciation expense by $1,509 to reflect application of Staff's recommended depreciation rates to Staff recommended plant amounts.

Property Taxes – This adjustment decreases property taxes by $976 to reflect application of the modified version of the Arizona Department of Revenue's property tax methodology that the Commission has consistently adopted.

Test Year Income Taxes – This adjustment increases test year income tax expense by $23,628 to reflect application of statutory state and federal income tax rates to Staff's adjusted taxable income.

VI. COST ALLOCATIONS

Q. Please provide the Company's test year indirect expenses included in its cost allocation.

A. Per the response provided to Staff in Data Request ("DR") CM TBH 1.42, the Company included ten categories of indirect expenses as follows: Purchased Power, Chemicals, Repairs and Maintenance, Office Supplies, Rent, Contractual Services, Transportation, Insurance - General Liability, Insurance – Health and Miscellaneous Expenses.

Q. Please describe the Company's test year cost allocation methods.

A. Per DR CM TBH 1.42, the Rent Expense during the test year was allocated to Chino Meadows for 80 percent and to Granite Mountain for 20 percent. This allocation method is directed by management. Operating Expenses during the test year were allocated to Chino Meadows for 90 percent and to Granite Mountain for 10 percent. This allocation method is based on the number of customers. Employee Salaries and Wages during the test year were allocated to Chino Meadows for 83 percent and to Granite Mountain for 17 percent. This allocation method is due to payroll software limitations; the Company allocated one employee's salary directly to Granite Mountain. The resulting allocation for the test year was $164,965 to Chino Meadows and $33,942 to Granite Mountain. Per DR's CM TBH 1.26 and CM TBH 1.42, Officer, Director and Stockholder Salary and Wages, the companies intended to allocate 80 percent to Chino Meadows and 20 percent to Granite Mountain. However, the actual test year booked allocation was $31,700 to Chino Meadows and $6,000 to Granite Mountain which is approximately 84 percent to Chino Meadows and 16 percent to Granite Mountain.

Q. Please describe the changes to the Company's current cost allocation methods.

A. Per DR CM TBH 1.42, the Company changed the indirect Operating Expenses allocated to Chino Meadows to 88 percent and to Granite Mountain to 12 percent based on actual end of year customer counts.

Q. Please describe the Staff's recommended cost allocation method.

A. Both Chino Meadows and Granite Mountain paid a majority of the direct costs associated with their respective water companies. Chino Meadows paid a majority of the indirect expenses that were then allocated to Granite Mountain in an annual end of year reimbursement to Chino Meadows. However, there were a number of indirect expenses paid directly by Granite Mountain that were not adjusted through the allocations from Chino Meadows. Staff allocated these indirect costs paid by Granite Mountain in the total for indirect expenses to be allocated. Staff allocated the indirect expenses to thirteen expense classifications.

In order for Staff to determine the amount to reallocate to all affiliates as shown on Schedule TBH CM-19a, Staff began with the Company's proposed expenses as filed in Column D; Second Step: Staff added back the original amount of the prior allocation to Granite Mountain for test year expenses in Column E; Third Step: Staff reclassified expenses to the appropriate classification and allocated expenses that Granite Mountain incurred that should be part of the allocation as shown on Schedule TBH CM-19b in Column F; Fourth Step: Staff disallowed expenses not appropriate for rate making purposes as shown on Schedule TBH CM-19c in Column G; Fifth Step: Staff normalized expenses as shown on Schedule TBH CM-19d in Column H.

Staff continued with the Sixth Step: Staff removed all direct expenses as shown on Schedule TBH CM-19a in Column I; Seventh Step: Staff added Column D through Column H Less Column I to determine the Costs to be Allocated as shown on Schedule TBH CM-19a Column J; Eighth Step: Staff determined the portions due from unregulated affiliates, as shown on Schedule TBH CM-19a Column K; Ninth Step: Staff determined the costs to be allocated to the unregulated affiliates, as shown on Schedule TBH CM-19a Column L; Tenth Step: Staff determined the costs to be allocated to the regulated water affiliates, as shown on Schedule TBH CM-19a Column M.

Staff applied the 4-factor allocation in the Eleventh Step: Chino Meadows 4-factor allocation of 70.12 percent, as shown on Schedule TBH CM-19a Column N; Twelfth Step: Staff then applied Chino Meadows' 4-factor allocation from TBH CM-19e at 70.12 percent to costs to determine the amount to be allocated to the Company as shown on Schedule TBH CM-19a Column P; Final Step: The total of the direct expenses in Column I and the amount allocated to Chino Meadows in Column P are then adjusted to the amount the Company filed in its application as shown on Schedule TBH CM-19a in Column C.

Q. What are the components of Staff's recommended 4-factor cost allocation?

A. Staff recommends using a 4-factor allocation that including the average number of customers, net plant in service, total annual revenue and total annual gallons pumped in thousands. Each of the four individual factors would then be given equal weight under Staff's recommendation.

Q. Which affiliates will be included in the development of the 4-factor cost allocations?

A. Staff recommends that the 4-factor allocation be determined by utilizing all three regulated affiliated water utilities (Chino Meadows, Granite Mountain and Antelope Lakes) as shown

on Schedule TBH CM-19e. Additionally, Staff also recommends that the indirect costs should be allocated to all three regulated affiliated water utilities.

Q. Please explain the results from using the four factors Staff recommends for allocation purposes.

A. The resulting 4-factor allocations are as follows: Antelope Lakes is 2.95 percent, Chino Meadows is 70.12 percent and Granite Mountain is 26.93 percent as shown on Schedule TBH CM-19e.

Q. Did Staff identify any expenses that should not be allocated to Chino Meadows?

A. Yes. Staff identified expenses it has deemed improper for rate making purposes.

Q. Did Staff identify any expenses paid directly by Granite Mountain that should have been included in the Corporate Allocations?

A. Yes. Staff identified $3,637 in expenses that should have been part of the 4-factor allocation and were paid by Granite Mountain. This allocation increased Repairs and Maintenance by $1,820 and Transportation by $1,817. This adjustment is then reallocated through Corporate Allocations.

Q. Why are Corporate Allocations required for transactions with Affiliates?

A. As stated within the NARUC Guidelines, transactions with Affiliates, "Allocations are important as there is an incentive to shift costs to regulated entities where recovery may be more likely which would result in increased profits for the non-regulated entities." This guideline stated that "Regulations are designed to prevent "cross subsidization" – one entity paying for costs that actually benefit another entity. Cross subsidization can occur between regulated entities as well as between regulated and non-regulated entities."

Q. Based on the consideration discussed in the NARUC Guideline, does Staff recommend that the Company develop and then follow a formal written Code of Affiliate Conduct related to affiliate transactions?

A. Yes.

Q. What is the purpose of a formal written Code of Affiliate Conduct ("Code")?

A. The formal written Code of Affiliate Conduct is meant to complement and clarify affiliate transactions. The purpose of this Code is to govern all operational and financial activities and relationships with and among the parent, owners, family members and all affiliates (regulated and unregulated). This Code assures the separation of the traditional roles of the regulated utilities and unregulated affiliates. This Code will develop the cost allocation through a cost allocation manual that includes time keeping for all employees. The Code would address valuing transactions for purchases or sales as well as goods and services provided to or among affiliates. Competitive bidding practices should be included in the Code. Financial arrangements between affiliates (regulated and unregulated) whether as notes receivable or notes payable would need to be addressed in the Code. The Company should develop and submit its proposed formal written policy or agreement for the Code to Staff but the scope and structure must be acceptable to Staff.

Q. Why is Staff recommending a formal written Code?

A. Staff is recommending the Code due to the ongoing issues with the Company and its regulated and unregulated affiliates. Throughout the review of the books and records of the Company, it is abundantly clear that until a proper code is written and adhered to by the Company the issues presented in my testimony will only continue. By following the Code the Company should resolve the recurring issues discussed in my testimony. However, Staff

recommends that the Commission provide the authority for Staff to immediately place an interim manager if the Company violates any part of the Code.

Q. Does Staff believe a formal written Code will suffice to resolve these recurring issues?

A. If the Company follows the Code, yes. However, because the Company has a history of failing to comply with similar Commission orders, Staff is recommending that it be authorized to appoint an Interim Manager if it determines the Company violates any part of the Code.

VII. RATE BASE

Fair Value Rate Base

Rate Base – Plant Documentation

Q. Are plant costs required to be supported?

A. Yes. The Arizona Administrative Code § R14-2-411(D) (1) states, "Each utility shall keep general and auxiliary accounting records reflecting the cost of its properties....and all other accounting and statistical data necessary to give complete and authentic information as to its properties...." (Emphasis added.)

Q. During the audit, did Staff identify plant costs which Chino Meadows did not adequately support?

A. Yes. Chino Meadows did not provide invoices to support $42,759 in plant additions, as shown on Schedule TBH CM-5, line 22. Source documents are essential records for verifying plant costs. In the absence of supporting documentation, the Company's plant balances cannot be verified.

Q. Was there an abnormal or non-recurring event that affected the Company providing source documents and records during the audit?

A. Yes, Chino Meadows and Affiliates had a fire in the office located at 2465 W. Shane Drive on December 14, 2011. Mr. Paul Levie provided a sworn statement in the application that the records located in the office and Accounts Payable records and invoices for (2008, 2009, 2010 and 2011) were destroyed in the fire.

Q. What does Staff typically recommend for inadequately supported plant?

A. Staff typically recommends that 100 percent of the cost be removed from rate base. It is the Company's responsibility to support its claimed costs. If unsupported costs are not removed, ratepayers are at risk of paying a return on plant values that may be overstated or on plant items that may not exist.

Q. Is Staff's recommendation that 100 percent of the cost be removed in this case?

A. No. Staff is not making that recommendation.

Q. What is Staff's recommended treatment for the inadequately supported plant in this case?

A. Staff is recommending that 10 percent of unsupported plant in service be offset with CIAC.

Q. Why is Staff Altering its usual position in this case?

A. There are three reasons Staff is recommending this treatment. First as previously noted, the Company's office experienced a fire in December 2011. A majority of the Company's records were destroyed by fire. Second, the Company has made an effort with its bank to obtain copies of cancelled checks and the Company provided numerous letters to the bank.

The Company was able to obtain some of the requested records. Third, Staff's inspection verified that the plant did exist and costs were not overstated.

Rate Base Summary

Q. Please summarize Staff's adjustment to Chino Meadows' rate base shown on Schedules TBH CM-3 and TBH CM-4.

A. Staff's adjustment to Chino Meadows' rate base resulted in a net decrease of $36,029, from $171,398 to $135,369. This decrease was primarily due to Staff's adjustments to plant in service and accumulated depreciation associated with the plant. Staff's recommendation results from the eight rate base adjustments as discussed below.

Rate Base Adjustment No. 1 – Unsupported Plant Treated as CIAC

Q. Does Staff's Rate Base Adjustment No. 1 relate to the unsupported plant investments being treated as CIAC which was already discussed?

A. Yes. Staff recommends treating 10 percent of the unsupported plant additions of $42,759 as contributions and include $4,276 in CIAC, as shown on Schedule TBH CM-5 line 26. The associated adjustment for the amortization of the CIAC for this plant is $192.

Rate Base Adjustment No. 2 – CIAC for Plant paid with Insurance Proceeds

Q. Did the Company write off utility plant that remains in service?

A. Yes. The Company did not properly maintain its records in accordance with the NARUC USoA, and it inadvertently offset the insurance proceeds for plant reimbursed after the office fire in December 2011 resulting in the write-off of plant in service. The Company should have added plant addition to plant in service.

Q. Why is Staff treating this plant as CIAC?

A. According to NARUC Guidelines, plant paid with insurance proceeds should be treated as CIAC. Staff recommends the plant be added in the year the plant was put into use.

Q. What is Staff's recommendation?

A. Staff recommends increasing CIAC by $6,130 for the Computers and Software purchased to replace equipment destroyed in the December 2011 office fire as shown on Schedule TBH CM-6. The plant is added on Schedule TBH CM-8, line 21. The associated adjustment for the amortization of the CIAC for this plant is $613.

Rate Base Adjustment No. 3 – AIAC Refunds

Q. Did the Company properly refund the AIAC obligations in the test year?

A. No. The Company stated in DR CM TBH 1.18 that, due to employee error turnover, it inadvertently failed to make the required refunds during the test year. The Company made the required refunds in 2014.

Q. What is Staff's recommendation?

A. Staff recommends an AIAC balance decrease by $3,649 for refunds the Company inadvertently failed to make during the test year.

Rate Base Adjustment No. 4 – Reclassify Plant and Plant Additions to Appropriate Classifications

Q. Did Staff reclassify plant in accordance with Decision 72896?

A. Yes, Staff reclassified and moved $6,406 from Water Treatment Equipment in Acct. 320 to the appropriate sub-category of Solution Chemical Feeders in Acct. 320.2. Staff reclassified and moved $51,684 from account Distribution Reservoirs and Standpipes in Acct. 330 to the

appropriate sub-account number of Storage Tanks in the amount of $36,415 and Pressure Tanks in the amount of $15,269.

Q. Did Staff reclassify or add other plant in service in this case?

A. Yes, Staff reclassified and moved $4,782 from Computers & Software in Acct. 340.1 to Office Furniture in Acct. 340 and increased by $1,752 from Fire Related Expenses in 2012 for Office Furniture for a total adjustment of $6,534. Staff included $6,130 in Computers & Software Acct. 340.1 due to equipment cost previously expensed and offset by insurance proceeds as noted on Schedule TBH CM-6. Staff reclassified and moved $854 from Computers & Software in Acct. 340.1 to Communications Equipment in Acct. 346. Staff reclassified and moved $3,975 from Communications Equipment in Acct. 346 to Miscellaneous Equipment in Acct. 347. Staff reclassified and moved $539 from expenses adjusted for on Schedule TBH CM-20 to Wells & Springs in Acct. 307. Staff reversed the Company's adjusting entry removing $268 from Transmission & Distribution Mains in Acct. 331.

Rate Base Adjustment No. 5 – Plant Retirements

Q. Did the Company retire plant in service due to the Office fire in December 2011?

A. No, the Company did not retire plant in service due to the Office fire in accordance with NARUC Guidelines.

Q. Does Staff recommend the retirement of plant destroyed due to an Office fire in December 2011?

A. Yes, Staff removed $9,346 from Office Furniture and Equipment in Acct. 340 as shown on Schedule TBH CM-9 Line 16 and $5,608 from Communication Equipment in Acct. 346 as

shown on Schedule TBH CM-9 Line 19. Staff adjusted accumulated depreciation for this plant on Schedule TBH CM-11.

Q. Did the Company retire plant in service that is no longer used and useful?

A. No, the Company did not retire transportation equipment no longer owned by the Company. In response to DR CM TBH 1.38, the Company provided a schedule of all vehicles and listed the following as no longer owned by the Company: 1998 Ford Ranger Truck ($11,287), 2000 Ford Ranger Truck ($5,350), Pre-1995 Unidentified Vehicles ($4,103), 1975 Ford Water Truck ($7,500) and 1999 Ford Truck ($12,509).

Q. What is Staff's recommendation?

A. Staff recommends removing $55,703 from plant in service due to retirements, as shown on Schedule TBH CM-9. Staff recommends that the Company retire items that are no longer used and useful in a timely manner.

Rate Base Adjustment No. 6 – Removal of Plant Additions

Q. Did the Company purchase a John Deere riding lawn mower from a private party during the test year?

A. Yes, the Company purchased a riding lawn mower for $1,000 from a private party.

Q. Did the Company transfer this plant to Granite Mountain?

A. No. In response to Staff's DR CM TBH 2.7, the Company stated that Chino Meadows still owns the riding lawn mower.

Q. Why did Staff remove this plant addition for the John Deere riding lawn mower?

A. Staff removed the plant addition due to the Company already owning a new riding lawn mower that was purchased in October 2012. Additionally, Staff during the site visit with the Operation Manager on September 25, 2014, stated the John Deere riding lawn mower was stored in the Owner's garage and used solely by Granite Mountain. Staff determined the riding lawn mower intended uses could not be supported and therefore was removed.

Q. What is Staff's recommendation?

A. Staff removed $1,000 from plant additions for Power Operated Equipment in Acct. 345. Staff further recommends that unsupported or personal expenses not be paid by the Company.

Rate Base Adjustment No. 7 – Accumulated Depreciation

Q. Did Staff make any adjustments for Accumulated Depreciation?

A. Yes.

Q. What is Staff's recommendation?

A. Staff calculated the accumulated depreciation based on Staff's recommended plant adjustments. Staff's calculation of $636,937 as shown on Schedule TBH CM-11 includes Staff's rate base adjustments summarized on Schedule TBH CM-4 and the associated additions or reductions to rate base.

Rate Base Adjustment No. 8 – Cash Working Capital Allowance

Q. What is Cash Working Capital?

A. Cash working capital represents a required level of funding provided by investors for the purposes of paying operating expenses in advance of receiving recovery of such expense from

customers through rates. The cash working capital allowance is a component of rate base that can be positive or negative.

Q. What is Chino Meadows proposing for the cash working capital allowance?

A. The Company proposes a cash working capital allowance based on the formula method, i.e., one-twenty-fourth of purchased water and purchased electric power expense and one-eighth of other operating and maintenance expenses.

Q. What is Staff's recommendation?

A. Staff recommends a Cash Working Capital Allowance balance of $27,780, a $15,699 decrease over the Company's proposed balance of $43,479, as shown on Schedules TBH CM-4 and TBH CM-12. But Staff notes that in the future, Staff will require a lead-lag or similar study to support its cash working capital allowance.

VIII. OPERATING INCOME

Operating Income Summary

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

A. As shown on Schedules TBH CM-13A, TBH CM-13B and TBH CM-14, Staff's analysis resulted in test year revenues of $357,985, expenses of $301,230 and operating income of $56,754. The Company's application shows test year revenues of $358,364, expenses of $385,362 and an operating loss of $26,998. Staff's recommendation results from the eight operating income adjustments discussed below.

Operating Income Adjustment No. 1 – Surcharge - Other Revenue

Q. What is the Company proposing for other revenues?

A. The Company proposed $12,744 for other revenues.

Q. What is Staff's recommendation?

A. Staff recommends decreasing test year revenue by the amount of $379, as shown on Schedule TBH CM-15. This adjustment decreases the operating other revenues for a surcharge not included in its tariff for $379. Such revenues should not be recurring since this surcharge is not included in the Company's Commission-approved tariffs.

Operating Income Adjustment No. 2 – Contract Services, Water Testing

Q. What is the Company proposing for contract services for testing?

A. The Company proposed $4,791 for the adjusted test year expense.

Q. What is Staff's recommendation?

A. Staff recommends increasing test year expense by the amount of $37, as shown on Schedule TBH CM-16. Even though this adjustment is small, Staff is capturing this adjustment in order to reflect the recommended annual water testing costs as shown on Staff's Engineering Report.

Operating Income Adjustment No. 3 – Rate Case Expenses

Q. What is the Company proposing for rate case expenses?

A. The Company proposed $13,333 for the adjusted test year expense. The Company estimated that the combined rate case expense for Chino Meadows and Granite Mountain of $50,000. For the filings the costs were allocated 20 percent to Granite Mountain for $10,000 and 80 percent for Chino Meadows for $40,000. The Company normalized the $40,000 expense

over 3 years. However, according to the Company's supplemental response to Staff's DR CM TBH 1.5, the Company is now claiming a combined rate case expense for Chino Meadows and Granite Mountain of $75,000. The Company's adjusted costs would be allocated at 40 percent to Granite Mountain for $30,000 and 60 percent for Chino Meadows for $45,000. The Company would normalize this $45,000 expense over 3 years.

Q. What is Staff's recommendation?

A. Staff is recommending recognition of a rate case expense level of $15,000, an increase of $1,667 over the Company's originally proposed amount of $13,333.

Operating Income Adjustment No. 4 – Bad Debt Expense

Q. What is the Company proposing for bad debt expense?

A. The Company proposed $1,990 for the adjusted test year expense.

Q. Did Staff make any adjustments to the Company pro forma adjustments for bad debt expense?

A. Yes.

Q. What are those adjustments and why?

A. Staff's adjustments reflect pro forma corrections for errors made by the Company of $2,843. The Company's original adjustment was to reclassify the bad debt expense from miscellaneous to bad debt expense for a decrease of 1,990. Staff reviewed the general ledger and determined the total bad debt expense was actually $4,990 a difference of $3,000. Staff reclassified the collection fees from miscellaneous expense to bad debt expense for a decrease of $157. The net result of Staff's adjustments to the Company's pro forma adjustments is an

increase of $2,843. Staff reviewed the last four years of actual bad debt expenses. The amount for the test year appears to be reasonable.

Operating Income Adjustment No. 5 – Cost Allocations

Q. How did Staff develop its Cost Allocation based adjustments?

A. Staff developed its recommended cost allocation based adjustments by a review of the Company's underlying expenses and based upon the application of the 4-factor cost allocations Staff is recommending. The resulting expense level changes were the result of expense reclassifications, expense level disallowances and expense level normalizations.

Reclassifications

Q. Did Staff reclassify expenses for Salaries and Wages, Repairs and Maintenance, Office Supplies, Rent, Contractual Services, Transportation, Miscellaneous and Payroll Taxes?

A. Yes. Staff reclassified expenses to each of the classifications listed above as shown on Schedule TBH CM-19b. Staff will discuss each separately. However, Staff will combine the discussions of the adjustments for Salaries, Wages and Payroll Taxes.

Operating Income Adjustments – Salaries, Wages and Payroll Taxes

Q. Why did Staff include adjustments related to Salaries, Wages and Payroll?

A. In response to Staff's DR GM TBH 1.24, the Company stated the position works for all the affiliated water companies and also provides support related to Mr. Paul Levie's property management activities. Staff reclassified these expenses in order to reflect the cost allocations as shown on Schedule TBH CM-19f.

Q. Does Staff agree with the Company's current allocation method for salaries, wages and payroll taxes between Chino Meadows and Granite Mountain?

A. No. The Company stated that 40 percent of this employee's salary was paid by Granite Mountain. However, Staff recommends that the test year's salary and wages be determined using the 4-factor cost allocation method.

Q. Please describe Staff's reclassification adjustment to Salaries and Wages for Payroll Taxes.

A. Staff reclassified payroll taxes of $15,718, resulting in a decrease to Salaries and Wages as shown on Schedule TBH CM-19b Line 16. Staff's reclassification of payroll taxes is based on actual and estimated payroll taxes reflecting a reasonable salary and salary increase. Staff adjusted the test year salaries, wages and payroll taxes as shown on the Allocations for Salaries and Wages Calculation Schedule TBH CM-19f.

Operating Income Adjustments - Repairs and Maintenance

Q. Please describe Staff's reclassification adjustments related to Repairs and Maintenance expenses.

A. Staff reclassified expenses to plant in service for $539 and the plant should be capitalized and depreciated, as shown on Schedules TBH CM-19b and TBH CM-20. Staff determined that Granite Mountain incurred expenses for Repairs and Maintenance of $1,820 that need to be reclassified to be included in the cost allocations as shown on Schedule TBH CM-19b.

Q. What is Staff's recommendation?

A. Staff recommends increasing test year repairs and maintenance expenses by the amount of $1,281, as shown on Schedule TBH CM-19b.

Operating Income Adjustments – Office Supplies

Q. Please describe Staff's reclassification adjustments for Office Supplies.

A. Staff reclassified the rent expense of $12,000 that was misclassified to Office Supplies, as shown on Schedule TBH CM-19b.

Q. What is Staff's recommendation?

A. Staff recommends decreasing test year office supplies expenses by the amount of $12,000, as shown on Schedule TBH CM-19b.

Operating Income Adjustments – Rent

Q. Please describe Staff's reclassification adjustments for Rent.

A. Staff reclassified the rent expense of $12,000 that was misclassified to Office Supplies, as shown on Schedule TBH CM-19b.

Q. Where is the administrative office located and who owns the property?

A. 501 N Hwy 89, Chino Valley AZ 86323 is owned by Mr. Dewey J. Levie, Mr. Paul Levie's son.

Q. How much is the full rent for the administrative office and allocation to Chino Meadows and Granite Mountain?

A. Per the rental agreement dated December 15, 2011, provided in response to DR CM TBH 1.30, the monthly rent is $1,250 for a total of $15,000 per year to Mr. Dewey J. Levie. In the Company's response to DR CM TBH 1.30d, "Chino Meadows is required to pay yearly rent of $15,000 ($1,250 per month). During the test year, the rent was 20 percent to Granite Mountain ($3,000) and 80 percent to Chino Meadows ($12,000). No other entities pay rent."

Q. Did the administration offices and water company employees support Mr. Paul Levie's property management activities?

A. Yes. According to the Company's response to DR CM TBH 1.14 and DR GM TBH 1.15 on Shared Facilities Allocations, the administration office supports Mr. Paul Levie's property management activities. In addition to the office space, the administrative water company employees support Mr. Paul Levie's property management activities.

Q. Did Staff research local office space commercial lease/rental information for comparative and market prices?

A. Yes. Staff researched current leases available in Chino Valley using the website *Loopnet* on November 4, 2014 and May 12, 2015. According to the website, the market rates on an annual basis are approximately $7,600 for a space of 756 to 950 square feet space. The market price ranges from $8 to $10 per square foot per year. Staff has provided the May 12, 2015 information in Exhibit 1.

Q. Did Staff request information regarding the business office of the Company?

A. Yes in DR CM TBH 1.30, Staff requested information regarding the address of the office building, owner of the office building and relationship to Mr. Paul Levie, rental agreements, number and names of all regulated and unregulated businesses that operate from the building, monthly rents for all businesses from the building, actual annual costs and the square footage of the building.

Q. Did Staff estimate the square footage of the building occupied by the Company's employees allocated to the water companies?

A. Yes. Staff estimated that 75 percent of the office space is occupied by the Company's employees allocated to the water companies. Additionally, Staff has allocated this percentage through the 4-factor allocation methodology.

Q. Did Staff allocate a percentage of the square footage of the building to unregulated affiliated companies?

A. Yes, based upon observation made during the office visits on September 25, 2014, December 10, 2014 and January 25, 2015. Staff estimated that 25 percent of the office space is occupied by the unregulated affiliated businesses as well as the office for Mr. Dewey J. Levie. Staff has disallowed this percentage through the 4-factor allocation as shown on Schedule TBH CM-19a.

Q. What did the Company provide for the square footage of the building located at 501 N Hwy 89, Chino Valley AZ 86323?

A. In response to Staff's DR CM TBH 1.30, the Company stated the building contains 2,280 square feet.

Q. What is the lease cost per square foot per year for the building located at 501 N Hwy 89, Chino Valley AZ 86323 based on the current lease agreement?

A. Based on the current annual rent of $15,000 per year for the building contains 2,280 square feet, the lease amount per square foot per year is approximately $6.58 per square foot.

Q. Based on the market in Chino Valley, Is the amount per square foot per year reasonable? Is the amount of square footage used by the regulated companies reasonable?

A. Yes, the amount per square foot per year is reasonable. However, 25 percent of the building is being used by the unregulated affiliated companies as shown on Schedule TBH CM-19a.

Q. What is Staff's recommendation?

A. Staff recommends increasing test year rent expenses by the amount of $12,000, as shown on Schedule TBH CM-19b. Staff notes that the combined rent for both Chino Meadows and Granite Mountain is $15,000. However, Staff will allocate the rent expense using the 4-factor allocation as shown on Schedule TBH CM-19a.

Operating Income Adjustments – Contractual Services

Q. Please describe Staff's reclassification adjustments for Contractual Services.

A. Staff reclassified the contractual services expense of $500 for a land survey that is a direct expense for Granite Mountain, as shown on Schedule TBH CM-19b. Staff properly allocated the land survey as a direct expense on Granite Mountain's schedules.

Q. What is Staff's recommendation?

A. Staff recommends decreasing test year contractual services expenses by the amount of $500, as shown on Schedule TBH CM-19b.

Operating Income Adjustments – Transportation

Q. Please describe Staff's reclassification adjustments for Transportation.

A. Staff determined that Granite Mountain incurred expenses for Transportation of $1,817 that are reclassified in order to be included in the cost allocations as shown on Schedule TBH CM-19b.

Q. What is Staff's recommendation?

A. Staff recommends increasing test year transportation expenses by the amount of $1,817, as shown on Schedule TBH CM-19b.

Operating Income Adjustments – Miscellaneous

Q. Please describe Staff's reclassification adjustments for Miscellaneous.

A. Staff's adjustments reflect pro forma corrections for errors made by the Company of $3,397. The Company's original adjustments were to reclassify the interest paid on customer deposits from interest expense to miscellaneous expense as shown on Attachment No. 2 Supplemental Page 5 for an increase of $554 and to reclassify the bad debt expense from miscellaneous to bad debt expense for a decrease of $1,990. The net result of the Company's pro forma adjustments is a decrease to miscellaneous expenses of $1,435, and the Company's proposed expense of $8,848. Staff reviewed the general ledger and determined the total bad debt expense was actually $4,990, a difference of $3,000. Staff reversed the interest expense adjustments made by the Company of $554 and reclassified the collection fees for bad debt expenses from miscellaneous expense of $157. The net result of Staff's adjustments for the Company's pro forma adjustments is a decrease of $3,397 as shown on Schedule TBH CM-19b.

Q. What is Staff's recommendation?

A. Staff recommends decreasing test year miscellaneous expenses by the amount of $3,397, as shown on Schedule TBH CM-19b.

Disallowances

Q. Did Staff disallow expenses for Salaries and Wages, Salaries and Wages – Officers, Purchased Power, Repairs and Maintenance, Office Supplies, Contractual Services, Transportation, Insurance – General Liability, Miscellaneous and Payroll Taxes?

A. Yes. Staff disallowed expenses to each of the classifications listed above as shown on Schedule TBH CM-19c. Staff will discuss each separately. However, Staff will combine the discussions of the adjustments for Salaries, Wages and Payroll Taxes.

Operating Income Adjustments – Salaries, Wages and Payroll Taxes

Q. Who are the owners of Chino Meadows?

A. Mr. and Mrs. Paul and Rae Levie.

Q. In addition to Chino Meadows, do Mr. and Mrs. Paul Levie own any other regulated utilities or unregulated affiliates?

A. Yes. Mr. and Mrs. Paul Levie own Granite Mountain and Antelope Lakes Water Company, and they own numerous unregulated affiliated companies including rental properties.

Q. Did Staff inquire if employees of the water companies work for any unregulated companies of the owners; hours worked per week; and specific employees?

A. Yes. Staff requested this information in DR CM TBH 2.12h and DR GM TBH 2.5g.

Q. What details did Chino Meadows and Granite Mountain provide regarding its employees that also work for Mr. and Mrs. Paul Levie's unregulated affiliated companies?

A. Chino Meadows' response to Staff's DR CM TBH 2.12h stated that the Administrative Assistant and Operations Manager positions provided support for Mr. and Mrs. Paul Levie's property management activities. The positions are not paid separately for these activities. Chino Meadows estimated that the Administrative Assistant position works up to 2 hours per week on property management activities. Chino Meadows estimated that the Operations Manager position works up to 4 hours per week on property management activities. Granite Mountain's response to Staff's DR GM TBH 2.5g stated that the Administrative Assistant position provided support for Mr. and Mrs. Paul Levie's property management activities. The positions are not paid separately for these activities. Granite Mountain estimated that the Administrative Assistant position works up to 16 hours per week on property management activities.

Q. Did Chino Meadows provide support for the actual amount of labor expense that was directly incurred for Mr. and Mrs. Paul Levie's unregulated affiliated companies?

A. No. Chino Meadows did not provide any time sheets that document the amount of time they spend working for the unregulated affiliated companies.

Q. Please describe Staff's disallowance adjustments for Salaries, Wages and Payroll Taxes.

A. Staff disallowed the salaries, wages and payroll taxes based on the number of hours worked by Chino Meadows and Granite Mountain employees for Mr. Paul Levie's unregulated businesses. Staff disallowed $17,444 for salaries and wages; and $1,539 for payroll taxes associated with those salaries and wages, as shown on Schedule TBH CM-19c. Staff adjusted

the test year salaries, wages and payroll taxes as shown on the Allocations for Salaries and Wages Calculation Schedule TBH CM-19f.

Operating Income Adjustments – Salaries and Wages - Officers

Q. What is Chino Meadows and Granite Mountain proposing for employee salary and wages expense for Officers, Directors and Stockholders?

A. The Company is proposing $31,700[4] and Granite Mountain is proposing $6,000 for the salary and wages of the Officers, Directors and Stockholders of the Company.

Q. Who were the payments paid to?

A. Paul D. Levie P.C.

Q. How many businesses does Mr. Paul Levie operate or lists the business office as 501 N Hwy 89, Chino Valley AZ 86323?

A. According to DR CM TBH 1.30, Mr. Paul Levie operates thirteen businesses. Those businesses are: Chino Meadows, Granite Mountain, Antelope Lakes, Equestrian Development Corporation, Equestrian Construction, LLC, LL&M Development, LLC, Levie –Antelope Lakes Development Inc., CityofPrescott.com LLC, Paul D. and Rae Levie Living Trust, Paul D. and Rae Levie Family Corporation, The Levie Family Foundation, Levie Family Limited Partnership, and Levie Realty & Investment LLC. According to DR CM TBH 1.30, Mr. Paul Levie's following businesses are inactive business entities: Paul D. Levie Inc., Antelope Lakes Sewer, LLC, Raven Water Company, LLC, and Raven Sewer Company LLC.

[4] In response to DR CM TBH 1.26h, Mr. Paul Levie's total salary is $38,400 in compensation for the test year. However, the allocation was $31,700 for Chino Meadows at 84% and $6,000 for Granite Mountain at 16% for a total of $37,700.

Q. Does Mr. Paul Levie maintain a time sheet showing the number of hours per day spent working for each of his thirteen active business entities?

A. No. Mr. Paul Levie does not maintain time sheets that document the amount of time he spends each day working on each of his thirteen active business entities.

Q. Did Chino Meadow or Granite Mountain provide support or documentation to support the $31,700 charged to Chino Meadows or the $6,000 charged to Granite Mountain?

A. No, it did not.

Q. Did the Company provide an explanation on how the level of salary for Mr. Paul Levie's was determined? If yes, please describe.

A. Yes. The Company stated in DR CM TBH 1.26h, "Mr. Levie's compensation is based on an annual salary of $76,800. As a half-time employee for Chino Meadows and Granite Mountain. Mr. Levie was scheduled for $38,400 in compensation for the test year."

Q. What are Mr. Paul Levie's duties as described by Chino Meadows?

A. The duties are: supervision and management of company personnel; oversight of company operations; provision of strategic direction; review of company financial data including payables, receivable, revenue and expenses; provision of legal representation for Company; review of payroll and signing of checks; review and authorization of all vendor payments; acquisition regulation and oversight of company loans and long-term debts; meeting with operations management to review capital program and address operational issues and ensuring that proper facilities and equipment are available; development and review of company processes and procedures to ensure regulatory compliance; and revision and

advisement of Company on manuals such as employee handbook and emergency response manual.

Q. What are the duties of the Operations Manager[5]?

A. The duties are: oversees and runs all daily operations; directs and assists administrative staff and field techs; manages day to day operation of the company's facilities and personnel to insure distribution of safe water to customer, provides customer services and compliance with regulatory requirements, manages Company's capital projects, review and authorizes vendor payments.

Q. Did Staff make any adjustment to the total number of hours worked?

A. Yes. Staff reviewed the total number of hours worked and given that (1) thirteen businesses are operating from the office (2) no time sheets were maintained and no time study was conducted, (3) some of the duties appeared to duplicate the duties of another employee at the office, and (4) some of the time estimated seem high. Staff's adjusted hours are shown on Schedule TBH CM-19g and then adjusted for the additional salary increase of $4,673 for the Operations Manager from $50,683 in 2013 to $55,356 in 2014.

Q. Please discuss Staff's recommended decrease of $17,444 to salaries and wages expense for Officers, Directors and Stockholders, adjustment in further detail.

A. Staff recommends removing $11,761 in salaries and wages expense for Officers, Directors and Stockholders. Staff adjusted the Company's proposed amount due to Mr. Paul Levie due to the amount of time Staff was able to identify that Mr. Paul Levie was out of town. Staff adjusted one-third of the proposed salary based on the description of Mr. Paul Levie's duties in the Company's response to DR CM TBH 1.26g. Additionally, Staff decreased Mr. Paul

[5] List of duties compiled from original application, responses by the Company to Staff's DR's CM TBH 1.25, CM TBH 2.12 and CM TBH 3.7.

Levie's salary due to the increase for Operations Manager from 2013 to 2014. The Company provided the information about the increased duties in response to DR's CM TBH 2.12 and CM TBH 3.7. The Operations Manager salary in 2013 was $50,683 and in 2014 $55,356 with an increase of $4,673. Staff further recommends removing the $4,673 in salaries and wages expense for Officers, Directors and Stockholders as shown on Schedule TBH CM-19g Line 21. Staff decreased the same from the Mr. Paul Levie's salaries and wages to reflect the additional duties and responsibilities of the Operations Manager. Staff further recommends that Chino Meadows have available a time study (and underlying detailed time sheets) to evidence the amount of direct labor hours that Mr. Paul Levie spends on activities related to Chino Meadow and Granite Mountain for recovery of that expense in future rate cases.

Q. Did Staff, in a previous rate case, recommend a time study (and underlying detailed time sheets) for Mr. Paul Levie? If so, please provide the docket number(s).

A. Yes. In Docket No., W-02370A-10-0519, Staff recommended that Chino Meadows have available a time study (and underlying detailed time sheets) to evidence the amount of direct labor hours that Mr. Paul Levie spends on activities related to Chino Meadows for recovery of that expense in future rate cases.

Operating Income Adjustments – Purchased Power

Q. Please describe Staff's disallowance adjustments for Purchased Power.

A. Staff disallowed the late fees of $46 to Purchased Power, as shown on Schedule TBH CM-19c. While this is a small amount, ratepayers should not be responsible for any level of late fees when bills are not paid on a timely basis. Also other late fees were removed as part of other adjustments recommended by Staff.

Operating Income Adjustments – Repairs and Maintenance

Q. Please describe Staff's disallowance adjustments for Repairs and Maintenance.

A. Staff disallowed transactions that were not needed in the provision of service such as repair material costs to personal residences or rental properties for $124, as shown on Schedule TBH CM-19c.

Operating Income Adjustments – Office Supplies

Q. Please describe Staff's disallowance adjustments for Office Supplies.

A. Staff disallowed transactions that were not needed in the provision of services. Staff removed $44 for interest and late fees; $1,888 for Mrs. Rae Levie's cell phone and charges, collect calls, Mr. Paul Levie's international call plan and international calls; $218 for personal meals; $524 for miscellaneous personal expenses; and $130 for expense outside the test year, as shown on Schedule TBH CM-19c. The total adjustment recommended by Staff is a decrease of $2,804.

Operating Income Adjustments – Contractual Services

Q. Please describe Staff's disallowance adjustments for Contractual Services.

A. Staff removed $1,232 for legal fees non-recurring related to the office fire, as shown on Schedule TBH CM-19c.

Operating Income Adjustments – Transportation

Q. Please describe Staff's disallowance adjustments for Transportation.

A. Staff disallowed transactions that were not needed in the provision of services. Staff removed $800 for gas reimbursements of $100 per month for the administrative office employees; $2,497 for several unsupported purchases of vehicle tires; $2,229 for out of state gasoline purchases for Mr. Paul Levie; and $1,854 for the bulk purchase of 530 gallons of gasoline delivered to Mr. Paul Levie's personal residence, as shown on Schedule TBH CM-19c.

Q. Did the Company provide additional information in support of these disallowed transportation expenses?

A. Yes. The Company stated that it no longer provides the gas reimbursement to employees. Staff requested support for the tires in Staff's DR CM TBH 3.4d and the Company stated it was unable to locate the requested receipts. According to the Company's response to Staff's DR CM TBH 3.4(g), the Company stated, "Mr. Levie maintains a bulk fuel tank at his home office location. Fuel from the tank is used for Mr. & Mrs. Levie's vehicles. The Company estimates the one-half of the fuel was used for business purposes."

Q. What is Staff's recommendation?

A. Staff recommends decreasing test year transportation expenses in the amount of $7,380, as shown on Schedule TBH CM-19c.

Operating Income Adjustments – Insurance – General Liability

Q. Please describe Staff's disallowance adjustments for Insurance - General Liability.

A. Staff removed $1,058 for vehicle AZ-1 owned by an unregulated affiliated company per the Company's response to DR CM TBH 1.39, as shown on Schedule TBH CM-19c.

Q. What is the Company proposing for general – liability insurance expenses?

A. The Company proposed $8,964 for the adjusted test year expense.

Q. Who is insured by the Company's proposed insurance – general liability policy?

A. The Company's cost for general liability insurance policy includes the following named insured as provided in response to Staff's DR CM TBH 1.39: Granite Mountain Water Company, Antelope Lakes Water Company, Inc., Wineglass Water Company, Inc., Equestrian Construction, LLC (For Automobile Coverage Only) , Equestrian Development

Corp., Paul D. & Rae Levie Trust DTD 11/20/73, Levie-Antelope Lakes Development, Inc., LL&M Development, LLC, Levie Family Limited Partnership, and Payette Heights Development Corp.

Q. Did Staff request an explanation about the insurance policy and why it included regulated and unregulated affiliated companies and why the policy was paid exclusively by Chino Meadows and Granite Mountain?

A. Yes. Staff requested in DR CM TBH 2.2, costs for each company, cost of auto insurance, an explanation why the General Liability Insurance was billed for and paid by the Company and Granite Mountain, requested documentation about reimbursements back to Company and the number of years the policy was billed and paid by the Company. The Company stated there is no breakdown for each insured due to the blanket policy.

Q. What is Staff's recommendation?

A. Staff recommends decreasing test year expense in the amount of $1,058, as shown on Schedule TBH CM-19c. Staff's adjustments reflect the removal of $1,058 of the insurance for personal vehicle use costs for an unregulated company. Additionally, the unregulated affiliates should obtain a separate policy from the regulated water companies. A separate policy would protect ratepayers from insurance cost increases that could result if a non-utility vehicle suffered a loss which increased future insurance premiums.

Operating Income Adjustments – Miscellaneous

Q. What recommendation is Staff making regarding miscellaneous expenses?

A. Staff recommends disallowance of $1,559 for gifts; $683 for food, beverages and similar costs; and $60 for donations, as shown on Schedule TBH GM-20c, for a total reduction of $2,301 from actual recorded test year miscellaneous expense.

Normalization

Q. Did Staff normalize expenses for Salaries and Wages, Office Supplies, Transportation, and Insurance – General Liability?

A. Yes. Staff normalized expenses to each of classifications listed above as shown on Schedule TBH CM-19d. Staff will discuss each separately.

Operating Income Adjustments – Salaries and Wages

Q. What is the Company proposing for employee salary and wages expense?

A. The Company is proposing $211,665 for salaries and wages. The amount is composed of $179,965 for the actual test year for all employees that include payroll taxes and a $15,000[6] pro forma adjustment to reflect a salary increase. The Company states that $31,700 is for the salary and wages of the Officers of the Company.

Q. What is Granite Mountain proposing for salaries and wages expense?

A. Granite Mountain is proposing $38,942 for employee salaries and wages net of salaries and wages for Officers. The amount is composed of $33,942 for actual test year expenses and a $5,000[7] pro forma salary increase.

Q. What is the combined pro forma salary and wage increase for both Chino Meadows and Granite Mountain?

A. The combined pro forma salary and wage increase is $20,000. Chino Meadow has been allocated 75 percent ($15,000) and Granite Mountain 25 percent ($5,000).

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[6] In Chino Meadows' application, Attachment No. 2 Supplemental Page 4 for Income Statement Adjustment IS-2 the total 2014 increase in employee salary is $20,000 with 75% percentage allocated to Chino Meadows.

