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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-15-____

DIRECT TESTIMONY OF

MATTHEW GARLICK

June 22, 2015

EXHIBIT
A-1
ADMITTED

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I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Matthew Garlick. My business address is 12725 W. Indian School Road, Suite D-101, Avondale, Arizona 85392.

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

A. I have been employed by Liberty Utilities since 2000. Most recently, I served as Director of Operations for Arizona, Texas, Missouri, and Illinois. However, as of June 1, 2015, I assumed the position of President of AZ/TX replacing Greg Sorensen who took the position of President of Liberty Utilities – California. Mr. Sorensen describes the responsibilities of the President of Liberty Utilities – AZ/TX in his direct testimony.[1]

Q. WHAT WERE YOUR PRINCIPAL RESPONSIBILITIES AS DIRECTOR OF OPERATIONS?

A. In my previous position I was responsible for the overall management, operation, maintenance, compliance, and capital improvement programs for various water and wastewater facilities: eight in Arizona, seven in Texas, six in Missouri, and one in Illinois. I reported to Mr. Sorensen in that position.

Q. WHAT OTHER POSITIONS HAVE YOU HELD WITH LIBERTY UTILITIES?

A. I was hired in January 2000 as a Technical Services Supervisor. In November 2009, I was named Business Manager of Liberty Utilities (Litchfield Park Water & Sewer) Corp. (formerly known as Litchfield Park Service Company), and was responsible for operations for approximately 40,000 customers. In March 2012, I assumed the role of Director of Operations – Arizona, and was responsible for

[1] Direct Testimony of Greg Sorensen at 1:20 – 2:7.

operations throughout Arizona.

Q. WHAT WAS YOUR EDUCATION AND EMPLOYMENT PRIOR TO LIBERTY UTILITIES?

A. For 15 years prior, I was a Senior Project Geologist with an environmental engineering firm called Environmental Science and Engineering. My role was to direct and support other project scientists in the daily work activities on various State of Arizona Water Quality Assurance Revolving Fund (WQARF) groundwater remedial projects. I earned a Bachelor of Science degree in Earth Science from Northern Arizona University.

Q. DO YOU HOLD ANY CERTIFICATIONS?

A. I hold the highest level of Operator Certifications (Grade V – WD, WP, WWT, and Grade III in WWC) in Arizona. I am also a certified Backflow Tester. Additionally, I belong to several professional organizations such as the American Water Works Association (AWWA), and American Backflow Preventer Association (ABPA).

Q. HAVE YOU TESTIFIED BEFORE THIS OR ANY OTHER COMMISSION?

A. I have not. This is my first time formally testifying in any proceeding before this Commission.

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

A. I'm providing this testimony on behalf of the applicant Liberty Utilities (Black Mountain Sewer) Corp. (hereafter "Liberty Black Mountain" or the "Company").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. To support Liberty Black Mountain's request for rate relief. Specifically, I will explain the Company's request for approval of certain adjuster mechanisms and various changes we have proposed to the Company's tariff of rates and charges.

II. ADJUSTMENT MECHANISMS.

Q. IS LIBERTY BLACK MOUNTAIN SEEKING APPROVAL OF ANY ADJUSTMENT MECHANISMS?

A. Yes, we are seeking Commission approval of two adjuster mechanisms: (1) a Purchased Power Adjuster Mechanism (PPAM);[2] and (2) a Property Tax Adjuster Mechanism (PTAM).[3] Mr. Bourassa identifies and explains the methodology for these adjusters in his direct testimony.[4]

Q. GENERALLY, MR. GARLICK, WHY DOES LIBERTY BELIEVE ADJUSTERS ARE APPROPRIATELY APPROVED IN RATE CASES?

A. Adjustment mechanisms or adjusters are well established in ratemaking. Adjusters allow utilities to recover increases in specific operating costs that occur between test years and rate cases. Adjusters also allow decreases in operating costs to reduce the rates customers pay for service. Rate cases are expensive and take a long time, so the failure to recover cost increases between rate cases undermines any opportunity we have to earn our authorized revenues and returns. This is particularly an issue here in Arizona.

Q. WHY IS THAT?

A. Because the Commission adheres to the historic test year. That means that by the time a rate case is filed, there have been several months of cost changes, and by the time a rate case is decided, at least 18-24 months have passed. As Director of Operations, I have seen firsthand that costs of operating simply do not remain unchanged over that period of time, and we are not recovering most of those cost

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[2] Application at 5 and Attachment 3.

[3] Application at 5 and Attachment 4.

[4] Direct Testimony of Thomas J. Bourassa – Rate Base, Income Statement and Rate Design ("Bourassa Dt.") at 34.

increases that are already in place when the new rates go into effect. It means that even when plant is included in rate base, we are unable to achieve our returns because cost increases eat away the margins above break-even. It's why we have seriously considered just filing rate cases as soon as the prior one is decided. Even then, adjuster mechanisms may be the only way to meaningfully mitigate the downward impacts of regulatory lag on our returns in this jurisdiction. Liberty Black Mountain is a perfect illustration of the problem. We have not met our approved revenue requirement in any of the years since our last rate case. Approval of adjusters such as the ones proposed here would significantly increase the Company's ability to reach its Commission approved revenues.

Q. BUT DON'T THESE TYPES OF ADJUSTERS DISCOURAGE UTILITIES FROM MANAGING THEIR OPERATING EXPENSES?

A. I don't agree with that, and it sounds like nothing more than an urban myth, as they say. We are talking about necessary costs of service, and many of these expenses are largely or entirely outside of our control. The rate for power and the components of the property tax evaluation are not within our control. Because they are not within our control, the notion that operating expenses will run wild with adjusters is flawed. Second, the notion that utilities are going to go out and just spend extra money on things like power, taxes, or chemicals because those costs are recoverable is nonsense. The scrutiny in ratemaking is such that this sort of practice would likely be found and dealt with harshly. Even if the Commission didn't mind us running up costs because we had adjusters, our shareholder would. We have an extensive capital and expense review process, and running up operating expenses because of an adjuster would be rejected out of hand. It's hard enough to deliver consistent, competitive returns, especially relative to other utilities in the Liberty family operating in states that use things like forward

looking test years. I have no intention of reducing those returns further by running up operating costs.

Q. OKAY. PLEASE SUMMARIZE THE PPAM.

A. The PPAM allows Liberty Black Mountain to increase rates in order to recover increases in purchased power costs resulting from increases in the rates charged by Arizona Public Service, our electric utility provider. These changes in APS' rates can only come about due to an order of the Commission, again, something beyond our control. In addition, the form of the PPAM is consistent with the form of PPAM approved in Decision No. 74437 (April 18, 2014) for Liberty Utilities (Litchfield Park Water & Sewer) Corp. Mr. Bourassa explains the specifics of the PPAM further in his direct testimony.[5]

Q. WHAT IF APS'S RATES GO DOWN?

A. Then our operating expenses will go down and the PPAM will adjust the rates to recognize that decrease. Again, adjusters are fair because they work whether costs go up or down. I assume that's why the Commission has approved and recognized purchased power and other similar adjusters for electric and gas utilities for many, many years.

Q. PLEASE SUMMARIZE THE PTAM.

A. As Mr. Bourassa explains in his direct testimony, the PTAM would allow rates to adjust, up or down, based on changes in the property tax rate and/or assessment ratios.[6] Like the rates for power charged by APS, these factors are outside of our control. And, like increases in purchased power, increases in property taxes, if unrecovered, will undermine the Company's ability to earn its authorized return. The PTAM addresses this in a manner similar to that in which the PPAM addresses

[5] Bourassa Dt. at 33-34.

[6] *Id.*

changes in the rates for power.

III. TARIFF CHANGES.

Q. DOES LIBERTY BLACK MOUNTAIN PROPOSE ANY CHANGES OR MODIFICATIONS TO ITS TARIFFS?

A. Yes. A copy of the new proposed tariff is attached to the rate application as Attachment 2.[7] These changes are being proposed for a few different reasons. For one thing, we are seeking to standardize all of the tariffs for Liberty Utilities' operating subsidiaries in Arizona. Standardizing our tariffs is intended to promote efficiency by streamlining administration and accounting for all of our Arizona utilities, and reducing confusion. This is the first such filing, but we will propose similar tariffs for each of Liberty Black Mountain's affiliates in upcoming rate filings for those entities. Other changes are intended to clarify or correct certain items that have been carried over from tariff to tariff over the years.

Q. CAN YOU SUMMARIZE THE MORE SIGNIFICANT SPECIFIC CHANGES BEING PROPOSED?

A. Yes.

- Rates: The Company's proposed rates have been inserted.
- Additional Charges/Changes to Current Charges: Some of the Company's proposed service charges have been increased in an effort to better reflect the Company's current actual costs for such services. A few notable items: 1) Company is adding an After Hours Service Charge that would apply to all services performed after regular business hours and at the customer's request. The After Hours Service Charge would be in addition to the regular service charges; 2) Company is adding a Reconnection – Delinquent charge

[7] A redline comparing the new tariff to the current tariff has also been included in the Company's workpapers.

that would be equal to the actual cost of physical disconnection and reconnection; 3) Company is modifying its Re-establishment charge from a flat fee of $25.00 to the number of months off the system times the applicable monthly minimum charge; and 4) Company is modifying the Late Payment charge from 1.5% per month of the unpaid balance to a minimum of $5.00 or 1.5% of the unpaid balance.

- Commercial Rate Design: Provisions for billing commercial customers based on water usage, including billing methodology when water use data is not available, have been added to the Tariff.
- HUF Tariff: The HUF has been modified to reflect the Commission's policy change that unexpended HUF funds sitting in a segregated bank accounts should not be deducted from rate base.

IV. FINANCING.

Q. IN HIS DIRECT TESTIMONY, MR. BOURASSA MENTIONS A NEW CAPITAL STRUCTURE EQUAL TO 70 PERCENT AND EQUITY AND 30 PERCENT DEBT. WHY IS LIBERTY BLACK MOUNTAIN PROPOSING A NEW CAPITAL STRUCTURE?

A. The Company presently has a 100 percent equity capital structure, as do three of the five other operating utilities in Arizona. The all equity capital structures have been somewhat of an issue in prior Liberty Utilities' rate cases. Therefore, we have set out to make a change.

Q. WHAT CHANGES ARE BEING PROPOSED?

A. Along with this rate application, we are seeking to obtain approval to finance debt of up to $3,400.000. The purpose of this debt will be to rebalance Liberty Black Mountain's capital structure from its present 100 percent equity structure to the 70-30 equity to debt structure Mr. Bourassa discusses and then maintain that structure

at those levels on a going-forward basis. We intend to seek similar relief for each of the operating utilities in Arizona as they come in for new rates.

Q. WHY ARE YOU SEEKING APPROVAL TO FINANCE DEBT AND MODIFY THE COMPANY'S CAPITAL STRUCTURE?

A. As mentioned, the equity rich capital structure has been an issue in past rate cases. While we believe there are sound financial reasons to maintain all equity capital structures, we have heard the desires of the regulators that we achieve and maintain a more balanced capital structure. For now, debt costs are generally lower than equity and a more balanced capital structure generally favors our customers with lower cost capital. This will be a step-by-step process to modify and maintain all of the Arizona utilities' capital structures with a roughly 30 percent debt component, and will take some time, but we need to start somewhere and this rate case is it. I think it is another step that Liberty Utilities is making to improve the way we do business in Arizona, and I am pleased this step should not only satisfy the regulators, but also benefits the customer by introducing lower cost capital into the mix.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR AUTHORITY TO ISSUE EVIDENCE OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED $3,400,000.	DOCKET NO: SW-02361A-15-0206
IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-15-0207

REBUTTAL TESTIMONY OF

MATTHEW GARLICK

January 6, 2016

EXHIBIT
A-2
ADMITTED

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I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Matthew Garlick. My business address is 12725 W. Indian School Road, Suite D-101, Avondale, Arizona 85392.

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

A. I am providing this testimony on behalf of applicant Liberty Utilities (Black Mountain Sewer) Corp. (hereafter "Liberty Black Mountain" or "Company").

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

A. I am employed by Liberty Utilities as President of AZ/TX.

Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF LIBERTY BLACK MOUNTAIN IN THIS CASE?

A. Yes. My direct testimony was filed on June 22, 2015 with the Company's application. At that time, I had just taken over as President in Arizona and Texas, succeeding Greg Sorensen. Because Mr. Sorensen has a special familiarity with the two primary matters that gave rise to this rate filing, and because he is also President of Liberty Utilities Co., through which funding flows to Liberty Black Mountain, Mr. Sorensen will continue to participate as a witness in this rate case.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. First, I will testify in support of the Proposed Settlement Agreement (the "Settlement Agreement") reached between Liberty Black Mountain, the Town of Carefree (the "Town"), CP Boulders, LLC dba Boulders Resort (the "Resort"), Wind P1 Mortgage Borrower, L.L.C. ("Wind P1"),[1] and the Boulders Homeowners Association (the "BHOA") (collectively, the "Signatories"), filed on November 16,

[1] Wind P1 Mortgage Borrower, L.L.C. was the prior owner of the Boulders Resort, and as of April 28, 2015, assigned all of its interests in the matters addressed in the Settlement Agreement to the Resort except for its claims for attorney's fees in the appeal currently pending before the Arizona Court of Appeals as Case No. 1 CA-CV 14-0643.

2015. The Town and the Resort are intervenors in this docket.

Second, I address the unreasonable and unrealistic recommendations by Staff and RUCO relating to returns on equity, recovery of closure costs, corporate cost allocations and other critical issues. When Liberty Black Mountain agreed to closure of the East Boulders Wastewater Treatment Plant ("Boulders WWTP" or the "Plant") in Decision No. 71865, that agreement was premised on recovery of closure costs. It bears emphasis that the Commission authorized a 10.2 percent return on equity in Decision No. 71865, which Staff and RUCO have now proposed be significantly reduced in this rate case. Suffice it to say that the Company should not and will not close the Boulders WWTP with those kinds of minimal returns. Even if the Company was willing to close the Plant on those returns, the Company will not be able to get an additional $3.8 million of capital from its parent for closure of the Plant on those terms. Put simply, the Company would never have agreed to close the Plant in 2010 had the Company known that Staff and RUCO would recommend an 8.60 percent and 8.95 percent ROE for such capital. Liberty Black Mountain has done everything the right way in this case relating to closure of a used and useful sewer plant in full compliance with all operational requirements. The Company did so to give customers what they want, and now Staff and RUCO are punishing the Company for serving its customers' needs. As the old saying goes, no good deed goes unpunished.

II. TOWN/RESORT/BHOA/LIBERTY SETTLEMENT AGREEMENT.

A. Summary of Settlement Agreement.

Q. WHAT IS THE PURPOSE OF THE SETTLEMENT AGREEMENT?

A. The purpose is to settle and compromise (1) litigation arising out of the Commission's Decision No. 73885 (May 8, 2013) ("Phase 2"); (2) potential claims relating to the Effluent Delivery Agreement between Liberty Black Mountain and

the Resort; and (3) relief sought by Liberty Black Mountain in this rate case related to the closure of the Boulders WWTP, including recovery of closure costs.

Q. WHAT ARE THE PRINCIPAL TERMS OF THE SETTLEMENT AGREEMENT?

A. The Signatories have agreed to (1) a Plant closure date of November 30, 2018; (2) $200,000 reduction in the total closure costs incurred to date and to be recovered by the Company; (3) repayment of $108,000 of the closure costs by the Resort through the rate paid for effluent until the Plant is closed; and (4) an updated surcharge mechanism to allow the Company full and prompt recovery of the costs of meeting the Commission's mandate that Liberty Black Mountain close the Boulders WWTP.[2]

Q. SO THE SIGNATORIES HAVE AGREED ON THE AMOUNT OF ACTUAL CLOSURE COSTS INCURRED TO BE RECOVERED BY LIBERTY BLACK MOUNTAIN?

Yes. As of September 30, Liberty Black Mountain had incurred $1,133.080.51 in closure costs, and the Signatories agree that these are reasonable costs. However, as part of the Settlement Agreement, the Company agreed not to seek recovery of $200,000 of those costs, and the Resort agreed to an effluent rate that will pay back $108,000 of the closure costs incurred.[3] As a result, the Signatories agreed that the remaining amount—$825,080.51—represent necessary and reasonable costs prudently incurred in order to comply with the mandate to close the Boulders WWTP.

Q. DOES THAT MEAN THE COMPANY NOW BELIEVES SOME OF THE CLOSURE COSTS INCURRED TO DATE SHOULD NOT BE

[2] Settlement Agreement, ¶¶ 2.1.2, 2.1.3, 2.2.1.

[3] *Id.*

RECOVERED FROM CUSTOMERS?

A. Not at all. The Company believes that the entire amount of $1,133,080.51 was reasonably incurred to meet the Commission mandate. Liberty Black Mountain agreed to reduce that amount by $200,000 solely as part of the Settlement Agreement with the Town, BHOA and Resort. If the Settlement Agreement is not approved in full, the Company will seek recovery of the full amount of $1,133,080.51 in closure costs.

Q. THANK YOU. PLEASE CONTINUE DISCUSSING THE SETTLEMENT AGREEMENT.

A. The Signatories further agree that the $1.2 million Liberty Black Mountain must pay the City of Scottsdale ("Scottsdale") for replacement capacity before January 1, 2018 is a known and measurable cost that the Company must reasonably incur in order to remove the Boulders WWTP from service.[4] Finally, the Signatories have also agreed that the proposed improvements to reroute all flows to Scottsdale are the most reasonable and prudent alternative and that the estimated cost of $2.6 million is sound. The Signatories acknowledge though that the latter amount is still an estimate.[5]

Q. DOES THE SETTLEMENT AGREEMENT ADDRESS HOW LIBERTY BLACK MOUNTAIN WILL RECOVER THESE PLANT CLOSURE COSTS, MR. GARLICK?

A. Yes. The Signatories have agreed to modify the closure cost surcharge mechanism approved by the Commission in the Decision No. 71865 (September 1, 2010).[6] As set forth in the Settlement Agreement, cost recovery will occur in stages as follows:

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[4] Settlement Agreement, ¶ 2.1.5.

[5] Settlement Agreement, ¶ 2.1.6.

[6] Decision No. 71865 at 54 – 55 (surcharge mechanism originally approved).

- A Stage 1 Surcharge, estimated to be $6.31 per customer per month, will be implemented for recovery of the Company's $825,080.51 of closure costs already incurred. Stage 1 will become effective with the new rates approved in this rate case.
- A Stage 2 Surcharge, estimated to be $7.96 per customer per month, will be added to the Stage 1 Surcharge, bringing the total surcharge amount in Stage 2 to $14.27 per customer per month. The Stage 2 Surcharge will become effective within 90 days of the Company's payment of the approximate $1.2 million to Scottsdale for the replacement capacity.
- A Stage 3 Surcharge, estimated to be an additional $16.70 per customer per month, will be added to the Stage 2 Surcharge, bringing the total surcharge amount in Stage 3 to $30.97 per customer per month. The Stage 3 Surcharge is based on the addition of the estimated costs of closure of approximately $2.6 million.[7]

Q. WHY DOES THE SURCHARGE APPROVED IN DECISION NO. 71865 NEED TO BE MODIFIED?

A. As Mr. Sorensen explained in his direct testimony in this case, the circumstances have changed substantially since the Plant closure surcharge was originally approved.[8] First, the closure has already taken far longer than anticipated. As a result, over $1 million of investment in the closure lies stranded. Absent a mechanism to start that recovery, Liberty Black Mountain will not receive the full and prompt cost recovery it was promised when it agreed not to object to the order to remove a used and useful, fully compliant asset from service. Moreover, because the Company still has to spend an estimated $3.8 million to close the Boulders WWTP, that mechanism needs to provide for continued assurance of prompt and full recovery.

Second, the cost is considerably higher than estimated during the prior proceedings. At that time, only a preliminary assessment of the costs to close the

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[7] Settlement Agreement, ¶¶ 2.2.2.1 – 2.2.2.3.

[8] Direct Testimony of Greg Sorensen ("Sorensen Dt.") at 27:1-20.

Boulders WWTP could be conducted.[9] Liberty Black Mountain has since completed the detailed engineering analysis required for this project. All Signatories agree that the proposed plan to close the Plant is reasonable, including the estimated costs. Under these changed circumstances, we did not feel it was still equitable to limit the Company to a one-stage surcharge of no more than $15 per customer per month that could not go into effect until the Plant closed. Fortunately, the Town, the BHOA and the Resort agreed that it is necessary to modify the relief granted several years ago based on different information and circumstances than were before the Commission in 2010.

Q. WILL THE SURCHARGES REMAIN IN EFFECT INDEFINITELY?

A. No. The Signatories agree that Liberty Black Mountain should seek to roll all the costs of closing the Plant into rate base in the first post-closure rate case.[10] That case will be filed as soon as possible after the Boulders WWTP is closed in November 2018. In other words, the surcharge mechanism is a temporary ratemaking tool to allow the Commission and customers to fulfill the promises made to Liberty Black Mountain in exchange for Liberty Black Mountain being required to invest capital taking used and useful assets out of service. The surcharge mechanism incorporated into the Settlement Agreement uses the same methodology used for the surcharge approved in Decision No. 71865.

Q. WHY DOES THE SETTLEMENT POSTPONE THE CLOSURE OF THE BOULDERS WWTP UNTIL NOVEMBER 2018?

A. To allow the Resort time to upgrade its landscape irrigation system in a manner that will allow the Resort to operate without the effluent produced at the Boulders WWTP. The Resort has agreed to continue to take and pay for all the effluent

[9] Sorensen Dt. at 22:7-12.

[10] Settlement Agreement, ¶ 2.2.2.4.

produced at the plant while it remains open, including paying an effluent rate that includes repayment of $108,000 of closure costs by the Resort.[11] As noted above, this allowed the Signatories to reduce the amount of Plant closure costs to be recovered from the remainder of the Company's customers.

Q. WHAT ABOUT THE COSTS TO REMOVE THE BOULDERS WWTP AND REMEDIATE THE SITE? HOW WILL THOSE COSTS BE RECOVERED?

A. The Signatories have agreed that Liberty Black Mountain will seek recovery of the costs specifically associated with removal and remediation, which cannot begin until after the Plant is closed and flows rerouted, in a subsequent rate case to be filed as soon as possible after all of those costs have been incurred.[12] If we can include those costs in the post-closure rate case to be filed after the proposed November 30, 2018 closure date we will do so, allowing us to avoid the filing of another rate case after removal is complete.

Q. ARE THERE ANY OTHER PROVISIONS OF THE SETTLEMENT YOU WISH TO DISCUSS?

A. Yes. Pursuant to Section 2.5.2 of the Settlement Agreement, Liberty Black Mountain, the Resort, Wind P1, and the BHOA requested and have been granted a stay of the appeal currently before the Arizona Court of Appeals (Case No. 1 CA-CV 14-0643) pending resolution of this rate case. The Commission is a party to this appeal and joined in the stay request. If the Commission approves the Settlement Agreement, the Resort and Wind P1 will file for dismissal of the appeal. On the other hand, if the Commission does not approve the Settlement Agreement, or if the Commission adopts the recommendations by Staff or RUCO, Liberty

[11] Settlement Agreement, ¶ 2.5.1.

[12] Settlement Agreement, ¶ 2.2.2.4.

Black Mountain will be forced to withdraw from the Settlement Agreement. That will result in the appeal going forward, and it would be unclear whether the Company can still support the Commission in its assertion that the order to close the Plant was lawful. Liberty views prompt and full recovery of its costs, at a reasonable rate of return, as a condition of the Commission's mandate that the Company remove used and useful assets form service.

Q. THANK YOU, MR. GARLICK. DO YOU BELIEVE THAT COMMISSION APPROVAL OF THE TERMS OF THE SETTLEMENT IS IN THE PUBLIC INTEREST?

A. Yes. The Signatories have gone to great lengths to consider not only their own positions, but those of the Town's citizens, the BHOA's membership, and the entire Liberty Black Mountain customer base, including the Resort. The Settlement Agreement truly represents a balance of benefits, as it (1) provides a date certain for closure, which the community has long been wanting, (2) addresses the Resort's continuing need for effluent, (3) eliminates time and resources that would otherwise be necessary and puts to an end many years of costly litigation, and (4) offers a reasonable resolution to recovery of the closure costs.

Q. WITH ALL OF THE BENEFITS DOES COME SACRIFICE, HOWEVER, WOULD YOU AGREE?

A. Yes, certainly I do. Liberty Black Mountain is not happy with having to forfeit $200,000 incurred in connection with litigation over a fully compliant, used and useful plant. But the Company is delighted to be able to feel that it is helping its customers, and for that reason has agreed to the terms. Unfortunately, Staff and RUCO claim to support the Settlement Agreement but their recommendations alter the settlement's terms and would deny the Company a fair return on investment as

well as the access to capital its needs to finish the Plant closure. The recommendations of Staff and RUCO will leave the Company with no choice but to continue operating the Boulders WWTP until it can no longer be used to treat waste. Boiled down, Staff and RUCO can't materially change the terms for closure, take away the Company's revenues and still expect it to close the plant.

B. <u>Staff and RUCO Would Unacceptably Modify the Settlement Agreement</u>.

Q. HAVE YOU REVIEWED THE DIRECT FILINGS BY THE OTHER PARTIES ON THE SUBJECT OF THE PLANT CLOSURE AND/OR THE SETTLEMENT AGREEMENT?

A. Yes. Both the Town and the Resort filed testimony in support of the Settlement Agreement and we have no issue with those filings. Staff claims it supports the settlement, and RUCO asserts that it supports closure of the Boulders WWTP. However, the Company will not accept the settlement under the recommendations made by Staff in this rate case. Besides recommending returns on equity 220 and 185 basis points lower than the return used to estimate the surcharges in the Settlement Agreement, Staff and RUCO basically reject the entire Plant closure cost recovery plan set forth in that agreement and agreed to by the Company and its customers, including the Town, the BHOA and the Resort.[13] This is not really support for the Settlement Agreement; it's support for Staff's and RUCO's own positions.

A further concern is that both Staff and RUCO deny some 70 percent to 80 percent of the corporate costs incurred by Liberty Black Mountain to obtain capital for financing of projects, including the Plant closure. I cannot stress enough

[13] Direct Testimony of James R. Armstrong ("Armstrong Dt.") at 5:8-11; Direct Testimony of Timothy J. Coley ("Coley Dt.") at 5:6-14, 52 – 53.

that if the Commission will not allow recovery of those necessary corporate costs to obtain capital from the Toronto Stock Exchange ("TSX") by the Company's ultimate parent, then the Company can't be expected to obtain capital for such projects.

Q. BUT, MR. GARLICK, THE COMMISSION IS NOT OBLIGATED TO ACCEPT THE SETTLEMENT AGREEMENT AS IS, CORRECT?

A. Correct, the Commission will have to decide in its own discretion what to do. But the Settlement Agreement provides that any party may reject the settlement if it disagrees with the Commission's decision.[14] As I discuss in Section II(C), if a return on equity like that recommended by Staff or RUCO is approved by the Commission, Liberty Black Mountain would have no choice but to exercise its right to withdraw from the Settlement Agreement, and the Company then would opt not to close the Plant, instead continuing to operate the Plant as is.

Q. WHAT ARE STAFF'S SPECIFIC RECOMMENDATIONS WITH RESPECT TO THE SETTLEMENT AGREEMENT AND PLANT CLOSURE COSTS?

A. Staff recognizes that the Settlement Agreement alters the Plant closure cost recovery relative to the Company's rate application.[15] However, Staff does not assert, like RUCO does, that the relief granted by the Commission in Decision No. 71865 is fixed and cannot be modified in any way. I will discuss RUCO's position later in this section of this testimony.

Staff recommends reducing the amount of the Company's recoverable Plant closure costs below the level of such costs agreed to in the Settlement Agreement,

[14] Settlement Agreement, ¶ 3.1.3.

[15] Armstrong Dt. at 3:1-10.

$825,080.51. Mr. Bourassa addresses that adjustment in his rebuttal testimony.[16] Staff also rejects the staged surcharges proposed for recovery of Plant closure costs recovery outlined in the Settlement Agreement. Instead, Staff proposes first that $768,244 of closure costs be recovered over 4 years.[17] While that might sound better for Liberty Black Mountain, it isn't.

Q. WHY NOT, MR. GARLICK?

A. For one thing, Staff has reduced the amount of recoverable Plant closure costs by nearly $400,000. While Liberty Black Mountain has agreed to some reduction of these costs, it was not so large as Staff recommends, nor did the Company agree in a vacuum. The agreement to accept a lower amount of recoverable Plant closure costs was one of many terms of the Settlement Agreement. Moreover, this is not what we agreed to with our customers as represented by the Town, the BHOA and the Resort. Staff wants the customers to pay more than we have agreed to in the Settlement Agreement.

Q. WHAT DOES STAFF RECOMMEND WITH RESPECT TO THE OTHER STAGES OF THE SURCHARGE AND THE OTHER CLOSURE COSTS SOON TO BE INCURRED?

A. Nothing really. Staff says authorization in this rate case to recover a surcharge to recover the $1.2 million cost of replacement capacity "would be reasonable" but only if the recovery started *after* the Boulders WWTP is closed.[18] Again, this is not what the Signatories agreed to in the Settlement Agreement. Nor is Liberty Black Mountain willing to expend another $1.2 million before January 1, 2018 and then wait another 1-2 years or more to begin recovery.

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[16] Rebuttal Testimony of Thomas J. Bourassa (Rate Base, Income Statement and Rate Design) ("Bourassa Rb.") at 55:18 – 56:11.

[17] Armstrong Dt. at 7:21-8:6.

[18] Armstrong Dt. at 9:18 – 10:2.

Q. MR. GARLICK, IF I CAN INTERRUPT FOR A MINUTE. IS THERE A NEW AGREEMENT WITH SCOTTSDALE THAT PROVIDES A NEW DEADLINE FOR THE COMPANY TO PURCHASE THE REPLACEMENT CAPACITY IT NEEDS TO CLOSE THE BOULDERS WWTP?

A. Yes. The new capacity treatment agreement has been negotiated between the Company and Scottsdale and is currently awaiting approval and execution. As anticipated, Scottsdale has graciously agreed to allow the Company a one-time purchase of an additional 120,000 gallons per day of treatment capacity at a cost of $10 per gallon for a total of $1.2 million. The date I referenced above, January 1, 2018, is the new deadline by which we have to exercise this option, after which the price will be market based.

Q. DIDN'T THE COMPANY HAVE THE RIGHT TO PURCHASE CAPACITY AT $6 PER GALLON UNDER THE EXISTING AGREEMENT WITH SCOTTSDALE?

A. Yes, and Scottsdale informed us two years ago that this amount was below its cost for the treatment capacity. With the prior agreement set to expire at the end of this year, and with that agreement giving Scottsdale the right to terminate the treatment agreement if the Boulders WWTP closes, we simply had no other option but to agree to the $10 per gallon cost. In exchange, we have a new 20-year agreement, with provisions for renewal, and we have saved millions of dollars by acquiring the replacement capacity at this cost. Market costs for capacity today are in the $25-$30 per gallon range, at least.

Q. WHY CAN'T THE COMPANY WAIT AND PAY SCOTTSDALE IN NOVEMBER 2018 WHEN THE PLANT IS SUPPOSED TO CLOSE UNDER THE SETTLEMENT AGREEMENT?

A. Because Scottsdale wants this matter wrapped up as soon as possible. Scottsdale

has already agreed to make accommodations on the cost, and to push that deadline out one year. They have been very generous and are not willing to make further accommodations. We understand and appreciate their working with us on this important matter. And this is why we need the second stage of the Plant closure cost surcharge approved as set forth in the Settlement Agreement.

Q. THANK YOU. WOULD YOU PLEASE CONTINUE WITH YOUR DISCUSSION OF STAFF'S RESPONSE TO THE SETTLEMENT AGREEMENT AND RECOVERY OF PLANT CLOSURE COSTS?

A. Yes. I was addressing the fact that Staff believes the cost for replacement is reasonable but wants to delay recovery by Liberty Black Mountain. Actually, Staff largely postpones any discussion of the treatment of the second and third stages of the surcharge until some other time. But I'm unsure what Staff is waiting for to address these important issues in this rate case. Perhaps more importantly, the Company is not willing to spend an additional $1.2 million plus another $2.6 million in closure costs subject to some possible consideration in a future rate case. These are closure costs relating to used and useful utility plant in service. If Staff's intent is to force the Company to bear and suffer the financial consequences of the customers' desires for closure of the Plant, then we strongly object. That was never the "deal" when we agreed not to challenge whether the Commission could take the extraordinary steps that have already been taken. Besides, Liberty Black Mountain has done everything in its power to give the customers what they want relating to closure of the Plant. The punitive conditions recommended by Staff or RUCO are unjustified.

Q. MR. GARLICK, HASN'T THE COMMISSION ALREADY ORDERED THE COMPANY TO CLOSE THE PLANT? ARE YOU SAYING LIBERTY MAY NOT COMPLY WITH THAT ORDER?

A. The Commission did order closure of the Plant in Decision No. 71865. But the premise of that decision, and the Company's agreement to closure, was that the Company would recover all of its closure costs promptly and subject to a fair and reasonable rate of return. Staff's and RUCO's recommendations have dramatically changed the deal. The Company would never have agreed to close a used and useful plant for a return of 8.6 percent or 8.95 percent, not to mention delayed and uncertain risk of recovery of the closure costs, plus denial of necessary and reasonable corporate costs and rate case expense. Put simply, Staff and RUCO have dramatically changed the benefit of the bargain and the Company does not believe it would still be obligated to close the Plant under these confiscatory conditions.

I am not a lawyer, but that seems like common sense to me. The issue of whether the Commission can order an unfunded mandate to remove compliant, used and useful plant in service was not raised in the prior Commission closure dockets because the Company agreed to closure of the Plant under the conditions I have discussed. But now that Staff and RUCO have threatened to place this case right back at square one, we may have a legal issue, which I will leave to counsel to further argue as necessary.

Q. IS LIBERTY BLACK MOUNTAIN PROVIDING ADDITIONAL DETAILS REGARDING THE SURCHARGE CALCULATIONS IN THIS REBUTTAL FILING?

A. No. Staff had the Settlement Agreement and information on how all three surcharges were determined. Staff also has testimony supporting the Settlement Agreement from the Town and the Resort. There are no data requests pending seeking additional information from the Company on the settlement terms either. So, Staff may want more time to continue to propose alternatives to the Settlement

Agreement terms, but I do not know what they are waiting for from the Company. And from what we have seen from Staff so far, I have no reason to be optimistic that Staff's future recommendations will be reasonable or acceptable.

Q. WHAT ABOUT RUCO? DOES IT SUPPORT THE SETTLEMENT AGREEMENT?

A. Apparently not. Like Staff, RUCO has recommended a very low return on equity, which if adopted would preclude Liberty Black Mountain from being able to raise the capital needed to close the Boulders WWTP, as well as denying reasonable and necessary corporate costs and rate case expense, among other things. Beyond that, RUCO refers only to an unsigned MOU memorializing the terms of the Signatories' agreement, which agreement is set forth in the Settlement Agreement.[19] Additionally, Mr. Coley testifies that the settlement does not alter RUCO's recommendations.[20]

Q. WHAT EXACTLY IS RUCO'S POSITION ON RECOVERY OF THE COMPANY'S PLANT CLOSURE COSTS?

A. I am not entirely sure. In a rambling and very confusing section of Mr. Coley's testimony, he says that RUCO agrees that the Plant closure costs incurred to date should be included in rate base, but then he says that RUCO did not rate base them because of the Settlement Agreement.[21] Obviously, that makes little sense. There is also no specificity regarding treatment of the remaining closing costs to be incurred for replacement capacity from Scottsdale and to reroute the flows away from the Boulders WWTP.

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[19] Coley Dt. at 4:8-17.

[20] Coley Dt. at 4:14-17.

[21] Coley Dt. at 6:4 – 7:2.

Q. ISN'T MR. COLEY CORRECT THAT THE COMPANY'S RATE FILING INDICATED THE CLOSURE COSTS INCURRED TO DATE COULD BE INCLUDED IN RATE BASE?

A. Yes, but this is not a complete picture of the circumstances.[22] The Company did express a willingness to consider an alternative rate base treatment for the closure costs, but Mr. Coley has failed to show that such recovery would be the functional equivalent of the Company's requested surcharge approach. Moreover, the Company is now bound by the Settlement Agreement, which clearly favors the surcharge approach.

Q. BUT DOESN'T RUCO CLAIM TO SUPPORT ITS CONSTITUENTS IN THEIR DESIRE TO CLOSE THE BOULDERS WWTP?

A. Mr. Coley says in his direct testimony that RUCO supports the "overwhelming" majority of customers that want the plant closed.[23] But in the very next Q&A, Mr. Coley testifies that RUCO does not support the plant closure cost recovery recommended by Liberty Black Mountain, the Town, the BHOA and the customers.[24] Make no mistake about it—the recommendations of RUCO on equity return, corporate costs and recovery of closure costs will prevent closure of the Plant. RUCO cannot have it both ways. RUCO is not going to get the Company to fund the plant closure to the tune of nearly $4 million more investment and then go and ask for recovery and see what happens. Nor can RUCO legitimately claim to support its constituents' desire that the Plant close by recommending an 8.95 percent return on equity. If granted, RUCO's recommendations will ensure that the customers' desire for Plant closure is delayed until the Plant simply cannot be

[22] Coley Dt. at 53:4-9.

[23] Coley Dt. at 52:3-7.

[24] Coley Dt. at 52:9 – 53:2.

operated another day.

Again, to be clear, I believe there will be no capital for investment in the plant closure or anything else that is not urgently necessary if RUCO or Staff successfully (1) denies and delays the Company's recovery of and on plant closure costs, (2) deprives Liberty Black Mountain of adequate operating expenses, including the corporate costs of obtaining capital, and/or (3) robs the Company of a fair and adequate return on capital the Commission mandated the Company invest at a time it was authorized a 10.2 percent return on equity. There is no other way to put it, but that these recommendations will put a stop to closure of the Boulders WWTP.

Q. DO YOU FIND IT CURIOUS THAT RUCO'S RECOMMENDATIONS UNDERMINE A BARGAIN ENTERED INTO BY REPRESENTATIVES OF RESIDENTIAL CUSTOMERS?

A. Yes. But RUCO opposed the relief needed to close the Boulders WWTP in the last rate case too when it argued that approval of a surcharge mechanism would be the end of regulation in Arizona.[25] I guess RUCO believes it knows better than our customers as to what is in their best interests, and that nothing can be sacrificed in RUCO's pursuit of the lowest possible rate. That's RUCO's choice, but there are consequences of such choices as the Company's witnesses discuss in this filing.

Q. DOES STAFF OR RUCO INCLUDE THE AMOUNT TO BE REPAID BY THE RESORT THROUGH THE EFFLUENT RATE UNDER THE SETTLEMENT AGREEMENT IN THEIR RECOMMENDED EFFLUENT RATES?

A. No. Both Staff and RUCO ignore this provision of the settlement entirely.[26] As a

[25] *See* Decision No. 71865 at 47:9-15.

[26] *See* Direct Testimony of Timothy Coley (Rate Design) at 3:9-12; Direct Testimony of

result, both seek to deprive the Company of recovery of $108,000 of closure costs that the Resort has already agreed to repay to the Company. Leaving the Company short of recovery is not the recommendations of parties that truly support the Settlement Agreement as they claim.

C. <u>Practical Impacts of Staff's and RUCO's Recommendations</u>.

Q. I WOULD LIKE TO RETURN TO YOUR TESTIMONY ABOUT DIRE CONSEQUENCES WERE THE COMMISSION TO ADOPT THE RECOMMENDATIONS OF STAFF OR RUCO IN THIS RATE CASE. ARE YOU CONCERNED THAT THIS DISCUSSION SOUNDS SOMEWHAT LIKE A THREAT, MR. GARLICK?

A. It certainly is not meant to be a threat. It is meant as a statement of fact. We have to fight for every dollar we get for investment in Arizona. For example, the Company's sister-utility Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("Liberty Litchfield Park") needs to expand its wastewater treatment facility, but the shareholder would rather invest in just about any other investment under the APUC umbrella. My assistant general counsel and I have spent a great deal of time trying to convince the shareholder to put more than $20 million into a state with very low returns, substantial regulatory lag, and almost no mechanisms to help the utility recover its authorized revenues. This isn't surprising given how low the returns are in this state compared to the other jurisdictions in which Liberty's utilities operate. Not only do those jurisdictions authorize higher returns, it is also more likely that those utilities will actually earn their authorized revenues.

I can't stress enough that Liberty Black Mountain will not be able to obtain another $3.8 million for capital to close the plant at returns of 8.6 percent or 8.95

Crystal S. Brown (Rate Design) ("Brown RD Dt."), Schedule CSB-1.

percent, along with the other cuts recommended to expenses and rate base. Our Arizona utilities compete for capital against other Liberty utilities in other states. There is no doubt that Arizona has the lowest returns among those states even before the absurdly low recommendations by Staff and RUCO in this case.

A couple of examples illustrate this point. Our Georgia utility, Liberty Utilities (Peach State Natural Gas) Corp., has authorized ROEs of 10.7 percent and 10.5 percent for different regulatory mechanisms. Liberty Utilities (Midstates Natural Gas) Corp., our gas utility in Missouri, has an authorized ROE of 10.00 percent. Liberty Utilities (CalPeco Electric) LLC, our electric utility in California, has an authorized ROE of 9.88 percent. Liberty Utilities (Midstates Natural Gas) Corp., our gas utility in Illinois, has an authorized ROE of 9.76 percent. Liberty Utilities (Granite State Electric) Corp., our electric utility in New Hampshire, has an authorized ROE of 9.55 percent. Liberty Utilities (New England Natural Gas Company) Corp., our gas utility in Massachusetts, has an authorized ROE of 9.5 percent. Even Liberty Utilities (Pine Bluff Water) Corp. has an authorized ROE of 9.3 percent. These numbers are self-explanatory. At 8.6 percent or 8.95 percent, neither Staff, RUCO, nor the Commission should expect Liberty Black Mountain to get an additional $3.8 million for the removal closure of a fully compliant, used and useful wastewater treatment plant.

Given Staff's and RUCO's unreasonable and punitive treatment of Liberty Black Mountain in this rate case, I expect that the consequences will expand to other Arizona utilities. We expected and hoped that Staff and RUCO would recognize the unique circumstances underlying this case and support the Settlement Agreement. Unfortunately, we will have no choice but to take different approaches to rate cases for our other Arizona utilities if the approach advocated by Staff and RUCO were to receive the Commission's blessing.

Q. MR. GARLICK, WHAT DO YOU MEAN?

A. In this case, Staff and RUCO are responsible for turning the ratemaking process into a battle where the goal appears to be the lowest rate possible. This sort of narrow focused regulation has consequences in terms of future cooperation between utilities and regulators, the availability of capital to utilities in Arizona, and the way future rate cases will be filed and pursued.

III. REBUTTAL TO STAFF AND RUCO ON OTHER ISSUES.

A. Advances-In-Aid of Construction (AIAC) and Main Extensions.

Q. MR. COLEY TESTIFIES THAT LIBERTY BLACK MOUNTAIN ENTERED INTO EXTENSION AGREEMENTS FOR A 10-YEAR PERIOD IN VIOLATION OF THE CODE.

A. Mr. Coley is wrong. Despite spending several pages arguing the law governing main extension agreements,[27] Mr. Coley's attempt to portray the Company as doing something wrong fails. Nowhere in Mr. Coley's diatribe (covering one sixth of his direct testimony) does he mention the fact that the Company had a Commission approved tariff authorizing 10-year refunds under main extension agreements. Mr. Coley knew or should have known of this fact as the Company provided him the tariff.[28] Had Mr. Coley not ignored this information, and not conducted his analysis in this case under the false impression we were trying to gouge our customers,[29] perhaps Mr. Bourassa would not have to spend several pages of testimony explaining why Mr. Coley's testimony and recommendations on the AIAC and CIAC issues are severely flawed.[30]

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[27] *See* Coley Dt. at 33 – 42.

[28] Company Response to RUCO Data Request 11.02.

[29] *See* Coley Dt. at 7:23 – 8:3.

[30] Bourassa Rb. at 21 – 23.

B. Staff's Recommended Plant Inventory.

Q. DO YOU AGREE WITH STAFF'S RECOMMENDATION THAT LIBERTY BLACK MOUNTAIN CONDUCT A PLANT INVENTORY?

A. No. Candidly, I do not understand what Ms. Brown is talking about. We can identify where every item of plant in the Company is located.[31] Ms. Hains came out and did an inspection. We were able to show Ms. Hains everything she asked to see during her on-site, physical inspection, including the physical location of plant items. In contrast, Ms. Brown did not conduct an on-site inspection in this case and appears to be basing her entire recommendation on a response to a data request.[32] In other words, Ms. Brown has created an operations issue that Staff's engineer did not.

Q. DOES THE COMPANY'S RESPONSE TO DATA REQUEST 6.20 (b) DEMONSTRATE THE NEED FOR A PLANT INVENTORY?

A. No, a plant inventory would be yet another Staff imposed cost that is unnecessary. In Data Request 6.20(b), Ms. Brown asked the Company to "please provide [1] a list that identifies the cost of each structure and improvement included in the total and [2] the physical location of the assets." The Company noted in its response that it does not record the physical location of assets on its books. That doesn't mean that the Company doesn't know where the assets are located. The Company knows where all of its assets are located, as well as the function and use of all such assets. Again, Ms. Brown did nothing more than review a paper data request response and create an issue out of thin air. She did not conduct a plant inspection or discuss with Company personnel the issue of the physical location of assets. A full plant inventory would be expensive and costly and of little benefit for the

[31] Brown Dt. at 36:13 – 37:20.

[32] Brown Dt. at 36:22-24.

Company or its customers.

C. <u>Labor Costs</u>.

Q. DID THE COMPANY PROPOSE A PRO FORMA ADJUSTMENT TO ACCOUNT FOR POST-TEST YEAR INCREASES IN LABOR COSTS?

A. Yes, as explained in Mr. Bourassa's direct testimony.[33] Mr. Bourassa addresses the accounting and ratemaking aspects of this issue in his rebuttal testimony.[34] The point of my rebuttal testimony on this issue is simpler.

Q. OKAY, WHAT IS THE POINT OF YOUR REBUTTAL?

A. Whether we call this expense Contact Services, Salaries or Wages, or my preference – Labor, the fact is that this expense goes up every year. All we are asking for is that this ever-increasing expense be addressed in the ratemaking process.

Q. IS IT REASONABLE FOR LABOR COSTS TO INCREASE EVERY YEAR?

A. It is if we want to attract and keep qualified people with the expertise and motivation to provide safe and reliable water and wastewater utility services. I would note that Staff is not complaining that our labor expense is unreasonably high. Its opposition is more ratemaking related, which Mr. Bourassa's addresses in his rebuttal as I mentioned above.

Q. DOES RUCO ACCEPT LIBERTY BLACK MOUNTAIN'S PRO FORMA ADJUSTMENT TO COVER INCREASED LABOR EXPENSE?

A. It appears that RUCO agrees with the Company's level of expense because RUCO neither adjusted that number nor addressed the issue in its written testimony.[35]

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[33] Direct Testimony of Thomas J. Bourassa (Rate Base, Income Statement and Rate Design) at 18:12-14.

[34] Bourassa Rb. at 43.

[35] *See* RUCO Direct Schedule TJC-11.

D. Adjuster Mechanisms.

Q. WHAT IS RUCO'S RECOMMENDATION REGARDING THE REQUESTED PURCHASED POWER ADJUSTMENT MECHANISM (PPAM) AND PROPERTY TAX ADJUSTMENT MECHANISM (PTAM)?

A. RUCO recommends denial of the PPAM and PTAM because these expenses are not volatile or large enough for an adjuster.[36] RUCO also claims the PTAM is single-issue ratemaking, but that's a legal issue I will leave for the lawyers.

Q. HOW DO YOU RESPOND TO THIS TESTIMONY?

A. Liberty Black Mountain has no control over the expenses that are the subject of the two adjusters, and Liberty Black Mountain, like all Arizona utilities regulated by the Commission, struggles to earn its authorized revenues. Therefore, adjusters like this are needed to protect the utility's financial health and its opportunity to earn its authorized revenues. Mr. Coley's suggestion that adjusters are improper because power costs and property taxes are not volatile enough makes little sense. Whether or not the costs amount to a large sum of money doesn't change the fact that these costs increase and the Company doesn't have any control over those cost increases. Mr. Coley's notion that the Company should bear the costs of such non-volatile increases in operating expenses defies any business sense given that well-established, bi-lateral mechanisms exist to prevent this sort of earnings erosion between rate cases.

Q. WHAT ABOUT MR. COLEY'S CLAIM THAT THE COMMISSION IS MOVING AWAY FROM THESE TYPES OF ADJUSTERS?

A. This testimony is a bit misleading. Mr. Coley claims that a 2004 decision for Arizona Water Company eliminated these types of adjusters.[37] But RUCO knows

[36] Coley Dt. at 55:14-22, 56:14 – 57:11.

[37] Coley Dt. at 55:9-12.

that the Commission approved a PPAM for Liberty Litchfield Park in that affiliated utility's last rate case decided in 2014, without opposition from RUCO, ten years after Mr. Coley claims the use of PPAMs were eliminated.[38] I do not know why RUCO is being inconsistent on this issue from case-to-case, but the PPAM and PTAM sought in this case are modeled after the PPAMs recently approved by the Commission. So Mr. Coley either knew or should have known that he was not telling the Commission the whole story.

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING THE REQUESTED PPAM AND PTAM?

A. Staff supports approval of the PPAM.[39] Staff does not support the PTAM as requested.[40] Mr. Bourassa addresses Ms. Brown's confusing alternative recommendation on the PTAM better than I can.[41]

E. <u>Revised Hook-Up Fee Tariff</u>.

Q. THE COMPANY PROPOSED A REVISED HOOK-UP FEE (HUF) TARIFF IN ITS DIRECT FILING?

A. Yes. The primary purpose of the proposed changes is to standardize all of the Liberty tariffs in Arizona.[42] We explained this several times to Ms. Hains, which makes Staff's opposition disappointing.[43]

Q. WHAT WAS STAFF'S POSITION?

A. Staff opposes the $1800 per Equivalent Residential Unit ("ERU") the Company

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[38] *Liberty Litchfield Park*, Decision No. 74437 (April 18, 2014) at 10:14-15.

[39] Brown Dt. RD at 8:23-26.

[40] Brown Dt. RD at 10:20-24.

[41] Bourassa Rb. at 52.

[42] Direct Testimony of Matthew Garlick at 6:3-12.

[43] *See, e.g.*, Company Response to Staff Data Requests DH 2.1, DH 3.37, DH 5.2.

proposed and recommends a cost of $1700 per ERU.[44]

Q. DOES LIBERTY BLACK MOUNTAIN AGREE WITH STAFF'S RECOMMENDATION?

A. No. Here, Liberty Black Mountain proposes a wastewater HUF of $1,800 per ERU for the reasons set forth in Docket Nos. 09-0116 and 09-0120 (consolidated) approving the HUF for Liberty Litchfield Park. In that rate case, the Commission approved the HUF for Liberty Litchfield Park in order to "equitably apportion the costs of constructing additional off-site facilities necessary to provide wastewater treatment and disposal facilities among all new service laterals."[45] The proposed HUF here is designed to assist Liberty Black Mountain in equitably apportioning the cost of constructing additional off-site wastewater transmission, delivery and disposal facilities among new service connections. The proposed HUF provides partial funding of the costs for off-site facilities for new service connections. The proposed HUF is $1,800 per ERU. The Company's proposed HUF is not based on a per unit cost analysis and Staff's attempt to apply a unit cost figure to an estimated gpd/ERU is not proper in this case.

Liberty Black Mountain also proposes a HUF of $1,800 in order to standardize the HUF tariff amount for all of the Arizona utilities owned and operated by Liberty Utilities. The Company believes that standardizing the HUF tariffs will reduce administrative and processing costs. Once again, however, Staff thinks it knows better how to run utilities. Under the Company's existing HUF tariff, the fee for a 4" meter is $1,734. The Company maintains that the proposed $1,800 HUF is consistent with that prior approved HUF, especially when

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[44] Direct Testimony of Dorothy Hains, Engineering Report at 8 – 9.

[45] *Liberty Litchfield Park (formerly Litchfield Park Service Company)*, Decision No. 72682 (November 17, 2011) at 9:10-11.

considering increased costs and inflation since the Commission approved the existing HUF for Liberty Black Mountain in 2010. Given that differential, it makes much more sense to have a standard HUF amount for all of the Liberty Utilities sewer companies in Arizona.

F. <u>Corporate Cost Allocations</u>.

Q. FINALLY, LET'S TALK ABOUT CORPORATE COST ALLOCATIONS. IN THEIR REBUTTAL TESTIMONIES, BOTH STAFF AND RUCO RECOMMEND DENYING OVER 70 PERCENT OF THE CORPORATE COST ALLOCATIONS INCURRED BY LIBERTY BLACK MOUNTAIN. IS THAT REASONABLE AND WHAT IMPACT WILL THAT HAVE ON LIBERTY BLACK MOUNTAIN?

A. Staff and RUCO have reversed the clock back several years, ignoring that the Commission has continued to revisit our cost allocation subsequent to Decision No. 71865. As a result, Staff and RUCO recommend elimination of costs that are critical to Liberty Black Mountain's efficient operations, including access to capital. Those costs relate primarily to required and mandatory costs incurred by APUC as a result of being listed on the TSX. If Staff and RUCO continue to recommend denial of those costs, then neither Staff nor RUCO should expect APUC or Liberty Utilities to provide equity funding to Liberty Black Mountain. I just hope the Commission fully understands what Staff and RUCO are recommending here.

Q. PLEASE EXPLAIN.

A. In total, Liberty Black seeks only $37,844.84 in corporate cost allocations, which costs ensure continued access to capital. I find it unbelievable that Staff and RUCO recommend denial of over 70 percent of those costs given that the Company will need to fund an additional $3.8 million in closure costs if the Plant is

ultimately closed. Think of it this way—if a business were to undertake a loan for $3.8 million to fund a business project, it is beyond dispute that such business would incur more than $37,844.84 in loan costs, escrow fees and other closing costs relating to such loan. Here, Liberty Black Mountain is seeking recovery of corporate costs incurred by APUC in order to continue providing Liberty Black Mountain with access to capital. Those costs are required in order to maintain listing on the TSX.

Q, WHAT ABOUT STAFF'S AND RUCO'S ASSERTIONS THAT THOSE COSTS ONLY BENEFIT THE SHAREHOLDERS?

A. Staff's and RUCO's suggestion that those costs only benefit investors or shareholders is just plain wrong. Those costs do not benefit shareholders or investors because those costs are a necessary and legally required cost of being listed on the TSX. Liberty Black Mountain and its customers are the prime beneficiaries of those costs because capital would not be available from APUC or Liberty Utilities unless those costs were incurred. If the Commission wants Liberty Black Mountain to continue having steady access to capital funding from the TSX, then Liberty Black Mountain must pay its fair share of those costs. Ms. Brown's and Mr. Coley's recommendations on these issues ignore the facts that those costs are legally required for APUC to be listed on the TSX and to obtain capital for investment in Liberty Black Mountain and other Arizona utilities. Ms. Brown and Mr. Coley simply do not correctly understand how the utility business works on these issues and, in fact, neither Ms. Brown nor Mr. Coley even address the APUC Cost Allocation Manual provided with the Company's application in this docket. Mr. Killeen and Mr. Sorensen provide additional rebuttal on the corporate cost allocation in their testimonies.[46]

[46] Rebuttal Testimony of William R. Killeen; Rebuttal Testimony of Greg Sorensen at 8 –

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

10.

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Attorneys for Liberty Utilities (Black Mountain Sewer) Corp.

BEFORE THE ARIZONA CORPORATION COMMISSION

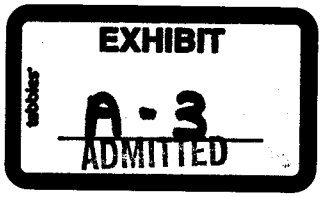
IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR AUTHORITY TO ISSUE EVIDENCE OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED $3,400,000.	DOCKET NO: SW-02361A-15-0206
IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-15-0207

TESTIMONY OF MATTHEW GARLICK

IN SUPPORT OF

COMPREHENSIVE SETTLEMENT AGREEMENT

January 27, 2016



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II. THE COMPREHENSIVE SETTLEMENT AGREEMENT 1

I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Matthew Garlick. My business address is 12725 W. Indian School Road, Suite D-101, Avondale, Arizona 85392.

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

A. I am providing this testimony on behalf of applicant Liberty Utilities (Black Mountain Sewer) Corp. (hereafter "Liberty Black Mountain" or "Company").

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

A. I am employed by Liberty Utilities as President of AZ/TX.

Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF LIBERTY BLACK MOUNTAIN IN THIS CASE?

A. Yes. My direct testimony was filed on June 22, 2015 in support of the Company's application. My rebuttal testimony was filed on January 6, 2016, addressing, in part, the Proposed Settlement Agreement between Liberty Black Mountain, CP Boulders, LLC dba Boulders Resort (the "Resort"), Wind P1 Mortgage Borrower, L.L.C., and the Boulders Homeowners Association, filed on November 16, 2015 ("Town/Resort Settlement").

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. To express Liberty Black Mountain's support for the Proposed Comprehensive Settlement Agreement ("Comprehensive Settlement") between Liberty Black Mountain, the Arizona Corporation Commission Utilities Division Staff ("Staff"), the Residential Utility Consumer Office ("RUCO"), the Town, and the Resort (collectively, the "Parties"), executed and filed on January 22, 2016.

II. THE COMPREHENSIVE SETTLEMENT AGREEMENT.

Q. WHAT IS THE PURPOSE OF THE COMPREHENSIVE SETTLEMENT?

A. To settle all issues that remain in dispute in our pending rate case, Commission

Docket No. SW-02361A-15-0207, and in our pending financing application, Docket No. SW-02361A-15-0206. These two dockets have been consolidated.

Q. SO THERE ARE NO ISSUES LEFT IN DISPUTE IN EITHER OF THESE TWO DOCKETS?

A. That's correct. The Parties have agreed to resolve everything in dispute. As Liberty Black Mountain has explained in all of its testimony filed in this case, the rate case was driven by the need for a new commercial rate design, and issues related to the Company's ongoing efforts to close the East Boulders Wastewater Treatment Plant ("Boulders WWTP") as the Company was ordered to do by the Commission. The Parties have fashioned recommendations that address both of those matters, as well as the ratemaking necessary for new rates.

Q. CAN YOU PLEASE SUMMARIZE THE GENERAL RATEMAKING TERMS?

A. Yes. The Parties have agreed to a Fair Value Rate Base of $4,195,730, which includes $825,081 of costs the Company incurred in connection with the closure of the Boulders WWTP.[1] I will discuss the plant closure costs further a little later in this testimony. The Parties have agreed to a total revenue requirement of $2,415,080, including total operating expenses equal to $2,021,692, which revenue requirement results in an increase in revenues of $175,232 or 7.82 percent over the 2014 test year.[2] This revenue requirement is based on the Parties' agreement to a rate of return of 7.71 percent on fair value rate base, which return was determined using a 70 percent equity-30 percent debt capital structure, a cost of equity equal to 9.5 percent and a cost of debt equal to 3.53 percent.[3]

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[1] Comprehensive Settlement Agreement at 5, ¶¶ 2.2 and 2.2.1, and Settlement Schedule B-2, p. 2.

[2] Comprehensive Settlement Agreement at 5, ¶ 2.1.

[3] Comprehensive Settlement Agreement at 7-8, ¶ 2.4.

I won't attempt to speak to every single issue that was resolved to reach the agreed-upon fair value rate base and revenue requirement, as some were small and others are beyond my ratemaking experience. Several of the more critical issues that were resolved are specifically discussed in the Comprehensive Settlement, including the reclassification of AIAC to CIAC, depreciation expense, and rate case expense.[4] Additionally, the Parties have also agreed that certain costs for corporate plant and expenses arising out of corporate governance, including the investor's access to capital on the Toronto Stock Exchange, are necessary and reasonable costs of service.[5]

Q. WHAT ABOUT THE RATE DESIGN?

A. The rates in the Comprehensive Settlement reflect the Parties' agreement on the rate design, including the new commercial rate design.[6] The settlement rates utilize the existing flat rates for residential customers, and the commercial rates are now based on water usage, as the Town, Commission, and a number of our customers wanted. In resolving any issues over the commercial rate design we have addressed the concerns that the local business owners, particularly the restaurants and the Town, expressed over the present rate design. As Mr. Bourassa further explained in his prefiled rebuttal testimony, the Company has continued to integrate the water providers' data into our system, and we now feel we have a pretty good handle on the identity and number of commercial accounts on the system.

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[4] Comprehensive Settlement Agreement at 5-7, ¶¶ 2.2 and 2.3.

[5] Comprehensive Settlement Agreement at 5, ¶ 2.2.2 and at 6, ¶ 2.3.2.

[6] Comprehensive Settlement Agreement at 8, ¶ 2.6.

Q. THANK YOU, MR. GARLICK. COULD YOU ALSO PLEASE SUMMARIZE THE SETTLEMENT TERMS RELATED TO CLOSURE OF THE BOULDERS WWTP?

A. Yes, gladly. The resolutions that the Parties have reached regarding the timing of plant closure and the recovery of plant closure costs, if approved by the Commission, will finally provide the Company and its customers with a clear path to closure of the Boulders WWTP. Specifically, there are four primary components of the Parties' agreement to resolve the plant closure issues.

First, as set forth in the Town/Resort Settlement, all Parties now agree to a closure date of November 30, 2018.[7] Until then, the Company will continue to operate the Boulders WWTP and deliver the effluent to the Resort. This will give the Resort additional time to upgrade its irrigation systems so it can operate in the future without effluent from Liberty Black Mountain.

Q. ARE THERE ANY CONCERNS WITH CONTINUING TO OPERATE THE BOULDERS WWTP FOR ANOTHER 2-3 YEARS, MR. GARLICK?

A. Nothing that should preclude the Commission from approving the recommendations of the Comprehensive Settlement, including the November 2018 closure date. While the Boulders WWTP is over 40 years old, it continues to operate in full compliance with all rules and regulations, and the improvements we made continue to keep odors at minimal levels. The Boulders WWTP is still in the middle of the community, which is why it is being closed, but now we have a closure plan that will leave the Resort time to adapt to the loss of effluent, and that's worth waiting a little longer to close the facility.

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[7] Comprehensive Settlement Agreement at 8, ¶ 3.1; Town/Resort Proposed Settlement Agreement at 7, ¶ 2.4.2.

Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE COMPONENTS OF THE PARTIES' AGREEMENT RELATED TO THE CLOSURE OF THE BOULDERS WWTP.

A. Second, we have agreed to include the actual plant closure costs we have already incurred so far in rate base.[8] As of September 30, 2015, the Company had incurred $1,133,080 related to closure of the Boulders WWTP. However, in the Town/Resort agreement, Liberty Black Mountain agreed to reduce the amount to be recovered through rates for wastewater utility service to $825,080.[9] The Parties to the Comprehensive Settlement have agreed to adopt this number for the actual closure costs, and to include this amount in rate base.

Q. EXCUSE ME FOR INTERRUPTING, BUT WHAT ABOUT THE PLANT CLOSURE SURCHARGE THE COMPANY SOUGHT IN ITS APPLICATION AND SOME OF THE PARTIES AGREED TO IN THE TOWN/RESORT SETTLEMENT?

A. Under the terms of the Comprehensive Settlement, we have eliminated all of the proposed plant closure cost surcharges. As a result, we have $825,081 of actual costs that the Parties jointly agree to treat like any other reasonable and prudent capital investment in plant used and useful in serving customers. We think this is entirely fair and appropriate.

Q. OKAY, THANK YOU. PLEASE CONTINUE?

A. The third component addresses the cost of the 120,000 gallons of treatment capacity to replace the capacity of the Boulders WWTP.[10] The "Replacement

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[8] Comprehensive Settlement Agreement at 8-9, ¶ 3.2.

[9] Comprehensive Settlement Agreement at 9, ¶¶ 3.2.1 and 3.2.2; Town/Resort Proposed Settlement Agreement at 6-7, ¶ 2.2.

[10] Comprehensive Settlement Agreement at 9-10, ¶ 3.3.

Capacity" will come from the City of Scottsdale, with whom we have negotiated a new wastewater treatment capacity agreement. The Replacement Capacity will cost $1.2 million before January 1, 2018, and the Parties agree this amount is "known and measurable" and "reasonable and prudent."[11] In the Comprehensive Settlement, we have agreed to pay that amount when due and to record the cost on our books, and the Parties have agreed to recommend to the Commission that this cost should be subject to the (1) accrual of post in-service AFUDC, and (2) deferral of depreciation.[12]

Mr. Bourassa will be available at the hearing to answer questions about the specific ratemaking treatment of the plant closure costs adopted in the Comprehensive Settlement, and I will leave the details of this ratemaking treatment to him and the analysts from Staff and RUCO. For my part, the simple point of this treatment is to leave Liberty Black Mountain in the same place as it would have been under the plant closure cost surcharge approach. We said from the start of the rate case that we would accept alternatives to the surcharges if they were functionally equivalent. We have achieved that here, and this allowed us to reach this global agreement of all Parties.

Q. WHAT IS THE LAST PRIMARY COMPONENT OF THE COMPREHENSIVE SETTLEMENT RELATED TO THE CLOSURE OF THE BOULDERS WWTP?

A. The fourth and final primary component is the agreement regarding treatment of the remaining costs the Company will incur to close the Boulders WWTP. These costs are estimated at roughly $2.7 million and involve the cost to upgrade and realign the Company's wastewater collection and transmission system to deliver an

[11] Comprehensive Settlement Agreement at 9, ¶ 3.3.2.

[12] Comprehensive Settlement Agreement at 9-10, ¶¶ 3.3.2.1 and 3.3.2.2.

additional 120,000 gpd of wastewater to Scottsdale.[13] The Parties agree that the Company's proposed plan is suitable and that the estimated costs are reasonable. The Parties further agree to treatment similar to the treatment discussed immediately above regarding the cost of the Replacement Capacity. The Company will record the remaining costs of plant closure on its books and the costs will be subject to the deferral of depreciation and accrual of post in-service AFUDC.[14]

Q. HOW LONG WILL THE REPLACEMENT CAPACITY COSTS AND REMAINING CLOSURE COSTS BE SUBJECT TO THE DEFERRAL OF DEPRECIATION AND ACCRUAL OF POST IN-SERVICE AFUDC?

A. Presumably until the next rate case when all of the costs would be rolled into rate base.

Q. WHEN WILL THE NEXT RATE CASE BE FILED?

A. Under the Comprehensive Settlement, the Boulders WWTP is scheduled for closure on November 30, 2018 and a rate case will be filed within seven (7) months thereafter, or before June 30, 2019.[15] We expect in that rate case to finalize rate base treatment of all of the costs of closing the Boulders WWTP. We will also try, if possible, to include the costs of removal and remediation, but that's something we cannot control because of the associated permitting. To be clear, though, Boulders WWTP will cease operation as of November 30, 2018, if the Commission approves the Comprehensive Settlement.

Q. WHAT HAPPENS TO THE TOWN/RESORT SETTLEMENT NOW THAT THE PARTIES HAVE ENTERED INTO THE COMPREHENSIVE SETTLEMENT?

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[13] Comprehensive Settlement Agreement at 10-11, ¶¶ 3.4.1 and 3.4.2.

[14] Comprehensive Settlement Agreement at 10-11, ¶¶ 3.4.1 and 3.4.2.

[15] Comprehensive Settlement Agreement at 12, ¶ 4.5.

A. The Parties have agreed to adopt a number of aspects of the Town/Resort agreement, and to modify others.[16] In the end, the Commission has both settlement agreements before it, and where inconsistent, the Parties intend the newer, Comprehensive Settlement to govern.[17] All of the Parties to both agreements have signed off and approved the Comprehensive Settlement.

Q. DOES THE COMPREHENSIVE SETTLEMENT ADOPT THE TERMS OF THE TOWN/RESORT SETTLEMENT REGARDING THE EFFLUENT RATE?

A, Yes, the Resort will pay an effluent rate estimated to be $543 per acre-foot.[18] This rate will allow the Company to recover $108,000 of its plant closure costs directly from the Resort before the Boulders WWTP closes on November 30, 2018.

Q. ARE THERE ANY OTHER PROVISIONS OF THE COMPREHENSIVE SETTLEMENT THAT YOU WISH TO DISCUSS?

A. Not that this time.

Q. WHY DO YOU BELIEVE THAT COMMISSION APPROVAL OF THE TERMS OF THE COMPREHENSIVE SETTLEMENT IS IN THE PUBLIC INTEREST?

A. Respectfully, the far-reaching benefits of the Comprehensive Settlement should be obvious. All parties to the rate case have joined in settling and, collectively, the Parties represent all of the interested stakeholders – the customers, the local municipality and local business interests, the regulators and the utility. The parties have settled all issues, including agreeing to all of the components of new rates for Liberty Black Mountain and a new commercial rate design. And the Parties have

[16] Comprehensive Settlement Agreement at 4, ¶ 1.2.8 and at 13, ¶ 6.1.5.

[17] Comprehensive Settlement Agreement at 13, ¶ 6.1.5.

[18] Comprehensive Settlement Agreement at 8, ¶ 2.6.2 and at 9, ¶ 3.2.2.

resolved the challenging issues that continued to hold up closure of the Boulders WWTP. I understand that the Commission still must exercise its own independent judgment on these issues, but the Commission now has everything it needs to decide Liberty Black Mountain's rate case and financing in a manner that results in just and reasonable rates, as well as other critically necessary relief. On behalf of Liberty, I urge the Commission to accept and approve the Comprehensive Settlement as soon as possible.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

PROPOSED SETTLEMENT AGREEMENT
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

The purpose of this Settlement Agreement ("Agreement"), dated November __, 2015, is to settle certain issues and claims, some of which arise from Arizona Corporation Commission ("Commission") Docket No. SW-02361A-08-0609 and are currently pending before the Arizona Court of Appeals in Case No. CA-CV 14-0643, and some of which are present in Commission Docket No. SW-02361A-15-0206 & 0207 ("2015 Rate Case").

This Agreement is entered into by the following entities:

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

TOWN OF CAREFREE

CP BOULDERS, LLC DBA BOULDERS RESORT AND
WIND P1 MORTGAGE BORROWER, L.L.C.

THE BOULDERS HOMEOWNERS ASSOCIATION

These entities shall be referred to collectively as 'Signatories;" a single entity shall be referred to individually as a "Signatory."

EXHIBIT
A-4
ADMITTED

PROPOSED SETTLEMENT AGREEMENT
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

1 RECITALS

1.1 The Parties.

1.1.1 Liberty Utilities (Black Mountain Sewer) Corp. ("Liberty Black Mountain") is an Arizona public service corporation providing wastewater utility service to approximately 2,100 primarily residential customers in and around Carefree, Arizona, under a certificate of convenience and necessity issued by the Commission.

1.1.2 The Town of Carefree is an Arizona municipality and wastewater customer of Liberty Black Mountain.

1.1.3 CP Boulders, LLC, a Delaware limited liability company authorized to do business in Arizona, is the current owner of the Boulders Resort, and is referred to in this Agreement as the "Resort."

1.1.4 Wind P1 Mortgage Borrower L.L.C., a Delaware limited liability company ("Wind P1"), was the prior owner of the Boulders Resort, and as of April 28, 2015 assigned all of its interest in the matters addressed in this Agreement to CP Boulders, LLC, except its claims for attorney's fees in the Appeal (defined below).

1.1.5 The Boulders Homeowners' Association is a non-profit homeowners association representing homeowners and customers of Liberty Black Mountain in the Boulders residential community.

1.2 The East Boulders Wastewater Treatment Plant ("Plant").

1.2.1 Liberty Black Mountain owns and operates a single wastewater treatment facility, the Plant. The Plant was built more than 40 years ago and is located adjacent to one of the Resort's golf courses. It is situated less than 100 feet from three homes and within 1,000 feet of approximately 300 homes. If constructed today, the Plant would require a setback of either 350 feet (for a facility without odor, noise, and aesthetic controls) or at least 100 feet (for a facility with full odor, noise, and aesthetic controls).

1.2.2 The Plant treats up to 120,000 gallons of wastewater each day, which represents roughly 20 percent of Liberty Black Mountain's daily inflow. The remainder of Liberty Black Mountain's sewer flow is delivered to the City of Scottsdale ("Scottsdale") for treatment under that certain Wastewater Treatment Agreement between Liberty Black Mountain and Scottsdale dated April 1, 1996 ("Scottsdale Agreement").

1.2.3 All effluent produced by the Plant is delivered to the Resort. Liberty Black Mountain and the Resort are or were parties to an Effluent Delivery Agreement dated March 2001 ("EDA"). It is Liberty Black Mountain's position that its obligation to deliver effluent under the EDA was terminated by Commission Decision No. 73885 (May 8. 2013) ("Phase 2 Decision"). The Resort's position is that the obligations in the EDA were not terminated by the Phase 2 Decision.

1.2.4 Effluent deliveries to the Resort continue, and the Resort has a continuing need for the Plant's effluent to water the Resort golf courses during peak water use times.

1.2.5 The Plant operates in full compliance with any and all applicable laws and regulations.

1.2.6 After the Phase 2 Decision, refined engineering cost estimates for the Plant closure indicate that the costs of closure are significantly higher than estimated at the time of the Phase 2 Decision. A closure date of November 30, 2018 will allow such costs to be placed into customer rates in stages, will address the Resort's need for continued delivery of effluent in the interim, and will provide nearby residents with a date certain for closure.

1.3 <u>Prior and Pending Proceedings.</u>

1.3.1 Liberty Black Mountain filed a rate application with the Commission in December 2008. The BHOA intervened as a party, and then, Liberty Black Mountain and the BHOA entered into a Plant Closure Agreement on September 17, 2009. The Town was also a party to the rate case and supported the Plant Closure Agreement.

1.3.2 The Commission issued Decision No. 71865 on September 1, 2010 ("Phase 1 Decision"). Concerning the Plant Closure Agreement, the Commission stated that it was a reasonable resolution of the odor concerns expressed by hundreds of Liberty Black Mountain customers. To facilitate Liberty Black Mountain's funding and recovery of costs associated with closure of the Plant, the Commission also approved a special plant closure cost recovery mechanism in the Phase 1 Decision. The Resort was not a party to the Phase 1 proceedings.

1.3.3 After the Phase 1 Decision, alternatives to the effluent supplied by Liberty Black Mountain to the Resort were considered. When the Resort and Liberty Black Mountain were unable to reach agreement to terminate the EDA in order for the Plant closure to proceed, the BHOA sought and obtained Commission intervention. On January 24, 2012, the Commission reopened Decision No. 71865 for the sole purpose of determining whether it should order Liberty Black Mountain to close the Plant.

1.3.4 The Resort intervened after the matter was reopened and additional hearings took place in May 2012. The Town did not participate as a party but passed a resolution that was filed with the Commission supporting closure of the Plant. The Commission issued the Phase 2 Decision (No. 73885) on May 8, 2013.

1.3.5 In the Phase 2 Decision, the Commission concluded that continued operation of the Plant in the midst of a residential neighborhood would have a detrimental effect on the quality of life for residents within the community. As the Commission held "[t]he record supports a finding that due to its location, the [Plant] can no longer be operated in a manner consistent with the public interest[.]"

1.3.6 The Resort filed a petition for rehearing of the Phase 2 Decision pursuant to A.R.S. § 40-253, which was denied by operation of law. The Resort then appealed the Phase

2 Decision pursuant to A.R.S. § 40-254. The Superior Court in Maricopa County Superior Court Case No. CV2013-00784 upheld the Commission's order, finding that the plant closure order was within the Commission's statutory powers. The Resort appealed the Superior Court's decision, which appeal is currently pending before the Arizona Court of Appeals as Case No. 1 CA-CV 14-0643 (the "Appeal"). Oral argument in the Court of Appeals is presently scheduled for December 8, 2015.

1.4 Status of Plant Closure.

1.4.1 The engineering of design modifications to Liberty Black Mountain's wastewater transmission system necessary for flows to be delivered to the City of Scottsdale instead of the Plant is substantially complete and the most reasonable alternative is Option 2—City of Scottsdale, Tom Darlington Drive – Single FM w/ Ex as shown in Exhibit 1 to this Agreement. The total estimated cost of the improvements is $2.6M. The Signatories understand that this is an estimated cost subject to final, actual costs.

1.4.2 Liberty Black Mountain is currently negotiating an amendment to the Scottsdale Agreement that would allow it to close the Plant and purchase additional capacity to replace the current capacity in the Plant. The estimated cost of the replacement capacity is $10 per gallon for a total replacement capacity cost equal to $1.2M, which amount is in addition to the estimated costs to upgrade the transmission system addressed in Section 1.4.1 above.

1.4.3 Through September 30, 2015, Liberty Black Mountain's plant closure costs equal $1,133,080.51.

1.4.4 The Resort has an ongoing need for effluent deliveries from the Plant through November 30, 2018.

1.5 Pending Rate Case.

1.5.1 Liberty Black Mountain filed the 2015 Rate Case on June 22, 2015. As stated in Liberty Black Mountain's application and supporting testimony, the rate case was brought (1) because the plans for and estimated costs of the Plant closure had changed since the Phase 1 and Phase 2 Decisions; (2) Liberty Black Mountain has over $1M of investment in the Plant closure; (3) Liberty Black Mountain has not earned sufficient revenue and returns, and (4) the request and need for a new commercial rate design.

1.5.2 Liberty Black Mountain seeks certain relief, including recovery of Plant closure costs incurred to date in the 2015 Rate Case that impact the interests of the Resort, Town and BHOA. The Resort was granted leave to intervene on July 31, 2015. The Town was granted leave to intervene on October 7, 2015. The BHOA has not intervened but its interests are aligned with the Town.

1.5.3 The Signatories have used the opportunity of the pending rate case to further consider their respective interests, including the interests of the Town's citizens, the BHOA's membership, and Liberty Black Mountain's customers, which include the Resort. As a

result of these efforts and negotiations, the Signatories have reached this Agreement to settle. The Signatories believe that this Settlement is in the public interest.

1.6 Nature of Settlement.

1.6.1 This Agreement reflects the Signatories' agreement to settle and compromise (1) litigation arising out of the Commission's Phase 2 Decision, including the Appeal; (2) claims that have not yet been pursued relating to the Phase 1 and Phase 2 decisions and the EDA; and (3) relief sought by Liberty Black Mountain in the 2015 Rate Case related to the closure of the Plant. The Signatories also intend to set a date certain for closure of the Plant.

1.6.2 This Agreement does not address or resolve any other issue in the 2015 Rate Case except as expressly set forth herein.

2 SPECIFIC TERMS AND CONDITIONS.

2.1 Plant Closure Costs.

2.1.1 As of September 30, 2015, Liberty Black Mountain has incurred $1,133,080.51 in closure costs. The Signatories agree that these costs were reasonably and prudently incurred in connection with the closure of the Plant as requested by the majority of the customers and ordered by the Commission. The Signatories further agree that Liberty Black Mountain should recover these closure costs as set forth herein as part of this Agreement.

2.1.2 The amount of plant closure costs incurred through September 30, 2015 and included in Liberty Black Mountain's rate case is $1,133,080.51. As part of this Agreement, Liberty Black Mountain has agreed not to seek recovery of $200,000 of legal costs incurred in connection with the Marshall litigation, an action brought by a homeowner against Liberty Black Mountain seeking closure of the Plant.

2.1.3 Of the $1,133,080.51 of Plant closure costs incurred through September 30, 2015 and included in Liberty Black Mountain's rate application, the Resort has agreed that $108,000 should be recovered from the Resort as part of the rate for effluent for the remaining months from the date of the Commission's final decision in the ongoing 2015 rate case until the Plant is scheduled to close on November 30, 2018. For example, if the Commission's final rate decision is issued at the end of September 2016, then the effluent rate submitted by Liberty Black Mountain in the final rate schedules would be set at approximately $635 per acre-foot. No rate of return would be earned by Liberty Black Mountain on the $108,000. If the $108,000 is fully recovered before the plant closes, then the tariff will provide that the effluent rate reverts to the current rate of $150 per acre-foot.

2.1.4 The Signatories agree that the remaining amount, $825,080.51, are reasonable and prudent costs incurred by Liberty Black Mountain in connection with the closure of the Plant and that such costs should be subject to recovery as requested in Liberty Black Mountain's rate application, as modified herein as part of the consideration for this Agreement.

2.1.5 The Signatories agree that the estimated cost of replacement capacity of $10 per gallon for a total cost of $1.2M to be paid to Scottsdale following execution of an amendment to the Scottsdale Agreement is known and measurable, reasonable and prudent, and once paid by Liberty Black Mountain, such cost should be subject to cost recovery as contemplated in this Agreement.

2.1.6 Liberty Black Mountain's plan for closure of the Plant is Option 2—City of Scottsdale, Tom Darlington Drive – Single FM w/ Ex Backup as shown in Exhibit 1. The Town, BHOA, and the Resort have reviewed the alignment for that closure option and agree with Liberty's plans for closure and that the $3,899,700 of estimated costs for closure under Option 2, which amount includes the $1.2M for replacement capacity discussed in Section 2.1.5 above appear just, reasonable and necessary. The Signatories agree and acknowledge that those costs are still estimates and subject to change.

2.2 Recovery of Plant Closure Costs.

2.2.1 The Signatories acknowledge that the Commission approved a Plant closure cost surcharge mechanism in the Phase 1 Decision, however, the Signatories further acknowledge and agree that certain modifications to the prior relief approved by the Commission are necessary and reasonable as some circumstances have changed beyond Liberty Black Mountain's control since the Phase 1 and Phase 2 Decisions were issued.

2.2.2 The Signatories agree that the Plant closure costs should be recovered using a staged surcharge approach as follows:

2.2.2.1 **Stage 1 Surcharge.** A Stage 1 Surcharge estimated at $6.31 per customer per month for recovery of Liberty Black Mountain's $825,080.51 of closure costs already incurred pursuant to Section 2.1.4 herein, subject to the provisions above and as requested in the 2015 Rate Case. The first stage of the Plant recovery cost surcharge will go into effect with the new rates approved in the pending 2015 Rate Case.

2.2.2.2 **Stage 2 Surcharge.** A Stage 2 Surcharge of $7.96 per month, bringing the total estimated Stage 1 and Stage 2 surcharge cost to $14.27 per customer per month. The Stage 2 Surcharge will go into effect within 90 days of Liberty Black Mountain's payment of up to $1,200,000 to the City of Scottsdale.

2.2.2.3 **Stage 3 Surcharge.** A Stage 3 Surcharge estimated to be an additional $16.70 per month, bringing the total of the estimated Stage 1-3 surcharges to $30.97. That Stage 3 Surcharge is based on estimated costs of closure of the Plant, exclusive of the replacement capacity cost, equal to $2,699,700 as discussed above in Section 2.1.6. The Stage 3 surcharge would go into effect within 90 days of the Plant being closed on November 30, 2018.

2.2.2.4 **Removal Costs.** The costs to remove the Plant from its present location and to remediate the site, along with any net proceeds from the sale of the remediated land, are not included in the estimated closure costs discussed in Sections 2.2.2.1, 2.2.2.2, and 2.2.2.3 above and will not be subject to recovery through a Plant cost recovery surcharge mechanism. Instead, Liberty Black Mountain may seek to recover the additional costs of removal in a rate case to be filed as soon as possible after all the costs to close the Plant and remove it and remediate the site have been incurred.

2.2.3 The Signatories acknowledge that the Commission has authority over ratemaking in Arizona, including the ratemaking terms set forth in this Section 2.2 of this Agreement. Should the Commission deem an alternative cost recovery mechanism to be reasonable and in the public interest, and such alternative is acceptable to Liberty Black Mountain, then subject to Section 3.1.3 the Resort, Town and BHOA agree to support such mechanism as an acceptable alternative to the surcharge mechanism agreed to in Section 2.2.2 hereinabove.

2.3 Additional Joint Obligations.

2.3.1 The Town and Liberty Black Mountain agree to propose a separate wastewater tariff for light industrial customers, such as breweries, for which water usage greatly exceeds their demand on the wastewater system, and which tariff would not compute wastewater charges based on the customer's water usage, but on some other appropriate basis (e.g. actual wastewater flows). Such tariff shall be filed in the 2015 Rate Case on or before December 22, 2015.

2.3.2 Following execution of this Agreement and submission to the Commission in accordance with Section 3.1.2 below, the Signatories agree to reasonably cooperate in obtaining the agreement of the Commission's Utilities Division Staff and the Residential Utility Consumer Office to the material terms of this Agreement and, if possible, an agreement of all parties to resolve the 2015 Rate Case that is consistent with the rate design presented by Liberty Black Mountain in its rate application.

2.4 Additional Obligations of Liberty Black Mountain.

2.4.1 Liberty Black Mountain will take reasonable steps to complete its negotiations with Scottsdale and enter into a revised wastewater treatment agreement that allows Liberty Black Mountain close the Plant and obtain 120,000 gallons per day of replacement capacity at a price not to exceed $10 per gallon.

2.4.2 Liberty Black Mountain will close the Plant on November 30, 2018, or earlier if all required permits are in place and the Resort agrees to an earlier closure date. Liberty will continue to provide effluent to the Resort until that closure date subject to this Agreement.

2.4.3 Liberty Black Mountain will remove the Boulders WWTP and remediate the site in accordance with applicable environmental standards within a reasonable time after the

closure of the WWTP. Liberty Black Mountain will comply with all applicable BHOA guidelines in any subsequent development of the site. Roads and property within the Boulders community affected by the construction of Option 2 and the remediation of the site will be restored by Liberty Black Mountain to substantially the same condition as existed prior to the such construction/remediation work.

2.4.4 Following remediation, Liberty shall cause the Plant site to be put up for sale. Liberty, the BHOA and Town will cooperate to determine the sales price and sell the Plant site at the best price available given then current market conditions. Liberty shall have the final decision whether to accept an offer for the Plant site, but must reasonably seek the cooperation and input of the Town and BHOA before accepting any offer on the Plant site.

2.5 Additional Obligations of the Resort.

2.5.1 The Resort agrees to continue to take and pay for the full output of effluent from the Plant until the Plant is closed on or before November 30, 2018 at the effluent rate agreed to as part of this Agreement.

2.5.2 Upon the filing with the Commission of the Agreement, Liberty Black Mountain, the Resort, Wind P1, and BHOA will request that the Court of Appeals stay all proceedings in the Appeal pending resolution of the 2015 Rate Case, and if the Settlement Agreement is approved by the Commission in the 2015 Rate Case in accordance with Section 3 below, the Resort and Wind P1 shall file a withdrawal of the Appeal and the Resort and Liberty Black Mountain will forever discharge and release each other from any claims brought or which could have been brought under the EDA in connection with the closure of the Plant.

3 COMMISSION EVALUATION OF PROPOSED SETTLEMENT.

3.1.1 The Signatories acknowledge and agree that the determination of Liberty Black Mountain's fair value rate base and the setting of just and reasonable rates thereon will be made by the Commission based upon its own independent evaluation and determination of the record in the 2015 Rate Case.

3.1.2 Following execution by each of the Signatories, the Agreement shall be jointly filed with the Commission along with testimony from Liberty Black Mountain, the Resort, and the Town, and written public comment from BHOA, supporting the Agreement and requesting that the Commission approve the material terms that require Commission approval.

3.1.3 If the Commission fails to issue an order adopting all material terms of this Agreement, or modifies or adds material terms to this Agreement, any or all of the Signatories may withdraw from this Agreement, and such Signatory or Signatories may pursue their respective remedies at law without prejudice. For the purposes of this Agreement, whether a term is material shall be left to the reasonable discretion of the Signatory choosing to withdraw from the Agreement. If a Signatory withdraws from the Agreement pursuant to this Section 3.1.3, and files an application for rehearing with the Commission, the other Signatories shall support the application for rehearing by filing a document to that effect with the Commission.

3.1.4 The Signatories agree that this Agreement will not have any binding force and effect until its material terms are adopted in an order of the Commission, except that this provision shall not relieve the Signatories of their obligations pursuant to Section 3.1.2 of this Agreement.

3.1.5 If requested by Liberty Black Mountain, the Signatories agree to support a request for expedited approval of the Agreement and resolution of the 2015 Rate Case.

4 MISCELLANEOUS PROVISIONS.

4.1.1 Each Signatory whose signature appears below is fully authorized and empowered to execute this Agreement. Each Signatory has been represented by competent legal counsel and understands all of the terms of this Agreement, has had an opportunity to participate in the drafting of this Agreement and fully review this Agreement with its counsel before signing, and executes this Agreement with full knowledge of the terms of the Agreement.

4.1.2 The acceptance by any Signatory of a specific element of this Agreement shall not waiver or compromise of any claim, issue or position in the 2015 Rate Case not specifically addressed by this Agreement.

4.1.3 This Agreement represents the Signatories' mutual desire to compromise and settle in good faith the issues settled in this Agreement in a manner consistent with the public interest. The Signatories agree that the issues and disputes in the Appeal and in the 2015 Rate Case present a unique set of circumstances that has attracted the interest of a large number of customers. To achieve consensus for settlement, the Signatories are accepting positions that, in any other circumstances, they might be unwilling to accept. They are doing so because the Agreement, as a whole, with its various provisions for settling the unique issues presented by this case, is consistent with their long-term interests and the broader public interest. The Signatories do not intend that their acceptance of a specific provision of this Agreement be considered as precedent for acceptance of that element in any other context. No Signatory is bound by any position asserted in negotiations, except as expressly stated in this Agreement. No Signatory shall offer evidence of conduct or statements made in the course of negotiating this Agreement before this Commission, any other regulatory agency, or any court.

4.1.4 To the extent any provision of this Agreement is inconsistent with any existing Commission order, rule, or regulation, this Agreement shall control.

4.1.5 Each of the terms of this Agreement is in consideration of all other terms of this Agreement. Accordingly, the terms are not severable.

4.1.6 The Signatories shall make reasonable and good faith efforts necessary to support and defend this Agreement and obtain a Commission order approving its material terms and, if necessary in court if challenged by another person or entity. Subject to Section 3 above, if the Commission adopts an order approving all material terms of the Agreement, the Signatories will support and defend the Commission's order before any court or regulatory agency in which it may be at issue. Nothing in this Section 4.1.6 shall be construed to require a Signatory to fund the defense of any other Signatory. If defense of this Agreement is reasonably

needed in any court or other regulatory agency, then each Signatory shall be deemed to have satisfied its duty under this Section 4.1.6 by providing a witness to testify in such action in support of this Agreement, but a Signatory shall not be required to pay an attorney to participate in such action, or to join as a party to such action.

4.1.7 This Agreement may be executed in any number of counterparts and by each Signatory on separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which taken together shall constitute one and the same instrument. This Agreement may also be executed electronically or by facsimile.

4.1.8 Under Section 38-511, Arizona Revised Statutes, as amended, the Town may cancel this Agreement within three years after its execution and without penalty or further obligation, if any person significantly involved in initiating, negotiating, securing, drafting or creating this Agreement on behalf of the Town is, at any time while the Agreement or any extension thereof is in effect, an employee or agent of another Signatory or any entity affiliated with another Signatory through common ownership in any capacity or a consultant to another Signatory with respect to the subject matter of this Agreement. In the event the Town elects to exercise its right under Section 38-511, Arizona Revised Statutes, as amended, the Town will immediately give written notice thereof to the other Signatories and no Signatory shall be bound further by the provisions of this Agreement.

4.1.9 The Recitals set forth in Section 1 of this Agreement are part of this Agreement and fully incorporated into the terms and conditions of the Signatories' agreement to settle as set forth in in this Agreement.

PROPOSED SETTLEMENT AGREEMENT
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

By: Matthew Dallek
Its: President U-2

CP BOULDERS, LLC dba the BOULDERS RESORT

By: _____
Its: _____

TOWN OF CAREFREE

By: _____
Its: _____

WIND P1 MORTGAGE BORROWER, L.L.C.

By: _____
Its: _____

BOULDERS HOMEOWNERS ASSOCIATION

By: _____
Its: _____

PROPOSED SETTLEMENT AGREEMENT
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

By: _____
Its: _____

TOWN OF CAREFREE

By: _____
Its: Mayor

BOULDERS HOMEOWNERS ASSOCIATION

By: _____
Its: _____

CP BOULDERS, LLC dba the BOULDERS RESORT

By: _____
Its: _____

WIND P1 MORTGAGE BORROWER, L.L.C.

By: _____
Its: _____

PROPOSED SETTLEMENT AGREEMENT
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

By: _____
Its: _____

CP BOULDERS, LLC dba the BOULDERS RESORT

By: _____
Its: _____

TOWN OF CAREFREE

By: _____
Its: _____

WIND P1 MORTGAGE BORROWER, L.L.C.

By: _____
Its: _____

BOULDERS HOMEOWNERS ASSOCIATION

By: [illegible]
Its: PRESIDENT

PROPOSED SETTLEMENT AGREEMENT
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

By: _____
Its: _____

CP BOULDERS, LLC dba the BOULDERS RESORT

By: _____
Its: _____

TOWN OF CAREFREE

By: _____
Its: _____

WIND P1 MORTGAGE BORROWER, L.L.C.

By: _____
Its: _____

BOULDERS HOMEOWNERS ASSOCIATION

By: _____
Its: _____

PROPOSED SETTLEMENT AGREEMENT
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

By: _____
Its: _____

CP BOULDERS, LLC dba the BOULDERS RESORT

By: _____
Its: _____

TOWN OF CAREFREE

By: _____
Its: _____

WIND P1 MORTGAGE BORROWER, L.L.C.

By: _____
Its: SVP

BOULDERS HOMEOWNERS ASSOCIATION

By: _____
Its: _____

PROPOSED SETTLEMENT AGREEMENT
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

Exhibit - 1

Liberty Utilities - Black Mountain Treatment Options after removal of the WRF

Description	Option 1 Town of Cave Creek Cave Creek Road	Option 2 City of Scottsdale TDD - Single FM w/Ex Backup	Option 3 City of Scottsdale Mule Train-Hayden Rd	Option 4 Boulders Existing FMs w/New Sewers
Bypass sewers at WRF	$ 240,800	$ 240,800	$ 240,800	$ 240,800
Decommission & remove WRF	$ 439,300	$ 439,300	$ 439,300	$ 439,300
Capital cost for capacity	$ 4,022,225	$ 1,200,000	$ 1,200,000	$ 1,200,000
Additional charges	Yes - new connections	No - exist contract	No - exist contract	No - exist contract
Operation charges	$45 plus $3 per 1,000 gal			
Commercial LS requires upgrading	Yes	Yes	No	No
Estimated Cost of Upgrade	$ 108,800	$ 411,700	$ -	$ -
Ex FM - Future End-of-life Replacement	No	No	Yes - 10,000-ft replace min one FM	Yes - 10,000-ft min one FM
FM Replacement - Pipe Bursting	$ -	$ -	$ 1,160,000	$ 1,160,000
Sentinel Rock LS				
Requires upgrades to four LS	+Sunset, Stagecoach &El Ped	No changes	No changes	No changes
Estimated Cost of Upgrades	$ 1,054,200	$ -	$ -	$ -
Force Main construction				
Requires new force mains	Yes	Yes - single FM	Yes plus gravity line	No
Approximate length of FM/SS	1,100-ft	12,900-ft	1,000-ft (FM) + 7,200-ft (SS)	
Estimated Cost for Force Mains	$ 422,400	$ 990,900	$ 1,320,300	
Estimated Cost Pavement Replmt.		$ 617,000	included w/FMs	
Estimated Cost 10-ft wide Easements	included w/FMs	$ -	$ 1,000,000	
Replacement Gravity Sewers - negative slopes, under capacity, and under buildings				
Approximate length of SS				5,960-ft
Estimated Cost for Sewers				$ 1,348,300
Estimated Cost Pavement Replmt.				$ 712,900
Estimated Cost 10-ft wide Easements				$ 431,600
Effluent to Boulders				
Available for purchase	Yes	Yes - through IWDS	Yes - through IWDS	Yes
Requires new pipeline	4,000-ft	No	No	No
Estimated cost to construct	$ 974,700	$ -	$ -	$ -
Total Estimated Capital Costs	$ 7,562,425	$ 3,399,700	$ 5,360,400	$ 6,032,900

COMPREHENSIVE SETTLEMENT AGREEMENT
LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

The purpose of this Comprehensive Settlement Agreement ("Comprehensive Settlement") is to settle all issues and claims in Arizona Corporation Commission ("Commission") Docket No. SW-02361A-15-0206 ("Rate Case") and Docket No. SW-02361A-15-0207 ("Finance App."), which dockets have been consolidated (collectively, the Rate Case and Finance App. will be referred to herein as the "Consolidated Dockets")

This Comprehensive Settlement Agreement is entered into by the following entities:

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

ARIZONA CORPORATION COMMISSION UTILITIES DIVISION STAFF

RESIDENTIAL UTILITY CONSUMER OFFICE

TOWN OF CAREFREE

CP BOULDERS, LLC

These entities shall be referred to collectively as "Parties", and a single entity shall be referred to individually as a "Party."

EXHIBIT
A-5
ADMITTED

COMPREHENSIVE SETTLEMENT AGREEMENT
LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

LIST OF ATTACHMENTS

ATTACHMENT A APUC/LIBERTY COST ALLOCATION

ATTACHMENT B REALIGNMENT OPTIONS

ATTACHMENT C SETTLEMENT SCHEDULES

COMPREHENSIVE SETTLEMENT AGREEMENT
LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

1 RECITALS

1.1 The Parties.

1.1.1 Liberty Utilities (Black Mountain Sewer) Corp. ("Liberty Black Mountain" or "Company") is an Arizona public service corporation providing wastewater utility service to approximately 2,100 primarily residential customers in and around Carefree, Arizona, under a certificate of convenience and necessity issued by the Commission.

1.1.2 The Town of Carefree ("Town") is an Arizona municipality and wastewater customer of Liberty Black Mountain.

1.1.3 CP Boulders, LLC, a Delaware limited liability company authorized to do business in Arizona, is the current owner of the Boulders Resort, and is referred to in this Settlement as the "Resort." Wind PI Mortgage Borrower L.L.C., a Delaware limited liability company ("Wind PI"), was the prior owner of the Boulders Resort.

1.1.4 Residential Utility Consumer Office ("RUCO") was established by the Arizona legislature to represent the interests of residential utility ratepayers in rate-related proceedings before the Commission.

1.1.5 Arizona Corporation Commission Utilities Division ("Staff") is a division of the Commission that participates in rate cases to assist the Commission in its consideration of the evidence and determination of fair value rate base and setting of rates for utility service by public service corporations.

1.2 Background

1.2.1 Liberty Black Mountain filed a rate application with the Commission in December 2008. The Boulders Homeowners Association ("BHOA") intervened as a party, and then, Liberty Black Mountain and the BHOA entered into a Plant Closure Agreement on September 17, 2009. The Town was also a party to the rate case and supported the Plant Closure Agreement.

1.2.2 The Commission issued Decision No. 71865 on September 1, 2010 ("Phase 1 Decision"). Concerning the Plant Closure Agreement, the Commission stated that it was a reasonable resolution of the odor concerns expressed by hundreds of Liberty Black Mountain customers. To facilitate Liberty Black Mountain's funding and recovery of costs associated with closure of the Boulders Wastewater Treatment Plant ("WWTP"), the Commission also approved a special plant closure cost recovery mechanism in the Phase 1 Decision. The Plant Closure Agreement conditioned the closure on the termination of the Effluent Delivery Agreement between Liberty Black Mountain and the Resort. The Resort was not a party to the Phase 1 proceedings.

1.2.3 Following the Phase 1 Decision, Liberty Black Mountain and the Resort were unable to agree regarding the termination of the Effluent Delivery Agreement. The BHOA then requested the Commission reopen the Phase 1 Decision and order the closure of the WWTP.

The Resort intervened and another hearing was held, resulting in Decision No. 73885 (the "Phase 2 Decision") on May 8, 2013.

1.2.4 The Resort filed a petition for rehearing of the Phase 2 Decision pursuant to A.R.S. § 40-253, which was denied by operation of law. The Resort then appealed the Phase 2 Decision pursuant to A.R.S. § 40-254. The Maricopa County Superior Court in Case No. CV2013-00784 upheld the Commission's order, finding that the plant closure order was within the Commission's statutory powers. The Resort appealed the Superior Court's decision, which appeal is currently pending before the Arizona Court of Appeals as Case No. 1 CA-CV 14-0643 (the "Appeal"). The matter was stayed on November 24, 2015, pending the outcome of the Rate Case, discussed further in Section 1.2.8 below.

1.2.5 Liberty Black Mountain filed the Rate Case and Finance App. on June 22, 2015, and the two matters were consolidated on July 6, 2015. As stated in the rate application and supporting testimony, the rate case was brought (1) because the plans for and estimated costs of the Plant closure had changed since the Phase 1 and Phase 2 Decisions; (2) Liberty Black Mountain has over $1 million of investment in the Plant closure; (3) Liberty Black Mountain has not earned sufficient revenue and returns, and (4) the request and need for a new commercial rate design.

1.2.6 The Parties are all parties to and have participated in discovery and the filing of prefiled testimony in the Consolidated Dockets.

1.2.7 The Parties acknowledge that the Rate Case presents unique circumstances in addition to the traditional ratemaking issues, including, that the Rate Case (1) was filed at the request of the Town and the Commission in order to address the Company's commercial rate design; and (2) involves unusual issues related to the Commission's order that Liberty Black Mountain close and remove a used and useful, fully compliant wastewater treatment plant.

1.2.8 Liberty Black Mountain, the Town and the Resort, along with the BHOA and Wind P1 Mortgage Borrower L.L.C., entered into a Proposed Settlement Agreement filed with the Commission in these Consolidated Dockets on November 16 2015 (the "Town/Resort Agreement"). The Town/Resort Agreement also sets a date certain for closure of the Boulders WWTP of November 30, 2018, which the Parties also adopt as part of this Settlement. The Town/Resort Agreement also includes the proposed dismissal of the Resort's Appeal of Decision No. 73885 (May 13, 2013) and the release of all claims related to the closure of the Boulders WWTP, which the Parties gave specific consideration to as part of this Settlement.

1.3 **Nature of Comprehensive Settlement.**

1.3.1 Liberty Black Mountain filed a Notice of Settlement Discussions on December 17, 2015. The Parties to this Docket subsequently held settlement discussions on January 8, 2016.

1.3.2 The settlement discussions were open, transparent, and inclusive of all parties to this docket who desired to participate.

1.3.3 This Comprehensive Settlement reflects the Parties' agreement and intent to settle and compromise all claims and issues in the Consolidated Dockets, including the determination of fair value rate base, establishment of a revenue requirement, and the setting of rates for wastewater utility service provided by Liberty Black Mountain. The signatories to the Town/Resort Agreement that are also Parties agree that the Town/Resort Agreement is still in effect as to those parties that executed it, except as the Town/Resort Agreement is specifically modified by the terms of this Comprehensive Settlement.

1.3.4 The Parties believe that this Comprehensive Settlement is in the public interest and that the terms and conditions are fair, just and reasonable. The Parties request an order from the Commission, as soon as possible: (i) finding that the terms and conditions of this Comprehensive Settlement Agreement are just and reasonable; (ii) concluding that the Agreement is in the public interest; (iii) approving the Agreement in its entirety; and (iv) making any and all other findings and orders in support of this Agreement that the Commission deems necessary.

2 SPECIFIC RATEMAKING TERMS AND CONDITIONS.

2.1 **Revenue Requirement.** The Parties agree to a total revenue requirement of $2,415,080, which results in an increase in revenues equal to $175,232 over test year revenues, an increase of 7.82 percent.

2.2 **Fair Value Rate Base.** The Parties agree to a Fair Value Rate Base ("FVRB") equal to $4,195,730 as shown on Settlement Schedule B-2, page 2. The Parties agree to use original cost rate base as the FVRB in this rate case. The Parties determined the proposed FVRB in this rate case by making the following adjustments, among others, to resolve issues in dispute:

2.2.1 **Plant Closure Costs**. The inclusion of $825,081 of plant closure costs in rate base, which costs are discussed in Section 3.2.3 below.

2.2.2 **Corporate Plant.** The inclusion of corporate plant totaling $97,456, as shown in shown in Settlement Schedule B-2, page 3. The corporate plant represents the allocated portion of plant owned by Liberty Black Mountain's corporate parent entities and used and useful in providing service to Liberty Black Mountain's customers. Commission Staff and RUCO have reviewed the allocation methodology for these corporate plant costs and agree that these costs are reasonable, necessary and acceptable costs of service for Liberty Black Mountain in this rate case.

2.2.3 **Plant in Service.** The plant in service ("PIS") balance of $14,196,404 and the accumulated depreciation ("A/D") balance of $8,757,889 reflect the reclassification of plant items and other adjustments/corrections to PIS and A/D as necessary to reconcile the positions of Liberty Black Mountain, Staff and RUCO. These adjustments are detailed on Settlement Schedules B-2, pages 3.1 to 3.5 and B-2, pages 4.1 to 4.6 and summarized on Settlement Schedule B-2, page 3 and page 4. The Parties agree that the PIS and A/D balances identify all of the Company's properly classified PIS and related A/D.

2.2.4 **Advances-in-aid of Construction and Contributions-in-aid of Construction.** The advances in aid of construction ("AIAC") balance of $520.749, contributions in aid of construction ("CIAC") balance of $6,445,253, and accumulated amortization balance of $5,333,859 reflect corrections and adjustments, including the reclassification of AIAC to CIAC to account for expired Line Extension Agreements ("LXAs"), along with related adjustments to the accumulated amortization ("AA"). The Parties agree that the resulting AIAC, CIAC, and AA balances shown in Settlement Schedule B-2, page 2 identify all of the Company's properly classified AIAC, CIAC and related AA.

2.2.5 **Accumulated Deferred Income Taxes.** The Accumulated Deferred Income Tax ("ADIT") balance of $247,377 reflects the final Comprehensive Settlement PIS, A/D, AIAC, CIAC, AA balances. ADIT is detailed on Settlement Schedule B-2, page 7 and summarized on Settlement Schedule B-2, page 2. The Parties agree that the resulting ADIT balance shown in Settlement Schedule B-2, page 2 properly reflects the Comprehensive Settlement PIS, A/D, AIAC, CIAC, AA balances.

2.2.6 **Cash Working Capital** A negative cash working capital allowance equal to $(118,960) as shown in Settlement Schedule B-2, page 2. The cash working capital allowance computation is detailed on Settlement Schedule B-5 and was determined exclusive of rate case expense.

2.3 **Operating Expenses.** The Parties agree to adjusted test year operating expenses equal to $2,021,692, as shown on Settlement Schedule C-1, page 1. The Parties determined the level of operating expenses by making the following adjustments, among others, to resolve issues in dispute.

2.3.1 **Depreciation Expense** Depreciation expense equal to $500,924, detailed on Settlement Schedule C-2, page 2 and summarized on Settlement Schedule C-1, page 1, with the fully depreciated plant amounts determined using the Vintage Group method and Staff's typical and customary depreciation rates. The Parties agree that implementation of the Vintage Group method for depreciation is reasonable on a going-forward basis, and that the use of Staff's typical and customary depreciation rates is reasonable and appropriate.

2.3.2 **APUC/Liberty Utilities Corporate Cost Allocations (Non-Labor).** The Parties acknowledge and agree that Liberty Black Mountain seeks recovery for $84,790 in corporate non-labor cost allocations from Liberty Utilities (Sub) Corp., and $37,815 in corporate cost allocations from APUC/Liberty Utilities Canada, as set forth on Settlement Schedule C-2, page 6. The Parties expressly acknowledge and agree that these costs are reasonable, necessary and acceptable costs of service for Liberty Black Mountain in this rate case. With respect to the APUC corporate cost allocations, the Parties further acknowledge and agree as follows.

2.3.2.1 Customers of Liberty Black Mountain benefit from Liberty Black Mountain's access to capital through its ultimate parent entity, APUC, which is publicly traded on the Toronto Stock Exchange ("TSX"), and that capital from the TSX would not be available to Liberty Black Mountain if APUC did not incur the corporate costs for the benefit of the Liberty Utilities regulated utilities, including Liberty Black Mountain.

2.3.2.2 The costs and corporate cost items detailed on Attachment B are reasonable, necessary and acceptable costs of service for Liberty Black Mountain because such costs are part of the costs APUC must pay as a member of the TSX, which is the Company's sole source of equity capital.

2.3.2.3 The APUC/Liberty Utilities Cost Allocation Manual ("CAM") and the allocation of costs under the methodologies set forth in the CAM to Liberty Black Mountain and other affiliated companies under the Liberty/APUC umbrella result in a reasonable level of allocated costs for Liberty Black Mountain in this rate case.

2.3.2.4 The Parties' agreement regarding the APUC cost allocation in this Rate Case is not intended to preclude any party from asserting, in a future rate case for the Company or another Liberty Utilities' affiliate, that circumstances have changed, including but not limited to changes in the CAM and corporate cost allocation method, and as such the allocated corporate costs are no longer necessary and reasonable costs of service. Liberty Black Mountain further agrees to make regular presentations to Staff and RUCO, as needed, regarding the CAM and Liberty Utilities' corporate cost allocation methodologies, including updating Staff and RUCO on any changes in the CAM and allocation methodology that would have an impact on rates or the ratemaking process. The Company, Staff and RUCO shall meet to discuss possible changes regarding the CAM and Liberty Utilities corporate cost allocation methodology prior to the hearing in Liberty's next rate case.

2.3.3 **Rate Case Expense**. Total rate case expense equal to $350,000 to be amortized over four (4) years as shown on Settlement Schedule C-2, page 4. The Parties acknowledge the unique circumstances that gave rise to this rate case, including the Commission order that the Company close the Boulders WWTP and the urgency in modifying the commercial rate design, and agree that the rate case expense and the use of a four (4) year amortization is reasonable and prudent under these unique circumstances.

2.4 **Cost of Capital.**

2.4.1 **Capital Structure.** The Parties agree to a capital structure consisting of 70 percent equity and 30 percent debt, which capital structure assumes Commission approval of the Finance App., as discussed in Section 4.4 below.

2.4.2 **Cost of Debt** The Parties agree on a cost of debt equal to 3.53 percent for the purpose of setting rates in this rate case. The Parties acknowledge that under the financing approval requested and agreed to herein, future debt offerings may be at different costs of debt as determined by the Company and subject to review by Commission Staff and RUCO.

2.4.3 **Cost of Equity** The Parties agree to a cost of equity equal to 9.5 percent, which amount was agreed to through negotiation and compromise.

2.4.4 **Rate of Return.** Using the capital structure and costs of debt and equity agreed to herein, the Parties agree to a rate of return of 7.71 percent on the FVRB.

2.5 **Revenue Requirement Determined for Settlement Purposes.** The provisions set forth herein regarding the quantification of fair value rate base, fair value rate of return and the revenue requirement, are made for purposes of settlement only and should not be construed as admissions against interest or waivers of litigation positions related to other or future cases except as otherwise provided for in this Comprehensive Settlement.

2.6 **Rate Design.** The Parties agree to the rates shown in Settlement Schedule H-3, page 1 and request that the Commission approve said rates for wastewater utility service by the Company. The bill impacts under the Parties' proposed rates are shown on Settlement Schedule H-2, page 1. With respect to the rates and rate design, the Parties further agree as follows:

2.6.1 **Commercial Rate Design.** The commercial rates agreed to herein and proposed by the Parties for Commission approval are based on water usage and utilize water usage data to be obtained from the water providers providing service in Liberty Black Mountain's certificated service area.

2.6.2 **Resort Effluent Rate**. The Effluent Rate to be paid by the Resort will be $543 per acre-foot as discussed in Section 3.2.2 below. The Effluent Rate has been calculated assuming an effective date for new rates of May 1, 2016. The Parties agree that the Effluent Rate may need to be revised, up or down, as necessary to ensure that Liberty Black Mountain neither under- or over-recovers the $108,000 of plant costs to be repaid by the Resort as discussed in Section 3.2.2 below.

2.6.3 **Hook-Up Fees.** The Parties agree that the Company should use $1700 per Equivalent Residential Unit or ERU in its Hook-Up Fee or HUF Tariff.

3 SPECIFIC TERMS AND CONDITIONS RELATED TO CLOSURE OF THE BOULDERS WWTP.

3.1 **Closure of the Boulders WWTP.** Consistent with the Town/Resort Agreement, Liberty Black Mountain will close the Boulders WWTP on or before November 30, 2018. Liberty will continue to provide effluent to the Resort and the Resort will take and pay for such effluent until that closure date, all in accordance with the Town/Resort Agreement. Following closure, Liberty Black Mountain will remove the Boulders WWTP and remediate the site in accordance with applicable environmental standards within a reasonable time after closure of the Boulders WWTP. Following remediation, Liberty shall cause the Boulders WWTP site to be put up for sale and sell the site at the best price available as determined by the Company given then current market conditions.

3.2 **Actual Plant Closure Costs.** As of September 30, 2015, Liberty Black Mountain had incurred $1,133,080 in closure costs. The Parties agree that these costs were reasonably and prudently incurred in connection with closure of the Boulders WWTP as requested by the Town, the Company's customers and ordered by the Commission. The Parties further agree that Liberty Black Mountain should recover these closure costs as set forth herein as part of this Comprehensive Settlement.

3.2.1 As part of the Town/Resort Agreement and this Comprehensive Settlement, Liberty Black Mountain has agreed not to seek recovery of $200,000 of costs incurred in connection with closure of the Boulders WWTP.

3.2.2 As part of the Town/Resort Agreement and this Comprehensive Settlement, the Resort has agreed that $108,000 of those closure costs should be recovered from the Resort as part of the rate for effluent until the Boulders WWTP is closed on November 30, 2018, and the Resort shall continue to take and pay for effluent from the Company until the Boulders WWTP closes. The Resort effluent rate shall be determined based on the remaining months from the date of the Commission decision in this Rate Case until November 30, 2018, and is currently estimated to be $543 per acre-foot, assuming the rates approved in this case are effective no later than May 1, 2016. No rate of return would be earned by Liberty Black Mountain on the $108,000. If the $108,000 is fully recovered before the Boulders WWTP closes, the effluent rate should revert to the current rate of $150 per acre-foot.

3.2.3 The Parties agree that the remaining amount of closure costs, $825,080, are reasonable and prudent costs incurred by Liberty Black Mountain in connection with closure of the Boulders WWTP and that such costs should be included in rate base (as deferred regulatory asset) as addressed in Section 2.2.1 above, and shown in Settlement Schedule B-2, page 2. The Parties acknowledge that Liberty Black Mountain is still incurring and will continue to incur costs related to the closure of the WWTP, and the Parties agree that the Company will seek to recover any reasonable costs of closure in the next rate case for Liberty Black Mountain, the timing of which is addressed in Section 4.5 below.

3.3 **Replacement Capacity.**

3.3.1 **Scottsdale Capacity Agreement** The Parties acknowledge that Liberty Black Mountain and Scottsdale have negotiated an Amended and Restated Wastewater Treatment Agreement, and that such agreement is awaiting final approval by the City of Scottsdale. The Parties agree that this Comprehensive Settlement, including Section 3.3.2 below, relies on the terms of the agreement with Scottsdale regarding the cost of treatment capacity and the timing for purchasing such capacity being approved without material change, and that in the event that the terms of the agreement with Scottsdale relied on herein are changed, the Parties agree to work in good faith to modify this Settlement such that no Party is negatively impacted by the change in the anticipated terms of the agreement between Liberty Black Mountain and Scottsdale.

3.3.2 **Cost of Replacement Capacity** The Parties agree that the anticipated cost for additional treatment capacity of 120,000 gallons is $10 per gallon for a total cost of $1,200,000 to be paid to Scottsdale on or before January 1, 2018. The Parties acknowledge and agree that such cost of replacement capacity is known and measurable, reasonable and prudent, and once paid by Liberty Black Mountain, such cost should be treated and recovered as follows:

3.3.2.1 Upon payment of the full amount to Scottsdale, the total cost shall be recorded on the Company's books in PIS account 398 – Other Tangible Plant and identified separately as "Scottsdale Capacity".

3.3.2.2 For ratemaking purposes, the Parties agree that the Company shall treat the Replacement Capacity cost as a regulatory asset and that the Company is to be permitted to defer the cost of the Replacement Capacity depreciation expense recorded on the underlying regulatory assets, and to accrue post-in service Allowance for Funds Used During Construction (AFUDC) for later recovery in rates. The Parties further agree that the post-in service AFUDC rate shall be 7.71 percent, the weighted average cost of capital set forth in Section 2.4 above, and that the deferred amount shall be depreciated at a rate of 5 percent until such time as it is recognized for inclusion in rate base.

3.3.3 **Time of Payment to Scottsdale** Liberty Black Mountain agrees not to pay Scottsdale for the Replacement Capacity earlier than 90 days before the deadline established in the agreement between the Company and Scottsdale.

3.4 **Wastewater Collection and Transmission System Realignment.**

3.4.1 **Estimated Costs for Realignment.** In order to close the Boulders WWTP, Liberty Black Mountain must modify and reconstruct portions of its existing wastewater collection and transmission system. Liberty Black Mountain's plan for modification and realignment is Option 2—City of Scottsdale, Tom Darlington Drive – Single FM w/ Ex Backup as shown on Attachment C. All Parties have had an opportunity to review and conduct an independent evaluation of the proposed plan and agree with Liberty Black Mountain that the $3,899,700 of estimated costs for closure under Option 2, which amount includes the $1.2 Million for Replacement Capacity discussed in Section 3.3.2 above, appear just, reasonable and necessary. The Parties agree and acknowledge that those costs are still estimates and subject to change.

3.4.2 **Recovery of Remaining Plant Closure Costs.** In lieu of the Commission plant closure cost surcharge mechanism approved in the Phase 1 Decision, the Parties agree that Liberty Black Mountain's remaining costs for closure of the Boulders WWTP should be subject to the following ratemaking treatment:

3.4.2.1 All costs shall be recorded on the Company's books and records as incurred.

3.4.2.2 AFUDC should be recorded during construction in the ordinary and customary manner for such construction projects.

3.4.2.3 The Company shall record but then defer depreciation on the remaining costs of closure for recovery in rates in the Company's next rate case. Such deferred cost shall be recorded as a regulatory asset.

3.4.2.4 The Company shall be permitted to recover post-in service AFUDC at the rate of 7.71 percent, the weighted average cost of capital agreed to in Section 2.4 to be deferred and recovered in rates.

3.4.2.5 The Parties acknowledge that the remaining closure costs can only be estimated at this time, and that despite the Company's best efforts, the final actual remaining

closure costs may be higher than the current estimate. Additionally, the Parties agree that the actual, total cost subject to the accrual of post in-service AFUDC and the deferral of depreciation in accordance with Sections 3.4.2.3 and 3.4.2.4 above shall not exceed $3,299,700 ($2,699,700 plus a maximum of $500,000), which amount is exclusive of the cost of the Replacement Capacity addressed in Section 3.3.2 above. The Company may seek relief in its next rate case for the actual construction costs that exceed the maximum amount of $3,299,700, if any, that are subject to deferred depreciation and the accrual of post in-service AFUDC in accordance with this Comprehensive Settlement.

3.4.3 **Removal Costs.** The Parties acknowledge and agree that the costs to remove the Boulders WWTP from its present location and to remediate the site, along with any net proceeds from the sale of the remediated land, are not included in the estimated closure costs discussed in Sections 3.3 and 3.4 above and may not be paid until after the Boulders WWTP is closed, at which time Liberty Black Mountain will seek to recover the additional costs of removal in a future rate case. In the event that the costs of removal and remediation can be included as post test year plant costs in the next rate case to be filed in accordance with Section 4.5 below, the Parties agree that such costs should be considered at such time for inclusion in rate base in order to avoid a subsequent rate case in order to include such costs in rate base.

4 MISCELLANEOUS SETTLEMENT TERMS AND CONDITIONS.

4.1 **Ratemaking Treatment for Existing Scottsdale Capacity.** The Parties acknowledge that the Commission has elected in the past to treat certain prior purchases of treatment capacity from Scottsdale by the Company as an operating lease, and the Parties agree that the Company has kept its books and records in accordance with those prior decisions of the Commission. As a result, the Parties agree that no further adjustment is necessary.

4.2 **Plant Inventory and Depreciation Study.** Staff, in its direct testimony, recommended that the Company perform a depreciation study and plant inventory because Staff generally believes that many regulated utilities could benefit from taking these measures. Staff agrees to withdraw this recommendation as a compromise in this case and the Parties agree that nothing further is necessary at this time. The Parties further agree that should the Company elect to do a depreciation study and/or plant inventory before the next rate case, the reasonable costs of conducting such study and/or inventory should be recovered from the Company's customers through the rates paid for service.

4.3 **Surcharges and Adjustment Mechanisms.** This Comprehensive Settlement has eliminated the current need for the plant closure cost and rate case expense surcharges requested by the Company in this Rate Case, including the staged plant closure cost surcharges set forth in the Town/Resort Agreement. The Company also has agreed to forego approval of the requested Purchase Power Adjuster Mechanism and Property Tax Adjuster Mechanism as a compromise in this Comprehensive Settlement. The resolution of these issues in this Comprehensive Settlement is not intended as, nor should it be taken as, an expression of any Party's position on the propriety, reasonableness or legality of such surcharges and adjusters in this or any other docket or litigation.

4.4 **Finance Application.** The Parties agree that the terms and conditions of the Company's proposed financing are reasonable, including the manner of determining the cost of debt, and that the requested financing should be approved by the Commission.

4.5 **Liberty Black Mountain's Next Rate Case Filing.** The Parties agree that the Company's next rate case shall be filed on or before June 30, 2019, using a test year ending December 31, 2018.

5 COMMISSION EVALUATION OF COMPREHENSIVE SETTLEMENT.

5.1.1 The Parties acknowledge and agree that the determination of Liberty Black Mountain's FVRB and the setting of just and reasonable rates thereon will be made by the Commission based upon its own independent evaluation and determination of the record, including this Comprehensive Settlement.

5.1.2 Following execution by each of the Parties, this Comprehensive Settlement Agreement shall be jointly filed with the Commission, along with testimony from each Party supporting the Comprehensive Settlement and requesting that the Commission approve, as soon as possible, the FVRB and rates and other relief agreed to as part of this Comprehensive Settlement.

5.1.3 If the Commission fails to issue an order adopting all of the material terms of this Comprehensive Settlement, or modifies or adds material terms to this Comprehensive Settlement, any or all of the Parties may withdraw from this Comprehensive Settlement, and such Party or Parties may pursue their respective remedies at law without prejudice. For purposes of this Comprehensive Settlement, whether a term is material shall be left to the reasonable discretion of the Party choosing to withdraw from the Comprehensive Settlement. If a Party withdraws from the Comprehensive Settlement pursuant to this Section 5.1.3 and files an application for rehearing with the Commission, the other Parties, except for Staff, shall support the application for rehearing by filing a document to that effect with the Commission.

5.1.4 The Parties agree that this Comprehensive Settlement will not have any binding force and effect until its material terms are adopted in an order of the Commission, except that this provision shall not relieve the Parties of their obligations pursuant to Section 5.1.2 of this Comprehensive Settlement Agreement.

5.1.5 The Parties agree to support approval of the Comprehensive Settlement and resolution of the Rate Case and Finance App. at the earliest possible date.

6 MISCELLANEOUS PROVISIONS.

6.1.1 The Parties agree that all currently filed testimony and exhibits shall be offered into the Commission's record as evidence.

6.1.2 The Parties recognize that Staff does not have the power to bind the Commission, and that Staff acts in the same manner as any party to a Commission proceeding.

6.1.3 Each Party whose signature appears below is fully authorized and empowered to execute this Comprehensive Settlement. Each Party has been represented by competent legal counsel and understands all of the terms of this Comprehensive Settlement, has had an opportunity to participate in the drafting of this Comprehensive Settlement and fully review this Comprehensive Settlement with its legal counsel before signing, and executes this Comprehensive Settlement with full knowledge of the terms of the Comprehensive Settlement.

6.1.4 This Comprehensive Settlement represents the Parties' mutual desire to compromise and settle in good faith all of the issues in the Consolidated Dockets in a manner consistent with the public interest. To achieve consensus for settlement, the Parties are accepting positions that, in any other circumstances, they might be unwilling to accept. They are doing so because the Comprehensive Settlement, as a whole, with its various provisions for settling the unique issues presented by this case, is consistent with their long-term interests and the broader public interest. No Party is bound by any position asserted in negotiations, except as expressly stated in this Comprehensive Settlement. No Party shall offer evidence of conduct or statements made in the course of negotiating this Comprehensive Settlement before this Commission, any other regulatory agency, or any court.

6.1.5 To the extent any provision of this Comprehensive Settlement is inconsistent with any existing Commission order, rule, or regulation, this Comprehensive Settlement shall control. To the extent this Comprehensive Settlement is inconsistent with the Town/Resort Agreement, the terms of this Comprehensive Settlement are controlling.

6.1.6 Each of the terms of this Comprehensive Settlement is in consideration of all other terms of this Comprehensive Settlement. Accordingly, the terms are not severable.

6.1.7 The Parties shall make reasonable and good faith efforts necessary to support and defend this Comprehensive Settlement and obtain a Commission order approving its material terms and, if necessary in court if challenged by another person or entity. Subject to Section 5.1.3 above, if the Commission adopts an order approving all material terms of the Comprehensive Settlement, the Parties will support and defend the Commission's order before any court or regulatory agency in which it may be at issue. Nothing in this Section 6.1.7 shall be construed to require a Party to fund the defense of any other Party. If defense of this Comprehensive Settlement is reasonably needed in any court or other regulatory agency, then each Party shall be deemed to have satisfied its duty under this Section 6.1.7 by providing a witness to testify in such action in support of this Comprehensive Settlement, but a Party shall not be required to pay an attorney to participate in such action, or to join as a party to such action. The Parties expressly recognize, however, that Staff shall not be required to file any document or take any position that is inconsistent with a Commission order in this matter.

6.1.8 This Comprehensive Settlement may be executed in any number of counterparts and by each Party on separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which taken together shall constitute one and the same instrument. This Comprehensive Settlement may also be executed electronically or by facsimile.

6.1.9 Under Section 38-511, Arizona Revised Statutes, as amended, the Town may cancel this Comprehensive Settlement within three years after its execution and without penalty or further obligation, if any person significantly involved in initiating, negotiating, securing, drafting or creating this Comprehensive Settlement on behalf of the Town is, at any time while the Comprehensive Settlement or any extension thereof is in effect, an employee or agent of another Party or any entity affiliated with another Party through common ownership in any capacity or a consultant to another Party with respect to the subject matter of this Comprehensive Settlement. In the event the Town elects to exercise its right under Section 38-511, Arizona Revised Statutes, as amended, the Town will immediately give written notice thereof to the other Parties and the provisions of this Comprehensive Settlement shall bind no Party further.

6.1.10 The Recitals set forth in Section 1 of this Comprehensive Settlement are part of this Comprehensive Settlement and fully incorporated into the terms and conditions of the Parties' Comprehensive Settlement to settle as set forth in in this Comprehensive Settlement.

COMPREHENSIVE SETTLEMENT AGREEMENT
LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

By: Matthew Dadlez
Its: President – AZ

COMPREHENSIVE SETTLEMENT AGREEMENT
LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

ARIZONA CORPORATION COMMISSION UTILITIES DIVISION

By: _____
Its: Utilies Division Director

COMPREHENSIVE SETTLEMENT AGREEMENT
LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

RESIDENTIAL UTILITY CONSUMER OFFICE

By: _____
Its: Chief Counsel

COMPREHENSIVE SETTLEMENT AGREEMENT
LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

TOWN OF CAREFREE

By: _____

Its: Mayor

COMPREHENSIVE SETTLEMENT AGREEMENT
LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 and SW-02361A-15-0207

CP BOULDERS, LLC

By: _____
Its: Vice President

ATTACHMENT A
APUC/LIBERTY COST ALLOCATION

ATTACHMENT 1

Description of APUC Expense	Total APUC Expense	Allocation Percent	APUC Amount Allocated to Affiliate	Allocation Percent	APUC Amount Allocated to Black Mountain	NARUC Account Number
Legal Costs	$389,618.02	16.17%	$63,001.23	3.86%	$2,431.85	734
Tax Services	$637,075.68	16.17%	$103,015.14	3.86%	$3,976.38	734
Audit	$687,211.34	16.17%	$111,122.07	3.86%	$4,289.31	734
Investor Relations	$87,327,97	16.17%	$14,120.93	3.86%	$545.07	734
Director Fees and Insurance	$728,234.51	16.17%	$117,755.52	3.86%	$4,545.36	734
Licenses, Fees and Permits	$211,229.89	16.17%	$34,155.87	3.86%	$1,318.42	734
Escrow and Transfer Agent Fees	$55,605.20	16.17%	$8,991.36	3.86%	$347.07	734
Other Professional Services	$443,302.95	16.17%	$71,682.09	3.86%	$2,766.93	734
Office Administration	$2,823,698.31	16.17%	$456,592.02	3.86%	$17,624.45	734
Total	**$6,063,303.87**		**$980,436.23**		**$37,844.84**	

ATTACHMENT B
REALIGNMENT OPTIONS

Exhibit - 1

Liberty Utilities - Black Mountain Treatment Options after removal of the WRF

Description	Option 1 Town of Cave Creek Cave Creek Road	Option 2 City of Scottsdale TDD - Single FM w/Ex Backup	Option 3 City of Scottsdale Mule Train-Hayden Rd	Option 4 Boulders Existing FMs w/New Sewers
Bypass sewers at WRF	$ 240,800	$ 240,800	$ 240,800	$ 240,800
Decommission & remove WRF	$ 439,300	$ 439,300	$ 439,300	$ 439,300
Capital cost for capacity	$ 4,022,225	$ 1,200,000	$ 1,200,000	$ 1,200,000
Additional charges	Yes - new connections	No - exist contract	No - exist contract	No - exist contract
Operation charges	$45 plus $3 per 1,000 gal			
Commercial LS requires upgrading	Yes	Yes	No	No
Estimated Cost of Upgrade	$ 403,800	$ 411,700	$ -	$ -
Ex FM - Future End-of-life Replacement	No	No	Yes - 10,000-ft replace min one FM	Yes - 10,000-ft min one FM
FM Replacement - Pipe Bursting	$ -	$ -	$ 1,160,000	$ 1,160,000
Sentinel Rock LS				
Requires upgrades to four LS	+Sunset, Stagecoach &El Ped	No changes	No changes	No changes
Estimated Cost of Upgrades	$ 1,054,200	$ -	$ -	$ -
Force Main construction				
Requires new force mains	Yes	Yes - single FM	Yes plus gravity line	No
Approximate length of FM/SS	1,100-ft	12,900-ft	1,000-ft (FM) + 7,200-ft (SS)	
Estimated Cost for Force Mains	$ 422,400	$ 990,900	$ 1,320,300	
Estimated Cost Pavement Replmt.		$ 617,000	included w/FMs	
Estimated Cost 10-ft wide Easements	included w/FMs	$ -	$ 1,000,000	
Replacement Gravity Sewers - negative slopes, under capacity, and under buildings				
Approximate length of SS				5,960-ft
Estimated Cost for Sewers				$ 1,948,300
Estimated Cost Pavement Replmt.				$ 712,900
Estimated Cost 10-ft wide Easements				$ 431,600
Effluent to Boulders				
Available for purchase	Yes	Yes - through IWDS	Yes - through IWDS	Yes
Requires new pipeline	4,000-ft	No	No	No
Estimated cost to construct	$ 974,700	$ -	$ -	$ -
Total Estimated Capital Costs	$ 7,562,425	$ 3,899,700	$ 5,360,400	$ 6,032,900

ATTACHMENT C

SETTLEMENT SCHEDULES

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Settlement Schedule A-1
Page 1
Witness: Bourassa

Line No.		
1	Fair Value Rate Base	$ 4,195,730
2		
3	Adjusted Operating Income	218,157
4		
5	Current Rate of Return	5.20%
6		
7	Required Operating Income	$ 323,449
8		
9	Required Rate of Return on Fair Value Rate Base	7.71%
10		
11	Operating Income Deficiency	$ 105,292
12		
13	Gross Revenue Conversion Factor	1.6642
14		
15	Increase in Gross Revenue	
16	Requirement	$ 175,232
17		
18	Adjusted Test Year Revenues	$ 2,239,848
19	Increase in Gross Revenue Revenue Requirement	$ 175,232
20	Proposed Revenue Requirement	$ 2,415,080
21	% Increase	7.82%
22		

23	**Customer**	**Present**	**Proposed**	**Dollar**	**Percent**
24	**Classification**	**Rates**	**Rates**	**Increase**	**Increase**
25	Residential	$ 1,522,310	$ 1,855,053	$ 332,743	21.86%
26	Residential HOA (11 units)	8,612	10,494	1,882	21.86%
27	Residential HOA (12 units)	9,395	11,448	2,053	21.86%
28	Residential HOA (25 units)	19,572	23,850	4,278	21.86%
29	Residential Apartment (gpd rate)	63,950	-	(63,950)	-100.00%
30	Residential Apartment (8 units)	-	7,632	7,632	0.00%
31	Residential Apartment (10 units)	-	9,540	9,540	0.00%
32	Residential Apartment (74 units)	-	70,596	70,596	0.00%
33	Commercial	578,108	387,042	(191,066)	-33.05%
34					
35	Effluent	5,233,414	5,233,414	-	0.00%
36					
37	Revenue Annualization	9,786	11,925	2,139	21.86%
38	**Subtotal**	$ 7,445,146	$ 7,620,994	$ 175,848	2.36%
39					
40	Miscellaneous Revenues	11,098	11,098	-	0.00%
41	Reconciling Amount	952	336	(616)	-64.71%
42	Rounding			-	0.00%
43	**Total of Wastewater Revenues**	$ 7,457,195	$ 7,632,428	$ 175,232	2.35%
44					
45					
46	SUPPORTING SCHEDULES:				
47	B-1				
48	C-1				
49	C-3				
50	H-1				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Summary of Rate Base

Exhibit
Settlement Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 14,126,094	$ 14,126,094
3	Less: Accumulated Depreciation	8,757,889	8,757,889
4			
5	Net Utility Plant in Service	$ 5,368,205	$ 5,368,205
6			
7	Less:		
8	Advances in Aid of Construction	520,749	520,749
9			
10	Contributions in Aid of Construction	6,445,253	6,445,253
11			
12	Accumulated Amortization of CIAC	(5,333,859)	(5,333,859)
13			
14	Customer Meter Deposits	8,570	8,570
15	Customer Security Deposits	-	-
16	Accumulated Deferred Income Tax	247,377	247,377
17			
18			
19	Plus:		
20	Deferred Regulatory		
21	Asset	825,080	825,080
22	Prepayments	9,493	9,493
23	Materials and Sup[plies	-	-
24	Cash Working Capital	(118,960)	(118,960)
25			
26			
27	Total Rate Base	$ 4,195,730	$ 4,195,730
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41			
42	SUPPORTING SCHEDULES:		
43	B-2		
44	B-3		
45	B-5		
46			
47			
48			
49			
50			
51			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments

Exhibit
Settlement Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustment	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 14,166,434	(40,340)	$ 14,126,094
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	8,654,682	103,207	8,757,889
7				
8				
9	Net Utility Plant			
10	in Service	$ 5,511,752		$ 5,368,205
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	1,743,922	(1,223,173)	520,749
15				
16	Contributions in Aid of			
17	Construction - Gross	5,461,736	983,517	6,445,253
18				
19	Accumulated Amortization of CIAC	(5,240,717)	(93,143)	(5,333,859)
20				
21	Customer Meter Deposits	8,570		8,570
22	Customer Security Deposits	-	-	-
23	Accumulated Deferred Income Tax	75,116	172,260	247,377
24				-
25				-
26				
27	**Plus:**			
28	Deferred Regulatory			
29	Asset	-	825,080	825,080
30	Prepayments	9,493	-	9,493
31	Materials and Supplies	-	-	-
32	Cash Working capital	(60,594)	(58,366)	(118,960)
33				-
34				
35	Total	$ 3,412,024		$ 4,195,730
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
47	B-2, pages 2			B-1
48	E-1			
49				
50				
51				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments

Exl Exhibit
Set Settlement Schedule B-2
Pa: Page 2
Wit Witness: Bourassa

Line No.		Adjusted at end of Test Year	Proforma Adjustments 1 Plant-in-Service	2 Accumulated Depreciation	3 CIAC	4 AIAC	5 ADIT	6 Working Capital	7 Deferred Regulatory Asset	Rebuttal Adjusted at end of Test Year
1	Gross Utility									
2	Plant in Service	$ 14,166,434	(40,340)							$ 14,126,094
3										
4	**Less:**									
5	Accumulated									
6	Depreciation	8,654,682		103,207						8,757,889
7										
8										
9	Net Utility Plant									
10	in Service	$ 5,511,752	$ (40,340)	$ (103,207)	$ -	$ -	$ -	$ -	$ -	$ 5,368,205
11										
12	**Less:**									
13	Advances in Aid of									
14	Construction	1,743,922				(1,223,173)				520,749
15										
16	Contributions in Aid of									
17	Construction (CIAC)	5,461,736			983,517					6,445,253
18										
19	Accumulated Amort of CIAC	(5,240,717)			(93,143)					(5,333,859)
20										
21	Customer Deposits	8,570								8,570
22	Customer Security Deposits	-								-
23	Accumulated Deferred Income Taxes	75,116					172,260			247,377
24										
25										
26	**Plus:**									
27	Deferred Regulatory									
28	Asset	-							825,080	825,080
29	Prepayments	9,493								9,493
30	Materials and Supplies	-								-
31	Cash Working Capital	(60,594)						(58,366)		(118,960)
32										
33	Total	$ 3,412,024	$ (40,340)	$ (103,207)	$ (890,374)	$ 1,223,173	$ (172,260)	$ (58,366)	$ 825,080	$ 4,195,730
34										
35										
36										
37	SUPPORTING SCHEDULES:						RECAP SCHEDULES:			
38	B-2, pages 3-9						B-1			
39										
40										
41										

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Settlement Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Adjusted Orginal Cost	A Plant Reclassification	B AFUDC	Adjustments C Plant Addtion Correction	D Corporate Plant	E Adjustments to Reconcile Plant to Reconstruction	Rebuttal Adjusted Original Cost
1	351	Organization	-	-	-	-		-	-
2	352	Franchise	-	-	-	-		-	-
3	353	Land	471,024	1,500	-	-		-	472,524
4	354	Structures & Improvements	3,091,815	(152,549)	(8)	-		0	2,939,259
5	355	Power Generation	-	3,839	-	-		-	3,839
6	360	Collection Sewer Forced	1,130,090	568	(228)	-		0	1,130,430
7	361	Collection Sewers Gravity	4,555,232	-	(51)	-		(0)	4,555,181
8	362	Special Collecting Structures	-	-	-	-		-	-
9	363	Customer Services	260,442	-	(7)	-		(0)	260,435
10	364	Flow Measuring Devices	31,668	-	-	-		-	31,668
11	365	Flow Measruring Installations	180,051	-	-	-		-	180,051
12	366	Reuse Services	-	-	-	-		-	-
13	367	Reuse Meters And Installation	-	-	-	-		-	-
14	370	Receiving Wells	1,028,182	-	-	-		-	1,028,182
15	371	Pumping Equipment	937,492	85,996	(3)	-		(0)	1,023,485
16	374	Reuse Distribution Reservoirs	-	-	-	-		-	-
17	375	Reuse Trans. and Dist. System	-	-	-	-		-	-
18	380	Treatment & Disposal Equipment	326,067	(5,782)	-	-		-	320,285
19	381	Plant Sewers	124,527	-	-	-		-	124,527
20	382	Outfall Sewer Lines	-	-	-	-		-	-
21	389	Other Sewer Plant & Equipment	992,742	(3,150)	-	(29,760)		0	959,832
22	390	Office Furniture & Equipment	289,536	(62,224)	(21)	-		(0)	227,290
23	390.1	Computers and Software	-	62,224	-	-		-	62,224
24	391	Transportation Equipment	80,215	-	-	-		-	80,215
25	392	Stores Equipment	-	-	-	-		-	-
26	393	Tools, Shop And Garage Equip	28,942	-	(0)	-		0	28,942
27	394	Laboratory Equip	10,683	-	-	-		-	10,683
28	395	Power Operated Equip	-	-	-	-		-	-
29	396	Communication Equip	43,968	59,323	-	-		-	103,290
30	397	Miscellaneous Equip.		-	-	-		-	-
31	398	Other Tangible Plant - Scottsdale Capacity	486,294	-	-	-		-	486,294
32		SUBTOTAL	14,068,969	(10,255)	(317)	(29,760)	-	0	14,028,638
33									
34	903	Land and Land Rights	8,429				(9)		8,420
35	904	Structures and Improvments	75,829				0		75,829
36	940	Office Furniture & Equipment	-				-		-
37	940.1	Computers and Software	13,207				0		13,207
38		SUBTOTAL	97,465	-	-	-	(9)	-	97,456
39									
40		Plant Held for Future Use							-
41		TOTALS	$ 14,166,434	$ (10,255)	$ (317)	$ (29,760)	$ (9)	$ 0	$ 14,126,094
42									
43	Plant-in-Service per Direct								$ 14,166,434
44									
45	Increase (decrease) in Plant-in-Service								$ (40,340)
46									
47	Adjustment to Plant-in-Service								$ (40,340)
48									
49	SUPPORTING SCHEDULES								
50	B-2, pages 3.1 to 3.5								
51									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - A

Exhibit
Settlement Schedule B-2
Page 3.1
Witness: Bourassa

Line No.								
1	Plant Reclassification							
2								
3	Acct No.	Description	2010	2011	2012	2013	2014	Total
4	351	Organization						-
5	352	Franchises						-
6	353	Land and Land Rights	1,500					1,500
7	354	Structures and Improvements	(29,825)	(50,642)	(41,192)	(21,589)	(9,299)	(152,549)
8	355	Power Generation Equipment			3,839			3,839
9	360	Collection Sewers - Force					568	568
10	361	Collection Sewers - Gravity						-
11	362	Special Collecting Structures						-
12	363	Services to Customers						-
13	364	Flow Measuring Devices						-
14	365	Flow Measuring Installations						-
15	366	Reuse Services						-
16	367	Reuse Meters And Installation						-
17	370	Receiving Wells						-
18	371	Effluent Pumping Equipment	27,135	31,563	7,480	15,589	4,230	85,996
19	374	Reuse Distribution Reservoirs						-
20	375	Reuse Trans. and Dist. System						-
21	380	Treatment and Disposal Equipment		(7,143)	2,100	1,519	(2,258)	(5,782)
22	381	Plant Sewers						-
23	382	Outfall Sewer Lines						-
24	389	Other Plant and Misc. Equipment		(3,150)				(3,150)
25	390	Office Furniture and Equipment				(62,224)		(62,224)
26	390.1	Computers and Software				62,224		62,224
27	391	Transportation Equipment						-
28	392	Stores Equipment						-
29	393	Tools, Shop and Garage Equipment.						-
30	394	Laboratory Equipment						-
31	395	Power Operated Equipment						-
32	396	Communication Equipment		20,308	27,773	4,482	6,760	59,323
33	397	Miscellaneous Equip.						-
34	398	Other TangiblePlant - Scottsdale Capacity						-
35								
36		Totals	$ (1,190)	$ (9,065)	$ -	$ 0	$ -	$ (10,255)
37								
38								
39								
40								
41								
42								
43	SUPPORTING SCHEDULE							
44	Testimony							
45	Reponse to RUCO DR 6.03							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - B

Exhibit
Settlement Schedule B-2
Page 3.2
Witness: Bourassa

Line No.								
1	AFUDC							
2								
3	Acct No.	Description	2010	2011	2012	2013	2014	Total
4	351	Organization						-
5	352	Franchises						-
6	353	Land and Land Rights						-
7	354	Structures and Improvements					(8)	(8)
8	355	Power Generation Equipment					-	-
9	360	Collection Sewers - Force					(228)	(228)
10	361	Collection Sewers - Gravity					(51)	(51)
11	362	Special Collecting Structures					-	-
12	363	Services to Customers					(7)	(7)
13	364	Flow Measuring Devices					-	-
14	365	Flow Measuring Installations					-	-
15	366	Reuse Services					-	-
16	367	Reuse Meters And Installation					-	-
17	370	Receiving Wells					-	-
18	371	Effluent Pumping Equipment					(3)	(3)
19	374	Reuse Distribution Reservoirs					-	-
20	375	Reuse Trans. and Dist. System					-	-
21	380	Treatment and Disposal Equipment					-	-
22	381	Plant Sewers					-	-
23	382	Outfall Sewer Lines					-	-
24	389	Other Plant and Misc. Equipment					-	-
25	390	Office Furniture and Equipment					(21)	(21)
26	390.1	Computers and Software					-	-
27	391	Transportation Equipment					-	-
28	392	Stores Equipment					-	-
29	393	Tools, Shop and Garage Equipment.					(0)	(0)
30	394	Laboratory Equipment						-
31	395	Power Operated Equipment						-
32	396	Communication Equipment						-
33	397	Miscellaneous Equip.						-
34	398	Other TangiblePlant - Scottsdale Capacity						-
35								
36		Totals	$ -	$ -	$ -	$ -	$ (317)	$ (317)
37								
38								
39								
40								
41								
42								
43	SUPPORTING SCHEDULE							
44	Testimony							
45	RUCO PIS Adjustment No. 4.							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - C

Exhibit
Settlement Schedule B-2
Page 3.3
Witness: Bourassa

Line No.								
1	Plant Addtion Correction							
2								
3	Acct No.	Description	2010	2011	2012	2013	2014	Total
4	351	Organization						-
5	352	Franchises						-
6	353	Land and Land Rights						-
7	354	Structures and Improvements						-
8	355	Power Generation Equipment						-
9	360	Collection Sewers - Force						-
10	361	Collection Sewers - Gravity						-
11	362	Special Collecting Structures						-
12	363	Services to Customers						-
13	364	Flow Measuring Devices						-
14	365	Flow Measuring Installations						-
15	366	Reuse Services						-
16	367	Reuse Meters And Installation						-
17	370	Receiving Wells						-
18	371	Effluent Pumping Equipment						-
19	374	Reuse Distribution Reservoirs						-
20	375	Reuse Trans. and Dist. System						-
21	380	Treatment and Disposal Equipment						-
22	381	Plant Sewers						-
23	382	Outfall Sewer Lines						-
24	389	Other Plant and Misc. Equipment		(29,760)				(29,760)
25	390	Office Furniture and Equipment						-
26	390.1	Computers and Software						-
27	391	Transportation Equipment						-
28	392	Stores Equipment						-
29	393	Tools, Shop and Garage Equipment.						-
30	394	Laboratory Equipment						-
31	395	Power Operated Equipment						-
32	396	Communication Equipment						-
33	397	Miscellaneous Equip.						-
34	398	Other TangiblePlant - Scottsdale Capacity						-
35								
36		Totals	$ -	$ (29,760)	$ -	$ -	$ -	$ (29,760)
37								
38								
39								
40								
41								
42								
43	SUPPORTING SCHEDULE							
44	Testimony							
45								

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - D

Exhibit
Settlement Schedule B-2
Page 3.4
Witness: Bourassa

Line No.								
1	Corporate Plant							
2			[1]	[2]	[3]	[4] = [1]x[2]x[3]	[5]	[6] = [4] - [5]
3				Liberty	BMSC	Allocated	Allocated	Increase/
4	Acct.		Orginal	Utilities	Water	Orginal	Orginal	Decrease
5	No.	Description	Cost	Factor	Factor	Cost	Cost per Direct	in Corp. Plant
6	903	Land and Land Rights	1,396,196	15.64%	3.86%	$ 8,420	$ 8,429	$ (9)
7	904	Structures and Improvments	12,560,664	15.64%	3.86%	75,769	75,829	(61)
8	940.1	Computers and Software	2,187,630	15.64%	3.86%	13,196	13,207	(11)
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28	Total					$ 97,385	$ 97,465	$ (80)
29								
30								
31								
32								
33								
34								
35								
36								
37								
38								
39								
40								
41								
42								
43	SUPPORTING SCHEDULE							
44	Testimony							
45	Work papers							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - E

Exhibit
Settlement Schedule B-2
Page 3.5
Witness: Bourassa

Line No. 1 Reconciliation of Plant to Plant Reconstruction

Line No.	Acct. No.	Description	Orginal Cost	B-2 Adjustments	Adjusted Orginal Cost	Plant Per Reconstruction	Difference
6	351	Organization	$ -	$ -	$ -	$ -	$ -
7	352	Franchise	-	-	-	-	-
8	353	Land	471,024	1,500	472,524	472,524	-
9	354	Structures & Improvements	3,091,815	(152,556)	2,939,259	2,939,259	0
10	355	Power Generation	-	3,839	3,839	3,839	-
11	360	Collection Sewer Forced	1,130,090	340	1,130,430	1,130,430	0
12	361	Collection Sewers Gravity	4,555,232	(51)	4,555,182	4,555,181	(0)
13	362	Special Collecting Structures	-	-	-	-	-
14	363	Customer Services	260,442	(7)	260,435	260,435	(0)
15	364	Flow Measuring Devices	31,668	-	31,668	31,668	-
16	365	Flow Measruring Installations	180,051	-	180,051	180,051	-
17	366	Reuse Services	-	-	-	-	-
18	367	Reuse Meters And Installation	-	-	-	-	-
19	370	Receiving Wells	1,028,182	-	1,028,182	1,028,182	-
20	371	Pumping Equipment	937,492	85,993	1,023,485	1,023,485	(0)
21	374	Reuse Distribution Reservoirs	-	-	-	-	-
22	375	Reuse Trans. and Dist. System	-	-	-	-	-
23	380	Treatment & Disposal Equipment	326,067	(5,782)	320,285	320,285	-
24	381	Plant Sewers	124,527	-	124,527	124,527	-
25	382	Outfall Sewer Lines	-	-	-	-	-
26	389	Other Sewer Plant & Equipment	992,742	(32,910)	959,832	959,832	0
27	390	Office Furniture & Equipment	289,536	(62,246)	227,290	227,290	(0)
28	390.1	Computers and Software	-	62,224	62,224	62,224	-
29	391	Transportation Equipment	80,215	-	80,215	80,215	-
30	392	Stores Equipment	-	-	-	-	-
31	393	Tools, Shop And Garage Equip	28,942	(0)	28,942	28,942	0
32	394	Laboratory Equip	10,683	-	10,683	10,683	-
33	395	Power Operated Equipment	-	-	-	-	-
34	396	Communication Equip	43,968	59,323	103,290	103,290	-
35	397	Miscellaenous Equip.	-	-	-	-	-
36	398	Other Tangible Plant - Scottsdale Capacity	486,294	-	486,294	486,294	-
42		Plant Held for Future Use					-
43		TOTALS	$ 14,068,969	$ (40,332)	$ 14,028,637	$ 14,028,638	$ 0

46 SUPPORTING SCHEDULE
47 B-2, pages 3.1 through 3.3
48 B-2, pages 3.6 through 3.13

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Settlement Schedule B-2
Page 3.6
Witness: Bourassa

						Per Decision No. 71865, September 1, 2010						Current Books		
Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	[1] Book Plant at 6/30/2008	[2] Direct Adjust	[3] RC Adjust-ments	[4] Adjusted Plant at 6/30/2008	[5] Accum Depr 6/30/2008	[6] Net Plant 6/30/2008	[7] Book Plant at 6/30/2008	[8] Accum Depr 6/30/2008	[9] Net Plant 6/30/2008
									[1]+[2]+[3]		[4]-[5]			[7]-[8]
1	351	Organization		0.00%	0.00%	-	-	-	-	-	-	-	-	-
2	352	Franchises		0.00%	0.00%	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights		0.00%	0.00%	461,446	(146)	-	461,300	-	461,300	461,300	-	461,300
4	354	Structures and Improvements		3.33%	3.33%	2,597,197	(39,277)	2,300	2,560,220	1,089,269	1,470,950	2,560,220	1,089,269	1,470,950
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	371,470	334,822	1,600	707,892	237,047	470,845	707,892	237,047	470,845
7	361	Collection Sewers - Gravity		2.00%	2.00%	4,353,824	(68,876)	-	4,284,948	2,986,891	1,298,057	4,284,948	2,986,891	1,298,057
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	200,306	(1,583)	-	198,723	151,259	47,464	198,723	151,259	47,464
10	364	Flow Measuring Devices		10.00%	10.00%	39,878	(8,366)	-	31,512	31,230	282	31,512	31,230	282
11	365	Flow Measuring Installations		10.00%	10.00%	181,502	(1,880)	-	179,622	48,777	130,845	179,622	48,777	130,845
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	699,191	(8,563)	242,243	932,871	285,616	647,255	932,871	285,616	647,255
15	371	Effluent Pumping Equipment		12.50%	12.50%	661,125	(6,281)	2,803	657,647	401,703	255,944	657,647	401,703	255,944
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	152,796	(9,218)	38,250	181,828	14,930	166,898	181,828	14,930	166,898
19	381	Plant Sewers		5.00%	5.00%	121,651	1,638	1,238	124,527	105,608	18,919	124,527	105,608	18,919
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	970,499	(31,067)	-	939,432	249,600	689,832	939,432	249,600	689,832
22	390	Office Furniture and Equipment		6.67%	6.67%	369,739	(145,152)	-	224,587	71,997	152,590	224,587	71,997	152,590
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	107,368	(1)	-	107,367	47,775	59,592	107,367	47,775	59,592
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	6,276	(522)	-	5,754	203	5,552	5,754	203	5,552
27	394	Laboratory Equipment		10.00%	10.00%	7,488	0	-	7,488	2,250	5,239	7,488	2,250	5,239
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	40,451	0	-	40,451	1,011	39,440	40,451	1,011	39,440
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	486,294	-	-	486,294	97,259	389,035	486,294	97,259	389,035
		TOTAL				11,828,501	15,528	288,434	12,132,463	5,822,426	6,310,037	12,132,463	5,822,426	6,310,037