[7] In Granite Mountain's application, Attachment No. 2 Supplemental Page 5 for Income Statement Adjustment IS-2 the total 2014 increase in employee salary is $20,000 with 25% percentage allocated to Granite Mountain.

Q. Are test year expenses representative of average salaries and wages expenses for Chino Meadows and Granite Mountain? Please explain.

A. No. Chino Meadows test year expenses included two employees final paychecks that are outside normal salaries expenses, $13,000 bonus for the Operations Manager to adjust pay to match responsibilities, $4,000 for other employee bonuses, and several incremental increases for the Administrative Assistant and temporary employees. Granite Mountain test year expenses included one final paycheck that is outside normal salaries expenses, a $2,500 bonus for the retired Administrative Assistant and $1,000 for other employee bonuses. The employee for Granite Mountain worked for the Company for 25 years and retired from the water companies in October 2013.

Q. Please discuss Staff's recommended $160,638 for salaries and wages expense and $14,179 for payroll taxes in further detail.

A. Staff's adjustments reflect the actual salaries for the Operations Manager and Administrative Assistants provided in responses to DR's CM TBH-2.12b, CM TBH 3.7 and GM TBH-2.5g. Staff's adjustments reflect the estimated salaries for the two field technicians with increases using the information provided by the Company to DR CM TBH 1.25. Based on the information provided, Staff determined that $178,082 in salary and wages and $15,718 in payroll taxes adjusted for the inclusion of any salary increases as shown on Schedule TBH CM-19f Line 7. Staff adjusted the salaries, wages and payroll taxes for the Operations Manager and Administrative Assistants for hours worked for the unregulated affiliated companies as shown on Schedule TBH CM-19f Columns F and G. Staff adjusted the salaries and wages to $160,638 and payroll taxes to $14,179 in order to normalize these expenses for the test year.

Q. Please describe Staff's normalization adjustments for Salaries and Wages.

A. Staff normalized salaries and wages by $13,384 based on the current and estimated salaries and wages for the five employees of the water companies as shown on Schedule TBH CM-19f. Staff determined current and estimated hourly rates and wages based on a regular 40 hour work week over a calendar year. Staff reclassified the payroll taxes and disallowed the salaries, wages and payroll taxes for the hours worked for the unregulated affiliated companies to determine the adjusted salaries, wages and payroll taxes for the test year as shown on Schedule TBH CM-19d.

Q. What is Staff's recommendation?

A. Staff recommends an increase of $13,834 for the test year salaries and wages expense as shown on Schedule TBH CM-19f, Line 7.

Operating Income Adjustments – Office Supplies

Q. Please describe Staff's normalization adjustments for Office Supplies.

A. Staff normalized service contract costs for arrangements that extended for more than one year. Staff divided the number of years by the total cost. Staff adjusted for the normalization of expenses by decreasing operating expenses by $208, as shown on Schedule TBH CM-19d.

Operating Income Adjustments – Transportation

Q. Please describe Staff's normalization adjustments for Transportation.

A. Staff normalized the vehicle registrations fees by averaging over two years. Staff adjusted for the normalization of expenses by decreasing operating expenses by $186, as shown on Schedule TBH CM-19d.

Operating Income Adjustments – Insurance – General Liability

Q. Please describe Staff's normalization adjustments for Insurance – General Liability.

A. Staff normalized refunds received from the insurance company that applied to general liability expense. The refunds reduced the current amount for the general liability insurance. Staff adjusted for the normalization of expenses by increasing operating expenses by $594, as shown on Schedule TBH CM-19d.

Cost Allocations

Cost Allocations – This adjustment allocates indirect expenses paid by Chino Meadows directly to Granite Mountain. Staff recommends use of a 4-factor allocation be utilized by all three regulated affiliated water companies (Chino Meadows, Granite Mountain and Antelope Lakes) and by the unregulated affiliated companies.

Q. Has Staff identified additional expenses that should be allocated to the unregulated affiliated companies? If so, please explain.

A. Yes. Staff identified the following expenses: salaries and wages of $17,444 and payroll taxes of $1,539 for a total of $18,892 due to the disallowance of hours working for Mr. Paul Levie's property management activities as shown on Schedule TBH CM-19c.

Q. What is the percentage for Antelope Lakes and Granite Mountain using Staff's recommended 4-factor cost allocation?

A. Antelope Lakes' 4-factor allocation is 2.95 percent and Granite Mountain's 4-factor allocation is 26.93 percent, as shown on Schedule TBH CM-19e.

Q. What is the percentage for Chino Meadows using Staff's recommended 4-factor cost allocation?

A. Chino Meadows's 4-factor allocation is 70.12 percent, as shown on Schedule TBH CM-19e.

Q. What are the adjustments for cost allocations to Chino Meadows using Staff's recommended 4-factor cost allocation?

A. Staff's cost allocations net of all adjustments for all thirteen expense categories totaling a decrease of $109,821 are as follows: Salaries and Wages decreases by $67,325, Salaries and Wages – Officers decreases by $16,788, Purchased Power decreases by $718; Chemicals decreases by $94; Repairs and Maintenance decrease by $759; Office Supplies decreases by $19,506; Rent increases by $7,889; Contractual Services decreases by $3,252; Transportation decreases by $9,509, Insurance – General Liability decreases by $3,304; Insurance – Health and Life decreases by $797; Miscellaneous decreases by $5,601; and Payroll Taxes increases by $9,942, as shown on Schedule TBH CM-19a.

Operating Income Adjustment No. 6 - Depreciation Expense

Q. What is the Company proposing for depreciation expense?

A. The Company proposed $20,394 for the adjusted test year depreciation expense.

Q. Is the Company proposing different depreciation rates than those recommended by Staff in Decision No. 72896?

A. Yes, the Company is proposing to change the pumping equipment rate from 12.5 percent to 5.0 percent and transportation equipment from 20.0 percent to 15.0 percent as shown on Attachment 2 Supplemental Page 8. The Company stated in the application that the current depreciation rates caused Pumping Plant and Transportation accounts to become fully depreciated even though the underlying plant has significant useful life.

Q. Does Staff agree with the Company's proposed depreciation rates?

A. No. Staff recommends the depreciation rates as recommended in Table B of the Engineering Report.

Q. Does Staff recommend any modifications to the Company's proposed depreciation expense calculation?

A. Yes. Staff calculated depreciation expense by applying its recommended depreciation rates (the same rates adopted by the Commission in the prior rate case) to its recommended plant balances.

Q. What is Staff's recommendation?

A. Staff recommends $18,885 for depreciation expense, a $1,509 reduction from the Company's proposed amount, as shown on Schedule TBH CM-20.

Operating Income Adjustment No. 7 - Property Tax Expense

Q. What is Chino Meadows proposing for Test Year Property Taxes?

A. Chino Meadows is proposing $18,670 for the adjusted test year property tax expense.

Q. What is Staff's recommendation for test year Property Tax Expense?

A. Staff recommends $17,694 for test year property tax expense, a $976 decrease from the Company's proposed amount, as shown on Schedule TBH CM-21. Staff further recommends adoption of its Gross Revenue Conversion Factor ("GRCF") that includes a factor for Property Tax Expense, as shown on Schedule TBH CM-2.

Operating Income Adjustment No. 8 - Income Taxes

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

A. Yes. Staff applied the statutory state and federal income tax rates to Staff's test year taxable income. Income tax expenses for the test year and recommended revenues are shown on Schedules TBH CM-13A and TBH CM-13B.

IX. NOTES RECEIVABLE AND NOTES PAYABLE

Notes/Accounts Receivable to Associated/Affiliated Companies

Q. During the course of the current audit, did Staff find that Chino Meadows loaned funds to Associated/Affiliated Companies?

A. Yes.

Q. Did Staff request additional information from the Company about Notes and Account Receivable from Associated/Affiliated Companies?

A. Yes, in DR CM TBH 1.33.

Q. What information was provided by the Company is response to DR CM TBH 1.33?

A. The Company's response to DR CM TBH 1.33 included a schedule of the amounts due from the affiliated companies and the amounts due through December 31, 2014[8]. The amounts due are as follows for the test year: Antelope Lakes Water $1,385, Desert Snow Construction on behalf of Mr. Paul Levie $16,067, PDL Zooki on behalf on Mr. Paul Levie's son, Mr. Daniel Levie $104, and PDL Inc. on behalf of Mr. Paul Levie $ 1,500. The total is $19,056.

[8] Staff requested a detailed schedule by month from January 2010 to December 31, 2013. Company provided detailed schedule through December 31, 2014.

Q. Did the Company explain the receivable due from Antelope Lakes at the end of the test year?

A. Yes. The Company's response to DR CM TBH 1.33b stated with regards to the Antelope Lake Water balance that "The balance is not a receivable in a traditional sense. The balance would be properly characterized as an intercompany balance, similar as to what would be recorded between a parent holding company and utility subsidiary companies or between utility subsidiary company when cash is transferred from one utility subsidiary to the parent holding company or another utility subsidiary and vice versa. Antelope Lakes is not required to make any payments to Chino Meadows. Should Antelope Lakes provide funds to or on behalf of Chino Mountain[9], the intercompany balance would be reduced. The balance at the end of the test year was $2,230."[10]

Q. Based on the information provided in DR CM TBH-1.33b, what detailed information was provided for the increase to the December 31, 2014 balance of $2,230 for Antelope Lakes?

A. The detailed information provided four monthly transfers due totaling $785 and one check to APS for $60. The total loan to Antelope Lakes increased by $845.

Q. Did the Company explain the receivables due from Mr. Paul Levie and family members in response to DR CM TBH 1.33b?

A. Yes. The Company stated that the amount for Desert Snow Construction was funds advanced to Mr. Paul Levie for a waterline serving property owned by Mr. Paul Levie. The property is not associated with any of the water utilities owned by Mr. Paul Levie. The advances to PDL Zooki were on behalf of Mr. Paul Levie's son Daniel. The Company's

[9] There is no Chino Mountain perhaps the Company meant Chino Meadows
[10] This is the balance due on December 31, 2014. Staff determined that $1,385 was due at the end of the test year. Additional receivable were incurred in 2014 of $845.18.

response states the balance is due and payable upon demand by Chino Meadows. The advances to Mr. Paul Levie represent funds due for personal uses. The Company's response states the balance is due and payable upon demand by Chino Meadows.

Q. What is Staff's recommendation?

A. Staff recommends that these considerations be incorporated as a part of the Code of Affiliate Conduct. Further, Staff is recommending that the Company make due and payable upon demand all balances due to the regulated water companies within in one year from the Decision in the rate case. Staff further recommends that the Company cease making any further personal loans or advances with Company funds.

Notes/Accounts Payable to Associated/Affiliated Companies

Q. During the course of the audit, did Staff find that Chino Meadows received funds from Associated/Affiliated Companies?

A. Yes.

Q. Did Staff request additional information from the Company about Notes and Account Payable to Associated/Affiliated Companies?

A. Yes, in DR CM TBH 1.34.

Q. What information was provided by the Company is response to DR CM TBH 1.34?

A. The Company's response to DR CM TBH 1.34 included a schedule to the amounts due to affiliated companies and the amounts payable through December 31, 2013. The payable amounts due are as follows for the test year: PDL – Mr. Paul Levie $5,000, Equestrian Construction, LLC $11,609, Granite Mountain Water Company – GMWC $19,891. The total

is $36,500. The Company stated that the amount due to Equestrian Construction, LLC was recorded in error.

Q. Did the Company explain the payables in response to DR CM TBH 1.34b?

A. Yes. The Company stated the following: Payable to PDL (Paul D. Levie) of $5,000; Payable to Equestrian Construction was recorded in error; and the Payable to Granite Mountain of $19,891 for various expenses. The Company states that "2234.01 – Due to PDL (Paul D. Levie) – This account represents funds paid on behalf of Chino Meadows by Mr. Levie. The payments were related to fire loss expenses incurred in January 2012. The balance at the end of the test year was $5,000.00."

Q. Based on the information provided in DR CM TBH-1.34b, what detailed information was provided about the Payable to PDL (Paul D. Levie) for $5,000?

A. Staff reviewed the general ledger provided by the Company in response to Staff's DR CM TBH 1.3. The payable is for $5,000 for a payment to Blain Hayes – Ask my Accountant (Check no. 6343). The payment was expensed to the below the line item expense category 4426.01 - Miscellaneous Non-Utility Expense. This expense was not reviewed for rate making purposes. However, a journal entry removed it from a notes receivable to a notes payable. The information provided by the Company conflicts with the information in the general ledger.

Q. What did Staff conclude about the payment of $5,000 to Blain Hayes and the Company's classification to Notes Payable?

A. Staff concludes that the expense is properly categorized as a below the line item expense and therefore funds from Mr. Paul Levie as a Notes Receivable.

Q. Did the Company provide the specific authorization by the Commission for any indebtedness in response to DR CM TBH 1.34c?

A. No. The Company states "The entries and balances in this account do not denote long-term indebtedness. Accordingly, the Company has not requested authorization by the Arizona Corporation Commission for indebtedness payable at periods of more than twelve months pursuant to ARS 40-301-B for an entry or balance in this account."

Q. Does Staff agree with the Company's response to Staff's DR CM TBH 1.34b?

A. No. Staff does not agree with the Company. The Company should obtain the Commission approval to incur debt pursuant to ARS § 40-301-B.

Q. What is Staff's recommendation?

A. Staff recommends that these considerations be incorporated as a part of the Code of Affiliate Conduct. Further, Staff recommends that the Company pay all balances due within 24 months of the Decision in this case. Staff further recommends pursuant to A.R.S. §40-301-B, that the Company obtain specific authorization by the Commission for indebtedness payable at periods of more than twelve months. Staff further recommends that the Notes Payable to PDL (Paul D. Levie) for $5,000 be reclassified as a Notes Receivable due from PDL (Paul D. Levie).

X. RATE DESIGN

Present Rate Design

Q. Please provide an overview of the Company's present rates.

A. Present, Proposed, and Staff Recommended rate design are presented in Staff's Direct Testimony Schedule TBH CM-24. The present rates went into effect March 1, 2012. There is one meter size presently in use in the system: 5/8 x 3/4-inch. The 5/8 x 3/4-inch meter

has a three-tiered commodity rate structure with break-over points at 3,000 and 8,000 gallons. The tier rates are $2.40, $3.20 and $4.20 with a monthly minimum of $17.75.

Company's Proposed Water Rate Design

Q. Please provide an overview of the Company's proposed rate increases.

A. The Company proposes to maintain the existing break-over points for all meter sizes and increases the commodity tier rates from $2.40 to $3.50 (a 45.8 percent increase) for the first tier, from $3.20 to $5.10 (a 59.4 percent increase) for the second tier and from $4.20 to $6.50 (a 54.8 percent increase) for the third tier. Minimum Monthly charges are proposed to increase from $17.75 to $23.00 (29.6 percent increase) for the 5/8 x 3/4-inch meter.

Q. Did the Company propose any changes to Service Line and Meter Installation Charges?

A. Yes. The Company proposes an increase to each meter size. Staff has reviewed the Company's proposed service line and meter installation charges and recommends approval of those charges, as shown on Schedule TBH CM-24.

XI. STAFF'S RECOMMENDED WATER RATE DESIGN

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

A. Staff recommends no increases in the minimum monthly charge for any of the meter sizes. Staff recommends that the monthly minimum for the 5/8 x 3/4-inch of $17.75 remain in effect. Staff recommends maintaining the break-over points contained in present rates for the smaller meter sizes. Staff recommends no increase to any of commodity rates in the three tiers. First tier commodity tier rate would remain at $2.40 per 1,000 gallons. Second tier commodity tier rate would remain at $3.20 per 1,000 gallons. Third tier commodity rates would remain at $4.20 per 1,000 gallons. Staff's recommended rates would result in no

change for the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons at $26.45. Staff's recommended rates are shown in Schedule TBH CM-24A and the typical bill analysis for 5/8 x 3/4-inch meter customers is shown in Schedule TBH CM-25A.

Staff's Alternative Recommendation

Q. Please provide a description of Staff's recommended rate design for Staff's Alternative Recommendation.

A. Staff recommends decreases in the minimum monthly charge for all meter sizes. Staff recommends that the monthly minimum for the 5/8 x 3/4-inch of $13.75. Staff recommends maintaining the break-over points contained in present rates for the smaller meter sizes. Staff recommends a decrease to commodity rates in all three tiers. First tier commodity tier rate would decrease by $0.40 (16.67 percent) from $2.40 per 1,000 gallons to $2.00 per 1,000 gallons. Second tier commodity tier rate would decrease by $0.20 (6.25 percent) from $3.20 per 1,000 gallons to $3.00 per 1,000 gallons. Third tier commodity rates would decrease by $0.20 (4.76 percent) from $4.20 per 1,000 gallons to $4.00 per 1,000 gallons. The typical 5/8 x 3/4-inch meter bill with a median use of 3,469 gallons would decrease by $5.29 (20.01 percent) from $26.45 to $21.16. Staff's recommended rates are shown in Schedule TBH CM-24B and the typical bill analysis for 5/8 x 3/4-inch meter customers is shown in Schedule TBH CM-25B.

Q. Did Staff prepare schedules showing the average and median monthly bill for present rates, Company's proposed and Staff's recommended and alternative rates?

A. Yes. Staff's Direct Testimony Schedules presents Staff's recommended rates on TBH CM-25A and Staff's Alternative Recommendation on TBH CM-25B. These schedules present the average and median monthly bill for present rates, Company's proposed rates and Staff's recommended rates for each alternative recommendation.

XI. SERVICE CHARGES

Q. Did the Company propose any changes to Other Service Charges?

A. Yes. The Company proposes an increase to Reconnection (Delinquent) from $30.00 to $35.00 and Meter Test (if correct) from $20.00 to $30.00.

Q. Does Staff recommend the changes proposed by the Company to Other Service Charges? If no, please explain.

A. No. Staff recommends the Reconnection (Delinquent) charge remain at $30.00. Staff recommends the Meter Test (if correct) increase from $20.00 to $25.00. Consumer Services will test meters for the Company at no charge.

Q. Please provide a description of Staff's recommended Water System Service Charges.

A. Staff's recommended water system service charges are shown in Schedules TBH CM-24A and TBH CM-24B.

Q. What is Staff's recommendation?

A. Staff finds all the Company proposed Service Charges align with customary charges for similarly sized companies. Staff recommends the Reconnection (Delinquent) charge remain at $30.00 and the Meter Test (if correct) increases from $20.00 to $25.00.

Q. Does this conclude your testimony?

A. Yes, it does.

Chino Meadows II Water Co., Inc.
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Schedule TBH CM-1A

REVENUE REQUIREMENT - STAFF'S RECOMMENDATION

LINE NO.	DESCRIPTION	[A] COMPANY	[B] STAFF
1	Adjusted Rate Base	$171,398	$135,369
2	Adjusted Operating Income (Loss)	($26,998)	$56,754
3	Current Rate of Return (L2 / L1)	-15.75%	41.93%
4	Required Operating Income (L3 * L1)	$74,604	$56,754
5	Operating Income Deficiency (L4 - L2)	$101,603	$0
6	Gross Revenue Conversion Factor	1.3682	1.3470
7	Increase (Decrease) In Gross Revenue (L6 * L5)	$139,014	$0
8	Adjusted Test Year Revenue	$358,364	$357,985
9	Proposed Annual Revenue (L7 + L8)	$497,378	$357,985
10	Required Increase/(Decrease in Revenue) (%) (L8/L9)	38.79%	0.00%

References:
Column [A]: Company Application 2nd Amended Page 6 and Attachment No. 3 Page 1 Amended.
Column [B]: Staff Schedules TBH CM-2, TBH CM-3, & TBH CM-13A.

Chino Meadows II Water Co., Inc.
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Schedule TBH CM-1B

REVENUE REQUIREMENT - STAFF'S ALTERNATIVE RECOMMENDATION

LINE NO.	DESCRIPTION	[A] COMPANY	[B] STAFF
1	Adjusted Rate Base	$171,398	$135,369
2	Adjusted Operating Income (Loss)	($26,998)	$56,754
3	Current Rate of Return (L2 / L1)	-15.75%	41.93%
4	Required Rate of Return	43.53%	10.00%
5	Required Operating Income (L4 * L1)	$74,604	$13,537
6	Operating Income Deficiency (L5 - L2)	$101,603	($43,218)
7	Gross Revenue Conversion Factor	1.3682	1.3470
8	Increase (Decrease) In Gross Revenue (L7 * L6)	$139,014	($58,212)
9	Adjusted Test Year Revenue	$358,364	$357,985
10	Proposed Annual Revenue (L8 + L9)	$497,378	$299,772
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	38.79%	-16.26%

References:
Column [A]: Company Application 2nd Amended Page 6 and Attachment No. 3 Page 1 Amended.
Column [B]: Staff Schedules TBH CM-2, TBH CM-3, & TBH CM-13B

Chino Meadows II Water Co., Inc.
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Schedule TBH CM-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]
	Calculation of Gross Revenue Conversion Factor:			
1	Revenue	100.00%		
2	Uncollecible Factor (Line 11)	1.03%		
3	Revenues (L1 - L2)	98.97%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	24.73%		
5	Subtotal (L3 - L4)	74.24%		
6	Revenue Conversion Factor (L1 / L5)	134.70%		
	Calculation of Uncollectible Factor:			
7	Unity	100.00%		
8	Combined Federal and State Tax Rate (Line 17)	23.47%		
9	One Minus Combined Income Tax Rate (L7 - L8)	76.53%		
10	Uncollectible Rate	1.35%		
11	Uncollectible Factor (L9 * L10)	1.03%		
	Calculation of Effective Tax Rate:			
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)	18.58%		
16	Effective Federal Income Tax Rate (L14 * L15)	17.47%		
17	Combined Federal and State Income Tax Rate (L13 + L16)		23.47%	
	Calculation of Effective Property Tax Factor			
18	Unity	100.00%		
19	Combined Federal and State Income Tax Rate (L17)	23.47%		
20	One Minus Combined Income Tax Rate (L18 - L19)	76.53%		
21	Property Tax Factor	1.65%		
22	Effective Property Tax Factor (L20 * L21)		1.26%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17 + L22)			24.73%
24	Required Operating Income	$13,537		
25	AdjustedTest Year Operating Income (Loss)	56,754		
26	Required Increase in Operating Income (L24 - L25)		($43,218)	
27	Income Taxes on Recommended Revenue (Col. [C], L52)	$3,406		
28	Income Taxes on Test Year Revenue (Col. [A], L52)	16,656		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		(13,251)	
30	Recommended Revenue Requirement	$299,772		
31	Uncollectible Rate (Line 10)	1.35%		
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	$4,043		
33	Adjusted Test Year Uncollectible Expense	$4,833		
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		(790)	
35	Property Tax with Recommended Revenue	$16,734		
36	Property Tax on Test Year Revenue	17,694		
37	Increase in Property Tax Due to Increase in Revenue (L35 - L36)		(959)	
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		($58,217)	
	Calculation of Income Tax:	**Test Year and Staff Recommendation**		**Staff Alternative Recommendation**
39	Revenue	$357,985	($58,213)	$299,772
40	Operating Expenses Excluding Income Taxes	284,574	(1,745)	282,829
41	Synchronized Interest (L56)	0		0
42	Arizona Taxable Income (L39 - L40 - L41)	73,411		16,943
43	Arizona State Income Tax Rate	6.00%		6.00%
44	Arizona Income Tax (L42 * L43)	4,405		1,017
45	Federal Taxable Income (L42 - L44)	69,006		15,927
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	7,500		2,389
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	4,751		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	12,251		2,389
52	Combined Federal and State Income Tax (L44 + L51)	16,656		3,406
53	Applicable Federal Income Tax Rate (Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45)			18.5807%
	Calculation of Interest Synchronization:			
54	Rate Base	$135,369		
55	Weighted Average Cost of Debt	0.00%		
56	Synchronized Interest (L45 * L46)	$0		

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Schedule TBH CM-3

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	ADJ NO.	[C] STAFF AS ADJUSTED
1	Plant in Service	$843,924	($48,014)	4, 5, 6	$795,910
2	Less: Accumulated Depreciation	670,573	(33,636)	7	636,937
3	Net Plant in Service	$173,351	($14,378)		$158,973
	LESS:				
4	Advances in Aid of Construction (AIAC)	$13,219	($3,649)	3	$9,571
6	Contributions in Aid of Construction (CIAC)	31,478	10,406	1, 2	41,884
7	Less: Accumulated Amortization	11,005	805	1, 2	11,810
8	Net CIAC	$20,473	$9,601		$30,074
9	Total Advances and Contributions	33,692	5,952		39,644
10	Customer Deposits	11,740	0		11,740
	ADD: Working Capital				
12	Cash Working Capital Allowance	43,479	(15,699)	8	27,780
13	**Total Rate Base**	$171,398	($36,029)		$135,369

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

Chino Meadows II Water Co., Inc.
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Schedule TBH CM-4

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	ACCT NO.	PLANT IN SERVICE Plant Description	[A] COMPANY AS FILED	[B] ADJ No. 1 Unsupported Plant Treated as CIAC Ref: Sch TBH CM-5	[C] ADJ No. 2 CIAC from Insurance Proceeds due to Office Fire Ref: Sch TBH CM-6	[D] ADJ No. 3 AIAC not paid during Test Year Ref: Sch TBH CM-7	[E] ADJ No. 4 Reclass Plant to Appropriate NARUC Classifications Ref: Sch TBH CM-8	[F] ADJ No. 5 Plant Retirements Due to Removal and Office Fire Ref: Sch TBH CM-9	[G] ADJ No. 6 Removal of Plant Additions Ref: Sch TBH CM-10	[H] ADJ No. 7 Accumulated Depreciation Ref: Sch TBH CM-11	[I] ADJ No. 8 Working Capital Allowance Ref: Sch TBH CM-12	[J] STAFF AS ADJUSTED
1	301	Organization Cost	$6,843	$0	$0	$0	$0	$0	$0	$0	$0	$6,843
2	302	Franchises	0	0	0	0	0	0	0	0	0	0
3	303	Land and Land Rights	15,204	0	0	0	0	0	0	0	0	15,204
4	304	Structures and Improvements	44,339	0	0	0	0	0	0	0	0	44,339
5	305	Collecting and Impounding Reserviors	4,350	0	0	0	0	0	0	0	0	4,350
6	307	Wells and Springs	27,448	0	0	0	0	0	0	0	0	27,987
7	309	Supply Mains	1,009	0	0	0	539	0	0	0	0	1,009
8	310	Power Generation Equipment	12,401	0	0	0	0	0	0	0	0	12,401
9	311	Pumping Equipment	46,268	0	0	0	0	0	0	0	0	46,268
10	320	Water Treatment Equipment	6,406	0	0	0	0	0	0	0	0	0
11	320.1	Water Treatment Plants	0	0	0	0	(6,406)	0	0	0	0	0
12	320.2	Solution Chemical Feeders	0	0	0	0	0	0	0	0	0	0
13	330	Distribution Reservoirs & Standpipes	51,684	0	0	0	6,406	0	0	0	0	6,406
14	330.1	Storage Tanks	0	0	0	0	(51,684)	0	0	0	0	0
15	330.2	Pressure Tanks	0	0	0	0	36,415	0	0	0	0	36,415
16	331	Transmission and Distribution Mains	304,674	0	0	0	15,269	0	0	0	0	15,269
17	333	Services	30,067	0	0	0	268	0	0	0	0	304,942
18	334	Meters and Meter Installations	89,777	0	0	0	0	0	0	0	0	30,067
19	335	Hydrants	12,042	0	0	0	0	0	0	0	0	89,777
20	336	Backflow Prevention Devices	0	0	0	0	0	0	0	0	0	12,042
21	339	Other Plant and Miscellaneous Equipment	16,728	0	0	0	0	0	0	0	0	0
22	340	Office Furniture and Equipment	9,346	0	0	0	0	0	0	0	0	16,728
23	340.1	Computers and Software	10,107	0	0	0	6,534	(9,346)	0	0	0	6,534
24	341	Transportation Equipment	96,569	0	0	0	494	0	0	0	0	10,601
25	343	Tools, Shop, and Garage Equipment	1,274	0	0	0	0	(40,749)	0	0	0	55,820
26	344	Laboratory Equipment	0	0	0	0	0	0	0	0	0	1,274
27	345	Power Operated Equipment	31,461	0	0	0	0	0	0	0	0	0
28	346	Communication Equipment	25,929	0	0	0	0	0	(1,000)	0	0	30,461
29	347	Miscellaneous Equipment	0	0	0	0	(3,121)	(5,608)	0	0	0	17,200
30	348	Other Tangible Equipment	0	0	0	0	3,975	0	0	0	0	3,975
31		Rounding	0	0	0	0	0	0	0	0	0	0
32		Total Plant in Service	$843,924	$0	$0	$0	$8,689	($55,703)	($1,000)	$0	$0	$795,910
33		Less: Accumulated Depreciation	670,573	0	0	0	0	0	0	(33,636)	0	636,937
34		Net Plant in Service	$173,351	$0	$0	$0	$8,689	($55,703)	($1,000)	$33,636	$0	$158,973
35												
36		LESS:										
37		Advances in Aid of Construction (AIAC)	$13,219	$0	$0	($3,649)	$0	$0	$0	$0	$0	$9,571
38		Meter Deposits - Service Line & Meter Advances	0	0	0	0	0	0	0	0	0	0
39												
40		Contributions in Aid of Construction (CIAC)	31,478	4,276	6,130	0	0	0	0	0	0	41,884
41		Less: Accumulated Amortization of CIAC	11,005	192	613	0	0	0	0	0	0	11,810
42		Net CIAC	$20,473	$4,084	$5,517	$0	$0	$0	$0	$0	$0	$30,074
43												
44		Total Advances and Net Contributions	$33,692	$4,084	$5,517	($3,649)	$0	$0	$0	$0	$0	$39,644
45												
46		Customer Deposits	11,740	0	0	0	0	0	0	0	0	11,740
47		Accumulated Deferred Taxes	0	0	0	0	0	0	0	0	0	0
48												
49		ADD: Working Capital										
50		Cash Working Capital Allowance	$43,479	$0	$0	$0	$0	$0	$0	$0	($15,699)	27,780
51		Total Rate Base	$171,398	($4,084)	($5,517)	$3,649	$8,689	($55,703)	($1,000)	$33,636	($15,699)	$135,369

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Schedule TBH CM-5

RATE BASE ADJUSTMENT NO. 1 - UNSUPPORTED PLANT TREATED AS CIAC

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	CIAC, Unsupported Plant Treated as CIAC	$0	$4,276	$4,276
2	Amort of CIAC, Unsupported Plant Treated as CIAC	0	192	192
3	Net CIAC, Unsupported Plant Treated as CIAC	$0	$4,084	$4,084
4				
5				
6	**UNSUPPORTED PLANT TREATED AS CIAC**			
7		**Plant**	**Unsupported**	
8		**Selected**	**Plant**	
9	**DESCRIPTION**	**In Sample**	**Costs**	**Staff as Adjusted**
10	2011 Plant Addition, Acct No. 310 - Power Generation Equipment	$0	$5,300	$5,300
11	**Acct No. 310 - Power Generation Equipment Subtotal**	0	5,300	5,300
12				
13	2011 Plant Addition, Acct No. 331 - Transmission & Distribution Mains	0	36,353	36,353
14	**Acct No. 331 - Transmission. & Distrib. Mains Subtotal**	0	36,353	36,353
15				
16	2010 Plant Addition, Acct No. 340.1 - Computers & Software	0	782	782
17	**Acct No. 340.1 - Computers & Software Subtotal**	0	782	782
18				
19	2010 Plant Addition, Acct No. 343 - Tools, Shop & Garage Equipment	0	324	324
20	**Acct No. 343 - Tools, Shop & Garage Equipment Subtotal**	0	324	324
21				
22	**TOTAL UNSUPPORTED PLANT**	$0	$42,759	$42,759
23				
24		**Total**		**$42,759**
25			x	**10%**
26				**$4,276**
27				
28				
29	**CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT**			

	Year Added	Plant Additions	Unsupported Plant	Year Transferred To CIAC	Number of Interim Years	Depreciation Rate	Amortization of CIAC
30							
31							
32	2011	Power Generation	$5,300	2013	1.5	5.00%	$398
33	2011	Trans & Distr	36,353	2013	1.5	2.00%	1,091
34	2010	Computers & Software	782	2013	2.5	20.00%	391
35	2010	Tools, Shop & Garage	324	2013	2.5	5.00%	41
36		**Total**	**$42,759**				$1,920
37						x	10%
38							**$192**

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.2 - 6.3
Column [B]: Testimony, TBH
Column [C] Column [A] + Column [B]

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Schedule TBH CM-6

RATE BASE ADJUSTMENT NO. 2 - CIAC FOR PLANT PAID FOR WITH INSURANCE PROCEEDS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	CIAC for 2012 Plant Addition, Acct No. 340.1 - Computers & Software Offset by Insurance Proceeds	$0	$6,130	$6,130
2	Total CIAC on Acct. No. 340.1 - Computers & Software from Insurance Proceeds	0	6,130	6,130
3				
4	Company Proposed Amort of CIAC Related to Insurance Proceeds for Fire	0	0	0
5	Amort. Of CIAC on Insurance Proceeds for Computers & Software	0	613	613
6	Total Amortization of CIAC	0	613	613
7				
8	Net CIAC	$0	$5,517	$5,517
9				

10 CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT

	Year Added	Plant Additions	Plant from Insurance Proceeds	Year Transferred To CIAC	Number of Interim Years	Depreciation Rate	Amortization of CIAC
13		Computers &					
14	2012	Software	$6,130	2012	0.5	20.00%	$613
15		**Total**	**$6,130**				$613
16							
17							

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.4
Column [B]: Testimony, TBH
Column [C]: Column [A] + Column [B]

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Schedule TBH CM-7

RATE BASE ADJUSTMENT NO. 3 - AIAC REFUNDS NOT RECOGNIZED IN TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction	$13,219	$0	$13,219
2	2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction Payments Due Customers	0	(3,649)	(3,649)
3	Total AIAC paid in 2014 for 2013 refunds due customers	$13,219	($3,649)	$9,571

References:
Column [A]: Company Application - Attachment No. 1 - Supplemental Page 2
Column [B]: Testimony, TBH, Company's response to DR's CM TBH 1.18 and CM TBH 2.10.
Column [C]: Column [A] + Column [B]

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Schedule TBH CM-8

RATE BASE ADJUSTMENT NO. 4 - RECLASSIFY AND PLANT ADDITIONS TO APPROPRIATE CLASSIFICATIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Acct No. 307 - Wells & Springs	$27,448	$539	$27,987
2	Acct No. 320 - Water Treatment Equipment	6,406	(6,406)	0
3	Acct No. 320.2 - Soluntion Chemical Feeders	0	6,406	6,406
4	Acct No. 330 - Distribution Reservoirs & Standpipes	51,684	(51,684)	0
5	Acct No. 330.1 - Storage Tanks	0	36,415	36,415
6	Acct No. 330.2 - Pressure Tanks	0	15,269	15,269
7	Acct No. 331 - Transmission & Distribution Mains	304,674	268	304,942
8	Acct No. 340 - Office Furniture & Equipment	9,346	6,534	15,880
9	Acct No. 340.1 - Computers & Software	10,107	494	10,601
10	Acct No. 346 - Communication Equipment	25,929	(3,121)	22,808
11	Acct No. 347 - Miscellaneous Equipment	0	3,975	3,975
12	TOTAL PLANT RECLASSIFICATIONS	$435,594	$8,689	$444,283
13				
14	PLANT RECLASSIFICATIONS			
15				
16	DESCRIPTION	PLANT ADDITIONS	PLANT RECLASS	STAFF AS ADJUSTED
17	2012 Plant Reclass Acct No. 340 - Office Furniture & Equipment - Reclass from Computers	$0	$4,782	$4,782
18	2012 Plant Reclass, Acct. No. 340 - Office Furniture & Equipment - Reclass from Fire Related Expenses	0	1,752	1,752
19	**Acct No. 340 - Office Furniture & Equipment Subtotal**	0	6,534	6,534
20				
21	2012 Plant Reclass Acct No. 340.1 - Computers & Software - Offset by Insurance Proceeds	0	6,130	6,130
22	2012 Plant Reclass Acct No. 340.1 - Computers & Software - Reclass to Office Equip.	0	(4,782)	(4,782)
23	2012 Plant Reclass Acct No. 340.1 - Computers & Software - Reclass to Communication	0	(854)	(854)
24	**Acct No. 340.1 - Computer & Software Subtotal**	0	494	494
25				
26	2012 Plant Reclass, Acct No. 346 - Communication Equipment	0	(3,975)	(3,975)
27	2012 Plant Reclass, Acct No. 346 - Communication Equipment - Reclass from Computer & Software	0	854	854
28	**Acct No. 346 - Communication Equipment Subtotal**	0	(3,121)	(3,121)
29				
30	2012 Plant Additions, Acct No. 347 - Miscellaneous Equipment	3,975	0	3,975
31	**Acct No. 347 - Miscellaneous Equipment Subtotal**	3,975	0	3,975
32				
33	2013 Plant Reclass, Acct No. 307 - Wells & Springs - Reclass from expenses	0	539	539
34	**Acct No. 307 - Wells & Springs Subtotal**	0	539	539
35				
36	2010 Plant Reclass Acct No. 320 - Water Treatment Equipment	0	(6,406)	(6,406)
37	**Acct No. 320 - Water Treatment Equipment Subtotal**	0	(6,406)	(6,406)
38				
39	2010 Plant Reclass Acct No. 320.2 - Solution Chemical Feeders	0	6,406	6,406
40	**Acct No. 320.1 - Solution Chemical Feeders Subtotal**	0	6,406	6,406
41				
42	2010 Plant Reclass Acct No. 330 - Distribution Reservoirs & Standpipes	0	(51,684)	(51,684)
43	**Acct No. 330 - Distribution Reservoirs & Standpipes Subtotal**	0	(51,684)	(51,684)
44				
45	2010 Plant Reclass Acct No. 330.1 - Storage Tanks	0	36,415	36,415
46	**Acct No. 330.1 - Storage Tanks Subtotal**	0	36,415	36,415
47				
48	2010 Plant Reclass Acct No. 330.2 - Pressure Tanks	0	15,269	15,269
49	**Acct No. 330.2 - Pressure Tanks Subtotal**	0	15,269	15,269
50				
51	2013 Plant Reclass Acct No. 331 - Transmission & Distribution Mains - Removal of AJE	0	268	268
52	**Acct No. 331 - Transmission & Distribution Mains Subtotal**	0	268	268
53				
54	TOTAL	$3,975	$4,714	$8,689

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.2 - 6.5
Column [B]: Testimony, TBH, Company Data Request Responses
Column [C]: Column [A] + Column [B]

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Schedule TBH CM-9

RATE BASE ADJUSTMENT NO. 5 - PLANT NOT USED AND USEFUL

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Acct No. 340 - Office Furniture & Equipment	$9,346	($9,346)	$0
2	Acct No. 341 - Transportation Equipment	96,569	(40,749)	55,820
3	Acct No. 346 - Communication Equipment	25,929	(5,608)	20,321
4				
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DESCRIPTION	STAFF AS ADJUSTED
2012 Fire Acct No. 340 - Office Furniture & Equipment	
Opening Balance Items	$3,513
Office Computer	2,683
Printer	355
Office Computer	1,950
Fax Machine	120
Book Case	101
Office Desk	624
Total Office Furniture & Equipment	**$9,346**

2013 Acct No. 341 - Transportation Equipment	
1998 Ford Service Truck	$11,287
2000 Ford Ranger	5,350
Pre 1995 - Unidentified Vehicles	4,103
1975 Ford Water Truck	7,500
1999 Ford Truck	12,509
Total Transportation Equipment	**$40,749**

2012 Fire Acct No. 346 - Communication Equipment	
Office Computer and Software	$3,453
Printer	109
Laser Printer	472
Caselle Support	660
CPU Backup	103
Network Router	87
Memory Cards	281
Memory Cards	444
Total Communication Equipment	**$5,608**

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.1 - 6.5
Column [B]: Testimony, TBH
Column [C]: Column [A] + Column [B]

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Schedule TBH CM-10

RATE BASE ADJUSTMENT NO. 6 - REMOVAL OF PLANT ADDITIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Acct. 345 Power Operated Equipment Unsupported Non-Company Use	$31,461	($1,000)	$30,461

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.5
Column [B]: Testimony, TBH
Column [C] Column [A] + Column [B]

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Schedule TBH CM-11

RATE BASE ADJUSTMENT NO. 7 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	$670,573	($33,636)	$636,937

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.2 - 6.5
Column [B]: Testimony, TBH, Company Data Request Responses
Column [C] Column [A] + Column [B]

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Schedule TBH CM-12

RATE BASE ADJUSTMENT NO. 8 - CASH WORKING CAPITAL ALLOWANCE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Cash Working Capital Allowance	$43,479	($15,699)	$27,780
2				
3	Operation & Maintenance*			$214,330
4	Multiplied by		X	1/8
5				**$26,791**
6				
7	Purchased Power & Purchased Water			$23,723
8	Multiplied by		X	1/24
9				**$989**
10				
11	**Total Cash Working Capital Allowance**			**$27,780**
12				
13	* Less depreciation, taxes, purchased power and purchased water			

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 7
Column [B]: Testimony, TBH, Company Data Request Responses
Column [C] Column [A] + Column [B]

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Schedule TBH CM-13A

OPERATING INCOME - TEST YEAR AND STAFF'S RECOMMENDATION

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:						
1	Metered Water Sales	$345,620	$0		$345,620		$345,620
2	Water Sales - Unmetered	0	0		0	0	0
3	Other Operating Revenues	12,744	(379)	1	12,365	0	12,365
4	**Total Revenues**	$358,364	($379)		$357,985	$0	$357,985
5							
6	*EXPENSES:*						
7	Salaries and Wages	$179,965	($67,325)	5	$112,640	$0	$112,640
8	Salaries and Wages - Officers	31,700	(16,788)	5	14,912	0	14,912
9	Employee Pensions & Benefits	0	0		0	0	0
10	Purchased Water	40	0		40	0	40
11	Purchased Power	24,401	(718)	5	23,683	0	23,683
12	Chemicals	425	(94)	5	331	0	331
13	Repairs and Maintenance	8,899	(759)	5	8,140	0	8,140
14	Office Supplies & Expense	30,594	(19,506)	5	11,088	0	11,088
15	Contractual Services	11,457	(3,252)	5	8,205	0	8,205
16	Water Testing	4,791	37	2	4,828	0	4,828
17	Rents	0	7,889	5	7,889	0	7,889
18	Transportation Expenses	24,752	(9,509)	5	15,243	0	15,243
19	Insurance - General Liability	8,964	(3,304)	5	5,660	0	5,660
20	Insurance - Health and Life	2,667	(797)	5	1,870	0	1,870
21	Reg. Comm. Exp.	445	0		445	0	445
22	Reg. Comm. Exp. - Rate Case	13,333	1,667	3	15,000	0	15,000
23	Miscellaneous Expense	8,848	(5,601)	5	3,247	0	3,247
24	Bad Debt Expense	1,990	2,843	4	4,833	0	4,833
25	Depreciation Expense	20,394	(1,509)	6	18,885	0	18,885
26	Taxes Other Than Income	0	0		0	0	0
27	Property Taxes	18,670	(976)	7	17,694	0	17,694
28	Payroll Taxes	0	9,942	5	9,942	0	9,942
29	Income Taxes	(6,972)	23,628	8	16,656	0	16,656
30	Rounding	(1)	0		(1)	0	(1)
31	**Total Operating Expenses**	$385,362	($84,132)		$301,230	$0	$301,230
32							
33	**Operating Income (Loss)**	($26,998)	$83,752		$56,754	$0	$56,754

References:
Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Schedule TBH CM-14
Column [C]: Column [A] + Column [B]
Column [D]: Schedules TBH CM-1A and TBH CM-2
Column [E]: Column [C] + Column [D]

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Schedule TBH CM-13B

OPERATING INCOME - TEST YEAR AND STAFF'S ALTERNATIVE RECOMMENDATION

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:						
1	Metered Water Sales	$345,620	$0		$345,620	($58,213)	$287,407
2	Water Sales - Unmetered	0	0		0	0	0
3	Other Operating Revenues	12,744	(379)	1	12,365	0	12,365
4	**Total Revenues**	$358,364	($379)		$357,985	($58,213)	$299,772
5							
6	*EXPENSES:*						
7	Salaries and Wages	$179,965	($67,325)	5	$112,640	$0	$112,640
8	Salaries and Wages - Officers	31,700	(16,788)	5	14,912	0	14,912
9	Employee Pensions & Benefits	0	0		0	0	0
10	Purchased Water	40	0		40	0	40
11	Purchased Power	24,401	(718)	5	23,683	0	23,683
12	Chemicals	425	(94)	5	331	0	331
13	Repairs and Maintenance	8,899	(759)	5	8,140	0	8,140
14	Office Supplies & Expense	30,594	(19,506)	5	11,088	0	11,088
15	Contractual Services	11,457	(3,252)	5	8,205	0	8,205
16	Water Testing	4,791	37	2	4,828	0	4,828
17	Rents	0	7,889	5	7,889	0	7,889
18	Transportation Expenses	24,752	(9,509)	5	15,243	0	15,243
19	Insurance - General Liability	8,964	(3,304)	5	5,660	0	5,660
20	Insurance - Health and Life	2,667	(797)	5	1,870	0	1,870
21	Reg. Comm. Exp.	445	0		445	0	445
22	Reg. Comm. Exp. - Rate Case	13,333	1,667	3	15,000	0	15,000
23	Miscellaneous Expense	8,848	(5,601)	5	3,247	0	3,247
24	Bad Debt Expense	1,990	2,843	4	4,833	(790)	4,043
25	Depreciation Expense	20,394	(1,509)	6	18,885	0	18,885
26	Taxes Other Than Income	0	0		0	0	0
27	Property Taxes	18,670	(976)	7	17,694	(959)	16,734
28	Payroll Taxes	0	9,942	5	9,942	0	9,942
29	Income Taxes	(6,972)	23,628	8	16,656	(13,251)	3,406
30	Rounding	(1)	0		(1)	4	3
31	**Total Operating Expenses**	$385,362	($84,132)		$301,230	($14,996)	$286,234
32							
33	**Operating Income (Loss)**	($26,998)	$83,752		$56,754	($43,217)	$13,537

References:
Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Schedule TBH CM-14
Column [C]: Column [A] + Column [B]
Column [D]: Schedules TBH CM-1B and TBH CM-2
Column [E]: Column [C] + Column [D]

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Schedule TBH CM-14

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ NO. 1 Unauthorized Surcharge - Other Revenue	[C] ADJ NO. 2 Water Testing	[D] ADJ NO. 3 Rate Case Expense	[E] ADJ NO. 4 Bad Debt Expense	[F] ADJ NO. 5 Allocations to Water Companies	[G] ADJ NO. 6 Depreciation Expense	[H] ADJ NO. 7 Property Tax Expense	[I] ADJ NO. 8 Taxes Income Tax Expense	[J] STAFF ADJUSTED
1	*REVENUES:*		Ref: Sch TBH CM-15	Ref: Sch TBH CM-16	Ref: Sch TBH CM-17	Ref: Sch TBH CM-18	Ref: Sch TBH CM-19	Ref: Sch TBH CM-20	Ref: Sch TBH CM-21	Ref: Sch TBH CM-22	
2	Metered Water Sales	$345,620	$0	$0	$0	$0	$0	$0	$0	$0	$345,620
3	Water Sales - Unmetered	0	0	0	0	0	0	0	0	0	0
4	Other Operating Revenues	12,744	(379)	0	0	0	0	0	0	0	12,365
5	**Total Revenues**	$358,364	($379)	$0	$0	$0	$0	$0	$0	$0	$357,985
6											
7	*OPERATING EXPENSES:*										
8	Salaries and Wages	$179,965	$0	$0	$0	$0	($67,325)	$0	$0	$0	$112,640
9	Salaries and Wages - Officers	$31,700	0	0	0	0	(16,788)	0	0	0	14,912
10	Employee Pensions & Benefits	0	0	0	0	0	0	0	0	0	0
11	Purchased Water	40	0	0	0	0	0	0	0	0	40
12	Purchased Power	24,401	0	0	0	0	(718)	0	0	0	23,683
13	Chemicals	425	0	0	0	0	(94)	0	0	0	331
14	Repairs and Maintenance	8,899	0	0	0	0	(759)	0	0	0	8,140
15	Office Supplies & Expense	30,594	0	0	0	0	(19,506)	0	0	0	11,088
16	Contractual Services	11,457	0	0	0	0	(3,252)	0	0	0	8,205
17	Water Testing	4,791	0	37	0	0	0	0	0	0	4,828
18	Rents	0	0	0	0	0	7,889	0	0	0	7,889
19	Transportation Expenses	24,752	0	0	0	0	(9,509)	0	0	0	15,243
20	Insurance - General Liability	8,964	0	0	0	0	(3,304)	0	0	0	5,660
21	Insurance - Health and Life	2,667	0	0	0	0	(797)	0	0	0	1,870
22	Reg. Comm. Exp.	445	0	0	0	0	0	0	0	0	445
23	Reg. Comm. Exp. - Rate Case	13,333	0	0	1,667	0	0	0	0	0	15,000
24	Miscellaneous Expenses	8,848	0	0	0	0	(5,601)	0	0	0	3,247
25	Bad Debt Expense	1,990	0	0	0	2,843	0	0	0	0	4,833
26	Depreciation Expense	20,394	0	0	0	0	0	(1,509)	0	0	18,885
27	Taxes Other Than Income	0	0	0	0	0	0	0	0	0	0
28	Property Taxes	18,670	0	0	0	0	0	0	(976)	0	17,694
29	Payroll Taxes	0	0	0	0	0	9,942	0	0	0	9,942
30	Income Taxes	(6,972)	0	0	0	0	0	0	0	23,628	16,656
31	Rounding	(1)	0	0	0	0	0	0	0	0	(1)
32	**Total Operating Expense**	$385,362	$0	$37	$1,667	$2,843	($109,821)	($1,509)	($976)	$23,628	$301,230
33											
34	**Operating Income (Loss)**	($26,998)	($379)	($37)	($1,667)	($2,843)	$109,821	$1,509	$976	($23,628)	$56,754

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Schedule TBH CM-15

OPERATING INCOME ADJUSTMENT NO. 1 UNAUTHORIZED SURCHARGE - OTHER REVENUE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS (Col C - Col A)	[C] STAFF AS ADJUSTED
1	Surcharge - Other Revenue	$12,744	($379)	$12,365

References:
Column [A]: Chino Meadows general ledger provided in DR CM TBH 1.3
Column [B]: Testimony
Column [C]: Column [A] + Column [B]

Chino Meadows II Water Co., Inc.
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Schedule TBH CM-16

OPERATING INCOME ADJUSTMENT NO. 2 - WATER TESTING

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Water Testing	$4,791	$37	$4,828

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

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Schedule TBH CM-17

OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS (Col C - Col A)	[C] STAFF AS ADJUSTED
1	Rate Case Expense	$13,333	$1,667	$15,000
2				
3				
4				
5				

	Company	Rate Case Expense as filed	Staff Adjusted Rate Case Expense	Difference	Normalize over 3 years
6					
7					
8	Chino Meadows	$40,000	$45,000	$5,000	$1,667
9	Granite Mountain	10,000	30,000	20,000	6,667
10	Total	$50,000	$75,000	$25,000	$8,333

References:
Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Testimony, DR'S CM TBH 1.5 Supplemental & CM TBH 2.5
Column [C]: Column [A] + Column [B]

Chino Meadows II Water Co., Inc.
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Schedule TBH CM-18

OPERATING INCOME ADJUSTMENT NO. 4 - BAD DEBT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Bad Debt Expenses	$1,990	$2,843	$4,833
2				
3				
4				
5				
6	**Reclassification**			
7	To correct for bad debt expenses included in miscellaneous expenses			$3,000
8	To adjust for bad debts recovered and collection fees included in miscellaneous expenses			(157)
9	Total adjustment			**$2,843**

Test Year Revenue	$358,364
Average Write-Off Rate	1.3486%

Notes: Company included in Misc expenses. Staff reviewed the last four years of actual bad debt expenses. The Company stated that the total was an typo error ($3,000). The amount appears to be reasonable.

2010	4,687.50
2011	5,484.76
2012	4,017.55
2013	4,832.79

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Schedule TBH CM-19a

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Salaries and Wages	$179,965	($67,325)	$112,640
2	Salaries and Wages - Officers	31,700	(16,788)	14,912
3	Purchased Power	24,401	(718)	23,683
4	Chemicals	425	(94)	331
5	Repairs and Maintenance	8,899	(759)	8,140
6	Office Supplies & Expense	30,594	(19,506)	11,088
7	Rents	0	7,889	7,889
8	Contractual Services	11,457	(3,252)	8,205
9	Transportation Expenses	24,752	(9,509)	15,243
10	Insurance - General Liability	8,964	(3,304)	5,660
11	Insurance - Health and Life	2,667	(797)	1,870
12	Miscellaneous Expenses	8,848	(5,601)	3,247
13	Payroll Taxes	0	9,942	9,942
14	Total	$332,672	($109,821)	$222,851
15				

16		[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[P]
17				Staff Adjustments									
18	DESCRIPTION	Company as filed	Original amount allocated to Granite Mountain	Reclassification	Disallowance	Normalize	Chino Meadows Direct	Cost to be Allocated	Portion allocated to unregulated affiliate companies	Amount allocated to unregulated affiliate companies	Amount allocated to regulated companies	Chino Meadows 4-factor allocation	Amount to be allocated to Chino Meadows
19													
20	Salaries and Wages	$179,965	$0	($15,718)	(17,444)	13,834	$0	$160,638	0%	$0	$160,638	70.12%	$112,640
21	Salaries and Wages - Officers	31,700	6,000	0	(16,434)	0	0	21,266	0%	0	21,266	70.12%	14,912
22	Purchased Power	24,401	247	0	(46)	0	22,110	2,493	10%	249	2,244	70.12%	1,573
23	Chemicals	425	47	0	0	0	0	472	0%	0	472	70.12%	331
24	Repairs and Maintenance	8,899	633	1,281	(124)	0	2,159	8,530	0%	0	8,530	70.12%	5,982
25	Office Supplies & Expense	30,594	1,988	(12,000)	(2,804)	(208)	0	17,569	10%	1,757	15,812	70.12%	11,088
26	Rents	0	3,000	12,000	0	0	0	15,000	25%	3,750	11,250	70.12%	7,889
27	Contractual Services	11,457	490	(500)	(1,232)	0	3,489	6,726	0%	0	6,726	70.12%	4,716
28	Transportation Expenses	24,752	2,736	1,817	(7,380)	(186)	0	21,739	0%	0	21,739	70.12%	15,243
29	Insurance - General Liability	8,964	996	0	(1,058)	594	0	9,496	15%	1,424	8,072	70.12%	5,660
30	Insurance - Health and Life	2,667	296	0	0	0	0	2,963	10%	296	2,667	70.12%	1,870
31	Miscellaneous Expenses	8,848	245	(3,397)	(2,301)	0	2,903	490	0%	0	490	70.12%	344
32	Payroll Taxes	0	0	15,718	(1,539)	0	0	14,179	0%	0	14,179	70.12%	9,942
33	Total	$332,672	$16,678	($799)	($50,362)	$14,034	$30,661	$281,562		$7,477	$274,085		$192,190

References:
Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Column [C] - Column [A]
Column [C]: Col [I] + Col [P]
Column [D]: Company Schedule C-2
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 general ledger provided in DR CM TBH 1.3
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 CM-19e
Column [P]: Col [M] * Col [N]

Chino Meadows II Water Co., Inc.
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Schedule TBH CM-19b

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS RECLASSIFICATIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] 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 - Schedule TBH CM-19f Line 7	($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**			
40	Payroll taxes included as salaries and wages - Schedule TBH CM-19f Line 7	$15,718	$15,718	

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Schedule TBH CM-19c

OPERATING INCOME ADJUSTMENT NO. 5 - 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	Unregulated salaries and wages - Schedule TBH CM-19f Line 7	($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 DR CM 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				
53	**Payroll Taxes**			
54	Non-regulated payroll taxes - Schedule TBH CM-19f Line 7	($1,539)	($1,539)	

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Schedule TBH CM-19d

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS NORMALIZATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] 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	

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Schedule TBH CM-19e

OPERATING INCOME ADJUSTMENT NO. 5 - 4-FACTOR ALLOCATION CALCULATION

		[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
Line No.	Company	Customer Count	Customer Count %	Net Plant in Service	Net Plant in Service %	Total Annual Revenue	Operating Expenses %	Total Annual Gallons Pumped	Gallons Pumped %	4-factor %
1	Antelope Lakes	2	0.20%	$62,347	11.34%	$613	0.13%	95	0.13%	**2.95%**
2	Chino Meadows	899	87.96%	173,351	31.54%	357,364	75.17%	64,140	85.81%	**70.12%**
3	Granite Mountain	121	11.84%	313,950	57.12%	117,447	24.70%	10,510	14.06%	**26.93%**
4	**Total**	**1,022**		**$549,648**		**$475,424**		**74,745**		**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 CM-4; the information for Antelope Lakes is from the 2013 Annual Report on Revised Balance Sheet, p. 6 as of 12/31/2013

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].

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Schedule TBH CM-19f

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS SALARIES & WAGES CALCULATION

	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
LINE NO.	2014 Current Salaries	2014 Current or Estimated Hourly Rate	2014 Current or Estimated Salary and Wages	2014 Current or Estimated Payroll Taxes	Unregulated [1] Hours %	2014 Unregulated Salary and Wages	2014 Unregulated Payroll Taxes	Staff Adjusted Salaries and Wages	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

8 [1] Hours per week/2,080 hours per year. Percentages provided by Chino Meadows (CM) and Granite Mountain (GM) in DRs CM TBH-1.25, CM TBH-2.12h, GM TBH-2.5 and GM
9 TBH-2.5g.
10 [2] Per DR CM TBH 1.25g. Barney $13,000 bonuses to adjust pay to match responsibilities.

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

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Schedule TBH CM-19g

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS OFFICER'S SALARIES CALCULATION

LINE NO.	DESCRIPTION	[A] 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]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Column [C] - Column [A]
Column [C]: As calculated by Staff on line 24
Column [D] : Per DRs CM TBH 1.26.g, CM TBH 2.12 and CM TBH 3.7

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Schedule TBH CM-20

OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT in SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	$6,843	$6,843	$0	0.00%	$0
2	302	Franchises	0	0	0	0.00%	0
3	303	Land and Land Rights	15,204	15,204	0	0.00%	0
4	304	Structures and Improvements	44,339	0	44,339	3.33%	1,476
5	305	Collecting and Impounding Reserviors	4,350	0	4,350	2.50%	109
6	307	Wells and Springs	27,987	9,096	18,891	3.33%	629
7	309	Supply Mains	1,009	0	1,009	2.00%	20
8	310	Power Generation Equipment	12,401	0	12,401	5.00%	620
9	311	Pumping Equipment	46,268	46,268	0	12.50%	0
10	320	**Water Treatment Equipment**					
11	320.1	Water Treatment Plants	0	0	0	3.33%	0
12	320.2	Solution Chemical Feeders	6,406	6,406	0	20.00%	0
13	330	**Distribution Reservoirs & Standpipes**					
14	330.1	Storage Tanks	36,415	15,120	21,295	2.22%	473
15	330.2	Pressure Tanks	15,269	15,269	0	5.00%	0
16	331	Transmission and Distribution Mains	304,942	167,988	136,954	2.00%	2,739
17	333	Services	30,067	7,181	22,886	3.33%	762
18	334	Meters and Meter Installations	89,777	0	89,777	8.33%	7,478
19	335	Hydrants	12,042	0	12,042	2.00%	241
20	336	Backflow Prevention Devices	0	0	0	6.67%	0
21	339	Other Plant and Miscellaneous Equipment	16,728	1,305	15,423	6.67%	1,029
22	340	Office Furniture and Equipment	6,534	0	6,534	6.67%	436
23	340.1	Computers and Software	10,601		10,601	20.00%	2,120
24	341	Transportation Equipment	55,820	55,820	0	20.00%	0
25	343	Tools, Shop, and Garage Equipment	1,274	0	1,274	5.00%	64
26	344	Laboratory Equipment	0	0	0	10.00%	0
27	345	Power Operated Equipment	30,461	18,377	12,084	5.00%	604
28	346	Communication Equipment	17,200	0	17,200	10.00%	1,720
29	347	Miscellaneous Equipment	3,975	0	3,975	10.00%	398
30	348	Other Tangible Equipment	0	0	0	0.00%	0
31		Total Plant	$795,910	$364,876	$431,034		$20,918
32							
33							
34					Composite Depreciation Rate (Depr Exp / Depreciable Plant):		4.85%
35					CIAC:		$41,884
36					Amortization of CIAC (Line 33 x Line 34):		$2,033
37							
38					Depreciation Expense Before Amortization of CIAC:		$20,918
39					Less Amortization of CIAC:		2,033
40					Test Year Depreciation Expense - Staff:		$18,885
41					Depreciation Expense - Company:		20,394
42					**Staff's Total Adjustment:**		**($1,509)**
43							

References:
Column [A]: Schedule TBH CM-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report Exhibit JWL Table B
Column [E]: Column [C] x Column [D]

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Schedule TBH CM-21

OPERATING INCOME ADJUSTMENT NO. 7 - PROPERTY TAX

LINE NO.	PROPERTY TAX CALCULATION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$357,985	$357,985
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	$715,969	$715,969
4	Staff Recommended Revenue, Per Schedule TBH CM-1	357,985	299,772
5	Subtotal (Line 4 + Line 5)	$1,073,954	$1,015,741
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	$357,985	$338,580
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	$715,969	$677,161
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	$715,969	$677,161
13	Assessment Ratio	18.50%	18.50%
14	Assessment Value (Line 12 * Line 13)	132,454	125,275
15	Composite Property Tax Rate	13.36%	13.36%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$17,694	
17	Company Proposed Property Tax	18,670	
18	Staff Test Year Adjustment (Line 16-Line 17)	($976)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$16,734
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		17,694
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		(959)
22	Increase to Property Tax Expense		($959)
23	Increase in Revenue Requirement		($58,213)
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.65%

References:
Line 15: Composite Tax Rate line 28 of the Company's proforma Adjustment No. 7 in Attachment No. 2, Supplemental page 9 Amended.
Line 17: Company 2nd Amended Application page 19.
Line 21: Line 19 - Line 20

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
Test Year Ended December 31, 2013

Schedule TBH CM-22

OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	[A]	[B]
	Calculation of Income Tax:	Test Year	
1	Revenue	$357,985	
2	Less: Operating Expenses - Excluding Income Taxes	284,574	
3	Less: Synchronized Interest (L17)	0	
4	Arizona Taxable Income (L1- L2 - L3)	$73,411	
5	Arizona State Income Tax Rate	6.000%	
6	Arizona Income Tax (L4 x L5)		$4,405
7	Federal Taxable Income (L4 - L6)	$69,006	
8	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	7,500	
9	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	4,751	
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		12,251
14	Combined Federal and State Income Tax (L6 + L13)		$16,656
	Calculation of Interest Synchronization:		
15	Rate Base	$135,369	
16	Weighted Average Cost of Debt	0.00%	
17	Synchronized Interest (L16 x L17)	$0	
18	Income Tax - Per Staff	$16,656	
19	Income Tax - Per Company	(6,972)	
20	**Staff Adjustment**	**$23,628**	

REFERENCES:

Line 18: Adjusted Income Tax - Company's proforma Adjustment No. 8 in Attachment No. 2, Supplemental page 10 Amended Line 32.

Line 17: Company 2nd Amended Application page 19.

Line 21: Line 19 - Line 20

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
Test Year Ended December 31, 2013

Schedule TBH CM-23

CASH FLOW ANALYSIS

LINE NO.	CASH FLOWS	[A] Company 2013 Test Year Income Statement As Filed	[B] Staff's Recommendation Cash Flow from Operations	[C] Staff's Alternative Recommenation Cash Flow from Operations
1	**Cash Inflows**			
2	Metered Water Sales	$345,620	$345,620	$287,407
3	Water Sales - Unmetered	0	0	0
4	Other Operating Revenues	12,744	12,365	12,365
5	**Total Revenues**	$358,364	$357,985	$299,772
6				
7	**Cash Outflows**			
8	Salaries and Wages	$179,965	$112,640	$112,640
9	Salaries and Wages - Officers	31,700	14,912	14,912
10	Employee Pensions & Benefits	0	0	0
11	Purchased Water	40	40	40
12	Purchased Power	24,401	23,683	23,683
13	Chemicals	425	331	331
14	Repairs and Maintenance	8,899	8,140	8,140
15	Office Supplies & Expense	30,594	11,088	11,088
16	Contractual Services	11,457	8,205	8,205
17	Water Testing	4,791	4,828	4,828
18	Rents	0	7,889	7,889
19	Transportation Expenses	24,752	15,243	15,243
20	Insurance - General Liability	8,964	5,660	5,660
21	Insurance - Health and Life	2,667	1,870	1,870
22	Reg. Comm. Exp.	445	445	445
23	Reg. Comm. Exp. - Rate Case	13,333	15,000	15,000
24	Miscellaneous Expense	8,848	3,247	3,247
25	Bad Debt Expense	1,990	4,833	4,043
26	Depreciation Expense	20,394	18,885	18,885
27	Taxes Other Than Income	0	0	0
28	Property Taxes	18,670	17,694	16,734
29	Payroll Taxes	0	9,942	9,942
30	Income Taxes	(6,972)	16,656	3,406
31	Rounding	(1)	(1)	3
32	**Total Expenses**	$385,362	$301,230	$286,234
33				
34	**Operating Income**	($26,998)	$56,754	$13,537
35				
36	Plus: Depreciation Expense	20,394	18,885	18,885
37	**Cash Flow from Operations**	($6,604)	$75,640	$32,423

Chino Meadows II Water Company Inc.
Docket No. W-02370A-14-0231
Test Year Ended: December 31, 2013

RATE DESIGN - STAFF'S RECOMMENDATION

Monthly Usage Charge	Present Rates		Company Proposed Rates		Staff Recommended Rates
Meter Size (All Classes):					
5/8 x 3/4 Inch	$ 17.75		$ 23.00		$ 17.75
3/4 Inch	26.63		34.50		26.63
1 Inch	44.38		57.50		44.38
1 1/2 Inch	88.75		115.00		88.75
2 Inch	142.00		184.00		142.00
3 Inch	266.25		368.00		266.25
4 Inch	443.75		575.00		443.75
6 Inch	887.50		1,150.00		887.50
Commodity Charge - Per 1,000 Gallons					
5/8" x 3/4" Meter (Residential)					
First 3,000 gallons	2.40		3.50		2.40
3,001 to 8,000 gallons	3.20		5.10		3.20
Over 8,000 gallons	4.20		6.50		4.20
5/8" x 3/4" Meter (Commercial)					
First 3,000 gallons	2.40		3.50		2.40
3,001 to 8,000 gallons	3.20		5.10		3.20
Over 8,000 gallons	4.20		6.50		4.20
3/4" Meter (Residential)					
First 3,000 gallons	2.40		3.50		2.40
3,001 to 8,000 gallons	3.20		5.10		3.20
Over 8,000 gallons	4.20		6.50		4.20
3/4" Meter (Commercial)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 8,000 gallons	N/A		N/A		3.20
Over 8,000 gallons	N/A		N/A		4.20
1" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 10,000 gallons	N/A		N/A		3.20
Over 10,000 gallons	N/A		N/A		4.20
1 1/2" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 20,000 gallons	N/A		N/A		3.20
Over 20,000 gallons	N/A		N/A		4.20
2" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 40,000 gallons	N/A		N/A		3.20
Over 40,000 gallons	N/A		N/A		4.20

3" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 100,000 gallons	N/A		N/A		3.20
Over 100,000 gallons	N/A		N/A		4.20
4" Meter (All Classes)					
First 30,000 gallons	N/A		5.10		N/A
Over 30,000 gallons	N/A		6.50		N/A
First 180,000 gallons	N/A		N/A		3.20
Over 180,000 gallons	N/A		N/A		4.20
6" Meter (All Classes)					
First 30,000 gallons	N/A		5.10		N/A
Over 30,000 gallons	N/A		6.50		N/A
First 300,000 gallons	N/A		N/A		3.20
Over 300,000 gallons	N/A		N/A		4.20
Hydrant Meter (Not Individually Assigned) All Usage, Per 1,000 Gallons	4.20		6.50		4.20
Other Service Charges					
Establishment	$ 25.00		$ 25.00		$ 25.00
Reconnection (Delinquent)	30.00		35.00		30.00
After Hour Service Charge (Flat Rate)	25.00		25.00		25.00
Meter Test (If Correct)	20.00		30.00		25.00
Deposit	*		*		*
Deposit Interest	*		*		*
Reestablishment (within 12 months)	**		**		**
NSF Check	20.00		20.00		20.00
Deferred Payment (per month)	1.50%		1.50%		1.50%
Meter Re-Read (if Correct)	15.00		15.00		15.00
Late Payment Fee (per month)	1.50%		1.50%		1.50%
Moving Customer Meter at Customer Request	N/A		*** @ cost		*** @ cost
Monthly Service Charge for Fire Sprinklers					
4" or Smaller	****		****		****
6"	****		****		****
8"	****		****		****
10"	****		****		****
Larger than 10"	****		****		****

* Per Commission Rule A.A.C. R14-2-403(B).

** Months off the system times the Monthly Usage Charge, per A.A.C. R14-2-403(D).

*** All items billed at cost shall include labor, materials, parts, overheads and all applicable taxes.

**** 2.00 percent of the Monthly Usage Charge for a Comparable Sized Meter Connection, but no less that $10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

Service and Meter Installation Charges

Service Size	Total Present Charge	Proposed Service Line Charge	Proposed Meter Insallation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Insallation Charge	Total Recommended Charge
5/8 x 3/4 Inch	$ 501.00	$ 450.00	$ 150.00	$ 600.00	$ 450.00	$ 150.00	$ 600.00
3/4 Inch	575.00	450.00	250.00	700.00	450.00	250.00	700.00
1 Inch	650.00	575.00	300.00	875.00	575.00	300.00	875.00
1 1/2 Inch	427.00	675.00	500.00	1,175.00	675.00	500.00	1,175.00
2 Inch	1,572.00	1,000.00	1,500.00	2,500.00	1,000.00	1,500.00	2,500.00
3 Inch	2,400.00	1,300.00	2,000.00	3,300.00	1,300.00	2,000.00	3,300.00
4 Inch	3,516.00	1,800.00	3,500.00	5,300.00	1,800.00	3,500.00	5,300.00
6 Inch	6,916.00	2,800.00	6,000.00	8,800.00	2,800.00	6,000.00	8,800.00
Over 6 Inch	N/A	N/A	N/A	N/A	Actual Cost	Actual Cost	Actual Cost

Chino Meadows II Water Company Inc.
Docket No. W-02370A-14-0231
Test Year Ended: December 31, 2013

RATE DESIGN - STAFF'S ALTERNATIVE RECOMMENDATION

Monthly Usage Charge	Present Rates		Company Proposed Rates		Staff Recommended Rates
Meter Size (All Classes):					
5/8 x 3/4 Inch	$ 17.75		$ 23.00		$ 13.75
3/4 Inch	26.63		34.50		20.63
1 Inch	44.38		57.50		34.38
1 1/2 Inch	88.75		115.00		68.75
2 Inch	142.00		184.00		110.00
3 Inch	266.25		368.00		220.00
4 Inch	443.75		575.00		343.75
6 Inch	887.50		1,150.00		687.50
Commodity Charge - Per 1,000 Gallons					
5/8" x 3/4" Meter (Residential)					
First 3,000 gallons	2.40		3.50		2.00
3,001 to 8,000 gallons	3.20		5.10		3.00
Over 8,000 gallons	4.20		6.50		4.00
5/8" x 3/4" Meter (Commercial)					
First 3,000 gallons	2.40		3.50		2.00
3,001 to 8,000 gallons	3.20		5.10		3.00
Over 8,000 gallons	4.20		6.50		4.00
3/4" Meter (Residential)					
First 3,000 gallons	2.40		3.50		2.00
3,001 to 8,000 gallons	3.20		5.10		3.00
Over 8,000 gallons	4.20		6.50		4.00
3/4" Meter (Commercial)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 8,000 gallons	N/A		N/A		3.00
Over 8,000 gallons	N/A		N/A		4.00
1" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 10,000 gallons	N/A		N/A		3.00
Over 10,000 gallons	N/A		N/A		4.00
1 1/2" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 20,000 gallons	N/A		N/A		3.00
Over 20,000 gallons	N/A		N/A		4.00
2" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 40,000 gallons	N/A		N/A		3.00
Over 40,000 gallons	N/A		N/A		4.00

RATE DESIGN CONTINUED - STAFF'S ALTERNATIVE RECOMMENDATION

3" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 100,000 gallons	N/A		N/A		3.00
Over 100,000 gallons	N/A		N/A		4.00
4" Meter (All Classes)					
First 30,000 gallons	N/A		5.10		N/A
Over 30,000 gallons	N/A		6.50		N/A
First 180,000 gallons	N/A		N/A		3.00
Over 180,000 gallons	N/A		N/A		4.00
6" Meter (All Classes)					
First 30,000 gallons	N/A		5.10		N/A
Over 30,000 gallons	N/A		6.50		N/A
First 300,000 gallons	N/A		N/A		3.00
Over 300,000 gallons	N/A		N/A		4.00
Hydrant Meter (Not Individually Assigned) All Usage, Per 1,000 Gallons	4.20		6.50		4.00
Other Service Charges					
Establishment	$ 25.00		$ 25.00		$ 25.00
Reconnection (Delinquent)	30.00		35.00		30.00
After Hour Service Charge (Flat Rate)	25.00		25.00		25.00
Meter Test (If Correct)	20.00		30.00		25.00
Deposit	*		*		*
Deposit Interest	*		*		*
Reestablishment (within 12 months)	**		**		**
NSF Check	20.00		20.00		20.00
Deferred Payment (per month)	1.50%		1.50%		1.50%
Meter Re-Read (if Correct)	15.00		15.00		15.00
Late Payment Fee (per month)	1.50%		1.50%		1.50%
Moving Customer Meter at Customer Request	N/A		*** @ cost		*** @ cost
Monthly Service Charge for Fire Sprinklers					
4" or Smaller	****		****		****
6"	****		****		****
8"	****		****		****
10"	****		****		****
Larger than 10"	****		****		****

* Per Commission Rule A.A.C. R14-2-403(B).
** Months off the system times the Monthly Usage Charge, per A.A.C. R14-2-403(D).
*** All items billed at cost shall include labor, materials, parts, overheads and all applicable taxes.
**** 2.00 percent of the Monthly Usage Charge for a Comparable Sized Meter Connection, but no less that $10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

Service and Meter Installation Charges

Service Size	Total Present Charge	Proposed Service Line Charge	Proposed Meter Insallation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Insallation Charge	Total Recommended Charge
5/8 x 3/4 Inch	$ 501.00	$ 450.00	$ 150.00	$ 600.00	$ 450.00	$ 150.00	$ 600.00
3/4 Inch	575.00	450.00	250.00	700.00	450.00	250.00	700.00
1 Inch	650.00	575.00	300.00	875.00	575.00	300.00	875.00
1 1/2 Inch	427.00	675.00	500.00	1,175.00	675.00	500.00	1,175.00
2 Inch	1,572.00	1,000.00	1,500.00	2,500.00	1,000.00	1,500.00	2,500.00
3 Inch	2,400.00	1,300.00	2,000.00	3,300.00	1,300.00	2,000.00	3,300.00
4 Inch	3,516.00	1,800.00	3,500.00	5,300.00	1,800.00	3,500.00	5,300.00
6 Inch	6,916.00	2,800.00	6,000.00	8,800.00	2,800.00	6,000.00	8,800.00
Over 6 Inch	N/A	N/A	N/A	N/A	Actual Cost	Actual Cost	Actual Cost

Chino Meadows II Water Company Inc.
Docket No. W-02370A-14-0231
Test Year Ended: December 31, 2013

Schedule TBH CM-25A

Typical Bill Analysis - STAFF'S RECOMMENDATION
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons		Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,931		$ 31.13	$ 43.35	$ 12.22	39.25%
Median Usage	3,469		26.45	35.89	$ 9.44	35.69%
Staff Recommended						
Average Usage	4,931		$ 31.13	$ 31.13	$ -	0.00%
Median Usage	3,469		26.45	26.45	$ -	0.00%

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

	Present		Company Proposed	%	Staff Recommended Alt. A	%
	5/8" x 3/4"		5/8" x 3/4"		5/8" x 3/4"	
	Minimum Charge	$ 17.75	Minimum Charge	$ 23.00	Minimum Charge	$ 17.75
	1st Tier Rate	2.40	1st Tier Rate	3.50	1st Tier Rate	2.40
	1st Tier Breakover	3,000	1st Tier Breakover	3,000	1st Tier Breakover	3,000
	2nd Tier Rate	3.20	2nd Tier Rate	5.10	2nd Tier Rate	3.20
	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000
Gallons	3rd Tier Rate	4.20	3rd Tier Rate	6.50	3rd Tier Rate	4.20
Consumption	Rates		Rates	Increase	Rates	Increase
-	$ 17.75		$ 23.00	29.58%	$ 17.75	0.00%
1,000	20.15		26.50	31.51%	20.15	0.00%
2,000	22.55		30.00	33.04%	22.55	0.00%
3,000	24.95		33.50	34.27%	24.95	0.00%
4,000	28.15		38.60	37.12%	28.15	0.00%
5,000	31.35		43.70	39.39%	31.35	0.00%
6,000	34.55		48.80	41.24%	34.55	0.00%
7,000	37.75		53.90	42.78%	37.75	0.00%
8,000	40.95		59.00	44.08%	40.95	0.00%
9,000	45.15		65.50	45.07%	45.15	0.00%
10,000	49.35		72.00	45.90%	49.35	0.00%
11,000	53.55		78.50	46.59%	53.55	0.00%
12,000	57.75		85.00	47.19%	57.75	0.00%
13,000	61.95		91.50	47.70%	61.95	0.00%
14,000	66.15		98.00	48.15%	66.15	0.00%
15,000	70.35		104.50	48.54%	70.35	0.00%
16,000	74.55		111.00	48.89%	74.55	0.00%
17,000	78.75		117.50	49.21%	78.75	0.00%
18,000	82.95		124.00	49.49%	82.95	0.00%
19,000	87.15		130.50	49.74%	87.15	0.00%
20,000	91.35		137.00	49.97%	91.35	0.00%
25,000	112.35		169.50	50.87%	112.35	0.00%
30,000	133.35		202.00	51.48%	133.35	0.00%
35,000	154.35		234.50	51.93%	154.35	0.00%
40,000	175.35		267.00	52.27%	175.35	0.00%
45,000	196.35		299.50	52.53%	196.35	0.00%
50,000	217.35		332.00	52.75%	217.35	0.00%
75,000	322.35		494.50	53.40%	322.35	0.00%
100,000	427.35		657.00	53.74%	427.35	0.00%

Chino Meadows II Water Company Inc.
Docket No. W-02370A-14-0231
Test Year Ended: December 31, 2013

Schedule TBH CM-25B

Typical Bill Analysis - STAFF'S ALTERNATIVE RECOMMENDATION
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons		Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,931		$ 31.13	$ 43.35	$ 12.22	39.25%
Median Usage	3,469		26.45	35.89	$ 9.44	35.69%
Staff Recommended						
Average Usage	4,931		$ 31.13	$ 25.54	$ (5.59)	-17.95%
Median Usage	3,469		26.45	21.16	$ (5.29)	-20.01%

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

	Present		Company Proposed	%	Staff Recommended Alt. B	%
	5/8" x 3/4"		5/8" x 3/4"		5/8" x 3/4"	
	Minimum Charge	$ 17.75	Minimum Charge	$ 23.00	Minimum Charge	$ 13.75
	1st Tier Rate	2.40	1st Tier Rate	3.50	1st Tier Rate	2.00
	1st Tier Breakover	3,000	1st Tier Breakover	3,000	1st Tier Breakover	3,000
	2nd Tier Rate	3.20	2nd Tier Rate	5.10	2nd Tier Rate	3.00
	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000
Gallons	3rd Tier Rate	4.20	3rd Tier Rate	6.50	3rd Tier Rate	4.00
Consumption	Rates		Rates	Increase	Rates	Increase
-	$ 17.75		$ 23.00	29.58%	$ 13.75	-22.54%
1,000	20.15		26.50	31.51%	15.75	-21.84%
2,000	22.55		30.00	33.04%	17.75	-21.29%
3,000	24.95		33.50	34.27%	19.75	-20.84%
4,000	28.15		38.60	37.12%	22.75	-19.18%
5,000	31.35		43.70	39.39%	25.75	-17.86%
6,000	34.55		48.80	41.24%	28.75	-16.79%
7,000	37.75		53.90	42.78%	31.75	-15.89%
8,000	40.95		59.00	44.08%	34.75	-15.14%
9,000	45.15		65.50	45.07%	38.75	-14.17%
10,000	49.35		72.00	45.90%	42.75	-13.37%
11,000	53.55		78.50	46.59%	46.75	-12.70%
12,000	57.75		85.00	47.19%	50.75	-12.12%
13,000	61.95		91.50	47.70%	54.75	-11.62%
14,000	66.15		98.00	48.15%	58.75	-11.19%
15,000	70.35		104.50	48.54%	62.75	-10.80%
16,000	74.55		111.00	48.89%	66.75	-10.46%
17,000	78.75		117.50	49.21%	70.75	-10.16%
18,000	82.95		124.00	49.49%	74.75	-9.89%
19,000	87.15		130.50	49.74%	78.75	-9.64%
20,000	91.35		137.00	49.97%	82.75	-9.41%
25,000	112.35		169.50	50.87%	102.75	-8.54%
30,000	133.35		202.00	51.48%	122.75	-7.95%
35,000	154.35		234.50	51.93%	142.75	-7.52%
40,000	175.35		267.00	52.27%	162.75	-7.19%
45,000	196.35		299.50	52.53%	182.75	-6.93%
50,000	217.35		332.00	52.75%	202.75	-6.72%
75,000	322.35		494.50	53.40%	302.75	-6.08%
100,000	427.35		657.00	53.74%	402.75	-5.76%

CHINO MEADOWS II WATER CO., INC.
DOCKET NO. W-02370A-14-0231
Response to Staff's First Set of Data Requests

Response provided by: **Ray L. Jones**

Title: **Consultant**

Address: **18835 North Thompson Peak Parkway, Suite 215**
Scottsdale, AZ 85255

Data Request Number: **TBH 1.42**

Q. Allocations – For each shared expense or cost included in the revenue requirement that has been allocated (e.g. office space rental, labor, transportation, insurance, etc.,), please provide the following:
a. Identify the cost, i.e., provide a descriptive name.
b. The basis of the allocation (e.g. number of customers)
c. The actual calculation used to make the allocation.

A. Four major categories of expense were allocated between Chino Meadows and Granite Mountain during the test year, as follows.

Rent Expense
Operating Expenses
Employee Salaries and Wages
Officer, Director and Stockholder Salary and Wages

For each major category of expense a detailed response to parts a, b and c are as follows:

Rent Expense – This expense is the cost to rent the shared business office and is discussed in detail in the Company's response to TBH 1.30. The total rent paid for the test year was $15,000. During the test year, the rent was allocated 20 percent to Granite Mountain ($3,000) and 80 percent to Chino Meadows ($12,000). The allocation was as directed by management.

Operating Expenses – The following operating expense accounts were allocated during the test year.

Account
6615.06 · Gas for Office
6615.07 · Pow er for Office
6618.01 · Chlorine
6620.20- Shop Supplies (Misc)
6620.13 · Shop Tools
6620.19 · Equipment Repair
6620.21 · Water Main Break/Repair Supplie
6620.00 · Materials & Supplies
6630.01 · AIS Bill Processing
6650.00 · Transportation
6655.00 · Insurance - General Liability
6659.02 · State Fund
6675.07 · Gifts
6675.10 · Meals
6675.15 · Licenses & Permits
6621.03 · Postage
6621.00 · Office Supplies & Expense

During the test year, these accounts were allocated 10 percent to Granite Mountain and 90 percent to Chino Meadows. The allocation is based on number of customers. Note: the allocation has been updated to 12 percent to Granite Mountain and 88 percent to Chino meadows for 2014, based on actual end of test year customer counts.

Employee Salary and Wages – Due to payroll software limitations, salaries are allocated using a method where one employee's salary is charged to Granite Mountain with all other employees being charged to Chino Meadows. The resulting allocation for the test year was $33,942 to Granite Mountain and $164,965 to Chino Meadows. The results in an approximately 17 percent allocation to Granite Mountain with 83 percent being allocated to Chino Meadows.

Officer, Director and Stockholder Salary and Wages – This expense is discussed in detail in the Company's response to TBH 1.26. During the test year, the companies intended to allocate 80% of Mr. Levie's salary to Chino Meadows and 20% to Granite Mountain, based on an estimate of time spent working for each company. However, the actual booked allocation was $31,700 to Chino Meadows and $6,000 to Granite Mountain, approximating an 84% / 16% allocation.

CHINO MEADOWS II WATER CO., INC.
DOCKET NO. W-02370A-14-0231
Response to Staff's First Set of Data Requests

Response provided by: **Ray L. Jones**

Title: **Consultant**

Address: **18835 North Thompson Peak Parkway, Suite 215**
Scottsdale, AZ 85255

Data Request Number: **TBH 1.26**

Q. Officer, Director, and Stockholder Salary and Wage Information – General information was provided in the application to support $37,865.80 for Arden Barney. Please answer and/or provide the requested information for the following:

a. A schedule of the names, titles, and annual salaries of all officer's, director's, and stockholder's actual payroll expenses and employee benefits by account charged for the test year.
b. Job descriptions which identify the job duties performed by each officer, director or stockholder and whether or not these officer, director or stockholder worked for any related companies.
c. A schedule showing the actual payroll expenses and employee benefits (with all pay and benefits identified separately) by officer, director or stockholder and NARUC account recorded for the test year.
d. A schedule that reconciles the difference in the total adjusted salaries for Officers and Directors of $31,700 and the $37,865.80 supported in the application.
e. Identify any incentive pay or bonuses paid during the test year.
f. Please state whether or not the officers, directors, and stockholders use time sheets to document the hours worked. If so, please provide the time sheets for each individual during the test year.
g. Please state the approximate number of hours each officer, director, and stockholder worked each month during the test year. As part of your response, please state the activity and the number of hours spent on that activity.
h. If the pay of the officers, directors, and stockholders is not based on time sheets please provide explain how you determined the level of salary for these individuals.

A. a. Mr. Paul Levie was the only officer, director or stockholder paid for services during the test year. Mr. Levie was paid $31,700 for his services during the test year. No additional employee benefits were provided.

b. The Company does not maintain formal job descriptions for its positions. The duties of Mr. Levie is summarized as follows:

Manage all aspects of the utility including having ultimate responsibility for operations, planning, financing and strategic direction, including supervision and management of company personnel, provision of legal services, review of payroll, sign checks for payroll and accounts payable, project management, review of fiduciary responsibilities including accounts payable and accounts receivable, meeting with operations management to address concerns, equipment repair

and/or water plant facilities, acquire regulate and oversee company loans and long-term debts, ensure that proper equipment and procedures are in place to adequately supply drinking water, review & advise on manuals such as employee handbook & emergency response manual.