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Settlement Schedule B-2
Page 3.7
Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	July-December 2008 Plant Additions	Plant Adjustments[1]	Plant Reclass	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-		-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%		-		-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%		-		-	-		-		-	461,300	-
4	354	Structures and Improvements		3.33%	3.33%	-	(12,085)	-	(12,085)	-	-	-	-	42,527	2,548,135	1,131,797
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	-	(37)	-	(37)	-	-	-	-	7,079	707,855	244,126
7	361	Collection Sewers - Gravity		2.00%	2.00%	-	(49)	-	(49)	-	-	-	-	42,849	4,284,899	3,029,740
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	-	-	-	-	-	-	-	-	1,987	198,723	153,246
10	364	Flow Measuring Devices		10.00%	10.00%	-	156	-	156	-	-	-	-	438	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	-	8,981	179,622	57,758
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	311	-	311	-	-	-	-	15,535	933,182	301,151
15	371	Effluent Pumping Equipment		12.50%	12.50%	-	1,641	-	1,641	4,461	-	4,461	-	41,015	654,827	438,257
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	-	(33,499)	-	(33,499)	-	-	-	-	4,127	148,329	19,057
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	3,113	124,527	108,721
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	-	3,138	-	3,138	-	-	-	-	31,382	942,570	280,983
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	-	7,490	224,587	79,487
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	-	203	-	203	-	-	-	-	10,747	107,570	58,522
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	-	3,420	-	3,420	-	-	-	-	187	9,174	390
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	374	7,488	2,624
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	275	-	275	-	-	-	-	2,029	40,726	3,041
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	24,315	486,294	121,574
		TOTAL				-	(36,526)	-	(36,526)	4,461	-	4,461	-	244,175	12,091,476	6,062,140

[1] True-up
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Settlement Schedule B-2
Page 3.8
Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2009 Plant Additions	Plant Adjustments[1]	Plant Reclass	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-		-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%		-		-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%		-		-	-		-		-	461,300	-
4	354	Structures and Improvements		3.33%	3.33%	36,874	(311)	-	36,563	2,504	-	2,504	-	85,420	2,582,194	1,214,712
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	49,900	(5,397)	-	44,503	-	-	-	-	14,602	752,358	258,728
7	361	Collection Sewers - Gravity		2.00%	2.00%	127,133	-	-	127,133	-	-	-	-	86,969	4,412,032	3,116,710
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	3,400	-	-	3,400	-	-	-	-	4,008	202,123	157,255
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	-	17,962	179,622	75,720
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	95,000	-	-	95,000	-	-	-	-	32,657	1,028,182	333,807
15	371	Effluent Pumping Equipment		12.50%	12.50%	10,132	-	-	10,132	4,841	-	4,841	-	82,184	660,118	515,600
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	503	-	-	503	-	-	-	-	7,429	148,832	26,486
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	6,226	124,527	114,947
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	987	-	-	987	-	-	-	-	62,902	943,557	343,885
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	-	14,980	224,587	94,467
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	-	-	-	-	-	-	-	-	21,514	107,570	80,036
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	351	-	-	351	-	-	-	-	467	9,525	857
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	749	7,488	3,373
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	4,073	40,726	7,113
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	48,629	486,294	170,203
		TOTAL				324,280	(5,708)	-	318,572	7,346	-	7,346	-	490,773	12,402,703	6,545,567

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Settlement Schedule B-2
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Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2010 Plant Additions	Plant Adjustments[1]	Plant Reclass	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-		-			-		-	-	-
2	352	Franchises		0.00%	0.00%		-		-			-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%		-	1,500	1,500			-		-	462,800	-
4	354	Structures and Improvements		3.33%	3.33%	105,916	(1,282)	(29,825)	74,809	-	-	-	-	87,233	2,657,003	1,301,945
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	94,113	(211)	-	93,901	-	-	-	-	15,986	846,259	274,714
7	361	Collection Sewers - Gravity		2.00%	2.00%	150,760	(189)	-	150,571	-	-	-	-	89,746	4,562,602	3,206,456
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	-	-	-	-	-	-	-	-	4,042	202,123	161,297
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	-	17,962	179,622	93,682
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	-	34,238	1,028,182	368,046
15	371	Effluent Pumping Equipment		12.50%	12.50%	107,891	(189)	27,135	134,837	-	-	-	-	90,942	794,956	606,542
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	186,041	(24)	-	186,017	-	-	-	-	12,092	334,849	38,578
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	6,226	124,527	121,174
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	500	-	-	500	-	-	-	-	62,952	944,057	406,837
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	-	14,980	224,587	109,447
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	-	-	-	-	-	-	-	-	21,514	107,570	101,550
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	1,759	(6)	-	1,753	-	-	-	-	520	11,278	1,377
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	749	7,488	4,122
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	4,073	40,726	11,186
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	48,629	486,294	218,833
		TOTAL				646,979	(1,902)	(1,190)	643,888	-	-	-	-	511,886	13,046,591	7,057,453

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

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Settlement Schedule B-2
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Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2011 Plant Additions	Plant Adjustments[1]	Plant Reclass	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-		-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%		-		-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%		-		-	-		-		-	462,800	-
4	354	Structures and Improvements		3.33%	3.33%	109,394	(1,491)	(50,642)	57,260	8,614	-	8,614	-	89,288	2,705,649	1,382,619
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	99,047	(612)	-	98,435	8,381	-	8,381	-	17,826	936,313	284,159
7	361	Collection Sewers - Gravity		2.00%	2.00%	69,030	(699)	-	68,331	5,072	-	5,072	-	91,885	4,625,861	3,293,269
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	-	-	-	-	-	-	-	-	4,042	202,123	165,339
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	-	17,962	179,622	111,644
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	-	34,238	1,028,182	402,284
15	371	Effluent Pumping Equipment		12.50%	12.50%	76,164	(553)	31,563	107,174	6,482	-	6,482	-	78,591	895,647	678,650
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	33,223	(267)	(7,143)	25,813	-	-	-	-	17,388	360,662	55,966
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	3,353	124,527	124,527
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	3,463	(11)	(3,150)	302	-	-	-	-	62,979	944,359	469,816
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	-	14,980	224,587	124,427
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	-	-	-	-	-	-	-	-	6,020	107,570	107,570
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	3,386	(30)	-	3,356	-	-	-	-	648	14,634	2,025
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	749	7,488	4,871
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	20,308	20,308	-	-	-	-	5,088	61,034	16,274
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	48,629	486,294	267,462
		TOTAL				393,707	(3,664)	(9,065)	380,978	28,549	-	28,549	-	493,666	13,399,021	7,522,570

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

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Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2012 Plant Additions	Plant Adjustments[1]	Plant Reclass	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-		-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%		-		-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%	9,740	(16)		9,724	-		-		-	472,524	-
4	354	Structures and Improvements		3.33%	3.33%	237,042	(1,140)	(41,192)	194,710	11,217	-	11,217	-	93,153	2,889,143	1,464,556
5	355	Power Generation Equipment		5.00%	5.00%	-	-	3,839	3,839	-	-	-	-	96	3,839	96
6	360	Collection Sewers - Force		2.00%	2.00%	60,446	(407)	-	60,039	671	-	671	-	19,320	995,682	302,808
7	361	Collection Sewers - Gravity		2.00%	2.00%	30,677	(141)	-	30,536	842	-	842	-	92,814	4,655,556	3,385,241
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	-	-	-	-	-	-	-	-	4,042	202,123	169,382
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	430	-	-	430	-	-	-	-	17,984	180,051	129,628
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	-	34,238	1,028,182	436,523
15	371	Effluent Pumping Equipment		12.50%	12.50%	59,529	(432)	7,480	66,577	13,118	-	13,118	-	35,679	949,107	701,212
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	2,231	(19)	2,100	4,312	-	-	-	-	18,141	364,974	74,107
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	-	124,527	124,527
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	683	-	-	683	-	-	-	-	63,012	945,042	532,827
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	-	14,980	224,587	139,407
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	5,228	(7)	-	5,221	-	33,699	33,699	-	522	79,092	74,393
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	-	(24)	-	(24)	-	-	-	-	731	14,610	2,756
27	394	Laboratory Equipment		10.00%	10.00%	-	(2)	-	(2)	-	-	-	-	749	7,486	5,619
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	27,773	27,773	-	-	-	-	7,492	88,807	23,766
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	48,629	486,294	316,091
		TOTAL				406,006	(2,187)	0	403,819	25,847	33,699	59,546	-	451,583	13,743,293	7,914,607

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

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Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2013 Plant Additions	Plant Adjustments[1]	Plant Reclass	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%				-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%				-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%				-	-		-		-	472,524	-
4	354	Structures and Improvements		3.33%	3.33%	62,428	-	(21,589)	40,839	3,676	452	4,128	-	96,820	2,925,854	1,557,247
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	192	3,839	288
6	360	Collection Sewers - Force		2.00%	2.00%	60,461	-	-	60,461	-	-	-	-	20,518	1,056,143	323,326
7	361	Collection Sewers - Gravity		2.00%	2.00%	15,123	-	-	15,123	-	1,705	1,705	-	93,245	4,668,974	3,476,782
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	15,611	-	-	15,611	-	-	-	-	4,199	217,733	173,580
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	-	18,005	180,051	147,633
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	-	34,238	1,028,182	470,761
15	371	Effluent Pumping Equipment		12.50%	12.50%	84,467	-	15,589	100,056	31,863	5,096	36,960	-	46,094	1,012,203	710,345
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	7,270	-	1,519	8,789	-	-	-	-	18,468	373,763	92,575
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	-	124,527	124,527
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	-	-	-	-	-	-	-	-	63,034	945,042	595,861
22	390	Office Furniture and Equipment		6.67%	6.67%	62,224	-	(62,224)	-	-	-	-	-	14,980	224,587	154,387
23	390.1	Computers and Software		20.00%	20.00%	-	-	62,224	62,224	-	-	-	-	6,222	62,224	6,222
24	391	Transportation Equipment		20.00%	20.00%	-	-	-	-	-	-	-	-	1,044	79,092	75,438
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	1,573	-	-	1,573	-	-	-	-	770	16,184	3,526
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	749	7,486	6,368
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	4,482	4,482	-	-	-	-	9,105	93,289	32,871
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	48,629	486,294	364,721
		TOTAL				309,159	-	(0)	309,159	35,540	7,253	42,793	-	476,313	14,009,660	8,348,127

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Settlement Schedule B-2
Page 3.13
Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2014 Plant Additions	Plant Adjustments[1]	Plant Reclass and AFUDC	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%				-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%				-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%				-	-		-		-	472,524	-
4	354	Structures and Improvements		3.33%	3.33%	49,937	(13,255)	(9,307)	27,375	13,970	-	13,970	-	97,654	2,939,259	1,640,932
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	192	3,839	480
6	360	Collection Sewers - Force		2.00%	2.00%	81,757	(7,251)	340	74,847	559	-	559	-	21,866	1,130,430	344,633
7	361	Collection Sewers - Gravity		2.00%	2.00%	135,300	(241,801)	(51)	(106,551)	7,241	-	7,241	-	92,242	4,555,181	3,561,782
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	48,419	-	(7)	48,413	5,711	-	5,711	-	4,782	260,435	172,651
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	-	18,005	180,051	165,638
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	-	34,238	1,028,182	505,000
15	371	Effluent Pumping Equipment		12.50%	12.50%	38,455	9,634	4,227	52,316	41,033	-	41,033	-	55,617	1,023,485	724,929
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	20,759	(71,979)	(2,258)	(53,478)	-	-	-	-	17,351	320,285	109,926
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	-	124,527	124,527
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	20,988	(6,198)	-	14,790	-	-	-	-	63,528	959,832	659,389
22	390	Office Furniture and Equipment		6.67%	6.67%	2,724	-	(21)	2,703	-	-	-	-	15,070	227,290	169,457
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	12,445	62,224	18,667
24	391	Transportation Equipment		20.00%	20.00%	22,930	-	-	22,930	21,808	-	21,808	-	3,337	80,215	56,967
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	12,758	-	(0)	12,758	-	-	-	-	1,128	28,942	4,654
27	394	Laboratory Equipment		10.00%	10.00%	3,196	-	-	3,196	-	-	-	-	908	10,683	7,277
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	3,242	-	6,760	10,002	-	-	-	-	9,829	103,290	42,700
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	48,629	486,294	413,350
		TOTAL				440,466	(330,849)	(317)	109,300	90,322	-	90,322	-	496,821	14,028,638	8,754,626

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Settlement Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Acct. No.	Description	Adjusted Accum. Depr.	A Depreciation Calc. Correction	B Plant Reclassification	C AFUDC	D Plant Addition Correction	E Allocated Corporate Plant	F Adjustments to Reconcile A/D to Recon.	Rebuttal Adjusted Accum. Depr.
6	351	Organization	-	-	-	-	-		-	-
7	352	Franchise	-	-	-	-	-		-	-
8	353	Land	-	-	-	-	-		-	-
9	354	Structures & Improvements	1,641,790	14,176	(15,034)	(0)	-		0	1,640,932
10	355	Power Generation	-	0	480	-	-		-	480
11	360	Collection Sewer Forced	342,270	2,360	6	(2)	-		-	344,633
12	361	Collection Sewers Gravity	3,547,500	14,283	-	(1)	-		-	3,561,782
13	362	Special Collecting Structures	-	-	-	-	-		-	-
14	363	Customer Services	171,989	662	-	(0)	-		-	172,651
15	364	Flow Measuring Devices	31,668	-	-	-	-		-	31,668
16	365	Flow Measruring Installations	162,645	2,994	-	-	-		-	165,638
17	366	Reuse Services	-	-	-	-	-		-	-
18	367	Reuse Meters And Installation	-	-	-	-	-		-	-
19	370	Receiving Wells	499,821	5,178	-	-	-		-	505,000
20	371	Pumping Equipment	690,332	0	34,597	(0)	-		-	724,929
21	374	Reuse Distribution Reservoirs	-	-	-	-	-		-	-
22	375	Reuse Trans. and Dist. System	-	-	-	-	-		-	-
23	380	Treatment & Disposal Equipment	109,481	1,376	(930)	-	-		-	109,926
24	381	Plant Sewers	124,527	-	-	-	-		-	124,527
25	382	Outfall Sewer Lines	-	-	-	-	-		-	-
26	389	Other Sewer Plant & Equipment	656,611	10,461	(735)	-	(6,947)		-	659,389
27	390	Office Furniture & Equipment	173,186	2,497	(6,226)	(1)	-		-	169,457
28	390.1	Computers and Software	-	0	18,667	-	-		-	18,667
29	391	Transportation Equipment	56,967	0	-	-	-		-	56,967
30	392	Stores Equipment	-	-	-	-	-		-	-
31	393	Tools, Shop And Garage Equip	4,592	62	-	(0)	-		-	4,654
32	394	Laboratory Equip	7,152	125	-	-	-		-	7,277
33	395	Power Operated Equipment	-	-	-	-	-		-	-
34	396	Communication Equip	26,962	676	15,061	-	-		-	42,700
35	397	Miscellaneous Equip.	-	-	-	-	-		-	-
36	398	Other Tangible Plant - Sottsdale Capacity	405,245	8,105	-	-	-		-	413,350
37	108	Accumulated Depreciation	-	-	-	-	-		-	-
38		SUBTOTAL	8,652,737	62,954	45,886	(4)	(6,947)	-	0	8,754,626
39										
40	903	Land and Land Rights	-							-
41	904	Structures and Improvments	1,944					(2)		1,943
42	940	Office Furniture & Equipment	-					-		-
43	940.1	Computers and Software	-					1,320		1,320
44		SUBTOTAL	1,944	-	-	-	-	1,318	-	3,262
45		Plant Held for Future Use	-							-
46		TOTALS	$ 8,654,682	$ 62,954	$ 45,886	$ (4)	$ (6,947)	$ 1,318	$ 0	$ 8,757,889
47										
48		Accumulated Depreciation per Direct								$ 8,654,682
49										
50		Increase (decrease) in Accumulated Depreciation								$ 103,207
51										
52		Adjustment to Accumulated Depreciation								$ 103,207
53										
54		SUPPORTING SCHEDULES								
55		B-2, pages 4.1 through 4.6								

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - A

Exhibit
Settlement Schedule B-2
Page 4.1
Witness: Bourassa

Line No.

1 A/D from Depreciation Calculation Correction

Acct. No.	Description	2008	2009	2010	2011	2012	2013	2014	Total Cost
351	Organization	-	-	-	-	-	-	-	$ -
352	Franchises	-	-	-	-	-	-	-	-
353	Land and Land Rights	-	-	-	-	-	-	-	-
354	Structures and Improvements	14,176	-	(0)	0	(0)	(0)	(0)	14,176
355	Power Generation Equipment	-	-	-	-	(0)	0	0	0
360	Collection Sewers - Force	2,360	-	-	-	-	-	(0)	2,360
361	Collection Sewers - Gravity	14,283	-	-	-	-	-	0	14,283
362	Special Collecting Structures	-	-	-	-	-	-	-	-
363	Services to Customers	662	-	-	-	-	-	0	662
364	Flow Measuring Devices	219	(219)	-	-	-	-	-	-
365	Flow Measuring Installations	2,994	-	-	-	-	-	-	2,994
366	Reuse Services	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	-	-	-	-	-	-	-	-
370	Receiving Wells	5,178	-	-	-	-	-	-	5,178
371	Effluent Pumping Equipment	13,672	-	0	(13,672)	0	0	0	0
374	Reuse Distribution Reservoirs	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	-	-	-	-	-	-	-
380	Treatment and Disposal Equipment	1,376	-	-	(0)	(0)	(0)	(0)	1,376
381	Plant Sewers	1,038	-	-	(1,038)	-	-	-	-
382	Outfall Sewer Lines	-	-	-	-	-	-	-	-
389	Other Plant and Misc. Equipment	10,461	-	-	0	0	0	0	10,461
390	Office Furniture and Equipment	2,497	-	-	-	-	(0)	0	2,497
390.1	Computers and Software	-	-	-	-	-	0	0	0
391	Transportation Equipment	3,582	-	-	(3,582)	-	-	-	0
392	Stores Equipment	-	-	-	-	-	-	-	-
393	Tools, Shop and Garage Equipment.	62	-	-	-	-	-	(0)	62
394	Laboratory Equipment	125	-	-	-	-	-	-	125
395	Power Operated Equipment	-	-	-	-	-	-	-	-
396	Communication Equipment	676	-	-	0	0	(0)	0	676
397	Miscellaneous Equip.	-	-	-	-	-	-	-	-
398	Other TangiblePlant - Scottsdale Capacity	8,105	-	-	-	-	-	-	8,105
		81,465	(219)	(0)	(18,292)	0	0	(0)	62,954

SUPPORTING SCHEDULE
Testimony
Work papers

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - B

Exhibit
Settlement Schedule B-2
Page 4.2
Witness: Bourassa

Line No.									
1	A/D from Plant Reclassification								
2									
3	Acct No.	Description	Depr. Rate	2010	2011	2012	2013	2014	Total
4	351	Organization	0.00%	-	-	-	-	-	-
5	352	Franchise	0.00%	-	-	-	-	-	-
6	353	Land	0.00%	-	-	-	-	-	-
7	354	Structures & Improvements	3.33%	(497)	(1,836)	(3,365)	(4,411)	(4,925)	(15,034)
8	355	Power Generation	5.00%	-	-	96	192	192	480
9	360	Collection Sewer Forced	2.00%	-	-	-	-	6	6
10	361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-
11	362	Special Collecting Structures	2.00%	-	-	-	-	-	-
12	363	Customer Services	2.00%	-	-	-	-	-	-
13	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-
14	365	Flow Measruring Installations	10.00%	-	-	-	-	-	-
15	366	Reuse Services	2.00%	-	-	-	-	-	-
16	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-
17	370	Receiving Wells	3.33%	-	-	-	-	-	-
18	371	Pumping Equipment	12.50%	1,696	5,365	7,805	9,246	10,485	34,597
19	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-
20	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-
21	380	Treatment & Disposal Equipment	5.00%	-	(179)	(305)	(214)	(233)	(930)
22	381	Plant Sewers	5.00%	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-
24	389	Other Sewer Plant & Equipment	6.67%	-	(105)	(210)	(210)	(210)	(735)
25	390	Office Furniture & Equipment	6.67%	-	-	-	(2,075)	(4,150)	(6,226)
26	390.1	Computers and Software	20.00%	-	-	-	6,222	12,445	18,667
27	391	Transportation Equipment	20.00%	-	-	-	-	-	-
28	392	Stores Equipment	4.00%	-	-	-	-	-	-
29	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-
30	394	Laboratory Equip	10.00%	-	-	-	-	-	-
31	395	Power Operated Equip	5.00%	-	-	-	-	-	-
32	396	Communication Equip	10.00%	-	1,015	3,419	5,032	5,594	15,061
33	397	Miscellaneous Equip.	10.00%	-	-	-	-	-	-
34	398	Other Tangible Plant - Scottsdale Capacity	10.00%	-	-	-	-	-	-
35									
36		Totals		$ 1,199	$ 4,260	$ 7,440	$ 13,783	$ 19,204	$ 45,886
37									
38									
39									
40									
41									
42									
43	SUPPORTING SCHEDULE								
44	B-2, pages 3.1								
45	Work papers								

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - C

Exhibit
Settlement Schedule B-2
Page 4.3
Witness: Bourassa

Line No.									
1	A/D from AFUDC removal								
2			Depr.						
3	Acct No.	Description	Rate	2010	2011	2012	2013	2014	Total
4	351	Organization	0.00%	-	-	-	-	-	-
5	352	Franchise	0.00%	-	-	-	-	-	-
6	353	Land	0.00%	-	-	-	-	-	-
7	354	Structures & Improvements	3.33%	-	-	-	-	(0)	(0)
8	355	Power Generation	5.00%	-	-	-	-	-	-
9	360	Collection Sewer Forced	2.00%	-	-	-	-	(2)	(2)
10	361	Collection Sewers Gravity	2.00%	-	-	-	-	(1)	(1)
11	362	Special Collecting Structures	2.00%	-	-	-	-	-	-
12	363	Customer Services	2.00%	-	-	-	-	(0)	(0)
13	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-
14	365	Flow Measruring Installations	10.00%	-	-	-	-	-	-
15	366	Reuse Services	2.00%	-	-	-	-	-	-
16	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-
17	370	Receiving Wells	3.33%	-	-	-	-	-	-
18	371	Pumping Equipment	12.50%	-	-	-	-	(0)	(0)
19	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-
20	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-
21	380	Treatment & Disposal Equipment	5.00%	-	-	-	-	-	-
22	381	Plant Sewers	5.00%	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-
24	389	Other Sewer Plant & Equipment	6.67%	-	-	-	-	-	-
25	390	Office Furniture & Equipment	6.67%	-	-	-	-	(1)	(1)
26	390.1	Computers and Software	20.00%	-	-	-	-	-	-
27	391	Transportation Equipment	20.00%	-	-	-	-	-	-
28	392	Stores Equipment	4.00%	-	-	-	-	-	-
29	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	(0)	(0)
30	394	Laboratory Equip	10.00%	-	-	-	-	-	-
31	395	Power Operated Equip	5.00%	-	-	-	-	-	-
32	396	Communication Equip	10.00%	-	-	-	-	-	-
33	397	Miscellaneous Equip.	10.00%	-	-	-	-	-	-
34	398	Other Tangible Plant - Scottsdale Capacity	10.00%	-	-	-	-	-	-
35									
36		Totals		$ -	$ -	$ -	$ -	$ (4)	$ (4)
37									
38									
39									
40									
41									
42									
43	SUPPORTING SCHEDULE								
44	B-2, pages 3.2								
45	Work papers								

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - D

Exhibit
Settlement Schedule B-2
Page 4.4
Witness: Bourassa

Line No.									
1	A/D from Plant Addtion Correction								
2			Depr.						
3	Acct No.	Description	Rate	2010	2011	2012	2013	2014	Total
4	351	Organization	0.00%	-	-	-	-	-	-
5	352	Franchise	0.00%	-	-	-	-	-	-
6	353	Land	0.00%	-	-	-	-	-	-
7	354	Structures & Improvements	3.33%	-	-	-	-	-	-
8	355	Power Generation	5.00%	-	-	-	-	-	-
9	360	Collection Sewer Forced	2.00%	-	-	-	-	-	-
10	361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-
11	362	Special Collecting Structures	2.00%	-	-	-	-	-	-
12	363	Customer Services	2.00%	-	-	-	-	-	-
13	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-
14	365	Flow Measruring Installations	10.00%	-	-	-	-	-	-
15	366	Reuse Services	2.00%	-	-	-	-	-	-
16	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-
17	370	Receiving Wells	3.33%	-	-	-	-	-	-
18	371	Pumping Equipment	12.50%	-	-	-	-	-	-
19	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-
20	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-
21	380	Treatment & Disposal Equipment	5.00%	-	-	-	-	-	-
22	381	Plant Sewers	5.00%	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-
24	389	Other Sewer Plant & Equipment	6.67%	-	(992)	(1,985)	(1,985)	(1,985)	(6,947)
25	390	Office Furniture & Equipment	6.67%	-	-	-	-	-	-
26	390.1	Computers and Software	20.00%	-	-	-	-	-	-
27	391	Transportation Equipment	20.00%	-	-	-	-	-	-
28	392	Stores Equipment	4.00%	-	-	-	-	-	-
29	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-
30	394	Laboratory Equip	10.00%	-	-	-	-	-	-
31	395	Power Operated Equip	5.00%	-	-	-	-	-	-
32	396	Communication Equip	10.00%	-	-	-	-	-	-
33	397	Miscellaneous Equip.	10.00%	-	-	-	-	-	-
34	398	Other Tangible Plant - Scottsdale Capacity	10.00%	-	-	-	-	-	-
35									
36		Totals		$ -	$ (992)	$ (1,985)	$ (1,985)	$ (1,985)	$ (6,947)
37									
38									
39									
40									
41									
42									
43	SUPPORTING SCHEDULE								
44	B-2, pages 3.3								
45	Work papers								

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - E

Exhibit
Settlement Schedule B-2
Page 4.5
Witness: Bourassa

Line No.									
1	Corporate Plant A/D								
2			[1]	[2]	[3]	[4] = [1]x[2]x[3]	[5]	[6] = [4] - [5]
3				Liberty Utilities	BMSC Water	Allocated Orginal	Allocated Orginal	Increase/ Decrease
4	Acct.							
5	No.	Description	A/D	Factor	Factor	Cost	Cost per Direct	in Corp. Plant
6	903	Land and Land Rights	$ -	15.64%	3.86%	-	$ -	$ -
7	904	Structures and Improvments	322,068	15.64%	3.86%	1,943	$ 1,944	(2)
8	940.1	Computers and Software	218,763	15.64%	3.86%	1,320	$ -	1,320
41		TOTALS	$ 540,831			$ 3,262	$ 1,944	$ 1,318

44 SUPPORTING SCHEDULE
45 B-2, pages 3.4
46 Work papers

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - F

Exhibit
Settlement Schedule B-2
Page 4.6
Witness: Bourassa

Line No. 1 Reconciliation of A/D to A/D Reconstruction

Line No.	Acct. No.	Description	A/D Orginal Cost	B-2 Adjustments	Adjusted A/D Orginal Cost	A/D Per Reconstruction	Difference
6	351	Organization	$ -	$ -	$ -	$ -	$ -
7	352	Franchise	-	-	-	-	-
8	353	Land	-	-	-	-	-
9	354	Structures & Improvements	1,641,790	(859)	1,640,931	1,640,932	0
10	355	Power Generation	-	480	480	480	-
11	360	Collection Sewer Forced	342,270	2,363	344,633	344,633	-
12	361	Collection Sewers Gravity	3,547,500	14,283	3,561,782	3,561,782	-
13	362	Special Collecting Structures	-	-	-	-	-
14	363	Customer Services	171,989	662	172,651	172,651	-
15	364	Flow Measuring Devices	31,668	-	31,668	31,668	-
16	365	Flow Measruring Installations	162,645	2,994	165,638	165,638	-
17	366	Reuse Services	-	-	-	-	-
18	367	Reuse Meters And Installation	-	-	-	-	-
19	370	Receiving Wells	499,821	5,178	505,000	505,000	-
20	371	Pumping Equipment	690,332	34,597	724,929	724,929	-
21	374	Reuse Distribution Reservoirs	-	-	-	-	-
22	375	Reuse Trans. and Dist. System	-	-	-	-	-
23	380	Treatment & Disposal Equipment	109,481	446	109,926	109,926	-
24	381	Plant Sewers	124,527	-	124,527	124,527	-
25	382	Outfall Sewer Lines	-	-	-	-	-
26	389	Other Sewer Plant & Equipment	656,611	2,778	659,389	659,389	-
27	390	Office Furniture & Equipment	173,186	(3,730)	169,457	169,457	-
28	390.1	Computers and Software	-	18,667	18,667	18,667	-
29	391	Transportation Equipment	56,967	0	56,967	56,967	-
30	392	Stores Equipment	-	-	-	-	-
31	393	Tools, Shop And Garage Equip	4,592	62	4,654	4,654	-
32	394	Laboratory Equip	7,152	125	7,277	7,277	-
33	395	Power Operated Equipment	-	-	-	-	-
34	396	Communication Equip	26,962	15,738	42,700	42,700	-
35	397	Miscellaneous Equipment	-	-	-	-	-
36	398	Other Tangible Plant - Scottsdale Capacity	405,245	8,105	413,350	413,350	-
37	108	Accumulated Depreciation	-	-	-	-	-
42		Plant Held for Future Use					-
43		TOTALS	$ 8,652,737	$ 101,889	$ 8,754,626	$ 8,754,626	$ 0

46 SUPPORTING SCHEDULE
47 B-2, pages 4.1 through 4.5
48 B-2, pages 3.6 through 3.13

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Settlement Schedule B-
Page 5
Witness: Bourassa

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

Line No.		Gross CIAC	Accumulated Amortization
1			
2			
3			
4			
5	Computed balance at end of Test Year	$ 6,445,253	$ 5,333,859
6			
7	Adjusted balance at end of Test Year	$ 5,461,736	$ 5,240,717
8			
9	Increase (decrease)	$ 983,517	$ 93,143
10			
11			
12	Adjustment to CIAC/AA CIAC	$ 983,517	$ (93,143)
13	Label	3a	3b
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	B-2, page 5.1 - 5.3		
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 3

Exhibit
Settlement Schedule B-2
Page 5.1
Witness: Bourassa

Line No.	Description	Vintage	Per Deicision 6/30/2008	Jun.-Jul. 2008 Activity	Balance at 12/31/2008	2009 Activity	Balance at 12/31/2009	2010 Activity	Balance at 12/31/2010
1	Contributions-in-Aid (CIAC)	<=Jun 2008	5,232,139	-	5,232,139	-	5,232,139	-	5,232,139
2	Contributions-in-Aid (CIAC)	>=Jul 2008		154,558	154,558		154,558		154,558
3	Contributions-in-Aid (CIAC)	2009			-		-		-
4	Contributions-in-Aid (CIAC)	2010			-		-		-
5	Contributions-in-Aid (CIAC)	2011			-		-		-
6	Contributions-in-Aid (CIAC)	2012			-		-		-
7	Contributions-in-Aid (CIAC)	2013			-		-		-
8	Contributions-in-Aid (CIAC)	2014			-		-		-
9	**Total Contributions-in-Aid (CIAC)**		5,232,139	154,558	5,386,697	-	5,386,697	-	5,386,697
10									
11	Amortization Rate			2.10%		4.11%		4.08%	
12									
13	Amortization	<=Jun 2008	4,214,384	109,849	4,324,232	215,033	4,539,265	213,371	4,752,636
14		>=Jul 2008		3,245	3,245	6,352	9,597	6,303	
15	Accum Amort.	2009		-	-	-	-	-	-
16	Accum Amort.	2010		-	-	-	-	-	-
17	Accum Amort.	2011		-	-	-	-	-	-
18	Accum Amort.	2012		-	-	-	-	-	-
19	Accum Amort.	2013		-	-	-	-	-	-
20	Accum Amort.	2014		-	-	-	-	-	-
21									
22	**Total Accum Amort.**		4,214,384	113,094	4,327,477	221,385	4,548,862	219,674	4,752,636
23									
24									
25	Net CIAC	<=Jun 2008	1,017,755		907,907		692,874		479,503
26	Net CIAC	>=Jul 2008	-		151,313		144,961		154,558
27	Net CIAC	2009	-		-		-		-
28	Net CIAC	2010	-		-		-		-
29	Net CIAC	2011	-		-		-		-
30	Net CIAC	2012	-		-		-		-
31	Net CIAC	2013	-		-		-		-
32	Net CIAC	2014	-		-		-		-
33									
34	**Total Net CIAC**		1,017,755	-	1,059,220	-	837,835	-	634,061
35									
36									
37									
38									
39									
40									
41									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 3

Exhibit
Settlement Schedule B-2
Page 5.2
Witness: Bourassa

Line No.	Description	Vintage	2011 Activity	Balance at 12/31/2011	2012 Activity	Balance at 12/31/2012	2013 Activity	Balance at 12/31/2013	2014 Activity	Balance at 12/31/2014
1	Contributions-in-Aid (CIAC)	<=Jun 2008	-	5,232,139	-	5,232,139	-	5,232,139	-	5,232,139
2	Contributions-in-Aid (CIAC)	>=Jul 2008		154,558		154,558		154,558		154,558
3	Contributions-in-Aid (CIAC)	2009		-		-		-		-
4	Contributions-in-Aid (CIAC)	2010		-		-		-		-
5	Contributions-in-Aid (CIAC)	2011		-		-		-		-
6	Contributions-in-Aid (CIAC)	2012		-	504,936	504,936		504,936		504,936
7	Contributions-in-Aid (CIAC)	2013		-		-		-		-
8	Contributions-in-Aid (CIAC)	2014		-		-		-	553,620	553,620
9	**Total Contributions-in-Aid (CIAC)**		-	5,386,697	504,936	5,891,633	-	5,891,633	553,620	6,445,253
10										
11	Amortization Rate		3.83%		3.64%		3.75%		3.88%	
12										
13	Amortization	<=Jun 2008	200,156	4,952,792	190,385	5,143,178	88,961	5,232,139	-	5,232,139
14		>=Jul 2008	5,913	5,913	5,624	11,537	5,790	17,327	6,001	23,328
15	Accum Amort.	2009	-	-	-	-	-	-	-	-
16	Accum Amort.	2010	-	-	-	-	-	-	-	-
17	Accum Amort.	2011	-	-	-	-	-	-	-	-
18	Accum Amort.	2012	-	-	18,373	18,373	18,917	37,291	19,606	56,896
19	Accum Amort.	2013	-	-	-	-	-	-	-	-
20	Accum Amort.	2014	-	-	-	-	-	-	21,496	21,496
21										
22	**Total Accum Amort.**		206,069	4,958,705	214,383	5,173,088	113,669	5,286,757	47,103	5,333,859
23										
24										
25	Net CIAC	<=Jun 2008		279,347		88,961		-		-
26	Net CIAC	>=Jul 2008		148,645		143,021		137,231		131,230
27	Net CIAC	2009		-		-		-		-
28	Net CIAC	2010		-		-		-		-
29	Net CIAC	2011		-		-		-		-
30	Net CIAC	2012		-		486,563		467,645		448,040
31	Net CIAC	2013		-		-		-		-
32	Net CIAC	2014		-		-		-		532,124
33										
34	**Total Net CIAC**		-	427,992	-	718,545	-	604,876	-	1,111,393
35										
36										
37										
38										
39										
40										
41										

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 4
Advances-in-Aid of Construction (AIAC)

Exhibit
Settlement Schedule B-2
Page 6
Witness: Bourassa

Line No.			
1			
2	Contract		
3	A (SCF)	$	244,639
4	B (L)		160,442
5	C (CIE)		115,668
6			
7	Total	$	520,749
8			
9	Adjusted balance at End of Test Year	$	1,743,922
10			
11	Increase (decrease)	$	(1,223,173)
12			
13			
14			
15			
16			
17			
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22	SUPPORTING SCHEDULES		
23	Work papers		
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 5

Exhibit
Settlement Schedule B-2
Page 7.0
Witness: Bourassa

Deferred Income Tax as of December 31, 2014

Line No.			Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
6		Plant-in-Service	$ 13,653,570 [1]								
7		Accum. Deprec.	(8,756,571) [1]								
8		CIAC	(1,475,918) [3]								
9	Fed.	Fixed Assets	$ 3,421,082	$ 2,433,867 [2]	100.0%	$ (987,215)	34.57%		-		(341,246)
11	State	Fixed Assets	$ 3,421,082	$ 4,015,340 [2]	100.0%	$ 594,258	4.900%		29,119		-
13	Fed &State	AIAC		164,795 [4]	100.0%	$ 164,795 [4]	39.467%		$ 65,039		
15								$ -	$ 94,157	$ -	$ (341,246)
17		Net Asset (Liability)						$ (247,088)			
19		Allocated Corporate ADIT[5]						(288)			
21		Net Asset (Liability)						$ (247,377)			
23		Allocation Factor						1.0000			
25		Net Asset (Liability)						$ (247,377)			
27		DIT Asset (Liability) per Direct						$ (75,116)			
29		Adjustment to DIT						$ 172,260			

Footnotes - See page 7.1

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 5

Exhibit
Settlement Schedule B-2
Page 7.1
Witness: Bourassa

Line No.		FEDERAL			STATE		
1	[1] **Per adjusted book balances, land not included, coporate plant not included**						
2							
3	[2] **Computation of Net Tax Value December 31, 2014**						
4							
5	Based on 2014 Tax Depreciation report (December 31, 2014)						
6	Unadjusted Cost at December 31, 2014 per federal and state tax depr. report	$ 10,737,218			$ 10,737,218		
7	Reconciling items not on tax report:						
8							
9	True-up	-			-		
10	Scottsdale Plant Recovered Elsewhere	(1,913,706)			(1,913,706)		
11							
12							
13							
14							
15	Net Unadjusted Cost tax Basis at December 31, 2014			$ 8,823,512			$ 8,823,512
16							
17	Reductions						
18	Basis Reduction 2014 and Prior Years per federal and state tax depr. report	$ (2,148,262)			$ -		
19	Accumulated Depreciation 2014 and prior per federal and state tax depr. report	(6,027,024)			(6,593,805)		
20	Scottsdale Plant Recovered Elsewhere	1,785,641			1,785,633		
21							
22							
23							
24							
25				(6,389,645)			(4,808,172)
26	Net Reductions through December 31, 2014			$ 2,433,867			$ 4,015,340
27	Net tax value of plant-in-service at December 31. 2014						
28							
29	[3] **CIAC (including impact of change to probability of realization)**						
30	Gross CIAC per adjusted book balances		$ 6,445,253				
31	CIAC reductions/addtions						
32	A.A per adjusted book balances	$ (5,333,859)					
33		-					
34			(5,333,859)				
35	Net CIAC before unrealized AIAC			$ 1,111,393			
36							
37	Unrealized AIAC Component						
38	AIAC per adjusted book balances		$ 520,749				
39	Adjusted Net AIAC (see footnote 5 below)		70.0%				
40	Unrealized AIAC Component % (1-Realized AIAC Component)			$ 364,524			
41	Total realizable CIAC			$ 1,475,918			
42							
43							
44	[4] **AIAC (including impact of change in probability of realization)**						
45	AIAC per adjusted book balances			$ 520,749			
46	Less: Unrealized AIAC (from Note 3, above)			$ (364,524)			
47							
48	Subtotal			$ 156,225			
49	Meter and Service Line Installation Charges per adjusted book balances			8,570			
50	Total realizable AIAC			$ 164,795			
51							
52	[5] **See work papers and response to Staff DR 10.3**						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 6
Cash Working Capital

Exhibit
Settlement Schedule B-2
Page 8
Witness: Bourassa

Line No.			
1			
2			
3	Computed Cash Working Capital	$	(118,960)
4			
5	Adjustes Test Year Working Capital		(60,594)
6			
7	Increase (decrease)	$	(58,366)
8			
9			
10			
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22	SUPPORTING SCHEDULES		
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 7
Deferred Regualtory Asset

Exhibit
Settlement Schedule B-2
Page 9
Witness: Bourassa

Line No.			
1			
2			
3	Plant Closure Costs	$	825,080
4			
5			
6			
7	Total	$	825,080
8			
9	Adjusted balance at End of Test Year	$	-
10			
11	Increase (decrease)	$	825,080
12			
13			
14			
15			
16			
17			
18			
19			
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22	SUPPORTING SCHEDULES		
23	Work papers		
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cash Working Capital

Exhibit
Settlement Schedule B-5
Page 1
Witness: Bourassa

Line No.	Description	Proforma Test Year Amount[1]	Revenue Lag (Lead) Days	Expense Lag (Lead) Days	Net Lag (Lead) Days Col. C - Col. D	Lead/Lag Factor Col. E/365	Cash Working Capital Required Col. B * Col. F
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
7	OPERATING EXPENSES						
8	Salaries and Wages	$ 242,213	0.56	20.00	(19.44)	(0.05326515)	$ (12,901)
9	Purchased Water	5,647	0.56	28.22	(27.66)	(0.07578569)	(428)
10	Sludge Removal	-	0.56	-	0.56	0.00152937	-
11	Purchased Power	65,112	0.56	34.37	(33.81)	(0.09263501)	(6,032)
12	Fuel for Power Production	-	0.56	-	0.56	0.00152937	-
13	Chemicals	19,215	0.56	4.94	(4.38)	(0.01200487)	(231)
14	Materials and Supplies	23,875	0.56	(20.42)	20.98	0.05747458	1,372
15	Contractual Services - Professional	281,590	0.56	20.05	(19.49)	(0.05340213)	(15,037)
16	Contractual Services - Testing	11,451	0.56	27.61	(27.05)	(0.07411446)	(849)
17	Contractual Services - Other	361,855	0.56	46.68	(46.12)	(0.12636104)	(45,724)
18	Rents	23,807	0.56	27.28	(26.72)	(0.07321035)	(1,743)
19	Transportation	15,371	0.56	24.75	(24.19)	(0.06627884)	(1,019)
20	Insurance	11,720	0.56	(182.50)	183.06	0.50152937	5,878
21	Scottsdale Capacity (Operating Lease)	164,522	0.56	(15.00)	15.56	0.04262527	7,013
22	Miscellaneous	60,542	0.56	8.56	(8.00)	(0.02192268)	(1,327)
23	Interest Expense	44,433	0.56	14.71	(14.15)	(0.03877199)	(1,723)
26	TAXES						
27	General Taxes-Property[1]	$ 50,771	0.56	213.96	(213.40)	(0.58465784)	$ (29,683)
28	General Taxes-Other	-	0.56	-	0.56	0.00152937	-
29	Income Tax[1]	165,518	0.56	37.00	(36.44)	(0.09984049)	(16,525)
31	OTHER						
32	Regulatory Commission Expense	-	0.56	(136.54)	137.10	0.37561613	-
34	TOTAL	$ 1,547,641		WORKING CASH REQUIREMENT			$ (118,960)

[1]At proposed rates.

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Income Statement

Exhibit
Settlement Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 2,212,684	$ -	$ 2,212,684	$ 175,232	$ 2,387,916
3	Unmetered Water Revenues	16,067	-	16,067		16,067
4	Other Water Revenues	11,098	-	11,098		11,098
5		$ 2,239,848	$ -	$ 2,239,848	$ 175,232	$ 2,415,080
6	**Operating Expenses**					
7	Salaries and Wages	$ 242,213	-	$ 242,213		$ 242,213
8	Purchased WasteWater Treatment	5,647	-	5,647		5,647
9	Sludge Removal	-	-	-		-
10	Purchased Power	65,112	-	65,112		65,112
11	Fuel for Power Production	-	-	-		-
12	Chemicals	19,215	-	19,215		19,215
13	Materials and Supplies	23,875	-	23,875		23,875
14	Contractual Services - Professional	313,511	(31,921)	281,590		281,590
15	Contractual Services - Testing	8,117	3,334	11,451		11,451
16	Contractual Services - Other	361,855	-	361,855		361,855
17	Rents	23,807	-	23,807		23,807
18	Transportation	15,371	-	15,371		15,371
19	Insurance	11,720	-	11,720		11,720
20	Regulatory Commission	-	87,500	87,500		87,500
21	Scottsdale Capacity (Operating Lease)	164,522	-	164,522		164,522
22	Miscellaneous	60,542	-	60,542		60,542
23	Depreciation and Amortization	484,271	16,653	500,924		500,924
24	Taxes Other Than Income	-	-	-		-
25	Property Taxes	49,478	1	49,479	1,291	50,771
26	Income Taxes	131,980	(35,110)	96,869	68,649	165,518
27	**Total Operating Expenses**	$ 1,981,235	$ 40,457	$ 2,021,691	$ 69,940	$ 2,091,631
28	**Operating Income**	$ 258,613	$ (40,457)	$ 218,157	$ 105,292	$ 323,449
29	**Other Income (Expense)**					
30	Interest and Dividend Income	-	-	-		-
31	AFUDC Income	8,893	-	8,893		8,893
32	Miscellaneous Non-Utility Expenses	-	-	-		-
33	Interest Expense	(36,133)	(8,299)	(44,433)		(44,433)
34						
35	**Total Other Income (Expense)**	$ (27,240)	$ (8,299)	$ (35,540)	$ -	$ (35,540)
36	**Net Profit (Loss)**	$ 231,373	$ (48,756)	$ 182,617	$ 105,292	$ 287,909
37						
38	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
39	C-1, page 2				A-1	
40	E-2					
41						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Income Statement

Exhibit
Settlement Schedule C-1
Page 2
Witness: Bourassa

Line No.		LABEL>>>>> Test Year Adjusted Results	1 Depreciation	2 Property Taxes	3 Rate Case Expense	4 Reclassify Expenses	5 Corporate Costs Adjustment	6 Testing Expense	7 Interest Synch.	8 Income Taxes	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**												
2	Flat Rate Revenues	$ 2,212,684									$ 2,212,684	$ 175,232	$ 2,387,916
3	Metered Water Revenues	16,067									16,067		16,067
4	Other Water Revenues	11,098									11,098		11,098
5		$ 2,239,848	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,239,848	$ 175,232	$ 2,415,080
6	**Operating Expenses**												
7	Salaries and Wages	$ 242,213									$ 242,213		$ 242,213
8	Purchased Water	5,647									5,647		5,647
9	Sludge Removal	-									-		-
10	Purchased Power	65,112									65,112		65,112
11	Fuel for Power Production	-									-		-
12	Chemicals	19,215									19,215		19,215
13	Materials and Supplies	23,875									23,875		23,875
14	Contractual Services - Professional	313,511					(31,921)				281,590		281,590
15	Contractual Services - Testing	8,117						3,334			11,451		11,451
16	Contractual Services - Other	361,855									361,855		361,855
17	Rents	23,807									23,807		23,807
18	Transportation	15,371									15,371		15,371
19	Insurance	11,720									11,720		11,720
20	Regulatory Commission Expense	-			87,500						87,500		87,500
21	Scottsdale Capacity (Operating Lease)	164,522									164,522		164,522
22	Miscellaneous	60,542									60,542		60,542
23	Depreciation and Amortization	484,271	16,653								500,924		500,924
24	Taxes Other Than Income	-									-		-
25	Property Taxes	49,478		1							49,479	1,291	50,771
26	Income Taxes	131,980								(35,110)	96,869	68,649	165,518
27													
28	**Total Operating Expenses**	$ 1,981,235	$ 16,653	$ 1	$ 87,500	$ -	$ (31,921)	$ 3,334	$ -	$ (35,110)	$ 2,021,691	$ 69,940	$ 2,091,631
29	**Operating Income**	$ 258,613	$ (16,653)	$ (1)	$ (87,500)	$ -	$ 31,921	$ (3,334)	$ -	$ 35,110	$ 218,157	$ 105,292	$ 323,449
30	**Other Income (Expense)**												
31	Interest and Dividend Income	-									-		-
32	AFUDC Income	8,893									8,893		8,893
33	Miscellaneous Non-Utility Expenses	-									-		-
34	Interest Expense	(36,133)							(8,299)		(44,433)		(44,433)
35		-									-		-
36	**Total Other Income (Expense)**	$ (27,240)	$ -	$ -	$ -	$ -	$ -	$ -	$ (8,299)	$ -	$ (35,540)	$ -	$ (35,540)
37	**Net Profit (Loss)**	$ 231,373	$ (16,653)	$ (1)	$ (87,500)	$ -	$ 31,921	$ (3,334)	$ (8,299)	$ 35,110	$ 182,617	$ 105,292	$ 287,909
38													
39	SUPPORTING SCHEDULES:												
40	C-2												
41	E-2												

RECAP SCHEDULES:
C-1, page 1

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustments to Revenues and Expenses

Exhibit
Settlement Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	Subtotal
		Depreciation	Property Taxes	Intentionally Left Blank	Reclassify Expenses	Corporate Costs Adjustment	Testing Expense	
4	Revenues	-	-	-	-	-	-	-
6	Expenses	16,653	1	87,500	-	(31,921)	3,334	75,567
8 9	Operating Income	(16,653)	(1)	(87,500)	-	31,921	(3,334)	(75,567)
11 12	Interest Expense							-
13 14 15	Other Income / Expense							-
17	Net Income	(16,653)	(1)	(87,500)	-	31,921	(3,334)	(75,567)

Line No.		Adjustments to Revenues and Expenses						
		7	8	9	10	11	12	Subtotal
		Capitalized Expense	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	
25	Revenues	-	-	-	-	-	-	-
27	Expenses	-	(35,110)	-	-	-	-	40,457
29 30	Operating Income	-	35,110	-	-	-	-	(40,457)
32 33	Interest Expense	-						-
34 35 36	Other Income / Expense							-
38	Net Income	-	35,110	-	-	-	-	(40,457)

Line No.		Adjustments to Revenues and Expenses						
		13	14	15	16	17	18	Total
		Interest Synch.	Income Taxes	Intentionally left Blank	Intentionally left Blank	Intentionally left Blank	Intentionally left Blank	
46	Revenues	-	-					-
48	Expenses	-	-		-			40,457
50 51	Operating Income	-	-	-	-	-	-	(40,457)
53 54	Interest Expense	(8,299)						(8,299)
55 56 57	Other Income / Expense		-					-
59	Net Income	(8,299)	-	-	-	-	-	(48,756)

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Settlement Schedule C-2
Page 2
Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Adjusted Original Cost	Non-Depr. or Fully Depr. Plant	Depr Original Cost	Proposed Rates	Depreciation Expense
1	351	Organization	-		-	0.00%	-
2	352	Franchise	-		-	0.00%	-
3	353	Land	472,524	(472,524)	-	0.00%	-
4	354	Structures & Improvements	2,939,259		2,939,259	3.33%	97,877
5	355	Power Generation	3,839		3,839	5.00%	192
6	360	Collection Sewer Forced	1,130,430		1,130,430	2.00%	22,609
7	361	Collection Sewers Gravity	4,555,181		4,555,181	2.00%	91,104
8	362	Special Collecting Structures	-		-	2.00%	-
9	363	Customer Services	260,435		260,435	2.00%	5,209
10	364	Flow Measuring Devices	31,668	(31,668)	-	10.00%	-
11	365	Flow Measuring Installations	180,051		180,051	10.00%	18,005
12	366	Reuse Services	-		-	2.00%	-
13	367	Reuse Meters And Installation	-		-	8.33%	-
14	370	Receiving Wells	1,028,182		1,028,182	3.33%	34,238
15	371	Pumping Equipment	1,023,485	(552,393)	471,092	12.50%	58,887
16	374	Reuse Distribution Reservoirs	-		-	2.50%	-
17	375	Reuse Trans. and Dist. System	-		-	2.50%	-
18	380	Treatment & Disposal Equipment	320,285		320,285	5.00%	16,014
19	381	Plant Sewers	124,527	(124,527)	-	5.00%	-
20	382	Outfall Sewer Lines	-		-	3.33%	-
21	389	Other Sewer Plant & Equipment	959,832		959,832	6.67%	64,021
22	390	Office Furniture & Equipment	227,290		227,290	6.67%	15,160
23	390.1	Computers and Software	62,224		62,224	20.00%	12,445
24	391	Transportation Equipment	80,215	(52,063)	28,151	20.00%	5,630
25	392	Stores Equipment	-		-	4.00%	-
26	393	Tools, Shop And Garage Equip	28,942		28,942	5.00%	1,447
27	394	Laboratory Equip	10,683		10,683	10.00%	1,068
28	395	Power Operated Equipment	-		-	5.00%	-
29	396	Communication Equip	103,290		103,290	10.00%	10,329
30	397	Miscellaneous Equip.	-		-	10.00%	-
31	398	Other Tangible Plant - Scottsdale Capacity	486,294		486,294	10.00%	48,629
32	903	Land and Land Rights	8,420	(8,420)	-	0.00%	-
33	904	Structures and Improvments	75,829		75,829	2.56%	1,941
34	940.1	Computers and Software	13,207		13,207	20.00%	2,641
35							
36		TOTALS	$ 14,126,094	$ (1,241,595)	$ 12,884,499		$ 507,447
37							
38	Deferred Regulatory Asset		$ 825,080	$ -	$ 825,080	5.00%	41,254
39							
40	Less: Amortization of Contributions						
41							
42			Gross CIAC	FullY Amortized CIAC	Net CIAC	Amort. Rate	
43			$ 6,445,253	$ (5,232,139)	$ 1,213,114	3.9384%	$ (47,778)
44							
45			$ 6,445,253	$ (5,232,139)	$ 1,213,114		
46	Total Depreciation Expense						$ 500,924
47							
48	Adjusted Test Year Depreciation Expense						$ 484,271
49							
50	Increase (decrease) in Depreciation Expense						$ 16,653
51							
52	Adjustment to Revenues and/or Expenses						$ 16,653
53							
54	SUPPORTING SCHEDULE						
55	B-2, page 3						
56	Work papers						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Settlement Schedule C
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 2,239,848	$ 2,239,848
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	4,479,696	4,479,696
4	Company Recommended Revenue	2,239,848	2,415,080
5	Subtotal (Line 4 + Line 5)	6,719,544	6,894,776
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	2,239,848	2,298,259
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	4,479,696	4,596,518
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	3,406	3,406
12	Full Cash Value (Line 9 + Line 10 - Line 11)	4,476,290	4,593,112
13	Assessment Ratio	18.0%	18.0%
14	Assessment Value (Line 12 * Line 13)	805,732	826,760
15	Composite Property Tax Rate - Obtained from ADOR	6.1409%	6.1409%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 49,479	$ 50,771
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	$ 49,479	
19	Test Year Property Taxes	$ 49,478	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	**$ 1**	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 50,771
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 49,479
24	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 1,291**
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 1,291
27	Increase in Revenue Requirement		$ 175,232
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		0.73691%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Settlement Schedule C-2
Page 4
Witness: Bourassa

Rate Case Expense

Line No.			
1			
2	Total Rate Case Expense	$	350,000
3			
4	Amortization Period (years)		4
5			
6	Annual Amortization	$	87,500
7			
8	Adjusted Test Year Rate Case Expense		-
9			
10	Increase (descrease) in Regulatory Commission Expensee	$	87,500
11			
12			
13	Adjustment to Revenue and/or Expense	$	87,500
14			
15			
16			
17			
18			
19			
20			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Settlement Schedule C-2
Page 5
Witness: Bourassa

Reclassify Expenses

Line No.			
1	Reduce Salaries and Wages	$	(242,213)
2			
3	Increase Contractual Services - Professional		242,213
4			
5	Increase (decrease) in Expenses	$	-
6			
7			
8			
9			
10	Adjustment to Revenue and/or Expense		-
11			
12	Reference		
13	Testimony		
14			
15			
16			
17			
18			
19			
20			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Settlement Schedule C-2
Page 6
Witness: Bourassa

Corporate Cost Allocation (Non-Labor) Adjustment

Line No.			
1	Liberty Utilities (Sub) Corp	$ 84,790	
2	APUC/Liberty Utilities Canada	37,815	
3	Revised Coporate Cost Allocation		$ 122,605
4			
5	Allocated Corporate Costs Recorded in Test Year	$ 165,389	
6	Direct Filing Adjustment	(10,863)	
7	Adjusted Allocated Corporate Costs		$ 154,526
8			
9	Increase (decrease) in Corporate Allocation		$ (31,921)
10			
11			
12	Adjustment to Contractual Services - Professional		$ (31,921)
13			
14			
15	Adjustment to Revenue and/or Expense		(31,921)
16			
17	Reference		
18	Testimony		
19	Work Papers		
20			
21			
22			
23			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Settlement Schedule C-2
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Witness: Bourassa

Testing Expense

Line No.			
1			
2	Staff recommended Water Testing Expense	$	11,451
3			
4	Adjusted Test Year Water Testing Expense		8,117
5			
6	Increase(decrease) to Contractual Services - Testing	$	3,334
7			
8			
9	Adjustment to Revenue and/or Expense	$	3,334
10			
11	Reference		
12	Testimony		
13			
14			
15			
16			
17			
18			
19			
20			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Settlement Schedule C
Page 8
Witness: Bourassa

Interest Synchronization

Line No.			
1			
2			
3			
4	Fair Value Rate Base	$ 4,195,730	
5	Weighted Cost of Debt	1.06%	
6	Interest Expense		$ 44,433
7			
8	Test Year Interest Expense		$ 36,133
9			
10	Increase (decrease) in Interest Expense		8,299
11			
12			
13			
14	Adjustment to Revenue and/or Expense		$ (8,299)
15			
16			
17	Weighted Cost of Debt Computation		
18	Pro forma Capital Structure		Weighted
19		Percent	Cost	Cost
20	Debt	30.00%	3.53%	1.06%
21	Equity	70.00%	9.50%	6.65%
22	Total	100.00%		7.71%
23				
24				
25				
26				
27				
28				
29				
30				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and/or Expenses
Adjustment Number 8

Exhibit
Settlement Schedule C-2
Page 9
Witness: Bourassa

Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Compauted Income Tax	$ 96,869	$ 165,518
5	Test Year Income tax Expense	-	96,869
6	Adjustment to Income Tax Expense	$ 96,869	$ 68,649
7			
8			
9			
10			
11			
12			
13	SUPPORTING SCHEDULE		
14	C-3, page 2		
15			
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Computation of Gross Revenue Conversion Factor

Exhibit
Settlement Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Effective Income Tax Rate	34.567%
2		
3	State Effective Income Tax Rate	4.900%
4		
5	Property Taxes	0.446%
6		
7		
8	Total Tax Percentage	39.913%
9		
10	Operating Income % = 100% - Tax Percentage	60.087%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.6642
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
28	C-3, page 2	A-1
29		
30		
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42		

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014

Exhibit
Settlement Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	[E]	[F]
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	Uncollecible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.9126%					
5	Subtotal (L3 - L4)	60.0874%					
6	**Revenue Conversion Factor (L1 / L5)**	1.664242					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	39.4665%					
9	One Minus Combined Income Tax Rate (L7 - L8)	60.5335%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	4.9000%					
14	Federal Taxable Income (L12 - L13)	95.1000%					
15	Applicable Federal Income Tax Rate (L55, Col E)	36.3475%					
16	Effective Federal Income Tax Rate (L14 x L15)	34.5665%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		39.4665%				
	Calculation of Effective Property Tax Factor						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	39.4665%					
20	One Minus Combined Income Tax Rate (L18-L19)	60.5335%					
21	Property Tax Factor	0.7369%					
22	Effective Property Tax Factor (L20*L21)		0.4461%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.9126%			
24	Required Operating Income	$ 323,449					
25	AdjustedTest Year Operating Income (Loss)	$ 218,157					
26	Required Increase in Operating Income (L24 - L25)		$ 105,292				
27	Income Taxes on Recommended Revenue (Col. (E), L52)	$ 165,518					
28	Income Taxes on Test Year Revenue (Col. (B), L54)	$ 96,869					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 68,649				
30	Recommended Revenue Requirement	$ 2,415,080					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	$ -					
33	Adjusted Test Year Uncollectible Expense	$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ -				
35	Property Tax with Recommended Revenue	$ 50,771					
36	Property Tax on Test Year Revenue	$ 49,479					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 1,291				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 175,232				

Line No.	Description	(A) Test Year Total	(B) Test Year Sewer	(C)	(D) Company Recommended Total	[E] Company Recommended Sewer	[F]
	Calculation of Income Tax:						
39	Revenue	$ 2,239,848	$ 2,239,848		$ 2,415,080	$ 2,415,080	
40	Operating Expenses Excluding Income Taxes	$ 1,924,822	$ 1,924,822		$ 1,926,113	$ 1,926,113	
41	Synchronized Interest (L47)	$ 44,433	$ 44,433		$ 44,433	$ 44,433	
42	Arizona Taxable Income (L39 - L40 - L41)	$ 270,593	$ 270,593		$ 444,535	$ 444,535	
43	Arizona State Effective Income Tax Rate (see work papers)	4.9000%	4.9000%		4.9000%	4.9000%	
44	Arizona Income Tax (L42 x L43)	$ 13,259	$ 13,259		$ 21,782	$ 21,782	
45	Federal Taxable Income (L42- L44)	$ 257,334	$ 257,334		$ 422,753	$ 422,753	
46							
47	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 7,500	$ 7,500		$ 7,500	$ 7,500	
48	Federal Tax on Second Income Bracket ($50,001 - $75,000) @ 25%	$ 6,250	$ 6,250		$ 6,250	$ 6,250	
49	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500	$ 8,500		$ 8,500	$ 8,500	
50	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 61,360	$ 61,360		$ 91,650	$ 91,650	
51	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -	$ -		$ 29,836	$ 29,836	
52							
53	Total Federal Income Tax	$ 83,610	$ 83,610		$ 143,736	$ 143,736	
54	Combined Federal and State Income Tax (L35 + L42)	$ 96,869	$ 96,869		$ 165,518	$ 165,518	

Line No.	Description	(D)	[E]	[F]
55	COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / [Col. [D], L45 - Col. [A], L45]	36.3475%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L53] / [Col. [E], L45 - Col. [B], L45]		36.3475%	
57	WATER Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Col. [F], L45 - Col. [C], L45]			0.0000%

Line No.	Description	Sewer	
	Calculation of Interest Synchronization:		
58	Rate Base	$ 4,195,730	
59	Weighted Average Cost of Debt	1.0590%	
60	Synchronized Interest (L45 X L46)	$ 44,433	

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Summary of Cost of Capital

Exhibit
Settlement Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	Adjusted End of Test Year: Percent of Total	Adjusted End of Test Year: Cost Rate	Adjusted End of Test Year: Weighted Cost	Projected Capital Structure: Percent of Total	Projected Capital Structure: Cost Rate	Projected Capital Structure: Weighted Cost
1	Long-Term Debt	0.00%	0.00%	0.00%	30.00%	3.53%	1.06%
2							
3	Stockholder's Equity	100.00%	9.50%	9.50%	70.00%	9.50%	6.65%
4							
5	Totals	100.00%		9.50%	100.00%		7.71%
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22	SUPPORTING SCHEDULES:						
23	D-2						
24	D-3						
25	D-4						
26	Testimony						
27							
28							
29							
30							

Liberty Utilities (Black Mountain Sewer) Corp.
Revenue Summary
With Annualized Revenues to Year End Number of Customers
Test Year Ended December 31, 2014

Exhibit
Settlement Schedule H-1
Witness: Bourassa

Line No.	Customer Classification	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	1,522,310	1,855,053	332,743	21.86%	20.41%	24.30%
2	Residential HOA (11 units)	8,612	10,494	1,882	21.86%	0.12%	0.14%
3	Residential HOA (12 units)	9,395	11,448	2,053	21.86%	0.13%	0.15%
4	Residential HOA (25 units)	19,572	23,850	4,278	21.86%	0.26%	0.31%
5	Apartment (gpd rate)	63,950	-	(63,950)	-100.00%	0.86%	0.00%
6	Residential Apartment (8 units)	-	7,632	7,632	0.00%	0.00%	0.10%
7	Residential Apartment (10 units)	-	9,540	9,540	0.00%	0.00%	0.12%
8	Residential Apartment (74 units)	-	70,596	70,596	0.00%	0.00%	0.92%
9	Commercial	578,108	387,042	(191,066)	-33.05%	7.75%	5.07%
10							
11	Effluent	5,233,414	5,233,414	-	0.00%	70.18%	68.57%
12							
13							
14							
15							
16							
17	Subtotal	7,435,360	7,609,069	173,709	2.34%	99.71%	99.69%
18							
19	Revenue Annualization						
20	Residential	9,786	11,925	2,139	21.86%	0.13%	0.16%
21							
22	Misc Service Revenues						
23	Misc Revenues	11,098	11,098	-	0.00%	0.15%	0.15%
24	Reconciling Amount to C-1	952	336	(616)	-64.71%	0.01%	0.00%
25	Totals	7,457,195	7,632,428	175,232	2.35%	100.00%	100.00%
26							
27							
28							
29							
30							
31							
32							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Analysis of Revenue by Detailed Class
Special Rate Commercial Customers Pay Standard Commerical Rate

Settlement Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers at 12/31/2014[1]	Average Number of Customers at 12/31/2014[2]	Average WW Flow (gpd)	Average Gallons (1,000's)	Average Bill Present Rates[1]	Average Bill Proposed Rates[2]	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	Residential	1,957	1,957	N/A	N/A	$ 65.24	$ 79.50	$ 14.26	21.86%
2	Residential HOA (11 units)	1	1	N/A	N/A	717.64	874.50	157	21.86%
3	Residential HOA (12 units)	1	1	N/A	N/A	782.88	954.00	171	21.86%
4	Residential HOA (25 units)	1	1	N/A	N/A	1,631.00	1,987.50	357	21.86%
5	Apartment (gpd rate)	3	NA	6,475	N/A	1,610.55	N/A		
6	Residential Apartment (8 units)	1	1	2,000	N/A	497.47	636.00	139	27.85%
7	Residential Apartment (10 units)	1	1	2,400	N/A	596.96	795.00	198	33.17%
8	Residential Apartment (74 units)	1	1	17,025	N/A	4,234.70	5,883.00	1,648	38.92%
9									
10	Commercial	120	128	1,612	32,613	401.00	251.98	(149.02)	-37.16%
11									
12									
13	Effluent	1	1	N/A	2,907,452	$ 436,118	$ 436,118	-	0.00%
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24	Total	2,087	2,092						
25									
26									

27 [1] Using current gpd ratings

28 [2] Residential customer bills (including apartments) reflect a flat rate while commercial customer bills reflect both a flat rate plus water usage. Some commercial locations
29 consolidated into one account because there is only one water meter at the location.

Liberty Utilities (Black Mountain Sewer) Corp.
Present and Proposed Rates
Test Year Ended December 31, 2014

Exhibit
Settlement Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification	Present Rates		Proposed Rates		Dollar Change	Percent Change
4	**Monthly Service Charge:**						
5	Residential, per single family unit	$ 65.24		$ 79.50		$ 14.26	21.86%
7	Commercial	NT		$ 85.00			
9	**Commodity Rate:**						
11	Commercial, per gallon per day[1]	$ 0.24873		Remove			
13	Commercial, per 1,000 gals[2]	NT		$ 5.120			
15		per acre foot	per 1,000 gals	per acre foot	per 1,000 gals		
16	Effluent Charge	$ 150.00	$ 0.460512	$ 150.00	$ 0.460512		
18	Effuent Add-on Charge [3]	NT	NT	$ 393.00	$ 1.206073		
20	Total Effluent Charge [3]	NT	NT	$ 543.00	$ 1.666585		

28 NT = no tariff

30 [1] Commercial wastewater flows are based on the average daily flows set forth in Engineering Bulletin 12, Table 1
31 published by the Arizona Department of Environmental Quality
32 [2] Monthly water usage provided by Town of Carfree and City of Scottsdale.
33 [3] Effluent Add-on charge is for recovery of approximately $108,804 of plant closure costs not recognized in residential and commercial rates an
34 will be discontinued after the amount is recovered.

Liberty Utilities (Black Mountain Sewer) Corp.
Present and Proposed Rates
Test Year Ended December 31, 2014

Exhibit
Settlement Schedule H-3
Page 2
Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	$ 25.00	$ 25.00
2	Re-establishment	$ 25.00	[1]
3	Re-connection	No Charge	Remove
4	Re-connection, Deliquent	NT	[2]
5	After hours service [4]	NT	$ 50.00
6	Min Deposit Requirement (Residential)	[3]	[3]
7	Min Deposit Requirement (Non-Residential)	[3]	[3]
8	Deposit Interest	6%	6%
9	NSF Check	10.00	10.00
10	Deferred Payment finance charge, Per Month	1.50%	1.50%
11	Late Payment Charge, Per Month	1.50%	Greater of $5.00 or 1.50% per month on unpaid balance.
12			
13	Main Extension Tariff	Cost[5]	Cost[5]
14	Off-Site Facilities Hook-up Fee	per Tariff	per Tariff
15			
16			
17	[1] Per A.A.C. R14-2-603.D, Within 12 months. Residential and non-residential customers shall pay the applicable minimum charge		
18	times the number of months disconnected.		
19			
20	[2] Customer shall pay the actual cost of physical disconnection and establishment (if same customer) and		
21	there shall be no charge for disconnection if no physical work is performed.		
22			
23	[3] Per A.A.C. R14-2-603.B Residential - two times the average bill. Non-residential - two and one-half times the average bill.		
24			
25	[4] After Hours Service Charge applies to all services performed after regular business hours at the customer's request or for the customer's		
26	convenience.		
27			
28	[5] Per A.A.C. R14-2-606.B		
29			
30			
31			
32			
33			
34			
35			
36	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
37	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
38	TAX. PER COMMISSION RULE (14-2-608.D 5).		
39	ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,		
40	AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES.		
41	COST TO INCLUDE LABOR, MATERIALS AND PARTS, OVERHEADS AND ALL APPLICABLE TAXES.		
42			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Capacity Reservation Charges

Exhibit
Settlement Schedule H-3
Page 3
Witness: Bourassa

Line No.					
1					
2	**Off-site Facilities Hook-up Fee**				
3					
4					
5	Lateral Service Size		Present		Proposed
6	4 Inch	$	1,734.00		remove
7	6 Inch	$	3,901.00		remove
8	8 Inch	$	6,936.00		remove
9	10 Inch	$	10,837.00		remove
10					
11	Per rated ERU (1)		N/T	$	1,700.00
12					
13					
14					
15					
16					
17	(1) ERU = Equivalent Residential Unit and is equivalnet to 400 gallons per day (gpd).				
18					
19	N/T = No Tariff				
20					

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Part Two – Statement of Terms and Conditions ..... Sheet No. 5

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III. Wastewater Hook-up Fee ..... Sheet No. 9

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ISSUED BY:
Matthew Garlick, President
Liberty Utilities (Black Mountain Sewer) Corp.
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

EXHIBIT
A-6
ADMITTED

Applies to all **WASTEWATER** service areas

PART ONE
STATEMENT OF CHARGES

I. RATES

In Decision No. _____, issued _____, 2016, the Commission approved the following rates and charges to become effective _____:

MONTHLY CHARGE

Description	Rate
Residential Service	$79.50
Commercial Service	$85.00
Commercial – Per 1,000 gallons used[1]	$5.12
Effluent Sales - Per 1,000 gallons	$0.460512
Per acre foot	$150.00
Effluent Add-On Charge[2]	$393.00
Total Effluent Charge[2]	$543.00

[1] Company shall bill non-residential customers based on actual water usage data provided by the Town of Carefree, the City of Scottsdale and Cave Creek Water Company. If, at any point, Company is unable to obtain actual water usage data for non-residential customers, Company shall bill non-residential customers based on the last known, most recent usage data as a proxy. Billing shall be trued up when actual data is obtained.

[2] Effluent add-on charge is for recovery of approximately $108,804 of plant closure costs not recognized in residential and commercial rates and will be discontinued after the amount is recovered.

Issued: _____ Effective: _____

ISSUED BY:
Matthew Garlick, President
Liberty Utilities (Black Mountain Sewer) Corp.
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

Applies to all **WASTEWATER** service areas

PART ONE
STATEMENT OF CHARGES

II. TAXES AND ASSESSMENTS

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).

ISSUED BY:
Matthew Garlick, President
Liberty Utilities (Black Mountain Sewer) Corp.
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

Applies to all **WASTEWATER** service areas

PART ONE

STATEMENT OF CHARGES

III. ADDITIONAL CHARGES

A.	Establishment—Regular Hours	$25.00
B.	Re-Establishment (within 12 months)	(1)
C.	Reconnection—Delinquent	(2)
D.	After-Hours Service Charge	$50.00; (3)
E.	Minimum Deposit—Residential	Two times average bill
F.	Minimum Deposit—Non-Residential	Two and one-half times average bill
G.	Deposit Interest	6.00%
H.	NSF Check Charge	$10.00
I.	Deferred Payment Finance Charge	1.50% per month
J.	Late Charge	Greater of $5.00 or 1.50% per month on unpaid balance
K.	Main Extension Tariff Per A.A.C. R14-2-606(B)	Cost
L.	Off-Site Facilities Hook-Up Fee	Per Hook-Up Fee Tariff

(1) Per A.A.C. R14-2-603(D), residential and non-residential customers shall pay applicable minimum monthly charge times number of months disconnected.

(2) A delinquent customer who has been disconnected from the utility and desires to be reconnected shall pay the actual cost of disconnection and the actual cost of reconnection. There shall be no charge for disconnection if no physical work was performed.

(3) The after-hours service charge applies to all services performed after regular business hours at the customer's request or for the customer's convenience.

ISSUED BY:
Matthew Garlick, President
Liberty Utilities (Black Mountain Sewer) Corp.
12725 W. Indian School Road, Suite D-101
Avondale, AZ 85392

Applies to all **WASTEWATER** service areas
PART ONE
STATEMENT OF CHARGES

IV. PERMITTED COSTS

A. Costs shall be verified by invoice.

B. For services that are provided by Company at cost, costs shall include labor, materials, other charges incurred, and overhead. However, prior to any such service being provided, the estimated cost of such service will be provided by Company to the customer. After review of the cost estimate, the customer will pay the amount of the estimated cost to Company.

C. In the event that the actual cost is less than the estimated cost, Company will refund the excess to the customer within 30 days after completion of the provision of the service or after Company's receipt of invoices, timesheets or other related documents, whichever is later.

D. In the event the actual cost is more than the estimated cost, Company will bill the customer for the amount due within 30 days after completion of the invoices, timesheets or other related documents, whichever is later. The amount so billed will be due and payable 30 days after the invoice date.

E. At the customer's request, Company shall make available to the customer all invoices, timesheets or related documents that support the cost for providing such service.

F. Permitted costs shall include any Federal, State or local taxes that are or may be payable by Company as a result of any tariff or contract for wastewater facilities under which the Customer advances or contributes funds or facilities to Company.

Applies to all **WASTEWATER** service areas

PART TWO
STATEMENT OF TERMS AND CONDITIONS

I. CUSTOMER DISCHARGE TO SYSTEM

A. Service Subject to Regulation

Company provides wastewater service using treatment and collection facilities that are regulated by numerous county, state and federal statutes and regulations. Those regulations include limitations as to domestic strength wastewater and the type of wastewater that may be discharged into the system by any person directly or indirectly connected to the plant.