Mr. Levie works for Chino Meadows, Granite Mountain and Antelope Lakes. However, he is paid separately by Granite Mountain and is not compensated by Antelope Lakes. Mr. Levie does not work for any other companies; however, as more fully discussed in the Company's response to TBH 1.30, Mr. Levie does manage a portfolio of property interests, including rental properties. Mr. Levie's compensation paid by Chino Meadows is based exclusively on his work for Chino Meadows and takes into consideration that Mr. Levie works less than full-time for Chino Meadows.

c. Mr. Levie was paid a flat fee of $31,700.00 for his services. The cost was charged to NARUC account 603.

d. There is no difference to reconcile. The amount charged to Account 603 was $31,700 for Mr. Levie.

e. Mr. Levie did not receive a bonus.

f. Mr. Levie does not use a time sheet.

g. Mr. Levie's representative monthly work schedule is as follows:

Activity	**Hours**
Supervision and management of company personnel	12
Oversight of company operations	6
Provide strategic direction	6
Review company financial data including payables, receivables, revenue and expenses	12
Provide legal representation for Company	8
Review payroll and sign checks	4
Review and authorize all vendor payments	4
Acquire regulate and oversee company loans and long-term debts	8
Meetings with operations management to review capital program and address operational issues and ensure proper facilities and equipment are available	20
Develop and review company processes and procedures to ensure regulatory compliance	8
Review and advise Company on manuals such as employee handbook and emergency response manual	1

Note: This schedule includes all time spent working for both Chino Meadows and Granite Mountain. As discussed below, it is estimated that 80% of the time is attributable to Chino Meadows and 20% of the time is attributable to Granite Mountain.

h. Mr. Levie's compensation is based on an annual salary of $76,800. As an half-time employee for Chino Meadows and Granite Mountain, Mr. Levie was scheduled for $38,400 in compensation for the test year. Due to an accounting oversight, the actual pay to Mr. Levie was only $37,700 during the test year. During the test year, the companies intended to allocate 80% of Mr. Levie's salary to Chino Meadows and 20% to Granite Mountain. However, the actual booked allocation was $31,700 to Chino Meadows and $6,000 to Granite Mountain, approximating an 84% / 16% allocation.

CHINO MEADOWS II WATER CO., INC.
DOCKET NO. W-02370A-14-0231
Response to Staff's Second Set of Data Requests

Response provided by: **Christine Nelson**

Title: **Admin Assistant**

Address: **501 N Hwy 89**
Chino Valley, AZ 86323

Data Request Number: **TBH 2.12**

Q. Salaries and Wages Expenses – Please answer and/or provide the requested information for the following:

a. Please explain the payroll bonus provided to Allan R. Feichter on Check 6349 for $1,000 on December 11, 2013.
b. Please explain the payroll bonus provided to Christine E. Nelson on Check 6350 for $1,500 on December 11, 2013.
c. Please explain the payroll bonus provided to b on Check 6351 for $1,500 on December 11, 2013.
d. Please explain the payroll bonus provided to Arden Wayne Barney on Check 6376 for $13,000 on December 23, 2013.
e. Please provide a schedule by employee, date and the amount of bonuses paid by the Company for the past 5 years.
f. Are any of the employees related to any of the officers, board member or family member of the officers of the Company?
g. Please explain the allocation of one employee on the payroll for the Granite Mountain instead of the direct labor hours being allocated by employee for each company.
h. Please state whether any of the employees of the Company work for any unregulated companies of the owners during their work shifts during the test year? Please provide support if the unregulated companies paid the Company's employees for the same time periods during the test year. If the unregulated company did not pay such employees, please state amount of time per week by unregulated company and by each employee.
i. Please explain the hourly timekeeping for direct labor hours worked by employee for each company.

A. a. It is the Company's practice to pay a portion of an employee's annual compensation in the form of a bonus when the employee demonstrates satisfactory performance during the year. Consistent with this practice, Allan R. Feichter was paid a bonus.

b. It is the Company's practice to pay a portion of an employee's annual compensation in the form of a bonus when the employee demonstrates satisfactory performance during the year. Consistent with this practice, Christine E. Nelson was paid a bonus.

c. It is the Company's practice to pay a portion of an employee's annual compensation in the form of a bonus when the employee demonstrates satisfactory performance during the year. Consistent with this practice, Denny N. Lopez was paid a bonus.

d. Mr. Barney's bonus was paid to reflect the appropriate annual compensation for the position of Operations Manager to which Mr. Barney was promoted in May of 2013.

The bonus was paid in lieu of increasing Mr. Barney's rate of pay at the time of promotion.

e. See file CM TBH 2-12 Attachment – Bonus Schedule.pdf for the requested schedule.

f. No employees are related to any of the officers, board member or family member of the officers of the Company.

g. As discussed in the Company's response to TBH 1.42, due to payroll software limitations, salaries are allocated using a method where one employee's salary is charged to Granite Mountain with all other employees being charged to Chino Meadows. The resulting allocation for the test year was $33,942 to Granite Mountain and $164,965 to Chino Meadows. The results in an approximately 17 percent allocation to Granite Mountain with 83 percent being allocated to Chino Meadows. The Company feels this resulting allocation of salaries provides an adequate allocation of payroll expense between the two companies.

h. As discussed in the Company's response to TBH 1.25, the Administrative Assistant and Operations Manager positions allocated to Chino Meadows, provides support related to Mr. Levie's property management activities. The positions are not paid separately for these activities. It is estimated that for the Administrative Assistant up to 2 hours per week is spent on property management activities. It is estimated that for the Operations Manager position up to 4 hours per week is spent on property management activities.

i. The Company is not sure it understands this question. Salaries are allocated as discussed in the answer to part g. The Company did create job codes in Quickbooks and on its timecards for various companies. The intent of these codes was to allow for detailed allocation of payroll costs between companies. However, the Company discovered that due to Quickbooks software limitations, using the job costing function of Quickbooks to allocate payroll between companies would require significant ongoing accounting and reconciliation effort that was beyond its staff capabilities.

GRANITE MOUNTAIN WATER COMPANY, INC.
Docket No. W-02467A-14-0230
Response to Staff's Second Set of Data Requests

Response provided by: **Christine Nelson**

Title: **Admin Assistant**

Address: **501 N Hwy 89**
Chino Valley, AZ 86323

Data Request Number: **TBH 2.5**

Q. Salaries and Wages Expenses – Please answer and/or provide the requested information for the following:

a. Please explain the payroll bonus provided to Jeanette Myrick on Check 5389 for $2,500 on December 11, 2013. Additionally, please explain why a bonus is provided to an employee that is no longer with the Company.
b. Please explain the payroll bonus provided to Nicole Magnussen on Check 5390 for $1,000 on December 11, 2013.
c. Please provide a schedule by employee, date and the amount of bonuses paid by the Company for the past 5 years.
d. Are any of the employees related to any of the officers, board member or family member of the officers of the Company?
e. Does Nikki Magnussen (Administrative Assistant) perform the same duties as the previous employee Jeanette Myrick (Bookkeeper/Administrative Assistant)? If not, please explain what duties are different.
f. Please explain the allocation of one employee on the payroll for the Company instead of the direct labor hours being allocated by employee for each company.
g. Please state whether any of the employees of the Company work for any unregulated companies of the owners during their work shifts during the test year? Please provide support if the unregulated companies paid the Company's employees for the same time periods during the test year. If the unregulated company did not pay such employees, please state amount of time per week by unregulated company and by each employee.

A. a. Jeanette Myrick worked for the Company for 25 years and retired from the Company in October 2013. Paul Levie authorized the bonus for work performed through October of 2013 and in recognition of many years of valued service to the Company.

b. It is the Company's practice to pay a portion of an employee's annual compensation in the form of a bonus when the employee demonstrates satisfactory performance during the year. Consistent with this practice, Niclole Magnussen was paid a bonus.

c. See file GM TBH 2-5 Attachment – Bonus Schedule.pdf for the requested schedule.

d. No employees are related to any of the officers, board member or family member of the officers of the Company.

e. Yes she performed the same duties.

f. As discussed in the Company's response to TBH 1.40, due to payroll software limitations, salaries are allocated using a method where one employee's salary is

charged to Granite Mountain with all other employees being charged to Chino Meadows. The resulting allocation for the test year was $33,942 to Granite Mountain and $164,965 to Chino Meadows. The results in an approximately 17 percent allocation to Granite Mountain with 83 percent being allocated to Chino Meadows. The Company feels this resulting allocation of salaries provides an adequate allocation of payroll expense between the two companies.

g. As discussed in the Company's response to TBH 1.24, the Administrative Assistant position allocated to Granite Mountain, provides support related to Mr. Levie's property management activities. The position is not paid separately for these activities. It is estimated that up to 16 hours per week is spent on property management activities.

CHINO MEADOWS II WATER CO., INC.
DOCKET NO. W-02370A-14-0231
Response to Staff's First Set of Data Requests

Response provided by: **Ray L. Jones**

Title: **Consultant**

Address: **18835 North Thompson Peak Parkway, Suite 215**
Scottsdale, AZ 85255

Data Request Number: **TBH 1.33**

Q. Notes/Accounts Receivable from Associated Companies – Referring to the Balance Sheet, Page 21 Acct. No. 146. Please provide explain and provide the following:
   a. Please provide a detailed schedule by month from January 2010 to December 2013. The detailed schedule should include the date, amount, check number, associated company, purpose of the note/accounts receivable, payment information and the balance due at the end of each month.
   b. Please provide specific details for the amounts due from each specific associated company at the end of the test year.

A. a. See file CM TBH 1-33 Attachment – Account Detail Receivable Assoc Company.pdf for the requested schedule.

   b. 1146.03- Loan-Antelope Lakes Water - This account represents funds paid to Antelope Lakes for various categories of expenses incurred by Antelope Lakes. The balance is not a receivable in the traditional sense. The balance would be more properly characterized as an intercompany balance, similar as to what would be recorded between a parent holding company and utility subsidiary companies or between utility subsidiary companies when cash is transferred from one utility subsidiary to the parent holding company or another utility subsidiary and vice versa. Antelope Lakes is not required to make any payments to Chino Meadows. Should Antelope Lakes provide funds to or on behalf of Chino Mountain, the intercompany balance would be reduced. The balance at the end of the test year was 2,230.18.

   1146.05 - Loan-Desert Snow Construction & 1146.06 - Loan-GFL CMI Tract B Water Line – This accounts represent funds advanced to Desert Snow Construction on behalf of Mr. Levie. The majority of the funds paid for a waterline serving property owned by Mr. Levie. The property is within the Town of Chino Valley water service area and is not associated with any of the water utilities owned by Mr. Levie. The balance is due and payable upon demand by Chino Meadows. The balance at the end of the test year was 16,066.82.

   1146.09 – Loan PDL Zooki - This account represent funds advanced on behalf of Mr. Levie's son, Daniel P. Levie. The balance is due and payable upon demand by Chino Meadows. The balance at the end of the test year was 104.02.

1146.15 Due from PDL Inc. - This account represent funds advanced to Mr. Levie. The funds were for personal use. The balance is due and payable upon demand by Chino Meadows. The balance at the end of the test year was 1,500.00

4:44 PM

12/17/14

Accrual Basis

Chino Meadows II Water Co., Inc.
Account QuickReport
As of December 31, 2014

Type	Date	Num	Name	Memo	Split	Amount	Balance
1146.00 · Receivable-Associated Companies							
1146.03 · Loan-Antelope Lakes Water							31,504.47
Check	08/16/2012	Electronic	Antelope Lakes Water Co. Inc.	Loan to Cover 2011 Tax Preparation			500.00
Check	02/07/2013	Electronic	Antelope Lakes Water Co. Inc.	Funds to Cover Annual Reports & Expenses	1131.04 · Nati...	385.00	885.00
Check	03/17/2014	Trans	Antelope Lakes Water Co. Inc.	Funds to Cover monthly expenses	1131.04 · Nati...	500.00	1,385.00
Check	04/04/2014	Trans	Antelope Lakes Water Co. Inc.	Funds to cover monthly expenses	1131.04 · Nati...	100.00	1,485.00
Check	05/27/2014	TRANS	Antelope Lakes Water Co. Inc.	Funds to cover monthly expenses	1131.04 · Nati...	100.00	1,585.00
Check	06/17/2014	TRANS	Antelope Lakes Water Co. Inc.	Funds to cover monthly expenses	1131.04 · Nati...	200.00	1,785.00
Check	07/23/2014	6790	APS	Acct#301644289 Antelope Lakes Pump	1131.04 · Nati...	385.00	2,170.00
Total 1146.03 · Loan-Antelope Lakes Water					1131.04 · Nati...	60.18	2,230.18
						1,730.18	2,230.18
1146.04 · Loan-GBSI							15,000.00
Check	03/09/2010	2818	City of Prescott	Ticket 298533 2/12/10 .77 tons	1131.02 · Che...	48.49	15,048.49
Check	03/09/2010	2818	City of Prescott	Ticket 298629 2/12/10 .85 tons	1131.02 · Che...	53.53	15,102.02
Check	03/09/2010	2818	City of Prescott	Ticket 298862 2/13/10 1.55 tons	1131.02 · Che...	97.62	15,199.64
Check	03/09/2010	2818	City of Prescott	Ticket 298884 2/13/10 .21 tons	1131.02 · Che...	13.23	15,212.87
Check	05/24/2010	2956	American Express	Damage Hinge Bars when Forklift loaded by GBSI bent them.	1131.02 · Che...	112.49	15,325.36
Deposit	03/21/2012	11134		Pay back of GBSI Loan Check #11134	1131.04 · Nati...	-15,325.36	0.00
Total 1146.04 · Loan-GBSI						-15,000.00	0.00
1146.05 · Loan-Desert Snow Construction							808.88
Check	01/12/2010	2711	City of Prescott	Past Due for Desert Snow Oct 09	1131.02 · Che...	62.35	871.23
Total 1146.05 · Loan-Desert Snow Construction						62.35	871.23
1146.06 · Loan-GFL CMI Track B Water Line							15,195.59
Total 1146.06 · Loan-GFL CMI Track B Water Line							15,195.59
1146.07 · Loan-World Biz Op							0.00
Check	04/08/2011	3562	Citibank	Agent Fee-Adventure Travel-PA	1131.02 · Che...	20.00	20.00
Check	04/08/2011	3562	Citibank	Agent Fee-Adventure Travel-PA	1131.02 · Che...	30.00	50.00
Check	04/08/2011	3562	Citibank	US Airways-PA	1131.02 · Che...	364.40	414.40
Check	04/08/2011	3562	Citibank	US Airways-PA	1131.02 · Che...	450.60	865.00
Check	04/08/2011	3562	Citibank	Sunoco-PA	1131.02 · Che...	21.87	886.87
Check	04/08/2011	3562	Citibank	Days INN-Horsham, PA	1131.02 · Che...	158.68	1,045.55
Check	04/08/2011	3562	Citibank	Thrifty Car Rental-PA	1131.02 · Che...	169.86	1,215.41
Deposit	05/06/2011	10056	Paul D. Levie Trust	Payment	1131.04 · Nati...	-1,682.81	-467.40
Check	05/06/2011	3605	Paul D. Levie Trust	Reim Overpayment of Acct 1146.07	1131.02 · Che...	467.40	0.00
Total 1146.07 · Loan-World Biz Op						0.00	0.00
1146.08 · Granite Mountain Water							0.00
General Journal	12/31/2012	mi		Due from GMWC for 2012 Reimbursable Expenses	6615.07 · Pow...	23,988.31	23,988.31
Deposit	12/31/2012		Granite Mountain Water Company	Reimb for 2012 Expenses	1131.04 · Nati...	-23,988.31	0.00
Total 1146.08 · Granite Mountain Water						0.00	0.00
1146.09 · Loan PDL Zooki							0.00
Check	05/10/2013	5937	Citibank	City Express Las Vegas, NV	1131.04 · Nati...	52.01	52.01
Check	06/20/2013	5991	Citibank	City Express Las Vegas, NV	1131.04 · Nati...	52.01	104.02
Total 1146.09 · Loan PDL Zooki						104.02	104.02

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12/17/14

Accrual Basis

Chino Meadows II Water Co., Inc.
Account QuickReport
As of December 31, 2014

Type	Date	Num	Name	Memo	Split	Amount	Balance
1146.15 · Due from PDL Inc							0.00
General Journal	12/31/2013	JLF		Reclassify Payment to PDL Inc	2232.00 · Not...	1,500.00	1,500.00
Total 1146.15 · Due from PDL Inc						1,500.00	1,500.00
Total 1146.00 · Receivable-Associated Companies						-11,603.45	19,901.02
TOTAL						**-11,603.45**	**19,901.02**

CHINO MEADOWS II WATER CO., INC.
DOCKET NO. W-02370A-14-0231
Response to Staff's First Set of Data Requests

Response provided by: **Ray L. Jones**

Title: **Consultant**

Address: **18835 North Thompson Peak Parkway, Suite 215**
Scottsdale, AZ 85255

Data Request Number: **TBH 1.34**

Q. Notes/Payable to Associated Companies – Referring to the Balance Sheet, Page 22 Acct. No. 234. Please provide explain and provide the following:

a. Please provide a detailed schedule by month from January 2010 to December 2013. The detailed schedule should include the date, amount, check number, associated company, purpose of the note/accounts receivable, payment information and the balance due at the end of each month.
b. Please provide specific details for the amounts due to each specific associated company at the end of the test year.
c. Please provide the specific authorization by the Arizona Corporation Commission for indebtedness payable at periods of more than twelve months pursuant to ARS 40-301-B.

A. a. See file CM TBH 1-34 Attachment – Account Detail Payable Assoc Comp.pdf for the requested schedule.

b. **2234.01-** Due to PDL (Paul D. Levie) - This account represents funds paid on behalf of Chino Meadows by Mr. Levie. The payments were related to fire loss expenses incurred in January 2012. The balance at the end of the test year was $5,000.00.

2234.02- Due to Equestrian Construction, LLC - This amount due was recorded in error. There was no balance due at the end to the test year.

2234.06- Payable to GMWC - This account represents funds paid on behalf of Chino Meadows for various categories of expenses incurred by Chino Meadows in November of 2012. The balance is not a payable in the traditional sense. The balance would be more properly characterized as an intercompany balance, similar to what would be recorded between a parent holding company and utility subsidiary companies or between utility subsidiary companies when cash is transferred from one utility subsidiary to the parent holding company or another utility subsidiary and vice versa. Chino Meadows is not required to make any payments to Granite Mountain. Should Chino Meadows provide funds to or on behalf of Granite Mountain or transfer funds to Granite Mountain, the intercompany balance would be reduced. The balance at the end of the test year was $19,891.00.

c. The entries and balances in this account do not denote long-term indebtedness. Accordingly, the Company has not requested authorization by the Arizona Corporation Commission for indebtedness payable at periods of more than twelve months pursuant to ARS 40-301-B for any entry or balance in this account.

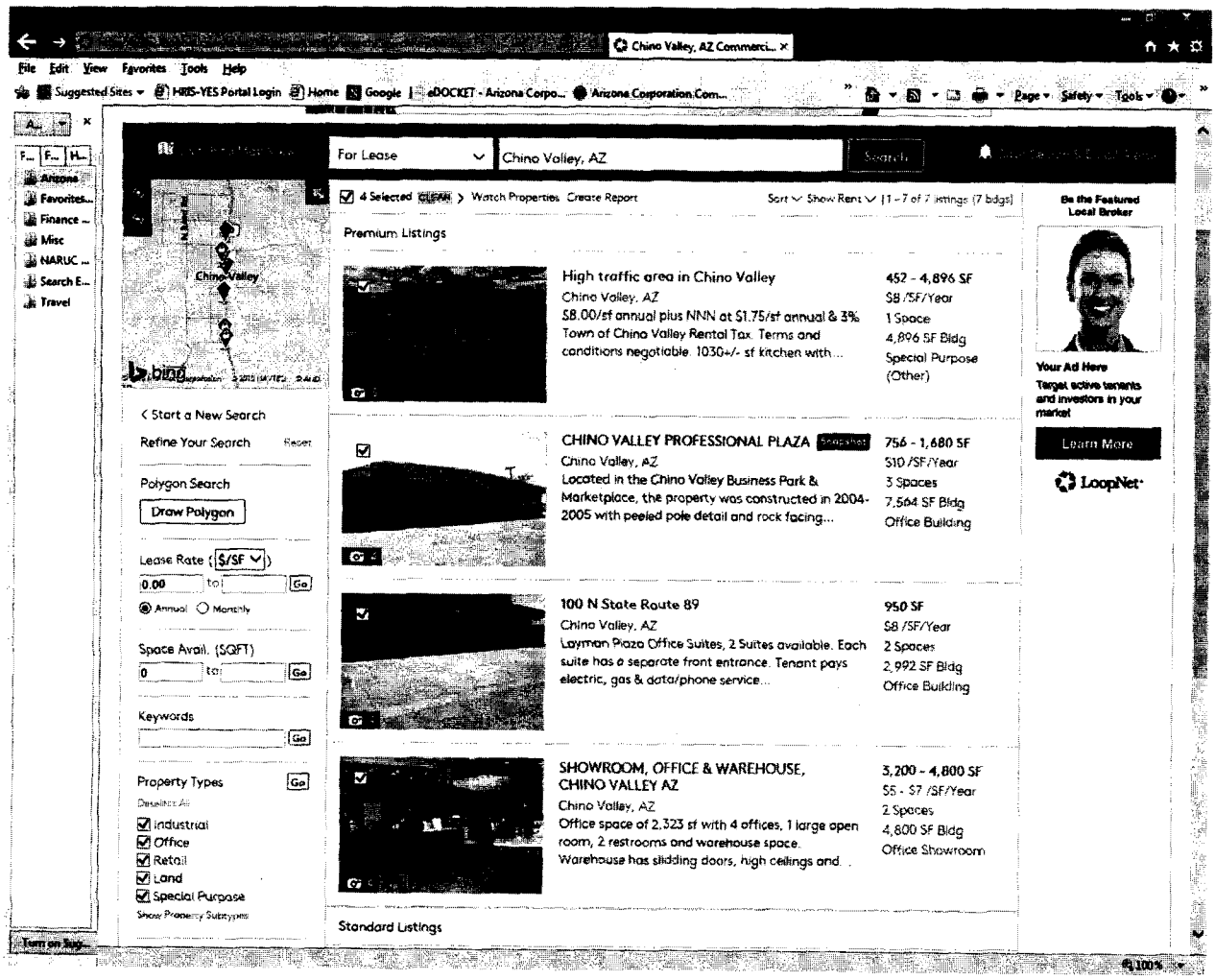
4:14 PM

11/21/14

Accrual Basis

Chino Meadows II Water Co., Inc.
Account QuickReport
As of December 31, 2013

Type	Date	Num	Name	Memo	Amount	Balance
2234.00 · Accts Payable-Assoc. Companies						6,000.00
2234.01 · Payable to PDL						0.00
General Journal	12/31/2011			Management Services for 2011	30,000.00	30,000.00
General Journal	01/05/2012	ml		Fire Investigations Service-Dallas C. Lane, CFI	5,000.00	35,000.00
General Journal	01/10/2012	ml		Purchase of Computers, Monitors, Router, Cables, Printer after Fire	3,853.83	38,853.83
General Journal	02/04/2012	ml		Purchase of Computers, Monitors, Cables, and Ext Hard Drive after Fire	2,276.65	41,130.48
Check	03/15/2012	5143	Paul D. Levie P.C.	Management Fee 2011	-30,000.00	11,130.48
Check	12/31/2012	5798	Paul D. Levie	Reimb-Purchase of Computers, Monitors, Router, Cables, Printer after Fire	-3,853.83	7,276.65
Check	12/31/2012	5798	Paul D. Levie	Reimb-Purchase of Computers, Monitors, Cables, and Ext Hard Drive after Fire	-2,276.65	5,000.00
Check	12/31/2012	5799	Paul D. Levie	Reimb for Fire Investigations Service-Dallas C. Lane, CFI	-5,000.00	0.00
General Journal	12/31/2013	JLF		Reclassify check to PDL for property	5,000.00	5,000.00
Total 2234.01 · Payable to PDL					5,000.00	5,000.00
2234.02 · Payable Equestrian Development						0.00
General Journal	06/28/2013		Equestrian Develo...	Reim for Office Fire Insurance Claim Proceeds for Property & Labor	11,608.82	11,608.82
Total 2234.02 · Payable Equestrian Development					11,608.82	11,608.82
2234.03 · Paul D. Levie, P.C.						0.00
General Journal	12/31/2010	jlf121...		Record Fees to PDL Entity	30,000.00	30,000.00
Check	01/01/2011	3481	Paul D. Levie P.C.	Management Fees 2010	-30,000.00	0.00
Total 2234.03 · Paul D. Levie, P.C.					0.00	0.00
2234.05 · Paul D. Levie Trust						0.00
Deposit	04/30/2012	4424	Paul D. Levie Trust	Short-Term Intercompany Acct to cover Property Tax Payment	4,000.00	4,000.00
Check	10/11/2012	5530	Paul D. Levie Trust	Reimb for Short-Term Loan to Pay 2011 Property Taxes	-4,000.00	0.00
Total 2234.05 · Paul D. Levie Trust					0.00	0.00
2234.06 · Payable to GMWC						6,000.00
Deposit	01/13/2010		Granite Mountain ...	Loan from GMWC cover Payroll Tax Liabilities	2,000.00	8,000.00
Check	02/19/2010	Elect...	Granite Mountain ...	Transfer to Repay Loan from 12/22/09 from GMWC	-6,000.00	2,000.00
Check	02/19/2010	Elect...	Granite Mountain ...	Transfer to Repay Loan from 01/13/10 from GMWC	-2,000.00	0.00
Deposit	04/25/2011	1579	Granite Mountain ...	Loan from Granite Mountain for Line Extension Project	13,353.00	13,353.00
Check	08/02/2011	Elect...	Granite Mountain ...	Transfer to Repay Loan from GMWC for Center St Ext (McMains)	-13,353.00	0.00
Deposit	10/13/2011		Granite Mountain ...	Transfer from GM to CM to cover Accts Payable	10,000.00	10,000.00
Check	10/26/2011	electr...	Granite Mountain ...	Reimb. for Transfer from GM to CM to cover Accts Payable	-10,000.00	0.00
General Journal	12/12/2011	ml		2005 Chevy 2500HD VIN: 1gbgc24u65e269326	9,245.75	9,245.75
General Journal	12/21/2011		Arizona Departme...	Registration & Title 2005 Chevy C2500HD Service Truck	257.91	9,503.66
General Journal	12/21/2011		Arizona Departme...	(3) Vehicle Title Replacements after Fire	12.00	9,515.66
General Journal	01/12/2012		Bob's Complete A...	2005 Chevy-Pitman Arm, Outer Tie Rod End, Eng Oil Cooler	1,104.07	10,619.73
General Journal	01/12/2012		Advanced Info Sys...	Inv 9110 Dec 2011 Billing	342.15	10,961.88
General Journal	01/12/2012		Postmaster	Postage Dec 2011 Billing	354.72	11,316.60
General Journal	01/12/2012		AZCOM Systems	Inv 1520 Setup phone lines at new office	380.00	11,696.60
General Journal	01/20/2012		Bennett Oil	Acct 263 Inv 93277 01/15/12	426.06	12,122.66
General Journal	01/20/2012		Hill Brothers Che...	Inv 4356308 (12) 13-gal 12.5% Chlorine	381.08	12,503.74
General Journal	01/24/2012		Staples	CMII Fire Loss Office Supplies	5,357.33	17,861.07
General Journal	01/24/2012		Craig A. Marks PLC	Rate Case 10.30hrs Legal Services	3,654.53	21,515.60
General Journal	01/24/2012		Aricor Water Solut...	Rate Case 6.4hrs Consultant Fees	1,184.00	22,699.60
General Journal	03/05/2012	ml		Due to GMWC Mar 2012	2,931.20	25,630.80
General Journal	03/27/2012	ml	Costco Wholesale	Storage Boxes-Fire	6,146.93	31,777.73
Check	10/11/2012	5529	Granite Mountain ...	Reim for Purchase of 2005 Chevy HD2500 Service Truck	-9,245.75	22,531.98
Check	10/11/2012	5529	Granite Mountain ...	Reim for Expenses Directly Related to Office Fire	-11,221.60	11,310.38
Check	10/11/2012	5529	Granite Mountain ...	Reim for CMII Operating Expenses-Loan for Accts Payable	-11,310.38	0.00
Deposit	11/09/2012		Granite Mountain ...	From GM to CM to cover Insurance Premium	10,891.00	10,891.00
Deposit	11/14/2012		Granite Mountain ...	From GM to CM to Pay Management Fee	30,000.00	40,891.00
Check	12/27/2012	Elect...	Granite Mountain ...	Reimb for Exp Related to Insurance Prem & Mngt Fee	-21,000.00	19,891.00
Total 2234.06 · Payable to GMWC					13,891.00	19,891.00
Total 2234.00 · Accts Payable-Assoc. Companies					30,499.82	36,499.82
TOTAL					**30,499.82**	**36,499.82**


Chino Valley, AZ Commerci...
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Watch Properties
Create Report
Sort
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Chino Valley
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Refine Your Search
Reset
Polygon Search
Draw Polygon
Lease Rate ($/SF)
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to
Go
Annual
Monthly
Space Avail. (SQFT)
0
to
Go
Keywords
Go
Property Types
Go
Industrial
Office
Retail
Land
Special Purpose
Show Property Subtypes
Premium Listings
High traffic area in Chino Valley
Chino Valley, AZ
$8.00/sf annual plus NNN at $1.75/sf annual & 3% Town of Chino Valley Rental Tax. Terms and conditions negotiable. 1030+/- sf kitchen with ...
452 - 4,896 SF
$8 /SF/Year
1 Space
4,896 SF Bldg
Special Purpose (Other)
CHINO VALLEY PROFESSIONAL PLAZA
Snapshot
Chino Valley, AZ
Located in the Chino Valley Business Park & Marketplace, the property was constructed in 2004-2005 with peeled pole detail and rock facing...
756 - 1,680 SF
$10 /SF/Year
3 Spaces
7,564 SF Bldg
Office Building
100 N State Route 89
Chino Valley, AZ
Layman Plaza Office Suites, 2 Suites available. Each suite has a separate front entrance. Tenant pays electric, gas & data/phone service...
950 SF
$8 /SF/Year
2 Spaces
2,992 SF Bldg
Office Building
SHOWROOM, OFFICE & WAREHOUSE, CHINO VALLEY AZ
Chino Valley, AZ
Office space of 2,323 sf with 4 offices, 1 large open room, 2 restrooms and warehouse space. Warehouse has sliding doors, high ceilings and ...
3,200 - 4,800 SF
$5 - $7 /SF/Year
2 Spaces
4,800 SF Bldg
Office Showroom
Standard Listings
Be the Featured Local Broker
Your Ad Here
Target active tenants and investors in your market
Learn More
LoopNet
100%

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) CHINO MEADOWS II WATER COMPANY, INC.) FOR APPROVAL OF A RATE INCREASE.))	DOCKET NO. W-02370A-14-0231

DIRECT

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 15, 2015

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 CHINO MEADOWS II WATER CO. INC. FOR A RATE INCREASE.	))))	DOCKET NO W-02370A-14-0231

SURREBUTTAL

TESTIMONY

OF

TERESA B. HUNSAKER

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 10, 2015

EXHIBIT
S-2
ADMITTED

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EXECUTIVE SUMMARY
CHINO MEADOWS II WATER CO., INC.
DOCKET NO. W-02370A-14-0231

Staff's surrebuttal testimony responds to Chino Meadows II Water Co., Inc. ("Chino Meadows", "CM" or "Company") rebuttal testimony on the following issues:

1. Cost Allocations

2. Rate Base
   a. Contributions in Aid of Construction ("CIAC") for Unsupported Plant, Amortization of CIAC and Amortization of CIAC based on Composite Rate Adjustments[1]
   b. CIAC from Insurance Proceeds and Amortization of CIAC
   c. Accumulated Depreciation
   d. Cash Working Capital

3. Operating Income
   a. Allocations to Water Companies
   b. Depreciation Expense
   c. Property Tax Expense
   d. Income Tax Expense

4. Rate Design

5. Other Issues

Staff's Primary Recommendation:

In direct testimony, Staff recommended total operating revenue of $357,985, which resulted in a $0 (0.00 percent) increase over the Staff's adjusted test year revenue of $357,985. Staff also recommended test year expenses of $301,230. Staff's recommendation would produce $56,754 in operating income. This current and recommended cash flow level results in a 41.93 percent rate of return and a 15.85 percent operating margin.

However, Staff's surrebuttal testimony now supports adjusted test year operating expenses of $310,068. This results in an operating income of $47,916. This cash flow level results in a 29.66 percent rate of return and a 13.38 percent operating margin.

Staff's Alternative Recommendation:

In direct testimony, Staff's alternative recommendation would result in a decrease in the current rates. These recommended rates would produce total operating revenue of $299,772, a $58,212 (16.26 percent) decrease, from Staff's adjusted test year revenue of $357,985, to provide a

[1] Staff included the adjustment to the amortization of CIAC based on composite rates which was omitted from direct testimony filed. Staff corrected the error and included this adjustment within Rate Base Adjustment No. 1.

$13,537 operating income and a 10.00 percent rate of return on Staff adjusted original cost rate base ("OCRB") of $135,369. OCRB and fair value rate base ("FVRB") are deemed to be the same.

Staff's alternative recommendation has been adjusted in surrebuttal testimony and also results in a decrease in the current rates. These recommended rates would produce total operating revenue of $316,072, a $41,916 (11.71 percent) decrease, from Staff's adjusted test year revenue of $357,985, to provide a $16,153 operating income and a 10.00 percent rate of return on Staff adjusted OCRB of $161,528, as shown on Surrebuttal Schedule TBH CM-1B. 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:

	Revenue Requirement	Revenue Change	% Change
Company Application	$497,378	$139,014	38.79%
Staff Direct	$357,985	$0	0.00%
Staff Direct Alternative	$299,772	($58,212)	(16.26%)
Company Rebuttal	$402,603	$44,618	12.46%
Staff Surrebuttal	$357,985	$0	0.00%
Staff Surrebuttal Alternative	$316,072	($41,916)	(11.71%)

I. INTRODUCTION

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

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

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

A. Yes.

II. PURPOSE OF SURREBUTTAL TESTIMONY

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

A. The purpose of my surrebuttal testimony in this proceeding is to testify on behalf of Staff regarding the additional changes Staff made to its direct testimony and respond to the rebuttal testimony of Mr. Ray L. Jones, witness for Chino Meadows II Water Company Inc. ("Chino Meadows", "CM" or "Company").

Q. What issues will you address?

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

1. Cost Allocations

2. Rate Base
   a. Contributions in Aid of Construction ("CIAC") for Unsupported Plant Amortization of CIAC and Amortization of CIAC based on Composite Rate Adjustments[2]
   b. CIAC from Insurance Proceeds and Amortization of CIAC
   c. Accumulated Depreciation
   d. Cash Working Capital Allowance

[2] Staff included the adjustment to the amortization of CIAC based on composite rates which was omitted from direct testimony filed. Staff corrected the error and included this adjustment within Rate Base Adjustment No. 1.

3. Operating Income
   a. Allocations to Water Companies
   b. Depreciation Expense
   c. Property Tax Expense
   d. Income Tax Expense

4. Rate Design

5. Other Issues

Q. Is Staff enclosing new schedules?

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

Q. Did you attempt to address every issue raised by Chino Meadows in its rebuttal testimony?

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

III. SUMMARY OF PROPOSED REVENUES

Q. Please summarize Staff's recommended revenue.

A. Staff recommends that the Company's current rates remain the same. Staff's recommended rates will produce total operating revenue of $357,985, a $0 (0.00 percent) increase, over the Staff's adjusted test year revenue of $357,985 and adjusted test year expense of $310,068, to produce a $47,916 operating income. That level of cash flow results in a rate of return of 29.66 percent as shown on Schedule Surrebuttal TBH CM-1A. Staff's recommended rates would result in no change for the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons at $26.45, as shown on Surrebuttal Schedule TBH CM-25A.

Staff's Alternative Recommendation

Staff's alternative recommendation results in a decrease in the current rates. These recommended rates would produce total operating revenue of $316,072, a $41,913 (11.71 percent) decrease, from Staff's adjusted test year revenue of $357,985, to provide a $16,153 operating income and a 10.00 percent rate of return on Staff's adjusted original cost rate base ("OCRB") of $161,528, as shown on Surrebuttal Schedule TBH CM-1B. Staff's recommended rates would decrease the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons from $26.45 to $22.76, for a decrease of $3.69 or 13.96 percent, as shown on Surrebuttal Schedule TBH CM-25B. OCRB and fair value rate base ("FVRB") are deemed to be the same in Staff's Schedules.

IV. COST ALLOCATIONS

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

A. Yes.

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

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

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

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

Q. What allocation basis is Staff now recommending?

A. Staff is recommending the use of following allocation percentages: Antelope Lakes 1.0 percent, Chino Meadows 75.0 percent and Granite Mountain 24.0 percent as shown on Surrebuttal Schedule TBH CM-19e. Staff recommends that these allocation percentages be considered to be fixed and that the percentage not be changed for this case regardless of the level of post-test year plant ultimately allowed by the Commission. The reason Staff is recommending the use of these specific allocation percentages is that the level of post-test year plant to be allowed is still at issue and changes in the gross/net plant levels would drive a different expense allocation mix if gross or net plant was one of the allocation factors, and we do not believe that repeated recalculation of these allocators is required. However, Staff will revisit the allocation basis issue in the next rate case. Therefore it recommends each utility company should be prepared to support the reasonableness of the allocation basis.

V. RATE BASE

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

A. Staff made changes to the following adjustments:

1. Rate Base Adjustment No. 1 – CIAC for Unsupported Plant, Amortization of CIAC and Amortization of CIAC Based on Composite Rate Adjustments
2. Rate Base Adjustment No. 2 - CIAC from Insurance Proceeds and the Amortization of CIAC
3. Rate Base Adjustment No. 7 - Accumulated Depreciation
4. Rate Base Adjustment No. 8 – Cash Working Capital Allowance

Rate Base Adjustment No. 1 – Unsupported Plant Treated as CIAC, Amortization of CIAC and Amortization of CIAC Based on Composite Rates Adjustment

Q. Did Staff review Chino Meadows' rebuttal testimony concerning unsupported plant treated as CIAC and Amortization of CIAC?

A. Yes.

Q. What was the Company's main concern?

A. The Company raised concerns regarding Staff's recommendation to remove 10 percent of the $42,759 cost of plant in service from rate base, due to the Company not being able to provide detailed invoices or copies of cancelled checks related to these plant additions.

Q. Did Staff make changes to its initial Rate Base Adjustment No. 1 – Unsupported Plant treated as CIAC and the Amortization of CIAC recommendation?

A. Yes.

Q. Please explain Staff's changes to Rate Base Adjustment No. 1 – Unsupported Plant treated as CIAC?

A. Staff corrected its previous adjustment for the amortization of the CIAC based on the appropriate depreciation rates and amortization period added in 2013 as shown on

Surrebuttal Schedule TBH CM-5. This modification is being made in response to arguments raised in the Company's rebuttal testimony.

Q. Did Staff make additional adjustments to the amortization of CIAC?

A. Yes. Staff inadvertently failed to include a portion of the amortization of CIAC. Staff made the additional adjustments to correct for CIAC within its adjustment. These adjustments were included in Rate Base Adjustment No. 1 in order to maintain the current order of adjustments within its direct testimony. Staff's additional adjustment reflects Staff's calculation of the amortization of CIAC for the prior CIAC balance based on the annual composite rates. The CIAC additions were amortized based on the identified and appropriate depreciation rates as shown on Surrebuttal Schedule TBH CM-5, Line 3.

Rate Base Adjustment No. 2 – CIAC for Plant paid for with Insurance Proceeds and Amortization of CIAC

Q. Did Staff review Chino Meadows' rebuttal testimony concerning plant paid for with insurance proceeds treated as CIAC by Staff?

A. Yes.

Q. What was the Company's position on this adjustment?

A. The Company pointed out a mathematical error in Staff's calculations.

Q. Did Staff correct the error in its schedules?

A. Yes. Staff corrected its adjustment for the amortization of the CIAC based on the appropriate depreciation rates and amortization period as shown on Surrebuttal Schedule TBH CM-6.

Rate Base Adjustment No. 7 – Accumulated Depreciation

Q. Did Staff review Chino Meadows' rebuttal testimony concerning a possible calculation error in Staff's accumulated depreciation balance?

A. Yes. The Company pointed out a mathematical error made in the calculation of the accumulated depreciation due to fully depreciated plant being removed for the calculation provided by Staff. Staff corrected the adjustment for the accumulated depreciation as shown on Surrebuttal Schedule TBH CM-11.

Rate Base Adjustment No. 8 – Cash Working Capital Allowance

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

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

Summary of Rate Base Adjustments

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

A. Staff's direct testimony recommended rate base was $135,369 and Staff's surrebuttal testimony recommended rate base is $161,528, an increase of $26,159.

VI. OPERATING INCOME

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

A. Staff made changes to the following adjustments:

1. Operating Income Adjustment No. 5 – Allocations to Water Companies
2. Operating Income Adjustment No. 6 – Depreciation Expense
3. Operating Income Adjustment No. 7 – Property Tax Expense

4. Operating Income Adjustment No. 8 – Income Tax Expense

Operating Income Adjustment No. 5 – Allocations to Water Companies

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

Q. Did Staff review Chino Meadows' rebuttal testimony concerning Allocations?

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

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

A. No.

Q. What percentage is Staff now recommending for allocations for Chino Meadows?

A. Staff allocated 75 percent to Chino Meadows for common costs for the regulated companies instead of 70.12 percent originally used in direct testimony. The change in the percentage used resulted in an increase of $13,373 in common costs allocated to Chino Meadows. The changes in the allocations are shown Surrebuttal Schedules TBH CM-19a and TBH CM-19e.

Operating Income Adjustment No. 6 – Depreciation Expense

Q. Did Staff review Chino Meadows' rebuttal testimony concerning Depreciation Expense?

A. Yes. The Company is concerned about the differing levels of CIAC amortization being used by Staff, and the Company disagreement about Rate Base Adjustment No. 1 for Unsupported Plant treated as CIAC.

Q. Has Staff's position changed regarding the differing levels of CIAC amortization changed?

A. Yes. Staff has corrected errors in CIAC being amortized and Staff continues to recommend Rate Base Adjustment No. 1 for Unsupported Plant treated as CIAC. Staff has adjusted the CIAC amortization as shown on Surrebuttal Schedule TBH CM-20.

Operating Income Adjustment No. 7 – Property Tax Expense

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

A. Yes. Staff recommends $17,694 for test year property tax expense, a $976 decrease from the Company's proposed amount, as shown on Surrebuttal Schedule TBH CM-21. Staff further recommends adoption of its Gross Revenue Conversion Factor ("GRCF") that includes a factor for Property Tax Expense, as shown on Surrebuttal Schedule TBH CM-2. Property tax expenses are shown on Surrebuttal Schedules TBH CM-13A and TBH CM-13B.

Operating Income Adjustment No. 8 – Income Tax Expense

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

A. Yes. Staff applied the statutory state and federal income tax rates to Staff's revised test year taxable income. Income tax expenses for the test year and recommended revenues are shown on Surrebuttal Schedules TBH CM-13A and TBH CM-13B.