B. Waste Limitations

Company has established the permissible limits of concentration as domestic strength wastewater and will limit concentration for various specific substances, materials, waters, or wastes that can be accepted in the sewer system, and to specify those substances, materials, waters, or wastes that are prohibited from entering the sewer system. Each permissible limit so established shall be placed on file in the business office of Company, with a copy filed with the Commission. No person shall discharge, or cause to be discharged, any new sources of inflow including, but not limited to, storm water, surface water, groundwater, roof runoffs, subsurface drainage, cooling water, or polluted industrial process waters into the sanitary sewer. Company will require an affidavit from all non-residential customers, and their professional engineer, stating that the wastewater discharged to the system does not exceed domestic strength or applicable pre-treatment standards.

Applies to all **WASTEWATER** service areas

PART TWO
STATEMENT OF TERMS AND CONDITIONS

I. CUSTOMER DISCHARGE TO SYSTEM (cont.)

C. Inspection and Right of Entry

Every facility that is involved directly or indirectly with the discharge of wastewater to the Treatment Plant may be inspected by Company as it deems necessary. These facilities shall include but not be limited to sewer; sewage pumping plants; all processes; devices and connection sewer; and all similar sewerage facilities. Inspections may be made to determine that such facilities are maintained and operated properly and are adequate to meet the provisions of these rules and this tariff. Inspections may include the collection of samples. Authorized personnel of Company shall be provided immediate access to all of the above facilities or to other facilities directly or indirectly connected to the Treatment Plant at all reasonable times including those occasioned by emergency conditions. Any permanent or temporary obstruction to easy access to the user's facility to be inspected shall promptly be removed by the facility user or owner at the written or verbal request of Company and shall not be replaced. No person shall interfere with, delay, resist or refuse entrance to an authorized Company representative attempting to inspect any facility involved directly or indirectly with a discharge of wastewater to the Treatment Plant. Adequate identification shall be provided by Company for all inspectors and other authorized personnel and these persons shall identify themselves when entering any property for inspection purposes or when inspecting the work of any contractor.

All transient motor homes, travel trailers and other units containing holding tanks must arrive at the Company's service area in an empty condition. Inspection will be required of said units prior to their being allowed to hookup to the wastewater system.

Applies to all **WASTEWATER** service areas

PART TWO
STATEMENT OF TERMS AND CONDITIONS

II. RULES AND REGULATIONS

Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. A.A.C. R14-2-601 through A.A.C. R14-2-609 will be controlling of Company procedures, unless specifically approved tariffs or Commission Order(s) provide otherwise.

Applies to all **WASTEWATER** service areas

PART THREE
OFF-SITE FACILITIES HOOK-UP FEE

I. Purpose and Availability

The purpose of the off-site facilities hook-up fees payable to **Liberty Utilities (Black Mountain Sewer) Corp.** ("Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide wastewater treatment and disposal facilities among all new service laterals. These charges are applicable to all new service laterals undertaken via Collection Main Extension Agreements, or requests for service not requiring a Collection Main Extension Agreement, entered into after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-601 of the Arizona Corporation Commission's ("Commission") rules and regulations governing sewer utilities shall apply interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of wastewater facilities to serve new service laterals, and may include developers and/or builders of new residential subdivisions, and non-residential properties.

"Company" means Liberty Utilities (Black Mountain Sewer) Corp.

"Collection Main Extension Agreement" means an agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of wastewater facilities necessary to serve new service laterals, or install wastewater facilities to serve new service laterals and transfer ownership of such wastewater facilities to Company, which agreement does not require the approval of the Commission pursuant to A.A.C. R-14-2-606, and shall have the same meaning as "Wastewater Facilities Agreement."

"Off-Site Facilities" means the wastewater treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenances necessary for proper operation, including engineering and design costs. Off-site facilities may also include lift stations, force mains,

transportation mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the Applicant and benefit the entire wastewater system.

"Service Lateral" means and includes all service laterals for single-family residential, commercial, industrial or other uses.

III. Wastewater Hook-up Fee

For each new residential service lateral, Company shall collect a Hook-Up Fee of $1,700 based on the Equivalent Residential Unit ("ERU") of 400 gallons per day. Non-residential applicants shall pay based on the total ERUs of their development calculated by dividing the estimated total daily wastewater capacity usage needed for service using standard engineering standards and criteria by the ERU factor of 400 gallons per day.

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Facilities Hook-up Fee: The off-site facilities hook-up fee may be assessed only once per parcel, service lateral, or lot within a subdivision (similar to a service lateral installation charge). If a development or subdivision is upsized or expanded by Applicant, Builder and/or Developer after assessment of Hook-Up Fees by Company, Company may charge additional Hook-Up Fees for such upsizing or expansion by Applicant based on the calculation set forth above.

(B) Use of Off-Site Facilities Hook-up Fee: Off-site facilities hook-up fees may only be used to pay for capital items of off-site facilities or for repayment of loans obtained to fund the cost of installation of off-site facilities. Off-site hook-up fees shall not be used to cover repairs, maintenance, the cost of closing wastewater treatment plant, including lift stations, or other operational purposes. Company shall record amounts collected under the tariff as CIAC; however, such amounts shall not be deducted from rate base until such amounts have been expended for plant.

(C) Time of Payment:

(1) In the event that the person or entity that will be constructing improvements ("Applicant," "Developer," or "Builder") is otherwise required to enter into a Collection Main Extension Agreement, payment of the fees required hereunder shall be made by the Applicant, Developer or Builder within 15 days of execution of a Main Extension Agreement or as otherwise mutually agreed between Applicant and Company.

(2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Collection Main Extension Agreement, the hook-up fee charges hereunder shall be due and payable at the time wastewater service is requested for the property.

(D) Off-Site Facilities Construction by Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Developer or Builder shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: Company will not be obligated to make an advance commitment to provide or actually provide wastewater service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will Company connect service or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Off-Site Hook-Up Fees Non-refundable: The amounts collected by Company pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction ("CIAC").

(G) Use of Off-Site Hook-Up Fees Received: All funds collected by Company as off-site facilities hook-up fees shall be deposited into a separate account and bear interest and shall be used solely for the purposes of paying for the costs of installation of off-site facilities, including repayment of loans obtained for the installation of off-site facilities.

(H) Off-Site Facilities Hook-Up Fee in Addition to On-site Facilities: The off-site facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Collection Main Extension Agreement.

(I) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site facilities hook-up fees, or if the off-site facilities hook-up fee has been terminated by order of the Arizona Corporation Commission,

any funds remaining in the trust account shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(J) Status Reporting Requirements to the Commission: Company shall submit a calendar year Off-Site Facilities Hook-Up Fee status report each January to Docket Control for the prior twelve (12) month period, beginning January 201_, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the physical location/address of the property in respect of which such fee was paid, the amount of money spent from the account, the amount of interest earned on the funds within the tariff account, and an itemization of all facilities that have been installed using the tariff funds during the 12 month period.

Applies to all **WASTEWATER** service areas

SPECIAL TARIFF FOR BREWERIES

In Decision No. _____, issued _____, 2016, the Commission approved rates and charges for Liberty Utilities (Black Mountain Sewer) Corp. ("Company") to become effective _____. This special tariff applies only to breweries as defined herein.

Under this tariff, "brewery" is defined as any establishment or facility, or portion thereof, for brewing beer or other malt liquors. This tariff is limited to the customer establishment or facility, or portion thereof, for the brewing of beer or other malt liquors and does not apply to any customer establishments or facilities providing food or beverage service to customers, which will be billed under the Company's general commercial service rates. Under this special tariff, customers will be subject to the Company's standard charges, fees, and terms and conditions set forth in the Company's approved commercial tariff for wastewater service. Breweries also will be subject to compliance with applicable Company pretreatment standards or tariffs, including discharge limits and other standards and/or requirements governing discharge of wastewater to the Company's wastewater collection and treatment system, including as may be amended by the Company and approved by the Commission.

Company shall bill non-residential customers based on actual water usage data provided by the Town of Carefree, the City of Scottsdale and/or Cave Creek Water Company. Under this special tariff, Company shall bill breweries for 70% of the actual water usage provided by the Town of Carefree, City of Scottsdale and/or Cave Creek Water Company for the brewery facility. To utilize this tariff, a brewery customer will need to have a separate water meter for the brewery facility or establishment.

MONTHLY CHARGES

Description	Rate
Brewery (Monthly Charge)	$85.00
Brewery – Per 1,000 gallons used (applied to 70% per 1,000g used)	$5.12

Liberty Utilities
WATER | GAS | ELECTRIC

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

INDUSTRIAL PRETREATMENT PROGRAM

SEPTEMBER, 2015

LIBERTY UTILITIES
12725 W. Indian School Road, Suite D101,

Avondale, AZ 85392

PRETREATMENT PROGRAM

The objective of a Pretreatment Program (the General Pretreatment Regulations (40 CFR, Part 403) of Clean Water Act of 1977) is to protect the water quality and is designed to reduce the level of pollutants discharged by industry and other non-domestic wastewater sources into municipal sewer systems, and thereby, reduce the amount of pollutants released into the environment through wastewater. Liberty Utilities (Black Mountain Sewer) Corp. ("Liberty Black Mountain") enforces requirements of the pretreatment program by enforcing the EPA established limits and the state or local authority on the amount of pollutants allowed to be discharged. This requires dischargers to treat their wastewater prior to its discharge in Liberty Black Mountain's collection system.

Specific objectives of this ordinance are outlined below:

1. To prevent the introduction of pollutants into Liberty Black Mountain's wastewater collection system that will interfere with the operation of the system, including the City of Scottsdale WWTP, or contaminate the resulting sludge.
2. To prevent the introduction of pollutants into the Liberty Black Mountain wastewater collection system that will pass through the system, inadequately treated, into receiving waters or the atmosphere or otherwise be incompatible with the system.
3. To improve the opportunity to recycle and reclaim waste waters and sludges from the system.
4. To provide for equitable distribution of the cost of operating and maintaining the Liberty Black Mountain's wastewater system.

Liberty Black Mountain will enforce these standards by limiting the following discharges and will review pretreatment prior to approval of a discharge into its wastewater system:

1. Discharge of any liquids, solids or gases that by reason of their nature or quantity are, or may be, sufficient either alone or by interaction to cause fire or explosion or be injurious in any other way to the operation of the Liberty Black Mountain wastewater collection system or City of Scottsdale WWTP, or the integrity of the sewer system or cause a danger to the public health or safety is prohibited. This prohibition includes but is not limited to waste streams with a closed cup flash point of less than one hundred forty degrees Fahrenheit or sixty degrees Centigrade using the test methods specified in federal regulations, 40 CFR 261.21.
2. Discharge of any solid or viscous substances that will or may cause obstruction to the flow in a sewer or other interference with the operation of the wastewater system is prohibited.
3. Any trucked or hauled pollutants, unless the hauler has first obtained written approval from Liberty Black Mountain.
4. Discharge of any wastewater having a pH less than 5.5 or greater than 10.5 SU, or having any other corrosive property capable of causing damage or hazard to

structures, equipment, or personnel of the system, or interference with the operation of the City of Scottsdale WWTP is prohibited.

5. Discharge of any wastewater containing hazardous substances, toxic, conventional, or non conventional pollutants in sufficient quantity, either singly or by interaction, which could injure or interfere with any wastewater treatment process, constitutes a health or safety hazard to humans or animals, or exceed the limitations set forth in the LOCAL REGULATORY LIMITS or the categorical pretreatment standards appropriate for the specific industrial user is prohibited. Hazardous substances, toxic, conventional or non conventional pollutants will include, but not be limited to, any pollutant identified in 40 CFR 122 Appendix D Tables II, III, IV, AND V (AZPDES Permit Limits that are applicable), or substances alone or in combination with other constituents that are determined to be toxic by the toxicity test as defined in 40 CFR Part 136 for wastewater or the toxicity characteristic leaching procedure (TCLP) test as defined in 40 CFR Part 261 for biosolids.
6. Discharge of any noxious or malodorous liquids, gases or solids which, either singly or by interaction, are capable of creating a public nuisance or hazard to life or are sufficient to prevent entry into the sewers without special hazardous material protective equipment or clothing for their maintenance and repair is prohibited.
7. Discharge of any substance which may cause the City of Scottsdale WWTP effluent or treatment residues, biosolids or scum to be unsuitable for reclamation and reuse or which may interfere with such reclamation and reuse process is prohibited. In no case will a substance discharged to the Liberty Black Mountain wastewater collection system cause the City of Scottsdale WWTP to be in a noncompliance with biosolids use or disposal criteria, guidelines or regulations developed under Section 405 of the Clean Water Act, any criteria, guidelines or regulations affecting biosolids uses or disposal developed pursuant to the Solid Waste Disposal Act, the Clean Air Act, the Toxic Substances Control Act or state or local standards applicable to the biosolids management method adopted by the Liberty Black Mountain and/or local and state authorities.
8. Discharge of any substances which will inhibit the operation or performance of the City of Scottsdale WWTP or pass through the system and cause the City of Scottsdale WWTP to violate any requirements of any discharge permit issued by the state or federal government is prohibited.
9. Discharge of any substance with objectionable color not removed in the treatment process, such as, but not limited to, dye wastes and vegetable tanning solutions, is prohibited.
10. Discharge of any wastewater having a temperature which will inhibit biological activity in the City of Scottsdale WWTP treatment plant resulting in interference; but in no case, wastewater with a temperature at the introduction into the City of Scottsdale WWTP which exceeds thirty eight degrees Celsius (one hundred degrees Fahrenheit) is prohibited.
11. Discharge of any slug load, which will mean any pollutant, including oxygen demanding pollutants (BOD, etc.), released in a single extraordinary discharge

episode of such volume or strength as to cause interference to the City of Scottsdale WWTP is prohibited.

12. Discharge of any wastewater containing any radioactive wastes or isotopes of such half-life or concentration as to exceed limits established by state and federal regulations is prohibited.
13. Discharge of any wastewater which causes the City of Scottsdale WWTP effluent to exhibit toxicity to test organisms in a standard biological toxicity test as defined by local, state or federal requirements, or which Liberty Utilities BMSC determines would be toxic to or impede the treatment capabilities of the biological processes in the City of Scottsdale WWTP is prohibited.
14. Discharge of any petroleum oil, non biodegradable cutting oil or products of mineral oil origin that will cause interference or pass through the City of Scottsdale WWTP is prohibited.
15. No industrial user of the Liberty Black Mountain wastewater collection system may discharge wastes or waste waters containing concentrations of pollutants higher than those listed in TABLE 1.1.

ORGANIC CONTAMINANTS (µg/L)	
Benzene	35
Chloroform	2,000
4,4' - DOE	Not allowed
4,4' – DDT	Not allowed
Aldrin	Not allowed
BHC-Alpha	Not allowed
BHC-Gamma (Lindane)	Not allowed
Heptachlor	Not allowed
Heptachlor Epoxide	Not allowed
Polychlorinated byphenyl compounds (PCBs)	Not allowed

TRACE METALS	
PARAMETER	Daily Average Effluent Limitation (mg/L)
Arsenic (As)	0.13
Cadmium (Cd)	0.047
Copper (Cu)	1.5
Cyanide (CN)	2.0
Lead (Pb)	0.41
Mercury (Hg)	0.0023
Selenium (Se)	0.10
Silver (Ag)	1.2
Zinc (Zn)	3.5

16. Liberty Black Mountain can accept certain pollutants which are compatible with the City of Scottsdale WWTP treatment processes; however, the discharge would pay a surcharge, established on quantity, to cover the costs of such treatment.
17. Dilution of a waste is not an acceptable pretreatment strategy.

Waste Discharge Permits

A waste discharge permit is required for industrial and non-domestic wastewater generators for the following conditions:

1. Any discharger subject to National Categorical Pretreatment Standards
2. Any Significant Industrial discharge as defined by the Liberty Utilities BMSC
3. Any discharger whose discharge who would be in violation with local limits in Table 1.1.
4. Any discharger by State Pretreatment requirements to obtain a permit
5. Any other discharger directed by the Liberty Utilities BMSC to apply for a permit

Permit Applications and Fees (to be developed based on site specific conditions)

Violations and enforcement (to be developed based on site specific conditions)

Penalties

Installation of Meter

Liberty Black Mountain will be responsible, unless the responsibility is given to the discharger by Liberty Black Mountain for the reading of water and/or wastewater meters when installed in discharger's establishment. All meters shall be installed at a location approved by Liberty Black Mountain. All meters will be accessible to Liberty Black Mountain at all times.

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
INDUSTRIAL PRETREATMENT PROGRAM STANDARD
OPERATING PROCEDURES

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LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP. PRETREATMENT PROGRAM STANDARD OPERATING PROCEDURES

1.0 INTRODUCTION

To control the discharge of pollutants to the Nation's waters, the Clean Water Act (CWA) requires the Environmental Protection Agency (EPA) to promulgate regulations related to discharges. Discharges from non-domestic dischargers can impact the operations of the Publicly Owned Treatment Works (POTWs) as the pollutants can pass through or interfere with the operations of the plants, threaten worker's health and safety, or contaminate sludges. POTWs are designed to treat domestic sewage. The non-domestic discharges are regulated by the National Pretreatment Program. Industrial and commercial dischargers known as IUs) are required to obtain permits or other control mechanisms to discharge wastewater to the POTW under the National Pretreatment Program. EPA promulgated the General Pretreatment Regulations (Title 40 Code of Federal Regulations [CFR] Section 403 [40 CFR 403]), which defines the National Pretreatment Program. The Arizona Administrative Code (AAC) R18-9-A905(A)(8)(b) incorporates the General Pretreatment Regulations.

Liberty Utilities (Black Mountain Sewer) Corp. ("Liberty Black Mountain") operates a wastewater collection and conveyance system and discharges collected wastewater to the City of Scottsdale's wastewater treatment plant. Liberty Black Mountain can regulate discharges from IUs for potential contaminants of concern to minimize impact on the City of Scottsdale POTW under the Liberty Black Mountain's CODE OF PRACTICE (Liberty Black Mountain-CP).

The discharge of toxic and other harmful pollutants from IUs can be effectively controlled through a local pretreatment program that is based on these regulations, structured to address specific local concerns, and enforced through the Liberty Black Mountain Code Liberty Black Mountain-CP.

The objectives of the pretreatment SOP are:

- To prevent the introduction of pollutants into the POTWs that will interfere with its operation;
- To prevent the introduction of pollutants into the POTWs that will pass through the POTWs, inadequately treated, into receiving waters, or otherwise be incompatible with the POTWs;
- To protect both POTWs personnel who may be affected by wastewater and sludge in the course of their employment and the general public;
- To promote reuse and recycling of industrial wastewater and sludge from the POTWs;
- To provide for fees for the equitable distribution of the cost of operation, maintenance, and improvement of the POTWs; and
- To enable Liberty Black Mountain to comply with its Arizona Pollutant Discharge Elimination System permit conditions, sludge use and disposal requirements, and any other Federal or State laws to which the POTWs is subject.

These Standard Operating Procedures (SOPs) shall apply to all IUs of the Liberty Black Mountain wastewater collection and conveyance system. The SOPs include the issuance of individual wastewater discharge permits; provides for monitoring, compliance, and enforcement activities; establishes administrative review procedures; requires IUs reporting; and provides for the setting of fees for the equitable distribution of costs resulting from the program established herein.

1.1 ADMINISTRATION

Except as otherwise provided herein, the Liberty Black Mountain Operations Manager shall administer, implement, and enforce the provisions of these SOPs. Any powers granted to or duties imposed upon the Liberty Black Mountain Operations Manager may be delegated by the Liberty Black Mountain Operations Manager to a duly authorized Liberty Black Mountain employee.

1.2 ABBREVIATIONS

The following abbreviations, when used in this SOP, shall have the designated meanings:

AZPDES - Arizona Pollutant Discharge Elimination System
BOD - Biochemical Oxygen Demand
BMP - Best Management Practice
BMR - Baseline Monitoring Report
CFR - Code of Federal Regulations
CIU - Categorical Industrial User
COD - Chemical Oxygen Demand
EPA - U.S. Environmental Protection Agency
GPD - gallons per day
IU - Industrial User
MG/l - milligrams per liter
NPDES - National Pollutant Discharge Elimination System
NSCIU - Non-Significant Categorical Industrial User
POTW - Publicly Owned Treatment Works
RCRA - Resource Conservation and Recovery Act
SIU - Significant Industrial User
SNC - Significant Noncompliance
TSS - Total Suspended Solids
U.S.C. - United States Code

1.3 DEFINITIONS

A. Act or "the Act." The Federal Water Pollution Control Act, also known as the Clean Water Act, as amended, 33 U.S.C. section 1251 et seq.

B. Approval Authority. Arizona Department of Environmental Quality, the Arizona Administrative Code (AAC) R18-9-A905(A)(8)(b)

C. Authorized or Duly Authorized Representative of the IU

a. If the IU is a corporation:

i. The president, secretary, treasurer, or a vice president of the corporation in charge of a principal business function, or any other person who performs similar policy or decision making functions for the corporation; or

ii. The manager of one or more manufacturing, production, or operating facilities, provided the manager is authorized to make management decisions that govern the operation of the regulated facility including having the explicit or implicit duty of making major capital investment recommendations, and initiate and direct other comprehensive measures to assure long term environmental compliance with environmental laws and regulations; can ensure that the necessary systems are established or actions taken to gather complete and accurate information for individual wastewater discharge permit requirements; and where authority to sign documents has been assigned or delegated to the manager in accordance with corporate procedures.

b. If the IU is a partnership or sole proprietorship: a general partner or proprietor, respectively.

c. If the IU is a Federal, State, or local governmental facility: a director or highest official appointed or designated to oversee the operation and performance of the activities of the government facility, or their designee.

d. The individuals described in paragraphs 1 through 3, above, may designate a Duly Authorized Representative if the authorization is in writing, the authorization specifies the individual or position responsible for the overall operation of the facility from which the discharge originates or having overall responsibility for environmental matters for the company, and the written authorization is submitted to Liberty Black Mountain

D. Biochemical Oxygen Demand or BOD. The quantity of oxygen utilized in the biochemical oxidation of organic matter under standard laboratory procedures for five (5) days at 20

degrees centigrade, usually expressed as a concentration (e.g., mg/l).

E. Best Management Practices or BMPs means schedules of activities, prohibitions of practices, maintenance procedures, and other management practices to implement the prohibitions listed in Section 2.1 A and B [40 CFR 403.5(a)(1) and (b)] and/or the Arizona Administrative Code (AAC) R18-9-A905(A)(8)(b). BMPs include treatment requirements, operating procedures, and practices to control plant site runoff, spillage or leaks, sludge or waste disposal, or drainage from raw materials storage.

F. Brewery Discharge. A brewery discharge qualifies as a non-categorical IU and requires a permit for compliance.

G. Categorical Pretreatment Standard or Categorical Standard. Any regulation containing pollutant discharge limits promulgated by EPA in accordance with sections 307(b) and (c) of the Act (33 U.S.C. section 1317) that apply to a specific category of IUs and that appear in 40 CFR Chapter I, Subchapter N, Parts 405 471.

H. Categorical Industrial User. An IU subject to a categorical Pretreatment Standard or categorical Standard.

I. Liberty Black Mountain Organizational Structure. The Liberty Black Mountain Operations Manager or their designee shall be responsible official who will administer this pretreatment program and the permitting process.

J. Chemical Oxygen Demand or COD. A measure of the oxygen required to oxidize all compounds, both organic and inorganic, in water.

K. Control Authority. Liberty Black Mountain

L. Daily Maximum. The arithmetic average of all effluent samples for a pollutant collected during a calendar day.

M. Daily Maximum Limit. The maximum allowable discharge limit of a pollutant during a calendar day. Where Daily Maximum Limits are expressed in units of mass, the daily discharge is the total mass discharged over the course of the day. Where Daily Maximum Limits are expressed in terms of a concentration, the daily discharge is the arithmetic average measurement of the pollutant concentration derived from all measurements taken that day.

N. Environmental Protection Agency or EPA. The U.S. Environmental Protection Agency or, where appropriate, the Regional Water Management Division Director, the Regional Administrator, or other duly authorized official of said agency.

O. Existing Source. Any source of discharge that is not a "New Source."

P. Grab Sample. A sample that is taken from a waste stream without regard to the flow in the waste stream and over a period of time not to exceed fifteen (15) minutes.

Q. Indirect Discharge or Discharge. The introduction of pollutants into the POTW from any nondomestic source.

R. Instantaneous Limit. The maximum concentration of a pollutant allowed to be discharged at any time, determined from the analysis of any discrete or composited sample collected independent of the industrial flow rate and the duration of the sampling event.

S. Interference. A discharge that, alone or in conjunction with a discharge or discharges from other sources, inhibits or disrupts the POTW, its treatment processes or operations or its sludge processes, use or disposal; and therefore, is a cause of a violation of Liberty Black Mountain's or the City of Scottsdale's AZPDES permit or of the prevention of sewage sludge use or disposal in compliance with any of the following statutory/regulatory provisions or permits issued there under, or any more stringent State or local regulations: section 405 of the Act; the Solid Waste Disposal Act, including Title II commonly referred to as the Resource Conservation and Recovery Act (RCRA); any State regulations contained in any State sludge management plan prepared pursuant to Subtitle D of the Solid Waste Disposal Act; the Clean Air Act; the Toxic Substances Control Act; and the Marine Protection, Research, and Sanctuaries Act.

T. Local Limit. Specific discharge limits developed and enforced by the Liberty Black Mountain upon industrial or commercial facilities to implement the general and specific discharge prohibitions listed in 40 CFR 403.5(a)(1) and (b).

U. Medical Waste. Isolation wastes, infectious agents, human blood and blood products, pathological wastes, sharps, body parts, contaminated bedding, surgical wastes, potentially contaminated laboratory wastes, and dialysis wastes.

V. Monthly Average. The sum of all "daily discharges" measured during a calendar month divided by the number of "daily discharges" measured during that month.

W. Monthly Average Limit. The highest allowable of "daily maximum discharges" over a calendar month, calculated as the sum of all "daily discharges" measured during a calendar month divided by the number of "daily discharges" measured during that month.

X. New Source.

a. Any building, structure, facility, or installation from which there is (or may be) a discharge of pollutants, the construction of which commenced after the publication of proposed Pretreatment Standards under section 307(c) of the Act that will be applicable to such source if such Standards are thereafter promulgated in accordance with that section, provided that:

i. The building, structure, facility, or installation is constructed at a site at which no other source is located; or

ii. The building, structure, facility, or installation totally replaces the process or production equipment that causes the discharge of pollutants at an Existing Source; or

iii. The production or wastewater generating processes of the building, structure, facility, or installation are substantially independent of an Existing Source at the same site. In determining whether these are substantially independent, factors such as the extent to which the new facility is integrated with the existing plant, and the extent to which the new facility is engaged in the same general type of activity as the Existing Source, should be considered.

b. Construction on a site at which an Existing Source is located results in a modification rather than a New Source if the construction does not create a new building, structure, facility, or installation meeting the criteria of Section (1)(b) or (c) above but otherwise alters, replaces, or adds to existing process or production equipment.

c. Construction of a New Source as defined under this paragraph has commenced if the owner or operator has:

i. Begun, or caused to begin, as part of a continuous onsite construction program

1. any placement, assembly, or installation of facilities or equipment; or
2. significant site preparation work including clearing, excavation, or removal of existing buildings, structures, or facilities which is necessary for the placement, assembly, or installation of new source facilities or equipment; or

ii. Entered into a binding contractual obligation for the purchase of facilities or equipment which are intended to be used in its operation within a reasonable time. Options to purchase or contracts which can be terminated or modified without substantial loss, and contracts for feasibility, engineering, and design studies do not constitute a contractual obligation under this paragraph.

Y. Noncontact Cooling Water. Water used for cooling that does not come into direct contact with any raw material, intermediate product, waste product, or finished product.

Z. Pass Through. A discharge which exits the POTW into waters of the United States in quantities or concentrations which, alone or in conjunction with a discharge or discharges from other sources, is a cause of a violation of any requirement of the Liberty Black Mountain's or City of Scottsdale's AZPDES permit, including an increase in the magnitude or duration of a violation.

AA. Person. Any individual, partnership, co-partnership, firm, company, corporation, association,

joint stock company, trust, estate, governmental entity, or any other legal entity; or their legal representatives, agents, or assigns. This definition includes all Federal, State, and local governmental entities.

BB. pH. A measure of the acidity or alkalinity of a solution, expressed in standard units.

CC. Pollutant. Dredged spoil, solid waste, incinerator residue, filter backwash, sewage, garbage, sewage sludge, munitions, Medical Wastes, chemical wastes, biological materials, radioactive materials, heat, wrecked or discarded equipment, rock, sand, cellar dirt, municipal, agricultural and industrial wastes, and certain characteristics of wastewater (e.g., pH, temperature, TSS, turbidity, color, BOD, COD, toxicity, or odor).

DD. Pretreatment. The reduction of the amount of pollutants, the elimination of pollutants, or the alteration of the nature of pollutant properties in wastewater prior to, or in lieu of, introducing such pollutants into the POTW. This reduction or alteration can be obtained by physical, chemical, or biological processes; by process changes; or by other means, except by diluting the concentration of the pollutants unless allowed by an applicable Pretreatment Standard.

EE. Pretreatment Requirements. Any substantive or procedural requirement related to pretreatment imposed on a IU, other than a Pretreatment Standard.

FF. Pretreatment Standards or Standards. Pretreatment Standards shall mean prohibited discharge standards, categorical Pretreatment Standards, and Local Limits.

GG. Prohibited Discharge Standards or Prohibited Discharges. Absolute prohibitions against the discharge of certain substances; these prohibitions appear in Section 2.1 of this SOPs.

HH. Publicly Owned Treatment Works or POTW. A treatment works, as defined by section 212 of the Act (33 U.S.C. section 1292), which is owned by Liberty Black Mountain or the City of Scottsdale POTWs to which Liberty Black Mountain's conveyance system discharges. This definition includes any devices or systems used in the collection, storage, treatment, recycling, and reclamation of sewage or industrial wastes of a liquid nature and any conveyances, which convey wastewater to a treatment plant.

II. Septic Tank Waste. Any sewage from holding tanks such as vessels, chemical toilets, campers, trailers, and septic tanks.

JJ. Sewage. Human excrement and gray water (household showers, dishwashing operations, etc.).

KK. Significant Industrial User (SIU). Except as provided in paragraphs (3) and (4) of this Section, a Significant Industrial User is:

a. An IU subject to categorical Pretreatment Standards; or

b. An IU that:

   i. Discharges an average of twenty five thousand (25,000) gpd or more of process wastewater to the POTW (excluding sanitary, noncontact cooling and boiler blow down wastewater);

   ii. Contributes a process waste stream which makes up five (5) percent or more of the average dry weather hydraulic or organic (BOD, ammonia, and/or total nitrogen) capacity of the POTW treatment plant; or

   iii. Is designated as such by Liberty Black Mountain on the basis that it has a reasonable potential for adversely affecting the POTW's operation or for violating any Pretreatment Standard or Requirement.

c. Liberty Black Mountain may determine that an IU subject to categorical Pretreatment Standards is a Non-Significant Categorical IU rather than a Significant IU on a finding that the IU never discharges more than 100 gallons per day (gpd) of total categorical wastewater (excluding sanitary, non-contact cooling and boiler blowdown wastewater, unless specifically included in the Pretreatment Standard) and the following conditions are met:

   i. The IU, prior to Liberty Black Mountain's finding, has consistently complied with all applicable categorical Pretreatment Standards and Requirements;

   ii. The IU annually submits the certification statement required in Section 6.14 B [see 40 CFR 403.12(q)], together with any additional information necessary to support the certification statement; and

   iii. The IU never discharges any untreated concentrated wastewater.

d. Upon a finding that a IU meeting the criteria in Subsection (2) of this part has no reasonable potential for adversely affecting the POTW's operation or for violating any Pretreatment Standard or Requirement, Liberty Black Mountain may at any time, on its own initiative or in response to a petition received from an IU, and in accordance with procedures in 40 CFR 403.8(f)(6), determine that such IU should not be considered a Significant IU.

LL. Slug Load or Slug Discharge. Any discharge at a flow rate or concentration, which could cause a violation of the prohibited discharge standards in Section 2.1 of this SOP. A Slug Discharge is any Discharge of a non-routine, episodic nature, including but not limited to an accidental spill or a non-customary batch Discharge, which has a reasonable potential to cause Interference or Pass Through, or in any other way violate the POTW's regulations, Local Limits or Permit conditions.

MM. Storm Water. Any flow occurring during or following any form of natural precipitation, and resulting from such precipitation, including snowmelt.

NN. Liberty Black Mountain Operations Manager. The person designated by Liberty Black Mountain to supervise the operation of the POTW, and who is charged with certain duties and responsibilities by this SOP. The term also means a Duly Authorized Representative of the Liberty Black Mountain Operations Manager.

OO. Total Suspended Solids or Suspended Solids. The total suspended matter that floats on the surface of, or is suspended in, water, wastewater, or other liquid, and that is removable by laboratory filtering.

PP. User or Industrial User. A source of indirect discharge.

QQ. Wastewater. Liquid and water-carried industrial wastes and sewage from residential dwellings, commercial buildings, industrial and manufacturing facilities, and institutions, whether treated or untreated, which are contributed to the POTW.

RR. Wastewater Treatment Plant or Treatment Plant. That portion of the POTW which is designed to provide treatment of municipal sewage and industrial waste.

2. GENERAL SEWER USE REQUIREMENTS

2.1 Prohibited Discharge Standards

A. General Prohibitions. No IU shall introduce or cause to be introduced into the POTW any pollutant or wastewater which causes Pass Through or Interference. These general prohibitions apply to all IUs of the POTW whether or not they are subject to categorical Pretreatment Standards or any other National, State, or local Pretreatment Standards or Requirement.

B. Specific Prohibitions. No IU shall introduce or cause to be introduced into the POTW the following pollutants, substances, or wastewater:

a. Pollutants which create a fire or explosive hazard in the POTW, including, but not limited to, waste streams with a closed cup flashpoint of less than 140 degrees F (60 degrees C) using the test methods specified in 40 CFR 261.21;

b. Wastewater having a pH less than 5.5 or more than 10.5, or otherwise causing corrosive structural damage to the POTW or equipment;

c. Solid or viscous pollutants, fats, oils, or grease in amounts or sizes which will cause obstruction of the flow in the wastewater collection system and/or POTW or result in interference or otherwise disrupt the operation of the POTW or any private sewer;

d. Pollutants, including oxygen demanding pollutants (BOD, etc.), released in a

discharge at a flow rate and/or pollutant concentration which, either singly or by interaction with other pollutants, will cause Interference with the POTW;

e. Wastewater having a temperature greater than 104 degrees F (40 degrees C), or any wastewater at temperature greater than 150 degrees F (65 degrees C), or which will inhibit biological activity in the treatment plant resulting in Interference;

f. Petroleum oil, non-biodegradable cutting oil, or products of mineral oil origin, in amounts that will cause Interference or pass through;

g. Pollutants which result in the presence of toxic gases, vapors, or fumes within the POTW in a quantity that may cause acute worker health and safety problems;

h. Trucked or hauled pollutants, except at discharge points designated by Liberty Black Mountain Operations Manager in accordance with Section 3.4 of this SOP;

i. Hazardous waste that violates any local limit contained in this article;

j. Noxious or malodorous liquids, gases, solids, or other wastewater which either alone or by interaction with other wastes are sufficient to create a nuisance or a hazard to life, generate odor complaints, or to prevent entry into the sewers for maintenance or repair;

k. Wastewater containing any radioactive wastes or isotopes except in compliance with applicable state or federal regulations;

l. Hazardous waste that violates any local limit contained in this article;

m. Storm water, surface water, ground water, artesian well water, roof runoff, subsurface drainage, condensate, noncontact cooling water and unpolluted wastewater unless specifically authorized by the Liberty Black Mountain

n. Sludges, screenings, and other residues from the pretreatment of industrial wastes or from the cleaning of interceptors or sewer collection systems;

o. Medical wastes except as specifically authorized by the division in a wastewater discharge permit;

p. Wastewater causing, alone or in conjunction with other sources, the POTW's effluent to fail a toxicity test;

q. Detergents, surface active agents, or other substances which might cause excessive foaming in the POTW;

r. Wastewater causing a reading on an explosion hazard meter at the point of discharge into the POTW, or at any point in the POTW, of more than ten percent.

Pollutants, substances, or wastewater prohibited by this Section shall not be processed or stored in such a manner that they could be discharged to the POTW.

2.2 National Categorical Pretreatment Standards

IUs must comply with the categorical Pretreatment Standards found at 40 CFR Chapter I, Subchapter N, Parts 405-471.

A. Where a categorical Pretreatment Standard is expressed only in terms of either the mass or the concentration of a pollutant in wastewater, Liberty Black Mountain Operations Manager may impose equivalent concentration or mass limits in accordance with Section 2.2E & 2.2F.

B. When the limits in a categorical Pretreatment Standard are expressed only in terms of mass of pollutant per unit of production, the Liberty Black Mountain Operations Manager may convert the limits to equivalent limitations expressed either as mass of pollutant discharged per day or effluent concentration for purposes of calculating effluent limitations applicable to individual IUs.

C. When wastewater subject to a categorical Pretreatment Standard is mixed with wastewater not regulated by the same Standard, Liberty Black Mountain Operations Manager shall impose an alternate limit in accordance with 40 CFR 403.6(e).

D. A user may obtain a net/gross adjustment to a categorical pretreatment standard in accordance with 40 CFR §403.15.

2.3 State Pretreatment Standards

IUs must comply with The Arizona Administrative Code (AAC) R18-9-A905(A)(8)(b) incorporates the General Pretreatment Regulations.

2.4 Local Limits

A. The Liberty Black Mountain Operations Manager is authorized to establish Local Limits pursuant to 40CFR 403.5(c).

B. The following pollutant limits are established to protect against Pass Through and Interference. No person shall discharge wastewater containing in excess of the Daily Maximum Limits shown on the table atop the following page.

ORGANIC CONTAMINANTS (µg/L)	
PARAMETER	Daily Average Effluent Limitation (mg/L)
Benzene	35
Chloroform	2,000
4,4' - DOE	Not allowed
4,4' – DDT	Not allowed
Aldrin	Not allowed
BHC-Alpha	Not allowed
BHC-Gamma (Lindane)	Not allowed
Heptachlor	Not allowed
Heptachlor Epoxide	Not allowed
Polychlorinated byphenyl compounds	Not allowed
Arsenic (As)	0.13
Cadmium (Cd)	0.047
Copper (Cu)	1.5
Cyanide (CN)	2.0
Lead (Pb)	0.41
Mercury (Hg)	0.0023
Selenium (Se)	0.10
Silver (Ag)	1.2
Zinc	3.5

The above limits apply at the point where the wastewater is discharged to the POTW. All concentrations for metallic substances are for total metal unless indicated otherwise. Liberty Black Mountain Operations Manager may impose mass limitations in addition to the concentration based limitations above.

C. The division may develop Best Management Practices (BMPs) for any significant industrial user or other user, as needed, to implement this article. BMPs may be implemented through a permit, order, or regulation. For purposes of this article, BMPs are pretreatment requirements.

D. All users subject to a categorical pretreatment standard shall comply with all requirements of such standard, and shall also comply with any limitations and prohibitions contained in this article. Where the same pollutant is limited by more than one pretreatment standard, the limitations which are more stringent shall prevail. Compliance with categorical pretreatment standards for existing sources shall be within the timeframe specified in the applicable categorical pretreatment standard. Compliance with categorical pretreatment standards for new sources shall be upon commencement of discharge.

E. Liberty Black Mountain may establish more stringent pretreatment standards or additional site specific effluent limits, when, in the judgment of the division, such limitations are necessary to implement the objectives of this article.

2.5 Liberty Black Mountain Right of Revision

Liberty Black Mountain reserves the right to establish, by SOP or in individual wastewater discharge permits, more stringent Standards or Requirements on discharges to the POTW consistent with the purpose of this SOP.

2.6 Dilution

No IU shall ever increase the use of process water, or in any way attempt to dilute a discharge, as a partial or complete substitute for adequate treatment to achieve compliance with a discharge limitation unless expressly authorized by an applicable Pretreatment Standard or Requirement. Liberty Black Mountain Operations Manager may impose mass limitations on IU who are using dilution to meet applicable Pretreatment Standards or Requirements or in other cases when the imposition of mass limitations is appropriate.

3. PRETREATMENT OF WASTEWATER

3.1 Pretreatment Facilities

IUs shall provide wastewater treatment as necessary to comply with this SOPs and shall achieve compliance with all categorical Pretreatment Standards, Local Limits, and the prohibitions set out in Section 2.1 of this SOPs within the time limitations specified by EPA, the State, or Liberty Black Mountain Operations Manager, whichever is more stringent. Any facilities necessary for compliance shall be provided, operated, and maintained at the IU's expense. Detailed plans describing such facilities and operating procedures shall be submitted to Liberty Black Mountain Operations Manager for review, and shall be acceptable to Liberty Black Mountain Operations Manager before such facilities are constructed. The review of such plans and operating procedures shall in no way

relieve the IU from the responsibility of modifying such facilities as necessary to produce a discharge acceptable to Liberty Black Mountain under the provisions of this SOP.

3.2 Additional Pretreatment Measures

A. Whenever deemed necessary, Liberty Black Mountain Operations Manager may require IUs to restrict their discharge during peak flow periods, designate that certain wastewater be discharged only into specific sewers, relocate and/or consolidate points of discharge, separate sewage waste streams from industrial waste streams, and such other conditions as may be necessary to protect the POTW and determine the IU's compliance with the requirements of this SOP.

B. Liberty Black Mountain Operations Manager may require any person discharging into the POTW to install and maintain, on their property and at their expense, a suitable storage and flow control facility to ensure equalization of flow. An individual wastewater discharge permit may be issued solely for flow equalization.

C. Grease, oil, and sand interceptors shall be provided when, in the opinion of Liberty Black Mountain Operations Manager, they are necessary for the proper handling of wastewater containing excessive amounts of grease and oil, or sand; except that such interceptors shall not be required for residential users. All interception units shall be of a type and capacity approved by Liberty Black Mountain Operations Manager, shall be so located to be easily accessible for cleaning and inspection. Such interceptors shall be inspected, cleaned, and repaired by the IU at their expense.

D. IUs with the potential to discharge flammable substances may be required to install and maintain an approved combustible gas detection meter.

3.3 Accidental Discharge/Slug Discharge Control Plans

Liberty Black Mountain Operations Manager shall evaluate whether each SIU needs an accidental discharge/slug discharge control plan or other action to control Slug Discharges. Liberty Black Mountain Operations Manager may require any IU to develop, submit for approval, and implement such a plan or take such other action that may be necessary to control Slug Discharges. Alternatively, Liberty Black Mountain Operations Manager may develop such a plan for any IU. An accidental discharge/slug discharge control plan shall address, at a minimum, the following:

A. Description of discharge practices, including non routine batch discharge;

B. Description of stored chemicals;

C. Procedures for immediately notifying Liberty Black Mountain Operations Manager of any accidental or Slug Discharge, as required by Section 6.6 of this SOP; and

D. Procedures to prevent adverse impact from any accidental or Slug Discharge. Such

procedures include, but are not limited to, inspection and maintenance of storage areas, handling and transfer of materials, loading and unloading operations, control of plant site runoff, worker training, building of containment structures or equipment, measures for containing toxic organic pollutants, including solvents, and/or measures and equipment for emergency response.

3.4 Hauled Wastewater

A. Septic tank waste may be introduced into the POTW only at locations designated by Liberty Black Mountain Operations Manager, and at such times as are established by Liberty Black Mountain Operations Manager. Such waste shall not violate Section 2 of this SOP or any other requirements established by Liberty Black Mountain. Liberty Black Mountain Operations Manager may require septic tank waste haulers to obtain individual wastewater discharge permits.

B. Liberty Black Mountain Operations Manager may require haulers of industrial waste to obtain individual wastewater discharge permits. Liberty Black Mountain Operations Manager may require generators of hauled industrial waste to obtain individual wastewater discharge permits. Liberty Black Mountain Operations Manager also may prohibit the disposal of

hauled industrial waste. The discharge of hauled industrial waste is subject to all other requirements of this SOP.

C. Industrial waste haulers may discharge loads only at locations designated by Liberty Black Mountain Operations Manager. No load may be discharged without prior consent of Liberty Black Mountain Operations Manager. Liberty Black Mountain Operations Manager may collect samples of each hauled load to ensure compliance with applicable Standards. Liberty Black Mountain Operations Manager may require the industrial waste hauler to provide a waste analysis of any load prior to discharge.

D. Industrial waste haulers must provide a waste tracking form for every load. This form shall include, at a minimum, the name and address of the industrial waste hauler, permit number, truck identification, names and addresses of sources of waste, and volume and characteristics of waste. The form shall identify the type of industry, known or suspected waste constituents, and whether any wastes are RCRA hazardous wastes.

3,5 Brewery Waste

A. A brewery discharge qualifies as a non-categorical IU, and therefore, requires a permit for compliance. Assuming that there are no toxics in the brewery discharge, IU should comply with the Liberty Utilities BMSC Pretreatment Program Local Limits.

4. INDIVIDUAL WASTEWATER DISCHARGE PERMITS

4.1 Wastewater Analysis

When requested by Liberty Black Mountain Operations Manager, an IU must submit information on the nature and characteristics of its wastewater within 30 days of the request. Liberty Black Mountain Operations Manager is authorized to prepare a form for this purpose and may periodically require IUs to update this information.

4.2 Individual Wastewater Discharge Permit Requirement

A. No Significant IU shall discharge wastewater into the POTW without first obtaining an individual wastewater discharge permit from Liberty Black Mountain Operations Manager, except that a Significant IU that has filed a timely application pursuant to Section 4.3 of this SOP may continue to discharge for the time period specified therein.

B. Liberty Black Mountain Operations Manager may require other IUs to obtain individual wastewater discharge permits as necessary to carry out the purposes of this SO.

C. Any violation of the terms and conditions of an individual wastewater discharge permit shall be deemed a violation of this SOP and subjects the wastewater discharge permittee to the sanctions set out in Sections 10 through 12 of this SOP. Obtaining an individual wastewater discharge permit does not relieve a permittee of its obligation to comply with all Federal and State Pretreatment Standards or Requirements or with any other requirements of Federal, State, and local law.

4.3 Individual Wastewater Discharge Permitting: Existing Connections

Any IU required to obtain an individual wastewater discharge permit who was discharging wastewater into the POTW prior to the effective date of this SOP and who wishes to continue such discharges in the future, shall, within 90 days after said date, apply to Liberty Black Mountain Operations Manager for an individual wastewater discharge permit in accordance with Section 4.5 of this SOP, and shall not cause or allow discharges to the POTW to continue after 30 days of the effective date of this SOP except in accordance with an individual wastewater discharge permit issued by Liberty Black Mountain Operations Manager.

4.4 Individual Wastewater Discharge Permitting: New Connections

Any IU required to obtain an individual wastewater discharge permit who proposes to begin or recommence discharging into the POTW must obtain such permit prior to the beginning or recommencing of such discharge. An application for this individual wastewater discharge permit, in accordance with Section 4.5 of this SOP, must be filed at least 90 days prior to the date upon which any discharge will begin or recommence.

4.5 Individual Wastewater Discharge Permit Application Contents

A. All IUs required to obtain an individual wastewater discharge permit must submit a permit application. Liberty Black Mountain Operations Manager may require IUs to submit all or some of the following information as part of a permit application:

a. Identifying Information

i. The name and address of the facility, including the name of the operator and owner.

ii. Contact information, description of activities, facilities, and plant production processes on the premises;

b. Environmental Permits. A list of any environmental control permits held by or for the facility.

c. Description of Operations

i. A brief description of the nature, average rate of production (including each product produced by type, amount, processes, and rate of production), and standard industrial classifications of the operation(s) carried out by such IU. This description should include a schematic process diagram, which indicates points of discharge to the POTW from the regulated processes.

ii. Types of wastes generated, and a list of all raw materials and chemicals used or stored at the facility which are, or could accidentally or intentionally be, discharged to the POTW;

iii. Number and type of employees, hours of operation, and proposed or actual hours of operation;

iv. Type and amount of raw materials processed (average and maximum per day);

v. Site plans, floor plans, mechanical and plumbing plans, and details to show all sewers, floor drains, and appurtenances by size, location, and elevation, and all points of discharge;

d. Time and duration of discharges;

e. The location for monitoring all wastes covered by the permit;

f. Flow Measurement. Information showing the measured average daily and maximum daily flow, in gallons per day, to the POTW from regulated process streams and other streams, as necessary, to allow use of the combined waste stream formula set out in Section 2.2C (40 CFR 403.6(e)).

g. Measurement of Pollutants.

i. The categorical Pretreatment Standards applicable to each regulated process and any new categorically regulated processes for Existing Sources.
ii. The results of sampling and analysis identifying the nature and concentration, and/or mass, where required by the Standard or by Liberty Black Mountain Operations Manager, of regulated pollutants in the discharge from each regulated process.
iii. Instantaneous, Daily Maximum, and long-term average concentrations, or mass, where required, shall be reported.
iv. The sample shall be representative of daily operations and shall be analyzed in accordance with procedures set out in Section 6.10 of this SOP. Where the Standard requires compliance with a BMP or pollution prevention alternative, the IU shall submit documentation as required by the Liberty Black Mountain Operations Manager or the applicable Standards to determine compliance with the Standard.
v. Sampling must be performed in accordance with procedures set out in Section 6.11 of this SOP.

h. Any other information as may be deemed necessary by Liberty Black Mountain Operations Manager to evaluate the permit application.

B. Incomplete or inaccurate applications will not be processed and will be returned to the IU for revision.

4.6 Application Signatories and Certification

A. All wastewater discharge permit applications, IU reports and certification statements must be signed by an Authorized Representative of the IU and contain the certification statement in Section 6.14 A. [see Section 1.4 C for definition].

B. If the designation of an Authorized Representative is no longer accurate because a different individual or position has responsibility for the overall operation of the facility or overall responsibility for environmental matters for the company, a new written authorization satisfying the requirements of this Section must be submitted to Liberty Black Mountain Operations Manager prior to or together with any reports to be signed by an Authorized Representative.

4.7 Individual Wastewater Discharge Permit Decisions

Liberty Black Mountain Operations Manager will evaluate the data furnished by the IU and may require additional information. Within 30 days of receipt of a complete permit application, Liberty Black Mountain Operations Manager will determine whether to issue an individual wastewater discharge permit. Liberty Black Mountain Operations Manager may deny any application for an individual wastewater discharge permit.

5. INDIVIDUAL WASTEWATER DISCHARGE PERMIT ISSUANCE

5.1 Individual Wastewater Discharge Permit Duration

An individual wastewater discharge permit shall be issued for a specified time period, not to exceed five (5) years from the effective date of the permit. An individual wastewater discharge permit may be issued for a period less than five (5) years, at the discretion of Liberty Black Mountain Operations Manager. Each individual wastewater discharge permit will indicate a specific date upon which it will expire.

5.2 Individual Wastewater Discharge Permit Contents

An individual wastewater discharge permit shall include such conditions as are deemed reasonably necessary by Liberty Black Mountain Operations Manager to prevent Pass Through or Interference, protect the quality of the water body receiving the treatment plant's effluent, protect worker health and safety, facilitate sludge management and disposal, and protect against damage to the POTW.

A. Individual wastewater discharge permits must contain:

a. A statement that indicates the wastewater discharge permit issuance date, expiration date and effective date;

b. A statement that the wastewater discharge permit is nontransferable without prior notification to Liberty Black Mountain in accordance with Section 5.5 of these SOPs, and provisions for furnishing the new owner or operator with a copy of the existing wastewater discharge permit;

c. Effluent limits, including Best Management Practices, based on applicable Pretreatment Standards;

d. Self monitoring, sampling, reporting, notification, and record-keeping requirements. These requirements shall include an identification of pollutants (or best management practice) to be monitored, sampling location, sampling frequency, and sample type based on Federal, State, and local law.

e. A statement of applicable civil and criminal penalties for violation of Pretreatment Standards and Requirements, and any applicable compliance schedule. Such schedule may not extend the time for compliance beyond that required by applicable Federal, State, or local law.

f. Requirements to control Slug Discharge, if determined by the Liberty Black Mountain Operations Manager to be necessary.

B. Individual wastewater discharge permits may contain, but need not be limited to, the following conditions:

a. Limits on the average and/or maximum rate of discharge, time of discharge, and/or requirements for flow regulation and equalization;

b. Requirements for the installation of pretreatment technology, pollution control, or construction of appropriate containment devices, designed to reduce, eliminate, or prevent the introduction of pollutants into the treatment works;

c. Requirements for the development and implementation of spill control plans or other special conditions including management practices necessary to adequately prevent accidental, unanticipated, or non routine discharges;

d. Development and implementation of waste minimization plans to reduce the amount of pollutants discharged to the POTW;

e. The unit charge or schedule of IU charges and fees for the management of the wastewater discharged to the POTW;

f. Requirements for installation and maintenance of inspection and sampling facilities and equipment, including flow measurement devices;

g. A statement that compliance with the individual wastewater discharge permit does not relieve the permittee of responsibility for compliance with all applicable Federal and State Pretreatment Standards, including those which become effective during the term of the individual wastewater discharge permit; and

h. Other conditions as deemed appropriate by Liberty Black Mountain Operations Manager to ensure compliance with this SOP, and State and Federal laws, rules, and regulations.

5.3 Permit Modification

A. Liberty Black Mountain Operations Manager may modify an individual wastewater discharge permit for good cause, including, but not limited to, the following reasons:

a. To incorporate any new or revised Federal, State, or local Pretreatment Standards or Requirements;

b. To address significant alterations or additions to the IU's operation, processes, or wastewater volume or character since the time of the individual wastewater discharge permit issuance;

c. A change in the POTW that requires either a temporary or permanent reduction or

elimination of the authorized discharge;

d. Information indicating that the permitted discharge poses a threat to Liberty Black Mountain POTW, Liberty Black Mountain personnel, or the receiving waters;

e. Violation of any terms or conditions of the individual wastewater discharge permit;

f. Misrepresentations or failure to fully disclose all relevant facts in the wastewater discharge permit application or in any required reporting;

g. Revision of or a grant of variance from categorical Pretreatment Standards pursuant to 40 CFR 403.13;

h. To correct typographical or other errors in the individual wastewater discharge permit; or

i. To reflect a transfer of the facility ownership or operation to a new owner or operator where requested in accordance with Section 5.5.

5.4 Individual Wastewater Discharge Permit Transfer

Individual wastewater discharge permits may be transferred to a new owner or operator only if the permittee gives at least 60 days advance notice to Liberty Black Mountain Operations Manager and Liberty Black Mountain Operations Manager approves the individual wastewater discharge permit transfer. The notice to Liberty Black Mountain Operations Manager must include a written certification by the new owner or operator which:

A. States that the new owner and/or operator has no immediate intent to change the facility's operations and processes;

B. Identifies the specific date on which the transfer is to occur; and

C. Acknowledges full responsibility for complying with the existing individual wastewater discharge permit.

Failure to provide advance notice of a transfer renders the individual wastewater discharge permit void as of the date of facility transfer.

5.5 Individual Wastewater Discharge Permit Revocation

Liberty Black Mountain Operations Manager may revoke an individual wastewater discharge permit for good cause, including, but not limited to, the following reasons:

A. Failure to notify Liberty Black Mountain Operations Manager of significant changes to the wastewater prior to the changed discharge;

B. Failure to provide prior notification to Liberty Black Mountain Operations Manager of changed conditions pursuant to Section 6.5 of this SOP;

C. Misrepresentation or failure to fully disclose all relevant facts in the wastewater discharge permit application;

D. Falsifying self monitoring reports and certification statements;

E. Tampering with monitoring equipment;

F. Refusing to allow Liberty Black Mountain Operations Manager timely access to the facility premises and records;

G. Failure to meet effluent limitations;

H. Failure to pay fines;

I. Failure to pay sewer charges;

J. Failure to meet compliance schedules;

K. Failure to complete a wastewater survey or the wastewater discharge permit application;

L. Failure to provide advance notice of the transfer of business ownership of a permitted facility; or

M. Violation of any Pretreatment Standard or Requirement, or any terms of the wastewater discharge permit or this SOP.

Individual wastewater discharge permits shall be voidable upon cessation of operations or transfer of business ownership. All individual wastewater discharge permits issued to a IU are void upon the issuance of a new individual wastewater discharge permit to that IU.

5.6 Individual Wastewater Discharge Permit Reissuance

An IU with an expiring individual wastewater discharge permit shall apply for individual wastewater discharge permit reissuance by submitting a complete permit application, in accordance with Section 4.5 of this SOP, a minimum of 90 days prior to the expiration of the IU's existing individual wastewater discharge permit.

6. REPORTING REQUIREMENTS

6.1 Baseline Monitoring Reports

A. Within either one hundred eighty (180) days after the effective date of a categorical Pretreatment Standard, or the final administrative decision on a category determination under 40 CFR 403.6(a)(4), whichever is later, existing Categorical IUs currently discharging to or scheduled to discharge to the POTW shall submit to Liberty Black Mountain Operations Manager a report which contains the information listed in paragraph B, below. At least ninety (90) days prior to commencement of their discharge, New Sources, and sources that become Categorical IUs subsequent to the promulgation of an applicable categorical Standard, shall submit to Liberty Black Mountain Operations Manager a report which contains the information listed in paragraph B, below. A New Source shall report the method of pretreatment it intends to use to meet applicable categorical Standards. A New Source also shall give estimates of its anticipated flow and quantity of pollutants to be discharged.

B. IUs described above shall submit the information set forth below.

a. All information required in Section 4.5A (1) (a), Section 4.5A (2), Section 4.5A (3) (a), and Section 4.5A (6).

b. Measurement of pollutants.
   i. The IU shall provide the information required in Section 4.5 A (7) (a) through (d)
   ii. The IU shall take a minimum of one representative sample to compile that data necessary to comply with the requirements of this paragraph.
   iii. Samples should be taken immediately downstream from pretreatment facilities if such exist or immediately downstream from the regulated process if no pretreatment exists. If other wastewaters are mixed with the regulated wastewater prior to pretreatment the IU should measure the flows and concentrations necessary to allow use of the combined waste stream formula in 40 CFR 403.6(e) to evaluate compliance with the Pretreatment Standards.
   iv. Where an alternate concentration or mass limit has been calculated in accordance with 40 CFR 403.6(e) this adjusted limit along with supporting data shall be submitted to the Control Authority;
   v. Sampling and analysis shall be performed in accordance with Section 6.10;
   vi. The Liberty Black Mountain Operations Manager may allow the submission of a baseline report which utilizes only historical data so long as the data provides information sufficient to determine the need for industrial pretreatment measures;
   vii. The baseline report shall indicate the time, date and place of sampling and methods of analysis, and shall certify that such sampling and analysis is representative of normal work cycles and expected pollutant Discharges to the POTW

c. Compliance Certification. A statement, reviewed by the IU's Authorized Representative as defined in Section 1.4 C and certified by a qualified professional, indicating whether Pretreatment Standards are being met on a consistent basis, and, if not, whether additional operation and maintenance (O&M) and/or additional pretreatment is required to meet the Pretreatment Standards and Requirements.

d. Compliance Schedule. If additional pretreatment and/or O&M will be required to meet the Pretreatment Standards, the shortest schedule by which the IU will provide such additional pretreatment and/or O&M must be provided. The completion date in this schedule shall not be later than the compliance date established for the applicable Pretreatment Standard. A compliance schedule pursuant to this Section must meet the requirements set out in Section 6.2 of this SOP.

e. Signature and Report Certification. All baseline monitoring reports must be certified in accordance with Section 6.14 A of this SOP and signed by an Authorized Representative as defined in Section 1.4C.

6.2 Compliance Schedule Progress Reports

The following conditions shall apply to the compliance schedule required by Section 6.1(B)(4) of this SOP:

A. The schedule shall contain progress increments in the form of dates for the commencement and completion of major events leading to the construction and operation of additional pretreatment required for the IU to meet the applicable Pretreatment Standards (such events include, but are not limited to, hiring an engineer, completing preliminary and final plans, executing contracts for major components, commencing and completing construction, and beginning and conducting routine operation);

B. No increment referred to above shall exceed nine (9) months;

C. The IU shall submit a progress report to Liberty Black Mountain Operations Manager no later than fourteen (14) days following each date in the schedule and the final date of compliance including, as a minimum, whether or not it complied with the increment of progress, the reason for any delay, and, if appropriate, the steps being taken by the IU to return to the established schedule; and

D. In no event shall more than nine (9) months elapse between such progress reports to Liberty Black Mountain Operations Manager.

6.3 Reports on Compliance with Categorical Pretreatment Standard Deadline

Within ninety (90) days following the date for final compliance with applicable categorical Pretreatment Standards, or in the case of a New Source following commencement of the introduction of wastewater into the POTW, any IU subject to such Pretreatment Standards and Requirements shall submit to Liberty Black Mountain Operations Manager a report containing the information described in Section 4.5A(6) and (7) and 6.1(B)(2) of this SOP. For IUs subject to equivalent mass or concentration limits established in accordance with the procedures in Section 2.2, this report shall contain a reasonable measure of the IU's long term production rate. For all other IUs subject to categorical Pretreatment Standards expressed in terms of allowable pollutant discharge per unit of production (or other measure of operation), this report shall include the IU's actual production during the appropriate sampling period. All compliance reports must be signed and certified in accordance with Section 6.14 A of this SOP. All sampling will be done in conformance with Section 6.11.

6.4 Periodic Compliance Reports

A. Except as specified in Section 6.4.C, all IUs must, at a frequency determined by Liberty Black Mountain Operations Manager submit no less than once per year (January 15) report indicating the nature, concentration of pollutants in the discharge which are limited by Pretreatment Standards and the measured or estimated average and maximum daily flows for the reporting period. In cases where the Pretreatment Standard requires compliance with a Best Management Practice (BMP) or pollution prevention alternative, the IU must submit documentation required by Liberty Black Mountain Operations Manager or the Pretreatment Standard necessary to determine the compliance status of the IU.

B. The Liberty Black Mountain may authorize an IU subject to a categorical Pretreatment Standard to forego sampling of a pollutant regulated by a categorical Pretreatment Standard if the IU has demonstrated through sampling and other technical factors that the pollutant is neither present nor expected to be present in the Discharge, or is present only at background levels from intake water and without any increase in the pollutant due to activities of the IU. [see 40 CFR 403.12(e)(2)] This authorization is subject to the following conditions:

   a. The waiver may be authorized where a pollutant is determined to be present solely due to sanitary wastewater discharged from the facility provided that the sanitary wastewater is not regulated by an applicable categorical Standard and otherwise includes no process wastewater.

   b. The monitoring waiver is valid only for the duration of the effective period of the individual wastewater discharge permit, but in no case longer than 5 years. The IU must submit a new request for the waiver before the waiver can be granted for each subsequent individual wastewater discharge permit. See Section 4.5A(8).

   c. In making a demonstration that a pollutant is not present, the IU must provide data from at least one sampling of the facility's process wastewater prior to any

treatment present at the facility that is representative of all wastewater from all processes.

d. The request for a monitoring waiver must be signed in accordance with Section 1.4C, and include the certification statement in 6.14 A (40 CFR 403.6(a)(2)(ii)).

e. Non-detectable sample results may be used only as a demonstration that a pollutant is not present if the EPA approved method from 40CFR Part 136 with the lowest minimum detection level for that pollutant was used in the analysis.

f. Any grant of the monitoring waiver by the Liberty Black Mountain Operations Manager must be included as a condition in the IU's permit. The reasons supporting the waiver and any information submitted by the IU in its request for the waiver must be maintained by the Liberty Black Mountain Operations Manager for 3 years after expiration of the waiver.

g. Upon approval of the monitoring waiver and revision of the IU's permit by the Liberty Black Mountain Operations Manager, the IU must certify on each report with the statement in Section 6.14 C below, that there has been no increase in the pollutant in its waste stream due to activities of the IU.

h. In the event that a waived pollutant is found to be present or is expected to be present because of changes that occur in the IU's operations, the IU must immediately: Comply with the monitoring requirements of Section 6.4 A, or other more frequent monitoring requirements imposed by the Liberty Black Mountain Operations Manager, and notify the Liberty Black Mountain Operations Manager.

i. This provision does not supersede certification processes and requirements established in categorical Pretreatment Standards, except as otherwise specified in the categorical Pretreatment Standard.

C. Reduced reporting is not available to IUs that have in the last two (2) years been in Significant Noncompliance, as defined in Section 9 of this SOP. In addition, reduced reporting is not available to an IU with daily flow rates, production levels, or pollutant levels that vary so significantly that, in the opinion of the Liberty Black Mountain Operations Manager, decreasing the reporting requirement for this IU would result in data that are not representative of conditions occurring during the reporting period.

D. All periodic compliance reports must be signed and certified in accordance with Section 6.14 A of this SOP.

E. All wastewater samples must be representative of the IU's discharge. Wastewater monitoring and flow measurement facilities shall be properly operated, kept clean, and maintained in good working order at all times. The failure of an IU to keep its monitoring facility in good working order shall not be grounds for the IU to claim that sample results

are unrepresentative of its discharge.

F. If an IU subject to the reporting requirement in this section monitors any regulated pollutant at the appropriate sampling location more frequently than required by Liberty Black Mountain Operations Manager, using the procedures prescribed in Section 6.11 of this SOP, the results of this monitoring shall be included in the report. [Note: See 40CFR 403.12(g)(6)].

6.5 Reports of Changed Conditions

Each IU must notify Liberty Black Mountain Operations Manager of any significant changes to the IU's operations or system which might alter the nature, quality, or volume of its wastewater at least 90 days before the change.

A. Liberty Black Mountain Operations Manager may require the IU to submit such information as may be deemed necessary to evaluate the changed condition, including the submission of a wastewater discharge permit application under Section 4.5 of this SOP.

B. Liberty Black Mountain Operations Manager may issue an individual wastewater discharge permit under Section 5.7 of this SOP or modify an existing wastewater discharge permit under Section 5.4 of this SOP in response to changed conditions or anticipated changed conditions.

6.6 Reports of Potential Problems

A. In the case of any discharge, including, but not limited to, accidental discharges, discharges of a non-routine, episodic nature, a non-customary batch discharge, a Slug Discharge or Slug Load, that might cause potential problems for the POTW, the IU shall immediately telephone and notify Liberty Black Mountain Operations Manager of the incident. This notification shall include the location of the discharge, type of waste, concentration and volume, if known, and corrective actions taken by the IU.

B. Within five (5) days following such discharge, the IU shall, unless waived by Liberty Black Mountain Operations Manager, submit a detailed written report describing the cause(s) of the discharge and the measures to be taken by the IU to prevent similar future occurrences. Such notification shall not relieve the IU of any expense, loss, damage, or other liability which might be incurred as a result of damage to the POTW, natural resources, or any other damage to person or property; nor shall such notification relieve the IU of any fines, penalties, or other liability which may be imposed pursuant to this SOP.

C. A notice shall be permanently posted on the IU's bulletin board or other prominent place advising employees who to call in the event of a discharge described in paragraph A, above. Employers shall ensure that all employees, who could cause such a discharge to occur, are advised of the emergency notification procedure.

D. Significant Industrial IUs are required to notify the Liberty Black Mountain Operations Manager immediately of any changes at its facility affecting the potential for a Slug Discharge.

6.7 Reports from Unpermitted IUs

All IUs not required to obtain an individual wastewater discharge permit shall provide appropriate reports to Liberty Black Mountain Operations Manager as Liberty Black Mountain Operations Manager may require.

6.8 Notice of Violation/Repeat Sampling and Reporting

If sampling performed by an IU indicates a violation, the IU must notify Liberty Black Mountain Operations Manager within twenty four (24) hours of becoming aware of the violation. The IU shall also repeat the sampling and analysis and submit the results of the repeat analysis to Liberty Black Mountain Operations Manager within thirty (30) days after becoming aware of the violation. Resampling by the IU is not required if Liberty Black Mountain performs sampling at the IU's facility at least once a month, or if Liberty Black Mountain performs sampling at the IU between the time when the initial sampling was conducted and the time when the IU or Liberty Black Mountain receives the results of this sampling, or if Liberty Black Mountain has performed the sampling and analysis in lieu of the IU.

6.9 Notification of the Discharge of Hazardous Waste

A. Any IU who commences the discharge of hazardous waste shall notify the POTW, the EPA Regional Waste Management Division Director, and State hazardous waste authorities, in writing, of any discharge into the POTW of a substance which, if otherwise disposed of, would be a hazardous waste under 40 CFR Part 261. Such notification must include the name of the hazardous waste as set forth in 40 CFR Part 261, the EPA hazardous waste number, and the type of discharge (continuous, batch, or other). If the IU discharges more than one hundred (100) kilograms of such waste per calendar month to the POTW, the notification also shall contain the following information to the extent such information is known and readily available to the IU: an identification of the hazardous constituents contained in the wastes, an estimation of the mass and concentration of such constituents in the waste stream discharged during that calendar month, and an estimation of the mass of constituents in the waste stream expected to be discharged during the following twelve (12) months. All notifications must take place no later than one hundred and eighty (180) days after the discharge commences. Any notification under this paragraph need be submitted only once for each hazardous waste discharged. However, notifications of changed conditions must be submitted under Section 6.5 of this SOP. The notification requirement in this Section does not apply to pollutants already reported by IUs subject to categorical Pretreatment Standards under the self monitoring requirements of Sections 6.1, 6.3, and 6.4 of this SOP.

B. Dischargers are exempt from the requirements of paragraph A, above, during a calendar

month in which they discharge no more than fifteen (15) kilograms of hazardous wastes, unless the wastes are acute hazardous wastes as specified in 40 CFR 261.30(d) and 261.33(e). Discharge of more than fifteen (15) kilograms of nonacute hazardous wastes in a calendar month, or of any quantity of acute hazardous wastes as specified in 40 CFR 261.30(d) and 261.33(e), requires a one time notification. Subsequent months during which the IU discharges more than such quantities of any hazardous waste do not require additional notification.

C. In the case of any new regulations under section 3001 of RCRA identifying additional characteristics of hazardous waste or listing any additional substance as a hazardous waste, the IU must notify Liberty Black Mountain Operations Manager, the EPA Regional Waste Management Waste Division Director, and State hazardous waste authorities of the discharge of such substance within ninety (90) days of the effective date of such regulations.

D. In the case of any notification made under this Section, the IU shall certify that it has a program in place to reduce the volume and toxicity of hazardous wastes generated to the degree it has determined to be economically practical.

E. This provision does not create a right to discharge any substance not otherwise permitted to be discharged by this SOP, a permit issued there under, or any applicable Federal or State law.

6.10 Analytical Requirements

All pollutant analyses, including sampling techniques, to be submitted as part of a wastewater discharge permit application or report shall be performed in accordance with the techniques prescribed in 40 CFR Part 136 and amendments thereto, unless otherwise specified in an applicable categorical Pretreatment Standard. If 40 CFR Part 136 does not contain sampling or analytical techniques for the pollutant in question, or where the EPA determines that the Part 136 sampling and analytical techniques are inappropriate for the pollutant in question, sampling and analyses shall be performed by using validated analytical methods or any other applicable sampling and analytical procedures, including procedures suggested by the Liberty Black Mountain Operations Manager or other parties approved by EPA.

6.11 Sample Collection

Samples collected to satisfy reporting requirements must be based on data obtained through appropriate sampling and analysis performed during the period covered by the report, based on data that is representative of conditions occurring during the reporting period.

A. Except as indicated in Section B and C below, the IU must collect wastewater samples using 24 hour flow proportional composite sampling techniques, unless time proportional composite sampling or grab sampling is authorized by Liberty Black Mountain Operations Manager. Where time proportional composite sampling or grab sampling is authorized by Liberty Black Mountain, the samples must be representative of the discharge. Using

protocols (including appropriate preservation) specified in 40 CFR Part 136 and appropriate EPA guidance, multiple grab samples collected during a 24 hour period may be composited prior to the analysis as follows: for cyanide, total phenols, and sulfides the samples may be composited in the laboratory or in the field; for volatile organics and oil and grease, the samples may be composited in the laboratory. Composite samples for other parameters unaffected by the compositing procedures as documented in approved EPA methodologies may be authorized by Liberty Black Mountain, as appropriate. In addition, grab samples may be required to show compliance with Local Limits.

B. Samples for oil and grease, temperature, pH, cyanide, total phenols, sulfides, and volatile organic compounds must be obtained using grab collection techniques.

C. For sampling required in support of baseline monitoring and 90 day compliance reports required in Section 6.1 and 6.3 [40 CFR 403.12(b) and (d)], a minimum of four (4) grab samples must be used for pH, cyanide, total phenols, oil and grease, sulfide and volatile organic compounds for facilities for which historical sampling data do not exist; for facilities for which historical sampling data are available, Liberty Black Mountain Operations Manager may authorize a lower minimum. For the reports required by paragraphs Section 6.4 (40 CFR 403.12(e) and 403.12(h)), the IU is required to collect the number of grab samples necessary to assess and assure compliance by with applicable Pretreatment Standards and Requirements.

6.12 Date of Receipt of Reports

Written reports will be deemed to have been submitted on the date postmarked or if hand delivered, date received by Liberty Black Mountain.

6.13 Recordkeeping

IUs subject to the reporting requirements of this SOP shall retain, and make available for inspection and copying, all records of information obtained pursuant to any monitoring activities required by this SOP, any additional records of information obtained pursuant to monitoring activities undertaken by the IU independent of such requirements, and documentation associated with Best Management Practices established under Section 2.4 C. Records shall include the date, exact place, method, and time of sampling, and the name of the person(s) taking the samples; the dates analyses were performed; who performed the analyses; the analytical techniques or methods used; and the results of such analyses. These records shall remain available for a period of at least three (3) years. This period shall be automatically extended for the duration of any litigation concerning the IU or Liberty Black Mountain, or where the IU has been specifically notified of a longer retention period by Liberty Black Mountain Operations Manager.

6.14 Certification Statements

A. Certification of Permit Applications, IU Reports and Initial Monitoring Waiver-The following certification statement is required to be signed and submitted by IUs submitting

permit applications in accordance with Section 4.7; IUs submitting baseline monitoring reports under Section 6.1 B (5); IUs submitting reports on compliance with the categorical Pretreatment Standard deadlines under Section 6.3; IUs submitting periodic compliance reports required by Section 6.4 A-D, and IUs submitting an initial request to forego sampling of a pollutant on the basis of Section 6.4B(4). The following certification statement must be signed by an Authorized Representative as defined in Section 1.3 C:

I certify under penalty of law that this document and all attachments were prepared under my direction or supervision in accordance with a system designed to assure that qualified personnel properly gather and evaluate the information submitted. Based on my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering the information, the information submitted is, to the best of my knowledge and belief, true, accurate, and complete. I am aware that there are significant penalties for submitting false information, including the possibility of fine and imprisonment for knowing violations.

B. Annual Certification for Non-Significant Categorical Industrial IUs-A facility determined to be a Non Significant Categorical IU by Liberty Black Mountain Operations Manager pursuant to 1.3 GG(3) and 4.7 C [Note: See 40 CFR 403.3(v)(2)] must annually submit the following certification statement signed in accordance with the signatory requirements in 1.3 C [Note:

See 40 CFR 403.120(l)]. This certification must accompany an alternative report required by Liberty Black Mountain Operations Manager:

Based on my inquiry of the person or persons directly responsible for managing compliance with the categorical Pretreatment Standards under 40 CFR ____, I certify that, to the best of my knowledge and belief that during the period from _____, _____ to _____, [months, days, year]:

(a) The facility described as _____ [facility name] met the definition of a Non Significant Categorical IU as described in 1.4 GG (3); [Note: See 40 CFR 403.3(v)(2)]

(b) The facility complied with all applicable Pretreatment Standards and requirements during this reporting period; and © the facility never discharged more than 100 gallons of total categorical wastewater on any given day during this reporting period.

This compliance certification is based on the following information.

_____

7. COMPLIANCE MONITORING

7.1 Right of Entry: Inspection and Sampling

Liberty Black Mountain Operations Manager shall have the right to enter the premises of any IU to determine whether the IU is complying with all requirements of this SOP and any individual wastewater discharge permit or order issued hereunder. IUs shall allow Liberty Black Mountain Operations Manager ready access to all parts of the premises for the purposes of inspection, sampling, records examination and copying, and the performance of any additional duties.

A. Where an IU has security measures in force which require proper identification and clearance before entry into its premises, the IU shall make necessary arrangements with its security guards so that, upon presentation of suitable identification, Liberty Black Mountain Operations Manager shall be permitted to enter without delay for the purposes of performing specific responsibilities.

B. Liberty Black Mountain Operations Manager shall have the right to set up on the IU's property, or require installation of, such devices as are necessary to conduct sampling and/or metering of the IU's operations.

C. Liberty Black Mountain Operations Manager may require the IU to install monitoring equipment as necessary. The facility's sampling and monitoring equipment shall be maintained at all times in a safe and proper operating condition by the IU at its own expense. All devices used to measure wastewater flow and quality shall be calibrated [insert desired frequency] to ensure their accuracy.

D. Any temporary or permanent obstruction to safe and easy access to the facility to be inspected and/or sampled shall be promptly removed by the IU at the written or verbal request of Liberty Black Mountain Operations Manager and shall not be replaced. The costs of clearing such access shall be born by the IU.

E. Unreasonable delays in allowing Liberty Black Mountain Operations Manager access to the IU's premises shall be a violation of this SOP.

7.2 Search Warrants

If Liberty Black Mountain Operations Manager has been refused access to a building, structure, or property, or any part thereof, and is able to demonstrate probable cause to believe that there may be a violation of this SOP, or that there is a need to inspect and/or sample as part of a routine inspection and sampling program of Liberty Black Mountain designed to verify compliance with this SOP or any permit or order issued hereunder, or to protect the overall public health, safety and welfare of the community, Liberty Black Mountain Operations Manager may seek issuance of a search warrant from the Maricopa County Court or other authorities as applicable.

8. CONFIDENTIAL INFORMATION

Information and data on a IU obtained from reports, surveys, wastewater discharge permit applications, individual wastewater discharge permits, and monitoring programs, and from the Liberty Black Mountain inspection and sampling activities, shall be available to the public without restriction, unless the IU specifically requests, and is able to demonstrate to the satisfaction of Liberty Black Mountain Operations Manager, that the release of such information would divulge information, processes, or methods of production entitled to protection as trade secrets under applicable State law. Any such request must be asserted at the time of submission of the information or data. When requested and demonstrated by the IU furnishing a report that such information should be held confidential, the portions of a report which might disclose trade secrets or secret processes shall not be made available for inspection by the public, but shall be made available immediately upon request to governmental agencies for uses related to the NPDES program or pretreatment program, and in enforcement proceedings involving the person furnishing the report. Wastewater constituents and characteristics and other effluent data, as defined at 40 CFR 2.302 shall not be recognized as confidential information and shall be available to the public without restriction.

9. PUBLICATION OF IUS IN SIGNIFICANT NONCOMPLIANCE

Liberty Black Mountain Operations Manager shall publish annually, in a newspaper of general circulation that provides meaningful public notice within the jurisdictions served by Liberty Black Mountain, a list of the IUs which, at any time during the previous twelve (12) months, were in Significant Noncompliance with applicable Pretreatment Standards and Requirements. The term Significant Noncompliance shall be applicable to all Significant IUs (or any other IU that violates paragraphs (C), (D) or (H) of this Section) and shall mean:

A. Chronic violations of wastewater discharge limits, defined here as those in which sixty six percent (66%) or more of all the measurements taken for the same pollutant parameter taken during a six (6) month period exceed (by any magnitude) a numeric Pretreatment Standard or Requirement, including Instantaneous Limits as defined in Section 2;
Technical Review Criteria (TRC) violations, defined here as those in which thirty three percent (33%) or more of wastewater measurements taken for each pollutant parameter during a six (6) month period equals or exceeds the product of the numeric Pretreatment Standard or Requirement including Instantaneous Limits, as defined by Section 2 multiplied by the applicable criteria (1.4 for BOD, TSS, fats, oils and grease, and 1.2 for all other pollutants except pH);

B. Any other violation of a Pretreatment Standard or Requirement as defined by Section 2 (Daily Maximum, long term average, Instantaneous Limit, or narrative standard) that Liberty Black Mountain Operations Manager determines has caused, alone or in combination with other discharges, Interference or Pass Through, including endangering the health of POTW personnel or the general public;

C. Any discharge of a pollutant that has caused imminent endangerment to the public or to the

environment, or has resulted in Liberty Black Mountain Operations Manager's exercise of its emergency authority to halt or prevent such a discharge;

D. Failure to meet, within ninety (90) days of the scheduled date, a compliance schedule milestone contained in an individual wastewater discharge permit or enforcement order for starting construction, completing construction, or attaining final compliance;

E. Failure to provide within forty five (45) days after the due date, any required reports, including baseline monitoring reports, reports on compliance with categorical Pretreatment Standard deadlines, periodic self monitoring reports, and reports on compliance with compliance schedules;

F. Failure to accurately report noncompliance; or

G. Any other violation(s), which may include a violation of Best Management Practices, which Liberty Black Mountain Operations Manager determines will adversely affect the operation or implementation of the local pretreatment program.

10. ADMINISTRATIVE ENFORCEMENT REMEDIES

10.1 Notification of Violation

When Liberty Black Mountain Operations Manager finds that an IU has violated, or continues to violate, any provision of this SOP, an individual wastewater discharge permit, or order issued hereunder, or any other Pretreatment Standard or Requirement, Liberty Black Mountain Operations Manager may serve upon that IU a written Notice of Violation. Within 14 days of the receipt of such notice, an explanation of the violation and a plan for the satisfactory correction and prevention thereof, to include specific required actions, shall be submitted by the IU to Liberty Black Mountain Operations Manager. Submission of such a plan in no way relieves the IU of liability for any violations occurring before or after receipt of the Notice of Violation. Nothing in this Section shall limit the authority of Liberty Black Mountain Operations Manager to take any action, including emergency actions or any other enforcement action, without first issuing a Notice of Violation.

10.2 Consent Orders

Liberty Black Mountain Operations Manager may enter into Consent Orders, assurances of compliance, or other similar documents establishing an agreement with any IU responsible for noncompliance. Such documents shall include specific action to be taken by the IU to correct the noncompliance within a time period specified by the document. Such documents shall have the same force and effect as the administrative orders issued pursuant to Sections 10.4 and 10.5 of this SOP and shall be judicially enforceable.

10.3 Show Cause Hearing

Liberty Black Mountain Operations Manager may order an IU which has violated, or continues to violate, any provision of this SOP, an individual wastewater discharge permit, or order issued hereunder, or any other Pretreatment Standard or Requirement, to appear before Liberty Black Mountain Operations Manager and show cause why the proposed enforcement action should not be taken. Notice shall be served on the IU specifying the time and place for the meeting, the proposed enforcement action, the reasons for such action, and a request that the IU show cause why the proposed enforcement action should not be taken. The notice of the meeting shall be served personally or by registered or certified mail (return receipt requested) at least 30 days prior to the hearing. Such notice may be served on any Authorized Representative of the IU as defined in Section 1.4 C and required by Section 4.7 A. A show cause hearing shall not be a bar against, or prerequisite for, taking any other action against the IU.

10.4 Compliance Orders

When Liberty Black Mountain Operations Manager finds that a IU has violated, or continues to violate, any provision of this SOP, an individual wastewater discharge permit, or order issued hereunder, or any other Pretreatment Standard or Requirement, Liberty Black Mountain Operations Manager may issue an order to the IU responsible for the discharge directing that the IU come into compliance within a specified time. If the IU does not come into compliance within the time provided, sewer service may be discontinued unless adequate treatment facilities, devices, or other related appurtenances are installed and properly operated. Compliance orders also may contain other requirements to address the noncompliance, including additional self monitoring and management practices designed to minimize the amount of pollutants discharged to the sewer. A compliance order may not extend the deadline for compliance established for a Pretreatment Standard or Requirement, nor does a compliance order relieve the IU of liability for any violation, including any continuing violation. Issuance of a compliance order shall not be a bar against, or a prerequisite for, taking any other action against the IU.

10.5 Cease and Desist Orders

When Liberty Black Mountain Operations Manager finds that a IU has violated, or continues to violate, any provision of this SOP, an individual wastewater discharge permit, or order issued hereunder, or any other Pretreatment Standard or Requirement, or that the IU's past violations are likely to recur, Liberty Black Mountain Operations Manager may issue an order to the IU directing it to cease and desist all such violations and directing the IU to:

A. Immediately comply with all requirements; and

B. Take such appropriate remedial or preventive action as may be needed to properly address a continuing or threatened violation, including halting operations and/or terminating the discharge. Issuance of a cease and desist order shall not be a bar against, or a prerequisite for, taking any other action against the IU.

10.6 Administrative Fines

A. When Liberty Black Mountain Operations Manager finds that a IU has violated, or continues to violate, any provision of this SOP, an individual wastewater discharge permit, or order issued hereunder, or any other Pretreatment Standard or Requirement, Liberty Black Mountain Operations Manager may fine such IU in an amount not to exceed $250 per day. Such fines shall be assessed on a per-violation, per-day basis. In the case of monthly or other long-term average discharge limits, fines shall be assessed for each day during the period of violation.

B. Unpaid charges, fines, and penalties shall, after 90 calendar days, be assessed an additional penalty of 10 percent (10%) of the unpaid balance, and interest shall accrue thereafter at a rate of one percent (1 %) per month. A lien against the IU's property shall be sought for unpaid charges, fines, and penalties.

C. IUs desiring to dispute such fines must file a written request for Liberty Black Mountain Operations Manager to reconsider the fine along with full payment of the fine amount within 30 days of being notified of the fine. Where a request has merit, Liberty Black Mountain Operations Manager may convene a hearing on the matter. In the event the IU's appeal is successful, the payment, together with any interest accruing thereto, shall be returned to the IU. Liberty Black Mountain Operations Manager may add the costs of preparing administrative enforcement actions, such as notices and orders, to the fine.

D. Issuance of an administrative fine shall not be a bar against, or a prerequisite for, taking any other action against the IU.

10.7 Emergency Suspensions

Liberty Black Mountain Operations Manager may immediately suspend a IU's discharge, after informal notice to the IU, whenever such suspension is necessary to stop an actual or threatened discharge, which reasonably appears to present, or cause an imminent or substantial endangerment to the health or welfare of persons. Liberty Black Mountain Operations Manager may also immediately suspend a IU's discharge, after notice and opportunity to respond, that threatens to interfere with the operation of the POTW, or which presents, or may present, an endangerment to the environment.

A. Any IU notified of a suspension of its discharge shall immediately stop or eliminate its contribution. In the event of an IU's failure to immediately comply voluntarily with the suspension order, Liberty Black Mountain Operations Manager may take such steps as deemed necessary, including immediate severance of the sewer connection, to prevent or minimize damage to the POTW, its receiving stream, or endangerment to any individuals. Liberty Black Mountain Operations Manager may allow the IU to recommence its discharge when the IU has demonstrated to the satisfaction of Liberty Black Mountain

Operations Manager that the period of endangerment has passed, unless the termination proceedings in Section 10.8 of this SOP are initiated against the IU.

B. A IU that is responsible, in whole or in part, for any discharge presenting imminent endangerment shall submit a detailed written statement, describing the causes of the harmful contribution and the measures taken to prevent any future occurrence, to Liberty Black Mountain Operations Manager prior to the date of any show cause or termination hearing under Sections 10.3 or 10.8 of this SOP.

Nothing in this Section shall be interpreted as requiring a hearing prior to any Emergency Suspension under this Section.

10.8 Termination of Discharge

In addition to the provisions in Section 5.6 of this SOP, any IU who violates the following conditions is subject to discharge termination:

A. Violation of individual wastewater discharge permit conditions;

B. Failure to accurately report the wastewater constituents and characteristics of its discharge;

C. Failure to report significant changes in operations or wastewater volume, constituents, and characteristics prior to discharge;

D. Refusal of reasonable access to the IU's premises for the purpose of inspection, monitoring, or sampling; or

E. Violation of the Pretreatment Standards in Section 2 of this SOP.

Such IU will be notified of the proposed termination of its discharge and be offered an opportunity to show cause under Section 10.3 of this SOP why the proposed action should not be taken. Exercise of this option by Liberty Black Mountain Operations Manager shall not be a bar to, or a prerequisite for, taking any other action against the IU.

11. JUDICIAL ENFORCEMENT REMEDIES

11.1 Injunctive Relief

When Liberty Black Mountain Operations Manager finds that a IU has violated, or continues to violate, any provision of this SOP, an individual wastewater discharge permit, or order issued hereunder, or any other Pretreatment Standard or Requirement, Liberty Black Mountain Operations Manager may petition the Maricopa County through Attorney for the issuance of a temporary or permanent injunction, as appropriate, which restrains or compels the specific performance of the individual wastewater discharge permit, order, or other requirement

imposed by this SOP on activities of the IU. Liberty Black Mountain Operations Manager may also seek such other action as is appropriate for legal and/or equitable relief, including a requirement for the IU to conduct environmental remediation. A petition for injunctive relief shall not be a bar against, or a prerequisite for, taking any other action against an IU.

11.2 Civil Penalties

A. An IU who has violated, or continues to violate, any provision of this SOP, an individual wastewater discharge permit, or order issued hereunder, or any other Pretreatment Standard or Requirement shall be liable to Liberty Black Mountain for a maximum civil penalty of $250 per violation, per day. In the case of a monthly or other long term average discharge limit, penalties shall accrue for each day during the period of the violation.

B. Liberty Black Mountain Operations Manager may recover reasonable attorneys' fees, court costs, and other expenses associated with enforcement activities, including sampling and monitoring expenses, and the cost of any actual damages incurred by Liberty Black Mountain.

C. In determining the amount of civil liability, the Court shall take into account all relevant circumstances, including, but not limited to, the extent of harm caused by the violation, the magnitude and duration of the violation, any economic benefit gained through the IU's violation, corrective actions by the IU, the compliance history of the IU, and any other factor as justice requires.

D. Filing a suit for civil penalties shall not be a bar against, or a prerequisite for, taking any other action against an IU.

11.3 Criminal Prosecution

A. An IU who willfully or negligently violates any provision of this SOP, an individual wastewater discharge permit, or order issued hereunder, or any other Pretreatment Standard or Requirement shall be punishable by a fine of not more than $250 per violation, per day and subject to misdemeanor violations, as applicable by law.

B. An IU who willfully or negligently introduces any substance into the POTW which causes personal injury or property damage shall, $250 per violation, per day and subject to misdemeanor violations, as applicable by law. This penalty shall be in addition to any other cause of action for personal injury or property damage available under State law.

C. A IU who knowingly makes any false statements, representations, or certifications in any application, record, report, plan, or other documentation filed, or required to be maintained, pursuant to this SOP, individual wastewater discharge permit, or order issued hereunder, or who falsifies, tampers with, or knowingly renders inaccurate any monitoring device or method required under this SOP shall, upon conviction, be punished by a fine of not more than $250 fine per day.

D. In the event of a second conviction, a IU shall be punished by a fine of not more than $500 fine per day.

11.4 Remedies Nonexclusive

The remedies provided for in this SOP are not exclusive. Liberty Black Mountain Operations Manager may take any, all, or any combination of these actions against a noncompliant IU. Enforcement of pretreatment violations will generally be in accordance with [the Liberty Black Mountain's] enforcement response plan. However, Liberty Black Mountain Operations Manager may take other action against any IU when the circumstances warrant. Further, Liberty Black Mountain Operations Manager is empowered to take more than one enforcement action against any noncompliant IU.

12. SUPPLEMENTAL ENFORCEMENT ACTION

12.1 Penalties for Late Reports

A penalty of $100 shall be assessed to any IU for each day that a report required by this SOP, a permit or order issued hereunder is late, beginning five days after the date the report is due [higher penalties may also be assessed where reports are more than 30-45 days late]. Actions taken by Liberty Black Mountain Operations Manager to collect late reporting penalties shall not limit Liberty Black Mountain Operations Manager authority to initiate other enforcement actions that may include penalties for late reporting violations.

12.2 Performance Bonds {Optional}

Liberty Black Mountain Operations Manager may decline to issue or reissue an individual wastewater discharge permit to any IU who has failed to comply with any provision of this SOP, a previous individual wastewater discharge permit, or order issued hereunder, or any other Pretreatment Standard or Requirement, unless such IU first files a satisfactory bond, payable to Liberty Black Mountain, in a sum not to exceed a value determined by Liberty Black Mountain Operations Manager to be necessary to achieve consistent compliance.

12.3 Liability Insurance {Optional}

Liberty Black Mountain Operations Manager may decline to issue or reissue an individual wastewater discharge to any IU who has failed to comply with any provision of this SOP, a previous individual wastewater discharge permit, or order issued hereunder, or any other Pretreatment Standard or Requirement, unless the IU first submits proof that it has obtained financial assurances sufficient to restore or repair damage to the POTW caused by its discharge.

12.4 Payment of Outstanding Fees and Penalties {Optional}

Liberty Black Mountain Operations Manager may decline to issue or reissue an individual wastewater discharge permit to any IU who has failed to pay any outstanding fees, fines or penalties incurred as

a result of any provision of this SOP, a previous individual wastewater discharge permit, or order issued hereunder.

12.5 Contractor Listing {Optional}

IUs which have not achieved compliance with applicable Pretreatment Standards and Requirements are not eligible to receive a contractual award for the sale of goods or services to Liberty Black Mountain. Existing contracts for the sale of goods or services to Liberty Black Mountain held by an IU found to be in Significant Noncompliance with Pretreatment Standards or Requirements may be terminated at the discretion of Liberty Black Mountain Operations Manager.

13. AFFIRMATIVE DEFENSES TO DISCHARGE VIOLATIONS

13.1 Upset

A. For the purposes of this Section, upset means an exceptional incident in which there is unintentional and temporary noncompliance with categorical Pretreatment Standards because of factors beyond the reasonable control of the IU. An upset does not include noncompliance to the extent caused by operational error, improperly designed treatment facilities, inadequate treatment facilities, lack of preventive maintenance, or careless or improper operation.

B. An upset shall constitute an affirmative defense to an action brought for noncompliance with categorical Pretreatment Standards if the requirements of paragraph C, below, are met.

C. A IU who wishes to establish the affirmative defense of upset shall demonstrate, through properly signed, contemporaneous operating logs, or other relevant evidence that:

   a. An upset occurred and the IU can identify the cause(s) of the upset;

   b. The facility was at the time being operated in a prudent and workman like manner and in compliance with applicable operation and maintenance procedures; and

   c. The IU has submitted the following information to Liberty Black Mountain Operations Manager within twenty four (24) hours of becoming aware of the upset [if this information is provided orally, a written submission must be provided within five (5) days]

      i. A description of the indirect discharge and cause of noncompliance;
      ii. The period of noncompliance, including exact dates and times or, if not corrected, the anticipated time the noncompliance is expected to continue; and

      iii. Steps being taken and/or planned to reduce, eliminate, and prevent

recurrence of the noncompliance.

D. In any enforcement proceeding, the IU seeking to establish the occurrence of an upset shall have the burden of proof.

E. IUs shall have the opportunity for a judicial determination on any claim of upset only in an enforcement action brought for noncompliance with categorical Pretreatment Standards.

F. IUs shall control production of all discharges to the extent necessary to maintain compliance with categorical Pretreatment Standards upon reduction, loss, or failure of its treatment facility until the facility is restored or an alternative method of treatment is provided. This requirement applies in the situation where, among other things, the primary source of power of the treatment facility is reduced, lost, or fails.

13.2 Prohibited Discharge Standards

A IU shall have an affirmative defense to an enforcement action brought against it for noncompliance with the general prohibitions in Section 2.1(A) of this SOP or the specific prohibitions applicable of this SOP if it can prove that it did not know, or have reason to know, that its discharge, alone or in conjunction with discharges from other sources, would cause Pass Through or Interference and that either:

A. A Local Limit exists for each pollutant discharged and the IU was in compliance with each limit directly prior to, and during, the Pass Through or Interference; or

B. No Local Limit exists, but the discharge did not change substantially in nature or constituents from the IU's prior discharge when Liberty Black Mountain or the City of Scottsdale was regularly in compliance with its AZPDES permit, and in the case of Interference, was in compliance with applicable sludge use or disposal requirements.

13.3 Bypass

A. For the purposes of this Section,

a. Bypass means the intentional diversion of waste streams from any portion of an IU's treatment facility.

b. Severe property damage means substantial physical damage to property, damage to the treatment facilities which causes them to become inoperable, or substantial and permanent loss of natural resources which can reasonably be expected to occur in the absence of a bypass. Severe property damage does not mean economic loss caused by delays in production.

B. An IU may allow any bypass to occur which does not cause Pretreatment Standards or Requirements to be violated, but only if it also is for essential maintenance to assure efficient operation. These bypasses are not subject to the provision of paragraphs (C) and (D) of this

Section.

C. Bypass Notifications

a. If an IU knows in advance of the need for a bypass, it shall submit prior notice to

Liberty Black Mountain Operations Manager, at least ten (10) days before the date of the bypass, if possible.

b. An IU shall submit oral notice to Liberty Black Mountain Operations Manager of an unanticipated bypass that exceeds applicable Pretreatment Standards within twenty four (24) hours from the time it becomes aware of the bypass. A written submission shall also be provided within five (5) days of the time the IU becomes aware of the bypass. The written submission shall contain a description of the bypass and its cause; the duration of the bypass, including exact dates and times, and, if the bypass has not been corrected, the anticipated time it is expected to continue; and steps taken or planned to reduce, eliminate, and prevent reoccurrence of the bypass. Liberty Black Mountain Operations Manager may waive the written report on a case by case basis if the oral report has been received within twenty four (24) hours

D. Bypass

a. Bypass is prohibited, and Liberty Black Mountain Operations Manager may take an enforcement action against a IU for a bypass, unless

i. Bypass was unavoidable to prevent loss of life, personal injury, or severe property damage;
ii. There were no feasible alternatives to the bypass, such as the use of auxiliary treatment facilities, retention of untreated wastes, or maintenance during normal periods of equipment downtime. This condition is not satisfied if adequate back up equipment should have been installed in the exercise of reasonable engineering judgment to prevent a bypass which occurred during normal periods of equipment downtime or preventive maintenance; and
iii. The IU submitted notices as required under paragraph © of this section.

b. Liberty Black Mountain Operations Manager may approve an anticipated bypass, after considering its adverse effects, if Liberty Black Mountain Operations Manager determines that it will meet the three conditions listed in paragraph (D)(1) of this Section.

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

PRETREATMENT STANDARDS TARIFF

EXECUTIVE SUMMARY

Liberty Utilities (Black Mountain Sewer) Corp. ("Liberty Black Mountain") hereby declares that the following Code of Practice has been prepared and adopted to provide for pretreatment standards in the maintenance and operation of wastewater treatment at the City of Scottsdale Wastewater Treatment Plant ("CSWWTP"). This Code of Practice shall be filed with the Arizona Corporation Commission and made part of Liberty Black Mountain's Wastewater Service Tariff, Part Four, Section I.B [Waste Limitations].

Liberty Black Mountain hereby expressly reserves the right to make any lawful addition and/or revisions in this Code of Practice when and as they may become advisable to properly manage the CSWWTP and to promote the peace, health, safety and welfare of the customers that will be served. This Code of Practice is supplementary to, and are not to be construed as, any abridgement of any lawful rights of Liberty Black Mountain as outlined in the Arizona Revised Statutes governing Public Utilities (Title 40) and the Arizona Administrative Corporation Commission Rules on Sewer (Title 14, Article 6), including the right to disconnect or to refuse permission to connect a customer to Liberty Black Mountain's wastewater system for violation of this Code of Practice or any other applicable law of the State of Arizona.

This Code of Practice incorporates pretreatment standards per 40 CFR 403, A.A.C. Title 12, Article 4, and A.A.C. Title 18, Chapter 9, Article 3. This Code of Practice is enforceable per the authority granted to wastewater utilities established under A.A.C. Title 14, Chapter 2, Article 6 of the Arizona Administrative Code.

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

CODE OF PRACTICE (Liberty Utilities BMSC-CP-01-DEF)

SECTION 1 – DEFINITIONS

A. PROHIBITED WASTE

Prohibited waste means:

1. Air Contaminant Waste

Any waste other than sanitary waste which, by itself or in combination with another substance, is capable of creating, causing or introducing an air contaminant outside any sewer or sewage facility or is capable of creating, causing or introducing an air contaminant within any sewer or sewage facility which would prevent safe entry by authorized personnel.

2. Flammable or Explosive Waste

Any pollutants which create a fire or explosion hazard to the sewer or any waste other than sanitary waste which, which by itself or in combination with another substance, is capable of causing or contributing to an explosion or supporting combustion in any sewer or sewage facility including, but not limited to gasoline, naphtha, propane, diesel, fuel oil, kerosene or alcohol.

3. Obstructive Waste

Any waste other than sanitary waste which, by itself or in combination with another substance, is capable of obstructing the flow of, or interfering with, the operation or performance of any sewer or sewage facility including, but not limited to: earth, sand, sweepings, gardening or agricultural waste, ash, chemicals, paint, metal, glass, sharps, rags, cloth, tar, asphalt, cement-based products, plastic, wood, waste portions of animals, fish or fowl and solidified fat.

4. Corrosive Waste

Any waste other than sanitary waste which, with corrosive properties which, by itself or in combination with any other substance, may cause damage to any sewer or sewage facility or which may prevent safe entry by authorized personnel.

5. High Temperature Waste

Any waste other than sanitary waste which, by itself or in combination with another substance, will create heat in amounts which will interfere with the operation and maintenance of a sewer or sewage facility or with the treatment of waste in a sewage facility;

Any waste other than sanitary waste which, will raise the temperature of waste entering any sewage facility to 40 degrees Celsius (104 degrees Fahrenheit) or more; or any non-domestic waste with a temperature of 65 degrees Celsius (150 degrees Fahrenheit) or more.

6. Biomedical Waste

Any of the following categories of biomedical waste: human anatomical waste, animal waste, untreated microbiological waste, waste sharps, medical products, and untreated human blood and body fluids known to contain viruses and agents.

7. Miscellaneous Wastes

Any storm water, surface water, groundwater, roof runoff, or surface drainage is prohibited.

8. Dilution Wastes

Any discharge that has been in any way, been diluted as a substitute for pretreatment, for the purposes of obtaining compliance with any categorical standard or pretreatment requirement or any other requirement imposed by this article except where dilution is expressly authorized by an categorical standard.

9 Other Discharge Limitations.

Any discharge that is transported from the point of generation to the sewer by any hauler, unless the hauler has first:

a. Obtained authorization to discharge from Liberty Black Mountain.

b. Disclosed the nature, origin, and volume of the discharge.

Any waste, other than sanitary waste, which by itself or in combination with another substance:

a. constitutes or may constitute a significant health or safety hazard to any person;
b. Any waste other than sanitary waste which may interfere with any sewer or sewage treatment process;
c. may cause a discharge from a sewage facility to contravene any requirements by or under any ADEQ or AZPDES discharge permit or any other act, approved Waste Minimization Plan (WMP), or any other law or regulation governing the quality of the discharge, or may cause the discharge to result in a hazard to people, animals, property or vegetation;
d. may cause bio-solid to fail criteria for beneficial land application.

B. RESTRICTED WASTE (Liberty Utilities BMSC-CP-01-001)

Restricted waste means:

1. Specified Waste

Any waste other than sanitary waste which, at the point of discharge into a sewer, contains any contaminant at a concentration in excess of the limits set out below. All concentrations are expressed as total concentrations which includes all forms of the contaminant, whether dissolved or un-dissolved. The concentration limits apply to both grab and composite samples. Contaminant definitions and methods of analysis are outlined in standard methods.

ORGANIC CONTAMINANTS (µg/L)	
Benzene	35
Chloroform	2,000
4,4' - DOE	Not allowed
4,4' – DDT	Not allowed
Aldrin	Not allowed
BHC-Alpha	Not allowed

BHC-Gamma (Lindane)	Not allowed
Heptachlor	Not allowed
Heptachlor Epoxide	Not allowed
Polychlorinated byphenyl compounds (PCBs)	Not allowed
TRACE METALS	
PARAMETER	DAILY AVERAGE (mg/L)
Arsenic	0.13
Cadmium (Cd)	0.047
Copper (Cu)	1.5
Cyanide (CN)	2.0
Lead (Pb)	0.41
Mercury (Hg)	0.0023
Selenium (Se)	0.10
Silver (Ag)	1.2
Zinc (Zn)	3.5

2. Food Waste

Any solid or viscous pollutants, animal fats, oil, and grease (FOG) in amounts that may cause obstruction to the flow in sewers or pass through or other interference or damage to the sewer collection system. Any pollutant, including oxygen demanding pollutants (BOD, COD, TOC, etc.) released in a discharge flow at a rate and/or pollutant concentration which may cause interference with the sewer collection system or wastewater treatment process. This also includes petroleum oil, non-biodegradable cutting oil, or other products of mineral oil origin in amounts that may cause interference or pass through at the wastewater treatment facility.

3. Brewery Waste

Any discharge containing solid or other substances in which sufficient quantity to cause or have the potential to cause obstruction to the flow in sewers or pass through or other interference or damage to the sewer collection system. Any pollutant, including oxygen demanding pollutants (BOD, COD, TOC, etc.) and/or suspended solids released in a discharge flow at a rate and/or pollutant concentration which may cause interference with the sewer collection system or wastewater treatment process.

4. Radioactive Waste

Any discharge containing a toxic, radioactive, poisonous or other substances in which sufficient quantity to cause or have the potential to cause injury or damage to a person or property or interference with any sewage treatment process, cause corrosive structural damage, constitute a hazard to humans or create any hazard to the sewer system or the effluent of the sewer system. All such wastes shall be subject to compliance with Nuclear Regulatory Commission standards for sewer disposal including the Unity Equation.

5. pH Waste

Any discharge with a pH less than 5.5 standard units (SU) or greater than 10.5 SU as determined by either a grab or a composite sample.

6. Dyes and Coloring Material

Dyes or coloring materials which may pass through a sewage facility and discolor the effluent from a sewage facility except where the dye is used by the Liberty Utilities BMSC, or one or more of its agents, as a tracer.

7. Miscellaneous Restricted Wastes

Any of the following wastes:

a. 4,4' – DDE
b. 4,4' – DDT
c. Aldrin
d. BHC—Alpha
e. BHC—Beta
f. BHC—Gamma (Lindane)
g. Heptachlor.
h. Heptachlor epoxide.
i. Polychlorinated biphenyl compounds (PCB's)

7. Temperature

Any waste other than sanitary waste which, will raise the temperature of waste entering any sewage facility to 40 degrees Celsius (104 degrees Fahrenheit) or more; or any non-domestic waste with a temperature of 65 degrees Celsius (150 degrees Fahrenheit) or more.

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

CODE OF PRACTICE (Liberty Utilities BMSC-CP-01-002)

SECTION 2 - DENTAL OPERATIONS

I. APPLICATION

This code of practice for dental operations defines mandatory requirements for managing non-domestic waste discharged directly or indirectly into a sewer connected to a sewage facility.

This code of practice applies to dental operations.

II. DISCHARGE REGULATIONS

An operator of a dental operation must not discharge waste which, at the point of discharge into a sewer, contains:

a. prohibited waste, special waste, or storm water ; or
b. restricted waste with the exception of mercury measured at the point of discharge from a certified amalgam separator.

An operator of a dental operation that produces liquid waste from photographic imaging containing silver shall comply with the requirements of Liberty Utilities BMSC-CP-01-001.

An operator of a dental operation that produces wastewater containing dental amalgam must either:

a. collect and transport the wastewater from the dental operation for off-site waste management; or
b. treat the wastewater at the dental operation site prior to discharge to the sewer using a certified amalgam separator.

An operator of a dental operation must install and maintain the amalgam separator according to the manufacturer's or supplier's recommendations in order that the amalgam separator functions correctly. Such separator must be certified for use by the manufacturer.

An operator of a dental operation who installs an amalgam separator must ensure that:

a. all dental operation wastewater that contains dental amalgam is treated using the amalgam separator;
b. a monitoring point is installed at the outlet of the amalgam separator or downstream of the amalgam separator at a location upstream of any discharge of other waste;
c. the monitoring point must be installed in such a manner that the total flow from the amalgam separator may be intercepted and sampled; and
d. the monitoring point shall be readily and easily accessible at all times for inspection.

If the amalgam separator is located downstream of a wet vacuum system, an operator of a dental operation must ensure that:

a. the wet vacuum system is fitted with an internal flow control fitting; or
b. a flow control fitting is installed on the water supply line to the wet vacuum system.

The flow control fitting must be sized to limit the flow to a rate that is no more than the maximum inlet flow rate of the amalgam separator as stated by the manufacturer of the amalgam separator.

An operator of a dental operation must locate an amalgam separator in such a manner that an accidental spill, leak or collecting container failure will not result in waste containing amalgam entering any sewer. If a location is not available, an operator of a dental operation must do one of the following:

(a) install spill containment to contain spills or leaks from the amalgam separator; or
(b) cap all floor drains into which liquid spilled from the amalgam separator would normally flow.

An operator of a dental operation must replace the amalgam separator's collecting container when any one of the following occurs:

(a) the manufacturer's or supplier's recommended expiry date, as shown on the amalgam separator, has been reached; or
(b) the warning level specified by the manufacturer has been reached; or
(c) analytical data obtained using a method of analysis outlined in standard methods, or an alternative method of analysis approved by the manager, having a method detection limit of 0.0000005 mg/L or lower, indicates that the total concentration of mercury in the discharge from the amalgam separator is greater than, or equal to 0.005 mg/l.

An operator of a dental operation shall not dispose of dental amalgam collected in an amalgam separator, a collecting container, or any other device, to a sewer.

III. RECORD KEEPING AND RETENTION

An operator of a dental operation that uses an amalgam separator must keep, at the site of installation of the amalgam separator, an operation and maintenance manual containing instructions for installation, use, maintenance and service of the amalgam separator installed.

An operator of a dental operation that uses an amalgam separator must post, at the site of installation of the amalgam separator, a copy of the manufactures standard test report pertaining to the amalgam separator installed.

An operator of a dental operation that uses an amalgam separator must keep a record book at the dental operation site that includes the following information pertaining to the amalgam separator installed:

a. date of installation of the amalgam separator and name of the installation service provider;
b. serial number and expiry date of the amalgam separator and/or its components;
c. maximum recommended flow rate through the amalgam separator, where applicable;
d. dates of inspection, maintenance, cleaning and replacement of any amalgam separation equipment or components;
e. dates and descriptions of all operational problems, spills, leaks or collecting container failures associated with the amalgam separator and remedial actions taken;
f. name, address and telephone number of any person or company who performs any maintenance or disposal services related to the operation of the amalgam separator; and
g. dates of pick-up of the collecting container for off-site disposal, volume of waste disposed and the location of disposal.

The records must be retained for a period of two years and must be available on request by an company representative.

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

CODE OF PRACTICE (Liberty Utilities BMSC-CP-01-003)

SECTION 3 - DRY CLEANING OPERATIONS

I. APPLICATION

This code of practice for Dry Cleaning operations defines the requirements for managing waste discharged directly or indirectly into a sewer connected to a sewage facility from dry cleaning businesses, or other facilities employing solvent or chemical cleaning routines.

Definitions are included in Liberty Utilities BMSC-CP-01-DEF.

II. DISCHARGE REGULATIONS

An operator of a dry cleaning operation must not discharge waste, which at the point of discharge into a sewer contains:

(a) Petroleum solvent in a concentration that is in excess of 15 milligrams per liter as analyzed in a grab sample; and
(b) Prohibited waste, restricted waste, special waste, storm water, or uncontaminated water.

Solvent Water Separators and Holding Tanks

Solvent/water separator and holding tank installations must conform to the requirements of this code of practice.

An operator of a dry cleaning operation shall not directly discharge wastewater from the solvent/water separator to a sewage facility

All dry cleaning operations in business that generate wastewater containing tetrachloroethylene, perchlomethyene, or petroleum solvent, but do not have a solvent/water separator and holding tank shall install and maintain a solvent/water separator and holding tank when any of the following occur:

(a) The dry cleaning operation is renovated, to modify the plumbing or dry cleaning equipment;
(b) New equipment, designed specifically for dry cleaning, is added to the dry cleaning operation; or
(c) The discharge from the dry cleaning operation exceeds the discharge limits specified above or any of the restricted waste criteria specified in Liberty Utilities BMSC-CP-01-DEF.

An operator of a dry cleaning operation must:

(a) Collect the wastewater discharged from a solvent/water separator into a transparent, solvent-compatible, holding tank with a containment capacity 25% larger than the total volume of the solvent/water separator; and
(b) Allow the wastewater to stand undisturbed for a period of not less than 12 hours following each operating date.

If the holding tank contains any visible tetrachloroethylene or petroleum solvent after the specified period of time, then the tetrachloroethylene or petroleum solvent must be separated and returned to the solvent recovery system. After the removal of all visible solvent, the wastewater may be discharged to the sanitary sewer.

Visual Inspections

An operator of a dry cleaning operation must:

(a) Visually inspect the solvent/water separator on a daily basis and
(b) Clean the solvent/water separator at least once every seven (7) days to manufacturer's standards.

Spills and Leaks

An operator of a dry cleaning operation must install spill containment facilities in all chemical storage areas and around all dry cleaning machines.

An operator of a dry cleaning operation must block off all sewer drains within the containment area for chemical storage and dry cleaning equipment to prevent any accidental discharge of solvent to a sewer.

An operator of a dry cleaning operation must inspect all dry cleaning equipment for liquid leaks at least once per day.

An operator of a dry cleaning operation must keep all equipment clean to ensure that leaks are visible. The following areas and items are to be checked for leaks:

(i) hose connections, unions, couplings and valves
(ii) machine door gasket and seating
(iii) filter head gasket and seating
(iv) pumps
(v) base tanks and storage
(vi) solvent/water separators
(vii) filter sludge recovery
(viii) distillation unit
(ix) diverter valves
(x) saturated lint in lint baskets
(xi) holding tanks
(xii) cartridge filters

An operator of a dry cleaning operation who detects any liquid leak from dry cleaning equipment or chemical storage must repair the leak within 72 hours and must immediately prevent any discharge of contaminants to a sewer.

III. RECORD KEEPING AND RETENTION

Every dry cleaning operation must keep a record book on site for inspection with records from the previous two years.

The following information shall be recorded in the record book:

(i) record of all inspections done by the operator, employees or other hired personnel;
(ii) record of any liquid leaks detected and remedial action taken;
(iii) record of solvent/water separator cleaning;
(iv) record of holding tank cleaning and solvent transfer; and
(v) record of all other equipment maintenance and repair.

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

CODE OF PRACTICE (Liberty Utilities BMSC-CP-01-004)

SECTION 4 - FOOD SERVICE OPERATIONS

I. APPLICATION

This code of practice for Food Service operations defines the requirements for managing waste discharged directly or indirectly into a sewer connected to a sewage facility from restaurants, or other facilities employing food service (such as food preparation services) as a primary or secondary business operation. Traps, interceptors and separators shall be provided to prevent the discharge of oil, grease, sand and other substances harmful or hazardous to the building drainage system, the collection system the private sewage disposal system or the sewage treatment plant or processes.

Traps, interceptors and separators shall be installed:

(a) operators of a food services operation that adds kitchen equipment that discharges oil and grease;
(b) operators of a food services operation that discharges non-domestic waste to sewer that exceeds any of the restricted waste criteria specified in Liberty Utilities BMSC-CP-01-DEF; or
(c) any food service operation, as determined by Liberty Black Mountain'ss wastewater operations group.
(d) at new facilities
(e) at existing food service facilities, not equipped with a trap, interceptor or separator, when additions, alterations or remodel are done which increase servicing volume, seating capacity, , etc.
(f) at existing food service facilities, equipped with a trap, interceptor or separator, when additions, alterations or remodel are done which increase servicing volume, seating capacity, changes to the menu, etc.
(g) at any non-food facilities when additions, alterations, or remodeling is proposed for the purpose of food preparation and service.
(h) at existing facilities not equipped with a trap, interceptor or separator, which is proposed for the purpose of food preparation and service.

Definitions are included in Liberty Utilities BMSC-01-DEF.

II. DISCHARGE REGULATIONS

An operator of a Food Service Operation must not discharge waste, which at the point of discharge into a sewer, contains:

1. Prohibited waste, restricted waste, special waste, storm water, or uncontaminated water.

III. GREASE INTERCEPTORS

Grease interceptors are required to be installed and maintained by the Owner of food service operations within the collection system of Liberty Black Mountain facilities. Grease interceptor installations shall conform to the requirements of this code of practice.

Interceptors, such as grease, oil, or sand shall be provided by laundries, restaurants, service stations, auto repair shops, carwashes and other industrial users when, in the opinion of Liberty Black Mountain, interceptors are necessary for the proper handling of wastewater containing oil and grease or sand or any flammable wastes. Such interceptors shall not be required for domestic users.

Construction:

All traps, interceptors and separators shall be constructed of impervious materials capable of withstanding abrupt

and extreme changes in temperature. New or upgraded grease device shall have a three-lid manhole, properly sized per Table 1. Traps, interceptors and separators shall be watertight, and equipped with easily removable covers. Covers shall be gastight and watertight.

Cleaning and Maintenance:

Cleaning and maintenance must be performed when total volume of captured oil, grease and solids material displaces more than twenty-five (25) percent of the total volume of the trap, interceptor or separator or when the pH of a sample taken from the effluent side of the interceptor drops below 5.0 or when odor generation becomes a health issue or when the Liberty Black Mountain inspection determines a cleaning is necessary.

Maintenance Records:

All traps, interceptors and separators shall be maintained by the user in efficient operating condition at all times. Written records and documentation of all cleaning, repair, calibration, and maintenance shall be maintained at the facility for a minimum of three (3) years and be made available upon request.

Maintenance Inspection:

All traps, interceptors and separators shall be inspected by Liberty Black Mountain representative during normal working hours. Inspection results shall be made available to person, firm or corporation in reasonable charge of the traps, interceptors and separators. Liberty Black Mountain representative shall require correction in order to enforce Liberty Black Mountain pretreatment code of practices.

Skimming:

Skimming, decanting or discharging of removed waste or wastewater back into any traps, interceptors and separators or any appurtenance of the wastewater collection system is strictly prohibited.

Pumping:

All oil, sand and grease interceptors shall be pumped out or cleaned out completely not less than once every ninety (90) calendar days. Grease traps must be cleaned out completely not less than once every thirty (30) calendar days. Traps and interceptors shall be cleaned more frequently when necessary or required.

Bacteria as a Substitute:

The use of bacteria additives as a supplement to maintenance may be authorized by Liberty Black Mountian when a written request is made to the Liberty Black Mountain, which includes material safety data sheets. The addition of emulsifiers, de-emulsifiers, surface active agents, enzymes, or degreasers directly or into any drain leading to any grease removal device is strictly prohibited unless approved by Liberty Black Mountain.

Use:

Traps, interceptors and separators shall be single user only. When an interceptor can be safely used by multiple users (e.g., food courts), multiple users may be allowed when approved by Liberty Black Mountain. Multiple facilities operated by the same person, firm or corporation may be allowed to connect to a single interceptor with approval from Liberty Black Mountain. The person, firm or corporation in reasonable charge of the trap, interceptor or separator shall take any and all steps necessary to assure adequacy which includes repair, modification or replacement.

Alternate Devices and Technology:

Alternative devices and technologies shall be submitted to Liberty Black Mountain for approval before any such device is installed. The service facility will be required to furnish analytical data demonstrating the effluent discharge concentration to Liberty Black Mountain's wastewater collection system will not exceed those listed in Liberty Utilities BMSC-CP-01-001.

Sizing:

All traps, interceptors and separators shall be properly sized per Table 1. When an interceptor is sized less than five hundred (500) gallons or more than two thousand five hundred (2,500) gallons, the person, firm or corporation making the permit application shall first meet with Liberty Black Mountain to verify the reduced or increased size has been correctly calculated and that no other options are available.

Size Modification:

Modifying the size of any trap or interceptor shall only be done when sizing per Table 1 allows the modification. Modifying the size of any trap or interceptor shall not be done without the approval of Liberty Black Mountain.

Domestic Wastewater:

Domestic wastewater shall not be discharged to the interceptor.

Minimization Plan:

All facilities required to install and operate a trap, interceptor or separator shall develop and implement a Waste Minimization Plan pertaining to the disposal of grease, oils, and food bearing wastes.

Best Management:

All establishments requiring a trap, interceptor or separator shall adopt BMP's (Best Management Practices) for handling sources of floatable oils, fat or grease originating within their facility. Proof of employee training in BMP's shall be shown to Liberty Black Mountain upon request.

Other Fixtures:

Toilets, urinals, and other similar fixtures shall not discharge through a grease interceptor.

Minimization Program:

The applicant shall establish and submit a written waste minimization plan (maintenance program) outlying specific methods (Best Management Practices) that the facility will use on a daily basis to reduce the discharge of oil and grease as well as solids from entering the interception device and ultimately, the Liberty Black Mountain sewer system. This plan shall be acceptable to and approved by Liberty Black Mountain . The approved document shall accompany the permit application.

Discharge Permit:

This document will be used in lieu of a discharge permit to assist with enforcing all Liberty Black Mountain's codes of practices.

Approved:_____

Grease interceptors and automatic grease removal devices required:

A grease interceptor or automatic grease removal device shall be required to receive the drainage from fixtures and equipment with grease-laden waste located in food preparation areas, such as in restaurants, hotel kitchens, hospitals, school kitchens, bars, factory cafeterias, caterers, nursing homes, day care center, churches and clubs. Fixtures and equipment shall include pot sinks, pre-rinse sinks; soup kettles or similar devices; work stations; floor drains or sinks into which kettles are drained; automatic hood wash units and dishwashers without pre-rinse sinks. Grease interceptors and automatic grease removal devices shall receive waste only from fixtures and equipment that allow fats, oils or grease to be discharged. Interceptors, such as grease, oil or sand shall be provided at laundries, restaurants, service stations, auto repair shops, carwashes and other industrial users when the proper handling of wastewater containing oil and grease or sand or any flammable wastes is necessary.

Location:

All Interceptors shall be approved and shall be located to be readily and easily accessible for cleaning and inspection.

Food waste grinder:.

Where food waste grinders connect to grease interceptors, a solids interceptor shall separate the discharge before connecting to the grease interceptor. Solids interceptors and grease interceptors shall be sized and rated for the discharge of the food waste grinder. Emulsifiers, chemicals, enzymes and bacteria shall not discharge into the food waste grinder. Liberty Black Mountain shall require any user to cease operation of a garbage grinder and permanently remove such equipment when it is determined that the grinder is imposing any adverse effect on interceptor function.

Grease interceptor capacity:

Grease interceptors shall have the grease retention capacity indicated in Table 1 for the flow-through rates indicated. Liberty Black Mountain shall make determinations of interceptor adequacy and need, based on review of all relevant information regarding interceptor performance, facility site and building plan review and to require repairs to, modifications, or replacement of such traps.

TABLE 1 - CAPACITY OF GREASE INTERCEPTORS - EPA-2 Model

A. Determine maximum drainage flow from fixtures:					
Type of Fixture	Total Fixtures		Flow Rate		Amount
Restaurant kitchen sink	_____	X	15 gpm	=	_____
Single compartment sink	_____	X	20 gpm	=	_____
Double compartment sink	_____	X	25 gpm	=	_____
2, single compartment sinks	_____	X	25 gpm	=	_____
2, double compartment sinks	_____	X	35 gpm	=	_____
Triple sink 1.5 inch drain	_____	X	35 gpm	=	_____
Triple sink 2 inch drain	_____	X	50 gpm	=	_____
30 gallon dishwasher	_____	X	15 gpm	=	_____
50 gallon dishwasher	_____	X	25 gpm	=	_____
50--100 gallon dishwasher	_____	X	40 gpm	=	_____
B. Total	Number of fixtures			=	gpm
C. Loading Factors					
Restaurant type	Fast food-paper delivery			=	.50
	Low volume			=	.50
	Medium volume			=	.75
	High Volume			=	1.0
D. B x C = D, subtotal					
E. D x 60 = Subtotal x 60 minutes = E, maximum flow for one (1) hour, in gallons					
F. E x 2 = maximum flow for one hour times two (2) hours retention time (based on restaurant volume) = F, volume of trap in gallons = _____					

Access and maintenance of traps, interceptors, and separators:

Complete access shall be provided to each interceptor and separator for service, maintenance and inspection of the inner chamber(s) and viewing and sampling of effluent wastewater discharged to the sewer. Interceptors and separators shall be maintained by periodic removal of accumulated grease, scum, oil, or other floating substances and solids deposited in the interceptor or separator.

Periodic Inspection:

All traps, inceptors and separators shall be subject to periodic inspections by Liberty Black Mountain during normal operating hours. These inspections can be based on an annual inspection or when a complaint is registered with Liberty Black Mountain regarding a grease-removal device. Should the inspection of any trap, interceptor or separator indicate a violation of any item in (1) thru (3) below, the person, firm or corporation in reasonable charge shall bring the device into compliance within the timeframe noted on the notice of violation, but not longer than fourteen (14) calendar days.

(1) If twenty-five (25) percent of the interceptor is full; both surface (oil and grease) and bottom (solids).

(2) When OSHA (Occupational, Safety and Health Administration) atmospheric levels of Hydrogen Sulfide limits have been exceeded - "Short Term Exposure Limit" (STEL) of fifteen (15) ppm over a fifteen-minute time-

Approved:_____

weighted average. When the "Immediately Dangerous to Life and Health" (IDLH) level is 100 ppm or above, immediate action shall be performed to return the level of Hydrogen Sulfide to safe and acceptable limits. If the violation cannot be immediately resolved, all use of the Trap, Interceptor or Separator shall cease until compliance is obtained.

(3) When pH in the effluent chamber falls below 5.0 - which is an unhealthy anaerobic interceptor condition.

Maintenance:

Any trap, interceptor or separator not adequately maintained to prevent floatable oils, fat or grease from entering the sewerage system or produce excessive odors shall be in violation of Liberty Black Mountain codes of practice.

Clearing Obstructions:

Liberty Black Mountain shall take appropriate action to clear any obstruction of the Liberty Black Mountain sewer that causes a sewer overflow. When the obstruction is found to be caused by an over-burdened or non-maintained trap, interceptor or separator, the person, firm or corporation in reasonable charge of the trap, interceptor or separator reimbursement of Liberty Black Mountain costs associated with clean-up efforts including any fines leveled against Liberty Black Mountain. Any establishments that continuously violates Liberty Black Mountain codes of practice shall be subject to having sewer service discontinued.

Contain and/or Clean Up:

Should Liberty Black Mountain find it necessary to contain and/or clean up a private sanitary sewer overflow caused by blockage of private or public sewer lateral or system, all associated cost shall be the responsibility of the person, firm or corporation in reasonable charge of the property.

Repairs or Replacements:

When repairs or replacements are necessary to a trap, interceptor or separator, all repairs or replacements shall be completed within the time frame stated on the notice to comply. Liberty Black Mountain may authorize an time extension, not to exceed thirty (30) days, for justifiable cause.

Grease Removal:

The person, firm or corporation in reasonable charge shall remove and dispose of grease at a facility permitted to receive and process such waste. Cleaning frequencies shall be dependent on the amount of oil, grease or solids generated at each operation, the size of the grease trap or interceptor, and the approved written waste minimization program, but not to exceed thirty-day intervals for traps and ninety-day intervals for interceptors. Traps and interceptors shall be cleaned by a licensed contractor.

Interference, Operation and Odors:

Any facility whose effluent discharge into the sewerage system causes interference in the conveyance system, operation of the sewerage system, or emits excessive odors shall be required to sample the discharge from the trap, interceptor or separator and have it analyzed for oil and grease and sulfides, total and dissolved. Results of the analysis shall be immediately reported. Liberty Black Mountain may sample the grease interception device at any time, utilizing Liberty Black Mountain representatives. The person, firm or corporation in reasonable charge shall be responsible for any and all associated cost of such testing or sampling.

IV. RECORD KEEPING AND RETENTION

An operator of a food services operation must keep a record at the food services operation of all grease interceptor inspection and maintenance activities including:

(a) the date of inspection or maintenance;
(b) the maintenance conducted;
(c) the type and quantity of material removed from the grease interceptor; and
(d) the location of disposal of the material removed from the grease interceptor.

The records shall be retained for a period of three years, and shall be available on request by an company representative.

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

CODE OF PRACTICE (Liberty Utilities BMSC-CP-01-005)

SECTION 5 - PHOTOGRAPHIC IMAGING OPERATIONS

I. APPLICATION

This code of practice for photographic imaging operations defines mandatory requirements for managing non-domestic waste discharged directly or indirectly into a sewer connected to a sewage facility.

This code of practice applies to photographic imaging operations. Definitions are included in Liberty Utilities BMSC-CP-01-DEF.

II. DISCHARGE REGULATIONS

An operator of a photographic imaging operation must not discharge waste which, at the point of discharge into a sewer, contains:

(a) silver in a concentration that is in excess of prescribed local limit analyzed in a grab sample; or,
(b) prohibited waste, restricted waste, special waste, storm water, or uncontaminated water as defined in Liberty Utilities BMSC-CP-01-DEF.

An operator of a photographic imaging operation that produces liquid waste containing silver must either:

(a) collect and transport the waste from the photographic imaging operation for off-site waste management; or
(b) treat the waste at the photographic imaging operation site prior to discharge to the sewer using one of the following silver recovery technologies:
    (i) two chemical recovery cartridges connected in a series;
    (ii) an electrolytic recovery unit followed by two chemical recovery cartridges connected in series; or
    (iii) any other silver recovery technology, or combination of technologies, capable of reducing the concentration of silver in the waste to 1.2 mg/L or less where valid analytical test data has been submitted to and accepted by the Liberty Black Mountain wastewater group.

An operator of a photographic imaging operation must install and maintain silver recovery technology according to the manufacturer's or supplier's recommendations.

An operator of a photographic imaging operation must collect all liquid waste containing silver in a holding tank and must deliver this waste to the chemical recovery cartridges using a metering pump.

An operator of a photographic imaging operation must calibrate the metering pump at least once per year.

Spill/Leak Prevention

An operator of a photographic imaging operation must locate the silver recovery system in such a manner that an accidental spill, leak or container failure will not result in liquid waste containing silver in concentrations greater than 1.2 mg/L entering any sewer.

If a location referred to above is not available, an operator of a photographic imaging operation must do one of the following:

(a) install spill containment to contain spills or leaks from the silver recovery system; or

(b) cap all floor drains into which liquid spilled from the silver recovery system would normally flow.

Testing

When using two separate chemical recovery cartridges, an operator of a photographic imaging operation must test the discharge from the first cartridge for silver content at least once per month using either silver test paper or a portable silver test kit.

When the discharge from the first chemical recovery cartridge referred to above cannot be sampled, an operator of a photographic imaging operation must:

(a) install a cumulative flow meter on the silver recovery system; and
(b) test the discharge from the second chemical recovery cartridge once per week using silver test paper or a silver test kit.

Cartridge Replacement

An operator of a photographic imaging operation must replace the chemical recovery cartridges when any one of the following occurs:

(a) the manufacturer's or supplier's recommended expiry date, as shown on each cartridge, has been reached;
(b) eighty percent (80%) of the manufacturer's or supplier's maximum recommended capacity, or total cumulative flow, for each cartridge has been reached;
(c) test data, using silver test paper or a silver test kit, indicates that the discharge from the first cartridge is greater than 1000 mg/L; or
(d) analytical data using a method of analysis outlined in standard methods, or an alternative method of analysis approved by the manager, having a method detection limit of 0.5 mg/L silver or lower, indicates that the concentration of silver in the discharge from the silver recovery system is greater than, or equal to, 1.2 mg/L.

III. RECORD KEEPING AND RETENTION

An operator of a photographic imaging operation that uses a silver recovery system must keep, at the photographic imaging operation site, an operation and maintenance manual pertaining to all equipment used in the silver recovery system.

An operator of a photographic imaging operation that uses two chemical recovery cartridges connected in series must keep a record book at the photographic imaging operation site which includes the following information recorded for the previous two years:

(a) serial number of each chemical recovery cartridge used;
(b) installation date of each chemical recovery cartridge used;
(c) expiry date of each chemical recovery cartridge used (where provided by manufacturers or suppliers);
(d) maximum recommended capacity, or total cumulative flow, of each chemical recovery cartridge used;
(e) dates of all metering pump calibrations;
(f) monthly silver test results on the discharge from the first chemical recovery cartridge; or where the discharge from the first cartridge cannot be sampled, weekly silver test results on the discharge from the second chemical recovery cartridge and weekly cumulative flows through the silver recovery system; and
(g) dates and descriptions of all operational problems associated with the chemical recovery cartridges and remedial actions taken.

[1] If treatment of liquid waste with two chemical recovery cartridges connected in series is the only silver recovery technology being used, then the owner of the photographic imaging operation must replace both chemical recovery cartridges when one of the events referred to occurs.

If treatment of liquid waste with two chemical recovery cartridges connected in series is used following treatment by an electrolytic recovery unit, the second cartridge may replace the used first cartridge and a new second cartridge may be installed when one of the events referred to occurs.

Both chemical recovery cartridges used following an electrolytic recovery unit must be replaced by the operator of the photographic imaging operation when one of the events referred to above occurs if this is recommended by the manufacturer or supplier of the cartridges.

An operator of a photographic imaging operation that uses an electrolytic recovery unit in addition to two chemical recovery cartridges connected in series must keep a record book at the photographic imaging operation site which includes the following information recorded for the previous two years:

(a) all information specified above;
(b) date of each removal of silver from the electrolytic recovery unit;
(c) date of each maintenance check on the electrolytic recovery unit;
(d) dates and descriptions of all operational problems associated with the electrolytic recovery unit anti remedial actions taken.

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

CODE OF PRACTICE (Liberty Utilities BMSC-CP-01-006)

SECTION 6 - RV PARK OPERATIONS

I. APPLICATION

This code of practice for RV park operations defines the requirements for managing waste discharged directly or indirectly into a sewer connected to a sewage facility from RVs, mobile homes, trailers, watercraft and other sources which employ storage, chemical disinfection/stabilization and discharge as a waste disposal mechanism.

This code of practice applies to all RV park operations. Definitions are included in Liberty Utilities BMSC-CP-01-DEF.

II. DISCHARGE REGULATIONS

An operator of an RV park operation must not discharge waste, which at the point of discharge into a sewer, contains:

(a) prohibited waste, restricted waste, special waste, storm water, or uncontaminated water.

If the RV park operation accepts RV customers with the intention of providing sewerage hook-ups, that practice is only acceptable if one of the following conditions is met:

1. If the RV park operation has a dedicated pre-treatment facility, that facility must be used for the disposal of the first discharge of wastewater from any entering RVs. The facility must be maintained as per manufacturer's or engineer's operating instructions. Discharge from that facility which is directed to a sewer connected to a sewerage facility shall be metered such that large slugs of waste are not introduced to the sewer instantaneously. Discharges from such facilities to sewers are limited to 10% of the average daily sewerage flow (in USGPM) experienced in the sewer.
2. In the absence of a dedicated pre-treatment facility, the RV park operation shall require incoming RVs to certify that, prior to connection to a sewer, that the holding tanks of the RV have been discharged at an approved facility.

III. RECORD KEEPING AND RETENTION

An operator of an RV park operation must keep a record at the RV park operation of:

1. All disposals of RV waste into a dedicated pre-treatment facility;
2. Pre-treatment facility inspection and maintenance activities including:
   a. the date of inspection or maintenance;
   b. the maintenance conducted; and
   c. the type and quantity of material removed from the facility;
3. Certifications of waste disposal prior to hook up of RVs to sewer services.

The records shall be retained for a period of two years, and shall be available on request by a Liberty Black Mountain representative.

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

CODE OF PRACTICE (Liberty Utilities BMSC-CP-01-007)

SECTION 7 – PRETREATMENT/INDUSTRIAL WASTE CONTROL

I APPLICATION

This Section is adopted by Liberty Black Mountain in accordance with the authority conferred in the Clean Water Act, and any regulations implementing the Clean Water Act, including, but not limited to, 40 CFR 403.8, applicable Arizona Revised Statutes, including but not limited to 49 A.R.S. 2, applicable Arizona Administrative Code, including but not limited to 18 A.A.C. 9 and 18. A.A.C. 11, and with all the powers thereof which are specifically granted to Liberty Black Mountain, or are necessary or incidental to or implied from power specifically granted therein for carrying out the objectives and purposes of Liberty Black Mountain and this Section.

II. COMPLIANCE

The Pretreatment/Industrial Waste Control Program is designed to enable Liberty Black Mountain to comply with all conditions of any applicable Aquifer Protection Permit (APP), AZPDES discharge permit, Federal Pretreatment Regulations, Arizona Pretreatment Regulations, and any applicable sludge disposal regulations, and to meet the following objectives:

1. To prevent the introduction of pollutants into the Company's Facilities which will interfere with the operation of the wastewater systems or contaminate the sludge.
2. To prevent the introduction of pollutants into the wastewater system which will pass through the wastewater system, inadequately treated, into the receiving waters or the atmosphere.
3. To prevent the introduction of pollutants into the wastewater system which might constitute a hazard to humans or to animals.
4. To assure the Company's ability to recycle and reclaim wastewater and sludge.
5. To protect human health and welfare, the environment, property and the Company's wastewater system.

II. DISCHARGE REGULATIONS

A. General Discharge Limitations

No customer shall contribute or cause to be contributed, directly or indirectly, any pollutant or wastewater which will interfere with the operation or performance of Liberty Black Mountain's's wastewater system. These general prohibitions apply to all customers of Liberty Black Mountain whether or not the customer is subject to National Categorical Pretreatment Standards or any other national, State, Liberty Black Mountain , or local pretreatment standards or requirements.

B. Specific Discharge Limitations

No User shall discharge into the Liberty Black Mountain wastewater system or into any connected sewer system at any time or over any period of time, wastewater containing any of the materials and substances in excess of the limitations provided under Section B "Restricted Waste". The specified limitations may also be imposed directly on process wastewaters prior to dilution by domestic and other wastewaters discharged by a customer.

Once promulgated, National Categorical Pretreatment Standards for a particular industrial subcategory, if more stringent, shall supersede all conflicting discharge limitations contained in this Section 7, as they apply to that industrial subcategory.

State requirements and limitations on discharges shall apply in any case where they are more stringent than federal requirements and limitations or those contained elsewhere in this Code.

C. Prohibited Discharges

None of the following described sewage, water, substances, materials, or wastes shall be discharged into the Liberty Black Mountain wastewater system or into the sewer system by any customer, and each governing body of any applicable Service Provider shall prohibit and shall prevent such discharges by any Liberty Black Mountain customer, either directly or indirectly, into its sewer system:

(a) Any liquids, solids or gases which by reason of their nature or quantity are, or may be, sufficient either alone or by interaction with other substances to cause fire or explosion or be injurious in any other way to the Liberty Black Mountain wastewater system, the sewer system of a Service Provider or any of its connectors, or to the operation of Liberty Black Mountain. At no time shall any reading on an explosion hazard meter, at the point of discharge into the Liberty Black Mountain wastewater system or the sewer system of a Service Provider or any of its customers (or at any point in the wastewater systems), or at any monitoring location designated by Liberty Black Mountain in a wastewater contribution permit, be more than ten percent (10%) of the Lower Explosive Limit (LEL) of the meter. Prohibited materials include, but are not limited to, gasoline, kerosene, naphtha, benzene, toluene, xylene, ethers, alcohols, ketones, aldehydes, peroxides, chlorates, perchlorates, tetrachloroethylene, perchloroethylene, bromates, carbides, hydrides, and sulfides.

(b) Any solid or viscous material which could cause an obstruction to flow in the sewers or in any way could interfere with the treatment process, including as examples of such materials but without limiting the generality of the foregoing, significant proportions of ashes, wax, paraffin, cinders, sand, mud, straw, shavings, metal, glass, rags, lint, feathers, tars, plastics, wood and sawdust, paunch manure, hair and fleshings, entrails, lime slurries, beer and distillery slops, grain processing wastes, grinding compounds, acetylene generation sludge, chemical residues, acid residues, food processing bulk solids, snow, ice, and all other solid objects, material, refuse, and debris not normally contained in sanitary sewage.

(c) Any wastewater having a pH less than 5.5 for discharges from Industrial Customers into the Liberty Black Mountain wastewater system or the sewer system of a Service Provider or that of any of its Customers, or less than 5.5 or greater than 10.5 for other discharges into the Liberty Black Mountain wastewater system, or wastewater having any other corrosive property capable of causing damage or hazard to any part of the Liberty Black Mountain wastewater system or the sewer system of a Service Provider or any of its Customers, or to personnel.

(d) Any wastewater having a temperature which will inhibit biological activity at the Liberty Black Mountain treatment plant, but in no case wastewater containing heat in such amounts that the temperature at the introduction into the Liberty Black Mountain wastewater treatment exceeds 40°C (104°F).

(e) Any pollutants, including oxygen demanding pollutants (BOD, COD, etc.) released at a flow rate and/or pollutant concentration which cause Upset. In no case shall a slug load have a flow rate or contain concentrations or qualities of pollutants that exceed for any time period longer than fifteen (15) minutes more than five (5) times the average twenty-four (24) hour concentration, quantities, or flow during normal operation.

(f) Any water or wastes containing a toxic substance (such as Chlorine from large swimming pools over 25,000 gallons, etc.) in sufficient quantity, either singly or by interaction with other substances, to injure or interfere with any sewage treatment process, to constitute a hazard to humans or to animals, or to create any hazard or toxic effect in the waters which receive the treated or untreated sewage.

(g) Petroleum oil, non-biodegradable cutting oil, or products of mineral oil origin, each in amounts that will cause interference.

(h) Pollutants which result in the presence of toxic gases, vapors, or fumes within the system in a quantity that may cause acute worker health and safety problems.

(i) Any trucked or hauled pollutants except at discharge points designated by Liberty Black Mountain.

(j) Any water or wastes containing pollutant quantities or concentrations exceeding the limitations in Section 7 of this Code of Practice, or the limitations in any applicable Categorical Standards.

III. HAZARDOUS WASTE DISCHARGE NOTICE

Any customer disposing of industrial waste shall notify Liberty Black Mountain, the EPA Regional Waste Management Division Director, and the state hazardous waste authorities in writing of any discharge into the Liberty Black Mountain wastewater system of any substance which, if otherwise disposed of, would be considered a hazardous waste under 40 CFR Part 261. The specific information required to be reported and the time frames in which it is to be reported are found at 40 CFR §403.12(p).

IV. REPORTING REQUIREMENTS FOR SIGNIFICANT INDUSTRIAL USERS

[RESERVED]

V. MONITORING BMSC FACILITIES

Liberty Black Mountain may require to be provided and operated, at the customer's own expense, monitoring facilities to allow inspection, sampling, and flow measurement of any discharges as necessary to determine compliance with the provisions of this Code.

There shall be ample room in or near such sampling manhole or facility to allow accurate sampling and preparation of samples for analysis. The facility, sampling, and measuring equipment shall be maintained at all times in a safe and proper operating condition at the expense of the customer.

The sampling and monitoring facilities shall be provided in accordance with Liberty Black Mountain's requirements and all applicable local construction standards and specifications. Construction shall be completed within such a time frame as Liberty Black Mountain shall specify by written notification.

SECTION 8 – NONCOMPLIANCE / ENFORCEMENT

I. NOTICE OF VIOLATIONS

Whenever Liberty Black Mountain determines that any customer has violated or is violating any provision of this Code, or any directives, orders, or permits issued or approved to which Liberty Black Mountain is bound, Liberty Black Mountain may serve upon such customer a written notice ("Notice") stating the nature of the violations(s) in accordance with A.A.C. R14-2-609.C, and requiring that the customer correct the violation(s) within a specified period of time; perform such tasks as Liberty Black Mountain determines are necessary for the customer to correct the violations; or perform such tasks and submit such information as is necessary for Liberty Black Mountain to evaluate the extent of noncompliance or to determine appropriate enforcement actions to be taken in conjunction with the applicable regulatory agencies. A copy of the Notice shall also be provided to the Director of the Utilities Division of the Arizona Corporation Commission.

II. SUSPENSION OF SERVICE

If the customer does not cure the violation, or present a satisfactory plan of remediation to Liberty Black Mountain, within the time specified in the Notice, then Liberty Black Mountain may suspend or disconnect wastewater treatment service in accordance with A.A.C. R14-2-609.C.

In addition, Liberty Black Mountain may suspend wastewater treatment service, in accordance with A.A.C. R14-2-609.B (without notice), when such suspension is necessary, in the opinion of Liberty Black Mountain, in order to stop an actual or threatened discharge which presents or may present an imminent or substantial endangerment to the health or welfare of persons, to the environment, or causes to violate any condition of its aquifer protection permit, AZPDES discharge permit, or any applicable sludge disposal regulations.

Any customer notified of an immediate suspension of the wastewater treatment service shall immediately stop or eliminate the discharge. In the event of a failure of the customer to comply voluntarily with the cease and desist request, the Liberty Black Mountain shall take such steps as deemed necessary, including immediate severance of the sewer connection and/or immediate disconnection of the water service, to prevent or minimize damage to the company's wastewater system or endangerment to any individuals or the environment. Any action that results in the immediate suspension of service, or disconnection, of a customer shall be reported to the Director of the Utilities Division of the Arizona Corporation Commission and Maricopa County Environmental Services Department (MCESD) within twenty-four (24) hours of the suspension or disconnection. Any reconnection of the affected customer shall be in accordance with the Liberty Black Mountain Tariff for which the customer must pay the cost of disconnection and reconnection, plus the cost of parts and installation of an Elder valve (or similar equipment) to allow for easier disconnection in the event of a repeated discharge offense by customer.

RATIONAL AND JUSTIFICATION FOR LOCAL LIMITS

CONVENTIONAL CONTAMINANTS

These limits are consistent with influent loading design parameters for the facility and with other similar sewerage systems in the area. They represent the maximum limits that can be accepted at the headworks and the values are similar to maximum values found in domestic wastewater.

TRACE INORGANIC CONTAMINANTS

These limits were developed to maintain compliance with the aquifer protection and AZPDES permit limits at Liberty Utilities (Black Mountain Sewer) Corp. In considering the waste load allocation for industries, background concentrations in domestic wastewater and the target permit limits at the water reclamation facility were considered. The maximum allowable concentrations that can be allocated to industries were identified while considering the dilution factors that occur in the sewerage system with background wastewater flows.

ARTICLE 5
PRETREATMENT/INDUSTRIAL WASTE CONTROL

5.1 General.

5.1.1 Authority:

This Article 5 is adopted by Liberty Utilities (Black Mountain Sewer) Corp. (Liberty Black Mountain) in accordance with the authority conferred in the Clean Water Act, and any regulations implementing the Clean Water Act, including, but not limited to, 40 CFR 403.8, applicable Arizona Revised Statute, including but not limited to 49 A.R.S. 2, applicable Arizona Administrative Code, including but not limited to 18 A.A.C. 9 and 18. A.A.C. 11, and with all the powers thereof which are specifically granted to Liberty Black Mountain, or are necessary or incidental to or implied from power specifically granted therein for carrying out the objectives and purposes of the Liberty Black Mountain and this Article 5. The provisions in this Article 5 shall be called the Pretreatment/Industrial Waste Control Program of the Liberty Black Mountain.

5.1.2 Compliance:

The Pretreatment/Industrial Waste Control Program of the Liberty Utilities (Black Mountain Sewer) Corp. (Liberty Black Mountain) is designed to enable the Liberty Black Mountain to comply with all conditions of its Arizona Pollutant Discharge Elimination System (AZPDES) Permit, Federal Pretreatment Regulations, Arizona Pretreatment Regulations, and any applicable sludge disposal regulations, and to meet the following objectives:

(a) To prevent the introduction of pollutants into the Liberty Black Mountain Liberty Black Mountain Facilities which will interfere with the operation of the Wastewater Systems or contaminate the sludge.

(b) To prevent the introduction of pollutants into the Wastewater System which will pass through the Wastewater System, inadequately treated, into the receiving waters or the atmosphere.

(c) To prevent the introduction of pollutants into the Wastewater System which might constitute a hazard to humans or to animals.

(d) To assure the Liberty Black MountainLiberty Black Mountain's ability to recycle and reclaim Wastewater and sludge.

(e) To protect human health and welfare, the environment, property and the Liberty Black MountainLiberty Black Mountain's Wastewater System.

PART A
RULES AND REGULATIONS FOR INDUSTRIAL/PRETREATMENT USERS

5.2 Applicability.

(a) A User is any non-domestic discharger who contributes, causes, or permits the contribution of wastewater into the Liberty Black Mountain's wastewater collection and City of Scottsdale's POTW.

(b) Any User, the sewage from which directly or indirectly enters the Wastewater System of the Liberty Black Mountain from an area within or without the boundaries (through a Service Provider) of the Liberty Black Mountain, shall be subject to the requirements of this Part and shall be bound by these Rules and Regulations as they now exist or may hereafter be amended. Such Rules and Regulations may be enforced against any User.

5.3 General Discharge Prohibitions.

No User shall contribute or cause to be contributed, directly or indirectly, any pollutant or wastewater which will interfere with the operation or performance of the Liberty Black Mountain's Wastewater System. These general prohibitions apply to all such Users of the Liberty Black Mountain's Wastewater System whether or not the User is subject to national categorical pretreatment standards or any other national, State, Liberty Black Mountain, or local pretreatment standards or requirements: A User may not discharge any of the sewage, water, substances, materials, or wastes listed in Articles 5.4, 5.27, 5.28, 4.29 of these Rules and Regulations.

5.4 Specific Discharge Limitations – Users.

5.4.1 Liberty Black Mountain Limitations:

No User shall discharge into the Liberty Black Mountain Wastewater System or into any connected sewer system at any time or over any period of time, Wastewater containing any of the following materials and substances in excess of the limitations provided herein. These limitations may also be imposed directly on process wastewaters prior to dilution by domestic and other Wastewaters discharged by the User:

ORGANIC CONTAMINANTS (μg/L)	
Benzene	35
Chloroform	2,000
4,4' - DOE	Not allowed
4,4' – DDT	Not allowed
Aldrin	Not allowed
BHC-Alpha	Not allowed
BHC-Gamma (Lindane)	Not allowed
Heptachlor	Not allowed
Heptachlor Epoxide	Not allowed
Polychlorinated byphenyl compounds (PCBs)	Not allowed

PARAMETER	Daily Average Effluent Limitation (mg/L)
Arsenic (As)	0.13
Cadmium (Cd)	0.047
Copper (Cu)	1.5
Cyanide (CN)	2.0
Lead (Pb)	0.41
Mercury (Hg)	0.0023
Selenium (Se)	0.10
Silver (Ag)	1.2
Zinc	3.5

*Notwithstanding these numeric limitations, the discharge of dry-cleaning process wastes, including new and used tetrachloroethene (perchloroethylene), still bottom oil, and separator water, is prohibited entirely. Where necessary the may require that these wastes be physically prevented from discharging into the Liberty Black Mountain's Wastewater System.

5.4.2 General Requirements Regarding Deleterious Wastes.

None of the following described sewage, water, substances, materials or waste shall be discharged into the Liberty Black Mountain's Wastewater System; and each governing body of each Service Provider shall prohibit and shall prevent any discharges from any outlet into its sewer system, if such discharges cause or significantly contribute to a violation of any of the requirements contained herein:

(a) Sewage of such a nature and delivered at such a rate as to impair the hydraulic capacity of the Liberty Black Mountain's Wastewater System, normal and reasonable wear and usage excepted.

(b) Sewage of such a quantity, quality, or other nature as to impair the strength or the durability of the sewer structures, equipment or treatment works, either by chemical or by mechanical action.

(c) Sewage having a flash point lower than 187°F, as determined by the test methods specified in 40 CFR §261.21.

(d) Any radioactive substance, the discharge of which, does not comply with Article 4, Appendix B of the AAC, Title 12, Chapter 1.

(e) Any garbage other than that received directly into the Service Provider's sewer system from domestic and commercial garbage grinders in dwellings, restaurants, hotels, stores, and institutions, by which such garbage has been shredded to such a degree that all particles will be carried freely under flow conditions normally prevailing in public sewers with no particle greater than one-half (1/2) inch in any dimension.

(f) Any night soil or septic tank pumpage, except by permit in writing from the Liberty Black Mountain at such points and under such conditions as the Liberty Black Mountain may stipulate in each permit.

(g) Sludge or other material from sewage or industrial waste treatment plants or from water treatment plants, except such sludge or other material, the discharge of which to the Liberty Black Mountain Wastewater System shall be governed by the provisions of these Rules and Regulations or any Connector Agreement or as otherwise authorized by the Liberty Black Mountain.