VII. STAFF'S RECOMMENDED WATER RATE DESIGN

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

A. Under Staff's primary recommendation, Staff continues to recommend no changes in the Company's current rate design as recommended in Staff's direct testimony as shown on Surrebuttal Schedule TBH CM-24A.

Staff's Alternative Recommendation

Q. Please provide a description of Staff's recommended rate design for Staff's Alternative Recommendation.

A. Because Staff is recommending a rate decrease in its alternative consideration, Staff also recommends decreases in the minimum monthly charge for all meter sizes. Staff recommends that the monthly minimum for the 5/8 x 3/4-inch meter be $14.75. Staff recommends maintaining the break-over points contained in present rates for the smaller meter sizes. Staff recommends a decrease to commodity rates in all three tiers. First commodity tier rate would decrease by $0.20 from $2.40 per 1,000 gallons to $2.20 per 1,000 gallons. Second commodity tier rate would decrease by $0.20 from $3.20 per 1,000 gallons to $3.00 per 1,000 gallons. Third commodity tier rate would decrease by $0.20 from $4.20 per 1,000 gallons to $4.00 per 1,000 gallons. The typical 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons would decrease by $3.69 from $26.45 to $22.76. Staff's recommended rates are shown in Surrebuttal Schedule TBH CM-24B and the typical bill analysis for 5/8 x 3/4-inch meter customers is shown in Surrebuttal Schedule TBH CM-25B.

Q. Did Staff prepare schedules showing the average and median monthly bill for present rates, Company's proposed and Staff's recommended and alternative rates?

A. Yes. Staff's surrebuttal testimony schedules present Staff's recommended rates on TBH CM-25A and Staff's alternative recommendation on TBH CM-25B. These surrebuttal schedules present the average and median monthly bill for present rates, Company's proposed rates and Staff's recommended rates for each alternative recommendation. However, Staff did not prepare surrebuttal schedules comparing the Company's rebuttal proposed rates to Staff's surrebuttal recommended rates.

VIII. OTHER ISSUES

Q. Did Staff review Chino Meadows' rebuttal testimony concerning other issues regarding the Code of Affiliate Conduct?

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

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

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

Q. Did Staff review Chino Meadows' rebuttal testimony concerning other issues for the Cost Allocations and Staff's recommended reporting of Corporate Cost Allocations?

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

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

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

Q. Did Staff review Chino Meadows' rebuttal testimony concerning other issues for the Affiliate Receivable and Payables?

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

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

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

Recommendation 4: The Company's position does not accept the recommendation in its entirety that the Company should obtain specific authorization by the Commission for indebtedness payable, including amounts appearing in affiliate payable accounts. However,

the Company does support the recommendation with respect to unregulated affiliates. The Company indicated that an issue may arise of a potentially taxable dividend to Mr. Levie due to this recommendation.

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

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

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

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 on 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.

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

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

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

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

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

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

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Surrebuttal Schedule TBH CM-1A

REVENUE REQUIREMENT - STAFF'S RECOMMENDATION

LINE NO.	DESCRIPTION	[A] COMPANY	[B] STAFF
1	Adjusted Rate Base - OCRB and FVRB	$171,398	$161,528
2	Adjusted Operating Income (Loss)	($26,998)	$47,916
3	Current Rate of Return (L2 / L1)	-15.75%	29.66%
4	Required Operating Income (L3 * L1)	$74,604	$47,916
5	Operating Income Deficiency (L4 - L2)	$101,603	$0
6	Gross Revenue Conversion Factor	1.3682	1.3196
7	Increase (Decrease) In Gross Revenue (L6 * L5)	$139,014	$0
8	Adjusted Test Year Revenue	$358,364	$357,985
9	Proposed Annual Revenue (L7 + L8)	$497,378	$357,985
10	Required Increase/(Decrease in Revenue) (%) (L8/L9)	38.79%	0.00%

References:
Column [A]: Company Application 2nd Amended Page 6 and Attachment No. 3 Page 1 Amended.
Column [B]: Staff Schedules Surrebuttal TBH CM-2, TBH CM-3, & TBH CM-13A.

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Surrebuttal Schedule TBH CM-1B

REVENUE REQUIREMENT - STAFF'S ALTERNATIVE RECOMMENDATION

LINE NO.	DESCRIPTION	[A] COMPANY	[B] STAFF
1	Adjusted Rate Base - OCRB and FVRB	$171,398	$161,528
2	Adjusted Operating Income (Loss)	($26,998)	$47,916
3	Current Rate of Return (L2 / L1)	-15.75%	29.66%
4	Required Rate of Return	43.53%	10.00%
5	Required Operating Income (L4 * L1)	$74,604	$16,153
6	Operating Income Deficiency (L5 - L2)	$101,603	($31,764)
7	Gross Revenue Conversion Factor	1.3682	1.3196
8	Increase (Decrease) In Gross Revenue (L7 * L6)	$139,014	($41,914)
9	Adjusted Test Year Revenue	$358,364	$357,985
10	Proposed Annual Revenue (L8 + L9)	$497,378	$316,072
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	38.79%	-11.71%

References:
Column [A]: Company Application 2nd Amended Page 6 and Attachment No. 3 Page 1 Amended.
Column [B]: Staff Schedules Surrebuttal TBH CM-2, TBH CM-3, & TBH CM-13B

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Surrebuttal Schedule TBH CM-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]
	Calculation of Gross Revenue Conversion Factor:			
1	Revenue	100.00%		
2	Uncollecible Factor (Line 11)	1.05%		
3	Revenues (L1 - L2)	98.95%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	23.16%		
5	Subtotal (L3 - L4)	75.78%		
6	**Revenue Conversion Factor (L1 / L5)**	131.96%		
	Calculation of Uncollecttible Factor:			
7	Unity	100.00%		
8	Combined Federal and State Tax Rate (Line 17)	21.88%		
9	One Minus Combined Income Tax Rate (L7 - L8)	78.12%		
10	Uncollectible Rate	1.35%		
11	Uncollectible Factor (L9 * L10)	1.05%		
	Calculation of Effective Tax Rate:			
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)	16.89%		
16	Effective Federal Income Tax Rate (L14 * L15)	15.88%		
17	Combined Federal and State Income Tax Rate (L13 + L16)		21.88%	
	Calculation of Effective Property Tax Factor			
18	Unity	100.00%		
19	Combined Federal and State Income Tax Rate (L17)	21.88%		
20	One Minus Combined Income Tax Rate (L18 - L19)	78.12%		
21	Property Tax Factor	1.65%		
22	Effective Property Tax Factor (L20 * L21)		1.29%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17 + L22)			23.16%
24	Required Operating Income	$16,153		
25	AdjustedTest Year Operating Income (Loss)	47,916		
26	Required Increase in Operating Income (L24 - L25)		($31,764)	
27	Income Taxes on Recommended Revenue (Col. [C], L52)	$4,064		
28	Income Taxes on Test Year Revenue (Col. [A], L52)	12,958		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		(8,894)	
30	Recommended Revenue Requirement	$316,072		
31	Uncollectible Rate (Line 10)	1.35%		
32	Uncolllectible Expense on Recommended Revenue (L30 * L31)	$4,263		
33	Adjusted Test Year Uncollectible Expense	$4,833		
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		(570)	
35	Property Tax with Recommended Revenue	$17,003		
36	Property Tax on Test Year Revenue	17,694		
37	Increase in Property Tax Due to Increase in Revenue (L35 - L36)		(691)	
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		($41,919)	
	Calculation of Income Tax:	**Test Year and Staff Recommendation**		**Staff Alternative Recommendation**
39	Revenue	$357,985	($41,913)	$316,072
40	Operating Expenses Excluding Income Taxes	297,110	(1,255)	295,855
41	Synchronized Interest (L56)	0		0
42	Arizona Taxable Income (L39 - L40 - L41)	60,874		20,217
43	Arizona State Income Tax Rate	6.00%		6.00%
44	Arizona Income Tax (L42 * L43)	3,652		1,213
45	Federal Taxable Income (L42 - L44)	57,222		19,004
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	7,500		2,851
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	1,805		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	9,305		2,851
52	Combined Federal and State Income Tax (L44 + L51)	12,958		4,064
53	Applicable Federal Income Tax Rate (Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45)			16.8897%
	Calculation of Interest Synchronization:			
54	Rate Base	$161,528		
55	Weighted Average Cost of Debt	0.00%		
56	Synchronized Interest (L45 * L46)	$0		

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Surrebuttal Schedule TBH CM-3

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	ADJ NO.	[C] STAFF AS ADJUSTED
1	Plant in Service	$843,924	($48,014)	4, 5, 6	$795,910
2	Less: Accumulated Depreciation	670,573	(56,657)	7	613,916
3	Net Plant in Service	$173,351	$8,643		$181,994
	LESS:				
4	Advances in Aid of Construction (AIAC)	$13,219	($3,649)	3	$9,571
6	Contributions in Aid of Construction (CIAC)	31,478	10,406	1, 2	41,884
7	Less: Accumulated Amortization	11,005	2,367	1, 2	13,372
8	Net CIAC	$20,473	$8,039		$28,512
9	Total Advances and Contributions	33,692	4,390		38,082
10	Customer Deposits	11,740	0		11,740
	ADD: Working Capital				
12	Cash Working Capital Allowance	43,479	(14,122)	8	29,357
13	**Total Rate Base**	$171,398	($9,870)		$161,528

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

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Surrebuttal Schedule TBH CM-4

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	ACCT NO.	PLANT IN SERVICE Plant Description	[A] COMPANY AS FILED	[B] ADJ No. 1 Unsupported Plant Treated as CIAC and Amort of CIAC Ref: Sch TBH CM-5	[C] ADJ No. 2 CIAC from Insurance Proceeds due to Office Fire Ref: Sch TBH CM-6	[D] ADJ No. 3 AIAC not paid during Test Year Ref: Sch TBH CM-7	[E] ADJ No. 4 Reclass Plant to Appropriate NARUC Classifications Ref: Sch TBH CM-8	[F] ADJ No. 5 Plant Retirements Due to Removal and Office Fire Ref: Sch TBH CM-9	[G] ADJ No. 6 Removal of Plant Additions Ref: Sch TBH CM-10	[H] ADJ No. 7 Accumulated Depreciation Ref: Sch TBH CM-11	[I] ADJ No. 8 Working Capital Allowance Ref: Sch TBH CM-12	[J] STAFF AS ADJUSTED
1	301	Organization Cost	$6,843	$0	$0	$0	$0	$0	$0	$0	$0	$6,843
2	302	Franchises	0	0	0	0	0	0	0	0	0	0
3	303	Land and Land Rights	15,204	0	0	0	0	0	0	0	0	15,204
4	304	Structures and Improvements	44,339	0	0	0	0	0	0	0	0	44,339
5	305	Collecting and Impounding Reserviors	4,350	0	0	0	0	0	0	0	0	4,350
6	307	Wells and Springs	27,448	0	0	0	0	0	0	0	0	27,987
7	309	Supply Mains	1,009	0	0	0	539	0	0	0	0	1,009
8	310	Power Generation Equipment	12,401	0	0	0	0	0	0	0	0	12,401
9	311	Pumping Equipment	46,268	0	0	0	0	0	0	0	0	46,268
10	320	Water Treatment Equipment	6,406	0	0	0	0	0	0	0	0	0
11	320.1	Water Treatment Plants	0	0	0	0	(6,406)	0	0	0	0	0
12	320.2	Solution Chemical Feeders	0	0	0	0	0	0	0	0	0	6,406
13	330	Distribution Reservoirs & Standpipes	51,684	0	0	0	6,406	0	0	0	0	0
14	330.1	Storage Tanks	0	0	0	0	(51,684)	0	0	0	0	36,415
15	330.2	Pressure Tanks	0	0	0	0	36,415	0	0	0	0	15,269
16	331	Transmission and Distribution Mains	304,674	0	0	0	15,269	0	0	0	0	304,942
17	333	Services	30,067	0	0	0	268	0	0	0	0	30,067
18	334	Meters and Meter Installations	89,777	0	0	0	0	0	0	0	0	89,777
19	335	Hydrants	12,042	0	0	0	0	0	0	0	0	12,042
20	336	Backflow Prevention Devices	0	0	0	0	0	0	0	0	0	0
21	339	Other Plant and Miscellaneous Equipment	16,728	0	0	0	0	0	0	0	0	16,728
22	340	Office Furniture and Equipment	9,346	0	0	0	0	0	0	0	0	6,534
23	340.1	Computers and Software	10,107	0	0	0	6,534	(9,346)	0	0	0	10,601
24	341	Transportation Equipment	96,569	0	0	0	494	0	0	0	0	55,820
25	343	Tools, Shop, and Garage Equipment	1,274	0	0	0	0	(40,749)	0	0	0	1,274
26	344	Laboratory Equipment	0	0	0	0	0	0	0	0	0	0
27	345	Power Operated Equipment	31,461	0	0	0	0	0	0	0	0	30,461
28	346	Communication Equipment	25,929	0	0	0	0	0	(1,000)	0	0	17,200
29	347	Miscellaneous Equipment	0	0	0	0	(3,121)	(5,608)	0	0	0	3,975
30	348	Other Tangible Equipment	0	0	0	0	3,975	0	0	0	0	0
31		Rounding	0	0	0	0	0	0	0	0	0	0
32		Total Plant in Service	$843,924	$0	$0	$0	$8,689	($55,703)	($1,000)	$0	$0	$795,910
33		Less: Accumulated Depreciation	670,573	0	0	0	0	0	0	(56,657)	0	613,916
34		Net Plant in Service	$173,351	$0	$0	$0	$8,689	($55,703)	($1,000)	$56,657	$0	$181,994
35												
36		*LESS:*										
37		Advances in Aid of Construction (AIAC)	$13,219	$0	$0	($3,649)	$0	$0	$0	$0	$0	$9,571
38		Meter Deposits - Service Line & Meter Advances	0	0	0	0	0	0	0	0	0	0
39												
40		Contributions in Aid of Construction (CIAC)	31,478	4,276	6,130	0	0	0	0	0	0	41,884
41		Less: Accumulated Amortization of CIAC	11,005	528	1,839	0	0	0	0	0	0	13,372
42		Net CIAC	$20,473	$3,748	$4,291	$0	$0	$0	$0	$0	$0	$28,512
43												
44		Total Advances and Net Contributions	$33,692	$3,748	$4,291	($3,649)	$0	$0	$0	$0	$0	$38,082
45												
46		Customer Deposits	11,740	0	0	0	0	0	0	0	0	11,740
47		Accumulated Deferred Taxes	0	0	0	0	0	0	0	0	0	0
48												
49		*ADD: Working Capital*										
50		Cash Working Capital Allowance	$43,479	$0	$0	$0	$0	$0	$0	$0	($14,122)	29,357
51		Total Rate Base	$171,398	($3,748)	($4,291)	$3,649	$8,689	($55,703)	($1,000)	$56,657	($14,122)	$161,528

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RATE BASE ADJUSTMENT NO. 1 - UNSUPPORTED PLANT TREATED AS CIAC AND AMORTIZATION OF CIAC [1]

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	CIAC, Unsupported Plant Treated as CIAC	$0	$4,276	$4,276
2	Amortization of CIAC, Unsupported Plant Treated as CIAC	0	116	116
3	Amortization of CIAC, Based on Composite Rates Adjustment (Line 78, Column I) [1]	11,005	411	11,416
4				
5	Net CIAC, Unsupported Plant Treated as CIAC and Amortization Based on Composite Rates Adjustment	$11,005	$4,804	$15,809

6 [1] Staff included the adjustment to the amortization of CIAC based on composite rates which was omitted from direct testimony filed. Staff corrected the error and
7 included this adjustment within Rate Base Adjustment No. 1.

UNSUPPORTED PLANT TREATED AS CIAC

DESCRIPTION	Plant Selected In Sample	Unsupported Plant Costs	Staff as Adjusted
2011 Plant Addition, Acct No. 310 - Power Generation Equipment	$0	$5,300	$5,300
Acct No. 310 - Power Generation Equipment Subtotal	0	5,300	5,300
2011 Plant Addition, Acct No. 331 - Transmission & Distribution Mains	0	36,353	36,353
Acct No. 331 - Transmission. & Distrib. Mains Subtotal	0	36,353	36,353
2010 Plant Addition, Acct No. 340.1 - Computers & Software	0	782	782
Acct No. 340.1 - Computers & Software Subtotal	0	782	782
2010 Plant Addition, Acct No. 343 - Tools, Shop & Garage Equipment	0	324	324
Acct No. 343 - Tools, Shop & Garage Equipment Subtotal	0	324	324
TOTAL UNSUPPORTED PLANT	$0	$42,759	$42,759

Total		**$42,759**
	x	**10%**
CIAC, Unsupported Plant Treated as CIAC		**$4,276**

CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT

Year Added	Plant Additions	Unsupported Plant	Year Transferred To CIAC	10% Plant in Service	Depreciation Rate	Amortization of CIAC
2011	Power Generation	$5,300	2013	$530	5.00%	$27
2011	Trans & Distr	36,353	2013	3,635	2.00%	73
2010	Computers & Software	782	2013	78	20.00%	16
2010	Tools, Shop & Garage	324	2013	32	5.00%	2
	Total	**$42,759**		**$4,276**		**$116**

AMORTIZATION OF CIAC

Calculation of Amortization of Plant Additions:

Description	Plant in Service	Depreciation Rates	Amortization of CIAC	
Computers & Software	$6,130	20.00%	1,226	
Multiplied by:			50%	Half Year Convention
Totals			613	From Schedule TBH CM-6/RB Adj No. 2

Calculation of Amortization of Plant based on Appropriate Depreciation Rates:

Description	Plant in Service	Depreciation Rates	Amortization of CIAC	
Power Generation	$530	5.00%	$27	From Schedule TBH CM-5/RB Adj No. 1
Trans & Distr	$3,635	2.00%	73	From Schedule TBH CM-5/RB Adj No. 1
Computers & Software	$78	20.00%	16	From Schedule TBH CM-5/RB Adj No. 1
Computers & Software	$6,130	20.00%	1,226	From Schedule TBH CM-6/RB Adj No. 2
Tools, Shop & Garage	32	5.00%	2	From Schedule TBH CM-5/RB Adj No. 1
Totals	$10,406		$1,342	

Calculation of CIAC Balances

	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
	Decision No. 72896	2010		2011		2012		2013	
Description	Balance 12/31/2009	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance
CIAC	$23,984	($335)	$23,649	$0	$23,649	$7,829	$31,478		$31,478
CIAC Additions			-		-	6,130	6,130	4,276	10,406
Total CIAC	23,984		23,649		23,649		37,608		41,884
Amortization Rate - Composite			8.4299%		8.1148%		7.8249%		7.6970%
Amortization CIAC (half-yr convention)			2,008		1,919		2,157		2,423
Amortization of CIAC Based on Composite Rate	2,910		4,918		6,837		8,994		11,416
Amortization of CIAC Based on Depreciation Rates							613		1,342
Accumulated Amortization of CIAC	2,910		4,918		6,837		9,607		13,372
Net CIAC	$21,074		$18,731		$16,812		$28,001		$28,512

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.2 - 6.3 and Page 22, Attachment No.1 Supplemental 5.1 (Line 3)
Column [B]: Testimony, TBH
Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - CIAC FOR PLANT PAID FOR WITH INSURANCE PROCEEDS AND AMORTIZATION OF CIAC

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	CIAC for 2012 Plant Addition, Acct No. 340.1 - Computers & Software Offset by Insurance Proceeds	$0	$6,130	$6,130
2	Total CIAC on Acct. No. 340.1 - Computers & Software from Insurance Proceeds	0	6,130	6,130
3				
4	Company Proposed Amort of CIAC Related to Insurance Proceeds for Fire	0	0	0
5	Amort. Of CIAC on Insurance Proceeds for Computers & Software	0	1,839	1,839
6	Total Amortization of CIAC	0	1,839	1,839
7				
8	Net CIAC	$0	$4,291	$4,291
9				

10 CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT

11							
12	Year Added	Plant Additions	Plant from Insurance Proceeds	Year Transferred To CIAC	Number of Interim Years	Depreciation Rate	Amortization of CIAC
13		Computers &					
14	2012	Software	$6,130	2012	1.5	20.00%	$1,839
15		**Total**	**$6,130**				$1,839
16							
17							

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.4
Column [B]: Testimony, TBH
Column [C]: Column [A] + Column [B]

Chino Meadows II Water Co., Inc.
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Surrebuttal Schedule TBH CM-7

RATE BASE ADJUSTMENT NO. 3 - AIAC REFUNDS NOT RECOGNIZED IN TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction	$13,219	$0	$13,219
2	2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction Payments Due Customers	0	(3,649)	(3,649)
3	Total AIAC paid in 2014 for 2013 refunds due customers	$13,219	($3,649)	$9,571

References:
Column [A]: Company Application - Attachment No. 1 - Supplemental Page 2
Column [B]: Testimony, TBH, Company's response to DR's CM TBH 1.18 and CM TBH 2.10.
Column [C]: Column [A] + Column [B]

Chino Meadows II Water Co., Inc.
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Surrebuttal ScheduleTBH CM-8

RATE BASE ADJUSTMENT NO. 4 - RECLASSIFY AND PLANT ADDITIONS TO APPROPRIATE CLASSIFICATIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Acct No. 307 - Wells & Springs	$27,448	$539	$27,987
2	Acct No. 320 - Water Treatment Equipment	6,406	(6,406)	0
3	Acct No. 320.2 - Soluntion Chemical Feeders	0	6,406	6,406
4	Acct No. 330 - Distribution Reservoirs & Standpipes	51,684	(51,684)	0
5	Acct No. 330.1 - Storage Tanks	0	36,415	36,415
6	Acct No. 330.2 - Pressure Tanks	0	15,269	15,269
7	Acct No. 331 - Transmission & Distribution Mains	304,674	268	304,942
8	Acct No. 340 - Office Furniture & Equipment	9,346	6,534	15,880
9	Acct No. 340.1 - Computers & Software	10,107	494	10,601
10	Acct No. 346 - Communication Equipment	25,929	(3,121)	22,808
11	Acct No. 347 - Miscellaneous Equipment	0	3,975	3,975
12	**TOTAL PLANT RECLASSIFICATIONS**	$435,594	$8,689	$444,283
13				
14	**PLANT RECLASSIFICATIONS**			
15				
16	**DESCRIPTION**	**PLANT ADDITIONS**	**PLANT RECLASS**	**STAFF AS ADJUSTED**
17	2012 Plant Reclass Acct No. 340 - Office Furniture & Equipment - Reclass from Computers	$0	$4,782	$4,782
18	2012 Plant Reclass, Acct. No. 340 - Office Furniture & Equipment - Reclass from Fire Related Expenses	0	1,752	1,752
19	**Acct No. 340 - Office Furniture & Equipment Subtotal**	0	6,534	6,534
20				
21	2012 Plant Reclass Acct No. 340.1 - Computers & Software - Offset by Insurance Proceeds	0	6,130	6,130
22	2012 Plant Reclass Acct No. 340.1 - Computers & Software - Reclass to Office Equip.	0	(4,782)	(4,782)
23	2012 Plant Reclass Acct No. 340.1 - Computers & Software - Reclass to Communication	0	(854)	(854)
24	**Acct No. 340.1 - Computer & Software Subtotal**	0	494	494
25				
26	2012 Plant Reclass, Acct No. 346 - Communication Equipment	0	(3,975)	(3,975)
27	2012 Plant Reclass, Acct No. 346 - Communication Equipment - Reclass from Computer & Software	0	854	854
28	**Acct No. 346 - Communication Equipment Subtotal**	0	(3,121)	(3,121)
29				
30	2012 Plant Additions, Acct No. 347 - Miscellaneous Equipment	3,975	0	3,975
31	**Acct No. 347 - Miscellaneous Equipment Subtotal**	3,975	0	3,975
32				
33	2013 Plant Reclass, Acct No. 307 - Wells & Springs - Reclass from expenses	0	539	539
34	**Acct No. 307 - Wells & Springs Subtotal**	0	539	539
35				
36	2010 Plant Reclass Acct No. 320 - Water Treatment Equipment	0	(6,406)	(6,406)
37	**Acct No. 320 - Water Treatment Equipment Subtotal**	0	(6,406)	(6,406)
38				
39	2010 Plant Reclass Acct No. 320.2 - Solution Chemical Feeders	0	6,406	6,406
40	**Acct No. 320.1 - Solution Chemical Feeders Subtotal**	0	6,406	6,406
41				
42	2010 Plant Reclass Acct No. 330 - Distribution Reservoirs & Standpipes	0	(51,684)	(51,684)
43	**Acct No. 330 - Distribution Reservoirs & Standpipes Subtotal**	0	(51,684)	(51,684)
44				
45	2010 Plant Reclass Acct No. 330.1 - Storage Tanks	0	36,415	36,415
46	**Acct No. 330.1 - Storage Tanks Subtotal**	0	36,415	36,415
47				
48	2010 Plant Reclass Acct No. 330.2 - Pressure Tanks	0	15,269	15,269
49	**Acct No. 330.2 - Pressure Tanks Subtotal**	0	15,269	15,269
50				
51	2013 Plant Reclass Acct No. 331 - Transmission & Distribution Mains - Removal of AJE	0	268	268
52	**Acct No. 331 - Transmission & Distribution Mains Subtotal**	0	268	268
53				
54	**TOTAL**	$3,975	$4,714	$8,689

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.2 - 6.5
Column [B]: Testimony, TBH, Company Data Request Responses
Column [C]: Column [A] + Column [B]

Chino Meadows II Water Co., Inc.
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Surrebuttal Schedule TBH CM-9

RATE BASE ADJUSTMENT NO. 5 - PLANT NOT USED AND USEFUL

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Acct No. 340 - Office Furniture & Equipment	$9,346	($9,346)	$0
2	Acct No. 341 - Transportation Equipment	96,569	(40,749)	55,820
3	Acct No. 346 - Communication Equipment	25,929	(5,608)	20,321
4				
5				
6				
7			DESCRIPTION	STAFF AS ADJUSTED
8			2012 Fire Acct No. 340 - Office Furniture & Equipment	
9			Opening Balance Items	$3,513
10			Office Computer	2,683
11			Printer	355
12			Office Computer	1,950
13			Fax Machine	120
14			Book Case	101
15			Office Desk	624
16			Total Office Furniture & Equipment	**$9,346**
17				
18				
19			2013 Acct No. 341 - Transportation Equipment	
20			1998 Ford Service Truck	$11,287
21			2000 Ford Ranger	5,350
22			Pre 1995 - Unidentified Vehicles	4,103
23			1975 Ford Water Truck	7,500
24			1999 Ford Truck	12,509
25			Total Transportation Equipment	**$40,749**
26				
27				
28			2012 Fire Acct No. 346 - Communication Equipment	
29			Office Computer and Software	$3,453
30			Printer	109
31			Laser Printer	472
32			Caselle Support	660
33			CPU Backup	103
34			Network Router	87
35			Memory Cards	281
36			Memory Cards	444
37			Total Communication Equipment	**$5,608**

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.1 - 6.5
Column [B]: Testimony, TBH
Column [C]: Column [A] + Column [B]

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Surrebuttal Schedule TBH CM-10

RATE BASE ADJUSTMENT NO. 6 - REMOVAL OF PLANT ADDITIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Acct. 345 Power Operated Equipment Unsupported Non-Company Use	$31,461	($1,000)	$30,461

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.5
Column [B]: Testimony, TBH
Column [C] Column [A] + Column [B]

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Surrebuttal Schedule TBH CM-11

RATE BASE ADJUSTMENT NO. 7 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	$670,573	($56,657)	$613,916

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.2 - 6.5
Column [B]: Testimony, TBH, Company Data Request Responses
Column [C] Column [A] + Column [B]

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Surrebuttal Schedule TBH CM-12

RATE BASE ADJUSTMENT NO. 8 - CASH WORKING CAPITAL ALLOWANCE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Cash Working Capital Allowance	$43,479	($14,122)	$29,357
2				
3	Operation & Maintenance*			$226,902
4	Multiplied by		X	1/8
5				$28,363
6				
7	Purchased Power & Purchased Water			$23,832
8	Multiplied by		X	1/24
9				$994
10				
11	**Total Cash Working Capital Allowance**			$29,357
12				
13	* Less depreciation, taxes, purchased power and purchased water			

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 7
Column [B]: Testimony, TBH, Company Data Request Responses
Column [C] Column [A] + Column [B]

Chino Meadows II Water Co., Inc.
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Surrebuttal Schedule TBH CM-13A

OPERATING INCOME - TEST YEAR AND STAFF'S RECOMMENDATION

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:						
1	Metered Water Sales	$345,620	$0		$345,620		$345,620
2	Water Sales - Unmetered	0	0		0	0	0
3	Other Operating Revenues	12,744	(379)	1	12,365	0	12,365
4	**Total Revenues**	$358,364	($379)		$357,985	$0	$357,985
5							
6	*EXPENSES:*						
7	Salaries and Wages	$179,965	($59,487)	5	$120,478	$0	$120,478
8	Salaries and Wages - Officers	31,700	(15,750)	5	15,950	0	15,950
9	Employee Pensions & Benefits	0	0		0	0	0
10	Purchased Water	40	0		40	0	40
11	Purchased Power	24,401	(609)	5	23,792	0	23,792
12	Chemicals	425	(71)	5	354	0	354
13	Repairs and Maintenance	8,899	(342)	5	8,557	0	8,557
14	Office Supplies & Expense	30,594	(18,735)	5	11,859	0	11,859
15	Contractual Services	11,457	(2,924)	5	8,533	0	8,533
16	Water Testing	4,791	37	2	4,828	0	4,828
17	Rents	0	8,438	5	8,438	0	8,438
18	Transportation Expenses	24,752	(8,448)	5	16,304	0	16,304
19	Insurance - General Liability	8,964	(2,910)	5	6,054	0	6,054
20	Insurance - Health and Life	2,667	(667)	5	2,000	0	2,000
21	Reg. Comm. Exp.	445	0		445	0	445
22	Reg. Comm. Exp. - Rate Case	13,333	1,667	3	15,000	0	15,000
23	Miscellaneous Expense	8,848	(5,577)	5	3,271	0	3,271
24	Bad Debt Expense	1,990	2,843	4	4,833	0	4,833
25	Depreciation Expense	20,394	(2,346)	6	18,048	0	18,048
26	Taxes Other Than Income	0	0		0	0	0
27	Property Taxes	18,670	(976)	7	17,694	0	17,694
28	Payroll Taxes	0	10,634	5	10,634	0	10,634
29	Income Taxes	(6,972)	19,930	8	12,958	0	12,958
30	Rounding	(1)	0		(1)	0	(1)
31	**Total Operating Expenses**	$385,362	($75,294)		$310,068	$0	$310,068
32							
33	**Operating Income (Loss)**	($26,998)	$74,914		$47,916	$0	$47,916

References:
Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Schedule TBH CM-14
Column [C]: Column [A] + Column [B]
Column [D]: Schedules TBH CM-1A and TBH CM-2
Column [E]: Column [C] + Column [D]

Chino Meadows II Water Co., Inc.
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Surrebuttal Schedule TBH CM-13B

OPERATING INCOME - TEST YEAR AND STAFF'S ALTERNATIVE RECOMMENDATION

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:						
1	Metered Water Sales	$345,620	$0		$345,620	($41,913)	$303,707
2	Water Sales - Unmetered	0	0		0	0	0
3	Other Operating Revenues	12,744	(379)	1	12,365	0	12,365
4	**Total Revenues**	$358,364	($379)		$357,985	($41,913)	$316,072
5							
6	*EXPENSES:*						
7	Salaries and Wages	$179,965	($59,487)	5	$120,478	$0	$120,478
8	Salaries and Wages - Officers	31,700	(15,750)	5	15,950	0	15,950
9	Employee Pensions & Benefits	0	0		0	0	0
10	Purchased Water	40	0		40	0	40
11	Purchased Power	24,401	(609)	5	23,792	0	23,792
12	Chemicals	425	(71)	5	354	0	354
13	Repairs and Maintenance	8,899	(342)	5	8,557	0	8,557
14	Office Supplies & Expense	30,594	(18,735)	5	11,859	0	11,859
15	Contractual Services	11,457	(2,924)	5	8,533	0	8,533
16	Water Testing	4,791	37	2	4,828	0	4,828
17	Rents	0	8,438	5	8,438	0	8,438
18	Transportation Expenses	24,752	(8,448)	5	16,304	0	16,304
19	Insurance - General Liability	8,964	(2,910)	5	6,054	0	6,054
20	Insurance - Health and Life	2,667	(667)	5	2,000	0	2,000
21	Reg. Comm. Exp.	445	0		445	0	445
22	Reg. Comm. Exp. - Rate Case	13,333	1,667	3	15,000	0	15,000
23	Miscellaneous Expense	8,848	(5,577)	5	3,271	0	3,271
24	Bad Debt Expense	1,990	2,843	4	4,833	(570)	4,263
25	Depreciation Expense	20,394	(2,346)	6	18,048	0	18,048
26	Taxes Other Than Income	0	0		0	0	0
27	Property Taxes	18,670	(976)	7	17,694	(691)	17,003
28	Payroll Taxes	0	10,634	5	10,634	0	10,634
29	Income Taxes	(6,972)	19,930	8	12,958	(8,894)	4,064
30	Rounding	(1)	0		(1)	6	5
31	**Total Operating Expenses**	$385,362	($75,294)		$310,068	($10,149)	$299,919
32							
33	**Operating Income (Loss)**	($26,998)	$74,914		$47,916	($31,764)	$16,153

References:
Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Schedule TBH CM-14
Column [C]: Column [A] + Column [B]
Column [D]: Schedules TBH CM-1B and TBH CM-2
Column [E]: Column [C] + Column [D]

Chino Meadows II Water Co., Inc.
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SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ NO. 1 Unauthorized Surcharge - Other Revenue	[C] ADJ NO. 2 Water Testing	[D] ADJ NO. 3 Rate Case Expense	[E] ADJ NO. 4 Bad Debt Expense	[F] ADJ NO. 5 Allocations to Water Companies	[G] ADJ NO. 6 Depreciation Expense	[H] ADJ NO. 7 Property Tax Expense	[I] ADJ NO. 8 Taxes Income Tax Expense	[J] STAFF ADJUSTED
			Ref: Sch TBH CM-15	Ref: Sch TBH CM-16	Ref: Sch TBH CM-17	Ref: Sch TBH CM-18	Ref: Sch TBH CM-19	Ref: Sch TBH CM-20	Ref: Sch TBH CM-21	Ref: Sch TBH CM-22	
1	*REVENUES:*										
2	Metered Water Sales	$345,620	$0	$0	$0	$0	$0	$0	$0	$0	$345,620
3	Water Sales - Unmetered	0	0	0	0	0	0	0	0	0	0
4	Other Operating Revenues	12,744	(379)	0	0	0	0	0	0	0	12,365
5	**Total Revenues**	$358,364	($379)	$0	$0	$0	$0	$0	$0	$0	$357,985
6											
7	*OPERATING EXPENSES:*										
8	Salaries and Wages	$179,965	$0	$0	$0	$0	($59,487)	$0	$0	$0	$120,478
9	Salaries and Wages - Officers	$31,700	0	0	0	0	(15,750)	0	0	0	15,950
10	Employee Pensions & Benefits	0	0	0	0	0	0	0	0	0	0
11	Purchased Water	40	0	0	0	0	0	0	0	0	40
12	Purchased Power	24,401	0	0	0	0	(609)	0	0	0	23,792
13	Chemicals	425	0	0	0	0	(71)	0	0	0	354
14	Repairs and Maintenance	8,899	0	0	0	0	(342)	0	0	0	8,557
15	Office Supplies & Expense	30,594	0	0	0	0	(18,735)	0	0	0	11,859
16	Contractual Services	11,457	0	0	0	0	(2,924)	0	0	0	8,533
17	Water Testing	4,791	0	37	0	0	0	0	0	0	4,828
18	Rents	0	0	0	0	0	8,438	0	0	0	8,438
19	Transportation Expenses	24,752	0	0	0	0	(8,448)	0	0	0	16,304
20	Insurance - General Liability	8,964	0	0	0	0	(2,910)	0	0	0	6,054
21	Insurance - Health and Life	2,667	0	0	0	0	(667)	0	0	0	2,000
22	Reg. Comm. Exp.	445	0	0	0	0	0	0	0	0	445
23	Reg. Comm. Exp. - Rate Case	13,333	0	0	1,667	0	0	0	0	0	15,000
24	Miscellaneous Expenses	8,848	0	0	0	0	(5,577)	0	0	0	3,271
25	Bad Debt Expense	1,990	0	0	0	2,843	0	0	0	0	4,833
26	Depreciation Expense	20,394	0	0	0	0	0	(2,346)	0	0	18,048
27	Taxes Other Than Income	0	0	0	0	0	0	0	0	0	0
28	Property Taxes	18,670	0	0	0	0	0	0	(976)	0	17,694
29	Payroll Taxes	0	0	0	0	0	10,634	0	0	0	10,634
30	Income Taxes	(6,972)	0	0	0	0	0	0	0	19,930	12,958
31	Rounding	(1)	0	0	0	0	0	0	0	0	(1)
32	**Total Operating Expense**	$385,362	$0	$37	$1,667	$2,843	($96,448)	($2,346)	($976)	$19,930	$310,068
33											
34	**Operating Income (Loss)**	($26,998)	($379)	($37)	($1,667)	($2,843)	$96,448	$2,346	$976	($19,930)	$47,916

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Surrebuttal Schedule TBH CM-15

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

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS (Col C - Col A)	[C] STAFF AS ADJUSTED
1	Surcharge - Other Revenue	$12,744	($379)	$12,365

References:
Column [A]: Chino Meadows general ledger provided in DR CM TBH 1.3
Column [B]: Testimony
Column [C]: Column [A] + Column [B]

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Surrebuttal Schedule TBH CM-16

OPERATING INCOME ADJUSTMENT NO. 2 - WATER TESTING

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Water Testing	$4,791	$37	$4,828

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

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Surrebuttal Schedule TBH CM-17

OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS (Col C - Col A)	[C] STAFF AS ADJUSTED
1	Rate Case Expense	$13,333	$1,667	$15,000
2				
3				
4				
5				

6	Company	Rate Case Expense as filed	Staff Adjusted Rate Case Expense	Difference	Normalize over 3 years
7					
8	Chino Meadows	$40,000	$45,000	$5,000	$1,667
9	Granite Mountain	10,000	30,000	20,000	6,667
10	Total	$50,000	$75,000	$25,000	$8,333

References:
Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Testimony, DR'S CM TBH 1.5 Supplemental & CM TBH 2.5
Column [C]: Column [A] + Column [B]

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Surrebuttal Schedule TBH CM-18

OPERATING INCOME ADJUSTMENT NO. 4 - BAD DEBT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Bad Debt Expenses	$1,990	$2,843	$4,833
2				
3				
4				
5				
6	**Reclassification**			
7	To correct for bad debt expenses included in miscellaneous expenses			$3,000
8	To adjust for bad debts recovered and collection fees included in miscellaneous expenses			(157)
9	Total adjustment			**$2,843**

Test Year Revenue	$358,364
Average Write-Off Rate	1.3486%

Notes: Company included in Misc expenses. Staff reviewed the last four years of actual bad debt expenses. The Company stated that the total was an typo error ($3,000). The amount appears to be reasonable.

2010	4,687.50
2011	5,484.76
2012	4,017.55
2013	4,832.79

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Surrebuttal Schedule TBH CM-19a

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Salaries and Wages	$179,965	($59,487)	$120,478
2	Salaries and Wages - Officers	31,700	(15,750)	15,950
3	Purchased Power	24,401	(609)	23,792
4	Chemicals	425	(71)	354
5	Repairs and Maintenance	8,899	(342)	8,557
6	Office Supplies & Expense	30,594	(18,735)	11,859
7	Rents	0	8,438	8,438
8	Contractual Services	11,457	(2,924)	8,533
9	Transportation Expenses	24,752	(8,448)	16,304
10	Insurance - General Liability	8,964	(2,910)	6,054
11	Insurance - Health and Life	2,667	(667)	2,000
12	Miscellaneous Expenses	8,848	(5,577)	3,271
13	Payroll Taxes	0	10,634	10,634
14	Total	$332,672	($96,448)	$236,224
15				
16				

17		[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[P]
18				Staff Adjustments									
19	DESCRIPTION	Company as filed	Original amount allocated to Granite Mountain	Reclassification	Disallowance	Normalize	Chino Meadows Direct	Cost to be Allocated	Portion allocated to unregulated affiliate companies	Amount allocated to unregulated affiliate companies	Amount allocated to regulated companies	Chino Meadows Adjusted 4-factor allocation	Amount to be allocated to Chino Meadows
20	Salaries and Wages	$179,965	$0	($15,718)	(17,444)	13,834	$0	$160,638	0%	$0	$160,638	75.00%	$120,478
21	Salaries and Wages - Officers	31,700	6,000	0	(16,434)	0	0	21,266	0%	0	21,266	75.00%	15,950
22	Purchased Power	24,401	247	0	(46)	0	22,110	2,493	10%	249	2,244	75.00%	1,683
23	Chemicals	425	47	0	0	0	0	472	0%	0	472	75.00%	354
24	Repairs and Maintenance	8,899	633	1,281	(124)	0	2,159	8,530	0%	0	8,530	75.00%	6,398
25	Office Supplies & Expense	30,594	1,988	(12,000)	(2,804)	(208)	0	17,569	10%	1,757	15,812	75.00%	11,859
26	Rents	0	3,000	12,000	0	0	0	15,000	25%	3,750	11,250	75.00%	8,438
27	Contractual Services	11,457	490	(500)	(1,232)	0	3,489	6,726	0%	0	6,726	75.00%	5,045
28	Transportation Expenses	24,752	2,736	1,817	(7,380)	(186)	0	21,739	0%	0	21,739	75.00%	16,304
29	Insurance - General Liability	8,964	996	0	(1,058)	594	0	9,496	15%	1,424	8,072	75.00%	6,054
30	Insurance - Health and Life	2,667	296	0	0	0	0	2,963	10%	296	2,667	75.00%	2,000
31	Miscellaneous Expenses	8,848	245	(3,397)	(2,301)	0	2,903	490	0%	0	490	75.00%	368
32	Payroll Taxes	0	0	15,718	(1,539)	0	0	14,179	0%	0	14,179	75.00%	10,634
33	Total	$332,672	$16,678	($799)	($50,362)	$14,034	$30,661	$281,562		$7,477	$274,085		$205,564

References:
Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Column [C] - Column [A]
Column [C]: Col [I] + Col [P]
Column [D]: Company Schedule C-2
Column [E]: Chino Meadows general ledger provided in DR CM TBH 1.3
Column [F]: Schedule Surrebuttal TBH CM-19b
Column [G]: Schedule Surrebuttal TBH CM-19c
Column [H]: Schedule TBH CM-19d
Column [I]: Chino Meadows general ledger provided in DR CM TBH 1.3
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 Surrebuttal TBH CM-19e
Column [P]: Col [M] * Col [N]

Chino Meadows II Water Co., Inc.
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Surrebuttal Schedule TBH CM-19b

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS RECLASSIFICATIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] 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 - Schedule TBH CM-19f Line 7	($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**			
40	Payroll taxes included as salaries and wages - Schedule TBH CM-19f Line 7	$15,718	$15,718	

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Surrebuttal Schedule TBH CM-19c

OPERATING INCOME ADJUSTMENT NO. 5 - 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	Unregulated salaries and wages - Schedule TBH CM-19f Line 7	($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 DR CM 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				
53	**Payroll Taxes**			
54	Non-regulated payroll taxes - Schedule TBH CM-19f Line 7	($1,539)	($1,539)	

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Surrebuttal Schedule TBH CM-19d

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS NORMALIZATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] 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	

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Surrebuttal Schedule TBH CM-19e

OPERATING INCOME ADJUSTMENT NO. 5 - 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 Revenues %	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 CM-4; the information for Antelope Lakes is from the 2013 Annual Report on Revised Balance Sheet, p. 6 as of 12/31/2013

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.

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Surrebuttal Schedule TBH CM-19f

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS SALARIES & WAGES CALCULATION

	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
LINE NO.	2014 Current Salaries	2014 Current or Estimated Hourly Rate	2014 Current or Estimated Salary and Wages	2014 Current or Estimated Payroll Taxes	Unregulated [1] Hours %	2014 Unregulated Salary and Wages	2014 Unregulated Payroll Taxes	Staff Adjusted Salaries and Wages	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
8									
9	[1] Hours per week/2,080 hours per year. Percentages provided by Chino Meadows (CM) and Granite Mountain (GM) in DRs CM TBH-1.25, CM TBH-2.12h, GM TBH-2.5 and GM TBH-2.5g.								
10	[2] Per DR CM TBH 1.25g. Barney $13,000 bonuses to adjust pay to match responsibilities.								

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

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Surrebuttal Schedule TBH CM-19g

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS OFFICER'S SALARIES CALCULATION

LINE NO.	DESCRIPTION	[A] 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]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Column [C] - Column [A]
Column [C]: As calculated by Staff on line 24
Column [D] : Per DRs CM TBH 1.26.g, CM TBH 2.12 and CM TBH 3.7

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Surrebuttal Schedule TBH CM-20

OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT in SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	$6,843	$6,843	$0	0.00%	$0
2	302	Franchises	0	0	0	0.00%	0
3	303	Land and Land Rights	15,204	15,204	0	0.00%	0
4	304	Structures and Improvements	44,339	0	44,339	3.33%	1,476
5	305	Collecting and Impounding Reserviors	4,350	0	4,350	2.50%	109
6	307	Wells and Springs	27,987	9,096	18,891	3.33%	629
7	309	Supply Mains	1,009	0	1,009	2.00%	20
8	310	Power Generation Equipment	12,401	0	12,401	5.00%	620
9	311	Pumping Equipment	46,268	46,268	0	12.50%	0
10	**320**	**Water Treatment Equipment**					
11	320.1	Water Treatment Plants	0	0	0	3.33%	0
12	320.2	Solution Chemical Feeders	6,406	6,406	0	20.00%	0
13	**330**	**Distribution Reservoirs & Standpipes**					
14	330.1	Storage Tanks	36,415	15,120	21,295	2.22%	473
15	330.2	Pressure Tanks	15,269	15,269	0	5.00%	0
16	331	Transmission and Distribution Mains	304,942	167,988	136,954	2.00%	2,739
17	333	Services	30,067	7,181	22,886	3.33%	762
18	334	Meters and Meter Installations	89,777	0	89,777	8.33%	7,478
19	335	Hydrants	12,042	0	12,042	2.00%	241
20	336	Backflow Prevention Devices	0	0	0	6.67%	0
21	339	Other Plant and Miscellaneous Equipment	16,728	1,305	15,423	6.67%	1,029
22	340	Office Furniture and Equipment	6,534	0	6,534	6.67%	436
23	340.1	Computers and Software	10,601		10,601	20.00%	2,120
24	341	Transportation Equipment	55,820	55,820	0	20.00%	0
25	343	Tools, Shop, and Garage Equipment	1,274	0	1,274	5.00%	64
26	344	Laboratory Equipment	0	0	0	10.00%	0
27	345	Power Operated Equipment	30,461	18,377	12,084	5.00%	604
28	346	Communication Equipment	17,200	0	17,200	10.00%	1,720
29	347	Miscellaneous Equipment	3,975	0	3,975	10.00%	398
30	348	Other Tangible Equipment	0	0	0	0.00%	0
31		Total Plant	$795,910	$364,876	$431,034		$20,918

Amortization of Plant based on Appropriate Depreciation Rates:

Description	Plant in Service	Depreciation Rates	Amortization of CIAC
Power Generation	$530	5.00%	$27
Trans & Distr	3,635	2.00%	73
Computers & Software	6,208	20.00%	1,242
Tools, Shop & Garage	32	5.00%	2
Totals	$10,406		$1,342

Amortization of CIAC (Depreciation Rates Identified):	$1,342
CIAC Plant in Service (Depreciation Rates Identified):	$10,406
Composite Depreciation Rate (Depr Exp / Depreciable Plant):	4.85%
CIAC Less CIAC (Depreciation Rates Identified):	$31,478
Amortization of CIAC (Line 33 x Line 34):	$1,528
Total Amortization of CIAC (Line 41 + Line 46)	$2,870
Depreciation Expense Before Amortization of CIAC:	$20,918
Less Amortization of CIAC: (Line 48)	2,870
Test Year Depreciation Expense - Staff:	$18,048
Depreciation Expense - Company:	20,394
Staff's Total Adjustment:	**($2,346)**

References:
Column [A]: Schedule TBH CM-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report Exhibit JWL Table B
Column [E]: Column [C] x Column [D]

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Surrebuttal Schedule TBH CM-21

OPERATING INCOME ADJUSTMENT NO. 7 - PROPERTY TAX

LINE NO.	PROPERTY TAX CALCULATION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$357,985	$357,985
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	$715,969	$715,969
4	Staff Recommended Revenue, Per Schedules Surrebuttal TBH CM-1A & TBH CM-1B	357,985	316,072
5	Subtotal (Line 4 + Line 5)	$1,073,954	$1,032,041
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	$357,985	$344,014
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	$715,969	$688,027
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	$715,969	$688,027
13	Assessment Ratio	18.50%	18.50%
14	Assessment Value (Line 12 * Line 13)	132,454	127,285
15	Composite Property Tax Rate	13.36%	13.36%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$17,694	
17	Company Proposed Property Tax	18,670	
18	Staff Test Year Adjustment (Line 16-Line 17)	($976)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$17,003
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		17,694
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		(691)
22	Increase to Property Tax Expense, Schedule Surrebuttal TBH CM-13B		($691)
23	Increase in Revenue Requirement, Schedule Surrebuttal TBH CM-13B		($41,913)
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.65%

References:
Line 15: Composite Tax Rate line 28 of the Company's proforma Adjustment No. 7 in Attachment No. 2, Supplemental page 9 Amended.
Line 17: Company 2nd Amended Application page 19.
Line 21: Line 19 - Line 20

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Surrebuttal Schedule TBH CM-22

OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	[A]	[B]
	Calculation of Income Tax:	Test Year	
1	Revenue	$357,985	
2	Less: Operating Expenses - Excluding Income Taxes	297,110	
3	Less: Synchronized Interest (L17)	0	
4	Arizona Taxable Income (L1- L2 - L3)	$60,874	
5	Arizona State Income Tax Rate	6.000%	
6	Arizona Income Tax (L4 x L5)		$3,652
7	Federal Taxable Income (L4 - L6)	$57,222	
8	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	7,500	
9	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	1,805	
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		9,305
14	Combined Federal and State Income Tax (L6 + L13)		$12,958
	Calculation of Interest Synchronization:		
15	Rate Base	$161,528	
16	Weighted Average Cost of Debt	0.00%	
17	Synchronized Interest (L16 x L17)	$0	
18	Income Tax - Per Staff	$12,958	
19	Income Tax - Per Company	(6,972)	
20	**Staff Adjustment**	**$19,930**	

REFERENCES:

Line 18: Adjusted Income Tax - Company's proforma Adjustment No. 8 in Attachment No. 2, Supplemental page 10 Amended Line 32.
Line 17: Company 2nd Amended Application page 19.
Line 21: Line 19 - Line 20

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Surrebuttal Schedule TBH CM-23

CASH FLOW ANALYSIS

LINE NO.	CASH FLOWS	[A] Company 2013 Test Year Income Statement As Filed	[B] Staff's Recommendation Cash Flow from Operations	[C] Staff's Alternative Recommenation Cash Flow from Operations
1	**Cash Inflows**			
2	Metered Water Sales	$345,620	$345,620	$303,707
3	Water Sales - Unmetered	0	0	0
4	Other Operating Revenues	12,744	12,365	12,365
5	**Total Revenues**	$358,364	$357,985	$316,072
6				
7	**Cash Outflows**			
8	Salaries and Wages	$179,965	$120,478	$120,478
9	Salaries and Wages - Officers	31,700	15,950	15,950
10	Employee Pensions & Benefits	0	0	0
11	Purchased Water	40	40	40
12	Purchased Power	24,401	23,792	23,792
13	Chemicals	425	354	354
14	Repairs and Maintenance	8,899	8,557	8,557
15	Office Supplies & Expense	30,594	11,859	11,859
16	Contractual Services	11,457	8,533	8,533
17	Water Testing	4,791	4,828	4,828
18	Rents	0	8,438	8,438
19	Transportation Expenses	24,752	16,304	16,304
20	Insurance - General Liability	8,964	6,054	6,054
21	Insurance - Health and Life	2,667	2,000	2,000
22	Reg. Comm. Exp.	445	445	445
23	Reg. Comm. Exp. - Rate Case	13,333	15,000	15,000
24	Miscellaneous Expense	8,848	3,271	3,271
25	Bad Debt Expense	1,990	4,833	4,263
26	Depreciation Expense	20,394	18,048	18,048
27	Taxes Other Than Income	0	0	0
28	Property Taxes	18,670	17,694	17,003
29	Payroll Taxes	0	10,634	10,634
30	Income Taxes	(6,972)	12,958	4,064
31	Rounding	(1)	(1)	5
32	**Total Expenses**	$385,362	$310,068	$299,919
33				
34	**Operating Income**	($26,998)	$47,916	$16,153
35				
36	Plus: Depreciation Expense	20,394	18,048	18,048
37	**Cash Flow from Operations**	($6,604)	$65,964	$34,201

Chino Meadows II Water Company Inc.
Docket No. W-02370A-14-0231
Test Year Ended: December 31, 2013

RATE DESIGN - STAFF'S RECOMMENDATION

Monthly Usage Charge	Present Rates		Company Proposed Rates		Staff Recommended Rates
Meter Size (All Classes):					
5/8 x 3/4 Inch	$ 17.75		$ 23.00		$ 17.75
3/4 Inch	26.63		34.50		26.63
1 Inch	44.38		57.50		44.38
1 1/2 Inch	88.75		115.00		88.75
2 Inch	142.00		184.00		142.00
3 Inch	266.25		368.00		266.25
4 Inch	443.75		575.00		443.75
6 Inch	887.50		1,150.00		887.50
Commodity Charge - Per 1,000 Gallons					
5/8" x 3/4" Meter (Residential)					
First 3,000 gallons	2.40		3.50		2.40
3,001 to 8,000 gallons	3.20		5.10		3.20
Over 8,000 gallons	4.20		6.50		4.20
5/8" x 3/4" Meter (Commercial)					
First 3,000 gallons	2.40		3.50		2.40
3,001 to 8,000 gallons	3.20		5.10		3.20
Over 8,000 gallons	4.20		6.50		4.20
3/4" Meter (Residential)					
First 3,000 gallons	2.40		3.50		2.40
3,001 to 8,000 gallons	3.20		5.10		3.20
Over 8,000 gallons	4.20		6.50		4.20
3/4" Meter (Commercial)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 8,000 gallons	N/A		N/A		3.20
Over 8,000 gallons	N/A		N/A		4.20
1" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 10,000 gallons	N/A		N/A		3.20
Over 10,000 gallons	N/A		N/A		4.20
1 1/2" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 20,000 gallons	N/A		N/A		3.20
Over 20,000 gallons	N/A		N/A		4.20
2" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 40,000 gallons	N/A		N/A		3.20
Over 40,000 gallons	N/A		N/A		4.20

3" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 100,000 gallons	N/A		N/A		3.20
Over 100,000 gallons	N/A		N/A		4.20
4" Meter (All Classes)					
First 30,000 gallons	N/A		5.10		N/A
Over 30,000 gallons	N/A		6.50		N/A
First 180,000 gallons	N/A		N/A		3.20
Over 180,000 gallons	N/A		N/A		4.20
6" Meter (All Classes)					
First 30,000 gallons	N/A		5.10		N/A
Over 30,000 gallons	N/A		6.50		N/A
First 300,000 gallons	N/A		N/A		3.20
Over 300,000 gallons	N/A		N/A		4.20
Hydrant Meter (Not Individually Assigned) All Usage, Per 1,000 Gallons	4.20		6.50		4.20
Other Service Charges					
Establishment	$ 25.00		$ 25.00		$ 25.00
Reconnection (Delinquent)	30.00		35.00		30.00
After Hour Service Charge (Flat Rate)	25.00		25.00		25.00
Meter Test (If Correct)	20.00		30.00		25.00
Deposit	*		*		*
Deposit Interest	*		*		*
Reestablishment (within 12 months)	**		**		**
NSF Check	20.00		20.00		20.00
Deferred Payment (per month)	1.50%		1.50%		1.50%
Meter Re-Read (if Correct)	15.00		15.00		15.00
Late Payment Fee (per month)	1.50%		1.50%		1.50%
Moving Customer Meter at Customer Request	N/A		*** @ cost		*** @ cost
Monthly Service Charge for Fire Sprinklers					
4" or Smaller	****		****		****
6"	****		****		****
8"	****		****		****
10"	****		****		****
Larger than 10"	****		****		****

* Per Commission Rule A.A.C. R14-2-403(B).

** Months off the system times the Monthly Usage Charge, per A.A.C. R14-2-403(D).

*** All items billed at cost shall include labor, materials, parts, overheads and all applicable taxes.

**** 2.00 percent of the Monthly Usage Charge for a Comparable Sized Meter Connection, but no less that $10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

Service and Meter Installation Charges

Service Size	Total Present Charge	Proposed Service Line Charge	Proposed Meter Insallation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Insallation Charge	Total Recommended Charge
5/8 x 3/4 Inch	$ 501.00	$ 450.00	$ 150.00	$ 600.00	$ 450.00	$ 150.00	$ 600.00
3/4 Inch	575.00	450.00	250.00	700.00	450.00	250.00	700.00
1 Inch	650.00	575.00	300.00	875.00	575.00	300.00	875.00
1 1/2 Inch	716.00	675.00	500.00	1,175.00	675.00	500.00	1,175.00
2 Inch	1,572.00	1,000.00	1,500.00	2,500.00	1,000.00	1,500.00	2,500.00
3 Inch	2,400.00	1,300.00	2,000.00	3,300.00	1,300.00	2,000.00	3,300.00
4 Inch	3,516.00	1,800.00	3,500.00	5,300.00	1,800.00	3,500.00	5,300.00
6 Inch	6,916.00	2,800.00	6,000.00	8,800.00	2,800.00	6,000.00	8,800.00
Over 6 Inch	N/A	N/A	N/A	N/A	Actual Cost	Actual Cost	Actual Cost

RATE DESIGN - STAFF'S ALTERNATIVE RECOMMENDATION					
Monthly Usage Charge	Present Rates		Company Proposed Rates		Staff Recommended Rates
Meter Size (All Classes):					
5/8 x 3/4 Inch	$ 17.75		$ 23.00		$ 14.75
3/4 Inch	26.63		34.50		22.13
1 Inch	44.38		57.50		36.88
1 1/2 Inch	88.75		115.00		73.75
2 Inch	142.00		184.00		118.00
3 Inch	266.25		368.00		236.00
4 Inch	443.75		575.00		368.75
6 Inch	887.50		1,150.00		737.50
Commodity Charge - Per 1,000 Gallons					
5/8" x 3/4" Meter (Residential)					
First 3,000 gallons	2.40		3.50		2.20
3,001 to 8,000 gallons	3.20		5.10		3.00
Over 8,000 gallons	4.20		6.50		4.00
5/8" x 3/4" Meter (Commercial)					
First 3,000 gallons	2.40		3.50		2.20
3,001 to 8,000 gallons	3.20		5.10		3.00
Over 8,000 gallons	4.20		6.50		4.00
3/4" Meter (Residential)					
First 3,000 gallons	2.40		3.50		2.20
3,001 to 8,000 gallons	3.20		5.10		3.00
Over 8,000 gallons	4.20		6.50		4.00
3/4" Meter (Commercial)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 8,000 gallons	N/A		N/A		3.00
Over 8,000 gallons	N/A		N/A		4.00
1" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 10,000 gallons	N/A		N/A		3.00
Over 10,000 gallons	N/A		N/A		4.00
1 1/2" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 20,000 gallons	N/A		N/A		3.00
Over 20,000 gallons	N/A		N/A		4.00
2" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 40,000 gallons	N/A		N/A		3.00
Over 40,000 gallons	N/A		N/A		4.00

3" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 100,000 gallons	N/A		N/A		3.00
Over 100,000 gallons	N/A		N/A		4.00
4" Meter (All Classes)					
First 30,000 gallons	N/A		5.10		N/A
Over 30,000 gallons	N/A		6.50		N/A
First 180,000 gallons	N/A		N/A		3.00
Over 180,000 gallons	N/A		N/A		4.00
6" Meter (All Classes)					
First 30,000 gallons	N/A		5.10		N/A
Over 30,000 gallons	N/A		6.50		N/A
First 300,000 gallons	N/A		N/A		3.00
Over 300,000 gallons	N/A		N/A		4.00
Hydrant Meter (Not Individually Assigned) All Usage, Per 1,000 Gallons	4.20		6.50		4.00
Other Service Charges					
Establishment	$ 25.00		$ 25.00		$ 25.00
Reconnection (Delinquent)	30.00		35.00		30.00
After Hour Service Charge (Flat Rate)	25.00		25.00		25.00
Meter Test (If Correct)	20.00		30.00		25.00
Deposit	*		*		*
Deposit Interest	*		*		*
Reestablishment (within 12 months)	**		**		**
NSF Check	20.00		20.00		20.00
Deferred Payment (per month)	1.50%		1.50%		1.50%
Meter Re-Read (if Correct)	15.00		15.00		15.00
Late Payment Fee (per month)	1.50%		1.50%		1.50%
Moving Customer Meter at Customer Request	N/A		*** @ cost		*** @ cost
Monthly Service Charge for Fire Sprinklers					
4" or Smaller	****		****		****
6"	****		****		****
8"	****		****		****
10"	****		****		****
Larger than 10"	****		****		****

* Per Commission Rule A.A.C. R14-2-403(B).

** Months off the system times the Monthly Usage Charge, per A.A.C. R14-2-403(D).

*** All items billed at cost shall include labor, materials, parts, overheads and all applicable taxes.

**** 2.00 percent of the Monthly Usage Charge for a Comparable Sized Meter Connection, but no less that $10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

Service and Meter Installation Charges

Service Size	Total Present Charge	Proposed Service Line Charge	Proposed Meter Insallation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Insallation Charge	Total Recommended Charge
5/8 x 3/4 Inch	$ 501.00	$ 450.00	$ 150.00	$ 600.00	$ 450.00	$ 150.00	$ 600.00
3/4 Inch	575.00	450.00	250.00	700.00	450.00	250.00	700.00
1 Inch	650.00	575.00	300.00	875.00	575.00	300.00	875.00
1 1/2 Inch	716.00	675.00	500.00	1,175.00	675.00	500.00	1,175.00
2 Inch	1,572.00	1,000.00	1,500.00	2,500.00	1,000.00	1,500.00	2,500.00
3 Inch	2,400.00	1,300.00	2,000.00	3,300.00	1,300.00	2,000.00	3,300.00
4 Inch	3,516.00	1,800.00	3,500.00	5,300.00	1,800.00	3,500.00	5,300.00
6 Inch	6,916.00	2,800.00	6,000.00	8,800.00	2,800.00	6,000.00	8,800.00
Over 6 Inch	N/A	N/A	N/A	N/A	Actual Cost	Actual Cost	Actual Cost

Chino Meadows II Water Company Inc.
Docket No. W-02370A-14-0231
Test Year Ended: December 31, 2013

Surrebuttal Schedule TBH CM-25A

Typical Bill Analysis - STAFF'S RECOMMENDATION
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons		Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,931		$ 31.13	$ 43.35	$ 12.22	39.25%
Median Usage	3,469		26.45	35.89	$ 9.44	35.69%
Staff Recommended						
Average Usage	4,931		$ 31.13	$ 31.13	$ -	0.00%
Median Usage	3,469		26.45	26.45	$ -	0.00%

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

	Present		Company Proposed	%	Staff Recommended Alt. A	%
	5/8" x 3/4"		5/8" x 3/4"		5/8" x 3/4"	
	Minimum Charge	$ 17.75	Minimum Charge	$ 23.00	Minimum Charge	$ 17.75
	1st Tier Rate	2.40	1st Tier Rate	3.50	1st Tier Rate	2.40
	1st Tier Breakover	3,000	1st Tier Breakover	3,000	1st Tier Breakover	3,000
	2nd Tier Rate	3.20	2nd Tier Rate	5.10	2nd Tier Rate	3.20
	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000
Gallons	3rd Tier Rate	4.20	3rd Tier Rate	6.50	3rd Tier Rate	4.20
Consumption	Rates		Rates	Increase	Rates	Increase
-	$ 17.75		$ 23.00	29.58%	$ 17.75	0.00%
1,000	20.15		26.50	31.51%	20.15	0.00%
2,000	22.55		30.00	33.04%	22.55	0.00%
3,000	24.95		33.50	34.27%	24.95	0.00%
4,000	28.15		38.60	37.12%	28.15	0.00%
5,000	31.35		43.70	39.39%	31.35	0.00%
6,000	34.55		48.80	41.24%	34.55	0.00%
7,000	37.75		53.90	42.78%	37.75	0.00%
8,000	40.95		59.00	44.08%	40.95	0.00%
9,000	45.15		65.50	45.07%	45.15	0.00%
10,000	49.35		72.00	45.90%	49.35	0.00%
11,000	53.55		78.50	46.59%	53.55	0.00%
12,000	57.75		85.00	47.19%	57.75	0.00%
13,000	61.95		91.50	47.70%	61.95	0.00%
14,000	66.15		98.00	48.15%	66.15	0.00%
15,000	70.35		104.50	48.54%	70.35	0.00%
16,000	74.55		111.00	48.89%	74.55	0.00%
17,000	78.75		117.50	49.21%	78.75	0.00%
18,000	82.95		124.00	49.49%	82.95	0.00%
19,000	87.15		130.50	49.74%	87.15	0.00%
20,000	91.35		137.00	49.97%	91.35	0.00%
25,000	112.35		169.50	50.87%	112.35	0.00%
30,000	133.35		202.00	51.48%	133.35	0.00%
35,000	154.35		234.50	51.93%	154.35	0.00%
40,000	175.35		267.00	52.27%	175.35	0.00%
45,000	196.35		299.50	52.53%	196.35	0.00%
50,000	217.35		332.00	52.75%	217.35	0.00%
75,000	322.35		494.50	53.40%	322.35	0.00%
100,000	427.35		657.00	53.74%	427.35	0.00%

Chino Meadows II Water Company Inc.
Docket No. W-02370A-14-0231
Test Year Ended: December 31, 2013

Surrebuttal Schedule TBH CM-25B

Typical Bill Analysis - STAFF'S ALTERNATIVE RECOMMENDATION
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons		Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,931		$ 31.13	$ 43.35	$ 12.22	39.25%
Median Usage	3,469		26.45	35.89	$ 9.44	35.69%
Staff Recommended						
Average Usage	4,931		$ 31.13	$ 27.14	$ (3.99)	-12.81%
Median Usage	3,469		26.45	22.76	$ (3.69)	-13.96%

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

	Present		Company Proposed	%	Staff Recommended Alt. B	%
	5/8" x 3/4"		5/8" x 3/4"		5/8" x 3/4"	
	Minimum Charge	$ 17.75	Minimum Charge	$ 23.00	Minimum Charge	$ 14.75
	1st Tier Rate	2.40	1st Tier Rate	3.50	1st Tier Rate	2.20
	1st Tier Breakover	3,000	1st Tier Breakover	3,000	1st Tier Breakover	3,000
	2nd Tier Rate	3.20	2nd Tier Rate	5.10	2nd Tier Rate	3.00
	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000
Gallons	3rd Tier Rate	4.20	3rd Tier Rate	6.50	3rd Tier Rate	4.00
Consumption	Rates		Rates	Increase	Rates	Increase
-	$ 17.75		$ 23.00	29.58%	$ 14.75	-16.90%
1,000	20.15		26.50	31.51%	16.95	-15.88%
2,000	22.55		30.00	33.04%	19.15	-15.08%
3,000	24.95		33.50	34.27%	21.35	-14.43%
4,000	28.15		38.60	37.12%	24.35	-13.50%
5,000	31.35		43.70	39.39%	27.35	-12.76%
6,000	34.55		48.80	41.24%	30.35	-12.16%
7,000	37.75		53.90	42.78%	33.35	-11.66%
8,000	40.95		59.00	44.08%	36.35	-11.23%
9,000	45.15		65.50	45.07%	40.35	-10.63%
10,000	49.35		72.00	45.90%	44.35	-10.13%
11,000	53.55		78.50	46.59%	48.35	-9.71%
12,000	57.75		85.00	47.19%	52.35	-9.35%
13,000	61.95		91.50	47.70%	56.35	-9.04%
14,000	66.15		98.00	48.15%	60.35	-8.77%
15,000	70.35		104.50	48.54%	64.35	-8.53%
16,000	74.55		111.00	48.89%	68.35	-8.32%
17,000	78.75		117.50	49.21%	72.35	-8.13%
18,000	82.95		124.00	49.49%	76.35	-7.96%
19,000	87.15		130.50	49.74%	80.35	-7.80%
20,000	91.35		137.00	49.97%	84.35	-7.66%
25,000	112.35		169.50	50.87%	104.35	-7.12%
30,000	133.35		202.00	51.48%	124.35	-6.75%
35,000	154.35		234.50	51.93%	144.35	-6.48%
40,000	175.35		267.00	52.27%	164.35	-6.27%
45,000	196.35		299.50	52.53%	184.35	-6.11%
50,000	217.35		332.00	52.75%	204.35	-5.98%
75,000	322.35		494.50	53.40%	304.35	-5.58%
100,000	427.35		657.00	53.74%	404.35	-5.38%

ORIGINAL

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BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

2015 SEP 10 A 11: 17

AZ CORP COMMISSION
DOCKET CONTROL

COMMISSIONERS

SUSAN BITTER SMITH - CHAIRMAN
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

IN THE MATTER OF THE APPLICATION OF CHINO MEADOWS II WATER COMPANY, INC. FOR APPROVAL OF A RATE INCREASE.	DOCKET NO. W-02370A-14-0231 **STAFF'S NOTICE OF FILING SURREBUTTAL TESTIMONY**

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

RESPECTFULLY SUBMITTED this 10th day of September, 2015.

By _____
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Original and thirteen (13) copies of the foregoing filed this 10th day of September, 2015, with:

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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 CHINO MEADOWS II WATER CO. INC. FOR A RATE INCREASE.	))))	DOCKET NO W-02370A-14-0231

SURREBUTTAL

TESTIMONY

OF

TERESA B. HUNSAKER

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 10, 2015

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EXECUTIVE SUMMARY
CHINO MEADOWS II WATER CO., INC.
DOCKET NO. W-02370A-14-0231

Staff's surrebuttal testimony responds to Chino Meadows II Water Co., Inc. ("Chino Meadows", "CM" or "Company") rebuttal testimony on the following issues:

1. Cost Allocations

2. Rate Base
   a. Contributions in Aid of Construction ("CIAC") for Unsupported Plant, Amortization of CIAC and Amortization of CIAC based on Composite Rate Adjustments[1]
   b. CIAC from Insurance Proceeds and Amortization of CIAC
   c. Accumulated Depreciation
   d. Cash Working Capital

3. Operating Income
   a. Allocations to Water Companies
   b. Depreciation Expense
   c. Property Tax Expense
   d. Income Tax Expense

4. Rate Design

5. Other Issues

Staff's Primary Recommendation:

In direct testimony, Staff recommended total operating revenue of $357,985, which resulted in a $0 (0.00 percent) increase over the Staff's adjusted test year revenue of $357,985. Staff also recommended test year expenses of $301,230. Staff's recommendation would produce $56,754 in operating income. This current and recommended cash flow level results in a 41.93 percent rate of return and a 15.85 percent operating margin.

However, Staff's surrebuttal testimony now supports adjusted test year operating expenses of $310,068. This results in an operating income of $47,916. This cash flow level results in a 29.66 percent rate of return and a 13.38 percent operating margin.

Staff's Alternative Recommendation:

In direct testimony, Staff's alternative recommendation would result in a decrease in the current rates. These recommended rates would produce total operating revenue of $299,772, a $58,212 (16.26 percent) decrease, from Staff's adjusted test year revenue of $357,985, to provide a

[1] Staff included the adjustment to the amortization of CIAC based on composite rates which was omitted from direct testimony filed. Staff corrected the error and included this adjustment within Rate Base Adjustment No. 1.

$13,537 operating income and a 10.00 percent rate of return on Staff adjusted original cost rate base ("OCRB") of $135,369. OCRB and fair value rate base ("FVRB") are deemed to be the same.

Staff's alternative recommendation has been adjusted in surrebuttal testimony and also results in a decrease in the current rates. These recommended rates would produce total operating revenue of $316,072, a $41,916 (11.71 percent) decrease, from Staff's adjusted test year revenue of $357,985, to provide a $16,153 operating income and a 10.00 percent rate of return on Staff adjusted OCRB of $161,528, as shown on Surrebuttal Schedule TBH CM-1B. 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:

	Revenue Requirement	Revenue Change	% Change
Company Application	$497,378	$139,014	38.79%
Staff Direct	$357,985	$0	0.00%
Staff Direct Alternative	$299,772	($58,212)	(16.26%)
Company Rebuttal	$402,603	$44,618	12.46%
Staff Surrebuttal	$357,985	$0	0.00%
Staff Surrebuttal Alternative	$316,072	($41,916)	(11.71%)

I. INTRODUCTION

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

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

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

A. Yes.

II. PURPOSE OF SURREBUTTAL TESTIMONY

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

A. The purpose of my surrebuttal testimony in this proceeding is to testify on behalf of Staff regarding the additional changes Staff made to its direct testimony and respond to the rebuttal testimony of Mr. Ray L. Jones, witness for Chino Meadows II Water Company Inc. ("Chino Meadows", "CM" or "Company").

Q. What issues will you address?

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

1. Cost Allocations

2. Rate Base
   a. Contributions in Aid of Construction ("CIAC") for Unsupported Plant Amortization of CIAC and Amortization of CIAC based on Composite Rate Adjustments[2]
   b. CIAC from Insurance Proceeds and Amortization of CIAC
   c. Accumulated Depreciation
   d. Cash Working Capital Allowance

[2] Staff included the adjustment to the amortization of CIAC based on composite rates which was omitted from direct testimony filed. Staff corrected the error and included this adjustment within Rate Base Adjustment No. 1.

3. Operating Income
   a. Allocations to Water Companies
   b. Depreciation Expense
   c. Property Tax Expense
   d. Income Tax Expense

4. Rate Design

5. Other Issues

Q. Is Staff enclosing new schedules?

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

Q. Did you attempt to address every issue raised by Chino Meadows in its rebuttal testimony?

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

III. SUMMARY OF PROPOSED REVENUES

Q. Please summarize Staff's recommended revenue.

A. Staff recommends that the Company's current rates remain the same. Staff's recommended rates will produce total operating revenue of $357,985, a $0 (0.00 percent) increase, over the Staff's adjusted test year revenue of $357,985 and adjusted test year expense of $310,068, to produce a $47,916 operating income. That level of cash flow results in a rate of return of 29.66 percent as shown on Schedule Surrebuttal TBH CM-1A. Staff's recommended rates would result in no change for the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons at $26.45, as shown on Surrebuttal Schedule TBH CM-25A.

Staff's Alternative Recommendation

Staff's alternative recommendation results in a decrease in the current rates. These recommended rates would produce total operating revenue of $316,072, a $41,913 (11.71 percent) decrease, from Staff's adjusted test year revenue of $357,985, to provide a $16,153 operating income and a 10.00 percent rate of return on Staff's adjusted original cost rate base ("OCRB") of $161,528, as shown on Surrebuttal Schedule TBH CM-1B. Staff's recommended rates would decrease the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons from $26.45 to $22.76, for a decrease of $3.69 or 13.96 percent, as shown on Surrebuttal Schedule TBH CM-25B. OCRB and fair value rate base ("FVRB") are deemed to be the same in Staff's Schedules.

IV. COST ALLOCATIONS

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

A. Yes.

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

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

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

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

Q. What allocation basis is Staff now recommending?

A. Staff is recommending the use of following allocation percentages: Antelope Lakes 1.0 percent, Chino Meadows 75.0 percent and Granite Mountain 24.0 percent as shown on Surrebuttal Schedule TBH CM-19e. Staff recommends that these allocation percentages be considered to be fixed and that the percentage not be changed for this case regardless of the level of post-test year plant ultimately allowed by the Commission. The reason Staff is recommending the use of these specific allocation percentages is that the level of post-test year plant to be allowed is still at issue and changes in the gross/net plant levels would drive a different expense allocation mix if gross or net plant was one of the allocation factors, and we do not believe that repeated recalculation of these allocators is required. However, Staff will revisit the allocation basis issue in the next rate case. Therefore it recommends each utility company should be prepared to support the reasonableness of the allocation basis.

V. RATE BASE

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

A. Staff made changes to the following adjustments:

1. Rate Base Adjustment No. 1 – CIAC for Unsupported Plant, Amortization of CIAC and Amortization of CIAC Based on Composite Rate Adjustments
2. Rate Base Adjustment No. 2 - CIAC from Insurance Proceeds and the Amortization of CIAC
3. Rate Base Adjustment No. 7 - Accumulated Depreciation
4. Rate Base Adjustment No. 8 – Cash Working Capital Allowance

Rate Base Adjustment No. 1 – Unsupported Plant Treated as CIAC, Amortization of CIAC and Amortization of CIAC Based on Composite Rates Adjustment

Q. Did Staff review Chino Meadows' rebuttal testimony concerning unsupported plant treated as CIAC and Amortization of CIAC?

A. Yes.

Q. What was the Company's main concern?

A. The Company raised concerns regarding Staff's recommendation to remove 10 percent of the $42,759 cost of plant in service from rate base, due to the Company not being able to provide detailed invoices or copies of cancelled checks related to these plant additions.

Q. Did Staff make changes to its initial Rate Base Adjustment No. 1 – Unsupported Plant treated as CIAC and the Amortization of CIAC recommendation?

A. Yes.

Q. Please explain Staff's changes to Rate Base Adjustment No. 1 – Unsupported Plant treated as CIAC?

A. Staff corrected its previous adjustment for the amortization of the CIAC based on the appropriate depreciation rates and amortization period added in 2013 as shown on

Surrebuttal Schedule TBH CM-5. This modification is being made in response to arguments raised in the Company's rebuttal testimony.

Q. Did Staff make additional adjustments to the amortization of CIAC?

A. Yes. Staff inadvertently failed to include a portion of the amortization of CIAC. Staff made the additional adjustments to correct for CIAC within its adjustment. These adjustments were included in Rate Base Adjustment No. 1 in order to maintain the current order of adjustments within its direct testimony. Staff's additional adjustment reflects Staff's calculation of the amortization of CIAC for the prior CIAC balance based on the annual composite rates. The CIAC additions were amortized based on the identified and appropriate depreciation rates as shown on Surrebuttal Schedule TBH CM-5, Line 3.

Rate Base Adjustment No. 2 – CIAC for Plant paid for with Insurance Proceeds and Amortization of CIAC

Q. Did Staff review Chino Meadows' rebuttal testimony concerning plant paid for with insurance proceeds treated as CIAC by Staff?

A. Yes.

Q. What was the Company's position on this adjustment?

A. The Company pointed out a mathematical error in Staff's calculations.

Q. Did Staff correct the error in its schedules?

A. Yes. Staff corrected its adjustment for the amortization of the CIAC based on the appropriate depreciation rates and amortization period as shown on Surrebuttal Schedule TBH CM-6.

Rate Base Adjustment No. 7 – Accumulated Depreciation

Q. Did Staff review Chino Meadows' rebuttal testimony concerning a possible calculation error in Staff's accumulated depreciation balance?

A. Yes. The Company pointed out a mathematical error made in the calculation of the accumulated depreciation due to fully depreciated plant being removed for the calculation provided by Staff. Staff corrected the adjustment for the accumulated depreciation as shown on Surrebuttal Schedule TBH CM-11.

Rate Base Adjustment No. 8 – Cash Working Capital Allowance

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

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

Summary of Rate Base Adjustments

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

A. Staff's direct testimony recommended rate base was $135,369 and Staff's surrebuttal testimony recommended rate base is $161,528, an increase of $26,159.

VI. OPERATING INCOME

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

A. Staff made changes to the following adjustments:

1. Operating Income Adjustment No. 5 – Allocations to Water Companies
2. Operating Income Adjustment No. 6 – Depreciation Expense
3. Operating Income Adjustment No. 7 – Property Tax Expense

4. Operating Income Adjustment No. 8 – Income Tax Expense

Operating Income Adjustment No. 5 – Allocations to Water Companies

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

Q. Did Staff review Chino Meadows' rebuttal testimony concerning Allocations?

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

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

A. No.

Q. What percentage is Staff now recommending for allocations for Chino Meadows?

A. Staff allocated 75 percent to Chino Meadows for common costs for the regulated companies instead of 70.12 percent originally used in direct testimony. The change in the percentage used resulted in an increase of $13,373 in common costs allocated to Chino Meadows. The changes in the allocations are shown Surrebuttal Schedules TBH CM-19a and TBH CM-19e.

Operating Income Adjustment No. 6 – Depreciation Expense

Q. Did Staff review Chino Meadows' rebuttal testimony concerning Depreciation Expense?

A. Yes. The Company is concerned about the differing levels of CIAC amortization being used by Staff, and the Company disagreement about Rate Base Adjustment No. 1 for Unsupported Plant treated as CIAC.

Q. Has Staff's position changed regarding the differing levels of CIAC amortization changed?

A. Yes. Staff has corrected errors in CIAC being amortized and Staff continues to recommend Rate Base Adjustment No. 1 for Unsupported Plant treated as CIAC. Staff has adjusted the CIAC amortization as shown on Surrebuttal Schedule TBH CM-20.

Operating Income Adjustment No. 7 – Property Tax Expense

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

A. Yes. Staff recommends $17,694 for test year property tax expense, a $976 decrease from the Company's proposed amount, as shown on Surrebuttal Schedule TBH CM-21. Staff further recommends adoption of its Gross Revenue Conversion Factor ("GRCF") that includes a factor for Property Tax Expense, as shown on Surrebuttal Schedule TBH CM-2. Property tax expenses are shown on Surrebuttal Schedules TBH CM-13A and TBH CM-13B.

Operating Income Adjustment No. 8 – Income Tax Expense

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

A. Yes. Staff applied the statutory state and federal income tax rates to Staff's revised test year taxable income. Income tax expenses for the test year and recommended revenues are shown on Surrebuttal Schedules TBH CM-13A and TBH CM-13B.

VII. STAFF'S RECOMMENDED WATER RATE DESIGN

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

A. Under Staff's primary recommendation, Staff continues to recommend no changes in the Company's current rate design as recommended in Staff's direct testimony as shown on Surrebuttal Schedule TBH CM-24A.

Staff's Alternative Recommendation

Q. Please provide a description of Staff's recommended rate design for Staff's Alternative Recommendation.

A. Because Staff is recommending a rate decrease in its alternative consideration, Staff also recommends decreases in the minimum monthly charge for all meter sizes. Staff recommends that the monthly minimum for the 5/8 x 3/4-inch meter be $14.75. Staff recommends maintaining the break-over points contained in present rates for the smaller meter sizes. Staff recommends a decrease to commodity rates in all three tiers. First commodity tier rate would decrease by $0.20 from $2.40 per 1,000 gallons to $2.20 per 1,000 gallons. Second commodity tier rate would decrease by $0.20 from $3.20 per 1,000 gallons to $3.00 per 1,000 gallons. Third commodity tier rate would decrease by $0.20 from $4.20 per 1,000 gallons to $4.00 per 1,000 gallons. The typical 5/8 x 3/4-inch meter bill with a median usage of 3,469 gallons would decrease by $3.69 from $26.45 to $22.76. Staff's recommended rates are shown in Surrebuttal Schedule TBH CM-24B and the typical bill analysis for 5/8 x 3/4-inch meter customers is shown in Surrebuttal Schedule TBH CM-25B.

Q. Did Staff prepare schedules showing the average and median monthly bill for present rates, Company's proposed and Staff's recommended and alternative rates?

A. Yes. Staff's surrebuttal testimony schedules present Staff's recommended rates on TBH CM-25A and Staff's alternative recommendation on TBH CM-25B. These surrebuttal schedules present the average and median monthly bill for present rates, Company's proposed rates and Staff's recommended rates for each alternative recommendation. However, Staff did not prepare surrebuttal schedules comparing the Company's rebuttal proposed rates to Staff's surrebuttal recommended rates.

VIII. OTHER ISSUES

Q. Did Staff review Chino Meadows' rebuttal testimony concerning other issues regarding the Code of Affiliate Conduct?

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

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

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

Q. Did Staff review Chino Meadows' rebuttal testimony concerning other issues for the Cost Allocations and Staff's recommended reporting of Corporate Cost Allocations?

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

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

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

Q. Did Staff review Chino Meadows' rebuttal testimony concerning other issues for the Affiliate Receivable and Payables?

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

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

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

Recommendation 4: The Company's position does not accept the recommendation in its entirety that the Company should obtain specific authorization by the Commission for indebtedness payable, including amounts appearing in affiliate payable accounts. However,

the Company does support the recommendation with respect to unregulated affiliates. The Company indicated that an issue may arise of a potentially taxable dividend to Mr. Levie due to this recommendation.

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

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

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

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 on 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.

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

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

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

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

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

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
Test Year Ended December 31, 2013

Surrebuttal Schedule TBH CM-1A

REVENUE REQUIREMENT - STAFF'S RECOMMENDATION

LINE NO.	DESCRIPTION	[A] COMPANY	[B] STAFF
1	Adjusted Rate Base - OCRB and FVRB	$171,398	$161,528
2	Adjusted Operating Income (Loss)	($26,998)	$47,916
3	Current Rate of Return (L2 / L1)	-15.75%	29.66%
4	Required Operating Income (L3 * L1)	$74,604	$47,916
5	Operating Income Deficiency (L4 - L2)	$101,603	$0
6	Gross Revenue Conversion Factor	1.3682	1.3196
7	Increase (Decrease) In Gross Revenue (L6 * L5)	$139,014	$0
8	Adjusted Test Year Revenue	$358,364	$357,985
9	Proposed Annual Revenue (L7 + L8)	$497,378	$357,985
10	Required Increase/(Decrease in Revenue) (%) (L8/L9)	38.79%	0.00%

References:
Column [A]: Company Application 2nd Amended Page 6 and Attachment No. 3 Page 1 Amended.
Column [B]: Staff Schedules Surrebuttal TBH CM-2, TBH CM-3, & TBH CM-13A.