(h) Water which has been used for cooling or heat transfer purposes without recirculation, discharged from any system of condensation, air conditioning, refrigeration, or similar use.

(i) Water accumulated in excavations or accumulated as the result of grading, water taken from the ground by well points, or any other

drainage associated with construction.

(j) Any water or wastes containing grease or oil and other substances that will solidify or become discernibly viscous at temperatures between 32°F and 150°F except by permit in writing from the Liberty Black Mountain at such points and under such conditions as the Liberty Black Mountain may stipulate in each permit.

(k) Any wastes that contain a corrosive, noxious, or malodorous material or substance which, either singly or by reaction with other wastes, is capable of causing damage to the Liberty Black Mountain's Wastewater System or to any part thereof, of creating a public nuisance or hazard, or of preventing entry into the sewers for maintenance and repair.

(l) Any wastes that contain concentrated dye wastes or other wastes that are either highly colored or could become highly colored by reacting with any other wastes, except by permission of the Liberty Black Mountain.

(m) Any wastes which are unusual in composition; i.e., contain an extremely large amount of suspended solids or BOD; are high in dissolved solids such as sodium chloride, calcium chloride, or sodium sulfate; contain substances conducive to creating tastes or odors in drinking water supplies; otherwise make such waters unpalatable even after conventional water purification treatment; or are in any other way extremely unusual unless the Liberty Black Mountain determines that such wastes may be admitted to the Liberty Black Mountain Wastewater System or shall be modified or treated before being so admitted.

(n) Any substance which may cause the Liberty Black Mountain's effluent or any other product of the Liberty Black Mountain such as residues, sludges or scums, to be unsuitable for reclamation and reuse or to interfere with the reclamation process. In no case, shall a substance discharged to the Wastewater System cause the Liberty Black Mountain to be in non-compliance with sludge use or disposal criteria, guidelines or regulations developed under Article 405 of the Clean Water Act; any criteria, guidelines, or regulations affecting sludge use or disposal developed pursuant to the Solid Waste Disposal Act, the Clean Air Act, the Toxic Substances Control Act, or State criteria applicable to the sludge management method being used.

(o) Any substance which may cause the Liberty Black Mountain to violate its Arizona Pollutant Discharge Elimination System (AZPDES) Permit or the receiving water quality standards.

(p) Except for existing combined sewer facilities, any stormwater, directly or indirectly, from surface drains, ditches, or streams, storm or combined sewers, roof, areaway, sumps and sump pumps, or foundation drains, or from any other means, including subsurface drainage or groundwater.

(q) 5.4.3 Prohibited Discharges.

None of the following described sewage, water, substances, materials, or wastes shall be discharged into the Liberty Black Mountain's Wastewater System or into the sewer system of a Service

Provider, by any User and each governing body of each Service Provider shall prohibit and shall prevent such discharges by any User, either directly or indirectly, into its sewer system:

(a) Any liquids, solids or gases which by reason of their nature or quantity are, or may be, sufficient either alone or by interaction with other substances to cause fire or explosion or be injurious in any other way to the Liberty Black Mountain's Wastewater System, the sewer system of a Service Provider or any of its connectors, or to the operation of the Liberty Black Mountain. At no time shall any reading on an explosion hazard meter, at the point of discharge into the Liberty Black Mountain's Wastewater System or the sewer system of a Service Provider or any of its Customers (or at any point in the Wastewater Systems), or at any monitoring location designated by the Liberty Black Mountain in a wastewater contribution permit, be more than ten percent (10%) of the Lower Explosive Limit (LEL) of the meter. Prohibited materials include, but are not limited to, gasoline, kerosene, naphtha, benzene, toluene, xylene, ethers, alcohols, ketones, aldehydes, peroxides, chlorates, perchlorates, bromates, carbides, hydrides, and sulfides.

(b) Any solid or viscous material which could cause an obstruction to flow in the sewers or in any way could interfere with the treatment process, including as examples of such materials but without limiting the generality of the foregoing, significant proportions of ashes, wax, paraffin, cinders, sand, mud, straw, shavings, metal, glass, rags, lint, feathers, tars, plastics, wood and sawdust, paunch manure, hair and fleshings, entrails, lime slurries, beer and distillery slops, grain processing wastes, grinding compounds, acetylene generation sludge, chemical residues, acid residues, food processing bulk solids, snow, ice, and all other solid objects, material, refuse, and debris not normally contained in sanitary sewage.

(c) Any Wastewater having a pH less than 5.5 and more than 10.5 for discharges from Industrial Users into the Liberty Black Mountain's Wastewater System or the sewer system of a Service Provider or that of any of its Customers, or less than 5.5 or greater than 10.5 for other discharges into the Liberty Black Mountain's Wastewater System, or wastewater having any other corrosive property capable of causing damage or hazard to any part of the Liberty Black Mountain's

Wastewater System or the sewer system of a Service Provider or any of its Customers, or to personnel.

(d) Any wastewater having a temperature which will inhibit biological activity at the Liberty Black Mountain's treatment plant, but in no case wastewater containing heat in such amounts that the temperature at the introduction into the Liberty Black Mountain's, Wastewater Treatment Works exceeds 40°C (104°F).

(e) Any pollutants, including oxygen demanding pollutants (BOD, etc.) released at a flow rate and/or pollutant concentration which cause Upset. In no case shall a slug load have a flow rate or contain concentrations or qualities of pollutants that exceed for any time period longer than fifteen (15) minutes more than five (5) times the average twenty-four (24) hour concentration, quantities, or flow during normal operation.

(f) Any water or wastes containing a toxic substance in sufficient quantity, either singly or by interaction with other substances, to injure or interfere with any sewage treatment process, to constitute a hazard to humans or to animals, or to create any hazard or toxic effect in the waters which receive the treated or untreated sewage.

(g) Petroleum oil, nonbiodegradable cutting oil, or products of mineral oil origin, each in amounts that will cause interference or Upset.

(h) Pollutants which result in the presence of toxic gases, vapors, or fumes within the system in a quantity that may cause acute worker health and safety problems.

(i) Any trucked or hauled pollutants except at discharge points designated by the Liberty Black Mountain.

(j) Any water or wastes containing pollutant quantities or concentrations exceeding the limitations in Article 5 of these Rules and Regulations, or the limitations in any applicable Categorical Standards.

(k) Any wastewater discharges to the Liberty Black Mountain's Wastewater System, except at locations approved by the Liberty Black Mountain.

5.4.4 National Categorical Pretreatment Standards:

Once promulgated, Categorical Standards for a particular industrial subcategory, if more stringent, shall supersede all conflicting discharge limitations contained in this Article 5, Part B, as they apply to that industrial subcategory.

5.4.5 State Requirements:

State requirements and limitations on discharges shall apply in any case where they are more stringent than federal requirements and limitations or those contained elsewhere in this Article 5, Part B.

5.4.6 Dilution Prohibited:

Except where permitted by Categorical Standards, no User may increase the use of process water or, in any way, attempt to dilute a discharge as a partial or complete substitute for adequate treatment to attain compliance with the limitations contained in National Categorical Pretreatment Standards or any other specific discharge limitations contained in this Article 5. The Liberty Black Mountain may set or require a Service Provider to set mass limitations or alternate concentration-based limitations for those Users which are using improper dilution to meet these limitations.

5.5 Insignificant Discharges.

Notwithstanding the prohibitions and limitations contained in Article 5.3 of these Rules and Regulations, the Liberty Black Mountain may allow a proposed discharge to the system if the Liberty Black Mountain determines that the quantity and quality of the discharge, both alone and in conjunction with similar discharges which might be affected by this determination, will have no material effect on the Liberty Black Mountain's operations, including the quality of its effluent or sludges. Approval of the Liberty Black Mountain must be received in writing before the discharge may commence, and the discharge must adhere to any terms and conditions of the Liberty Black Mountain's approval.

Approval of such a discharge is entirely at the discretion of the Liberty Black Mountain, and shall not constitute approval of any additional or similar discharges. Disapproval of a proposed discharge by the Liberty Black Mountain shall not be subject to the appeal and hearing procedure set forth in these Rules and Regulations.

5.6 Accidental Or Unusual Discharges.

An accidental or unusual discharge is a discharge which may disrupt Wastewater System treatment processes or operations, damage Wastewater System facilities, cause an AZPDES Permit violation at the Liberty Black Mountain's treatment plant or degrade sludge quality excessively, or which differs significantly in quantity or quality from discharges under normal operations.

5.6.1 Accidental Discharge Protection:

Each User shall provide protection from accidental or unusual discharges of prohibited materials or other substances regulated by these Rules and Regulations. Infrastructure necessary to prevent accidental discharge of prohibited materials shall be provided and maintained at the Customer or User's own cost and expense.

5.6.2 Notification Requirements:

(a) Telephone Notification: In the case of any accidental or unusual discharge, it is the responsibility of the User to immediately telephone and notify the Liberty Black Mountain and the Service Provider providing sewage services of the incident. The notification shall include the

location of discharge, type of waste, concentration and volume, and corrective actions

(b) Written Notice: Within five (5) days following an accidental or unusual discharge, the User shall submit to the Liberty Black Mountain a detailed written report describing the cause of the discharge and the measures to be taken by the User to prevent similar future occurrences. Such notification shall not relieve the User of any expense, loss, damage, or other liability which may be incurred as a result of damage to the Liberty Black Mountains wastewater system, fish kills, or any other damage to person or property; nor shall such notification relieve the User of any fines, civil penalties, or other liability which may be imposed by these Rules and Regulations or other applicable law.

Notice To Employees. A notice shall be permanently posted on the User's bulletin board or other prominent place advising employees whom to call in the event of an accidental discharge. Employers shall ensure that all employees who may cause or suffer such an accidental discharge to occur are advised of the emergency notification procedure.

5.6.3 Slug Discharge Plan Requirements:

At least every two (2) years, or as required by 40 CFR §403.8(f)(2)(v), the Liberty Black Mountain shall evaluate whether each Significant Industrial User needs a plan to control slug discharges. If a slug discharge plan is needed, it shall be submitted to the Liberty Black Mountain for review and approval as directed by the Liberty Black Mountain, and shall contain, at a minimum, the following elements:

(a) A description of discharge practices, including non-routine batch discharges.
(b) A description of stored chemicals.
(c) Procedures for immediately notifying the Liberty Black Mountain and the Service Provider providing sewage services of slug discharges, including any discharge that would violate any prohibition or limitation under Articles 5.17 or 5.18 of these Rules and Regulations, with procedures for follow-up written notification within five (5) days.
(d) If necessary, procedures to prevent adverse impact from accidental spills, including inspection and maintenance of storage areas, handling and transfer of materials, loading and unloading operations, control of plant-site runoff, worker training, building of containment structures or equipment, measures for containing toxic organic pollutants (including solvents), and/or measures and equipment for emergency response.

5.7 Hazardous Waste Discharge Notification.

Industrial Users shall notify the Liberty Black Mountain, the EPA Regional Waste Management Division Director, and the state hazardous waste authorities in writing of

any discharge into the Liberty Black Mountains Wastewater System of any substance which, if otherwise disposed of, would be considered a hazardous waste under 40 CFR Part 261. This notification requirement does not apply to pollutants already being reported under the reporting requirements contained in these Rules and Regulations. The specific information required to be reported and the time frames in which it is to be reported are found at 40 CFR §403.12(p).

5.8 Wastewater Contribution Permits.

5.8.1 Applicability:

All Significant Industrial Users and other users as required by the Liberty Black Mountain, contributing to or proposing to connect to or to contribute to the Liberty Black Mountain's Wastewater System, shall obtain a Wastewater Contribution Permit. Such permit shall either be issued by the Liberty Black Mountain, or co-issued by the Service Provider providing sewage services and the Liberty Black Mountain or in a form acceptable to the Liberty Black Mountain.

Requirements pertaining to permits co-issued with municipalities or issued solely by the Liberty Black Mountain are contained in the Liberty Black Mountain's Rules and Regulations. Permits co-issued with Service Providers may also contain requirements contained in the various municipal codes, ordinances, resolutions, and rules and regulations.

5.8.2 Permit Application:

Users required to obtain a Wastewater Contribution Permit shall complete and file with the Liberty Black Mountain an application accompanied by a fee as determined pursuant to Article 5.12 of these Rules and Regulations.

Applications Are Due: For new dischargers, at least 90 days prior to beginning discharge to the Liberty Black Mountain's Wastewater System.

For existing dischargers who become subject to a newly promulgated Categorical Standard, at least 90 days prior to the effective date of such standard.

For existing dischargers who, because of process changes or additions, will become subject to an existing Categorical Standard, at least 90 days prior to beginning discharge from the categorical process.

For existing dischargers subject to Categorical Standards as of the effective date of this regulation, who have not previously obtained a Wastewater Contribution Permit, within 30 days of the effective date of this regulation.

For all other dischargers, in a time frame as specified in notice from the Liberty Black Mountain.

In support of the application, the User shall submit, in units and terms appropriate for evaluation, the following information:

(a) Name, mailing address, and facility location.
(b) SIC number(s) according to the Standard Industrial Classification (SIC) Manual, Office of Management and Budget, 1987, as amended or the 1997 North American Industrial Classification System (NAICS), as amended.
(c) Time and duration of wastewater discharges.
(d) Average daily and thirty (30) minute peak wastewater flow rates, including daily, monthly, and seasonal variations, if any.
(e) Site plan, floor plans, mechanical and plumbing plans, and details to show all sewers, sewer connections, and appurtenances by the size, location, and elevation.
(f) Description of activities, facilities, and plant processes on the premises including all materials which are or could be discharged.
(g) Wastewater constituents and characteristics including, but not limited to, those limited by Article 5 of these Rules and Regulations, as determined by a reliable analytical laboratory. Sampling and analysis shall be performed in accordance with procedures established by the EPA pursuant to Article 304(g) of the act and contained in 40 CFR, Part 136, as amended.
(h) A statement regarding whether or not the discharge standards and pollutant limitations contained in Article 5 of these Rules and Regulations, including any applicable State or national pretreatment standards, are being met on a consistent basis and if not, whether additional O&M and/or additional pretreatment is required for the User to meet the applicable standards.
(i) If additional pretreatment and/or O&M will be required to meet the discharge standards and pollutant limitations, the shortest schedule by which the User will provide such additional treatment. For state or national pretreatment standards, the completion date in this schedule shall not be later than the compliance date established for the applicable pretreatment standard.

The schedule shall contain increments of progress in the form of dates for the commencement and completion of major events leading to the construction and operation of additional pretreatment required for the User to meet the applicable discharge standards and pollutant limitations (e.g., Hiring an engineer, completing preliminary plans, completing final plans, executing contract for major components, commencing construction, completing construction, etc.). In no case shall an increment of progress exceed nine (9) months.

(a) Each product produced by type, amount, process or processes, and rate of production.
(b) The type and amount of raw materials processed (average and maximum

per day).

(c) The number and type of employees, and hours of operation of the plant, and proposed or actual hours of operation of the Pretreatment System.

(d) Any other information as may be deemed by the Liberty Black Mountain to be necessary to evaluate the permit application.

5.8.3 Permit Issuance:

The Liberty Black Mountain shall issue a Wastewater Contribution Permit to the applicant if the Liberty Black Mountain finds that all of the following conditions are met:

(a) The proposed discharge of the applicant is in compliance with the prohibitions and limitations of Articles 5.17 and 5.18 of these Rules and Regulations;

(b) The proposed discharge of the applicant would permit the normal and efficient operation of the wastewater treatment system; and

(c) The proposed discharge of the applicant would not result in a violation by the Liberty Black Mountain of the terms and conditions of its AZPDES Permit.

If the Liberty Black Mountain finds that the condition set out in Paragraph 1 of this Subsection is not met, the Liberty Black Mountain may issue a Wastewater Contribution Permit to the applicant if the conditions set out in Paragraphs 2 and 3 of this Subsection are met and if the applicant submits, and the Liberty Black Mountain approves, a schedule setting out the measures to be taken by the applicant and the dates that such measures will be implemented to ensure compliance with the provisions of these Rules and Regulations.

5.8.4 Permit Denial;

Appeal and Hearing. In the event an application for a Wastewater Contribution Permit is denied, the Liberty Black Mountain shall notify the applicant in writing of such denial. Such notification shall state the grounds for denial with that degree of specificity which will inform the applicant of the measures or actions which must be taken by the applicant prior to issuance of a permit.

An applicant denied a Wastewater Contribution Permit may request that the Liberty Black Mountain Operations Manager review the denial and issue a permit. If the Liberty Black Mountain Operations Manager reaffirms the denial, the applicant may appeal this decision pursuant to the terms and conditions of the Liberty Black Mountain's appeal and hearing procedure as set forth in these Rules and Regulations.

5.8.5 Permit Conditions:

Wastewater Contribution Permits shall be expressly subject to all provisions of these

Rules and Regulations. Permits will contain, at a minimum, the following:

(a) A statement of duration (in no case more than five (5) years).

(b) A statement of non-transferability without, at a minimum, prior notification to the Liberty Black Mountain and provision of a copy of the existing permit to the new Customer or operator.

(c) Effluent limits based on applicable Pretreatment Standards, Categorical Pretreatment Standards, specific discharge limitations, as cited in these Rules and Regulations, site-specific discharge limitations, and other federal, state and local law and regulations.

(d) Self-monitoring, sampling, reporting, notification, and record keeping requirements, including an identification of the pollutants to be monitored, sampling locations, sampling frequencies, and sample types. These requirements shall be based on applicable general pretreatment standards and requirements at 40 CFR §403; categorical pretreatment standards; specific discharge limitations; State and local law and regulations; and Liberty Black Mountain determinations as to the type, quantity, quality, and frequency of information needed to adequately determine compliance with conditions of the permit.

(e) A statement of applicable civil and criminal penalties for violation of pretreatment standards and requirements, and any applicable compliance schedules. Such schedules may not extend compliance dates beyond federal deadlines.

(f) Permits may also contain the following:

1. A Schedule Of User Charges and Fees pursuant to Article 5.12 of these Rules and Regulations.
2. Limits on average and maximum rate and time of discharge or requirements for flow regulation and equalization.
3. Requirements for installation and maintenance of inspection and sampling facilities.
4. Requirements for notification to the Liberty Black Mountain of any new introduction of wastewater constituents or any substantial change in operations or in the volume or character of the wastewater constituents being introduced into the Liberty Black Mountain's Wastewater System.
5. Requirements for notification of slug discharges.
6. Other conditions as deemed appropriate by the Liberty Black Mountain to ensure compliance with these Rules and Regulations.

5.8.6 Permit Modifications:

(a) The terms and conditions of a Wastewater Contribution Permit may be modified by the Liberty Black Mountain during the term of the permit as limitations or requirements as identified in these Rules and Regulations are modified or other just cause exists. The User shall be informed of any proposed changes in his permit at least thirty (30) days prior to the effective date of change. Any changes or new conditions in the permit shall include a reasonable time schedule for compliance.

(b) Within nine (9) months of the promulgation of a national categorical pretreatment standard, the Wastewater Contribution Permit of Users subject to such standard shall be revised to require compliance with such standard within the time frame prescribed by such standard.

5.8.7 Permit Duration;

Reapplication: Permits shall be issued for a specified time period, not to exceed five (5) years. The User shall apply for permit reissuance a minimum of ninety (90) days prior to the expiration of the User's existing Permit.

5.9 Reporting Requirements For Significant Industrial Users.

5.9.1 Initial Compliance Report For Users Subject To National Categorical Pretreatment Standards:

Within ninety (90) days following the date for final compliance with applicable Pretreatment Standards or, in the case of a new source, following commencement of the introduction of wastewater into the Liberty Black Mountain's Wastewater System, or as specified in the wastewater discharge permit, any User subject to Pretreatment Standards and requirements shall submit to the Liberty Black Mountain a report indicating the nature and concentration of all pollutants in the discharge from the regulated processes which are limited by the Pretreatment Standards and requirements and the average and maximum daily flow for those process units in the User's facility which are limited by such Pretreatment Standards or requirements.

Where applicable Pretreatment Standards contain limitations on the mass of pollutants discharged per unit of production, the report shall also contain the pollutant mass and production information necessary to determine compliance with such Pretreatment Standards.

The report shall state whether the applicable Pretreatment Standards and Requirements are being met on a consistent basis and, if not, what additional O&M and/or pretreatment is necessary to bring the User into compliance with the applicable Pretreatment Standards or Requirements. This statement shall be signed by an authorized representative of the Industrial User, and certified to by a qualified professional.

5.9.2 Periodic Compliance Reports:

(a) Any User subject to a National Categorical Pretreatment Standard, after the compliance date of such Pretreatment Standard, or, in the case of a new source, after commencement of the discharge into the Liberty Black Mountain's Wastewater System, shall submit to the Liberty Black Mountain during the months of July and January, unless required more frequently in the pretreatment standard or by the Liberty Black Mountain, a report covering the preceding six (6) months and indicating the nature and concentration of pollutants in the effluent which are limited by such pretreatment standards. In addition, this report shall include a record of average and maximum daily flows for the reporting period for all regulated processes.

(b) Where applicable Pretreatment Standards contain limitations on the mass of pollutants discharged per unit of production, the report shall also contain the pollutant mass and production information necessary to determine compliance with such pretreatment standards. At the discretion of the Liberty Black Mountain and in consideration of such factors as local high or low flow rates, holidays, and budget cycles, the Liberty Black Mountain may agree to alter the months during which the above reports are to be submitted.

(c) Significant Industrial Users not subject to National Categorical Pretreatment Standards shall submit to the Liberty Black Mountain at least once every six (6) months (on dates specified by the Liberty Black Mountain), unless required more frequently by the Liberty Black Mountain, a description of the nature, pollutant concentrations, flows, and, where requested, pollutant masses, of the discharges required to be reported by the Liberty Black Mountain.

(d) All reports submitted pursuant to this section shall be based on analyses performed in accordance with procedures established by the EPA Administrator pursuant to Article 304(g) of the act and contained in 40 CFR, Part 136 and amendments thereto or with any other test procedures approved by the EPA Administrator. Sampling shall be performed in accordance with the techniques approved by the administrator.

5.10 Monitoring Liberty Black Mountain Facilities.

The Liberty Black Mountain may require to be provided and operated at the User's own expense, monitoring facilities to allow inspection, sampling, and flow measurement of any discharges as necessary to determine compliance with the provisions of these Rules and Regulations.

There shall be ample room in or near such sampling manhole or facility to allow accurate sampling and preparation of samples for analysis. The facility, sampling, and measuring equipment shall be maintained at all times in a safe and proper operating condition at the expense of the User.

The sampling and monitoring facilities shall be provided in accordance with the Liberty Black Mountain's requirements and all applicable local construction standards and specifications. Construction shall be completed within such a time frame as the Liberty Black Mountain shall specify by written notification.

5.11 Information Submittal, Inspection and Sampling.

The Liberty Black Mountain may require any User to submit information as necessary to determine compliance with the requirements of these Rules and Regulations.

The Liberty Black Mountain may inspect the facilities of any User to ascertain whether the requirements of these Rules and Regulations are being complied with. Persons or occupants of premises where wastewater is created or discharged shall allow the Liberty Black Mountain or its representatives ready access at all reasonable times to all parts of the premises for the purposes of inspection, sampling, records examination and copying, or in the performance of any of their duties.

The Liberty Black Mountain, Maricopa County, the Arizona Department of Environmental Quality, and EPA shall have the right to set up on the User's property such devices as are necessary to conduct sampling, inspection, compliance monitoring and/or metering operations. Where a User has security measures in force which would require proper identification and clearance before entry into the User's premises, the User shall make necessary arrangements with security guards so that upon presentation of suitable identification, personnel from the Liberty Black Mountain, the Arizona Department of Environmental Quality, and EPA will be permitted to enter, without delay, for the purposes of performing their specific responsibilities.

All records relating to compliance with pretreatment standards and requirements shall be made available to officials of the Liberty Black Mountain, the Arizona Department of Environmental Quality, and EPA upon request.

5.12 Wastewater Treatment.

Users shall provide wastewater treatment as required to comply with the requirements of these Rules and Regulations, and shall achieve compliance with all national categorical pretreatment standards within the time limitations as specified by the federal pretreatment regulations. Any facilities required to pretreat wastewater to a level acceptable to the Liberty Black Mountain shall be provided, operated, and maintained at the User's expense.

5.13 Confidential Information.

Information and data on a User obtained from reports, questionnaires, permit applications, permits, monitoring programs, and inspections shall be available to the public or other governmental agency without restriction unless the User specifically designates and is able to demonstrate to the satisfaction of the Liberty Black Mountain

that the release of such information would divulge sales or marketing data, processes, or methods of production entitled to protection as "Confidential Business Information" of the User. Wastewater constituents and characteristics will not be recognized as confidential information. It shall be the User's obligation to stamp each page, which has been demonstrated to the Liberty Black Mountain's satisfaction to contain trade secrets, with the words "Confidential Business Information," "Confidential Information," or
"Confidential." A failure by the User to designate and identify any document in this manner may result in the document losing its protection from disclosure as confidential business information.

Confidential business information shall not be made available for inspection by the public but shall be made available upon request to governmental entities or agencies for uses related to these Rules and Regulations, the Liberty Black Mountain's Aquifer Protection Permit and Arizona Discharge Pollutant Discharge Elimination System (AZPDES) Permit and/or the pretreatment program in accordance with 40 CFR Part 2 and Title 18, Article 9 of the AAC. Confidential business information shall not be transmitted to any governmental agency or entity for other uses by the Liberty Black Mountain except upon written request and after a ten (10) day notification and right to object is given to the User. Such notification shall not be required in certain circumstances provided for in 40 CFR Part 2. If after a request for public inspection, a person or entity challenges the determination of any record to protection as confidential business information, the User shall cooperate, to the fullest extent possible and at User's own expense, with the Liberty Black Mountain in the defense of the determination. At the request of the Liberty Black Mountain the user shall, at the User's expense, provide a defense to such challenge.

5.14 Remedies for Noncompliance; Enforcement.

5.14.1 Notice of Violation:

Whenever the Liberty Black Mountain determines that any User has violated or is violating any provision of these Rules and Regulations or a Wastewater Contribution Permit issued or approved hereunder, the Liberty Black Mountain may serve upon such User a written notice stating the nature of the violation(s). Where directed to do so by the notice, a plan for the satisfactory correction of the violation(s) shall be submitted to the Liberty Black Mountain by the User, within a time frame as specified in the notice.

5.14.2 Administrative Orders:

Whenever the Liberty Black Mountain determines that any User has violated or is violating any provision of these Rules and Regulations, or any directives, orders, or permits issued or approved hereunder, the Liberty Black Mountain may serve upon such User a written order stating the nature of the violations(s), and requiring that the User correct the violation(s) within a specified period of time; perform such tasks as the Liberty Black Mountain determines are necessary for the User to correct the violations;

or perform such tasks and submit such information as is necessary for the Liberty Black Mountain to evaluate the extent of noncompliance or to determine appropriate enforcement actions to be taken.

5.14.3 Compliance Orders / Compliance Schedules:

Whenever the Liberty Black Mountain determines that any User has violated or is violating any provision of these Rules and Regulations, or any directives, orders or permits issued or approved hereunder, the Liberty Black Mountain may serve upon the User a written order requiring that the User submit, within a time frame as specified in the notification, a plan (compliance schedule) for the satisfactory correction of such violation(s).

The compliance schedule must represent the shortest schedule by which the User will provide additional treatment or perform such other tasks as will enable the User to consistently comply with applicable requirements. The schedule shall contain increments of progress in the form of dates for the commencement and completion of major events leading to compliance (e.g., Hiring an engineer, completing preliminary plans for pretreatment systems, completing final plans, executing contracts for major components, commencing construction, completing construction). In no case shall an increment of progress exceed nine (9) months.

Upon approval by the Liberty Black Mountain, the compliance schedule will be issued to the User as an administrative order which contains the approved schedule milestones and any applicable reporting requirements. Issuance of a compliance schedule by the Liberty Black Mountain does not release the User of liability for any violations.

Not later than fourteen (14) days following each date in the schedule and the final date for compliance, the User shall submit a progress report to the Liberty Black Mountain including, at a minimum, information on whether or not the User complied with the increment of progress to be met on such date and, if not, the date on which it expects to comply with this increment of progress, the reason(s) for delay, and the steps being taken by the User to return to the schedule established.

5.14.4 Suspension of Service:

The Liberty Black Mountain may suspend the wastewater treatment service and/or a Wastewater Contribution Permit when such suspension is necessary, in the opinion of the Liberty Black Mountain, in order to stop an actual or threatened discharge which presents or may present an imminent or substantial endangerment to the health or welfare of persons, to the environment, causes pass through or interference or causes the Liberty Black Mountain to violate any condition of its aquifer protection permit or AZPDES permit.

Any User notified of a suspension of the wastewater treatment service and/or the Wastewater Contribution Permit shall immediately stop or eliminate the discharge. In

the event of a failure of the User to comply voluntarily with the suspension order, the Liberty Black Mountain shall take such steps as deemed necessary, including immediate severance of the sewer connection, to prevent or minimize damage to the Liberty Black Mountain's Wastewater System System or endangerment to any individuals or the environment. The Liberty Black Mountain shall reinstate the Wastewater Contribution Permit and/or the wastewater treatment service upon proof of the elimination of the non-complying discharge. A detailed written statement submitted by the User describing the causes of the harmful contribution and the measures taken to prevent any future occurrence shall be submitted to the Liberty Black Mountain within fifteen (15) days of the date of occurrence.

5.14.5 Permit Revocation:

Any User who has violated or is violating any provision of these Rules and Regulations, or any orders or permits issued or approved hereunder, is subject to having his permit revoked. Grounds for permit revocation include, but are not limited to:

(a) Failure of a User to factually report the wastewater constituents and characteristics of his discharge.
(b) Failure of the User to report significant changes in operations, or wastewater constituents and characteristics.
(c) Refusal of reasonable access to the User's premises for the purpose of inspection or monitoring.
(d) Violation of conditions of the permit.

5.14.6 Penalties:

Any User who is found to have violated any provision of these Rules and Regulations, or any orders or permits issued or approved hereunder, shall be subject to a penalty not to exceed, except as noted below, twenty-five thousand dollars ($25,000) per violation. Each day on which a violation occurs or continues shall be deemed a separate and distinct violation. In the case of violations of monthly or other long-term average discharge limitations, penalties may be assessed for each day in the period covered by the violations.

In addition to the penalties provided herein, the Liberty Black Mountain may recover reasonable attorney's fees, court costs, court reporter's fees, and other expenses of litigation by appropriate suit at law against the User found to have violated these Rules and Regulations, or the order or permits issued hereunder. Such penalties shall be in addition to any actual damages the Liberty Black Mountain may incur because of such violations.

Where a violation is found to have caused Interference or Upset, the maximum penalty of $25,000 per violation per day as described above may be increased as necessary to allow the Liberty Black Mountain to recover any fines or penalties paid by the Liberty Black Mountain for AZPDES Permit violations due to the Interference or Upset.

5.14.7 Legal Action:

If any person discharges sewage, industrial wastes or other wastes into the Liberty Black Mountain's wastewater disposal system contrary to the provisions of these Rules and Regulations, or any orders or permits issued hereunder, the Liberty Black Mountain's attorney may commence an action for appropriate legal and/or equitable relief in the Superior Court of Maricopa County.

5.14.8 Appeal Procedure:

Any User who is aggrieved by any enforcement action taken by the Liberty Black Mountain pursuant to this Article 5.12 may within thirty (30) days of the receipt of notice of the determination, order, or finding being appealed request in writing that the Liberty Black Mountain review the enforcement action. The request (Letter of Appeal) shall state all points of disagreement and objection to the determination, order, or finding. If the Liberty Black Mountain reaffirms the action, the User may appeal this decision to the ACC.

(a) Hearing Request, Deadlines, Procedure and Related Matters **[Reserved].**

5.15 Charges and Fees.

Charges and fees to be assessed against Users will be determined by the Liberty Black Mountain and, where instituted, will be set at a level to allow the Liberty Black Mountain to recover its costs for administering elements of the Pretreatment/Industrial Waste Control Program. Program elements for which charges and fees may be assessed include, but are not limited to, permit applications; monitoring, inspection, and surveillance activities; and general program administration.

PART B

RULES AND REGULATIONS FOR SERVICE PROVIDER USE OF LIBERTY BLACK MOUNTAIN WASTEWATER SYSTEM

5.16 Applicability.

Any Service Provider, the sewage from which directly or indirectly enters the Wastewater System of the Liberty Black Mountain from areas within or without the boundaries or Service Area of the Liberty Black Mountain, shall be subject to the requirements of this Part and shall be bound by these Rules and Regulations as they now exist or may hereafter be amended.

All Service Providers are required to design and administer Pretreatment Industrial Waste Control Programs which are in accordance with this Article 5, and which will enable the Liberty Black Mountain to comply with all pretreatment and effluent limitation conditions of its National Pollutant Discharge Elimination System (AZPDES) Permit, Federal Pretreatment Regulations, and applicable sludge disposal regulations.

5.17 Compliance with Requirements.

Each Service Provider will cause all sewage at any time discharged directly or indirectly into its sewer system, or into the Liberty Black Mountain Wastewater System by it or on its behalf, to comply with any requirements of the Liberty Black Mountain. In all cases where the application or the enforcement of said requirements involve technical or scientific analyses or determinations, the Liberty Black Mountain shall have final authority as to methods, standards, criteria, significance, evaluation, and interpretation of such analyses and determinations. Each Service Provider will permit no new connections and will discontinue existing public connections and will require the discontinuance of existing private connections to its sewer system which allow entrance therein of such sewage as will cause the discharge at any time into its sewer system, or into the Liberty Black Mountain Wastewater System from such sewer system of sewage that does not comply with said requirements of the Liberty Black Mountain.

The Liberty Black Mountain may from time to time make a determination of the respects in which sewage discharged or to be discharged into the sewer system of a Service Provider, or into the Liberty Black Mountain Wastewater System by any Service Provider, is not in compliance with said requirements and with the amendments thereof, if any, then in effect. A copy of said determination shall be mailed to the Service Provider at its usual place of business and for all purposes of these Rules and Regulations shall be conclusively deemed to have been made in accordance with this section and to be correct at the expiration of thirty (30) days after such mailing unless within said period of thirty (30) days the Service Provider shall have filed with the Liberty Black Mountain an objection thereto stating that such determination is incorrect and stating the changes therein which should be made in order to correct such determination.

5.17.1 Penalties:

Any Service Provider who is found to have violated any provision of this Article 5 shall be subject to a penalty not to exceed, except as noted below, five thousand dollars ($5,000) for such violation. Each day on which a violation occurs or continues shall be deemed a separate and distinct violation. Such penalty shall be in addition to any actual damages the Liberty Black Mountain may incur because of such violation.

In addition to the penalties provided here, the Liberty Black Mountain may recover reasonable attorney's fees, court costs, court reporter's fees, and other expenses of litigation by appropriate suit at law against the Service Provider found to have violated these Rules and Regulations.

Where a violation is found to have caused Interference or Upset, the maximum penalty of $5,000 per violation described above may be increased as necessary to allow the Liberty Black Mountain to recover any fines or penalties paid by the Liberty Black Mountain for AZPDES permit violations due to the Interference or Upset.

5.18 Legal Authority Requirements.

5.18.1 Ordinance/Resolution:

Except as provided in Subsection 5.4.3, each Service Provider will enact and enforce an ordinance or resolution which conforms to 40 CFR §403.8(f)(1) Pretreatment Program Requirements, as from time to time amended, for legal authority and containing all other legal provisions mandated by these Rules and Regulations. Any proposed amendments to such ordinance or resolution, or any proposed actions which would serve to amend such ordinance or resolution with respect to any pretreatment program requirements, must be submitted to the Liberty Black Mountain for review, and must be approved in writing by the Liberty Black Mountain, prior to such enactment.

Each Service Provider shall adopt and enforce in its ordinance or resolution provisions which are in conformance to the following provisions:

(a) A provision requiring any Industrial User responsible for a significant accidental or unusual discharge to notify immediately both the Service Provider and the Liberty Black Mountain.

(b) A provision precluding, except where authorized by Categorical Standards, the use of dilution to attain conformance to Pretreatment/Industrial Waste Control Standards, and authorizing the Service Provider to set mass limitations for any Industrial User using improper dilution.

(c) A provision forbidding and where possible penalizing the knowing transmittal of false information by an Industrial User to the Service Provider or Liberty Black Mountain.

(d) A provision requiring the installation of all necessary monitoring and pretreatment facilities by Industrial Users. This provision shall also authorize the Service Provider to impose compliance schedules on Industrial Users for the installation of such facilities.

(e) A provision applying civil or criminal penalties or, where permitted by 40 CFR §403.8(f)(1), assessing liquidated damages against Industrial Users which violate Pretreatment/Industrial Waste Control Standards and Requirements. Where possible, such penalties and liquidated damages shall be set at a level determined by the Liberty Black Mountain to provide a reasonable degree of deterrence to violations.

(f) A provision adopting discharge limitations for Users at least as stringent as the corresponding limitations in Article 5, Part B of these Rules and Regulations.

(g) A provision requiring that Industrial Users agree to act and allow the Liberty Black Mountain to act as provided under the provisions of this Article 5.

(h) A provision requiring that any User discharging any toxic Pollutants which cause an increase in the cost of managing the effluent or the sludge of the Liberty Black Mountain's Wastewater System shall pay for such increased costs.

5.18.2 Attorney's Statement:

Except as provided in Subsection 5.4.3, each Service Provider must submit to the Liberty Black Mountain an Attorney's Statement which conforms to the requirements of 40 CFR §403.9(b)(1), and which certifies that the Service Provider has adequate authority to carry out its responsibilities under the Liberty Black Mountain's Pretreatment/Industrial Waste Control Program including the provisions of these Rules and Regulations.

5.18.3 Legal Authority Exemption:

Any Service Provider that does not serve any commercial or Industrial Users may submit a letter to the Liberty Black Mountain in lieu of enacting the ordinance or resolution, and submitting the Attorney's Statement, as required by these Rules and Regulations. The letter must state that the Service Provider has no commercial or Industrial Users, and must identify any nonresidential Users served. Furthermore, any Service Provider submitting such a letter shall (1) notify the Liberty Black Mountain at least fourteen (14) days in advance of the date that any commercial or Industrial User is granted a sewer connection and (2) fully comply with the Liberty Black Mountain's Pretreatment/Industrial Waste Control Program, including the requirements of these Rules and Regulations, and the Federal Pretreatment Regulations prior to allowing that User to connect to the Service Provider's sewer system. The Liberty Black Mountain, at its own discretion, may require any Service Provider to fully comply with these Rules and Regulations, regardless of whether or not the aforementioned letter has been submitted and/or previously accepted by the Liberty Black Mountain.

5.19 Program Procedure Requirements.

5.19.1 General:

Each Service Provider must formulate, fund, and implement procedures which will enable Liberty Black Mountain compliance with the "Procedures" and "Funding" requirements contained in 40 CFR §403.8(f)(2) and (3) of the Federal Pretreatment Regulations, and which will enable Service Provider compliance with the requirements of these Rules and Regulations.

5.19.2 Procedures Manual:

The Liberty Black Mountain shall issue to all Service Providers a manual on Procedures for Implementing the Pretreatment/Industrial Waste Control Program of the Liberty Black Mountain (Procedures Manual). The Procedures Manual shall set forth Liberty Black Mountain requirements on formulating, funding, and implementing Pretreatment/Industrial Waste Control Program procedures, and shall provide guidance to Service Providers on implementing the procedural requirements.

Where necessary to maintain continued compliance with applicable federal and state regulations, or these Rules and Regulations, or to facilitate the operation of the Pretreatment/Industrial Waste Control Program, the Liberty Black Mountain may from time to time amend the Procedures Manual, and shall provide notice of such amendments to all Service Providers.

The following subsections highlight the procedural requirements that will be more fully presented in the Procedures Manual to be adopted by the Liberty Black Mountain.

5.19.3 Industrial Waste Survey:

Each Service Provider shall formulate and implement procedures for conducting ongoing, comprehensive industrial waste surveys to locate and identify all Significant Industrial Users discharging to the Service Provider's sewer system.

5.19.4 Notification to Industrial Users:

Each Service Provider is responsible for notifying its Industrial Users of their obligations under the Pretreatment/Industrial Waste Control Program.

5.19.5 Permitting of Significant Industrial Users:

Each Service Provider shall control, through permits, industrial waste discharges from each Significant Industrial User within its service area.

The Liberty Black Mountain shall make the final determination as to whether a particular Industrial User is a Significant Industrial User. To this end, the Liberty Black Mountain may require that a Service Provider collect and forward to the Liberty Black Mountain all information necessary to make this determination.

In the event that a Service Provider fails to issue a suitable permit to a Significant Industrial User upon notification to do so by the Liberty Black Mountain, the Liberty Black Mountain shall deny service to the Significant Industrial User, and may impose conditions upon the Service Provider to take such steps as are necessary to provide such service.

5.19.6 Monitoring of Industrial Users:

Each Service Provider must sample, monitor, and inspect its Significant Industrial Users, and where appropriate, require industrial self-monitoring, at a frequency adequate to determine if such Users are in compliance with applicable Pretreatment/Industrial Waste Control Program Standards and Requirements.

5.19.7 Slug Discharge Determinations:

Each Service Provider must evaluate, at least every two (2) years, whether each Significant Industrial User needs a plan to control slug discharges. If needed, the Slug Control Plan must contain the minimum elements listed at 40 CFR §403.8(f)(2)(v).

5.19.8 Compliance Activities:

Each Service Provider is required to implement procedures for identifying violators of Pretreatment/Industrial Waste Control Program Standards and Requirements, and to diligently enforce such Standards and Requirements and provide suitable remedies for non-compliance.

5.19.9 Industrial User Reporting/Confidentiality:

Each Service Provider is required to receive and analyze self-monitoring reports and any other notices submitted by Industrial Users pursuant to the requirements of the Pretreatment/ Industrial Waste Control Program. Where an Industrial User claims confidentiality for any information transmitted, the Service Provider must implement procedures to ensure that confidential information is treated in accordance with the procedures in 40 CFR Part 2 and/or 5 CCR 1002-63.

5.19.10 Public Participation:

(a) Each Service Provider must comply with the public participation requirements of 40 CFR Part 25 in the enforcement of National Pretreatment Standards.
(b) Each Service Provider must make all information collected under the

Pretreatment/Industrial Waste Control Program, except those documents legitimately classified as "confidential," available for public review and copying to the extent required by 40 CFR §403.14 and the ARS, Title 39 (Public Records, Printing, and Notices).

(c) The Liberty Black Mountain will publish an annual notice in the newspaper with the largest daily circulation within the Liberty Black Mountain, a list of Users that were found to be in significant noncompliance during the previous year with Pretreatment Standards or other Pretreatment Requirements. For the purposes of this provision, "significant noncompliance" is as defined at 40 CFR §403.8(f)(2)(vii).

5.19.11 Information Transmittal:

Each Service Provider shall transmit to the Liberty Black Mountain, in a timely manner, all documents as necessary to enable the Liberty Black Mountain to effectively administer the Pretreatment/Industrial Waste Control Program. Such documents shall include:

(a) A certified copy of the Industrial Waste Discharge Ordinance or Resolution, and any amendments thereto, together with any Rules and Regulations issued pursuant to such ordinance or resolution.
(b) Copies of all Industrial Waste permits and contracts issued or entered into pursuant to the requirements of the Pretreatment/Industrial Waste Control Program.
(c) Copies of all industrial survey, monitoring, and inspection reports.
(d) Any information needed to enable the Liberty Black Mountain to determine whether a particular Industrial User is subject to a particular Categorical Standard.
(e) Notices of all compliance and enforcement activities, and all related correspondence.
(f) An annual staffing, costs, and funding report, if requested by the Liberty Black Mountain Operations Manager.

5.19.12 Staffing, Costs, and Funding:

Each Service Provider must provide sufficient resources and qualified personnel to carry out its responsibilities under the Pretreatment/Industrial Waste Control Program. Upon request of the Liberty Black Mountain, a Service Provider must submit to the Liberty Black Mountain a report describing personnel responsibilities, an itemization of program capital and operating costs, and a demonstration that adequate funds are available to support program activities.

5.20 Extra-Jurisdictional Industrial Users.

Each Service Provider shall have the responsibility for those Industrial Users located outside its corporate limits, who discharge industrial wastewater into the Service

Provider's sewer system. Each extra-jurisdictional Industrial User shall be subject to an ordinance, resolution, or equivalent source of legal authority which contains 40 CFR §403.8(f)(1) minimum legal authorities and all other legal provisions mandated by these Rules and Regulations. Each extra-jurisdictional Industrial User shall also be included in a Pretreatment Program which substantially conforms to 40 CFR §403.8(f)(2) and (3) "Procedures" and "Funding" requirements. To this end, the Service Provider shall make contractual arrangements with the extra-jurisdictional legal entity exercising powers over the Industrial User providing either for the inclusion of the Industrial User in the Liberty Black Mountain's Pretreatment/Industrial Waste Control Program, or for formal review of a Pretreatment Program administered by the extra-jurisdictional legal entity. Where necessary to obtain compliance with Federal Pretreatment Regulations, the Service Provider shall enter into a separate contract with each extra-jurisdictional Industrial User discharging into its sewer system.

The Service Provider shall also secure by contract, as it applies to extra-jurisdictional Industrial Users, for each of the following Liberty Black Mountain rights: (i) the right to inspect, sample, and monitor Industrial Users, (ii) the right to terminate service to an Industrial User on an emergency basis, (iii) the right to determine the applicability of Categorical Standards and to determine Significant Industrial Users, (iv) the right to receive copies of all monitoring reports, (v) the right to enforce all Article 5 discharge limitations and (vi) the right to act in lieu of the Service Provider in executing Pretreatment/Industrial Waste Control Program responsibilities.

Where the Service Provider and extra-jurisdictional legal entity fail to execute their Program responsibilities in obtaining compliance by extra-jurisdictional Industrial Users with all applicable Pretreatment/ Industrial Waste Control Standards and Requirements, the Liberty Black Mountain shall have full recourse to the remedy provisions of these Rules and Regulations as they apply to the Service Provider receiving the industrial waste discharge in question.

5.21 Exemptions.

A Service Provider administering a Pretreatment Program, separate from that of the Liberty Black Mountain, which has been approved by the Regional Administrator of EPA or the Arizona Department of Environmental Quality in accordance with §403.11 of the Federal Pretreatment Regulations, may be exempted from compliance with certain provisions of this Article 5, as determined by the Liberty Black Mountain.

5.21 Program Review.

The Liberty Black Mountain shall review Municipal ordinances or other Service Provider resolutions, measures, guidelines, or regulations, and amendments thereof, for conformance to 40 CFR §403.8(f)(1) Pretreatment Requirements for minimum legal authorities and for the inclusion of all other legal provisions mandated by these Rules and Regulations. The Liberty Black Mountain shall periodically review the enforcement efforts of Service Providers to ascertain whether Pretreatment/Industrial Waste Control

Requirements and Standards are being diligently enforced at the local level.

Insofar as a Service Provider administers the Pretreatment/Industrial Waste Control Program, the Liberty Black Mountain shall periodically review the Service Provider's procedures, including, but not limited to, procedures for updating the industrial waste survey, and for inspecting, sampling, and monitoring industrial waste discharges, to ensure that each such Service Provider is administering the Program in technical conformance to "Procedures" and "Funding" requirements under 40 CFR §403.8(f)(2) and (3) of the Federal Pretreatment Regulations and to the provisions of these Rules and Regulations. Any significant Program changes shall be subject to Liberty Black Mountain approval.

5.22 Remedies.

5.22.1 Emergency Remedies:

Where a discharge to the Wastewater System reasonably appears to present an imminent endangerment to the health or welfare of persons, or presents or may present an endangerment to the environment, or threatens to interfere with the operation of the Liberty Black Mountain, the Liberty Black Mountain shall immediately initiate investigative procedures to identify the source of the discharge, and take any steps necessary to halt or prevent the discharge. If necessary, the Liberty Black Mountain shall seek injunctive relief against the violating Service Provider and any User contributing significantly to the emergency condition.

5.22.2 Routine Remedies:

If the Liberty Black Mountain determines that a Pretreatment/Industrial Waste Control Program as administered by a Service Provider is not in compliance with Pretreatment/Industrial Waste Control Requirements, or that the discharge from a Service Provider is not in compliance with Liberty Black Mountain Standards, the Liberty Black Mountain shall issue a notice setting forth the Requirements and Standards not being complied with and directing the Service Provider to attain conformance to these Requirements and Standards within a period of ten (10) days.

If after ten (10) days, the Service Provider has failed or refuses to comply with this notice, the Liberty Black Mountain may issue an additional notice setting forth remedial actions to be taken by the violating Service Provider and a time schedule for attaining compliance with all Pretreatment/ Industrial Waste Control Requirements and Standards. If after thirty (30) days notice, the violating Service Provider has not taken necessary steps to correct the violation, the Liberty Black Mountain may assume in whole or in part Pretreatment/Industrial Waste Control Program responsibilities in lieu of the violating Service Provider. The Liberty Black Mountain may continue in this capacity until the violating Service Provider agrees to the original terms of the notice and any additional terms which the Liberty Black Mountain feels are necessary to ensure ongoing compliance by the Service Provider with all Pretreatment/ Industrial

Waste Control Requirements and Standards. The Service Provider shall be liable for all costs associated with the Liberty Black Mountain's assumption of responsibilities on behalf of the Service Provider and the Liberty Black Mountain may recover such costs in any manner permitted by law.

5.23 Program Preemption.

Where the Liberty Black Mountain preempts a Service Provider in the execution of Pretreatment/Industrial Waste Control Program responsibilities, the Liberty Black Mountain shall directly enforce Federal Pretreatment Standards, including Categorical Standards, and the provisions of Article 5 of these Rules and Regulations against the Industrial Users located within the service area of the Service Provider. The Liberty Black Mountain may request that all industrial self-monitoring reports, including those required under 40 CFR §403.12, be conveyed directly to the Liberty Black Mountain. Moreover, the Liberty Black Mountain shall carry out all inspection and sampling activities necessary to monitor compliance with Pretreatment/Industrial Waste Control Standards and Requirements. Where Program preemption occurs, the Liberty Black Mountain shall have the right to seek injunctive relief against the Service Provider and any Industrial User in order to obtain full compliance with Pretreatment/Industrial Waste Control Standards and Requirements. The Liberty Black Mountain shall bill and the Service Provider shall be liable for costs incurred by the Liberty Black Mountain in conjunction with the administration of the Program in lieu of the Service Provider, and the Liberty Black Mountain may recover such costs, including attorney fees and costs, in any manner permitted by law.

The Liberty Black Mountain shall have the right to require the cessation of any industrial wastewater discharge in violation of Pretreatment/Industrial Waste Control Standards and Requirements. Where the Liberty Black Mountain finds an Industrial User to be in violation of any Pretreatment/Industrial Waste Control Standard or Requirement, the Liberty Black Mountain may require the Industrial User to enter into a bilateral contract with the Liberty Black Mountain containing any conditions, including conditions relating to the installment of pretreatment or monitoring facilities, necessary to ensure compliance with Pretreatment/Industrial Waste Control Standards and Requirements. At the discretion of the Liberty Black Mountain, these conditions may be incorporated into the municipal industrial waste discharge permit or Agreement once Program responsibilities are returned to the Service Provider.

5.24 Program Delegation.

Any Service Provider may enter into an Agreement with the Liberty Black Mountain providing the Liberty Black Mountain with the legal authority to carry out technical and administrative procedures necessary to implement the Pretreatment/ Industrial Waste Control Program at the local level. These procedures may include, among others, updating the industrial waste survey, providing technical services relating to the issuance and review of industrial waste discharge permits, inspecting and monitoring industrial waste discharges, waste discharge facilities and operations of permittees, and

providing technical assistance for local enforcement actions. Where Program delegation occurs, the delegation agreement shall contain provisions for the Liberty Black Mountain to recover the costs, including attorney fees and costs, incurred by the Liberty Black Mountain in conjunction with the administration of the Program on behalf of the Service Provider.

5.25 Liberty Black Mountain Monitoring.

For the purpose of determining the quantity, quality, and other characteristics of any sewage which shall be or may be delivered and discharged into the Wastewater System by a Service Provider, or into the system of a Service Provider by any User, the Liberty Black Mountain shall have the right at all reasonable times to enter upon and to inspect the Service Provider's system or any industrial or commercial installations connected thereto or any other connections which contribute sewage or Wastewater to the Service Provider's system and to inspect and copy records, to take samples and to make tests, measurements, and analyses of sewage or other wastes in, entering, or to be discharged into such Service Provider's system.

5.26 Specific Discharge Limitations for Service Providers.

No Service Provider shall discharge to the Wastewater System at any time or over any period of time wastewater containing any of the materials and substances in excess of the limitations provided under section 5.3

Company: Liberty Utilities (Black Mountain Sewer) Corp.- Wastewater Division
Phone: _____

Decision No.: _____
Effective Date: _____

PRE-TREATMENT TARIFF

PURPOSE

The purpose of this tariff is to enable Liberty Utilities (Black Mountain Sewer) Corporation ("Liberty Black Mountain" or "Company") to set forth certain waste limitations and pretreatment standards that apply based on the class of commercial/industrial customer served by the Liberty Black Mountain's wastewater collection system. Customer classes include dental offices, dry cleaners, food service establishments, photo imaging operations, RV Parks and pretreatment for industrial wastes. This tariff will govern the type and quality of waste discharged into the Company's wastewater collection system and treated at its wastewater treatment facilities.

This tariff incorporates pretreatment standards consistent with the City of Scottsdale which meet applicable Federal and State standards. In addition, the Liberty Black Mountain has a Code of Practice guideline attached to this tariff.

REQUIREMENTS

The requirements to be in compliance with the rules of the Arizona Corporation Commission ("Commission"), specifically A.A.C. R14-2-603, 605, 607, and 609, the above pretreatment standards and guidelines that govern this tariff are as follows:

1. Any customer disposing of industrial waste considered as hazardous under this tariff shall notify Company in writing of any discharge into the Company's collection system. The specific information for the reporting and time-frame requirement to be submitted to Liberty Black Mountain is 180 days per 40 CFR §403.12 (p)

2. The Company may require monitoring equipment facilities, at the customer's expense, to allow inspection, sampling, and flow measurement of any discharges as necessary to determine compliance with this tariff.

3. Subject to the provisions of A.A.C. R14-2-603, 607 and 609, the Company may terminate service or may deny service to a customer who fails to meet the pretreatment standards or to permit the inspecting and sampling of any discharge as required by this tariff.

4. Liberty Black Mountain may suspend wastewater treatment service, in accordance with A.A.C. R14-2-609.B (without notice), when such suspension is necessary, in the opinion of the Company, in order to stop an actual or threatened discharge which presents or may present an imminent or substantial endangerment

Company: Liberty Utilities (Black Mountain Sewer) Corp.- Wastewater Division

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to the health or welfare of persons, to the environment, or causes the Company to violate any condition of its aquifer protection permit.

5. Liberty Black Mountain shall give any new customer who is required to meet the pretreatment standards written notice of said requirement and shall be given a complete copy of this tariff and all attachments.

6. Any existing customer found to be in violation of this tariff shall be given written notice of such violation and a complete copy of this tariff with all attachments. If A.A.C. R14-2-609.B.1. is **not** applicable the customer shall be given thirty (30) days from the time such written notice is received to comply with this notice. If the customer can show good cause as to why the pretreatment standards cannot be met within thirty (30) days, the Company may allow, at its sole discretion the customer an additional thirty (30) days to have the pretreatment standards met.

7. Consistent with the provisions of A.C.C. R14-2-607.B.1 and 2, each customer shall be responsible for maintaining and safeguarding all Liberty Black Mountain property installed on the customer's premises for the purpose of supplying utility service to that customer.

Attachment – Liberty Utilities BMSC's Code of Practice Guideline

Websites:

Arizona Administrative Code (A.A.C.) Title 18, Article 9

www.azsos.gov/public_services/table_of_contents.htm

Code of Federal Register:

www.epa.gov/lawsregs/search/40cfr.html

Liberty Utilities
WATER | GAS | ELECTRIC

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.

City Use Only
___Permit Not Required
___SIU
___Zero Discharger
___High Strength
___Pollution Prevention
___Other
This Permit is for:
___ New Permit
___ Existing Permit

Industrial Wastewater Discharge Permit Application

In accordance with Title 40 of the Code of Federal Regulations Part 403 Section 403.14 and Liberty Black Mountain Code Liberty Utilities BMSC-CP-01, information and data provided in this permit application which identifies the nature and frequency of discharge shall be available to the public without restriction. Requests for confidential treatment of other information shall be governed by procedures specified in Liberty Black Mountain's Code Liberty Utilities BMSC-CP-01 and 40 CFR Part 2.

The completed application and all attachments should be mailed within 30 days of receipt to: 12725 W Indian School Rd. St. D101 Avondale, AZ 85323 623-536-4480

Section A - General Information			
Business Name			
Facility Address		Mailing Address (*if different from previous*)	
A map of the facility is attached to this application		☐ Yes ☐ No	
Signing Official Name		Primary Contact Name	
Title		Title	
Telephone No.		Telephone No.	
Facsimile No.		Facsimile No.	
		E-mail Address	

Section B – Water Usage			
Is water used in manufacturing process (Y/N)?			
Describe processes that consume water?			
Water Supply	Public	Private Well	Others
Is water supply metered (Y/N)?			
Describe treatment process to treat facility incoming water.			
Describe water consumption in the facility	Non contact cooling water (gallons per day)		
	Boiler feed (gallons per day)		
	Manufacturing processes (gallons per day)		
	Personnel sanitary use (gallons per day)		
	Contained in product (gallons per day)		
	Landscaping/Other (gallons per day)		
	Total (gallons per day)		
Provide a water balance diagram for the facility.			

Section C – Discharged Wastewater			
Type of discharges and volumes	Discharge to (volume in gallons /day)	Batch	Continuous
	City sanitary sewer		
	City storm water		
	Natural outlet		
	Waste hauler		
	Total		
Does the facility have flow metering of its discharges (Y/N)? If yes, describe the type of equipment and its locations.			
If applicable, describe future plans for facility expansion that may impact facility discharge(s) characteristics and/or volumes.			
Describe the location of discharge connection to the City's sewer.			

Provide discharge information for each manufacturing process.	Process	Average flow (gallons/day)	Maximum flow (gallons/day)	Batch or Continuous

Provide a schematic of all wastewater discharges for the entire manufacturing train(s) and for each manufacturing process. Show sampling locations. Show locations for all treatment devices such as interceptors, grease/oil/sand traps, ion exchange, filtration, neutralization systems, and any other treatment systems. Show connection to the sanitary sewer on a facility schematic. Indicate floor drains and chemical storage areas on site schematic. Are there any chemical spill/containment devices/storage? If yes, show on facility site schematic. Based on the provided information, additional information may be requested.

Provide information on storm sewers and well located inside the facility. If yes, provide location of these on facility site plan schematic.	Storm sewers (Y/N)	
	Private wells (Y/N)	
	Dry wells (Y/N)	
	Abandoned wells (Y/N)	

Section D – Wastewater Pretreatment	
Describe all wastewater streams which are treated before their discharge.	

From the following list, provide pretreatment methods employed at the facility. For each discharge stream, list the discharge streams and their locations and provide a schematic of the installed pretreatment process(es).

Grease or oil separation:

- ☐ Grease trap
- ☐ Grease interceptor (in-ground)
- ☐ Dissolved air flotation
- ☐ Oil/water separator (specify type: _____)
- ☐ Sand filter
- ☐ Other (specify: _____)

Metals treatment:

- ☐ Chemical precipitation
- ☐ Filtration (specify type: _____)
- ☐ Ion exchange
- ☐ Silver Recovery Unit (specify type: _____)
- ☐ Other (specify: _____)

Organics treatment:

- ☐ Activated carbon
- ☐ Solvent separation (specify type: _____)
- ☐ Other (specify: _____)

Solids separation:

- ☐ Centrifuge/cyclone
- ☐ Filtration (specify type: _____)
- ☐ Grit removal (specify type: _____)
- ☐ Screens (specify type: _____)
- ☐ Sedimentation/settling tank
- ☐ Sump
- ☐ Other (specify: _____)

Other:

- ☐ Flow equalization
- ☐ Neutralization, pH correction
- ☐ Ozonation
- ☐ Water/wastewater reclamation (attach description)
- ☐ Biological treatment (specify type: _____)
- ☐ Other chemical treatment (specify type: _____)
- ☐ Other physical treatment (specify type: _____)
- ☐ Other (specify: _____)

Is any form of pretreatment planned for the facility within the next three (3) years? ☐ Yes ☐ No

Please furnish a process flow diagram for each existing or planned pretreatment system. Include process equipment, by-products, by-product disposal method, concentrations, waste and by-product volumes, and design and operating conditions.

Section E - Discharge(s) Characteristics

For each of the priority pollutants listed below, provide the information.

Item No.	Chemical Compound	Amount of chemical stored onsite (pounds or gallons)	Amount of total chemical discharged (pounds or gallons/day	Amount of chemical discharged to sanitary sewer (pounds or gallons/day)	Amount of chemical sent to waste hauler (pounds or gallons/day)	Amount of chemicals sent to other(s), describe (pounds or gallons/day)
1.	asbestos (fibrous)					
2.	cyanide (total)					
3.	antimony (total)					
4.	arsenic (total)					
5.	beryllium (total)					
6.	cadmium (total)					
7.	chromium (total)					
8.	copper (total)					
9.	lead (total)					
10.	mercury (total)					
11.	nickel (total)					
12.	selenium (total)					
13.	silver (total)					
14.	thallium (total)					
15.	zinc (total)					
16.	acenaphthene					
17.	acenaphthylene					
18.	acrolein					
19.	acrylonitrile					
20.	aldrin					
21.	anthracene					
22.	benzene					
23.	benzidine					
24.	benzo (a) anthracene					
25.	benzo (a) pyrene					
26.	3,4-benzofluoranthene					
27.	benzo (g, h, i) perylene					
28.	benzo (k) fluoranthene					
29.	α-BHC (alpha)					
30.	β-BHC (beta)					
31.	δ-BHC (delta)					
32.	γ-BHC (gamma)					

33.	bis (2-chloroethyl) ether					
34.	bis (2-chloroethoxyl) methane					
35.	bis (2-chloroisopropyl) ether					
36.	bis (2-ethylhexyl) phthalate					
37.	bromodichloromethane					
38.	bromoform					
39.	bromomethane					
40.	4-bromophenyl phenyl ether					
41.	butyl benzyl phthalate					
42.	carbon tetrachloride					
43.	chlordane					
44.	4-chloro-3-methylphenol					
45.	chlorobenzene					
46.	chloroethane					
47.	2-chloroethyl vinyl ether					
48.	chloroform					
49.	chloromethane					
50.	2-chloronaphthalene					
51.	2-chlorophenol					
52.	4-chlorophenyl phenyl ether					
53.	chrysene					
54.	4,4'-DDD					
55.	4,4'-DDE					
56.	4,4'-DDT					
57.	dibenzo (a, h) anthracene					
58.	dibromochloromethane					
59.	1,2-dichlorobenzene					
60.	1,3-dichlorobenzene					
61.	1,4-dichlorobenzene					
62.	3,3'-dichlorobenzidene					
63.	1,1-dichloroethane					

64.	1,2-dichloroethane					
65.	1,1-dichloroethene					
66.	1,2-trans-dichloroethylene					
67.	2,4-dichlorophenol					
68.	1,2-dichloropropane					
69.	(cis & trans) 1,3-dichloropropene					
70.	dieldrin					
71.	diethyl phthalate					
72.	2,4-dimethylphenol					
73.	dimethyl phthalate					
74.	di-n-butyl phthalate					
75.	di-n-octyl phthalate					
76.	4,6-dinitro-o-cresol					
77.	2,4-dinitrophenol					
78.	2,4-dinitrotoluene					
79.	2,6-dinitrotoluene					
80.	1,2-diphenylhydrazine					
81.	α-endosulfan (alpha)					
82.	β-endosulfan (beta)					
83.	endosulfan sulfate					
84.	endrin					
85.	endrin aldehyde					
86.	ethylbenzene					
87.	fluoroanthene					
88.	fluorene					
89.	heptachlor					
90.	heptachlor epoxide					
91.	hexachlorobenzene					
92.	hexachlorobutadiene					
93.	hexachlorocyclopentadiene					
94.	hexachloroethane					
95.	indeno (1,2,3-cd) pyrene					
96.	isophorone					
97.	methylene chloride					
98.	naphthalene					
99.	nitrobenzene					
100.	2-nitrophenol					
101.	4-nitrophenol					
102.	N-nitrosodimethylamine					

103.	N-nitrosodi-n-propylamine					
104.	N-nitrosodiphenylamine					
105.	PCB-1016					
106.	PCB-1221					
107.	PCB-1232					
108.	PCB-1242					
109.	PCB-1248					
110.	PCB-1254					
111.	PCB-1260					
112.	pentachlorophenol					
113.	phenathrene					
114.	phenol					
115.	pyrene					
116.	2,3,7,8-tetrachlorodibenzo-p-dioxin					
117.	1,1,2,2-tetrachloroethane					
118.	tetrachloroethylene					
119.	toluene					
120.	toxaphene					
121.	1,2,4-trichlorobenzene					
122.	1,1,1-trichloroethane					
123.	1,1,2-trichloroethane					
124.	trichloroethylene					
125.	2,4,6-trichlorophenol					
126.	vinyl chloride					

Is the sampling data representative of facility's discharges to sanitary sewer (Y/N)? If no, describe why.

Parameter	Average Concentration (mg/L)	Maximum Concentration (mg/L)
BOD_5 COD Total Suspended solids TKN (Nitrogen) Oil & Grease Total Phosphorus		

List pH and temperature for each discharge location.

Discharge Location	pH			Temperature		
	Minimum	Average	Maximum	Minimum	Average	Maximum

Information on discharge(s) not disposed of into sanitary sewer.

Wastes	Estimated quantity/year (pounds or gallons)	Disposal method (i.e., landfill, recycle, sale, evaporation, incineration, etc.)

Waste solvent		
Oil & Grease		
Process wastes		
Pretreatment sludges		
Inks/dyes		
Thinner		
Paints		
Acids and Alkalis		
Left over or extra product		
Pesticides		
Others (specify)		

Provide information for an outside firm (name, address, permit number, etc.) if this firm removes any of the above listed wastes.

1.	2.	3.

Do any of your substances require an EPA Hazardous Waste Generator permit (Y/N)?	
If "Yes," please provide your ID number and type of permit (large quantity generator, small quantity generator, or conditionally exempt small quantity generator).	

Section F -Certification

I certify under penalty of law that this document and all attachments were prepared under my direction or supervision in accordance with a system designed to assure that qualified personnel properly gather and evaluate the information submitted. Based on my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering the information, the information submitted is to the best of my knowledge and belief, true, accurate, and complete. I am aware that there are significant penalties for submitting false information, including the possibility of fine and imprisonment for knowing violations.

Signature and Title of Industry Signing Official	(Seal if applicable)	Date

12725 W Indian School Rd. St. D101 Avondale, AZ 85323 623-536-4480 FAX #

DATE

NAME AND ADDRESS
OF PERMITTEE

RE: Issuance of Permit for Coverage under the Title 40 of the Code of Federal Regulations Part 403 Section 403.14 and Liberty Utilities BMSC-CP-01 Permission to Discharge to Liberty Utilities (Black Mountain Sewer) Corp. Sanitary Sewer, Permit No. 2015-1

Dear Mr./Ms. :

In accordance with Title 40 of the Code of Federal Regulations Part 403 Section 403.14 and Liberty Utilities (Black Mountain Sewer) Corp. ("Liberty Black Mountain") Code Liberty Utilities BMSC-CP-01, Liberty Black Mountain has made a final determination to issue coverage under its Industrial Wastewater Discharge Permit Program, effective from DATE through END DATE (usually 5 years or end of AZPDES Permit Term). This letter serves as official notification of issuance of the Industrial Wastewater Discharge Permit.

Liberty Black Mountain's final decision to issue permit coverage is based on the Industrial Wastewater Discharge Permit Application submitted on DATE and additional requested information. As you know, it is the responsibility of the industry/facility owner and/or operator to comply with the requirements of the Title 40 of the Code of Federal Regulations Part 403 Section 403.14 and Liberty Black Mountain's Code Liberty Utilities BMSC-CP-01. This issuance of coverage does not preclude the industry/facility from following up with an inspection or audit to verify compliance with the Industrial Wastewater Discharge Permit and Liberty Black Mountain's Code Liberty Utilities BMSC-CP-01. Also, be aware that as a condition of recordkeeping, Liberty Black Mountain's Code Liberty Utilities BMSC-CP-01 requires that the permittee retain the required information and all records pertinent to the Permit for at least three (3) years beyond the term of the Permit.

In addition, any previous Permit issued under the Liberty Black Mountain's Code Liberty Utilities BMSC-CP-01 is terminated on the coverage date as specified above. An industry/facility covered under the new Industrial Wastewater Discharge Permit is required to report on activities that were required or committed to under the previous Permit.

Finally, Liberty Black Mountain thanks you for your cooperation in the permitting process. Please retain this letter as documentation of your Industrial Wastewater Discharge Permit. Please contact me at PHONE NUMBER or by email at _____ with any questions.

Sincerely,

NAME
Liberty Black Mountain Operations Manager or Program Administrator

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Attorneys for Liberty Utilities (Black Mountain Sewer) Corp.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-15-____

DIRECT TESTIMONY OF

THOMAS J. BOURASSA

RATE BASE, INCOME STATEMENT & RATE DESIGN

June 22, 2015

EXHIBIT
A-7
ADMITTED

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I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

A. I am a Certified Public Accountant and am self-employed, providing consulting services to utility companies as well as general accounting services. I have a B.S. in Chemistry and Accounting from Northern Arizona University (1980) and an M.B.A. with an emphasis in Finance from the University of Phoenix (1991).

Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR WORK AND REGULATORY EXPERIENCE?

A. Prior to becoming a private consultant, I was employed by High-Tech Institute, Inc., and served as controller and chief financial officer. Prior to working for High-Tech Institute, I worked as a division controller for the Apollo Group, Inc. Before joining the Apollo Group, I was employed at Kozoman & Kermode, CPAs. In that position, I prepared compilations and other write-up work for water and wastewater utilities, as well as tax returns.

In my private practice, I have prepared and/or assisted in the preparation of numerous water and wastewater utilities rate applications before the Arizona Corporation Commission ("Commission"). A listing of my regulatory work experience is attached as **Exhibit TJB-RB-DT1**.

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

A. On behalf of the Applicant Liberty Utilities (Black Mountain Sewer) Corp. ("Liberty Black Mountain" or the "Company"). The Company is seeking a determination of its fair value rate base and rates and charges for utility service based on that finding.

Q. WHAT IS THE SCOPE OF YOUR DIRECT TESTIMONY IN THIS RATE CASE?

A. I am testifying in support of Liberty Black Mountain's proposed rates and charges for utility service. I am sponsoring the direct schedules A through C and E through G, which are filed concurrently herewith. I am responsible for and/or supervised the preparation of these schedules based on my investigation and review of the Company's relevant books and records.

For convenience, my direct testimony is being filed in two volumes. In this volume, I address rate base, income statement (revenue and operating expenses), required increase in revenue, as well as the rate design and proposed rates and charges for service. I also discuss my cost of service study in this volume of my direct testimony.

In a second, separate volume, I address cost of capital and sponsor the D schedules. As shown on the D-1 Schedules, the actual capital structure for the test year was 100 percent equity. However, the Company is requesting approval of long-term debt concurrently with its rate application, which will bring the debt-to-equity ratio to 30 percent debt and 70 percent equity, if approved. Therefore, the projected year capital structure is 30 percent debt and 70 percent equity. The Company recommends a 10.8 percent cost of equity and a 3.53 percent cost of debt, resulting in a weighted average cost of capital ("WACC") of 8.62 percent.

II. <u>OVERVIEW OF APPLICATION</u>.

Q. PLEASE SUMMARIZE LIBERTY BLACK MOUNTAIN'S APPLICATION.

A. Liberty Black Mountain's Fair Value Rate Base ("FVRB") is $3,412,024 and the Company seeks total revenues of $2,659,788. That revenue amount *includes* the revenues required to recover (1) operating expenses, (2) a return on rate base, (3) plant closure cost surcharge revenues, and (4) rate case expense surcharge

revenues. Specifically, the increase in annual revenues to provide for recovery of operating expenses and an 8.62 percent return on rate base is approximately $56,929. The increase in annual revenues to provide for recovery of plant closure costs is $211,011. The increase in annual revenues to provide for recovery of rate case expense is $150,000. Taken all together, the Company seeks an increase in total revenues of $417,940, an increase of approximately 18.75 percent over the adjusted and annualized test year revenues of $2,239,848.

Q. ARE THE PLANT CLOSURE COSTS DISCUSSED IN MR. SORENSEN'S DIRECT TESTIMONY INCLUDED IN THE FVRB?

A. No, recovery of those plant closure costs occurs through activation of the plant closure surcharge mechanism envisioned by the Commission in Decision No. 71865 (September 1, 2010). I explain this in further detail in section III(B)(5) of my testimony below. In his testimony, Mr. Sorensen also has a detailed discussion of the status of the plant closure and the nature of the plant closure costs incurred by the Company.[1]

Q. WHAT ABOUT THE RATE DESIGN?

A. As set forth below, the Company is proposing a new rate design for commercial customers based on water usage. As Mr. Sorensen also explains in his testimony, the Company was ordered by the Commission and encouraged by its customers and the Town of Carefree to come up with an entirely new rate design for non-residential customers.[2] In doing so, I have done away with any reliance on and use of ADEQ Bulletin No. 12. I address this rate design in more detail in section V of this testimony.

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[1] Direct Testimony of Greg Sorensen ("Sorensen Dt.") at 18-32.

[2] Sorensen Dt. at 32-35.

III. RATE BASE, INCOME STATEMENT AND SUMMARY SCHEDULES.

A. A, E and F Schedules.

Q. PLEASE DESCRIBE THE SCHEDULES LABELED AS A, E, AND F.

A. The A-1 Schedule is a summary of the rate base, operating income, current operating margin, required operating margin, operating income deficiency, and the increase in gross revenue. The return on FVRB, proposed increase in the revenue requirement, and revenues at present and proposed and customer classifications are also shown on this schedule.

The A-2 Schedule is a summary of results of operations for the test year, prior years, and a projected year at present rates and proposed rates.

Schedule A-3 contains the capital structure for the test year and the two prior years.

Schedule A-4 contains the plant construction and plant-in-service for the test year and prior years. The projected plant additions are also shown on this schedule.

Schedule A-5 is the summary of the changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates.

The E Schedules are based on Liberty Black Mountain's actual operating results, as reported in annual reports filed with the Commission. The E-1 Schedule contains the comparative balance sheet data for the years 2012, 2013, and 2014 ending on December 31.

Schedule E-2, page 1, contains the income statement for the years 2012, 2013, and 2014 ending on December 31.

Schedule E-3 contains the statements of changes in Liberty Black Mountain's financial position for the test year and the two prior years.

Schedule E-4 provides the changes in stockholder equity.

Schedule E-5 contains plant-in-service at the end of the test year, and one year prior to the end of the test year.

Schedule E-7 contains operating statistics for the years ended 2012, 2013, and 2014 ending on December 31.

Schedule E-8 contains the taxes charged to operations.

The accountant's notes to the financial statements and the financial assumptions used in preparing the rate filing schedules are shown on Schedules E-9 and F-4, respectively, in accordance with the Commission's standard filing requirements.

Schedule F-1 contains the results of operations at the present rates (actual and adjusted), and at proposed rates.

Schedule F-2 contains the summary of changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates.

Schedule F-3 shows projected construction requirements for 2015, 2016, and 2017.

Schedule F-4 contains the assumptions used in developing the adjustments and projections contained in the rate filing.

B. <u>B Schedules (Rate Base)</u>.

Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE LABELED AS THE B SCHEDULES?

A. Yes. I will start with Schedule B-5, which is the cash working capital allowance. The Company's proposed cash working capital allowance is based upon a lead-lag study. The Company's proposed cash working capital allowance is a negative $60,594.

Q. PLEASE CONTINUE.

A. The Company did not file Schedules B-3 and B-4. To limit issues in dispute and reduce rate case expense, BMSC is requesting that its original cost rate base ("OCRB") be used as its FVRB.

Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO THE ORIGINAL COST RATE BASE?

A. Yes. Schedule B-2 shows adjustments to the OCRB cost rate base proposed by Liberty Black Mountain. Schedule B-2, pages 2 through 7, provides the supporting information.