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
Test Year Ended December 31, 2013

Surrebuttal Schedule TBH CM-1B

REVENUE REQUIREMENT - STAFF'S ALTERNATIVE RECOMMENDATION

LINE NO.	DESCRIPTION	[A] COMPANY	[B] STAFF
1	Adjusted Rate Base - OCRB and FVRB	$171,398	$161,528
2	Adjusted Operating Income (Loss)	($26,998)	$47,916
3	Current Rate of Return (L2 / L1)	-15.75%	29.66%
4	Required Rate of Return	43.53%	10.00%
5	Required Operating Income (L4 * L1)	$74,604	$16,153
6	Operating Income Deficiency (L5 - L2)	$101,603	($31,764)
7	Gross Revenue Conversion Factor	1.3682	1.3196
8	Increase (Decrease) In Gross Revenue (L7 * L6)	$139,014	($41,914)
9	Adjusted Test Year Revenue	$358,364	$357,985
10	Proposed Annual Revenue (L8 + L9)	$497,378	$316,072
11	Required Increase/(Decrease in Revenue) (%) (L8/L9)	38.79%	-11.71%

References:
Column [A]: Company Application 2nd Amended Page 6 and Attachment No. 3 Page 1 Amended.
Column [B]: Staff Schedules Surrebuttal TBH CM-2, TBH CM-3, & TBH CM-13B

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
Test Year Ended December 31, 2013

Surrebuttal Schedule TBH CM-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	[A]	[B]	[C]
	Calculation of Gross Revenue Conversion Factor:			
1	Revenue	100.00%		
2	Uncollecible Factor (Line 11)	1.05%		
3	Revenues (L1 - L2)	98.95%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	23.16%		
5	Subtotal (L3 - L4)	75.78%		
6	**Revenue Conversion Factor (L1 / L5)**	131.96%		
	Calculation of Uncollectible Factor:			
7	Unity	100.00%		
8	Combined Federal and State Tax Rate (Line 17)	21.88%		
9	One Minus Combined Income Tax Rate (L7 - L8)	78.12%		
10	Uncollectible Rate	1.35%		
11	Uncollectible Factor (L9 * L10)	1.05%		
	Calculation of Effective Tax Rate:			
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)	16.89%		
16	Effective Federal Income Tax Rate (L14 * L15)	15.88%		
17	Combined Federal and State Income Tax Rate (L13 + L16)		21.88%	
	Calculation of Effective Property Tax Factor			
18	Unity	100.00%		
19	Combined Federal and State Income Tax Rate (L17)	21.88%		
20	One Minus Combined Income Tax Rate (L18 - L19)	78.12%		
21	Property Tax Factor	1.65%		
22	Effective Property Tax Factor (L20 * L21)		1.29%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17 + L22)			23.16%
24	Required Operating Income	$16,153		
25	AdjustedTest Year Operating Income (Loss)	47,916		
26	Required Increase in Operating Income (L24 - L25)		($31,764)	
27	Income Taxes on Recommended Revenue (Col. [C], L52)	$4,064		
28	Income Taxes on Test Year Revenue (Col. [A], L52)	12,958		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		(8,894)	
30	Recommended Revenue Requirement	$316,072		
31	Uncollectible Rate (Line 10)	1.35%		
32	Uncolllectible Expense on Recommended Revenue (L30 * L31)	$4,263		
33	Adjusted Test Year Uncollectible Expense	$4,833		
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		(570)	
35	Property Tax with Recommended Revenue	$17,003		
36	Property Tax on Test Year Revenue	17,694		
37	Increase in Property Tax Due to Increase in Revenue (L35 - L36)		(691)	
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		($41,919)	
	Calculation of Income Tax:	**Test Year and Staff Recommendation**		**Staff Alternative Recommendation**
39	Revenue	$357,985	($41,913)	$316,072
40	Operating Expenses Excluding Income Taxes	297,110	(1,255)	295,855
41	Synchronized Interest (L56)	0		0
42	Arizona Taxable Income (L39 - L40 - L41)	60,874		20,217
43	Arizona State Income Tax Rate	6.00%		6.00%
44	Arizona Income Tax (L42 * L43)	3,652		1,213
45	Federal Taxable Income (L42 - L44)	57,222		19,004
46	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	7,500		2,851
47	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	1,805		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	9,305		2,851
52	Combined Federal and State Income Tax (L44 + L51)	12,958		4,064
53	Applicable Federal Income Tax Rate (Col. [C], L51 - Col. [A], L51] / [Col. [C], L45 - Col. [A], L45)			16.8897%
	Calculation of Interest Synchronization:			
54	Rate Base	$161,528		
55	Weighted Average Cost of Debt	0.00%		
56	Synchronized Interest (L45 * L46)	$0		

Chino Meadows II Water Co., Inc.
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Surrebuttal Schedule TBH CM-3

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	ADJ NO.	[C] STAFF AS ADJUSTED
1	Plant in Service	$843,924	($48,014)	4, 5, 6	$795,910
2	Less: Accumulated Depreciation	670,573	(56,657)	7	613,916
3	Net Plant in Service	$173,351	$8,643		$181,994
	LESS:				
4	Advances in Aid of Construction (AIAC)	$13,219	($3,649)	3	$9,571
6	Contributions in Aid of Construction (CIAC)	31,478	10,406	1, 2	41,884
7	Less: Accumulated Amortization	11,005	2,367	1, 2	13,372
8	Net CIAC	$20,473	$8,039		$28,512
9	Total Advances and Contributions	33,692	4,390		38,082
10	Customer Deposits	11,740	0		11,740
	ADD: Working Capital				
12	Cash Working Capital Allowance	43,479	(14,122)	8	29,357
13	**Total Rate Base**	$171,398	($9,870)		$161,528

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

Chino Meadows II Water Co., Inc.
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Surrebuttal Schedule TBH CM-4

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	ACCT NO.	PLANT IN SERVICE Plant Description	[A] COMPANY AS FILED	[B] ADJ No. 1 Unsupported Plant Treated as CIAC and Amort of CIAC Ref: Sch TBH CM-5	[C] ADJ No. 2 CIAC from Insurance Proceeds due to Office Fire Ref: Sch TBH CM-6	[D] ADJ No. 3 AIAC not paid during Test Year Ref: Sch TBH CM-7	[E] ADJ No. 4 Reclass Plant to Appropriate NARUC Classifications Ref: Sch TBH CM-8	[F] ADJ No. 5 Plant Retirements Due to Removal and Office Fire Ref: Sch TBH CM-9	[G] ADJ No. 6 Removal of Plant Additions Ref: Sch TBH CM-10	[H] ADJ No. 7 Accumulated Depreciation Ref: Sch TBH CM-11	[I] ADJ No. 8 Working Capital Allowance Ref: Sch TBH CM-12	[J] STAFF AS ADJUSTED
1	301	Organization Cost	$6,843	$0	$0	$0	$0	$0	$0	$0	$0	$6,843
2	302	Franchises	0	0	0	0	0	0	0	0	0	0
3	303	Land and Land Rights	15,204	0	0	0	0	0	0	0	0	15,204
4	304	Structures and Improvements	44,339	0	0	0	0	0	0	0	0	44,339
5	305	Collecting and Impounding Reserviors	4,350	0	0	0	0	0	0	0	0	4,350
6	307	Wells and Springs	27,448	0	0	0	539	0	0	0	0	27,987
7	309	Supply Mains	1,009	0	0	0	0	0	0	0	0	1,009
8	310	Power Generation Equipment	12,401	0	0	0	0	0	0	0	0	12,401
9	311	Pumping Equipment	46,268	0	0	0	0	0	0	0	0	46,268
10	320	Water Treatment Equipment	6,406	0	0	0	(6,406)	0	0	0	0	0
11	320.1	Water Treatment Plants	0	0	0	0	0	0	0	0	0	0
12	320.2	Solution Chemical Feeders	0	0	0	0	6,406	0	0	0	0	6,406
13	330	Distribution Reservoirs & Standpipes	51,684	0	0	0	(51,684)	0	0	0	0	0
14	330.1	Storage Tanks	0	0	0	0	36,415	0	0	0	0	36,415
15	330.2	Pressure Tanks	0	0	0	0	15,269	0	0	0	0	15,269
16	331	Transmission and Distribution Mains	304,674	0	0	0	268	0	0	0	0	304,942
17	333	Services	30,067	0	0	0	0	0	0	0	0	30,067
18	334	Meters and Meter Installations	89,777	0	0	0	0	0	0	0	0	89,777
19	335	Hydrants	12,042	0	0	0	0	0	0	0	0	12,042
20	336	Backflow Prevention Devices	0	0	0	0	0	0	0	0	0	0
21	339	Other Plant and Miscellaneous Equipment	16,728	0	0	0	0	0	0	0	0	16,728
22	340	Office Furniture and Equipment	9,346	0	0	0	6,534	(9,346)	0	0	0	6,534
23	340.1	Computers and Software	10,107	0	0	0	494	0	0	0	0	10,601
24	341	Transportation Equipment	96,569	0	0	0	0	(40,749)	0	0	0	55,820
25	343	Tools, Shop, and Garage Equipment	1,274	0	0	0	0	0	0	0	0	1,274
26	344	Laboratory Equipment	0	0	0	0	0	0	0	0	0	0
27	345	Power Operated Equipment	31,461	0	0	0	0	0	(1,000)	0	0	30,461
28	346	Communication Equipment	25,929	0	0	0	(3,121)	(5,608)	0	0	0	17,200
29	347	Miscellaneous Equipment	0	0	0	0	3,975	0	0	0	0	3,975
30	348	Other Tangible Equipment	0	0	0	0	0	0	0	0	0	0
31		Rounding	0	0	0	0	0	0	0	0	0	0
32		Total Plant in Service	$843,924	$0	$0	$0	$8,689	($55,703)	($1,000)	$0	$0	$795,910
33		Less: Accumulated Depreciation	670,573	0	0	0	0	0	0	(56,657)	0	613,916
34		Net Plant in Service	$173,351	$0	$0	$0	$8,689	($55,703)	($1,000)	$56,657	$0	$181,994
35												
36		*LESS:*										
37		Advances in Aid of Construction (AIAC)	$13,219	$0	$0	($3,649)	$0	$0	$0	$0	$0	$9,571
38		Meter Deposits - Service Line & Meter Advances	0	0	0	0	0	0	0	0	0	0
39												
40		Contributions in Aid of Construction (CIAC)	31,478	4,276	6,130	0	0	0	0	0	0	41,884
41		Less: Accumulated Amortization of CIAC	11,005	528	1,839	0	0	0	0	0	0	13,372
42		Net CIAC	$20,473	$3,748	$4,291	$0	$0	$0	$0	$0	$0	$28,512
43												
44		Total Advances and Net Contributions	$33,692	$3,748	$4,291	($3,649)	$0	$0	$0	$0	$0	$38,082
45												
46		Customer Deposits	11,740	0	0	0	0	0	0	0	0	11,740
47		Accumulated Deferred Taxes	0	0	0	0	0	0	0	0	0	0
48												
49		*ADD: Working Capital*										
50		Cash Working Capital Allowance	$43,479	$0	$0	$0	$0	$0	$0	$0	($14,122)	29,357
51		Total Rate Base	$171,398	($3,748)	($4,291)	$3,649	$8,689	($55,703)	($1,000)	$56,657	($14,122)	$161,528

Chino Meadows II Water Co., Inc.
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Surrebuttal Schedule TBH CM-5

RATE BASE ADJUSTMENT NO. 1 - UNSUPPORTED PLANT TREATED AS CIAC AND AMORTIZATION OF CIAC[1]

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	CIAC, Unsupported Plant Treated as CIAC	$0	$4,276	$4,276
2	Amortization of CIAC, Unsupported Plant Treated as CIAC	0	116	116
3	Amortization of CIAC, Based on Composite Rates Adjustment (Line 78, Column I) [1]	11,005	411	11,416
4				
5	Net CIAC, Unsupported Plant Treated as CIAC and Amortization Based on Composite Rates Adjustment	$11,005	$4,804	$15,809

6 [1] Staff included the adjustment to the amortization of CIAC based on composite rates which was omitted from direct testimony filed. Staff corrected the error and
7 included this adjustment within Rate Base Adjustment No. 1.

8 **UNSUPPORTED PLANT TREATED AS CIAC**

	DESCRIPTION	Plant Selected In Sample	Unsupported Plant Costs	Staff as Adjusted
12	2011 Plant Addition, Acct No. 310 - Power Generation Equipment	$0	$5,300	$5,300
13	**Acct No. 310 - Power Generation Equipment Subtotal**	0	5,300	5,300
15	2011 Plant Addition, Acct No. 331 - Transmission & Distribution Mains	0	36,353	36,353
16	**Acct No. 331 - Transmission. & Distrib. Mains Subtotal**	0	36,353	36,353
18	2010 Plant Addition, Acct No. 340.1 - Computers & Software	0	782	782
19	**Acct No. 340.1 - Computers & Software Subtotal**	0	782	782
21	2010 Plant Addition, Acct No. 343 - Tools, Shop & Garage Equipment	0	324	324
22	**Acct No. 343 - Tools, Shop & Garage Equipment Subtotal**	0	324	324
24	**TOTAL UNSUPPORTED PLANT**	$0	$42,759	$42,759
26		**Total**		**$42,759**
27			x	**10%**
28	**CIAC, Unsupported Plant Treated as CIAC**			**$4,276**

31 **CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT**

	Year Added	Plant Additions	Unsupported Plant	Year Transferred To CIAC	10% Plant in Service	Depreciation Rate	Amortization of CIAC
34	2011	Power Generation	$5,300	2013	$530	5.00%	$27
35	2011	Trans & Distr	36,353	2013	3,635	2.00%	73
36	2010	Computers & Software	782	2013	78	20.00%	16
37	2010	Tools, Shop & Garage	324	2013	32	5.00%	2
38		**Total**	**$42,759**		**$4,276**		$116

42 **AMORTIZATION OF CIAC**

44 Calculation of Amortization of Plant Additions:

	Description	Plant in Service	Depreciation Rates	Amortization of CIAC	
47	Computers & Software	$6,130	20.00%	1,226	
48	Multiplied by:			50%	Half Year Convention
49	Totals			613	From Schedule TBH CM-6/RB Adj No. 2

52 Calculation of Amortization of Plant based on Appropriate Depreciation Rates:

	Description	Plant in Service	Depreciation Rates	Amortization of CIAC	
54	Power Generation	$530	5.00%	$27	From Schedule TBH CM-5/RB Adj No. 1
55	Trans & Distr	$3,635	2.00%	73	From Schedule TBH CM-5/RB Adj No. 1
56	Computers & Software	$78	20.00%	16	From Schedule TBH CM-5/RB Adj No. 1
57	Computers & Software	$6,130	20.00%	1,226	From Schedule TBH CM-6/RB Adj No. 2
58	Tools, Shop & Garage	32	5.00%	2	From Schedule TBH CM-5/RB Adj No. 1
59	Totals	$10,406		$1,342	

62 Calculation of CIAC Balances

		[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
65		Decision No. 72896	2010		2011		2012		2013	
66		Balance								
67	Description	12/31/2009	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance
69	CIAC	$23,984	($335)	$23,649	$0	$23,649	$7,829	$31,478		$31,478
70	CIAC Additions			-		-	6,130	6,130	4,276	10,406
71	Total CIAC	23,984		23,649		23,649		37,608		41,884
73	Amortization Rate - Composite			8.4299%		8.1148%		7.8249%		7.6970%
75	Amortization CIAC (half-yr convention)			2,008		1,919		2,157		2,423
77 78	Amortization of CIAC Based on Composite Rate	2,910		4,918		6,837		8,994		11,416
80 81	Amortization of CIAC Based on Depreciation Rates							613		1,342
83	Accumulated Amortization of CIAC	2,910		4,918		6,837		9,607		13,372
85	Net CIAC	$21,074		$18,731		$16,812		$28,001		$28,512

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.2 - 6.3 and Page 22, Attachment No.1 Supplemental 5.1 (Line 3)
Column [B]: Testimony, TBH
Column [C] Column [A] + Column [B]

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Surrebuttal Schedule TBH CM-6

RATE BASE ADJUSTMENT NO. 2 - CIAC FOR PLANT PAID FOR WITH INSURANCE PROCEEDS AND AMORTIZATION OF CIAC

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	CIAC for 2012 Plant Addition, Acct No. 340.1 - Computers & Software Offset by Insurance Proceeds	$0	$6,130	$6,130
2	Total CIAC on Acct. No. 340.1 - Computers & Software from Insurance Proceeds	0	6,130	6,130
3				
4	Company Proposed Amort of CIAC Related to Insurance Proceeds for Fire	0	0	0
5	Amort. Of CIAC on Insurance Proceeds for Computers & Software	0	1,839	1,839
6	Total Amortization of CIAC	0	1,839	1,839
7				
8	Net CIAC	$0	$4,291	$4,291
9				

10 CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT

Year Added	Plant Additions	Plant from Insurance Proceeds	Year Transferred To CIAC	Number of Interim Years	Depreciation Rate	Amortization of CIAC
2012	Computers & Software	$6,130	2012	1.5	20.00%	$1,839
	Total	**$6,130**				$1,839

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.4
Column [B]: Testimony, TBH
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - AIAC REFUNDS NOT RECOGNIZED IN TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction	$13,219	$0	$13,219
2	2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction Payments Due Customers	0	(3,649)	(3,649)
3	Total AIAC paid in 2014 for 2013 refunds due customers	$13,219	($3,649)	$9,571

References:
Column [A]: Company Application - Attachment No. 1 - Supplemental Page 2
Column [B]: Testimony, TBH, Company's response to DR's CM TBH 1.18 and CM TBH 2.10.
Column [C]: Column [A] + Column [B]

Chino Meadows II Water Co., Inc.
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Surrebuttal ScheduleTBH CM-8

RATE BASE ADJUSTMENT NO. 4 - RECLASSIFY AND PLANT ADDITIONS TO APPROPRIATE CLASSIFICATIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Acct No. 307 - Wells & Springs	$27,448	$539	$27,987
2	Acct No. 320 - Water Treatment Equipment	6,406	(6,406)	0
3	Acct No. 320.2 - Soluntion Chemical Feeders	0	6,406	6,406
4	Acct No. 330 - Distribution Reservoirs & Standpipes	51,684	(51,684)	0
5	Acct No. 330.1 - Storage Tanks	0	36,415	36,415
6	Acct No. 330.2 - Pressure Tanks	0	15,269	15,269
7	Acct No. 331 - Transmission & Distribution Mains	304,674	268	304,942
8	Acct No. 340 - Office Furniture & Equipment	9,346	6,534	15,880
9	Acct No. 340.1 - Computers & Software	10,107	494	10,601
10	Acct No. 346 - Communication Equipment	25,929	(3,121)	22,808
11	Acct No. 347 - Miscellaneous Equipment	0	3,975	3,975
12	**TOTAL PLANT RECLASSIFICATIONS**	$435,594	$8,689	$444,283
13				
14	**PLANT RECLASSIFICATIONS**			
15		**PLANT ADDITIONS**	**PLANT RECLASS**	**STAFF AS ADJUSTED**
16	**DESCRIPTION**			
17	2012 Plant Reclass Acct No. 340 - Office Furniture & Equipment - Reclass from Computers	$0	$4,782	$4,782
18	2012 Plant Reclass, Acct. No. 340 - Office Furniture & Equipment - Reclass from Fire Related Expenses	0	1,752	1,752
19	**Acct No. 340 - Office Furniture & Equipment Subtotal**	0	6,534	6,534
20				
21	2012 Plant Reclass Acct No. 340.1 - Computers & Software - Offset by Insurance Proceeds	0	6,130	6,130
22	2012 Plant Reclass Acct No. 340.1 - Computers & Software - Reclass to Office Equip.	0	(4,782)	(4,782)
23	2012 Plant Reclass Acct No. 340.1 - Computers & Software - Reclass to Communication	0	(854)	(854)
24	**Acct No. 340.1 - Computer & Software Subtotal**	0	494	494
25				
26	2012 Plant Reclass, Acct No. 346 - Communication Equipment	0	(3,975)	(3,975)
27	2012 Plant Reclass, Acct No. 346 - Communication Equipment - Reclass from Computer & Software	0	854	854
28	**Acct No. 346 - Communication Equipment Subtotal**	0	(3,121)	(3,121)
29				
30	2012 Plant Additions, Acct No. 347 - Miscellaneous Equipment	3,975	0	3,975
31	**Acct No. 347 - Miscellaneous Equipment Subtotal**	3,975	0	3,975
32				
33	2013 Plant Reclass, Acct No. 307 - Wells & Springs - Reclass from expenses	0	539	539
34	**Acct No. 307 - Wells & Springs Subtotal**	0	539	539
35				
36	2010 Plant Reclass Acct No. 320 - Water Treatment Equipment	0	(6,406)	(6,406)
37	**Acct No. 320 - Water Treatment Equipment Subtotal**	0	(6,406)	(6,406)
38				
39	2010 Plant Reclass Acct No. 320.2 - Solution Chemical Feeders	0	6,406	6,406
40	**Acct No. 320.1 - Solution Chemical Feeders Subtotal**	0	6,406	6,406
41				
42	2010 Plant Reclass Acct No. 330 - Distribution Reservoirs & Standpipes	0	(51,684)	(51,684)
43	**Acct No. 330 - Distribution Reservoirs & Standpipes Subtotal**	0	(51,684)	(51,684)
44				
45	2010 Plant Reclass Acct No. 330.1 - Storage Tanks	0	36,415	36,415
46	**Acct No. 330.1 - Storage Tanks Subtotal**	0	36,415	36,415
47				
48	2010 Plant Reclass Acct No. 330.2 - Pressure Tanks	0	15,269	15,269
49	**Acct No. 330.2 - Pressure Tanks Subtotal**	0	15,269	15,269
50				
51	2013 Plant Reclass Acct No. 331 - Transmission & Distribution Mains - Removal of AJE	0	268	268
52	**Acct No. 331 - Transmission & Distribution Mains Subtotal**	0	268	268
53				
54	**TOTAL**	$3,975	$4,714	$8,689

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.2 - 6.5
Column [B]: Testimony, TBH, Company Data Request Responses
Column [C]: Column [A] + Column [B]

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Surrebuttal Schedule TBH CM-9

RATE BASE ADJUSTMENT NO. 5 - PLANT NOT USED AND USEFUL

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Acct No. 340 - Office Furniture & Equipment	$9,346	($9,346)	$0
2	Acct No. 341 - Transportation Equipment	96,569	(40,749)	55,820
3	Acct No. 346 - Communication Equipment	25,929	(5,608)	20,321
4				
5				
6				
7			DESCRIPTION	STAFF AS ADJUSTED
8		2012 Fire Acct No. 340 - Office Furniture & Equipment		
9			Opening Balance Items	$3,513
10			Office Computer	2,683
11			Printer	355
12			Office Computer	1,950
13			Fax Machine	120
14			Book Case	101
15			Office Desk	624
16			Total Office Furniture & Equipment	**$9,346**
17				
18				
19		2013 Acct No. 341 - Transportation Equipment		
20			1998 Ford Service Truck	$11,287
21			2000 Ford Ranger	5,350
22			Pre 1995 - Unidentified Vehicles	4,103
23			1975 Ford Water Truck	7,500
24			1999 Ford Truck	12,509
25			Total Transportation Equipment	**$40,749**
26				
27				
28		2012 Fire Acct No. 346 - Communication Equipment		
29			Office Computer and Software	$3,453
30			Printer	109
31			Laser Printer	472
32			Caselle Support	660
33			CPU Backup	103
34			Network Router	87
35			Memory Cards	281
36			Memory Cards	444
37			Total Communication Equipment	**$5,608**

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.1 - 6.5
Column [B]: Testimony, TBH
Column [C]: Column [A] + Column [B]

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
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Surrebuttal Schedule TBH CM-10

RATE BASE ADJUSTMENT NO. 6 - REMOVAL OF PLANT ADDITIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Acct. 345 Power Operated Equipment Unsupported Non-Company Use	$31,461	($1,000)	$30,461

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.5
Column [B]: Testimony, TBH
Column [C] Column [A] + Column [B]

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
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Surrebuttal Schedule TBH CM-11

RATE BASE ADJUSTMENT NO. 7 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Accumulated Depreciation	$670,573	($56,657)	$613,916

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 6.2 - 6.5
Column [B]: Testimony, TBH, Company Data Request Responses
Column [C] Column [A] + Column [B]

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
Test Year Ended December 31, 2013

Surrebuttal Schedule TBH CM-12

RATE BASE ADJUSTMENT NO. 8 - CASH WORKING CAPITAL ALLOWANCE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Cash Working Capital Allowance	$43,479	($14,122)	$29,357
2				
3	Operation & Maintenance*			$226,902
4	Multiplied by		X	1/8
5				**$28,363**
6				
7	Purchased Power & Purchased Water			$23,832
8	Multiplied by		X	1/24
9				**$994**
10				
11	**Total Cash Working Capital Allowance**			**$29,357**
12				
13	* Less depreciation, taxes, purchased power and purchased water			

References:
Column [A]: Company Application - Attachment No. 1 Supplemental Page 7
Column [B]: Testimony, TBH, Company Data Request Responses
Column [C] Column [A] + Column [B]

Chino Meadows II Water Co., Inc.
Docket No. W-02370A-14-0231
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Surrebuttal Schedule TBH CM-13A

OPERATING INCOME - TEST YEAR AND STAFF'S RECOMMENDATION

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:						
1	Metered Water Sales	$345,620	$0		$345,620		$345,620
2	Water Sales - Unmetered	0	0		0	0	0
3	Other Operating Revenues	12,744	(379)	1	12,365	0	12,365
4	**Total Revenues**	$358,364	($379)		$357,985	$0	$357,985
5							
6	*EXPENSES:*						
7	Salaries and Wages	$179,965	($59,487)	5	$120,478	$0	$120,478
8	Salaries and Wages - Officers	31,700	(15,750)	5	15,950	0	15,950
9	Employee Pensions & Benefits	0	0		0	0	0
10	Purchased Water	40	0		40	0	40
11	Purchased Power	24,401	(609)	5	23,792	0	23,792
12	Chemicals	425	(71)	5	354	0	354
13	Repairs and Maintenance	8,899	(342)	5	8,557	0	8,557
14	Office Supplies & Expense	30,594	(18,735)	5	11,859	0	11,859
15	Contractual Services	11,457	(2,924)	5	8,533	0	8,533
16	Water Testing	4,791	37	2	4,828	0	4,828
17	Rents	0	8,438	5	8,438	0	8,438
18	Transportation Expenses	24,752	(8,448)	5	16,304	0	16,304
19	Insurance - General Liability	8,964	(2,910)	5	6,054	0	6,054
20	Insurance - Health and Life	2,667	(667)	5	2,000	0	2,000
21	Reg. Comm. Exp.	445	0		445	0	445
22	Reg. Comm. Exp. - Rate Case	13,333	1,667	3	15,000	0	15,000
23	Miscellaneous Expense	8,848	(5,577)	5	3,271	0	3,271
24	Bad Debt Expense	1,990	2,843	4	4,833	0	4,833
25	Depreciation Expense	20,394	(2,346)	6	18,048	0	18,048
26	Taxes Other Than Income	0	0		0	0	0
27	Property Taxes	18,670	(976)	7	17,694	0	17,694
28	Payroll Taxes	0	10,634	5	10,634	0	10,634
29	Income Taxes	(6,972)	19,930	8	12,958	0	12,958
30	Rounding	(1)	0		(1)	0	(1)
31	**Total Operating Expenses**	$385,362	($75,294)		$310,068	$0	$310,068
32							
33	**Operating Income (Loss)**	($26,998)	$74,914		$47,916	$0	$47,916

References:
Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Schedule TBH CM-14
Column [C]: Column [A] + Column [B]
Column [D]: Schedules TBH CM-1A and TBH CM-2
Column [E]: Column [C] + Column [D]

Chino Meadows II Water Co., Inc.
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Surrebuttal Schedule TBH CM-13B

OPERATING INCOME - TEST YEAR AND STAFF'S ALTERNATIVE RECOMMENDATION

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ NO.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:						
1	Metered Water Sales	$345,620	$0		$345,620	($41,913)	$303,707
2	Water Sales - Unmetered	0	0		0	0	0
3	Other Operating Revenues	12,744	(379)	1	12,365	0	12,365
4	**Total Revenues**	$358,364	($379)		$357,985	($41,913)	$316,072
5							
6	*EXPENSES:*						
7	Salaries and Wages	$179,965	($59,487)	5	$120,478	$0	$120,478
8	Salaries and Wages - Officers	31,700	(15,750)	5	15,950	0	15,950
9	Employee Pensions & Benefits	0	0		0	0	0
10	Purchased Water	40	0		40	0	40
11	Purchased Power	24,401	(609)	5	23,792	0	23,792
12	Chemicals	425	(71)	5	354	0	354
13	Repairs and Maintenance	8,899	(342)	5	8,557	0	8,557
14	Office Supplies & Expense	30,594	(18,735)	5	11,859	0	11,859
15	Contractual Services	11,457	(2,924)	5	8,533	0	8,533
16	Water Testing	4,791	37	2	4,828	0	4,828
17	Rents	0	8,438	5	8,438	0	8,438
18	Transportation Expenses	24,752	(8,448)	5	16,304	0	16,304
19	Insurance - General Liability	8,964	(2,910)	5	6,054	0	6,054
20	Insurance - Health and Life	2,667	(667)	5	2,000	0	2,000
21	Reg. Comm. Exp.	445	0		445	0	445
22	Reg. Comm. Exp. - Rate Case	13,333	1,667	3	15,000	0	15,000
23	Miscellaneous Expense	8,848	(5,577)	5	3,271	0	3,271
24	Bad Debt Expense	1,990	2,843	4	4,833	(570)	4,263
25	Depreciation Expense	20,394	(2,346)	6	18,048	0	18,048
26	Taxes Other Than Income	0	0		0	0	0
27	Property Taxes	18,670	(976)	7	17,694	(691)	17,003
28	Payroll Taxes	0	10,634	5	10,634	0	10,634
29	Income Taxes	(6,972)	19,930	8	12,958	(8,894)	4,064
30	Rounding	(1)	0		(1)	6	5
31	**Total Operating Expenses**	$385,362	($75,294)		$310,068	($10,149)	$299,919
32							
33	**Operating Income (Loss)**	($26,998)	$74,914		$47,916	($31,764)	$16,153

References:
Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Schedule TBH CM-14
Column [C]: Column [A] + Column [B]
Column [D]: Schedules TBH CM-1B and TBH CM-2
Column [E]: Column [C] + Column [D]

Chino Meadows II Water Co., Inc.
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SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ NO. 1 Unauthorized Surcharge - Other Revenue	[C] ADJ NO. 2 Water Testing	[D] ADJ NO. 3 Rate Case Expense	[E] ADJ NO. 4 Bad Debt Expense	[F] ADJ NO. 5 Allocations to Water Companies	[G] ADJ NO. 6 Depreciation Expense	[H] ADJ NO. 7 Property Tax Expense	[I] ADJ NO. 8 Taxes Income Tax Expense	[J] STAFF ADJUSTED
			Ref: Sch TBH CM-15	Ref: Sch TBH CM-16	Ref: Sch TBH CM-17	Ref: Sch TBH CM-18	Ref: Sch TBH CM-19	Ref: Sch TBH CM-20	Ref: Sch TBH CM-21	Ref: Sch TBH CM-22	
1	*REVENUES:*										
2	Metered Water Sales	$345,620	$0	$0	$0	$0	$0	$0	$0	$0	$345,620
3	Water Sales - Unmetered	0	0	0	0	0	0	0	0	0	0
4	Other Operating Revenues	12,744	(379)	0	0	0	0	0	0	0	12,365
5	**Total Revenues**	$358,364	($379)	$0	$0	$0	$0	$0	$0	$0	$357,985
6											
7	*OPERATING EXPENSES:*										
8	Salaries and Wages	$179,965	$0	$0	$0	$0	($59,487)	$0	$0	$0	$120,478
9	Salaries and Wages - Officers	$31,700	0	0	0	0	(15,750)	0	0	0	15,950
10	Employee Pensions & Benefits	0	0	0	0	0	0	0	0	0	0
11	Purchased Water	40	0	0	0	0	0	0	0	0	40
12	Purchased Power	24,401	0	0	0	0	(609)	0	0	0	23,792
13	Chemicals	425	0	0	0	0	(71)	0	0	0	354
14	Repairs and Maintenance	8,899	0	0	0	0	(342)	0	0	0	8,557
15	Office Supplies & Expense	30,594	0	0	0	0	(18,735)	0	0	0	11,859
16	Contractual Services	11,457	0	0	0	0	(2,924)	0	0	0	8,533
17	Water Testing	4,791	0	37	0	0	0	0	0	0	4,828
18	Rents	0	0	0	0	0	8,438	0	0	0	8,438
19	Transportation Expenses	24,752	0	0	0	0	(8,448)	0	0	0	16,304
20	Insurance - General Liability	8,964	0	0	0	0	(2,910)	0	0	0	6,054
21	Insurance - Health and Life	2,667	0	0	0	0	(667)	0	0	0	2,000
22	Reg. Comm. Exp.	445	0	0	0	0	0	0	0	0	445
23	Reg. Comm. Exp. - Rate Case	13,333	0	0	1,667	0	0	0	0	0	15,000
24	Miscellaneous Expenses	8,848	0	0	0	0	(5,577)	0	0	0	3,271
25	Bad Debt Expense	1,990	0	0	0	2,843	0	0	0	0	4,833
26	Depreciation Expense	20,394	0	0	0	0	0	(2,346)	0	0	18,048
27	Taxes Other Than Income	0	0	0	0	0	0	0	0	0	0
28	Property Taxes	18,670	0	0	0	0	0	0	(976)	0	17,694
29	Payroll Taxes	0	0	0	0	0	10,634	0	0	0	10,634
30	Income Taxes	(6,972)	0	0	0	0	0	0	0	19,930	12,958
31	Rounding	(1)	0	0	0	0	0	0	0	0	(1)
32	**Total Operating Expense**	$385,362	$0	$37	$1,667	$2,843	($96,448)	($2,346)	($976)	$19,930	$310,068
33											
34	**Operating Income (Loss)**	($26,998)	($379)	($37)	($1,667)	($2,843)	$96,448	$2,346	$976	($19,930)	$47,916

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Surrebuttal Schedule TBH CM-15

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

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS (Col C - Col A)	[C] STAFF AS ADJUSTED
1	Surcharge - Other Revenue	$12,744	($379)	$12,365

References:
Column [A]: Chino Meadows general ledger provided in DR CM TBH 1.3
Column [B]: Testimony
Column [C]: Column [A] + Column [B]

Chino Meadows II Water Co., Inc.
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Surrebuttal Schedule TBH CM-16

OPERATING INCOME ADJUSTMENT NO. 2 - WATER TESTING

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Water Testing	$4,791	$37	$4,828

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

Chino Meadows II Water Co., Inc.
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Surrebuttal Schedule TBH CM-17

OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS (Col C - Col A)	[C] STAFF AS ADJUSTED
1	Rate Case Expense	$13,333	$1,667	$15,000
2				
3				
4				
5				

6	Company	Rate Case Expense as filed	Staff Adjusted Rate Case Expense	Difference	Normalize over 3 years
7					
8	Chino Meadows	$40,000	$45,000	$5,000	$1,667
9	Granite Mountain	10,000	30,000	20,000	6,667
10	Total	$50,000	$75,000	$25,000	$8,333

References:
Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Testimony, DR'S CM TBH 1.5 Supplemental & CM TBH 2.5
Column [C]: Column [A] + Column [B]

Chino Meadows II Water Co., Inc.
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Surrebuttal Schedule TBH CM-18

OPERATING INCOME ADJUSTMENT NO. 4 - BAD DEBT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Bad Debt Expenses	$1,990	$2,843	$4,833
2				
3				
4				
5				
6	**Reclassification**			
7	To correct for bad debt expenses included in miscellaneous expenses			$3,000
8	To adjust for bad debts recovered and collection fees included in miscellaneous expenses			(157)
9	Total adjustment			**$2,843**

Test Year Revenue	$358,364
Average Write-Off Rate	1.3486%

Notes: Company included in Misc expenses. Staff reviewed the last four years of actual bad debt expenses. The Company stated that the total was an typo error ($3,000). The amount appears to be reasonable.

2010	4,687.50
2011	5,484.76
2012	4,017.55
2013	4,832.79

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Surrebuttal Schedule TBH CM-19a

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Salaries and Wages	$179,965	($59,487)	$120,478
2	Salaries and Wages - Officers	31,700	(15,750)	15,950
3	Purchased Power	24,401	(609)	23,792
4	Chemicals	425	(71)	354
5	Repairs and Maintenance	8,899	(342)	8,557
6	Office Supplies & Expense	30,594	(18,735)	11,859
7	Rents	0	8,438	8,438
8	Contractual Services	11,457	(2,924)	8,533
9	Transportation Expenses	24,752	(8,448)	16,304
10	Insurance - General Liability	8,964	(2,910)	6,054
11	Insurance - Health and Life	2,667	(667)	2,000
12	Miscellaneous Expenses	8,848	(5,577)	3,271
13	Payroll Taxes	0	10,634	10,634
14	Total	$332,672	($96,448)	$236,224
15				

16		[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[P]
17				Staff Adjustments									
18			Original amount allocated to				Chino Meadows		Portion allocated to unregulated	Amount allocated to unregulated	Amount allocated to regulated	Chino Meadows Adjusted 4-factor	Amount to be allocated to
19	DESCRIPTION	Company as filed	Granite Mountain	Reclassification	Disallowance	Normalize	Direct	Cost to be Allocated	affiliate companies	affiliate companies	companies	allocation	Chino Meadows
20	Salaries and Wages	$179,965	$0	($15,718)	(17,444)	13,834	$0	$160,638	0%	$0	$160,638	75.00%	$120,478
21	Salaries and Wages - Officers	31,700	6,000	0	(16,434)	0	0	21,266	0%	0	21,266	75.00%	15,950
22	Purchased Power	24,401	247	0	(46)	0	22,110	2,493	10%	249	2,244	75.00%	1,683
23	Chemicals	425	47	0	0	0	0	472	0%	0	472	75.00%	354
24	Repairs and Maintenance	8,899	633	1,281	(124)	0	2,159	8,530	0%	0	8,530	75.00%	6,398
25	Office Supplies & Expense	30,594	1,988	(12,000)	(2,804)	(208)	0	17,569	10%	1,757	15,812	75.00%	11,859
26	Rents	0	3,000	12,000	0	0	0	15,000	25%	3,750	11,250	75.00%	8,438
27	Contractual Services	11,457	490	(500)	(1,232)	0	3,489	6,726	0%	0	6,726	75.00%	5,045
28	Transportation Expenses	24,752	2,736	1,817	(7,380)	(186)	0	21,739	0%	0	21,739	75.00%	16,304
29	Insurance - General Liability	8,964	996	0	(1,058)	594	0	9,496	15%	1,424	8,072	75.00%	6,054
30	Insurance - Health and Life	2,667	296	0	0	0	0	2,963	10%	296	2,667	75.00%	2,000
31	Miscellaneous Expenses	8,848	245	(3,397)	(2,301)	0	2,903	490	0%	0	490	75.00%	368
32	Payroll Taxes	0	0	15,718	(1,539)	0	0	14,179	0%	0	14,179	75.00%	10,634
33	Total	$332,672	$16,678	($799)	($50,362)	$14,034	$30,661	$281,562		$7,477	$274,085		$205,564

References:
Column [A]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Column [C] - Column [A]
Column [C]: Col [I] + Col [P]
Column [D]: Company Schedule C-2
Column [E]: Chino Meadows general ledger provided in DR CM TBH 1.3
Column [F]: Schedule Surrebuttal TBH CM-19b
Column [G]: Schedule Surrebuttal TBH CM-19c
Column [H]: Schedule TBH CM-19d
Column [I]: Chino Meadows general ledger provided in DR CM TBH 1.3
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 Surrebuttal TBH CM-19e
Column [P]: Col [M] * Col [N]

Chino Meadows II Water Co., Inc.
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Surrebuttal Schedule TBH CM-19b

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS RECLASSIFICATIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] 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 - Schedule TBH CM-19f Line 7	($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**			
40	Payroll taxes included as salaries and wages - Schedule TBH CM-19f Line 7	$15,718	$15,718	

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Surrebuttal Schedule TBH CM-19c

OPERATING INCOME ADJUSTMENT NO. 5 - 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	Unregulated salaries and wages - Schedule TBH CM-19f Line 7	($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 DR CM 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				
53	**Payroll Taxes**			
54	Non-regulated payroll taxes - Schedule TBH CM-19f Line 7	($1,539)	($1,539)	

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Surrebuttal Schedule TBH CM-19d

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS NORMALIZATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] 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	

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Surrebuttal Schedule TBH CM-19e

OPERATING INCOME ADJUSTMENT NO. 5 - 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 Revenues %**	**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 CM-4; the information for Antelope Lakes is from the 2013 Annual Report on Revised Balance Sheet, p. 6 as of 12/31/2013
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.

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Surrebuttal Schedule TBH CM-19f

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS SALARIES & WAGES CALCULATION

	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
LINE NO.	2014 Current Salaries	2014 Current or Estimated Hourly Rate	2014 Current or Estimated Salary and Wages	2014 Current or Estimated Payroll Taxes	Unregulated [1] Hours %	2014 Unregulated Salary and Wages	2014 Unregulated Payroll Taxes	Staff Adjusted Salaries and Wages	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
8	[1] Hours per week/2,080 hours per year. Percentages provided by Chino Meadows (CM) and Granite Mountain (GM) in DRs CM TBH-1.25, CM TBH-2.12h, GM TBH-2.5 and GM								
9	TBH-2.5g.								
10	[2] Per DR CM TBH 1.25g. Barney $13,000 bonuses to adjust pay to match responsibilities.								