1. <u>Plant-in-Service (PIS) and Accumulated Depreciation (A/D)</u>.

Q. PLEASE DISCUSS THE PLANT-IN-SERVICE ADJUSTMENTS.

A. B-2 adjustment number 1, as shown on Schedule B-2, page 2, adjusts plant-in-service ("PIS"). There are three PIS adjustments included in Adjustment 1. These are shown on Schedule B-2, page 3, and are labeled as adjustments "A," "B," "C", "D", and "E".

Adjustment "A" of B-2 adjustment number 1 reduces PIS by $1,460,000 for Scottsdale Capacity Costs that are being recovered as lease expense for ratemaking purposes.

Q. IS THIS THE SAME RATEMAKING TREATMENT GIVEN TO THESE SCOTTSDALE TREATMENT CAPACITY COSTS IN THE LAST CASE?

A. Yes. Under the approach adopted by the Commission in Decision No. 59944 (December 26, 1996) and Decision No. 60240 (June 12, 1997), then reaffirmed in the last case (Decision 69164), the debt service on the debt used to fund the acquisition of Scottsdale Capacity of 318,951 gpd is treated as an operating lease and included in operating expenses as lease expense.

Q. WHAT ABOUT THE ADDITIONAL SCOTTSDALE TREATMENT CAPACITY COSTS ACQUIRED IN 2006?

A. The remaining Scottsdale Capacity cost of $486,294 is treated as PIS and included in rate base (net of accumulated depreciation). This treatment was approved in the last case (Decision 69164).

Q. ARE THESE SCOTTSDALE CAPACITY COSTS RELATED TO THE PLANT CLOSURE?

A. No. These are the costs related to previous purchases of capacity from Scottsdale by Liberty Black Mountain. The costs for capacity to replace the capacity in the East Boulders Wastewater Treatment Plant ("Boulders WWTP") have not yet been incurred, although the Company has spent roughly $1.1 million on the closure to date.[3]

Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE PIS ADJUSTMENTS.

A. Adjustment "B" of B-2 adjustment number 1 removes capitalized affiliate profit recorded to PIS since the end of the last test year.

Adjustment "C" of B-2 adjustment number 1 reduces PIS for unrecorded retirements as of the end of the test year.

Adjustment "D" of B-2 adjustment number 1 increases PIS for allocated corporate plant.

Adjustment "E" of B-2, adjustment number 1, adjusts PIS to reflect the reconciliation of the Company's PIS detail to recorded general ledger amounts as reflected on Schedule E-1.

[3] Sorensen Dt. at 21:19-23.

Q. PLEASE DISCUSS THE A/D ADJUSTMENTS.

A. B-2 adjustment number 2, as shown on Schedule B-2, page 2, adjusts plant-in-service ("PIS"). There are three PIS adjustments included in Adjustment 1. These are shown on Schedule B-2, page 4, and are labeled as adjustments "A," "B," "C," "D," and "E."

Adjustment "A" of B-2 adjustment number 2 removes A/D related to affiliate profit recorded to PIS since the end of the last test year.

Adjustment "B" of B-2 adjustment number 2 reduces A/D for unrecorded retirements as of the end of the test year.

Adjustment "C" of B-2 adjustment number 2 increases A/D related to allocated corporate plant.

Adjustment "D" of B-2, adjustment number 2, adjusts A/D to reflect the reconciliation of the Company's PIS detail to recorded general ledger amounts as reflected on Schedule E-1.

Q. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON SCHEDULE B-2 REFLECT THE LAST COMMISSION RATE ORDER FOR LIBERTY BLACK MOUNTAIN?

A. Yes. The Company's reconstruction of the PIS balance started with the PIS balance approved in the last rate case. Reconciliation to the starting balances for PIS and accumulated depreciation are shown on Schedule B-2, page 3.6. Plant additions and retirements since the end of the last test year have been added to and deducted from total plant shown on Schedule B-2, pages 3.7 to 3.13. Pages 3.7 to 3.13 of the schedule also show the details for the accumulated depreciation from the end of the last test year through the end of the test year using the half-year convention for depreciation.

2. Contributions-in-Aid of Construction (CIAC).

Q. PLEASE DISCUSS THE CIAC ADJUSTMENTS.

A. B-2 adjustment number 3, as shown on Schedule B-2, page 2, adjusts CIAC and accumulated amortization ("A.A.") to the reconstructed balances shown on Schedule B-2, page 5.1 to 5.3 and summarized on Schedule B-2, page 5.

Q. DO THE CIAC AND A.A. BALANCES SHOWN ON SCHEDULE B-2 REFLECT THE LAST COMMISSION RATE ORDER?

A. Yes. The starting CIAC and A.A. balances shown in the reconstruction are the balances approved in the last rate order. Additional CIAC recorded since the end of the last year have been added to CIAC and are shown on Schedule B-2, page 5.1 to 5.3. Computed amortization for each year, based upon the annual composite depreciation rate for plant has been added to A.A. and is also shown on Schedule B-2, page 5.1 to 5.3.

3. Advances-in-Aid of Construction (AIAC).

Q. PLEASE DISCUSS THE AIAC ADJUSTMENT.

A. B-2 adjustment number 4, as shown on Schedule B-2, page 2, adjusts AIAC to the reconstructed amounts shown on Schedule B-2, page 6.1 to 6.2 and summarized on Schedule B-2, page 6.

Q. DOES THE AIAC BALANCE SHOWN ON SCHEDULE B-2 REFLECT THE LAST COMMISSION RATE ORDER?

A. Yes. The starting AIAC balance shown in the reconstruction is the balance approved in the last rate order. Additional AIAC recorded since the end of the last year have been added to AIAC and are shown on Schedule B-2, page 6.1 to 6.2.

1 **4. Accumulated Deferred Income Taxes (ADIT).**

2 **Q. PLEASE DISCUSS THE ADIT ADJUSTMENT.**

3 A. Adjustment number 5, shown on Schedule B-2, page 2, reflects the computed
4 deferred income taxes at the end of the test year. The Company's computation is
5 based on the adjusted PIS, A/D, AIAC, and CIAC balances in the instant case and
6 the adjusted tax basis of its assets using the effective tax rates computed on Schedule
7 C-3, page 2. The detail of the Company's deferred income tax computation is shown
8 on Schedule B-2, pages 7.0 and 7.1.

9 **5. Cash Working Capital.**

10 **Q. PLEASE DISCUSS THE WORKING CAPITAL ADJUSTMENT.**

11 A. Adjustment number 6, shown on Schedule B-2, page 2, reflects the Company's
12 proposed cash working capital allowance. The Company's proposed cash working
13 capital allowance of a negative $60,594 is based upon a lead-lag study prepared by
14 the Company and summarized on Schedule B-5.

15 **Q. LIBERTY BLACK MOUNTAIN IS ALSO SEEKING TO RECOVER A**
16 **RETURN ON AND OF CERTAIN COSTS THROUGH A SURCHARGE**
17 **MECHANISM, CORRECT?**

18 A. Yes. As Mr. Sorensen explains in his direct testimony, Liberty Black Mountain is
19 seeking to begin recovery of the costs of closing the Boulders WWTP through a
20 Plant Closure Surcharge. Through May 31, 2015, the Company has incurred
21 $1,120,403.31 on the plant closure.

22 **Q. BUT WHY A SURCHARGE INSTEAD OF MORE TYPICAL RATE BASE**
23 **TREATMENT?**

24 A. Because the Commission considered and approved recovery of plant closure costs
25 through a surcharge mechanism in Decision No. 71865. While the circumstances
26 have changed, in that the treatment plant closure is taking longer and costing more

than expected, the Company is seeking to begin recovery now for the reasons explained by Mr. Sorensen, and the surcharge remains a viable mechanism for recovery of these costs. Of course, if the Commission believes including the plant closure costs directly in rate base is preferable, it can so direct. The important point is that these costs were reasonably and prudently incurred in compliance with a Commission order and the will of the customers and it is fair to allow recovery to commence.

Q. HOW MUCH IS THE SURCHARGE?

A. The proposed monthly surcharge per customer is $8.57 as shown on **Exhibit TJB-RB-DT2**. This is based upon the year-end number of customers (including commercial) that are expected to be billed when new rates go into effect.

Q. WHAT DO YOU MEAN BY "THE NUMBER OF CUSTOMERS EXPECTED TO BE BILLED"?

A. Under the current rate design, each customer was billed based upon rated gallons per ADEQ Bulletin 12 regardless of how the water is delivered (one of more meters). If water usage is to be used as the basis for billing commercial customers, only metered commercial establishments will be billed. In the case of a commercial office building with four tenants, for example, there are four distinct customers under the current rate design. However, there may be only one meter servicing the property and only one source of water use data. Therefore, under the proposed rate design, there will be only one billed commercial customer. Due to this "consolidation," there are fewer commercial customers to bill under the Company's proposed rate design. Specifically, under the current rate design, there are 120 commercial customers, while there are only 89 under the proposed rate design. Of course, it is also worth noting that Liberty Black Mountain's customer base is almost entirely residential (over 90 percent), so this change in the number of commercial customer bills does

not have a significant impact on the determination of the surcharge amount.

Q. HOW WAS THE PLANT CLOSURE COST SURCHARGE AMOUNT DETERMINED?

A. The computation of the surcharge is shown on **Exhibit TJB-RB-DT2**. There are eight steps to computing the surcharge. Step 1 computes the annual amortization. The surcharge contemplates a 20 year recovery period (5 percent amortization rate). Step 2 computes the return on the closure costs (return component) using the WACC of 8.62 percent. It is assumed that the WACC will be based on the WACC approved in the most recent rate case for the Company. Steps 3 and 4 compute the gross revenue conversion factor ("GRCF") and the incremental gross-up factor required to compute the incremental income taxes on the return component computed in Step 2. It is assumed that the GRCF will be the same as adopted in the instant case. Step 5 computes the annual income tax component. Step 6 computes the annual cost recovery before income taxes (total of the annual annualization component from Step 1) and the return component (from Step 2). Step 7 computes the total annual surcharge revenue requirement (including income taxes) to be collected by the surcharge (total of annual cost recovery before income taxes from Step 6) and the incremental income tax component (from Step 5). Step 8 computes the monthly surcharge by dividing the total annual surcharge revenue requirement (from Step 7) by 12 and then by the number of year-end customers.

Q. IS THAT METHODOLOGY CONSISTENT WITH WHAT THE COMMISSION CONTEMPLATED IN DECISION NO. 71865?

A. Yes.[4]

[4] Decision No 71865 at 55:1-2. Hearing Ex. A-11 from that testimony is basically the same as my **Exhibit TJB-RB-DT2**.

Q. AND THE SURCHARGE IS TO BE COMPUTED ANNUALLY?

A. Yes. There are two reasons for this. First, the base number of customers may change over time. Second, and more importantly, since the plant closure costs are to be amortized, the return component will be less each subsequent year because the annual return component will be based upon the net remaining plant closure costs to be recovered.

Q. DOES THE COMPANY PROPOSE THAT THE ANNUAL COMPUTATION BE SUBMIITED FOR REVIEW TO THE COMMISSION?

A. Yes, along with a report of the total of the surcharge collected in the previous year.

C. <u>C Schedules (Income Statement)</u>.

Q. WOULD YOU EXPLAIN THE C SCHEDULES?

A. Schedule C-1, page 1 summarizes the test year actual and adjusted revenues and expenses. Schedule C-1, pages 2.1 and 2.2, show the individual adjustments to the test year. The following is a summary of adjustments shown on Schedule C-1, pages 2.1 and 2.2:

Adjustment 1 annualizes depreciation expense. The proposed depreciation rate for each component of utility plant is shown on Schedule C-2, page 2. The depreciation rates approved in the last rate case were plant account specific. The Company proposes to continue to use account specific rates on a going forward basis.

Adjustment 2 increases the property taxes based on proposed revenues. The details of the computation are shown on Schedule C-2, page 3.

Adjustment 3 is intentionally left blank. Typically, Adjustment 3 would be used for rate case expense adjustments.

Q. WHERE IS THE RATE CASE EXPENSE SHOWN?

A. Rate case expense is not reflected in the operating expenses because the Company is requesting recovery through a rate case expense surcharge. The surcharge calculation is shown on **Exhibit TJB-RB-DT2**.

Q. WHAT IS THE REQUESTED RATE CASE EXPENSE?

A. The Company estimates rate case expense of $450,000 to be recovered over three years.

Q. HOW WAS THIS AMOUNT DETERMINED?

A. It is an estimate based on the significant combined experience for lead counsel and myself before the Commission in rate cases, including the last two rate cases for Liberty Black Mountain. Mr. Shapiro and I developed an estimate, taking into account the unique and anticipated circumstances in this rate case, and further considered that estimate in consultation with Liberty Utilities' representatives, who themselves have considerable experience in Commission ratemaking procedures.

Q. WHAT DO YOU MEAN BY "UNIQUE AND ANTICIPATED CIRCUMSTANCES"?

A. There are at least two major issues we can expect in this rate case – the ongoing closure of the Boulders WWTP and its escalating price tag, and the new rate design for commercial customers. Liberty Black Mountain has already been forced to expend hundreds of thousands of dollars litigating over the plant closure and, more recently, has been embroiled in litigation over the commercial rate design. As a result, the Company expects that there will be multiple intervenors concerning these issues in this rate case. We cannot foretell everything, but we have good reason to anticipate some controversy over at least these two issues, and that had a significant impact on our estimate.

Q. WHY IS THE RECOVERY PERIOD THREE YEARS IF IT HAS BEEN ROUGHLY SEVEN YEARS SINCE THE LAST RATE CASE?

A. First, the gap between this case and the last is an anomaly for this Company and Liberty Utilities generally. Mr. Sorensen addresses this further in his direct testimony.[5] Second, we know the Company has to file another rate case shortly after this one is completed because of the closure of the plant. Mr. Sorensen also addresses these timing issues in his direct testimony.[6]

Q. BUT WHY A RATE CASE EXPENSE SURCHARGE?

A. Because we know the Company has to file another rate case as soon as the plant is closed. When that happens, Liberty Black Mountain rightly wishes to avoid Staff and RUCO's historic treatment of rate case expense as a "normalized" expense. This reasoning is always flawed, but never more so than here.

Q. WHAT'S WRONG WITH TREATING RATE CASE EXPENSE AS A NORMALIZED EXPENSE?

A. It isn't a normal, regular expense. It is incurred for a limited purpose, outside the test year, and may bear little resemblance to other cases where the expense is incurred. The utility pays it in advance and has no guarantee of reimbursement. When treated as a typical expense, any unrecovered rate case expense is forfeited if the utility gets new rates before the amortization period has run. Alternatively, if the utility stays out longer than the amortization period, it over recovers. A surcharge avoids that. The utility will be allowed to collect the surcharge until it recovers the authorized level of rate case expense, and this way it will recover that amount, not more or less. I believe this methodology is fair to both customers and the utility.

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[5] Sorensen Dt. at 9:6-16.

[6] Sorensen Dt. at 27:21-24.

Q. WHAT IF THE NEXT RATE CASE IS COMPLETE BEFORE THE COMPANY COMPLETES ITS RECOVERY OF THE COST OF THIS CASE UNDER THE RATE CASE EXPENSE SURCHARGE?

A. A rate case expense surcharge can be a permanent line item on the customer bill and can include amounts to be recovered from different rate cases. The amount can adjusted as needed, up or down. This also has the benefit of making the cost of ratemaking transparent to all stakeholders.

Q. BASED UPON THE TEST YEAR-END NUMBER OF CUSTOMERS, WHAT IS THE MONTHLY RATE CASE EXPENSE SURCHARGE?

A. As shown in **Exhibit TJB-RB-DT3**, the monthly surcharge per customer is $6.09.

Q. DOES THE COMPANY PROPOSE ANNUAL REPORTING OF THE RATE CASE EXPENSE SURCHARGE COLLECTIONS TO THE COMMISSION?

A. Yes, if the Commission wishes.

Q. OKAY. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE EXPENSE ADJUSTMENTS.

A. Adjustment 4 annualizes revenues to the year-end number of customers. The annualization of revenues is based on the number of customers at the end of the test year, compared to the actual number of customers during each month of the test year. Average revenues per customer by month were computed for the test year and then multiplied by the increase (or decrease) in number of customers for each month of the test year. The total of the monthly revenue change comprises the revenue annualization. This was done for only for the residential class.

Q. WHY NOT FOR THE COMMERCIAL CLASS?

A. Annualization of revenues for the commercial class was made impossible using the typical annualization methodology I employ for revenue annualization due to the change in rate design and the consolidation of commercial customers I discussed

earlier (at page 11). That said, the revenue annualization for the commercial class would likely have been immaterial since the total number of commercial customers under the current design at the beginning of the year and at the end of the year has barely changed, if at all.

Q. THANK YOU. PLEASE CONTINUE.

A. Adjustment number 5 increases operating expenses by $164,522 for "lease" costs associated with the present Scottsdale treatment capacity of 318,951 gpd. These costs reflect the annual debt service on the long-term debt the Company incurred to finance the acquisition of wastewater treatment capacity from Scottsdale.

Q. WHAT AMOUNT OF LONG-TERM DEBT IS FINANCING THE 318,951 GPD OF SCOTTSDALE TREATMENT CAPACITY?

A. The Commission granted approval of long-term debt in the amount of $960,000 in Decision No. 59944 (December 26, 1996) to acquire wastewater treatment capacity from Scottsdale. Liberty Black Mountain paid a total of $1,260,000 for the right to utilize 210,000 gallons of treatment capacity, of which $960,000 was financed by debt and $300,000 was financed by CIAC. Another $500,000 of long-term debt was approved in Decision No. 60240 (June, 1997). Liberty Black Mountain used those funds to acquire an additional 108,951 gallons of treatment capacity from Scottsdale for $653,706, of which $500,000 was financed by long-term debt and $153,706 was financed by CIAC. Both loans have a 9.4% interest rate and a term of 20 years.

Q. DOES THE ANNUAL "LEASE" EXPENSE INCLUDE A GROSS UP FOR INCOME TAXES?

A. No. Instead, I have excluded the annual lease costs in the computation of taxable income resulting in higher income taxes. This is the same methodology approved in

the prior decision.[7]

Q. PLEASE CONTINUE.

A. Adjustment 6 reduces Contractual Services – Professional by $10,863 to reflect a true-up of test-year allocated corporate costs. Those corporate costs are incurred by entities in the Liberty Utilities and Algonquin Power & Utilities Corp. family of companies in providing necessary and useful services to Liberty Black Mountain and other regulated utilities. The true-up includes removing expenses for which the Company is not seeking recovery from ratepayers. William Killeen, Liberty Utilities' Director of Regulatory Strategy, explains Liberty Utilities' corporate cost allocation methodologies and Cost Allocation Manual in more detail in his direct testimony.

Adjustment 7 increases Salaries and Wages expense by $13,904 and Contractual Services – Professional by $7,711 to reflect expected wage increases in 2015 and 2016.

Adjustment 8 increases Miscellaneous expense by $1,800 and reflects the expected annual cost of obtaining water usage data from the water providers' for the Company's commercial customers.

Adjustments 9 through 12 are intentionally left blank.

Adjustment 13 adjusts interest expense to reflect interest synchronization with rate base.

Adjustment 14 reflects income taxes based upon the Company adjusted test year revenue and expense.

[7] *See* Decision 69164 at 9.

IV. COST OF SERVICE STUDY (G SCHEDULES).

A. Background.

Q. WHY DID THE COMPANY PREPARE COST OF SERVICE STUDIES?

A. The cost of service studies provide a starting point for determining how proposed revenues should be allocated to the customer classes (e.g., residential, commercial, irrigation, and other public authority) based on their respective costs of service. These results provide meaningful information in developing rate design, particularly in the determination of cost of service-based rates. It is also helpful here, where a new rate design is being proposed for the entire commercial customer class.

Q. WHAT EXACTLY IS A COST OF SERVICE STUDY?

A. A cost of service study is an analysis of the adequacy of water revenues and revenue requirements to be met by the various classes of customers under both existing and proposed rates. The study begins with an allocation of utility plant and expenses into cost and asset functions, which are then allocated to customer classifications. The study attempts to trace the costs associated with meeting the customers' service requirements. Ideally, the revenues received from each customer class should equal the cost of providing service to that customer class. The cost to provide service includes the operating and maintenance expenses and the capital costs. Operating and maintenance expenses include the costs of operating the system and the costs of maintaining system facilities and equipment. Capital costs include investment-related cash requirements such as debt service, contributions to debt service reserves, and capital requirements not financed by debt. Capital costs also include depreciation expense and either a return on rate base (for-profit utilities) or an operating margin (non-profit utilities) as well as income taxes and other taxes, if applicable.

Q. WHAT IS THE PURPOSE OF A COST OF SERVICE STUDY?

A. Typically, the purpose of preparing a cost of service study is to offer guidance in setting rates to be charged for utility service. Again, the basic premise in establishing rates for the various classes of customers that are both adequate and equitable is that rates should reflect the cost of providing utility service. Generally, regulators should set rates based on the cost of service. This assures that the cost of providing service is allocated equitably among customers and customer classes. Cost-based rates also send an appropriate price signal to customers because the amount paid for service approximates the cost to provide the service. In other words, subsidies between customers are minimized.

There are many factors at play when rates are set which may result in rates that are not adequate and/or equitable between the various classes of customers. Non-economic factors may be at play when rates are set. For example, the regulatory body may favor subsidizing one class of customers by shifting costs to other classes of customers, or shifting revenues within one class of customers to subsidize members within that class. Lifeline or discounted rates, which are sometimes used to assist low-income customers in areas with high utility costs, are prime examples of subsidization of a class of customers by other customers. If possible, lifeline rates should not apply to a whole customer class. If lifeline rates are needed, they should be offered only to customers meeting some income test.

Another example is rate designs intended to encourage conservation. Conservation-based rates deviate from cost-of-service principles because larger water users pay more than their cost of service. Inverted-tier rates shift revenue recovery into the upper rate blocks in order to send a price signal to customers, regardless of the cost to serve those customers. This may be a desirable social policy, but larger water users may also regard these rates as unfair and discriminatory.

Thus, public policy may have a significant impact on rate design. The Commission should consider the impact that these sorts of alternative rate designs have on other customers, and the degree that such approaches deviate from cost-based rates, which may result in inequities and, in extreme cases, cause customers to develop alternatives to service from the utility provider. In the end, the goal in setting new rates is for the Company to recover its revenue requirement.

Q. WHAT METHOD OF SERVICE COST ALLOCATION WAS USED IN THE STUDIES?

A. I used the Commodity Demand Method which is described in AWWA Manual M1, "Principles of Water Rates, Fees and Charges," published in 2000 and prior editions of the manual. It is the method prescribed by Schedule G of the Commission filing requirements. The commodity demand method allocates each item of the cost of providing water service to the several cost functions – commodity, demand, which can be further separated into customer, meter and services functions. These functional costs are then allocated to the several customer classifications served by the system.

Q. HOW IS THE COST OF SERVICE STUDY ORGANIZED?

A. Each study used the test year revenue requirements developed by the Company in Schedules A through F and H. Costs were allocated to each of the cost functions described earlier and then to the customer classifications.

The cost of service study contains schedules G-1 through G-7. The standard filing requirements call for Schedules G-1 through G-7 and these schedules are included with my testimony.

G Schedules with higher numbers (*i.e.*, 5, 6 and 7) contain the allocation factors and actual allocations to functions. These functions are then carried forward to the summary G schedules 1, 2, 3 and 4, which allocate expenses and plant (by

function) to classes of customers. I start my analysis using Schedule G-7 and end with Schedules G-2 and G-1. I then describe Schedules G-8 and G-9.

Q. BEFORE YOU PROCEED TO DISCUSS THE G SCHEDULES, WHAT IS A "FUNCTION"?

A. Functions refer to the plant and the expenses needed to treat wastewater (the commodity) from the source (the customer). The functions associated with wastewater treatment are typically commodity, demand, and customer (and/or services).

Commodity refers to the volume of wastewater treated. The commodity function is used to derive the commodity rate or the rate charged per unit of measurement, *e.g.*, 1,000 gallons of wastewater flows. Demand refers to how the wastewater system is sized to treat the wastewater, which is normally determined by the expected average flows from customers. Hence, the system is built to be able to treat wastewater (the commodity), as well as the demand placed on the treatment system when wastewater flows peak.

The Customer (and/or service) function is/are also used to develop the monthly minimum charged to each class of customer. The full cost of the demand function should also be included in the monthly minimum charge. However, the practice of Commission Staff has been to allocate a portion of the demand function to both the commodity rate and the monthly minimum charge, and the Commission in my experience has generally adopted this approach.

Demand and customer functions refer to the delivery of the wastewater from the customer through the collection mains to the Company's wastewater treatment facilities and then the disposal of sludge and effluent (in some cases effluent is delivered to golf courses and/or used to recharge groundwater). The costs associated

with demand and customer functions are incurred whether the customer generates 1,000 gallons of wastewater flows or 100,000 gallons of wastewater flows.

Q. WHAT TYPE OF COST OF SERVICE STUDY DID YOU PREPARE TO SUPPORT THE PROPOSED RATES?

A. I used the Commodity - Demand Method for the cost of service study. This method normally separates expenses and assets into three primary functions or components: commodity; demand; customer.

Commodity costs are costs that tend to vary (change) with the amount of wastewater treated. These costs would consist primarily of power costs, chemicals, sludge removal, purchased water, and other variable expenses.

Demand costs are capital and maintenance costs of facilities related to meeting the peak demand or peak flow requirements. The plant assets that typically cause the bulk of the demand cost are treatment facilities, collection mains, and pumping structures and related equipment.

Customer costs are those costs related to serving and/or having customers, without regard to the amount of wastewater flows. These costs would include meter reading, billing, customer accounting and collection, and the capital costs and maintenance costs related to services, and customer equipment such as meters, service lines, computers, office furniture, transportation equipment, etc.

Q. AFTER SERVICE COSTS ARE ALLOCATED TO FUNCTIONS, HOW ARE EXPENSES AND ASSETS THEN ALLOCATED TO THE INDIVIDUAL CLASSES OF CUSTOMERS?

A. After the expenses and assets are allocated to the commodity, demand, and customer functions, the values for the functions are then allocated to various customer classes. Customer classes are typically broken down into residential, commercial, and

industrial. In some cases, customers who place additional burdens on the treatment process, such as grease from restaurants, are further segregated into a separate class.

B. <u>Explanation of Cost of Service Study Schedules</u>.

Q. OKAY, THANK YOU MR. BOURASSA. LET'S PROCEED TO DESCRIBE AND EXPLAIN THE SCHEDULES THAT COMPRISE THE COST OF SERVICE STUDY, NOTING HOW THE VARIOUS FUNCTIONS WERE DEVELOPED.

A. The allocations for the development of the class allocation factors are shown on Schedule G-7, pages 1 through 3. The commodity allocation is based on the expected wastewater flows from each customer class. I used 157 gallons per day ("gpd") as a baseline equivalent residential unit ("ERU"). I then computed the ERUs by class (residential and commercial). The computed ERUs for the residential class is 2,053 and is higher than the test year-end number of customers of 1,963 because there are multi-unit customers in the residential class (HOAs and apartments). The computed ERUs for the commercial class equals 342 and is higher than the number of customers of 89 because there are multi-unit commercial customers and some commercial customers were estimated to have greater ERU because of the nature of the commercial business. For example, the Boulders Resort has 160 rooms. Using a ERU factor of 0.8 for hotel rooms, the number of ERUs for the Boulders Resort was determined to be 128 ERUs.

The demand allocation factor is based upon the average peak day demand (wastewater flows) for each customer class derived from the Company test year wastewater flows reflected in the wastewater flow data sheet contained in Liberty Black Mountain's annual Commission filing, and for commercial customers, water

usage data obtained from the water providers. Peak demand provides information about the relative demand that each class places on the system.

The customer allocation factor is the number of customers for each class meter. The allocation is based on total customers, not ERUs. It costs no more to issue a bill for a large customer than for a small customer. The customer numbers are grouped by customer class (residential, commercial) and used as the basis for the customer allocation factors in the study.

Schedule G-7, page 2.1 lists the allocation factors for plant and equipment. Allocation factors for these expenses were determined by examining the causal relationships of each expense to the various functions. The primary plant allocation factor uses information derived from the peak day demand to allocate between the demand function and the commodity function.

Schedule G-7, page 2.2 lists the allocation factors for repairs and maintenance expense, contractual services, purchased power, purchased water, transportation, chemicals, water testing, and salaries and wages. Allocation factors for these expenses were determined by examining the causal relationships of each expense to the various functions, which may include an examination of the recorded amounts during the test year and the use of professional judgment.

The depreciation expense allocations shown on Schedule G-6, page 3, apply the allocation factors shown on Schedule G-7, page 2.1, times the depreciation expense for each plant asset. Depreciation expense was computed using the Company's depreciation rates.

The operation and maintenance expense allocation to functions (commodity, demand, customer, service, and meter) are shown on Schedule G-6, page 1 (adjusted test year at present rates) and Schedule G-6, page 2 (adjusted test year at proposed rates).

On Schedule G-5, page 2, I allocated net plant and other rate base items to each customer class using the allocation factors set forth in Schedule G-7, page 2.1. I deducted AIAC and CIAC from the plant balances normally financed with AIAC and CIAC, which would be primarily collection mains. I allocated the AIAC and CIAC to both the demand and commodity functions to be consistent with my allocation of the collection mains.

Then I computed rate bases for each function (commodity, demand, and customer). The rate bases by function are shown on Schedule G-5, page 1.

Schedule G-4 allocates the commodity, demand, and customer expenses to customer classes using the allocation factors developed on Schedule G-7, page 3. Schedule G-4, page 1 shows the allocated costs at present rates. Schedule G-4, page 2 shows the allocated costs at proposed rates.

Schedule G-3 allocates the rate bases for commodity, demand, and customer functions to the customer classes.

Schedules G-1 and G-2 derive the return on rate base by customer classes at present and proposed rates, respectively. The returns on rate base are computed by dividing the operating income for the customer class by the rate base for that customer class.

Property taxes are allocated based on revenue on Schedules G-1 and G-2. Revenue is the main factor in the method used by the Arizona Department of Revenue to determine the full cash value of the utility.

Income taxes are allocated based on taxable income of each customer class on Schedules G-1 and G-2.

C. **Cost of Service Study Results.**

Q. WHAT IS THE RANGE OF THE RETURNS FOR THE VARIOUS CUSTOMER CLASSES AT PRESENT RATES?

A. As shown on Schedule G-1, the returns vary substantially between the customer classes at the present rates. The largest customer class, the residential class, provides the lowest return under the present rates or 0.56 percent. The commercial class is providing a much higher return at 56.25 percent. These results indicate that the commercial customer class is paying more than its respective cost of service and is subsidizing the residential class under the current rates.

Q. WHAT ARE THE RETURNS FOR THE CUSTOMER CLASSES AT PROPOSED RATES?

A. As shown on Schedule G-2, the returns at proposed rates are similar. The largest customer class, the residential class, provides a return under the proposed rates of 8.54 percent. This is below the overall required return of 8.62 percent and indicates the residential class is not quite paying its full cost of service. The commercial class provides a return of 9.13 percent. These results indicate that the commercial customer class is paying slightly more than its cost of service and is subsidizing the residential class under the Company's proposed rates. However, Liberty Black Mountain's proposed rate design substantially eliminates this subsidy.

Q. DOES IT SURPRISE YOU, MR. BOURASSA, THAT COMMERCIAL CUSTOMERS ARE SUBSIDIZING THE COSTS OF SERVICES FOR RESIDENTIAL CUSTOMERS UNDER PRESENT RATES?

A. No, especially since I helped in the current rate design as the witness in the last rate case. More importantly, the Commission trend for at least a decade now in water and wastewater rate cases has been to shift revenue recovery away from residential

and towards commercial customers. There are likely a number of factors that have promoted this trend (e.g., conservation, RUCO). But here, the Town of Carefree and commercial customers appear to want to eliminate any subsidies.[8] My rate design for Liberty Black Mountain does that.

Q. DID YOU HAVE TO MAKE ANY SPECIFIC ADJUSTMENTS OR UNDERTAKE ANY SORT OF SPECIAL MEASURES TO ELIMINATE THE SUBSIDIES IN THE CURRENT RATES?

A. Not really. I just followed the water use data in the commercial side and this is the result. If non-cost based factors like the desire to promote the local economy call for additional measures to modify these results, that falls within the discretion of others. The key for me was to design a rate design that based the commercial class rates on water usage and ensured Liberty Black Mountain an opportunity to earn its authorized revenues, which I have done.

Q. BUT DIDN'T YOU TESTIFY EARLIER HERE THAT THE COMPANY IS OVER-COLLECTING ITS COST OF SERVICE FROM COMMERCIAL COMMERCIALS UNDER THE PRESENT RATES?

A. Relative to residential customers, that is true under the present rate design. However, this is not the same as overearning. Liberty Black Mountain is *not* earning its test year adjusted return on fair value rate base. As such, it cannot be fairly said that the Company is overearning anything right now.

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[8] *See* Sorensen Dt. at 36:1-7.

V. RATE DESIGN (H SCHEDULES).

Q. WHAT ARE THE COMPANY'S PRESENT RATES FOR WASTEWATER SERVICE?

The present rates are:

Residential Service – Per Month	$65.24
Commercial – Regular (c)	$0.248734
Effluent Sales	
Per thousand gallons	$0.460510

(c) Per gallon per day. Wastewater flows are based on ADEQ Engineering Bulletin No. 12, in accordance with [Decision No. 71865].

Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR WASTEWATER SERVICE?

A. The proposed rates are:

Residential Service – Per Month	$79.20
Commercial – per Month	$85.00
Commodity Charge (per 1,000 gallons)[9]	$ 5.13
Effluent Sales	
Per thousand gallons	$0.460510

Q. THE COMPANY IS PROPOSING SUBSTANTIAL CHANGES TO THE RATE DESIGN, CORRECT?

A. For commercial customers, yes. As discussed above, and by Mr. Sorensen, the commercial customers' rates will be based, in part, on water usage.[10] My testimony explains how the new rate design functions. Engineering Bulletin 12 has not been utilized in any manner in my rate design.

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[9] For commercial customers the commodity charge is based upon monthly water usage.

[10] Sorensen Dt. at 36:16-18.

Q. WHAT WATER USAGE DATA DID YOU USE, MR. BOURASSA?

A. In order to develop this new commercial rate design, I used test year water usage data that I obtained from Liberty Black Mountain. The Company got this information from the Town of Carefree Water Company, Cave Creek Water Company and City of Scottsdale, the water providers in Liberty Black Mountain's service area. I further understand that the Company will continue to get monthly water use data if the Commission approves a rate design based on water usage.

Q. OKAY, WOULD YOU PLEASE EXPLAIN LIBERTY BLACK MOUNTAIN'S PROPOSED RATE DESIGN FOR COMMERCIAL CUSTOMERS?

A. The Company's proposed commercial rate design consists of a fixed monthly charge plus a commodity charge based upon monthly usage. The objectives of the Company's proposed rate design are to: 1) eliminate the reliance on ADEQ Bulletin 12 and address concerns over its use for setting a customer's wastewater charges; 2) keep it as simple as possible; 3) provide for a design that better reflects the demand each commercial customer places on the system; and 4) continue to provide a reasonable level of revenue stability.

Revenue stability is critical when switching to a new rate design. The current rate design for commercial customers is essentially a fixed monthly rate design. Once each customer's gpd rating is determined, the monthly charge to that customer is fixed. The Company's proposed rate design has a fixed portion in order to help minimize the revenue instability inherent in the use of commodity rates. Monthly water usage does and will vary from month-to-month and from year-to-year. However, most of the Company's costs will still remain fixed.

Q. HOW MUCH OF THE PROPOSED COMMERCIAL REVENUES ARE RECOVERED FROM THE FIXED MONTHLY CHARGES?

A. About 34 percent. That leaves 66 percent of the commercial revenues subject to water usage.

Q. WHAT WILL BE THE RESIDENTIAL CUSTOMER MONTHLY BILL UNDER THE NEW RATES?

A. As shown on Schedule H-2, page 1, the monthly bill under proposed rates for a residential customer is $79.20 – a $13.96 increase over the present monthly bill or a 21.4 percent increase.

Q. DOES THIS INCLUDE EITHER THE PLANT CLOSURE COST OR RATE CASE EXPENSE SURCHARGE?

A. No. The $6.09 rate case expense surcharge and the $8.57 plant closure surcharge are in addition to the $79.20 monthly rate. When taken together, a residential customer will pay $93.86 ($79.20 plus $6.09 plus $8.57) – a $28.62 increase over the present monthly bill or a 43.9 percent increase.

Q. DOES THE H-2 SCHEDULE SHOW THE IMPACT FOR COMMERCIAL CLASS?

A. Yes. It is difficult to make an apples-to-apples comparison because the current rate design is based upon a gpd rate and the proposed rate design is based upon water usage. That said, the average commercial class gpd rating is 1,612 gpd and the current monthly bill at this rating would be $401.00. Under the proposed rates, the average monthly usage for the commercial class is 35,009 gallons. At 35,009 gallons the proposed bill would be $264.30. The difference is ($136.70) or a reduction of 34.0 percent.

Q. DOES THIS INCLUDE THE RATE CASE EXPENSE SURCHARGE OR THE PLANT CLOSURE SURCHARGE?

A. Again, no. The $6.09 rate case expense surcharge and the $8.57 plant closure surcharge are in addition to the $265.05 monthly bill at 35,009 gallons. When taken together, a commercial customer using 35,009 gallons will pay $278.96 ($264.30 plus $6.09 plus $8.57) – a $122.04 decrease compared to a present monthly bill for the average commercial customer rated at 1,612 gpd, or a 30.4 percent decrease.

Q. DO YOU HAVE ANY CONCERNS ABOUT THE PROPOSED RATE DESIGN?

A. Because the water use data from the City of Scottsdale and the Town of Carefree have not been fully vetted and in some cases proxy usage has been used on locations that could not be linked to water usage data, I have concerns that the proposed commercial rates may too low or too high. Liberty Black Mountain is conducting a physical audit of all commercial locations and cross-checking the meter serial numbers with the water usage data. The Company expects that by the rebuttal stage of this proceeding to have completed its audit and confirmed the water usage data for accuracy.

Q. ARE THERE ANY PROPOSED CHANGES TO THE COMPANY'S MISCELLANEOUS SERVICE CHARGES?

A. The Company's President, Matthew Garlick, addresses proposed changes in miscellaneous service charges or the Company's tariff in general in his direct testimony.[11]

[11] Direct Testimony of Matthew Garlick ("Garlick Dt.") at 6:2 – 7:2.

Q. DO THE BILL COUNT SCHEDULES (H-5) SHOW TEST YEAR GPD RATINGS AND WATER USAGE FOR COMMERICAL CUSTOMERS?

A. Yes. Schedule H-5, page 6, shows the commercial bill count information by gpd rating and Schedule H-5, page 6A shows the commercial bill count information by water usage.

Q. WHAT ABOUT APARTMENTS?

A. Apartments are considered commercial customers under the current rate design, but under the proposed rate design they are considered residential. Thus, Schedule H-5, page 5 shows the bill count information by gpd ratings for the three apartments the Company is servicing, and Schedule H-5, page 5A, 5B, and 5C show the three apartments reflecting the number of units as apartments are considered residential and charged a fixed rate per unit.

A. <u>Purchased Power Adjuster Mechanism (PPAM) and Property Tax Adjuster Mechanism (PTAM)</u>.

Q. PLEASE DISCUSS THE COMPANY PROPOSED PPAM AND PTAM.

A. As discussed by Mr. Garlick in his direct testimony, the Company is seeking Commission approval of two adjuster mechanisms: (1) a Purchased Power Adjuster Mechanism (PPAM); and (2) a Property Tax Adjuster Mechanism (PTAM). [12] The PPAM allows Liberty Black Mountain to increase rates in order to recover increases in purchased power costs resulting from increases in the rates charged by Arizona Public Service (APS), the Company's electric utility provider. The PTAM would allow rates to adjust, up or down, based on changes in the property tax rate and/or assessment ratios.

[12] *See* Garlick Dt. at 3-5.

Q. WHAT IS THE PURPOSE OF THE PPAM AND HOW WOULD THE PPAM WORK?

A. The proposed PPAM would allow the Company to pass-through increases or decreases in purchased power costs that are due to changes in the Company's APS rates at the Company's sewer facilities. The intent of the PPAM is to isolate changes in purchased power cost that is due exclusively to a rate change which is beyond the control of the Company. The increases/decreases in power costs will be allocated on a per customer basis and passed-through to customer as a separate line item on the customer bill. The PPAM Plan of Administration ("POA"), attached to the Application as Attachment 3, outlines the implementation and filing requirements as well as how the surcharge will be computed. The form of the PPAM proposed by the Company is consistent with the form of PPAM approved in Decision No. 74437 (April 18, 2014) for Liberty Utilities (Litchfield Park Water & Sewer) Corp.

Q. WHAT IS THE PURPOSE OF THE PTAM AND HOW WOULD THE PTAM WORK?

A. The proposed PTAM would allow the Company to pass-through increases or decreases in property taxes that are due to changes in the assessment ratio and effective property tax rate. The intent of the PTAM is to isolate changes in property taxes that are due to assessment ratio and rate charges that are beyond the control of the Company. The increases/decreases in property taxes will be allocated on a per customer basis and passed-through to customer as a separate line item on the customer bill. The PTAM POA, attached to the Application as Attachment 4, outlines the implementation and filing requirements as well as how the surcharge will be computed.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON RATE BASE, INCOME STATEMENT AND RATE DESIGN?

A. Yes.

LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.

EXHIBIT TJB-RB-DT1

RESUME OF THOMAS J. BOURASSA, CPA

EDUCATIONAL BACKGROUND

B.S. Northern Arizona University Chemistry/Accounting (1980)
M.B.A. University of Phoenix with Emphasis in Finance (1991)
C.P.A. State of Arizona (1995)
Continuing Professional Education – In areas of tax, accounting, management, economics, finance, business valuation, consulting, and ethics (80 hrs every two years)

MEMBERSHIPS

Arizona Society of CPAs
Water Utilities Association of Arizona
American Water Works Association
Society of Regulatory Financial Analysts

EMPLOYMENT EXPERIENCE

1995 – Present	CPA - Self Employed Consultant to utilities on regulatory matters including all aspects of rate applications (rate base, income statement, cost of capital, cost of service, and rate design), rate reviews, certificates of convenience and necessity (CC&N), CC&N extensions, financing applications, accounting order applications, and off-site facilities hook-up fee applications. Provide expert testimony as required. Consult on various aspects of business, financial and accounting matters including best business practices, generally accepted accounting principles, generally accepted ratemaking principles, project analysis, cash flow analysis, regulatory treatment of certain expenditures and investments, business valuations, and rate reviews. Litigation support services.
1992-1995	Employed by High-Tech Institute, Phoenix, Arizona as Controller and C.F.O.
1989-1992	Employed by Alta Technical School, a division of University of Phoenix as Division Controller.
1985-1989	Employed by M.L.R. Builders, Tampa and Pensacola, Florida as Operations/Accounting Manager
1982-1985	Employed by and part owner in Area Sand and Clay Company, Pensacola, Florida.

1981-1982	Employed by Purdue University, West Lafayette, Indiana as Teaching Assistant.

SUMMARY OF REGULATORY WORK EXPERIENCE AS SELF EMPLOYED CONSULTANT

COMPANY/CLIENT	FUNCTION
Tierra Buena Water Company ACC Docket No. W-02076A-15-013	Permanent Rate Application – Water. Assisted in preparation of short-form schedules.
Red Rock Utilities, LLC ACC Docket No. W-04245A-14-0295	Permanent Rate Application – Water and Wastewater. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Quail Creek Water Company ACC Docket No. W-02514A-14-0370	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Tonto Basin Water Company ACC Docket No. W-03515A-14-0310	Permanent Rate Application – Water. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.
Navajo Water ACC Docket No. W-03511A-14-304	Permanent Rate Application – Water. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.
Alaska Power Company Regulatory Commission of Alaska Docket No. U-14-002	Prepared schedules and testified on cost of capital.
Anchorage Municipal Light & Power Regulatory Commission of Alaska Docket No. U-13-184	Prepared schedules and testified on cost of capital.
Liberty Utilities (Pine Bluff) Inc. Arkansas Public Service Commission Docket No. 14-020-U	Permanent Rate Application – Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Cost of Service, Rate Design, and Cost of Capital.
Abra Water Company	Permanent Rate Application – Prepared

COMPANY/CLIENT	FUNCTION
ACC Docket No. W-01782A-14-0084	schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
EPCOR Water Arizona, Inc. ACC Docket No. W-01303A-14-0010	Permanent Rate Application – Prepared rate designs and cost of Service studies for Mohave Water District, Mohave Wastewater District, Paradise Valley Water District, Tubac Water District, and Sun City Water District.
Liberty Utilities (Midstates Natural Gas), Inc. Missouri Public Service Commission Case No. GR-2014-0152	Permanent Rate Application – Assist in preparing required rate application schedules for Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Hydro Resources, LLC. ACC Docket No. W-20770A-13-0313	Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and initial rates.
Little Park Water Company ACC Docket No. W-02192A-13-0336	Permanent Rate Application – Water. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.
Utility Source, LLC. ACC Docket No. WS-04235A-13-0331	Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Payson Water Company ACC Docket No. W-03514A-13-0111 ACC Docket No. W-03514A-13-0142	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital. Financing Application. Prepared financial ratios and debt surcharge mechanism.
Goodman Water Company	Valuation

COMPANY/CLIENT	FUNCTION
Verde Santa Fe Wastewater ACC Docket No. SW-03437A-13-0292	Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Lago Del Oro Water Company ACC Docket No. W-01944A-13-0215	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Cost of Service, Rate Design, and Cost of Capital.
Chaparral City Water Company ACC Docket No. W-02113A-13-0118	Permanent Rate Application – Prepared and testified on cost of service study.
Las Quintas Serenas Water Company ACC Docket No. W-01583A-13-0117	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Southwest Environmental Utilities. Inc. ACC Docket No. WS-20878A-13-0065	Certificate of Convenience and Necessity – Water and Wastewater. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and initial rates.
Litchfield park Service Company ACC Docket No. SW-01428A-13-0043 ACC Docket No. W-01428A-13-0042	Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, Cost of Service, and Cost of Capital.
Beaver Dam Water Company ACC Docket No. WS-03067A-12-0232	Permanent Rate Application. Prepared schedules on Plant, Income Statement, Revenue Requirement, and Rate Design.
Rio Rico Utilities ACC Docket No. WS-02676A-12-0196	Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Cost of Service, Rate Design, and Cost of Capital.
Vail Water Company ACC Docket No. W-01651B-12-0339	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue

COMPANY/CLIENT	FUNCTION
	Requirement, Cost of Service, Rate Design, and Cost of Capital.
Avra Water Co-Op. ACC Docket No. W-02126A-11-0480	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Cost of Service, Rate Design, and Cost of Capital.
Pima Utility Company ACC Docket No. W-02199A-11-0329 ACC Docket No. SW-02199A-11-0330	Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Cost of Service, Rate Design, and Cost of Capital. Work on financing application.
Liberty Utilities (CALPECO Electric), LLC) Docket No. 11202020	Work on preparation of permanent rate application. Prepared schedules on Rate Base, Plant, Income Statement, Revenue Requirement.
Livco Water Company ACC Docket No. SW-02563A-11-0213	Permanent Rate Application – Water and Sewer. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.
Orange Grove Water Company ACC Docket No. W-02237A-11-0180	Permanent Rate Application. Prepared schedules on Plant, Income Statement, Revenue Requirement, and Rate Design.
Goodman Water Company ACC Docket No. W-02500A-10-0382	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Doney Park Water ACC Docket No. W-01416A-10-0450	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Grimmelmann, et. al. v. Pulte Home Corporation, et. al., case no. CV-08-1878-PHX-FJM, the United States District Court	Consultant to defendant and expert witness for defendant on rates and ratemaking.

COMPANY/CLIENT for the District of Arizona.	FUNCTION
Southern Arizona Home Builders Association	Consultant on ratemaking aspects to line extension policies (electric).
H2O Water Company	Valuation
Tierra Linda HOA Water Company	Valuation
Las Quintas Serenas Water Company ACC Docket No. W-01583A-09-0589	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Coronado Utilities ACC Docket No. SW-04305A-09-0291	Permanent Rate Application – Wastewater. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Little Park Water Company ACC Docket No. W-02192A-09-0531	Permanent Rate Application. Prepared schedules on Plant, Income Statement, Revenue Requirement, and Rate Design.
Sahuarita Water Company ACC Docket No. W-03718A-09-0359	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, Cost of Service, and Cost of Capital.
Bella Vista Water Company Southern Sunrise Water Company Northern Sunrise Water Company ACC Docket No. W-02465A-09-0414 ACC Docket No. W-02453A-09-0414 ACC Docket No. W-02454A-09-0414	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, Cost of Service, and Cost of Capital.
Rio Rico Utilities, Inc ACC Docket No. WS-02676A-09-0257	Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

COMPANY/CLIENT	FUNCTION
Litchfield park Service Company ACC Docket No. SW-01428A-09-0103 ACC Docket No. W-01428A-09-0104	Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, Cost of Service, and Cost of Capital.
Town of Thatcher v. City of Safford, CV 2007-240, Superior Court of Arizona	Consultant to plaintiff on ratemaking and cost of service.
Valencia Water Company California Public Utility Commission Case No. 09-05-002	Cost of Capital
Valley Utilities ACC Docket No. W-01412A-08-0586	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Black Mountain Sewer Company ACC Docket No. SW-02361A-08-0609	Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Far West Water and Sewer Company ACC Docket No. WS-03478A-08-0608	Interim Rate Application (Emergency Rates)
Farmers Water Company ACC Docket No. W-01654A-08-0502	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Far West Water and Sewer Company ACC Docket No. WS-03478A-08-0454	Permanent Rate Application. Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design and Cost of Capital.
Ridgeline Water Company, LLC ACC Docket No. W-20589A-08-0173	Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and intitial rates.

COMPANY/CLIENT	FUNCTION
Sacramento Utilities, Inc. ACC Docket No. SW-20576A-08-0067	Certificate of Convenience and Necessity – Wastewater. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.
Johnson Utilities ACC Docket No. WS-02987A-08-0180	Permanent Rate Application. Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design and Cost of Capital. Participate in 40-252 proceeding.
Orange Grove Water Company ACC Docket No. W-02237A-08-0455	Permanent Rate Application. Prepared schedules on Plant, Income Statement, Revenue Requirement, and Rate Design.
Far West Water and Sewer Company ACC Docket No. WS-03478A-07-0442	Financing Application. Prepare schedules to support application.
Oak Creek Water No.1 ACC Docket No. W-01392A-07-0679	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
ICR Water Users Association Docket W-02824-07-0388	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Johnson Utilities	Valuation consultant in the matter of the sale of Johnson Utilities assets to the Town of Florence.
H2O, Inc ACC Docket No. W-02234A-07-0550	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Chaparral City Water Company ACC Docket No. W-02113A-07-0551	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

COMPANY/CLIENT	FUNCTION
Valley Utilities ACC Docket No. W-01412A-07-0561	Financing Application. Prepare schedules to support application.
Valley Utilities ACC Docket No. W-01412A-07-280	Emergency Rate Application. Prepare schedules to support application.
Valley Utilities ACC Docket No. W-01412A-07-0278	Accounting Order. Assist in preparing definition and scope of costs for deferral for future regulatory consideration and treatment.
Litchfield Park Service Company ACC Docket No. W-01427A-06-0807	Accounting Order. Assist in preparing definition and scope of costs for deferral for future regulatory consideration and treatment.
Golden Shores Water Company ACC Docket No. W-01815A-07-0117	Permanent Rate Application. Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Diablo Village Water Company ACC Docket No. W-02309A-07-0140	Off-site facilities hook-up fee application. Prepare schedules to support application.
Diablo Village Water Company ACC Docket No. W-02309A-07-0399	Permanent Rate Application (Class C). Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Sahuarita Water Company (Rancho Sahuarita Water Co.) ACC Docket No. W-03718A-07-0687	Extension Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.
Utility Source, L.L.C. ACC Docket No. WS-04235A-06-0303	Permanent Rate Application- Water and Wastewater. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

COMPANY/CLIENT	FUNCTION
Tierra Buena Water Company	Valuation of Tierra Buena Water Company for estate purposes.
Goodman Water Company ACC Docket No. W-02500A-06-0281	Permanent Rate Application (Class C). Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, and Cost of Capital.
Links at Coyote Wash Utilities ACC Docket No. SW-04210A-06-0220	Certificate of Convenience and Necessity – Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.
New River Utilities ACC Docket No. W-0173A-06-0171	Extension Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.
Johnson Utilities ACC Docket No. WS-02987A-04-0501 Docket WS-02987A-04-0177	Extension of Certificate of Convenience and Necessity – Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.
Bachmann Springs Utility ACC Docket No. WS-03953A-07-0073	Permanent Rate Application – Water and Sewer. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.
Avra Water Cooperative ACC Docket No. W-02126A-06-0234	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Gold Canyon Sewer Company ACC Docket No. SW-025191A-06-0015	Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
State of Arizona v. Far West Water and Sewer, No. 1 CA-CR 06-0160	Expert witness on behalf of defendant in penalty phase of case.
Far West Water and Sewer Company	Permanent Rate Application – Sewer.

COMPANY/CLIENT	FUNCTION
ACC Docket No. WS-03478A-05-0801	Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Black Mountain Sewer Company ACC Docket No. SW-02361A-05-0657	Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Balterra Sewer Company ACC Docket No. SW-02304A-05-0586	Certificate of Convenience and Necessity – Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.
Community Water Company of Green Valley ACC Docket No. W-02304A-05-0830	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
McClain Water Systems Northern Sunrise Water Southern Sunrise Water ACC Docket No. W-020453A-06-0251	Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.
Valley Utilities Water Company ACC Docket No. W-01412A-04-0376	Off-site facilities hook-up fee application. Prepare schedules to support application.
Valley Utilities Water Company ACC Docket No. W-01412A-04-0376	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Rate Design.
Beardsley Water Company ACC Docket No. W-02074A-04-0358	Permanent Rate Application – Water. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.
Pine Water Company, Inc. ACC Docket No. W-03512A-03-0279	Interim and Permanent Rate Application, Financing Application - Water. Prepared schedules and testified on Rate Base,

COMPANY/CLIENT	FUNCTION
	Plant, Income Statement, Cost of Capital, and Rate Design.
Chaparral City Water Company ACC Docket No. W-02113A-04-0616	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, and Income Statement. Assisted in preparation Rate Design.
Tierra Linda Home Owners Association ACC Docket No. W-0423A-04-0075	Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.
Diamond Ventures - Red Rock Utilities ACC Docket No. WS-04245A-04-0184	Certificate of Convenience and Necessity – Water and Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.
Arizona-American Water Company, Inc. ACC Docket No. WS-01303A-02-0867 ACC Docket No. WS-01303A-02-0868 ACC Docket No. WS-01303A-02-0869 ACC Docket No. WS-01303A-02-0870 ACC Docket No. WS-01303A-02-0908	Permanent Rate Application Water and Sewer (10 divisions). Prepared schedules and testimony on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Rate Design.
Bella Vista Water Company, Inc. ACC Docket No. W-02465A-01-0776	Permanent Rate Application - Water. Prepared schedules and testimony on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Cost of Capital and Rate Design.
Green Valley Water Company Docket (2000 Not Filed)	Permanent Rate Application. Prepared schedules and testimony on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Cost of Capital and Rate Design.
Gold Canyon Sewer Company ACC Docket No. SW-02519A-00-0638	Permanent Rate Application - Sewer. Prepared schedules and testimony on Rate

COMPANY/CLIENT	FUNCTION
	Base, Plant, Revenue Requirement, and Income Statement. Assisted in preparation of Cost of Capital and Rate Design.
Rio Verde Utilities, Inc. ACC Docket No. WS-02156A-00-0321	Permanent Rate Application – Water and Sewer. Prepared schedules and testimony on Rate Base, Plant, Revenue Requirement, and Income Statement. Assisted in preparation of Cost of Capital and Rate Design.
Livco Water Company Livco Sewer Company ACC Docket No. SW-02563A-05-0820	Permanent Rate Application – Water. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.
Livco Water Company ACC Docket No. SW-02563A-07-0506	Permanent Rate Application – Water and Sewer. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.
Cave Creek Sewer Company	Revenue Requirement, Rate Adjustment and Rate Design - Sewer.
Avra Water Cooperative ACC Docket No. W-02126A-00-0269	Permanent Rate Application – Water. Assisted in preparation of Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Town of Oro Valley	Revenue Requirements, Water Rate Adjustments and Rate Design.
Far West Water Company ACC Docket No. WS-03478A-99-0144	Permanent Rate Application – Water. Assisted in preparation of schedules for Rate Base, Income Statement, Revenue Requirement, Lead-Lag Study, Cost of Capital, and Rate Design.
MHC Operating Limited Partnership Sedona Venture Wastewater ACC Docket No. W-	Permanent Rate Application – Sewer. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.
Vail Water Company	Permanent Rate Application. Assisted in

COMPANY/CLIENT	FUNCTION
ACC Docket No. W-01651B-99-0406	preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.
E&T Water Company ACC Docket No. W-01409A-95-0440	Permanent Rate Application - Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.
New River Utility ACC Docket No. W-01737A-99-0633	Permanent Rate Application - Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.
Golden Shores Water ACC Docket No. W-01815A-98-0645	Permanent Rate Application – Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.
Ponderosa Utility Company ACC Docket No. W-01717A-99-0572	Permanent Rate Application – Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.
Chaparral City Water Company Docket (1999 Not Filed)	Permanent Rate Application - Water. Prepared schedules and testimony on Rate Base, Plant, Revenue Requirement, and Income Statement. Assisted in preparation of Cost of Capital and Rate Design.

LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.

EXHIBIT TJB-RB-DT2

Black Mountain Sewer Company
Plant Closure Surcharge Computation

Hearing Exhibit
Page 1

Example Computation of Plant Closure Surcharge

Plant Closure Costs to date		$ 1,120,403
Less:		
Gain on Sale of Land (assume land not sold at time of implementation)	$ -	
Share %	50%	
Net Plant Closure Costs		-
		$ 1,120,403
Cost of Capital		8.62%

Step 1 Compute the Annual Amortization

Net Plant Closure Costs (from Step 1)	$ 1,120,403
(*) Amortization rate (assuming 20 years)	5%
(=) Equals Annual Amortization	$ 56,020

Step 2 Compute the Annual Return on Investment

Net Plant Closure Costs (from Step 1)	$ 1,120,403
Less: Prior Years Amortization	-
Total Cost	$ 1,120,403
(*) Cost of Capital	8.62%
(=) Equals Annual Return on Investment	$ 96,568

Step 3 Compute the Gross Revenue Conversion Factor (GRCF)

GRCF (from most recent rate case) $= \frac{1}{1 - 0.37697} = 1.6050$

Step 4 Find the Incremental Income Tax Factor

Incremental Income Tax Factor

= GRCF - 1

= 1.6050 - 1

= 0.6050

Step 5 Find the Annual Income Tax Component of the Cost Recovery Surcharge Revenue

Incremental Income Tax Conversion	0.6050
(*) Times Annual Return on Investment	$ 96,568
(=) Equals Annual Income Tax Component of Annual Cost Recovery Surcharge	$ 58,423

Step 6 Find the Amortization and Return on Investment of the Annual Surcharge Revenue (before Income Taxes)

Annual Return on Investment (from Step 2)	$ 96,568
(+) Plus Annual Amortization (from Step 1)	$ 56,020
(=) Equals Annual Cost Recovery Surcharge Revenue before income taxes	$ 152,588

Step 7 Find the Total Annual Cost Recovery Surcharge Revenue Requirement (with Income Taxes)

Annual Income Tax Component of the Surcharge Revenue (from Step 5)	$ 58,423
(+) Plus Annual Amortization and Return on Investment Component of the Surcharge Revenue (from Step 6)	$ 152,588
(=) Equals the Total Annual Surcharge Revenue Requirement	$ 211,011

Step 8 Find the Monthly Surcharge per Customer

Total Annual Cost Recovery Surcharge Revenue Requirement (from Step 7)	$ 211,011
(/) Divided by 12	12
(=) Equals Total Monthly Surcharge Revenue Requirement	$ 17,584
(/) Divided by Number of Customers at time of filing (assumes test year end nuber of customers)	2,052
(=) Equals the Monthly Surcharge per Customer	**$ 8.57**

LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.

EXHIBIT TJB-RB-DT3

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Rate Case Expense Surcharge Computation

Exhibit

[1]	Rate Case Expense to be Recovered.	$	450,000
[2]	Number of Years to Recover		3
[3]	Annual Amount to be Recovered [1] / [2]	$	150,000
[4]	Number of Customers		2,053
[5]	Annual Surcharge per Customer [3] / [4]	$	73.06
	Monthly Surcharge per Customer [5] / 12	$	6.09

LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.

A-C, E-H
SCHEDULES

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	3,412,024
2			
3	Adjusted Operating Income		258,613
4			
5	Current Rate of Return		7.58%
6			
7	Required Operating Income	$	294,082
8			
9	Required Rate of Return on Fair Value Rate Base		8.62%
10			
11	Operating Income Deficiency	$	35,469
12			
13	Gross Revenue Conversion Factor		1.6050
14			
15	Increase in Gross Revenue		
16	Requirement	$	56,929
17			
18	Adjusted Test Year Revenues	$	2,239,848
19	Increase in Gross Revenue Revenue Requirement	$	56,929
20	Proposed Revenue Requirement	$	2,296,777
21	% Increase		2.54%
22			

23	**Customer**	**Present**	**Proposed**	**Dollar**	**Percent**
24	**Classification**	**Rates**	**Rates**	**Increase**	**Increase**
25	Residential	$ 1,522,310	$ 1,848,053	$ 325,743	21.40%
26	Residential HOA (11 units)	8,612	10,454	1,843	21.40%
27	Residential HOA (12 units)	9,395	11,405	2,010	21.40%
28	Residential HOA (25 units)	19,572	23,760	4,188	21.40%
29	Residential Apartment (gpd rate)	63,950	-	(63,950)	-100.00%
30	Residential Apartment (8 units)	-	7,603	7,603	0.00%
31	Residential Apartment (10 units)	-	9,504	9,504	0.00%
32	Residential Apartment (74 units)	-	70,330	70,330	0.00%
33	Commercial	578,108	276,766	(301,341)	-52.13%
34					
35	Effluent	16,067	16,067	-	0.00%
36					
37	Revenue Annualization	9,786	11,880	2,094	21.40%
38	**Subtotal**	$ 2,227,798	$ 2,285,822	$ 58,024	2.60%
39					
40	Miscellaneous Revenues	11,098	11,098	-	0.00%
41	Reconciling Amount	952	(143)	(1,095)	-115.02%
42	Rounding			-	0.00%
43	**Total of Water Revenues**	$ 2,239,848	$ 2,296,777	$ 56,929	2.54%
44					
45					
46	SUPPORTING SCHEDULES:				
47	B-1				
48	C-1				
49	C-3				
50	H-1				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Summary of Results of Operations

Exhibit
Schedule A-2
Page 1
Witness: Bourassa

Line No.	Description	Prior Years Ended 12/31/2012	Prior Years Ended 12/31/2013	Test Year Actual 12/31/2014	Test Year Adjusted 12/31/2014	Projected Year Present Rates 12/31/2015	Projected Year Proposed Rates 12/31/2015
1	Gross Revenues	$ 2,192,209	$ 2,226,742	$ 2,230,062	$ 2,239,848	$ 2,239,848	$ 2,296,777
2							
3	Revenue Deductions and	1,715,748	1,681,910	1,416,004	1,981,235	1,981,235	2,002,695
4	Operating Expenses						
5							
6	Operating Income	$ 476,461	$ 544,832	$ 814,058	$ 258,613	$ 258,613	$ 294,082
7							
8	Other Income and	(130,463)	(6,977)	(30,908)	45,026	45,026	45,026
9	Deductions						
10							
11	Interest Expense	-	64	-	-	-	-
12							
13	Net Income	$ 345,999	$ 537,919	$ 783,150	$ 303,640	$ 303,640	$ 339,108
14							
15	Common Shares	1,000	1,000	1,000	1,000	1,000	1,000
16							
17	Earned Per Average						
18	Common Share	346.00	537.92	783.15	303.64	303.64	339.11
19							
20	Dividends Paid	-	-	-	-	-	-
21							
22	Dividends Per						
23	Common Share	-	-	-	-	-	-
24							
25	Payout Ratio	-	-	-	-	-	-
26							
27	Return on Average						
28	Invested Capital	3.95%	6.01%	8.40%	4.63%	4.73%	5.28%
29							
30	Return on Year End						
31	Capital	3.95%	5.88%	8.24%	4.63%	4.84%	5.40%
32							
33	Return on Average						
34	Common Equity	7.24%	10.30%	13.31%	5.41%	4.75%	5.29%
35							
36	Return on Year End						
37	Common Equity	6.98%	9.79%	12.48%	5.30%	4.67%	5.18%
38							
39	Times Bond Interest Earned						
40	Before Income Taxes	-	(8,513)	-	-	-	-
41							
42	Times Total Interest and						
43	Preferred Dividends Earned						
44	After Income Taxes	-	(9,200)	-	-	-	-
45							
46							
47							
48							
49							
50	SUPPORTING SCHEDULES						
51	C-1						
52	E-2						
53	F-1						
54							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Summary of Capital Structure

Exhibit
Schedule A-3
Page 1
Witness: Bourassa

Line No.	Description:	Prior Years Ended 12/31/2012	Prior Years Ended 12/31/2013	Test Year 12/31/2014	Projected Year 12/31/2015
1					
2					
3	Short-Term Debt	-	-	-	-
3					
4	Long-Term Debt	-	-	-	-
5					
6	Total Debt	$ -	$ -	$ -	$ -
7					
8					
9	Preferred Stock	-	-	-	-
10					
11	Common Equity	4,955,087	5,493,008	6,276,158	6,579,798
12					
13					
14	Total Capital & Debt	$ 4,955,087	$ 5,493,008	$ 6,276,158	$ 6,579,798
15					
16					
17	Capitalization Ratios:				
18					
19	Long-Term Debt	0.00%	0.00%	0.00%	0.00%
20					
21	Total Debt	0.00%	0.00%	0.00%	0.00%
22					
23					
24	Preferred Stock	-	-	-	-
25					
26	Common Equity	100.00%	100.00%	100.00%	100.00%
27					
28					
29	Total Capital	100.00%	100.00%	100.00%	100.00%
30					
31					
32	Weighted Cost of				
33	Senior Capital	0.00%	0.00%	0.00%	0.00%
34					
35					
36					
37					
38					
39					
40					
41					
42					
43					
44					
45	SUPPORTING SCHEDULES:				
46	E-1				
47	D-1				
48					
49					
50					

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		Construction Expenditures	Net Plant Placed in Service	Gross Utility Plant in Service
1				
2				
3				
4	Prior Year Ended 12/31/2011	350,952	350,952	15,737,360
5				
6	Prior Year Ended 12/31/2012	853,310	314,345	16,051,706
7				
8	Test Year Ended 12/31/2013	657,443	114,174	16,165,880
9				
10	Projected Year Ended 12/31/2014	194,801	194,801	16,360,681
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34	SUPPORTING SCHEDULES:			
35	B-2			
36	E-5			
37	F-3			
38				
39				
40				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Summary Statements of Cash Flows

Exhibit
Schedule A-5
Page 1
Witness: Bourassa

Line No.		Prior Year Ended 12/31/2012	Prior Year Ended 12/31/2013	Test Year Ended 12/31/2014	Projected Year Present Rates 12/31/2015	Projected Year Proposed Rates 12/31/2015
1						
2						
3						
4						
5	Cash Flows from Operating Activities					
6	Net Income	$ 345,999	$ 537,919	$ 783,150	$ 231,373	$ 266,842
7	Adjustments to reconcile net income to net cash					
8	provided by operating activities:					
9	Depreciation and Amortization	353,152	448,450	229,669	484,271	484,271
10	Other -Adjustments	(39,088)	(7,112)	(44,749)		
11	Changes in Certain Assets and Liabilities:					
12	Accounts Receivable	(11,457)	1,882	9,259		
13	Unbilled Revenues	-	-	-		
14	Materials and Supplies Inventory	-	-	-		
15	Prepaid Expenses	488	(1,576)	-		
16	Deferred Charges	-	-	-		
17	Receivables/Payables to Associated Co.	(1,480,433)	816,701	(431,511)		
18	Accounts Payable	1,152,437	(1,152,437)	-		
19	Intercompany payable	-	-	-		
20	Customer Meter Deposits	-	-	8,570		
21	Taxes Payable	-	15,387	-		
22	Other assets and liabilities	21,614	154,233	113,609		
	Rounding	(1)	3	(1)		
23	Net Cash Flow provided by Operating Activities	$ 342,712	$ 813,448	$ 667,997	$ 715,644	$ 751,112
24	Cash Flow From Investing Activities:					
25	Capital Expenditures	(350,952)	(853,310)	(657,443)	(194,801)	(194,801)
26	Plant Held for Future Use	-	-	-		
27	Changes in debt reserve fund	-	-	-		
28	Net Cash Flows from Investing Activities	$ (350,952)	$ (853,310)	$ (657,443)	$ (194,801)	$ (194,801)
29	Cash Flow From Financing Activities					
30	Change in Restricted Cash	-	-	-		
31	Proceeds from Long-Term Debt	-	-	-		
32	Net receipt of contributions in aid of construction	-	19,074	203,587	111,331	111,331
33	Net receipts of advances in aid of construction	970	3,314	(320,367)	(105,361)	(105,361)
34	Repayments of Long-Term Debt	-	-	-	-	-
35	Distributions/Dividends Paid	-	-	-	-	-
36	Deferred Financing Costs	-	-	-	-	-
37	Paid in Capital	-	-	-	-	-
38	Net Cash Flows Provided by Financing Activities	$ 970	$ 22,388	$ (116,780)	$ 5,970	$ 5,970
39	Increase(decrease) in Cash and Cash Equivalents	(7,270)	(17,474)	(106,226)	526,813	562,281
40	Cash and Cash Equivalents at Beginning of Year	669	(6,601)	(24,074)	(130,300)	(130,300)
41	Cash and Cash Equivalents at End of Year	$ (6,601)	$ (24,076)	$ (130,300)	$ 396,513	$ 431,981
42						
43						
44						
45						
46	SUPPORTING SCHEDULES:					
47	E-3					
48	F-2					
49						
50						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Summary of Rate Base

Exhibit
Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 14,166,434	$ 14,166,434
3	Less: Accumulated Depreciation	8,654,682	8,654,682
4			
5	Net Utility Plant in Service	$ 5,511,752	$ 5,511,752
6			
7	Less:		
8	Advances in Aid of Construction	1,743,922	1,743,922
9			
10	Contributions in Aid of Construction	5,461,736	5,461,736
11			
12	Accumulated Amortization of CIAC	(5,240,717)	(5,240,717)
13			
14	Customer Meter Deposits	8,570	8,570
15	Customer Security Deposits	-	-
16	Accumulated Deferred Income Tax	75,116	75,116
17			
18			
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Prepayments	9,493	9,493
23	Materials and Sup[plies	-	-
24	Cash Working Capital	(60,594)	(60,594)
25			
26			
27	Total Rate Base	$ 3,412,024	$ 3,412,024
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41			
42	SUPPORTING SCHEDULES:		
43	B-2		
44	B-3		
45	B-5		
46	E-1		
47			
48			
49			
50			
51			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2
Page 1
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustment	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 16,165,880	(1,999,446)	$ 14,166,434
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	8,073,682	581,000	8,654,682
7				
8				
9	Net Utility Plant			
10	in Service	$ 8,092,198		$ 5,511,752
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	1,891,086	(147,164)	1,743,922
15				
16	Contributions in Aid of			
17	Construction - Gross	5,461,736	(0)	5,461,736
18				
19	Accumulated Amortization of CIAC	(5,073,246)	(167,471)	(5,240,717)
20				
21	Customer Meter Deposits	8,570		8,570
22	Customer Security Deposits	-	-	-
23	Accumulated Deferred Income Tax	-	75,116	75,116
24				-
25				-
26				
27	**Plus:**			
28	Unamortized Finance			
29	Charges	-	-	-
30	Prepayments	9,493	-	9,493
31	Materials and Supplies	-	-	-
32	Cash Working capital	-	(60,594)	(60,594)
33				-
34				
35	Total	$ 5,813,546		$ 3,412,024
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
47	B-2, pages 2			B-1
48	E-1			
49				
50				
51				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2
Page 2
Witness: Bourassa

Line No.		Actual at End of Test Year	1 Plant-in-Service	2 Accumulated Depreciation	Proforma Adjustments 3 CIAC	4 AIAC	5 ADIT	6 Working Capital	Adjusted at end of Test Year
1	Gross Utility								
2	Plant in Service	$ 16,165,880	(1,999,446)						$ 14,166,434
3									
4	**Less:**								
5	Accumulated								
6	Depreciation	8,073,682		581,000					8,654,682
7									
8									
9	Net Utility Plant								
10	in Service	$ 8,092,198	$ (1,999,446)	$ (581,000)	$ -	$ -	$ -	$ -	$ 5,511,752
11									
12	**Less:**								
13	Advances in Aid of								
14	Construction	1,891,086				(147,164)			1,743,922
15									
16	Contributions in Aid of								
17	Construction (CIAC)	5,461,736			(0)				5,461,736
18									
19	Accumulated Amort of CIAC	(5,073,246)			(167,471)				(5,240,717)
20									
21	Customer Deposits	8,570							8,570
22	Customer Security Deposits	-							-
23	Accumulated Deferred Income Taxes	-					75,116		75,116
24									
25									
26	**Plus:**								
27	Unamortized Finance								
28	Charges	-							-
29	Prepayments	9,493							9,493
30	Materials and Supplies	-							-
31	Cash Working Capital	-						(60,594)	(60,594)
32									
33	Total	$ 5,813,546	$ (1,999,446)	$ (581,000)	$ 167,471	$ 147,164	$ (75,116)	$ (60,594)	$ 3,412,024
34									
35									
36									
37	SUPPORTING SCHEDULES:						RECAP SCHEDULES:		
38	B-2, pages 3-5						B-1		
39	E-1								
40									
41									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Actual Orginal Cost	A Scottsdale Capacity Recovered Elsewhere	B Affiliate Profit	Adjustments C Unrecorded Retirements	D Allocated Corporate Plant	E Adjustments to Reconcile Plant to Reconstructio	Adjusted Original Cost
1	351	Organization	-		-	-		-	-
2	352	Franchise	-		-	-		-	-
3	353	Land	471,186		(16)	-		(146)	471,024
4	354	Structures & Improvements	3,173,342		(7,793)	(39,981)		(33,752)	3,091,815
5	355	Power Generation	-		-	-		-	-
6	360	Collection Sewer Forced	809,944		(6,664)	(9,611)		336,422	1,130,090
7	361	Collection Sewers Gravity	4,642,297		(3,330)	(13,155)		(70,581)	4,555,232
8	362	Special Collecting Structures	-		-	-		-	-
9	363	Customer Services	267,736		-	(5,711)		(1,584)	260,442
10	364	Flow Measuring Devices	39,878		156	-		(8,366)	31,668
11	365	Flow Measruring Installations	186,489		-	-		(6,438)	180,051
12	366	Reuse Services	-		-	-		-	-
13	367	Reuse Meters And Installation	-		-	-		-	-
14	370	Receiving Wells	794,191		311	-		233,680	1,028,182
15	371	Pumping Equipment	1,017,397		(1,350)	(101,799)		23,244	937,492
16	374	Reuse Distribution Reservoirs	-		-	-		-	-
17	375	Reuse Trans. and Dist. System	-		-	-		-	-
18	380	Treatment & Disposal Equipment	301,344		(4,354)	-		29,077	326,067
19	381	Plant Sewers	129,262		-	-		(4,735)	124,527
20	382	Outfall Sewer Lines	-		-	-		-	-
21	389	Other Sewer Plant & Equipment	986,277		(338)	-		6,803	992,742
22	390	Office Furniture & Equipment	434,891		-	-		(145,355)	289,536
23	390.1	Computers and Software	-		-	-		-	-
24	391	Transportation Equipment	102,327		(7)	(21,808)		(297)	80,215
25	392	Stores Equipment	-		-	-		-	-
26	393	Tools, Shop And Garage Equip	36,176		(61)	-		(7,174)	28,942
27	394	Laboratory Equip	11,176		(2)	-		(492)	10,683
28	395	Power Operated Equip	-		-	-		-	-
29	396	Communication Equip	43,968		-	-		-	43,968
30	397	Miscellaneous Equip.	-		-	-		-	-
31	398	Other Tangible Plant - Scottsdale Capacity	2,718,000	(1,460,000)	-	-		(771,706)	486,294
32		SUBTOTAL	16,165,880	(1,460,000)	(23,447)	(192,065)	-	(421,399)	14,068,969
33									
34	903	Land and Land Rights	-				8,429		8,429
35	904	Structures and Improvments	-				75,829		75,829
36	940.1	Computers and Software	-				13,207		13,207
37									-
38									-
39		Plant Held for Future Use							-
40		TOTALS	$ 16,165,880	$ (1,460,000)	$ (23,447)	$ (192,065)	$ 97,465	$ (421,399)	$ 14,166,434
41									
42	Plant-in-Service per Books								$ 16,165,880
43									
44	Increase (decrease) in Plant-in-Service								$ (1,999,446)
45									
46	Adjustment to Plant-in-Service								$ (1,999,446)
47									
48	SUPPORTING SCHEDULES								
49	B-2, pages 3.1 to 3.5								
50									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - A

Exhibit
Schedule B-2
Page 3.1
Witness: Bourassa

Line No.			Original Cost	CIAC	Adjusted Original Cost
1	Remove Scottsdale Capacity Cost Recovered via Lease Expense				
2					
3					
4	Per Decision 59944	Recovered as Lease Expense	$1,260,000	$ (300,000)	$ 960,000
5	Per Decision 60240	Recovered as Lease Expense	653,706	(153,706)	500,000
6					
7			$1,913,706	$ (453,706)	$1,460,000
8					
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42					
43	SUPPORTING SCHEDULE				
44	Testimony				
45	Work papers				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - B

Exhibit
Schedule B-2
Page 3.2
Witness: Bourassa

Line No.