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

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Surrebuttal Schedule TBH CM-19g

OPERATING INCOME ADJUSTMENT NO. 5 - ALLOCATIONS OFFICER'S SALARIES CALCULATION

LINE NO.	DESCRIPTION	[A] 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]: Company Application - Attachment No. 2 Supplemental Page 1
Column [B]: Column [C] - Column [A]
Column [C]: As calculated by Staff on line 24
Column [D] : Per DRs CM TBH 1.26.g, CM TBH 2.12 and CM TBH 3.7

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Surrebuttal Schedule TBH CM-20

OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT in SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	$6,843	$6,843	$0	0.00%	$0
2	302	Franchises	0	0	0	0.00%	0
3	303	Land and Land Rights	15,204	15,204	0	0.00%	0
4	304	Structures and Improvements	44,339	0	44,339	3.33%	1,476
5	305	Collecting and Impounding Reserviors	4,350	0	4,350	2.50%	109
6	307	Wells and Springs	27,987	9,096	18,891	3.33%	629
7	309	Supply Mains	1,009	0	1,009	2.00%	20
8	310	Power Generation Equipment	12,401	0	12,401	5.00%	620
9	311	Pumping Equipment	46,268	46,268	0	12.50%	0
10	320	**Water Treatment Equipment**					
11	320.1	Water Treatment Plants	0	0	0	3.33%	0
12	320.2	Solution Chemical Feeders	6,406	6,406	0	20.00%	0
13	330	**Distribution Reservoirs & Standpipes**					
14	330.1	Storage Tanks	36,415	15,120	21,295	2.22%	473
15	330.2	Pressure Tanks	15,269	15,269	0	5.00%	0
16	331	Transmission and Distribution Mains	304,942	167,988	136,954	2.00%	2,739
17	333	Services	30,067	7,181	22,886	3.33%	762
18	334	Meters and Meter Installations	89,777	0	89,777	8.33%	7,478
19	335	Hydrants	12,042	0	12,042	2.00%	241
20	336	Backflow Prevention Devices	0	0	0	6.67%	0
21	339	Other Plant and Miscellaneous Equipment	16,728	1,305	15,423	6.67%	1,029
22	340	Office Furniture and Equipment	6,534	0	6,534	6.67%	436
23	340.1	Computers and Software	10,601		10,601	20.00%	2,120
24	341	Transportation Equipment	55,820	55,820	0	20.00%	0
25	343	Tools, Shop, and Garage Equipment	1,274	0	1,274	5.00%	64
26	344	Laboratory Equipment	0	0	0	10.00%	0
27	345	Power Operated Equipment	30,461	18,377	12,084	5.00%	604
28	346	Communication Equipment	17,200	0	17,200	10.00%	1,720
29	347	Miscellaneous Equipment	3,975	0	3,975	10.00%	398
30	348	Other Tangible Equipment	0	0	0	0.00%	0
31		Total Plant	$795,910	$364,876	$431,034		$20,918

Amortization of Plant based on Appropriate Depreciation Rates:

Description	Plant in Service	Depreciation Rates	Amortization of CIAC
Power Generation	$530	5.00%	$27
Trans & Distr	3,635	2.00%	73
Computers & Software	6,208	20.00%	1,242
Tools, Shop & Garage	32	5.00%	2
Totals	$10,406		$1,342

Amortization of CIAC (Depreciation Rates Identified):	$1,342
CIAC Plant in Service (Depreciation Rates Identified):	$10,406
Composite Depreciation Rate (Depr Exp / Depreciable Plant):	4.85%
CIAC Less CIAC (Depreciation Rates Identified):	$31,478
Amortization of CIAC (Line 33 x Line 34):	$1,528
Total Amortization of CIAC (Line 41 + Line 46)	$2,870
Depreciation Expense Before Amortization of CIAC:	$20,918
Less Amortization of CIAC: (Line 48)	2,870
Test Year Depreciation Expense - Staff:	$18,048
Depreciation Expense - Company:	20,394
Staff's Total Adjustment:	**($2,346)**

References:
Column [A]: Schedule TBH CM-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report Exhibit JWL Table B
Column [E]: Column [C] x Column [D]

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Surrebuttal Schedule TBH CM-21

OPERATING INCOME ADJUSTMENT NO. 7 - PROPERTY TAX

LINE NO.	PROPERTY TAX CALCULATION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	$357,985	$357,985
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	$715,969	$715,969
4	Staff Recommended Revenue, Per Schedules Surrebuttal TBH CM-1A & TBH CM-1B	357,985	316,072
5	Subtotal (Line 4 + Line 5)	$1,073,954	$1,032,041
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	$357,985	$344,014
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	$715,969	$688,027
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	$715,969	$688,027
13	Assessment Ratio	18.50%	18.50%
14	Assessment Value (Line 12 * Line 13)	132,454	127,285
15	Composite Property Tax Rate	13.36%	13.36%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	$17,694	
17	Company Proposed Property Tax	18,670	
18	Staff Test Year Adjustment (Line 16-Line 17)	($976)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$17,003
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		17,694
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		(691)
22	Increase to Property Tax Expense, Schedule Surrebuttal TBH CM-13B		($691)
23	Increase in Revenue Requirement, Schedule Surrebuttal TBH CM-13B		($41,913)
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.65%

References:
Line 15: Composite Tax Rate line 28 of the Company's proforma Adjustment No. 7 in Attachment No. 2, Supplemental page 9 Amended.
Line 17: Company 2nd Amended Application page 19.
Line 21: Line 19 - Line 20

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Surrebuttal Schedule TBH CM-22

OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	[A]	[B]
	Calculation of Income Tax:	Test Year	
1	Revenue	$357,985	
2	Less: Operating Expenses - Excluding Income Taxes	297,110	
3	Less: Synchronized Interest (L17)	0	
4	Arizona Taxable Income (L1- L2 - L3)	$60,874	
5	Arizona State Income Tax Rate	6.000%	
6	Arizona Income Tax (L4 x L5)		$3,652
7	Federal Taxable Income (L4 - L6)	$57,222	
8	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	7,500	
9	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	1,805	
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		9,305
14	Combined Federal and State Income Tax (L6 + L13)		$12,958
	Calculation of Interest Synchronization:		
15	Rate Base	$161,528	
16	Weighted Average Cost of Debt	0.00%	
17	Synchronized Interest (L16 x L17)	$0	
18	Income Tax - Per Staff	$12,958	
19	Income Tax - Per Company	(6,972)	
20	**Staff Adjustment**	**$19,930**	

REFERENCES:

Line 18: Adjusted Income Tax - Company's proforma Adjustment No. 8 in Attachment No. 2, Supplemental page 10 Amended Line 32.
Line 17: Company 2nd Amended Application page 19.
Line 21: Line 19 - Line 20

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Surrebuttal Schedule TBH CM-23

CASH FLOW ANALYSIS

LINE NO.	CASH FLOWS	[A] Company 2013 Test Year Income Statement As Filed	[B] Staff's Recommendation Cash Flow from Operations	[C] Staff's Alternative Recommenation Cash Flow from Operations
1	**Cash Inflows**			
2	Metered Water Sales	$345,620	$345,620	$303,707
3	Water Sales - Unmetered	0	0	0
4	Other Operating Revenues	12,744	12,365	12,365
5	**Total Revenues**	$358,364	$357,985	$316,072
6				
7	**Cash Outflows**			
8	Salaries and Wages	$179,965	$120,478	$120,478
9	Salaries and Wages - Officers	31,700	15,950	15,950
10	Employee Pensions & Benefits	0	0	0
11	Purchased Water	40	40	40
12	Purchased Power	24,401	23,792	23,792
13	Chemicals	425	354	354
14	Repairs and Maintenance	8,899	8,557	8,557
15	Office Supplies & Expense	30,594	11,859	11,859
16	Contractual Services	11,457	8,533	8,533
17	Water Testing	4,791	4,828	4,828
18	Rents	0	8,438	8,438
19	Transportation Expenses	24,752	16,304	16,304
20	Insurance - General Liability	8,964	6,054	6,054
21	Insurance - Health and Life	2,667	2,000	2,000
22	Reg. Comm. Exp.	445	445	445
23	Reg. Comm. Exp. - Rate Case	13,333	15,000	15,000
24	Miscellaneous Expense	8,848	3,271	3,271
25	Bad Debt Expense	1,990	4,833	4,263
26	Depreciation Expense	20,394	18,048	18,048
27	Taxes Other Than Income	0	0	0
28	Property Taxes	18,670	17,694	17,003
29	Payroll Taxes	0	10,634	10,634
30	Income Taxes	(6,972)	12,958	4,064
31	Rounding	(1)	(1)	5
32	**Total Expenses**	$385,362	$310,068	$299,919
33				
34	**Operating Income**	($26,998)	$47,916	$16,153
35				
36	Plus: Depreciation Expense	20,394	18,048	18,048
37	**Cash Flow from Operations**	($6,604)	$65,964	$34,201

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RATE DESIGN - STAFF'S RECOMMENDATION

Monthly Usage Charge	Present Rates		Company Proposed Rates		Staff Recommended Rates
Meter Size (All Classes):					
5/8 x 3/4 Inch	$ 17.75		$ 23.00		$ 17.75
3/4 Inch	26.63		34.50		26.63
1 Inch	44.38		57.50		44.38
1 1/2 Inch	88.75		115.00		88.75
2 Inch	142.00		184.00		142.00
3 Inch	266.25		368.00		266.25
4 Inch	443.75		575.00		443.75
6 Inch	887.50		1,150.00		887.50
Commodity Charge - Per 1,000 Gallons					
5/8" x 3/4" Meter (Residential)					
First 3,000 gallons	2.40		3.50		2.40
3,001 to 8,000 gallons	3.20		5.10		3.20
Over 8,000 gallons	4.20		6.50		4.20
5/8" x 3/4" Meter (Commercial)					
First 3,000 gallons	2.40		3.50		2.40
3,001 to 8,000 gallons	3.20		5.10		3.20
Over 8,000 gallons	4.20		6.50		4.20
3/4" Meter (Residential)					
First 3,000 gallons	2.40		3.50		2.40
3,001 to 8,000 gallons	3.20		5.10		3.20
Over 8,000 gallons	4.20		6.50		4.20
3/4" Meter (Commercial)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 8,000 gallons	N/A		N/A		3.20
Over 8,000 gallons	N/A		N/A		4.20
1" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 10,000 gallons	N/A		N/A		3.20
Over 10,000 gallons	N/A		N/A		4.20
1 1/2" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 20,000 gallons	N/A		N/A		3.20
Over 20,000 gallons	N/A		N/A		4.20
2" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 40,000 gallons	N/A		N/A		3.20
Over 40,000 gallons	N/A		N/A		4.20

3" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 100,000 gallons	N/A		N/A		3.20
Over 100,000 gallons	N/A		N/A		4.20
4" Meter (All Classes)					
First 30,000 gallons	N/A		5.10		N/A
Over 30,000 gallons	N/A		6.50		N/A
First 180,000 gallons	N/A		N/A		3.20
Over 180,000 gallons	N/A		N/A		4.20
6" Meter (All Classes)					
First 30,000 gallons	N/A		5.10		N/A
Over 30,000 gallons	N/A		6.50		N/A
First 300,000 gallons	N/A		N/A		3.20
Over 300,000 gallons	N/A		N/A		4.20
Hydrant Meter (Not Individually Assigned) All Usage, Per 1,000 Gallons	4.20		6.50		4.20
Other Service Charges					
Establishment	$ 25.00		$ 25.00		$ 25.00
Reconnection (Delinquent)	30.00		35.00		30.00
After Hour Service Charge (Flat Rate)	25.00		25.00		25.00
Meter Test (If Correct)	20.00		30.00		25.00
Deposit	*		*		*
Deposit Interest	*		*		*
Reestablishment (within 12 months)	**		**		**
NSF Check	20.00		20.00		20.00
Deferred Payment (per month)	1.50%		1.50%		1.50%
Meter Re-Read (if Correct)	15.00		15.00		15.00
Late Payment Fee (per month)	1.50%		1.50%		1.50%
Moving Customer Meter at Customer Request	N/A		*** @ cost		*** @ cost
Monthly Service Charge for Fire Sprinklers					
4" or Smaller	****		****		****
6"	****		****		****
8"	****		****		****
10"	****		****		****
Larger than 10"	****		****		****

* Per Commission Rule A.A.C. R14-2-403(B).

** Months off the system times the Monthly Usage Charge, per A.A.C. R14-2-403(D).

*** All items billed at cost shall include labor, materials, parts, overheads and all applicable taxes.

**** 2.00 percent of the Monthly Usage Charge for a Comparable Sized Meter Connection, but no less that $10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

Service and Meter Installation Charges

Service Size	Total Present Charge	Proposed Service Line Charge	Proposed Meter Insallation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Insallation Charge	Total Recommended Charge
5/8 x 3/4 Inch	$ 501.00	$ 450.00	$ 150.00	$ 600.00	$ 450.00	$ 150.00	$ 600.00
3/4 Inch	575.00	450.00	250.00	700.00	450.00	250.00	700.00
1 Inch	650.00	575.00	300.00	875.00	575.00	300.00	875.00
1 1/2 Inch	716.00	675.00	500.00	1,175.00	675.00	500.00	1,175.00
2 Inch	1,572.00	1,000.00	1,500.00	2,500.00	1,000.00	1,500.00	2,500.00
3 Inch	2,400.00	1,300.00	2,000.00	3,300.00	1,300.00	2,000.00	3,300.00
4 Inch	3,516.00	1,800.00	3,500.00	5,300.00	1,800.00	3,500.00	5,300.00
6 Inch	6,916.00	2,800.00	6,000.00	8,800.00	2,800.00	6,000.00	8,800.00
Over 6 Inch	N/A	N/A	N/A	N/A	Actual Cost	Actual Cost	Actual Cost

Chino Meadows II Water Company Inc.
Docket No. W-02370A-14-0231
Test Year Ended: December 31, 2013

RATE DESIGN - STAFF'S ALTERNATIVE RECOMMENDATION					
Monthly Usage Charge	Present Rates		Company Proposed Rates		Staff Recommended Rates
Meter Size (All Classes):					
5/8 x 3/4 Inch	$ 17.75		$ 23.00		$ 14.75
3/4 Inch	26.63		34.50		22.13
1 Inch	44.38		57.50		36.88
1 1/2 Inch	88.75		115.00		73.75
2 Inch	142.00		184.00		118.00
3 Inch	266.25		368.00		236.00
4 Inch	443.75		575.00		368.75
6 Inch	887.50		1,150.00		737.50
Commodity Charge - Per 1,000 Gallons					
5/8" x 3/4" Meter (Residential)					
First 3,000 gallons	2.40		3.50		2.20
3,001 to 8,000 gallons	3.20		5.10		3.00
Over 8,000 gallons	4.20		6.50		4.00
5/8" x 3/4" Meter (Commercial)					
First 3,000 gallons	2.40		3.50		2.20
3,001 to 8,000 gallons	3.20		5.10		3.00
Over 8,000 gallons	4.20		6.50		4.00
3/4" Meter (Residential)					
First 3,000 gallons	2.40		3.50		2.20
3,001 to 8,000 gallons	3.20		5.10		3.00
Over 8,000 gallons	4.20		6.50		4.00
3/4" Meter (Commercial)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 8,000 gallons	N/A		N/A		3.00
Over 8,000 gallons	N/A		N/A		4.00
1" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 10,000 gallons	N/A		N/A		3.00
Over 10,000 gallons	N/A		N/A		4.00
1 1/2" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 20,000 gallons	N/A		N/A		3.00
Over 20,000 gallons	N/A		N/A		4.00
2" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 40,000 gallons	N/A		N/A		3.00
Over 40,000 gallons	N/A		N/A		4.00

RATE DESIGN CONTINUED - STAFF'S ALTERNATIVE RECOMMENDATION

3" Meter (All Classes)					
First 3,000 gallons	2.40		3.50		N/A
3,001 to 8,000 gallons	3.20		5.10		N/A
Over 8,000 gallons	4.20		6.50		N/A
First 100,000 gallons	N/A		N/A		3.00
Over 100,000 gallons	N/A		N/A		4.00
4" Meter (All Classes)					
First 30,000 gallons	N/A		5.10		N/A
Over 30,000 gallons	N/A		6.50		N/A
First 180,000 gallons	N/A		N/A		3.00
Over 180,000 gallons	N/A		N/A		4.00
6" Meter (All Classes)					
First 30,000 gallons	N/A		5.10		N/A
Over 30,000 gallons	N/A		6.50		N/A
First 300,000 gallons	N/A		N/A		3.00
Over 300,000 gallons	N/A		N/A		4.00
Hydrant Meter (Not Individually Assigned) All Usage, Per 1,000 Gallons	4.20		6.50		4.00
Other Service Charges					
Establishment	$ 25.00		$ 25.00		$ 25.00
Reconnection (Delinquent)	30.00		35.00		30.00
After Hour Service Charge (Flat Rate)	25.00		25.00		25.00
Meter Test (If Correct)	20.00		30.00		25.00
Deposit	*		*		*
Deposit Interest	*		*		*
Reestablishment (within 12 months)	**		**		**
NSF Check	20.00		20.00		20.00
Deferred Payment (per month)	1.50%		1.50%		1.50%
Meter Re-Read (if Correct)	15.00		15.00		15.00
Late Payment Fee (per month)	1.50%		1.50%		1.50%
Moving Customer Meter at Customer Request	N/A		*** @ cost		*** @ cost
Monthly Service Charge for Fire Sprinklers					
4" or Smaller	****		****		****
6"	****		****		****
8"	****		****		****
10"	****		****		****
Larger than 10"	****		****		****

* Per Commission Rule A.A.C. R14-2-403(B).

** Months off the system times the Monthly Usage Charge, per A.A.C. R14-2-403(D).

*** All items billed at cost shall include labor, materials, parts, overheads and all applicable taxes.

**** 2.00 percent of the Monthly Usage Charge for a Comparable Sized Meter Connection, but no less that $10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

Service and Meter Installation Charges

Service Size	Total Present Charge	Proposed Service Line Charge	Proposed Meter Insallation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Insallation Charge	Total Recommended Charge
5/8 x 3/4 Inch	$ 501.00	$ 450.00	$ 150.00	$ 600.00	$ 450.00	$ 150.00	$ 600.00
3/4 Inch	575.00	450.00	250.00	700.00	450.00	250.00	700.00
1 Inch	650.00	575.00	300.00	875.00	575.00	300.00	875.00
1 1/2 Inch	716.00	675.00	500.00	1,175.00	675.00	500.00	1,175.00
2 Inch	1,572.00	1,000.00	1,500.00	2,500.00	1,000.00	1,500.00	2,500.00
3 Inch	2,400.00	1,300.00	2,000.00	3,300.00	1,300.00	2,000.00	3,300.00
4 Inch	3,516.00	1,800.00	3,500.00	5,300.00	1,800.00	3,500.00	5,300.00
6 Inch	6,916.00	2,800.00	6,000.00	8,800.00	2,800.00	6,000.00	8,800.00
Over 6 Inch	N/A	N/A	N/A	N/A	Actual Cost	Actual Cost	Actual Cost

Chino Meadows II Water Company Inc.
Docket No. W-02370A-14-0231
Test Year Ended: December 31, 2013

Surrebuttal Schedule TBH CM-25A

Typical Bill Analysis - STAFF'S RECOMMENDATION
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons		Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,931		$ 31.13	$ 43.35	$ 12.22	39.25%
Median Usage	3,469		26.45	35.89	$ 9.44	35.69%
Staff Recommended						
Average Usage	4,931		$ 31.13	$ 31.13	$ -	0.00%
Median Usage	3,469		26.45	26.45	$ -	0.00%

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

	Present		Company Proposed	%	Staff Recommended Alt. A	%
	5/8" x 3/4"		5/8" x 3/4"		5/8" x 3/4"	
	Minimum Charge	$ 17.75	Minimum Charge	$ 23.00	Minimum Charge	$ 17.75
	1st Tier Rate	2.40	1st Tier Rate	3.50	1st Tier Rate	2.40
	1st Tier Breakover	3,000	1st Tier Breakover	3,000	1st Tier Breakover	3,000
	2nd Tier Rate	3.20	2nd Tier Rate	5.10	2nd Tier Rate	3.20
	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000
Gallons	3rd Tier Rate	4.20	3rd Tier Rate	6.50	3rd Tier Rate	4.20
Consumption	Rates		Rates	Increase	Rates	Increase
-	$ 17.75		$ 23.00	29.58%	$ 17.75	0.00%
1,000	20.15		26.50	31.51%	20.15	0.00%
2,000	22.55		30.00	33.04%	22.55	0.00%
3,000	24.95		33.50	34.27%	24.95	0.00%
4,000	28.15		38.60	37.12%	28.15	0.00%
5,000	31.35		43.70	39.39%	31.35	0.00%
6,000	34.55		48.80	41.24%	34.55	0.00%
7,000	37.75		53.90	42.78%	37.75	0.00%
8,000	40.95		59.00	44.08%	40.95	0.00%
9,000	45.15		65.50	45.07%	45.15	0.00%
10,000	49.35		72.00	45.90%	49.35	0.00%
11,000	53.55		78.50	46.59%	53.55	0.00%
12,000	57.75		85.00	47.19%	57.75	0.00%
13,000	61.95		91.50	47.70%	61.95	0.00%
14,000	66.15		98.00	48.15%	66.15	0.00%
15,000	70.35		104.50	48.54%	70.35	0.00%
16,000	74.55		111.00	48.89%	74.55	0.00%
17,000	78.75		117.50	49.21%	78.75	0.00%
18,000	82.95		124.00	49.49%	82.95	0.00%
19,000	87.15		130.50	49.74%	87.15	0.00%
20,000	91.35		137.00	49.97%	91.35	0.00%
25,000	112.35		169.50	50.87%	112.35	0.00%
30,000	133.35		202.00	51.48%	133.35	0.00%
35,000	154.35		234.50	51.93%	154.35	0.00%
40,000	175.35		267.00	52.27%	175.35	0.00%
45,000	196.35		299.50	52.53%	196.35	0.00%
50,000	217.35		332.00	52.75%	217.35	0.00%
75,000	322.35		494.50	53.40%	322.35	0.00%
100,000	427.35		657.00	53.74%	427.35	0.00%

Chino Meadows II Water Company Inc.
Docket No. W-02370A-14-0231
Test Year Ended: December 31, 2013

Surrebuttal Schedule TBH CM-25B

Typical Bill Analysis - STAFF'S ALTERNATIVE RECOMMENDATION
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons		Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,931		$ 31.13	$ 43.35	$ 12.22	39.25%
Median Usage	3,469		26.45	35.89	$ 9.44	35.69%
Staff Recommended						
Average Usage	4,931		$ 31.13	$ 27.14	$ (3.99)	-12.81%
Median Usage	3,469		26.45	22.76	$ (3.69)	-13.96%

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

	Present		Company Proposed	%	Staff Recommended Alt. B	%
	5/8" x 3/4"		5/8" x 3/4"		5/8" x 3/4"	
	Minimum Charge	$ 17.75	Minimum Charge	$ 23.00	Minimum Charge	$ 14.75
	1st Tier Rate	2.40	1st Tier Rate	3.50	1st Tier Rate	2.20
	1st Tier Breakover	3,000	1st Tier Breakover	3,000	1st Tier Breakover	3,000
	2nd Tier Rate	3.20	2nd Tier Rate	5.10	2nd Tier Rate	3.00
	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000	2nd Tier Breakover	8,000
	3rd Tier Rate	4.20	3rd Tier Rate	6.50	3rd Tier Rate	4.00
Gallons Consumption	Rates		Rates	Increase	Rates	Increase
-	$ 17.75		$ 23.00	29.58%	$ 14.75	-16.90%
1,000	20.15		26.50	31.51%	16.95	-15.88%
2,000	22.55		30.00	33.04%	19.15	-15.08%
3,000	24.95		33.50	34.27%	21.35	-14.43%
4,000	28.15		38.60	37.12%	24.35	-13.50%
5,000	31.35		43.70	39.39%	27.35	-12.76%
6,000	34.55		48.80	41.24%	30.35	-12.16%
7,000	37.75		53.90	42.78%	33.35	-11.66%
8,000	40.95		59.00	44.08%	36.35	-11.23%
9,000	45.15		65.50	45.07%	40.35	-10.63%
10,000	49.35		72.00	45.90%	44.35	-10.13%
11,000	53.55		78.50	46.59%	48.35	-9.71%
12,000	57.75		85.00	47.19%	52.35	-9.35%
13,000	61.95		91.50	47.70%	56.35	-9.04%
14,000	66.15		98.00	48.15%	60.35	-8.77%
15,000	70.35		104.50	48.54%	64.35	-8.53%
16,000	74.55		111.00	48.89%	68.35	-8.32%
17,000	78.75		117.50	49.21%	72.35	-8.13%
18,000	82.95		124.00	49.49%	76.35	-7.96%
19,000	87.15		130.50	49.74%	80.35	-7.80%
20,000	91.35		137.00	49.97%	84.35	-7.66%
25,000	112.35		169.50	50.87%	104.35	-7.12%
30,000	133.35		202.00	51.48%	124.35	-6.75%
35,000	154.35		234.50	51.93%	144.35	-6.48%
40,000	175.35		267.00	52.27%	164.35	-6.27%
45,000	196.35		299.50	52.53%	184.35	-6.11%
50,000	217.35		332.00	52.75%	204.35	-5.98%
75,000	322.35		494.50	53.40%	304.35	-5.58%
100,000	427.35		657.00	53.74%	404.35	-5.38%

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) CHINO MEADOWS II WATER COMPANY, INC.) FOR APPROVAL OF A RATE INCREASE.))	DOCKET NO. W-02370A-14-0231

DIRECT

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 15, 2015

EXHIBIT
S-3
ADMITTED

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EXHIBIT

Engineering Report for CHINO MEADOWS II WATER ..... JWL

INTRODUCTION

Q. Please state your name, place of employment and job title.

A. My name is Jian W. Liu. My place of employment is the Arizona Corporation Commission ("ACC" or "Commission"), 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Water/Wastewater Engineer with the Commission's Utilities Division Staff ("Staff").

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

A. I have been employed by the Commission since October 2005.

Q. Please list your duties and responsibilities.

A. My main responsibilities are to inspect, investigate and evaluate water and wastewater systems. This includes obtaining data, preparing reconstruction cost new and/or original cost studies, investigative reports, interpreting rules and regulations, and suggesting corrective action and providing technical recommendations on water and wastewater system deficiencies. I also provide written and oral testimony in rate cases and other cases before the Commission.

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

A. I have analyzed approximately 50 companies fulfilling these various responsibilities for the Commission's Utilities Division.

Q. Have you previously testified before this Commission?

A. Yes, I have testified before the Commission.

Q. What is your educational background?

A. I am a Ph.D. Candidate in Geotechnical Engineering from Arizona State University ("ASU"). I have a Master of Science Degree in Natural Science from ASU and a Master of Science Degree in Civil Engineering from Institute of Rock & Soil Mechanics ("IRSM"), Academy of Sciences, China.

Q. Briefly describe your pertinent work experience.

A. From 1982 to 2000, I was employed by IRSM, SCS Engineers, and URS Corporation as a Civil and Environmental Engineer. In 2000, I joined the Arizona Department of Environmental Quality ("ADEQ"). My responsibilities with ADEQ included review and approval of water distribution systems, sewer distribution systems, and on-site wastewater treatment facilities. I remained with ADEQ until transferring to the Commission in October 2005.

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

A. I am a licensed professional civil engineer in the State of Arizona.

PURPOSE OF TESTIMONY

Q. What was your assignment in this rate proceeding?

A. My assignment was to provide Staff's engineering evaluation of the subject rate proceeding. I reviewed the Company's application and responses to data requests, and I inspected the water system. This testimony and its attachments present Staff's engineering evaluation. The findings of my engineering evaluation are contained in the Engineering Report that I have prepared for this proceeding. The report is included as Exhibit JWL in this pre-filed testimony.

ENGINEERING REPORT

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

A. The Report is divided into three general sections: 1) *Executive Summary*; 2) *Engineering Report Discussion*, and 3) *Engineering Report Exhibits*. The *Discussions* section for the Water System can be further divided into ten subsections: A) Location of Company; B) Description of the Water System; C) ADEQ Compliance; D) ACC Compliance; E) Arizona Department Of Water Resources ("ADWR") compliance; F) Water Testing Expenses, G) Water Usage, H) Growth; I) Depreciation Rates; J) Other Issues.

RECOMMENDATIONS AND CONCLUSIONS

Q. What are Staff's conclusions and recommendations regarding the Company's operations?

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

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

EXHIBIT JWL

ENGINEERING REPORT FOR

CHINO MEADOWS II WATER CO., INC.

DOCKET NO. W-02370A-14-0231 (RATES)

JIAN W LIU

JULY 15, 2015

Engineering Report for:
Chino Meadows II Water Company
for a Rate Increase
Docket No. W-02370A-14-0231 (Rates)

By: Jian W Liu
Utilities Engineer

JULY 15, 2015

EXECUTIVE SUMMARY

CONCLUSIONS:

1. The Arizona Department of Environmental Quality ("ADEQ") reported that the Chino Meadows II Water Company ("Chino Meadows" or "Company") Public Water System ("PWS") No. 13-079, is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ compliance status report dated October 28, 2014).

2. The Company is located in the Prescott Active Management Area ("AMA") and is subject to Arizona Department of Water Resources ("ADWR") AMA reporting and conservation requirements. ADWR reported that Chino Meadows is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated October 14, 2014).

3. A check with the Arizona Corporation Commission ("ACC" or "Commission") Utilities Division Compliance Section showed no delinquent compliance items for the Company. (ACC Compliance Section Email dated October 6, 2014).

4. Staff concludes that Chino Meadows has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

5. The Company reported 60,730,000 gallons pumped and 52,423,000 gallons sold, resulting in a water loss of 13.68% for 2013.

6. Chino Meadows has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

RECOMMENDATIONS

1. In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

2. Staff recommends its average annual cost of $4,828 be adopted for the water testing expense in this proceeding.

3. Staff recommends that the Service Line and Meter Installation Charges listed in Table C be adopted.

4. Staff recommends that Chino Meadows prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the cost benefit analysis shall be docketed as a compliance item within 90 days of the effective date of the order issued in this proceeding.

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FIGURES

County Map ..... FIGURE 1

Certificated Area ..... FIGURE 2

A. INTRODUCTION AND LOCATION OF COMPANY

Chino Meadows II Water Company ("Chino Meadows" or "Company") has submitted an application with the Arizona Corporation Commission ("ACC" or "Commission") for approval of a rate increase in Docket No. W-02370A-14-0231. Chino Meadows presently provides utility service to 908 water customers in Yavapai County, Arizona. Figure 1 shows the location of Chino Meadows within Yavapai County and Figure 2 shows the certificated area. The Commission Utilities Division Staff ("Staff") engineering review and analysis of the pending application is presented in this report.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on December 9, 2014, by Jian Liu, Staff Utilities Engineer, and Teresa Hunsaker, Staff Public Utilities Analyst, in the accompaniment of Arden Barney of the Company.

The plant facilities consist of two active wells with total pumping capacity of 475 gallons per minute ("GPM"), four storage tanks with total storage capacity of 107,000 gallons, hydro-pneumatic pressure systems and distribution system serving 908 active connections during the test year of 2013. The detailed plant facility descriptions are as follows:

Well/Plant Data

ADWR ID No.	Pump HP	Pump GPM	Casing Depth(ft)	Casing Size(in)	Meter Size(in)	Year Drilled
55-552320	15	225	335	10	3	1995
55-613770	20	250	450	12	3	1982

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
67000	1	5,000	2	15	4
20000	1			25	1
10000	2				
Total ***107,000***					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	2,698			
		5/8x3/4	1,017	7
4	2,872	3/4		
6	70,214	1		
		1.5		
		2		
		3		
		4		
		Total	1,017	

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

ADEQ reported that the Chino Meadows drinking water system, Public Water System ("PWS") No. 13-079, is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ compliance status report dated October 28, 2014).

D. ACC COMPLIANCE

A check with the ACC Utilities Division Compliance Section showed no delinquent compliance items for the Company. (ACC Compliance Section Email dated October 6, 2014).

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

Chino Meadows is located in the ADWR Prescott Active Management Area ("AMA") and is subject to ADWR AMA reporting and conservation requirements. ADWR reported that Chino Meadows is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated October 14, 2014).

F. WATER TESTING EXPENSES

The Company is subject to mandatory participation in the ADEQ Monitoring Assistance Program ("MAP"). Participation in the MAP program is mandatory for water systems that serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at $4,790.54 during the 2013 test year. Staff reviewed the Company's reported testing expense and made certain adjustments to determine an average annual cost of $4,828 as shown in Table A. Staff recommends an annual water testing expense of $4,828 be used for purposes of this application.

Table A. Water Testing Cost

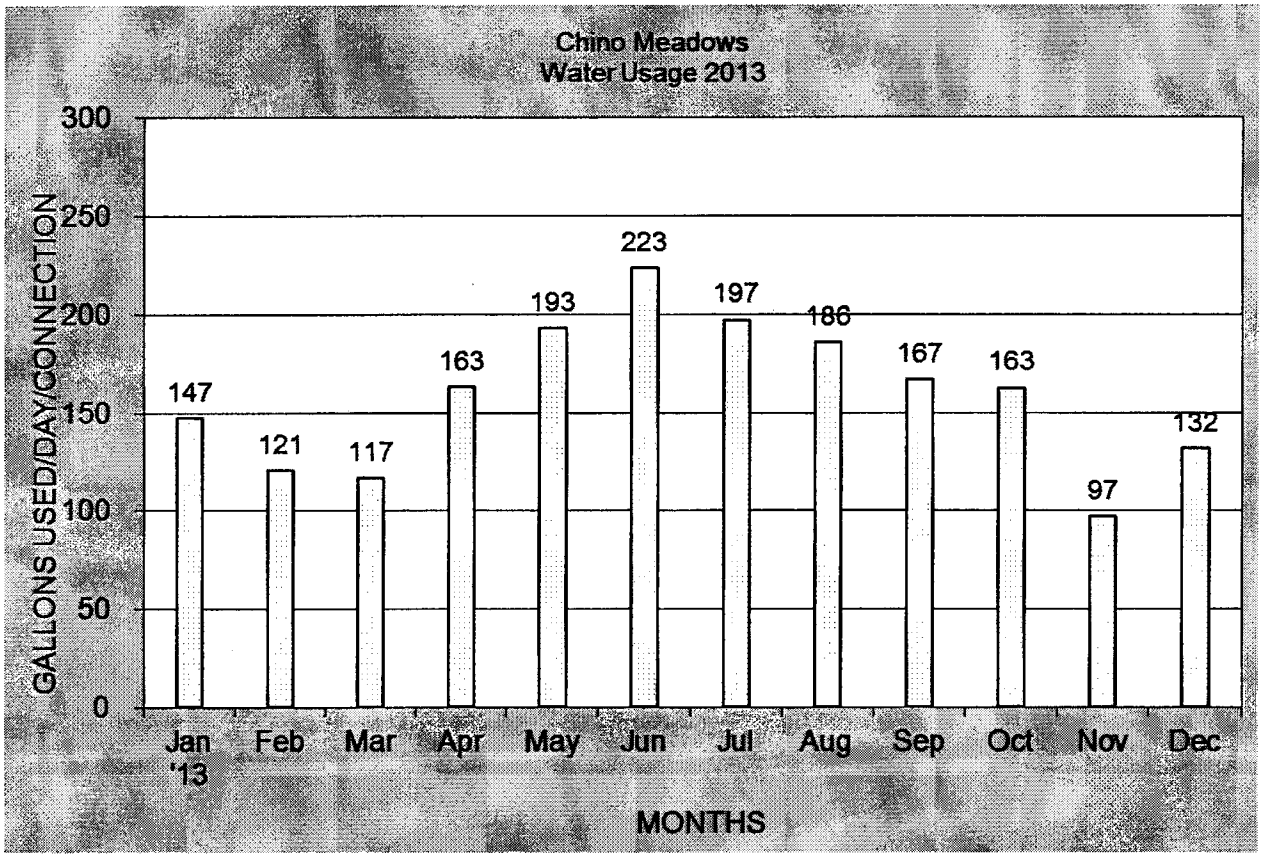
Monitoring	Cost per test	No. of test	Annual Expense
Total coliform – monthly	$20	48	$960
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	$2,568
TTHMs and HAAs	$380	2	$760
Lead & Copper – annually	$45	12	$540
Total			**$4,828**

Note: ADEQ's MAP fee for the 2013 Calendar Year was $2,568.14.

G. WATER USE

Water Sold

Based on information provided by the Company, water use for the test year 2013 is presented below. The high monthly domestic water use was 223 gal/day per service connection in June and the low monthly domestic water use was 97 gal/day per service connection in November. The average annual use was 159 gal/day per service connection.



Non-account Water

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. The Company reported 60,730,000 gallons pumped and 52,423,000 gallons sold, resulting in a water loss of 13.68% for 2013.

Staff recommends that Chino Meadows prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the cost benefit analysis shall be docketed as a compliance item within 90 days of the effective date of the order issued in this proceeding.

H. GROWTH

In December 2007, Chino Meadows's customer base was 901 customers. In December 2013, the Company had 908 customers. The Company estimates that Chino Meadows may have zero to two customers to be added per year.

Staff concludes that Chino Meadows has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

I. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff's typical and customary water depreciation rates. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.

2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

J. CURTAILMENT PLAN AND BACKFLOW PREVENTION TARIFFS

Chino Meadows has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

K. METER AND SERVICE LINE INSTALLATION CHARGES

The Company has requested to change its service line and meter installation charges. These charges are refundable advances and the Company's proposed charges are within Staff's recommended range for these charges. Staff recommends that the charges listed under the column heading "Company proposed & Staff Recommended" listed in Table C be adopted.

Table C. Service Line and Meter Installation Charges

Meter Sizes	Current Service Line Charges	Current * Meter Charges	Current Total Charges	Company Proposed & Staff Recommended Service Line Charges	Company Proposed & Staff Recommended * Meter Charges	Company Proposed & Staff Recommended Total Charges
5/8" x 3/4"	406	95	501	450	150	600
3/4"	413	162	575	450	250	700
1"	441	209	650	575	300	875
1-1/2"	395	321	716	675	500	1,175
2"	727	845	1,572	1,000	1,500	2,500
3"	952	1448	2,400	1,300	2,000	3,300
4"	1,310	2,206	3,516	1,800	3,500	5,300
6"	2,160	4,756	6,916	2,800	6,000	8,800

*Note: Meter charge includes meter box or vault.

Chino Meadows II Water Company
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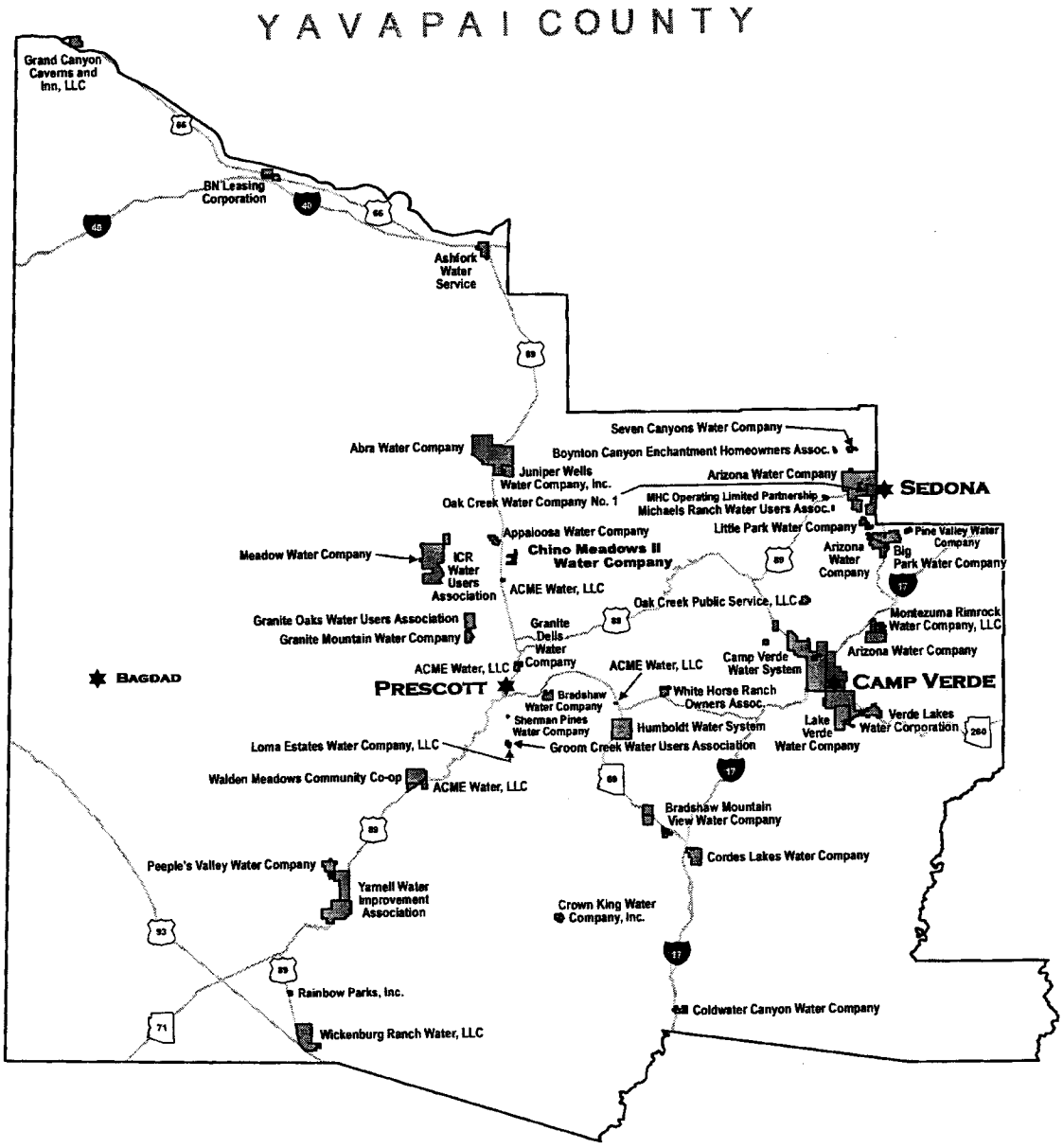

Figure 1: County Map

Chino Meadows II Water Company
Docket No. W-02370A-14-0231

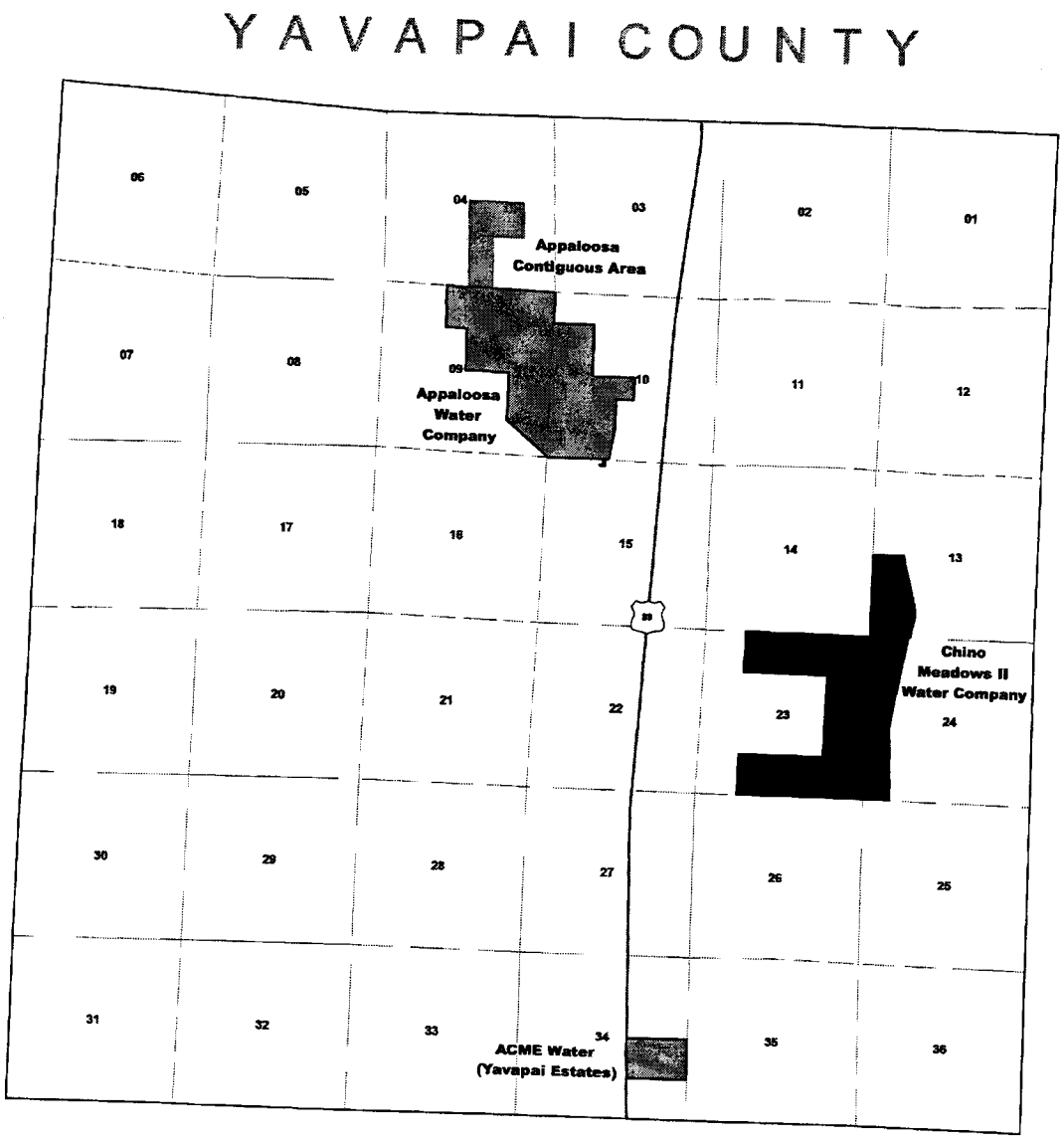

Figure 2: Certificated Area