1 Remove Affiliate Profit

Acct. No.	Description	2008 Test Year Accrual True-up	2009	2010	2011	2012	2013	2014	Total
351	Organization	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
352	Franchise	-	-	-	-	-	-	-	-
353	Land	-	-	-	-	(16)	-	-	(16)
354	Structures & Improvements	(3,570)	(311)	(1,282)	(1,491)	(1,140)	-	-	(7,793)
355	Power Generation	-	-	-	-	-	-	-	-
360	Collection Sewer Forced	(37)	(5,397)	(211)	(612)	(407)	-	-	(6,664)
361	Collection Sewers Gravity	(2,300)	-	(189)	(699)	(141)	-	-	(3,330)
362	Special Collecting Structures	-	-	-	-	-	-	-	-
363	Customer Services	-	-	-	-	-	-	-	-
364	Flow Measuring Devices	156	-	-	-	-	-	-	156
365	Flow Measruring Installations	-	-	-	-	-	-	-	-
366	Reuse Services	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	-	-	-	-	-	-	-	-
370	Receiving Wells	311	-	-	-	-	-	-	311
371	Pumping Equipment	(176)	-	(189)	(553)	(432)	-	-	(1,350)
374	Reuse Distribution Reservoirs	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	(4,044)	-	(24)	(267)	(19)	-	-	(4,354)
381	Plant Sewers	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	-	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	(327)	-	-	(11)	-	-	-	(338)
390	Office Furniture & Equipment	-	-	-	-	-	-	-	-
390.1	Computers and Software	-	-	-	-	-	-	-	-
391	Transportation Equipment	-	-	-	-	(7)	-	-	(7)
392	Stores Equipment	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	-	-	(6)	(30)	(24)	-	-	(61)
394	Laboratory Equip	-	-	-	-	(2)	-	-	(2)
395	Power Operated Equip	-	-	-	-	-	-	-	-
396	Communication Equip	-	-	-	-	-	-	-	-
397	Miscellaneous Equip.	-	-	-	-	-	-	-	-
398	Other Tangible Plant - Scottsdale (	-	-	-	-	-	-	-	-
	Plant Held for Future Use								
	TOTALS	$ (9,987)	$ (5,708)	$ (1,902)	$ (3,664)	$ (2,187)	$ -	$ -	$ (23,447)

SUPPORTING SCHEDULE
Testimony
Work papers

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - C

Exhibit
Schedule B-2
Page 3.3
Witness: Bourassa

Line No.

1 Plant Retirements Not Booked

Line No.	Acct. No.	Description	2008	2009	2010	2011	2012	2013	2014	Total Cost
6	351	Organization	-	-	-	-	-	-	-	$ -
7	352	Franchise	-	-	-	-	-	-	-	-
8	353	Land	-	-	-	-	-	-	-	-
9	354	Structures & Improvements	-	(2,504)	-	(8,614)	(11,217)	(3,676)	(13,970)	(39,981)
10	355	Power Generation	-	-	-	-	-	-	-	-
11	360	Collection Sewer Forced	-	-	-	(8,381)	(671)	-	(559)	(9,611)
12	361	Collection Sewers Gravity	-	-	-	(5,072)	(842)	-	(7,241)	(13,155)
13	362	Special Collecting Structures	-	-	-	-	-	-	-	-
14	363	Customer Services	-	-	-	-	-	-	(5,711)	(5,711)
15	364	Flow Measuring Devices	-	-	-	-	-	-	-	-
16	365	Flow Measruring Installations	-	-	-	-	-	-	-	-
17	366	Reuse Services	-	-	-	-	-	-	-	-
18	367	Reuse Meters And Installation	-	-	-	-	-	-	-	-
19	370	Receiving Wells	-	-	-	-	-	-	-	-
20	371	Pumping Equipment	(4,461)	(4,841)	-	(6,482)	(13,118)	(31,863)	(41,033)	(101,799)
21	374	Reuse Distribution Reservoirs	-	-	-	-	-	-	-	-
22	375	Reuse Trans. and Dist. Systen	-	-	-	-	-	-	-	-
23	380	Treatment & Disposal Equipm	-	-	-	-	-	-	-	-
24	381	Plant Sewers	-	-	-	-	-	-	-	-
25	382	Outfall Sewer Lines	-	-	-	-	-	-	-	-
26	389	Other Sewer Plant & Equipme	-	-	-	-	-	-	-	-
27	390	Office Furniture & Equipment	-	-	-	-	-	-	-	-
28	390.1	Computers and Software	-	-	-	-	-	-	-	-
29	391	Transportation Equipment	-	-	-	-	-	-	(21,808)	(21,808)
30	392	Stores Equipment	-	-	-	-	-	-	-	-
31	393	Tools, Shop And Garage Equi	-	-	-	-	-	-	-	-
32	394	Laboratory Equip	-	-	-	-	-	-	-	-
33	395	Power Operated Equip	-	-	-	-	-	-	-	-
34	396	Communication Equip	-	-	-	-	-	-	-	-
35	397	Miscellaneous Equip.	-	-	-	-	-	-	-	-
36										-
37			(4,461)	(7,346)	-	(28,549)	(25,847)	(35,540)	(90,322)	(192,065)

43 SUPPORTING SCHEDULE
44 Testimony
45 Work papers

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - D

Exhibit
Schedule B-2
Page 3.4
Witness: Bourassa

Line No.					
1	Allocated Corporate Plant				
2					
3					
4	Acct.				
5	No.	Description			Cost
6	903	Land and Land Rights	Land Corporate Building	$	8,429
7	904	Structures and Improvments	Corporate Building	$	75,829
8	940.1	Computers and Software	HRIS	$	13,207
9					
10					
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42					
43	SUPPORTING SCHEDULE				
44	Testimony				
45	Work papers				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - E

Exhibit
Schedule B-2
Page 3.5
Witness: Bourassa

Line No. 1 Reconciliation of Plant to Plant Reconstruction

Line No.	Acct. No.	Description	Orginal Cost	B-2 Adjustments	Adjusted Orginal Cost	Plant Per Reconstruction	Difference
6	351	Organization	$ -	$ -	$ -	$ -	$ -
7	352	Franchise	-	-	-	-	-
8	353	Land	471,186	(16)	471,170	471,024	(146)
9	354	Structures & Improvements	3,173,342	(47,774)	3,125,567	3,091,815	(33,752)
10	355	Power Generation	-	-	-	-	-
11	360	Collection Sewer Forced	809,944	(16,275)	793,668	1,130,090	336,422
12	361	Collection Sewers Gravity	4,642,297	(16,484)	4,625,813	4,555,232	(70,581)
13	362	Special Collecting Structures	-	-	-	-	-
14	363	Customer Services	267,736	(5,711)	262,025	260,442	(1,584)
15	364	Flow Measuring Devices	39,878	156	40,034	31,668	(8,366)
16	365	Flow Measruring Installations	186,489	-	186,489	180,051	(6,438)
17	366	Reuse Services	-	-	-	-	-
18	367	Reuse Meters And Installation	-	-	-	-	-
19	370	Receiving Wells	794,191	311	794,502	1,028,182	233,680
20	371	Pumping Equipment	1,017,397	(103,149)	914,248	937,492	23,244
21	374	Reuse Distribution Reservoirs	-	-	-	-	-
22	375	Reuse Trans. and Dist. System	-	-	-	-	-
23	380	Treatment & Disposal Equipment	301,344	(4,354)	296,990	326,067	29,077
24	381	Plant Sewers	129,262	-	129,262	124,527	(4,735)
25	382	Outfall Sewer Lines	-	-	-	-	-
26	389	Other Sewer Plant & Equipment	986,277	(338)	985,939	992,742	6,803
27	390	Office Furniture & Equipment	434,891	-	434,891	289,536	(145,355)
28	390.1	Computers and Software	-	-	-	-	-
29	391	Transportation Equipment	102,327	(21,815)	80,512	80,215	(297)
30	392	Stores Equipment	-	-	-	-	-
31	393	Tools, Shop And Garage Equip	36,176	(61)	36,116	28,942	(7,174)
32	394	Laboratory Equip	11,176	(2)	11,174	10,683	(492)
33	395	Power Operated Equipment	-	-	-	-	-
34	396	Communication Equip	43,968	-	43,968	43,968	-
35	397	Miscellaenous Equip.	-	-	-	-	-
36	398	Other Tangible Plant - Scottsdale Capacity	2,718,000	(1,460,000)	1,258,000	486,294	(771,706)
37						-	
42		Plant Held for Future Use					-
43		TOTALS	$ 16,165,880	$ (1,675,513)	$ 14,490,368	$ 14,068,969	$ (421,399)

46 SUPPORTING SCHEDULE
47 B-2, pages 3.1 through 3.4
48 B-2, pages 3.6 through 3.13

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Schedule B-2
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Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	Per Decision No. 71865, September 1, 2010 [1] Book Plant at 6/30/2008	[2] Direct Adjust	[3] RC Adjust-ments	[4] Adjusted Plant at 6/30/2008 [1]+[2]+[3]	[5] Accum Depr 6/30/2008	[6] Net Plant 6/30/2008 [4]-[5]	Current Books [7] Book Plant at 6/30/2008	[8] Accum Depr 6/30/2008	[9] Net Plant 6/30/2008 [7]-[8]
1	351	Organization		0.00%	0.00%	-	-	-	-	-	-	-	-	-
2	352	Franchises		0.00%	0.00%	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights		0.00%	0.00%	461,446	(146)	-	461,300	-	461,300	461,300	-	461,300
4	354	Structures and Improvements		3.33%	3.33%	2,597,197	(39,277)	2,300	2,560,220	1,089,269	1,470,950	2,560,220	1,089,269	1,470,950
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	371,470	334,822	1,600	707,892	237,047	470,845	707,892	237,047	470,845
7	361	Collection Sewers - Gravity		2.00%	2.00%	4,353,824	(68,876)	-	4,284,948	2,986,891	1,298,057	4,284,948	2,986,891	1,298,057
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	200,306	(1,583)	-	198,723	151,259	47,464	198,723	151,259	47,464
10	364	Flow Measuring Devices		10.00%	10.00%	39,878	(8,366)	-	31,512	31,230	282	31,512	31,230	282
11	365	Flow Measuring Installations		10.00%	10.00%	181,502	(1,880)	-	179,622	48,777	130,845	179,622	48,777	130,845
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	699,191	(8,563)	242,243	932,871	285,616	647,255	932,871	285,616	647,255
15	371	Effluent Pumping Equipment		12.50%	12.50%	661,125	(6,281)	2,803	657,647	401,703	255,944	657,647	401,703	255,944
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	152,796	(9,218)	38,250	181,828	14,930	166,898	181,828	14,930	166,898
19	381	Plant Sewers		5.00%	5.00%	121,851	1,638	1,238	124,527	105,608	18,919	124,527	105,608	18,919
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	970,499	(31,067)	-	939,432	249,600	689,832	939,432	249,600	689,832
22	390	Office Furniture and Equipment		6.67%	6.67%	369,739	(145,152)	-	224,587	71,997	152,590	224,587	71,997	152,590
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	107,368	(1)	-	107,367	47,775	59,592	107,367	47,775	59,592
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	6,276	(522)	-	5,754	203	5,552	5,754	203	5,552
27	394	Laboratory Equipment		10.00%	10.00%	7,488	0	-	7,488	2,250	5,239	7,488	2,250	5,239
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	40,451	0	-	40,451	1,011	39,440	40,451	1,011	39,440
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	486,294	-	-	486,294	97,259	389,035	486,294	97,259	389,035
		TOTAL				11,828,501	15,528	288,434	12,132,463	5,822,426	6,310,037	12,132,463	5,822,426	6,310,037

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

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						July-December 2008									
Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	Plant Additions	Plant Adjustments[1]	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-	-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%		-	-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%		-	-	-		-		-	461,300	-
4	354	Structures and Improvements		3.33%	3.33%	-	(12,085)	(12,085)	-	-	-	-	28,351	2,548,135	1,117,621
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	-	(37)	(37)	-	-	-	-	4,719	707,855	241,767
7	361	Collection Sewers - Gravity		2.00%	2.00%	-	(49)	(49)	-	-	-	-	28,566	4,284,899	3,015,457
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	-	-	-	-	-	-	-	1,325	198,723	152,584
10	364	Flow Measuring Devices		10.00%	10.00%	-	156	156	-	-	-	-	219	31,668	31,449
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	5,987	179,622	54,764
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	311	311	-	-	-	-	10,357	933,182	295,972
15	371	Effluent Pumping Equipment		12.50%	12.50%	-	1,641	1,641	4,461	-	4,461	-	27,343	654,827	424,585
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	-	(33,499)	(33,499)	-	-	-	-	2,751	148,329	17,681
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	2,075	124,527	107,683
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	-	3,138	3,138	-	-	-	-	20,922	942,570	270,522
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	4,993	224,587	76,990
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	-	203	203	-	-	-	-	7,165	107,570	54,940
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	-	3,420	3,420	-	-	-	-	124	9,174	327
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	250	7,488	2,499
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	275	275	-	-	-	-	1,353	40,726	2,364
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	16,210	486,294	113,469
		TOTAL				-	(36,526)	(36,526)	4,461	-	4,461	-	162,710	12,091,476	5,980,675

[1] True-up
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

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Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2009 Plant Additions	Plant Adjustments[1]	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-	-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%		-	-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%		-	-	-		-		-	461,300	-
4	354	Structures and Improvements		3.33%	3.33%	36,874	(311)	36,563	2,504	-	2,504	-	85,420	2,582,194	1,200,536
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	49,900	(5,397)	44,503	-	-	-	-	14,602	752,358	256,369
7	361	Collection Sewers - Gravity		2.00%	2.00%	127,133	-	127,133	-	-	-	-	86,969	4,412,032	3,102,427
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	3,400	-	3,400	-	-	-	-	4,008	202,123	156,592
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	219	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	17,962	179,622	72,726
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	95,000	-	95,000	-	-	-	-	32,657	1,028,182	328,629
15	371	Effluent Pumping Equipment		12.50%	12.50%	10,132	-	10,132	4,841	-	4,841	-	82,184	660,118	501,928
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	503	-	503	-	-	-	-	7,429	148,832	25,110
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	6,226	124,527	113,910
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	987	-	987	-	-	-	-	62,902	943,557	333,424
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	14,980	224,587	91,970
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	-	-	-	-	-	-	-	21,514	107,570	76,454
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	351	-	351	-	-	-	-	467	9,525	795
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	749	7,488	3,248
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	-	-	-	-	-	4,073	40,726	6,437
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	48,629	486,294	162,098
		TOTAL				324,280	(5,708)	318,572	7,346	-	7,346	-	490,992	12,402,703	6,464,321

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
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Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2010 Plant Additions	Plant Adjustments[1]	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-	-			-		-	-	-
2	352	Franchises		0.00%	0.00%		-	-			-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%		-	-			-		-	461,300	-
4	354	Structures and Improvements		3.33%	3.33%	105,916	(1,282)	104,634	-	-	-	-	87,729	2,686,828	1,288,266
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	94,113	(211)	93,901	-	-	-	-	15,986	846,259	272,355
7	361	Collection Sewers - Gravity		2.00%	2.00%	150,760	(189)	150,571	-	-	-	-	89,746	4,562,602	3,192,173
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	-	-	-	-	-	-	-	4,042	202,123	160,635
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	17,962	179,622	90,688
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	34,238	1,028,182	362,868
15	371	Effluent Pumping Equipment		12.50%	12.50%	107,891	(189)	107,702	-	-	-	-	89,246	767,820	591,174
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	186,041	(24)	186,017	-	-	-	-	12,092	334,849	37,202
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	6,226	124,527	120,136
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	500	-	500	-	-	-	-	62,952	944,057	396,376
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	14,980	224,587	106,950
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	-	-	-	-	-	-	-	21,514	107,570	97,968
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	1,759	(6)	1,753	-	-	-	-	520	11,278	1,315
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	749	7,488	3,997
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	-	-	-	-	-	4,073	40,726	10,509
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	48,629	486,294	210,728
		TOTAL				646,979	(1,902)	645,078	-	-	-	-	510,686	13,047,781	6,975,008

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

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Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2011 Plant Additions	Plant Adjustments[1]	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-	-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%		-	-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%		-	-	-		-		-	461,300	-
4	354	Structures and Improvements		3.33%	3.33%	109,394	(1,491)	107,903	8,614	-	8,614	-	91,125	2,786,117	1,370,776
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	99,047	(612)	98,435	8,381	-	8,381	-	17,826	936,313	281,800
7	361	Collection Sewers - Gravity		2.00%	2.00%	69,030	(699)	68,331	5,072	-	5,072	-	91,885	4,625,861	3,278,986
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	-	-	-	-	-	-	-	4,042	202,123	164,677
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	17,962	179,622	108,651
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	34,238	1,028,182	397,106
15	371	Effluent Pumping Equipment		12.50%	12.50%	76,164	(553)	75,611	6,482	-	6,482	-	86,898	836,949	671,590
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	33,223	(267)	32,956	-	-	-	-	17,566	367,805	54,769
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	4,391	124,527	124,527
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	33,223	(11)	33,212	-	-	-	-	64,076	977,269	460,452
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	14,980	224,587	121,930
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	-	-	-	-	-	-	-	9,602	107,570	107,570
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	3,386	(30)	3,356	-	-	-	-	648	14,634	1,963
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	749	7,488	4,746
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	-	-	-	-	-	4,073	40,726	14,582
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	48,629	486,294	259,357
		TOTAL				423,467	(3,664)	419,803	28,549	-	28,549	-	508,690	13,439,035	7,455,149

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Schedule B-2
Page 3.11
Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2012 Plant Additions	Plant Adjustments[1]	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-	-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%		-	-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%	9,740	(16)	9,724	-		-		-	471,024	-
4	354	Structures and Improvements		3.33%	3.33%	237,042	(1,140)	235,903	11,217	-	11,217	-	96,519	3,010,803	1,456,078
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	60,446	(407)	60,039	671	-	671	-	19,320	995,682	300,449
7	361	Collection Sewers - Gravity		2.00%	2.00%	30,677	(141)	30,536	842	-	842	-	92,814	4,655,556	3,370,958
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	-	-	-	-	-	-	-	4,042	202,123	168,719
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	430	-	430	-	-	-	-	17,984	180,051	126,634
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	34,238	1,028,182	431,345
15	371	Effluent Pumping Equipment		12.50%	12.50%	59,529	(432)	59,098	13,118	-	13,118	-	27,874	882,929	686,346
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	2,231	(19)	2,212	-	-	-	-	18,446	370,017	73,214
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	124,527	124,527
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	683	-	683	-	-	-	-	65,207	977,952	525,659
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	14,980	224,587	136,910
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	5,228	(7)	5,221	-	33,699	33,699	-	522	79,092	74,393
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	-	(24)	(24)	-	-	-	-	731	14,610	2,694
27	394	Laboratory Equipment		10.00%	10.00%	-	(2)	(2)	-	-	-	-	749	7,486	5,495
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	-	-	-	-	-	4,073	40,726	18,655
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	48,629	486,294	307,986
		TOTAL				406,006	(2,187)	403,819	25,847	33,699	59,546	-	446,128	13,783,308	7,841,731

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Schedule B-2
Page 3.12
Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2013 Plant Additions	Plant Adjustments[1]	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%			-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%			-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%			-	-		-		-	471,024	-
4	354	Structures and Improvements		3.33%	3.33%	62,428	-	62,428	3,676	452	4,128	-	101,230	3,069,103	1,553,180
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	60,461	-	60,461	-	-	-	-	20,518	1,056,143	320,967
7	361	Collection Sewers - Gravity		2.00%	2.00%	15,123	-	15,123	-	1,705	1,705	-	93,245	4,668,974	3,462,499
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	15,611	-	15,611	-	-	-	-	4,199	217,733	172,918
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	18,005	180,051	144,639
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	34,238	1,028,182	465,583
15	371	Effluent Pumping Equipment		12.50%	12.50%	84,467	-	84,467	31,863	5,096	36,960	-	36,847	930,437	686,234
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	7,270	-	7,270	-	-	-	-	18,683	377,287	91,897
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	124,527	124,527
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	-	-	-	-	-	-	-	65,229	977,952	590,888
22	390	Office Furniture and Equipment		6.67%	6.67%	62,224	-	62,224	-	-	-	-	17,055	286,812	153,965
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	-	-	-	-	-	-	-	1,044	79,092	75,438
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	1,573	-	1,573	-	-	-	-	770	16,184	3,464
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	749	7,486	6,243
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	-	-	-	-	-	4,073	40,726	22,727
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	48,629	486,294	356,616
		TOTAL				309,159	-	309,159	35,540	7,253	42,793	-	464,515	14,049,675	8,263,453

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Schedule B-2
Page 3.13
Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2014 Plant Additions	Plant Adjustments[1]	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%			-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%			-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%			-	-		-		-	-	-
4	354	Structures and Improvements		3.33%	3.33%	49,937	(13,255)	36,682	13,970	-	13,970	-	102,579	3,091,815	1,641,790
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	81,757	(7,251)	74,507	559	-	559	-	21,862	1,130,090	342,270
7	361	Collection Sewers - Gravity		2.00%	2.00%	135,300	(241,801)	(106,501)	7,241	-	7,241	-	92,242	4,555,232	3,547,500
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	48,419	-	48,419	5,711	-	5,711	-	4,782	260,442	171,989
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	18,005	180,051	162,645
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	34,238	1,028,182	499,821
15	371	Effluent Pumping Equipment		12.50%	12.50%	38,455	9,634	48,089	41,033	-	41,033	-	45,132	937,492	690,332
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	20,759	(71,979)	(51,220)	-	-	-	-	17,584	326,067	109,481
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	124,527	124,527
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	20,988	(6,198)	14,790	-	-	-	-	65,723	992,742	656,611
22	390	Office Furniture and Equipment		6.67%	6.67%	2,724	-	2,724	-	-	-	-	19,221	289,536	173,186
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	22,930	-	22,930	21,808	-	21,808	-	3,337	80,215	56,967
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	12,758	-	12,758	-	-	-	-	1,128	28,942	4,592
27	394	Laboratory Equipment		10.00%	10.00%	3,196	-	3,196	-	-	-	-	908	10,683	7,152
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	3,242	-	3,242	-	-	-	-	4,235	43,968	26,962
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	48,629	486,294	405,245
		TOTAL				440,466	(330,849)	109,617	90,322	-	90,322	-	479,606	14,068,969	8,652,737

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Acct. No.	Description	Per Books Accum. Depr.	A Affiliate Profit	B Unrecorded Retirements	C Allocated Corporate Plant	D Adjustments to Reconcile A/D to Reconstruction	Adjusted Accum. Depr.
				Adjustments				
6	351	Organization	-	-	-		-	-
7	352	Franchise	-	-	-		-	-
8	353	Land	-	-	-		-	-
9	354	Structures & Improvements	1,693,703	(2,004)	(39,981)		(9,928)	1,641,790
10	355	Power Generation	-	-	-		-	-
11	360	Collection Sewer Forced	346,647	(685)	(9,611)		5,920	342,270
12	361	Collection Sewers Gravity	3,386,171	(648)	(13,155)		175,131	3,547,500
13	362	Special Collecting Structures	-	-	-		-	-
14	363	Customer Services	172,142	-	(5,711)		5,558	171,989
15	364	Flow Measuring Devices	37,189	195	-		(5,716)	31,668
16	365	Flow Measruring Installations	111,615	-	-		51,030	162,645
17	366	Reuse Services	-	-	-		-	-
18	367	Reuse Meters And Installation	-	31	-		(31)	-
19	370	Receiving Wells	705,488	114	-		(205,780)	499,821
20	371	Pumping Equipment	478,994	(100)	(101,799)		313,238	690,332
21	374	Reuse Distribution Reservoirs	-	-	-		-	-
22	375	Reuse Trans. and Dist. System	-	(630)	-		630	-
23	380	Treatment & Disposal Equipment	70,935	(1,952)	-		40,498	109,481
24	381	Plant Sewers	104,910	-	-		19,617	124,527
25	382	Outfall Sewer Lines	-	(67)	-		67	-
26	389	Other Sewer Plant & Equipment	887,814	(209)	-		(230,994)	656,611
27	390	Office Furniture & Equipment	234,099	-	-		(60,913)	173,186
28	390.1	Computers and Software	-	(1)	-		1	-
29	391	Transportation Equipment	28,305	(1)	(21,808)		50,470	56,967
30	392	Stores Equipment	-	(4)	-		4	-
31	393	Tools, Shop And Garage Equip	5,597	(12)	-		(993)	4,592
32	394	Laboratory Equip	5,947	(0)	-		1,204	7,152
33	395	Power Operated Equipment	-	-	-		-	-
34	396	Communication Equip	26,632	-	-		330	26,962
35	397	Miscellaneous Equip.	-	-	-		-	-
36	398	Other Tangible Plant - Sottsdale Capacity	-	-	-		405,245	405,245
37	108	Accumulated Depreciation	(222,505)	-			222,505	-
38		SUBTOTAL	8,073,682	(5,972)	(192,065)	-	777,093	8,652,737
39								
40	903	Land and Land Rights				-		-
41	904	Structures and Improvments				1,944		1,944
42	940.1	Computers and Software				-		-
43								-
44		Plant Held for Future Use						-
45		TOTALS	$ 8,073,682	$ (5,972)	$ (192,065)	$ 1,944	$ 777,093	$ 8,654,682
46								
47		Accumulated Depreciation per Books						$ 8,073,682
48								
49		Increase (decrease) in Accumulated Depreciation						$ 581,000
50								
51		Adjustment to Accumulated Depreciation						$ 581,000
52								
53		SUPPORTING SCHEDULES						
54		B-2, pages 4.1 through 4.5						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - A

Exhibit
Schedule B-2
Page 4.1
Witness: Bourassa

Line No.

1 Remove A/D Related to Affiliate Profit

Acct. No.	Description	Depr Rate	2008	2009	2010	2011	2012	2013	2014	Total
351	Organization	0.00%	-	-	-	-	-	-	-	$ -
352	Franchise	0.00%	-	-	-	-	-	-	-	-
353	Land	0.00%	-	-	-	-	-	-	-	-
354	Structures & Improvements	3.33%	(773)	(124)	(151)	(197)	(241)	(260)	(260)	(2,004)
355	Power Generation	5.00%	-	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.00%	(5)	(55)	(111)	(119)	(129)	(133)	(133)	(685)
361	Collection Sewers Gravity	2.00%	(299)	(46)	(48)	(57)	(65)	(67)	(67)	(648)
362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-
363	Customer Services	2.00%	-	-	-	-	-	-	-	-
364	Flow Measuring Devices	10.00%	101	16	16	16	16	16	16	195
366	Reuse Services	2.00%	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-
370	Receiving Wells	3.33%	-	-	10	10	10	-	-	31
371	Pumping Equipment	12.50%	253	39	(34)	(80)	(142)	39	39	114
374	Reuse Distribution Reservoirs	2.50%	(29)	(4)	-	-	-	(34)	(34)	(100)
375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-	-	-
380	Treatment & Disposal Equipment	5.00%	-	-	(203)	(210)	(217)	-	-	(630)
381	Plant Sewers	5.00%	(1,314)	(202)	-	-	-	(218)	(218)	(1,952)
382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipment	6.67%	-	-	(22)	(22)	(23)	-	-	(67)
390	Office Furniture & Equipment	6.67%	(142)	(22)	-	-	-	(23)	(23)	(209)
390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-
391	Transportation Equipment	20.00%	-	-	-	-	(1)	-	-	(1)
392	Stores Equipment	4.00%	-	-	-	-	-	(0)	(0)	(1)
393	Tools, Shop And Garage Equip	5.00%	-	-	(0)	(1)	(2)	-	-	(4)
394	Laboratory Equip	10.00%	-	-	-	-	(0)	(6)	(6)	(12)
395	Power Operated Equip	5.00%	-	-	-	-	-	(0)	(0)	(0)
396	Communication Equip	10.00%	-	-	-	-	-	-	-	-
398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-
	Plant Held for Future Use									
	TOTALS		$ (2,207)	$ (399)	$ (542)	$ (660)	$ (794)	$ (685)	$ (685)	$ (5,972)

SUPPORTING SCHEDULE
B-2, pages 3.2
Work papers

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - B

Exhibit
Schedule B-2
Page 4.2
Witness: Bourassa

Line No.

1 A/D for Plant Retirements Not Booked

Acct. No.	Description	2008	2009	2010	2011	2012	2013	2014	Total Cost
351	Organization	-	-	-	-	-	-	-	$ -
352	Franchise	-	-	-	-	-	-	-	-
353	Land	-	-	-	-	-	-	-	-
354	Structures & Improvements	-	(2,504)	-	(8,614)	(11,217)	(3,676)	(13,970)	(39,981)
355	Power Generation	-	-	-	-	-	-	-	-
360	Collection Sewer Forced	-	-	-	(8,381)	(671)	-	(559)	(9,611)
361	Collection Sewers Gravity	-	-	-	(5,072)	(842)	-	(7,241)	(13,155)
362	Special Collecting Structures	-	-	-	-	-	-	-	-
363	Customer Services	-	-	-	-	-	-	(5,711)	(5,711)
364	Flow Measuring Devices	-	-	-	-	-	-	-	-
365	Flow Measruring Installations	-	-	-	-	-	-	-	-
366	Reuse Services	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	-	-	-	-	-	-	-	-
370	Receiving Wells	-	-	-	-	-	-	-	-
371	Pumping Equipment	(4,461)	(4,841)	-	(6,482)	(13,118)	(31,863)	(41,033)	(101,799)
374	Reuse Distribution Reservoirs	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. Systen	-	-	-	-	-	-	-	-
380	Treatment & Disposal Equipm	-	-	-	-	-	-	-	-
381	Plant Sewers	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	-	-	-	-	-	-	-	-
389	Other Sewer Plant & Equipme	-	-	-	-	-	-	-	-
390	Office Furniture & Equipment	-	-	-	-	-	-	-	-
390.1	Computers and Software	-	-	-	-	-	-	-	-
391	Transportation Equipment	-	-	-	-	-	-	(21,808)	(21,808)
392	Stores Equipment	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equi	-	-	-	-	-	-	-	-
394	Laboratory Equip	-	-	-	-	-	-	-	-
395	Power Operated Equip	-	-	-	-	-	-	-	-
396	Communication Equip	-	-	-	-	-	-	-	-
397	Miscellaneous Equip.	-	-	-	-	-	-	-	-
									-
		(4,461)	(7,346)	-	(28,549)	(25,847)	(35,540)	(90,322)	(192,065)

SUPPORTING SCHEDULE
B-2, page 3.3.
Testimony
Work papers

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - C

Exhibit
Schedule B-2
Page 4.3
Witness: Bourassa

Line No.					
1	Allocated Corporate Plant A/D				
2					
3					
4	Acct.				
5	No.	Description			Cost
6	903	Land and Land Rights	Land Corporate Building	$	-
7	904	Structures and Improvments	Corporate Building	$	1,944
8	940.1	Computers and Software	HRIS	$	-
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
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42					
43					
44	SUPPORTING SCHEDULE				
45	B-2, pages 3.4 through 3.8				
46	Work papers				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - D

Exhibit
Schedule B-2
Page 4.4
Witness: Bourassa

Line No. 1 Reconciliation of A/D to A/D Reconstruction

Line No.	Acct. No.	Description	A/D Orginal Cost	B-2 Adjustments	Adjusted A/D Orginal Cost	A/D Per Reconstruction	Difference
6	351	Organization	$ -	$ -	$ -	$ -	$ -
7	352	Franchise	-	-	-	-	-
8	353	Land	-	-	-	-	-
9	354	Structures & Improvements	1,693,703	(41,985)	1,651,719	1,641,790	(9,928)
10	355	Power Generation	-	-	-	-	-
11	360	Collection Sewer Forced	346,647	(10,296)	336,350	342,270	5,920
12	361	Collection Sewers Gravity	3,386,171	(13,803)	3,372,368	3,547,500	175,131
13	362	Special Collecting Structures	-	-	-	-	-
14	363	Customer Services	172,142	(5,711)	166,431	171,989	5,558
15	364	Flow Measuring Devices	37,189	195	37,384	31,668	(5,716)
16	365	Flow Measruring Installations	111,615	-	111,615	162,645	51,030
17	366	Reuse Services	-	-	-	-	-
18	367	Reuse Meters And Installation	-	31	31	-	(31)
19	370	Receiving Wells	705,488	114	705,601	499,821	(205,780)
20	371	Pumping Equipment	478,994	(101,900)	377,095	690,332	313,238
21	374	Reuse Distribution Reservoirs	-	-	-	-	-
22	375	Reuse Trans. and Dist. System	-	(630)	(630)	-	630
23	380	Treatment & Disposal Equipment	70,935	(1,952)	68,983	109,481	40,498
24	381	Plant Sewers	104,910	-	104,910	124,527	19,617
25	382	Outfall Sewer Lines	-	(67)	(67)	-	67
26	389	Other Sewer Plant & Equipment	887,814	(209)	887,605	656,611	(230,994)
27	390	Office Furniture & Equipment	234,099	-	234,099	173,186	(60,913)
28	390.1	Computers and Software	-	(1)	(1)	-	1
29	391	Transportation Equipment	28,305	(21,808)	6,497	56,967	50,470
30	392	Stores Equipment	-	(4)	(4)	-	4
31	393	Tools, Shop And Garage Equip	5,597	(12)	5,584	4,592	(993)
32	394	Laboratory Equip	5,947	(0)	5,947	7,152	1,204
33	395	Power Operated Equipment	-	-	-	-	-
34	396	Communication Equip	26,632	-	26,632	26,962	330
35	397	Miscellaneous Equipment	-	-	-	-	-
36	398	Other Tangible Plant - Scottsdale Capacity	-	-	-	405,245	405,245
37	108	Accumulated Depreciation	(222,505)	-	(222,505)	-	222,505
38							
39							
40							
41							
42		Plant Held for Future Use					-
43		TOTALS	$ 8,073,682	$ (198,037)	$ 7,875,645	$ 8,652,737	$ 777,093

46 SUPPORTING SCHEDULE
47 B-2, pages 4.1 through 4.3
48 B-2, pages 3.6 through 3.13

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Schedule B-2
Page 5
Witness: Bourassa

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

Line No.		Gross CIAC	Accumulated Amortization
1			
2			
3			
4			
5	Computed balance at end of Test Year	$ 5,461,736	$ 5,240,717
6			
7	Book balance at end of Test Year	$ 5,461,736	$ 5,073,246
8			
9	Increase (decrease)	$ (0)	$ 167,471
10			
11			
12	Adjustment to CIAC/AA CIAC	$ (0)	$ (167,471)
13	Label	3a	3b
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	E-1		
21	B-2, page 5.1 - 5.3		
22			
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 3

Exhibit
Schedule B-2
Page 5.1
Witness: Bourassa

Line No.	Description	Vintage	Per Deicision 6/30/2008	Jun.-Jul. 2008 Activity	Balance at 12/31/2008	2009 Activity	Balance at 12/31/2009	2010 Activity	Balance at 12/31/2010	2011 Activity	Balance at 12/31/2011
1	Contributions-in-Aid (CIAC)	<=Jun 2008	5,232,139	-	5,232,139	-	5,232,139	-	5,232,139	-	5,232,139
2	Contributions-in-Aid (CIAC)	>=Jul 2008									
3	Contributions-in-Aid (CIAC)	2009									
4	Contributions-in-Aid (CIAC)	2010									
5	Contributions-in-Aid (CIAC)	2011									
6	Contributions-in-Aid (CIAC)	2012									
7	Contributions-in-Aid (CIAC)	2013									
8	Contributions-in-Aid (CIAC)	2014									
9	**Total Contributions-in-Aid (CIAC)**		5,232,139	-	5,232,139	-	5,232,139	-	5,232,139	-	5,232,139
10											
11	Amortization Rate			1.40%		4.11%		4.07%		3.93%	
12											
13	Amortization	<=Jun 2008	4,214,384	73,200	4,287,583	215,129	4,502,712	212,825	4,715,537	205,587	4,921,124
14		>=Jul 2008									
15	Accum Amort.	2009			-		-		-		-
16	Accum Amort.	2010			-		-		-		-
17	Accum Amort.	2011			-		-		-		-
18	Accum Amort.	2012			-		-		-		-
19	Accum Amort.	2013			-		-		-		-
20	Accum Amort.	2014			-		-		-		-
21											
22	**Total Accum Amort.**		4,214,384	73,200	4,287,583	215,129	4,502,712	212,825	4,715,537	205,587	4,921,124
23											
24											
25	Net CIAC	<=Jun 2008	1,017,755		944,556		729,427		516,602		311,015
26	Net CIAC	>=Jul 2008	-		-		-		-		-
27	Net CIAC	2009	-		-		-		-		-
28	Net CIAC	2010	-		-		-		-		-
29	Net CIAC	2011	-		-		-		-		-
30	Net CIAC	2012	-		-		-		-		-
31	Net CIAC	2013	-		-		-		-		-
32	Net CIAC	2014	-		-		-		-		-
33											
34	**Total Net CIAC**		1,017,755	-	944,556	-	729,427	-	516,602	-	311,015
35											
36											
37											
38											
39											
40											
41											

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 3

Exhibit
Schedule B-2
Page 5.2
Witness: Bourassa

Line No.	Description	Vintage	2012 Activity	Balance at 12/31/2012	2013 Activity	Balance at 12/31/2013	2014 Activity	Balance at 12/31/2014
1	Contributions-in-Aid (CIAC)	<=Jun 2008	-	5,232,139	-	5,232,139	-	5,232,139
2	Contributions-in-Aid (CIAC)	>=Jul 2008						
3	Contributions-in-Aid (CIAC)	2009						
4	Contributions-in-Aid (CIAC)	2010						
5	Contributions-in-Aid (CIAC)	2011						
6	Contributions-in-Aid (CIAC)	2012						
7	Contributions-in-Aid (CIAC)	2013						
8	Contributions-in-Aid (CIAC)	2014					229,597	229,597
9	**Total Contributions-in-Aid (CIAC)**		-	5,232,139	-	5,232,139	229,597	5,461,736
10								
11	Amortization Rate		3.58%		3.64%		3.74%	
12								
13	Amortization	<=Jun 2008	187,459	5,108,582	123,557	5,232,139	-	5,232,139
14		>=Jul 2008						
15	Accum Amort.	2009		-		-		-
16	Accum Amort.	2010		-		-		-
17	Accum Amort.	2011		-		-		-
18	Accum Amort.	2012		-		-		-
19	Accum Amort.	2013		-		-		-
20	Accum Amort.	2014		-		-	8,578	8,578
21								
22	**Total Accum Amort.**		187,459	5,108,582	123,557	5,232,139	8,578	5,240,717
23								
24								
25	Net CIAC	<=Jun 2008		123,557		(0)		(0)
26	Net CIAC	>=Jul 2008		-		-		-
27	Net CIAC	2009		-		-		-
28	Net CIAC	2010		-		-		-
29	Net CIAC	2011		-		-		-
30	Net CIAC	2012		-		-		-
31	Net CIAC	2013		-		-		-
32	Net CIAC	2014		-		-		221,019
33								
34	**Total Net CIAC**		-	123,557	-	(0)	-	221,019
35								
36								
37								
38								
39								
40								
41								

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 4
Advances-in-Aid of Construction (AIAC)

Exhibit
Schedule B-2
Page 6
Witness: Bourassa

Line No.			
1			
2			
3			
4	Computed balance at End OF Test Year	$	1,743,922
5			
6	Book balance at End of Test Year	$	1,891,086
7			
8	Increase (decrease)	$	(147,164)
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	E-1		
21	B-2, page 6.1		
22			
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Advances-in-Aid of Construction (AIAC)

Exhibit
Schedule B-2
Page 6.1
Witness: Boura

Line No.		Per Decision Balance 6/30/2008	2008 Activity	2008 Balance 12/31/2008	2009 Activity	2009 Balance 12/31/2009	2010 Activity	2010 Balance 12/31/2010
1								
2								
3								
4								
5	Advances-on-Aid of Construction	1,711,260	-	1,711,260		1,711,260	164,139	1,875,399
6								
7								
8								
9								
10								
11								
12	Total AIAC	1,711,260	-	1,711,260	-	1,711,260	164,139	1,875,399
13								
14								

Liberty Utilities (Black Mountain Sewer) C
Test Year Ended December 31, 2014
Advances-in-Aid of Construction (AIAC)

Exhibit
Schedule B-2
Page 6.2
Witness: Bourassa

ssa

Line No.		2011		2012		2013		2014	
		Activity	Balance 12/31/2011	Activity	Balance 12/31/2012	Activity	Balance 12/31/2013	Activity	Balance 12/31/2014
1									
2									
3									
4									
5	Advances-on-Aid of Construction	-	1,875,399	-	1,875,399	-	1,875,399	(131,477)	1,743,922
6									
7									
8									
9									
10									
11									
12	Total AIAC	-	1,875,399	-	1,875,399	-	1,875,399	(131,477)	1,743,922
13									
14									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 5

Exhibit
Schedule B-2
Page 7.0
Witness: Bourassa

Deferred Income Tax as of December 31, 2014

Line No.			Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
6		Plant-in-Service	$ 13,597,945 [1]								
7		Accum. Deprec.	(8,652,737) [1]								
8		CIAC	(1,441,765) [3]								
9	Fed.	Fixed Assets	$ 3,503,443	$ 2,548,005 [2]	100.0%	$ (955,438)	32.33%		-		(308,931)
11	State	Fixed Assets	$ 3,503,443	$ 4,240,435 [2]	100.0%	$ 736,991	4.900%		36,113		-
13	Fed &State	AIAC		531,747 [4]	100.0%	$ 531,747 [4]	37.23%		$ 197,991		
15								$ -	$ 234,103	$ -	$ (308,931)
17		Net Asset (Liability)						$ (74,828)			
19		Allocated Corporate ADIT[5]						(288)			
21		Net Asset (Liability)						$ (75,116)			
23		Allocation Factor						1.0000			
25		Net Asset (Liability)						$ (75,116)			
27		DIT Asset (Liability) per Books						$ -			
29		Adjustment to DIT						$ 75,116			

Footnotes - See page 7.1

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Schedule B-2
Page 7.1
Witness: Bourassa

Line No.		FEDERAL			STATE		
1	[1] **Per adjusted book balances, land not included, coporate plant not included**						
2							
3	[2] **Computation of Net Tax Value December 31, 2014**						
4							
5	Based on 2014 Tax Depreciation report (December 31, 2014) as amended						
6	Unadjusted Cost at December 31, 2014 per federal and state tax depr. report	$ 10,952,672			$ 10,952,672		
7	Reconciling Items not on tax report:						
8							
9	True-up	-			-		
10	Scottsdale Plant Recovered Elsewhere	(1,913,706)			(1,913,706)		
11							
12							
13							
14							
15	Net Unadjusted Cost tax Basis at December 31, 2014			$ 9,038,966			$ 9,038,966
16							
17	Reductions						
18	Basis Reduction 2014 and Prior Years per federal and state tax depr. report	$ (2,229,703)			$ -		
19	Accumulated Depreciation 2014 and prior per federal and state tax depr. report	(5,935,751)			(6,473,024)		
20	Scottsdale Plant Recovered Elsewhere	1,674,493			1,674,493		
21							
22							
23							
24							
25				(6,490,961)			(4,798,531)
26	Net Reductions through December 31, 2014			$ 2,548,005			$ 4,240,435
27	Net tax value of plant-in-service at December 31. 2014						
28							
29	[3] **CIAC (including impact of change to probability of realization)**						
30	Gross CIAC per adjusted book balances		$ 5,461,736				
31	CIAC reductions/addtions						
32	A.A per adjusted book balances	$ (5,240,717)					
33		-					
34			(5,240,717)				
35	Net CIAC before unrealized AIAC			$ 221,019			
36							
37	Unrealized AIAC Component						
38	AIAC per adjusted book balances		$ 1,743,922				
39	Adjusted Net AIAC (see footnote 5 below)		70.0%				
40	Unrealized AIAC Component % (1-Realized AIAC Component)			$ 1,220,746			
41	Total realizable CIAC			$ 1,441,765			
42							
43							
44	[4] **AIAC (including impact of change in probability of realization)**						
45	AIAC per adjusted book balances			$ 1,743,922			
46	Less: Unrealized AIAC (from Note 3, above)			$ (1,220,746)			
47							
48	Subtotal			$ 523,177			
49	Meter and Service Line Installation Charges per adjusted book balances			8,570			
50	Total realizable AIAC			$ 531,747			
51							
52	[5] **See work papers**						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cash Working Capital

Exhibit
Schedule B-5
Page 1
Witness: Bourassa

Line No.	Description	Proforma Test Year Amount[1]	Revenue Lag (Lead) Days	Expense Lag (Lead) Days	Net Lag (Lead) Days Col. C - Col. D	Lead/Lag Factor Col. E/365	Cash Working Capital Required Col. B * Col. F
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
7	OPERATING EXPENSES						
8	Salaries and Wages	$ 242,213	0.56	20.00	(19.44)	(0.05326515)	$ (12,901)
9	Purchased Water	5,647	0.56	28.22	(27.66)	(0.07578569)	(428)
10	Sludge Removal	-	0.56	-	0.56	0.00152937	-
11	Purchased Power	65,112	0.56	34.37	(33.81)	(0.09263501)	(6,032)
12	Fuel for Power Production	-	0.56	-	0.56	0.00152937	-
13	Chemicals	19,215	0.56	4.94	(4.38)	(0.01200487)	(231)
14	Materials and Supplies	23,875	0.56	(20.42)	20.98	0.05747458	1,372
15	Contractual Services - Professional	313,511	0.56	20.05	(19.49)	(0.05340213)	(16,742)
16	Contractual Services - Testing	8,117	0.56	27.61	(27.05)	(0.07411446)	(602)
17	Contractual Services - Other	361,855	0.56	46.68	(46.12)	(0.12636104)	(45,724)
18	Rents	23,807	0.56	27.28	(26.72)	(0.07321035)	(1,743)
19	Transportation	15,371	0.56	24.75	(24.19)	(0.06627884)	(1,019)
20	Insurance	11,720	0.56	(182.50)	183.06	0.50152937	5,878
21	Scottsdale Capacity (Operating Lease)	164,522	0.56	(15.00)	15.56	0.04262527	7,013
22	Miscellaneous	60,542	0.56	8.56	(8.00)	(0.02192268)	(1,327)
26	TAXES						
27	General Taxes-Property[1]	$ 49,897	0.56	213.96	(213.40)	(0.58465784)	$ (29,173)
28	General Taxes-Other	-	0.56	-	0.56	0.00152937	-
29	Income Tax[1]	153,021	0.56	37.00	(36.44)	(0.09984049)	(15,278)
31	OTHER						
32	Regulatory Commission Expense	150,000	0.56	(136.54)	137.10	0.37561613	56,342
34	TOTAL	$ 1,668,424		WORKING CASH REQUIREMENT			$ (60,594)

[1]At proposed rates.

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Income Statement

Exhibit
Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 2,202,898	$ 9,786	$ 2,212,684	$ 56,929	$ 2,269,613
3	Unmetered Water Revenues	16,067	-	16,067		16,067
4	Other Water Revenues	11,098	-	11,098		11,098
5		$ 2,230,062	$ 9,786	$ 2,239,848	$ 56,929	$ 2,296,777
6	**Operating Expenses**					
7	Salaries and Wages	$ 228,309	13,904	$ 242,213		$ 242,213
8	Purchased WasteWater Treatment	5,647	-	5,647		5,647
9	Sludge Removal	-	-	-		-
10	Purchased Power	65,112	-	65,112		65,112
11	Fuel for Power Production	-	-	-		-
12	Chemicals	19,215	-	19,215		19,215
13	Materials and Supplies	23,875	-	23,875		23,875
14	Contractual Services - Professional	316,663	(3,152)	313,511		313,511
15	Contractual Services - Testing	8,117	-	8,117		8,117
16	Contractual Services - Other	361,855	-	361,855		361,855
17	Rents	23,807	-	23,807		23,807
18	Transportation	15,371	-	15,371		15,371
19	Insurance	11,720	-	11,720		11,720
20	Regulatory Commission	-	-	-		-
21	Scottsdale Capacity (Operating Lease)	-	164,522	164,522		164,522
22	Miscellaneous	58,742	1,800	60,542		60,542
23	Depreciation and Amortization	229,669	254,602	484,271		484,271
24	Taxes Other Than Income	-	-	-		-
25	Property Taxes	47,904	1,574	49,478	420	49,897
26	Income Taxes	-	131,980	131,980	21,041	153,021
27	**Total Operating Expenses**	$ 1,416,004	$ 565,230	$ 1,981,235	$ 21,461	$ 2,002,695
28	**Operating Income**	$ 814,058	$ (555,444)	$ 258,613	$ 35,468	$ 294,082
29	**Other Income (Expense)**					
30	Interest and Dividend Income	-	-	-		-
31	AFUDC Income	8,893	-	8,893		8,893
32	Miscellaneous Non-Utility Expenses	-	-	-		-
33	Interest Expense	(39,801)	3,668	(36,133)		(36,133)
34						
35	**Total Other Income (Expense)**	$ (30,908)	$ 3,668	$ (27,240)	$ -	$ (27,240)
36	**Net Profit (Loss)**	$ 783,150	$ (551,777)	$ 231,373	$ 35,468	$ 266,842
37						
38	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
39	C-1, page 2				A-1	
40	E-2					
41						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Income Statement

Exhibit
Schedule C-1
Page 2.1
Witness: Bourassa

Line No.		LABEL>>>>> Test Year Book Results	1 Depreciation	2 Property Taxes	3 Rate Case Expense	4 Revenue Annualization	5 Scottsdale Capacity Oper. Lease	6 Corporate Costs Adjustment	7 Allocated Wages Adjustment	8 Water Use Data Chgs
1	**Revenues**									
2	Flat Rate Revenues	$ 2,202,898				9,786				
3	Metered Water Revenues	16,067								
4	Other Water Revenues	11,098								
5		$ 2,230,062	$ -	$ -	$ -	$ 9,786	$ -	$ -	$ -	$ -
6	**Operating Expenses**									
7	Salaries and Wages	$ 228,309								
8	Purchased Water	5,647							13,904	
9	Sludge Removal	-								
10	Purchased Power	65,112								
11	Fuel for Power Production	-								
12	Chemicals	19,215								
13	Materials and Supplies	23,875								
14	Contractual Services - Professional	316,663								
15	Contractual Services - Testing	8,117						(10,863)	7,711	
16	Contractual Services - Other	361,855								
17	Rents	23,807								
18	Transportation	15,371								
19	Insurance	11,720								
20	Regulatory Commission Expense	-			-					
21	Scottsdale Capacity (Operating Lease)	-					164,522			
22	Miscellaneous	58,742								
23	Depreciation and Amortization	229,669	254,602							1,800
24	Taxes Other Than Income	-								
25	Property Taxes	47,904		1,574						
26	Income Taxes	-								
27										
28	**Total Operating Expenses**	$ 1,416,004	$ 254,602	$ 1,574	$ -	$ -	$ 164,522	$ (10,863)	$ 21,615	$ 1,800
29	**Operating Income**	$ 814,058	$ (254,602)	$ (1,574)	$ -	$ 9,786	$ (164,522)	$ 10,863	$ (21,615)	$ (1,800)
30	**Other Income (Expense)**									
31	Interest and Dividend Income	-								
32	AFUDC Income	8,893								
33	Miscellaneous Non-Utility Expenses	-								
34	Interest Expense	(39,801)								
35		-								
36	**Total Other Income (Expense)**	$ (30,908)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
37	**Net Profit (Loss)**	$ 783,150	$ (254,602)	$ (1,574)	$ -	$ 9,786	$ (164,522)	$ 10,863	$ (21,615)	$ (1,800)
38										
39	SUPPORTING SCHEDULES:									
40	C-2									
41	E-2									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Income Statement

Exhibit
Schedule C-1
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Witness: Bourassa

Line No.		9 Intentionally Left Blank	10 Intentionally Left Blank	11 Intentionally Left Blank	12 Intentionally Left Blank	13 Interest Synch.	14 Income Taxes	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**									
2	Flat Rate Revenues							$ 2,212,684	$ 56,929	$ 2,269,613
3	Metered Water Revenues							16,067		16,067
4	Other Water Revenues							11,098		11,098
5			$ -	$ -	$ -	$ -	$ -	$ 2,239,848		$ 2,296,777
6	**Operating Expenses**									
7	Salaries and Wages							$ 242,213		$ 242,213
8	Purchased Water							5,647		5,647
9	Sludge Removal							-		-
10	Purchased Power							65,112		65,112
11	Fuel for Power Production							-		-
12	Chemicals							19,215		19,215
13	Materials and Supplies							23,875		23,875
14	Contractual Services - Professional							313,511		313,511
15	Contractual Services - Testing							8,117		8,117
16	Contractual Services - Other							361,855		361,855
17	Rents							23,807		23,807
18	Transportation							15,371		15,371
19	Insurance							11,720		11,720
20	Regulatory Commission Expense							-		-
21	Scottsdale Capacity (Operating Lease)							164,522		164,522
22	Miscellaneous							60,542		60,542
23	Depreciation and Amortization							484,271		484,271
24	Taxes Other Than Income							-		-
25	Property Taxes							49,478	420	49,897
26	Income Taxes						131,980	131,980	21,041	153,021
27										
28	**Total Operating Expenses**	$ -	$ -	$ -	$ -	$ -	$ 131,980	$ 1,981,235	$ 21,461	$ 2,002,695
29	**Operating Income**	$ -	$ -	$ -	$ -	$ -	$ (131,980)	$ 258,613	$ (21,461)	$ 294,082
30	**Other Income (Expense)**									
31	Interest and Dividend Income							-		-
32	AFUDC Income							8,893		8,893
33	Miscellaneous Non-Utility Expenses							-		-
34	Interest Expense					3,668		36,133		36,133
35								-		-
36	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ 3,668	$ -	$ 45,026	$ -	$ 45,026
37	**Net Profit (Loss)**	$ -	$ -	$ -	$ -	$ 3,668	$ (131,980)	$ 303,640	$ (21,461)	$ 339,108
38										
39	SUPPORTING SCHEDULES:									
40	C-2									
41	E-2									

RECAP SCHEDULES:
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustments to Revenues and Expenses

Exhibit
Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1 Depreciation	2 Property Taxes	3 Intentionally left Blank	4 Revenue Annualization	5 Scottsdale Capacity Oper. Lease	6 Corporate Costs Adjustment	Subtotal
4	Revenues	-	-	-	9,786	-	-	9,786
6	Expenses	254,602	1,574	-	-	164,522	(10,863)	409,836
8	Operating							
9	Income	(254,602)	(1,574)	-	9,786	(164,522)	10,863	(400,050)
11	Interest							
12	Expense							-
13	Other							
14	Income /							
15	Expense							-
17	Net Income	(254,602)	(1,574)	-	9,786	(164,522)	10,863	(400,050)

Adjustments to Revenues and Expenses

Line No.		7 Allocated Wages Adjustment	8 Water Use Data Chgs	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Intentionally Left Blank	12 Intentionally Left Blank	Subtotal
25	Revenues	-	-	-	-	-	-	9,786
27	Expenses	21,615	1,800	-	-	-	-	433,251
29	Operating							
30	Income	(21,615)	(1,800)	-	-	-	-	(423,465)
32	Interest							
33	Expense	-						-
34	Other							
35	Income /							
36	Expense							-
38	Net Income	(21,615)	(1,800)	-	-	-	-	(423,465)

Adjustments to Revenues and Expenses

Line No.		13 Interest Synch.	14 Income Taxes	15 Intentionally left Blank	16 Intentionally left Blank	17 Intentionally left Blank	18 Intentionally left Blank	Total
46	Revenues	-	-					9,786
48	Expenses	-	131,980		-			565,230
50	Operating							
51	Income	-	(131,980)	-	-	-	-	(555,444)
53	Interest							
54	Expense	3,668						3,668
55	Other							
56	Income /		-					
57	Expense							-
59	Net Income	3,668	(131,980)	-	-	-	-	(551,777)

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Schedule C-2
Page 2
Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Adjusted Original Cost	Non-Depr. or Fully Depr. Plant	Depr Original Cost	Proposed Rates	Depreciation Expense
1	351	Organization	-		-	0.00%	-
2	352	Franchise	-		-	0.00%	-
3	353	Land	471,024	(471,024)	-	0.00%	-
4	354	Structures & Improvements	3,091,815		3,091,815	3.33%	102,957
5	355	Power Generation	-		-	5.00%	-
6	360	Collection Sewer Forced	1,130,090		1,130,090	2.00%	22,602
7	361	Collection Sewers Gravity	4,555,232		4,555,232	2.00%	91,105
8	362	Special Collecting Structures	-		-	2.00%	-
9	363	Customer Services	260,442		260,442	2.00%	5,209
10	364	Flow Measuring Devices	31,668		31,668	10.00%	3,167
11	365	Flow Measuring Installations	180,051		180,051	10.00%	18,005
12	366	Reuse Services	-		-	2.00%	-
13	367	Reuse Meters And Installation	-		-	8.33%	-
14	370	Receiving Wells	1,028,182		1,028,182	3.33%	34,238
15	371	Pumping Equipment	937,492	(552,393)	385,099	12.50%	48,137
16	374	Reuse Distribution Reservoirs	-		-	2.50%	-
17	375	Reuse Trans. and Dist. System	-		-	2.50%	-
18	380	Treatment & Disposal Equipment	326,067		326,067	5.00%	16,303
19	381	Plant Sewers	124,527	(124,527)	-	5.00%	-
20	382	Outfall Sewer Lines	-		-	3.33%	-
21	389	Other Sewer Plant & Equipment	992,742		992,742	6.67%	66,216
22	390	Office Furniture & Equipment	289,536		289,536	6.67%	19,312
23	390.1	Computers and Software	-		-	20.00%	-
24	391	Transportation Equipment	80,215	(52,063)	28,151	20.00%	5,630
25	392	Stores Equipment	-		-	4.00%	-
26	393	Tools, Shop And Garage Equip	28,942		28,942	5.00%	1,447
27	394	Laboratory Equip	10,683		10,683	10.00%	1,068
28	395	Power Operated Equipment	-		-	5.00%	-
29	396	Communication Equip	43,968		43,968	10.00%	4,397
30	397	Miscellaneous Equip.	-		-	10.00%	-
31	398	Other Tangible Plant - Scottsdale Capacity	486,294		486,294	10.00%	48,629
32	903	Land and Land Rights	8,429	(8,429)	-	0.00%	-
33	904	Structures and Improvments	75,829		75,829	2.56%	1,941
34	940.1	Computers and Software	13,207		13,207	20.00%	2,641
35							
36		TOTALS	$ 14,166,434	$ (1,208,436)	$ 12,957,998		$ 493,006
37							
38		Less: Amortization of Contributions					
39							
40			Gross CIAC	FullY Amortized CIAC	Net CIAC	Amort. Rate	
41							
42			$ 5,461,736	$ (5,232,139)	$ 229,597	3.8046%	$ (8,735)
43							
44		Total Depreciation Expense			$ 229,597		
45							$ 484,271
46		Adjusted Test Year Depreciation Expense					
47							$ 229,669
48		Increase (decrease) in Depreciation Expense					
49							$ 254,602
50		Adjustment to Revenues and/or Expenses					
51							$ 254,602
52		SUPPORTING SCHEDULE					
53		B-2, page 3					

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Schedule C-2
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 2,239,848	$ 2,239,848
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	4,479,696	4,479,696
4	Company Recommended Revenue	2,239,848	2,296,777
5	Subtotal (Line 4 + Line 5)	6,719,544	6,776,473
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	2,239,848	2,258,824
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	4,479,696	4,517,649
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	3,531	3,531
12	Full Cash Value (Line 9 + Line 10 - Line 11)	4,476,165	4,514,118
13	Assessment Ratio	18.0%	18.0%
14	Assessment Value (Line 12 * Line 13)	805,710	812,541
15	Composite Property Tax Rate - Obtained from ADOR	6.1409%	6.1409%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 49,478	$ 49,897
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	$ 49,478	
19	Test Year Property Taxes	$ 47,904	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	**$ 1,574**	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 49,897
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 49,478
24	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 420**
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 420
27	Increase in Revenue Requirement		$ 56,929
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		0.73691%
29			
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Schedule C-2
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Witness: Bourassa

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Line No.
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
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Witness: Bourassa

Revenue Annualization

Line No.			
1			
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3			
4	Revenue Annualization	$	9,786
5			
6			
7			
8	Total Revenue from Annualization	$	9,786
9			
10			
11	Adjustment to Revenue and/or Expense	$	9,786
12			
13	SUPPORTING SCHEDULES		
14	H-1		
15	Work papers		
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Scottsdale Capacity Operating Lease

Line No.					
1	Calculation of Lease Costs on Scottsdale Treatment Capacity				
2					
3	Treatment Capacity Costs per Decision 59944	$	1,260,000		
4	Less Amount Funded by CIAC		(300,000)		
5	Net Amount Funded by Debt	$	960,000		
6					
7	Annual debt service				
8	Interest Rate		9.40%		
9	Term (years)		20.00		
10	Annual Debt Service	$	108,179		
11	Annual 'Lease Expense'			$	108,179
12					
13					
14	Additional Scottsdale Capacity per Decision 60240	$	653,706		
15	Less Amount Funded by CIAC		(153,706)		
16	Net Amount Funded by Debt	$	500,000		
17					
18	Annual debt service				
19	Interest Rate		9.40%		
20	Term (years)		20.00		
21	Annual Debt Service	$	56,343		
22	Annual 'Lease Expense'			$	56,343
23					
24	Total Annual 'Lease Expense'			$	164,522
25					
26					
27					
28					
29	Adjustment to Revenues and/or Expense			$	164,522

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Corporate Cost Annualization

Line No.		
1		
2	Change in Management Services - Corporate	(10,863)
3		
4		
5		
6	Adjustment to Contractual Services - Professional	$ (10,863)
7		
8		
9	Adjustment to Revenue and/or Expense	(10,863)
10		
11	Reference	
12	Testimony	
13	Work papers	
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Corporate Cost Wage Adjustment

Line No.			
1			
2	Increase in Salaries and Wages - Direct Allocated Wages	$	13,904
3	Increase in Contractual Services - Professional		7,711
4			
5			
6	Adjustment to Revenue and/or Expense	$	21,615
7			
8			
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10			
11	Reference		
12	Testimony		
13	Work papers		
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2
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Witness: Bourassa

Water Use Data Charges

Line No.			
1			
2	Estimated Charges from City of Scottsdale and Town of Carefeee		1,800
3			
4			
5			
6	Adjustment to Miscellaneous Expense	$	1,800
7			
8			
9	Adjustment to Revenue and/or Expense		1,800
10			
11	Reference		
12	Testimony		
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 9

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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 10

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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 11

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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 12

Exhibit
Schedule C-2
Page 13
Witness: Bourassa

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26	Reference
27	Testimony
28	Work papers

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 13

Exhibit
Schedule C-2
Page 14
Witness: Bourassa

Interest Synchronization

Line No.			
1			
2			
3			
4	Fair Value Rate Base	$ 3,412,024	
5	Weighted Cost of Debt	1.06%	
6	Interest Expense		$ 36,133
7			
8	Test Year Interest Expense		$ 39,801
9			
10	Increase (decrease) in Interest Expense		(3,668)
11			
12			
13			
14	Adjustment to Revenue and/or Expense		$ 3,668
15			
16			
17	Weighted Cost of Debt Computation		
18	Pro forma Capital Structure		
19		Percent	Cost	Weighted Cost
20	Debt	30.00%	3.53%	1.06%
21	Equity	70.00%	10.80%	7.56%
22	Total	100.00%		8.62%
23				
24				
25				
26				
27				
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29				
30				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and/or Expenses
Adjustment Number 14

Exhibit
Schedule C-2
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Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Compauted Income Tax	$ 131,980	$ 153,021
5	Test Year Income tax Expense	-	131,980
6	Adjustment to Income Tax Expense	$ 131,980	$ 21,041
7			
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13	SUPPORTING SCHEDULE		
14	C-3, page 2		
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Computation of Gross Revenue Conversion Factor

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Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Effective Income Tax Rate	32.334%
2		
3	State Effective Income Tax Rate	4.900%
4		
5	Property Taxes	0.463%
6		
7		
8	Total Tax Percentage	37.697%
9		
10	Operating Income % = 100% - Tax Percentage	62.303%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.6050
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
28	C-3, page 2	A-1
29		
30		
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42		

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014

Exhibit
Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	[E]	[F]
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	Uncollecible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	37.6965%					
5	Subtotal (L3 - L4)	62.3035%					
6	**Revenue Conversion Factor (L1 / L5)**	1.605047					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	37.2340%					
9	One Minus Combined Income Tax Rate (L7 - L8)	62.7660%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	4.9000%					
14	Federal Taxable Income (L12 - L13)	95.1000%					
15	Applicable Federal Income Tax Rate (L55, Col E)	34.0000%					
16	Effective Federal Income Tax Rate (L14 x L15)	32.3340%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		37.2340%				
	Calculation of Effective Property Tax Factor						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	37.2340%					
20	One Minus Combined Income Tax Rate (L18-L19)	62.7660%					
21	Property Tax Factor	0.7369%					
22	Effective Property Tax Factor (L20*L21)		0.4625%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			37.6965%			
24	Required Operating Income	$ 294,082					
25	AdjustedTest Year Operating Income (Loss)	$ 258,613					
26	Required Increase in Operating Income (L24 - L25)		$ 35,469				
27	Income Taxes on Recommended Revenue (Col. (E), L52)	$ 153,021					
28	Income Taxes on Test Year Revenue (Col. (B), L54)	$ 131,980					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 21,041				
30	Recommended Revenue Requirement	$ 2,296,777					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	$ -					
33	Adjusted Test Year Uncollectible Expense	$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ -				
35	Property Tax with Recommended Revenue	$ 49,897					
36	Property Tax on Test Year Revenue	$ 49,478					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 420				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 56,930				

		(A)	(B)	(C)	(D)	[E]	[F]
		Test Year			Company Recommended		
	Calculation of Income Tax:	Total	Sewer		Total	Sewer	
39	Revenue	$ 2,239,848	$ 2,239,848		$ 2,296,777	$ 2,296,777	
40	Operating Expenses Excluding Income Taxes	$ 1,849,255	$ 1,849,255		$ 1,849,675	$ 1,849,675	
41	Synchronized Interest (L47)	$ 36,133	$ 36,133		$ 36,133	$ 36,133	
42	Arizona Taxable Income (L39 - L40 - L41)	$ 354,460	$ 354,460		$ 410,970	$ 410,970	
43	Arizona State Effective Income Tax Rate (see work papers)	4.9000%	4.9000%		4.9000%	4.9000%	
44	Arizona Income Tax (L42 x L43)	$ 17,369	$ 17,369		$ 20,138	$ 20,138	
45	Federal Taxable Income (L42- L44)	$ 337,091	$ 337,091		$ 390,833	$ 390,833	
46							
47	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 7,500	$ 7,500		$ 7,500	$ 7,500	
48	Federal Tax on Second Income Bracket ($50,001 - $75,000) @ 25%	$ 6,250	$ 6,250		$ 6,250	$ 6,250	
49	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500	$ 8,500		$ 8,500	$ 8,500	
50	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 91,650	$ 91,650		$ 91,650	$ 91,650	
51	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ 711	$ 711		$ 18,983	$ 18,983	
52							
53	Total Federal Income Tax	$ 114,611	$ 114,611		$ 132,883	$ 132,883	
54	Combined Federal and State Income Tax (L35 + L42)	$ 131,980	$ 131,980		$ 153,021	$ 153,021	

55	COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / [Col. [D], L45 - Col. [A], L45]	34.0000%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L53] / [Col. [E], L45 - Col. [B], L45]		34.0000%	
57	WATER Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Col. [F], L45 - Col. [C], L45]			0.0000%

		Sewer	
	Calculation of Interest Synchronization:		
58	Rate Base	$ 3,412,024	
59	Weighted Average Cost of Debt	1.0590%	
60	Synchronized Interest (L45 X L46)	$ 36,133	

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Comparative Balance Sheets

Exhibit
Schedule E-1
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2014	Year Ended 12/31/2013	Year Ended 12/31/2012
1	**ASSETS**			
2	Plant In Service	$ 16,165,880	$ 16,051,706	$ 15,737,360
3	Non-Utility Plant	-	-	-
4	Construction Work in Progress	1,483,674	940,405	401,441
5	Property Held for Future Use		-	-
6	Less: Accumulated Depreciation	(8,073,682)	(7,886,164)	(7,444,634)
7	Net Plant	$ 9,575,872	$ 9,105,946	$ 8,694,167
8				
9	CURRENT ASSETS			
10	Cash and Equivalents	$ (130,301)	$ (24,074)	$ (6,602)
11	Restricted Cash	-	-	-
12	Accounts Receivable, Net	43,669	52,928	54,810
13	Inter-Company Receivable	-	-	-
14	Notes Receivable	-	-	-
15	Materials and Supplies	-	-	-
16	Prepayments	9,493	9,493	7,917
17	Other Current Assets	-	-	-
18	Total Current Assets	$ (77,138)	$ 38,347	$ 56,126
19				
20	OTHER ASSETS			
21	Deferred Finance Costs	$ -	$ -	$ -
22	Other Deferred Debits	-	-	-
23	Other Non-Current Assets	-	-	-
24	Deferred Debits	$ -	$ -	$ -
25				
26	TOTAL ASSETS	$ 9,498,734	$ 9,144,294	$ 8,750,293
27				
28				
29	**LIABILITIES AND STOCKHOLDER EQUITY**			
30				
31	Stockholder's Equity	$ 6,276,158	$ 5,493,008	$ 4,955,087
32				
33	Long-Term Debt	$ -	$ -	$ -
34				
35	CURRENT LIABILITIES			
36	Accounts Payable	$ -	$ -	$ 1,152,437
37	Current Portion of Long-Term Debt	-	-	-
38	Payables to Associated Companies	385,190	816,701	-
39	Security Deposits	-	-	-
40	Customer Meter Deposits, Current	8,570	-	-
41	Current Portion of AIAC	-	-	-
42	Accrued Taxes	-	-	15,387
43	Accrued Interest	-	-	-
44	Other Current Liabilities	391,018	469,848	395,833
45	Total Current Liabilities	$ 784,778	$ 1,286,549	$ 1,563,657
46	DEFERRED CREDITS			
47	Customer Meter Deposits, less current	$ -	$ -	$ -
48	Advances in Aid of Construction	1,891,086	2,211,453	2,208,139
49	Accumulated Deferred Investment Tax Credits	-	-	-
50	Accumulated Deferred Income Taxes	-	-	-
51	Contributions In Aid of Construction	5,461,736	5,258,149	5,239,075
52	Accumulated Amortization	(5,073,246)	(5,070,648)	(5,070,456)
53	Other Deferred Credits	158,222	(34,217)	(145,209)
54	Total Deferred Credits	$ 2,437,798	$ 2,364,738	$ 2,231,548
55				
56	Total Liabilities & Common Equity	$ 9,498,734	$ 9,144,294	$ 8,750,293
57				
58				
59				
60	SUPPORTING SCHEDULES:			
61				
62				
63				
64				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Comparative Income Statements

Exhibit
Schedule E-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2014	Prior Year Ended 12/31/2013	Prior Year Ended 12/31/2012
1	**Revenues**			
2	Flat Rate Revehnue	$ 2,202,898	$ 2,217,617	$ 2,180,095
3	Reclaimed Water Revenues	16,067	-	-
4	Other Water Revenues	11,098	9,126	12,115
5	**Total Revenues**	$ 2,230,062	$ 2,226,742	$ 2,192,209
6	**Operating Expenses**			
7	Salaries and Wages	$ 228,309	$ -	$ -
8	Purchased Water	5,647	5,684	5,779
9	Sludge Removal	-	-	-
10	Purchased Power	65,112	62,914	64,718
11	Fuel for Power Production	-	-	-
12	Chemicals	19,215	17,410	36,248
13	Materials and Supplies	23,875	35,361	35,722
14	Contractual Services - Professional	316,663	11,964	17,956
15	Contractual Services - Testing	8,117	16,833	9,514
16	Contractual Services - Other	361,855	874,476	931,746
17	Rents	23,807	35,596	34,603
18	Transportation	15,371	13,415	20,959
19	Insurance	11,720	16,755	13,794
20	Regulatory Commission Expense	-	62,249	56,059
21	Miscellaneous	58,742	36,897	99,989
22	Depreciation and Amortization	229,669	448,450	353,152
23	Taxes Other Than Income	-	-	-
24	Property Taxes	47,904	43,908	35,509
25	Income Taxes	-	-	-
26				
27	**Total Operating Expenses**	$ 1,416,004	$ 1,681,910	$ 1,715,748
28	**Operating Income**	$ 814,058	$ 544,832	$ 476,461
29	**Other Income (Expense)**			
30	Interest and Dividend Income	-	-	-
31	AFUDC Income	8,893	43,944	-
32	Miscellaneous Non-Utility Expenses	-	64	-
33	Interest Expense	(39,801)	(50,921)	(130,463)
34				
35	**Total Other Income (Expense)**	$ (30,908)	$ (6,913)	$ (130,463)
36	**Net Profit (Loss)**	$ 783,150	$ 537,919	$ 345,999
37				
38				
39				
40	SUPPORTING SCHEDULES:		RECAP SCHEDULES:	
41			A-2	
42				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Comparative Statements of Cash Flows

Exhibit
Schedule E-3
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2014	Prior Year Ended 12/31/2013	Prior Year Ended 12/31/2012
1				
2				
3	Cash Flows from Operating Activities			
4	Net Income	$ 783,150	$ 537,919	$ 345,999
5	Adjustments to reconcile net income to net cash			
6	provided by operating activities:			
7	Depreciation and Amortization	229,669	448,450	353,152
8	Depreciation and Amortization Adjustments	(44,749)	(7,112)	(39,088)
9	Changes in Certain Assets and Liabilities:			
10	Accounts Receivable	9,259	1,882	(11,457)
11	Restricted Cash			
12	Materials and Supplies Inventory			
13	Prepaid Expenses		(1,576)	488
14	Deferred Charges			
15	Receivables/Payables to Associated Co.	(431,511)	816,701	(1,480,433)
16	Accounts Payable		(1,152,437)	1,152,437
17	Interest Payable			
18	Customer Meter and Security Deposits	8,570		
19	Taxes Payable		15,387	
20	Other assets and liabilities	113,609	154,233	21,614
21	Rounding	(1)	3	(1)
22	Net Cash Flow provided by Operating Activities	$ 667,996	$ 813,451	$ 342,711
23	Cash Flow From Investing Activities:			
24	Capital Expenditures	(657,443)	(853,310)	(350,952)
25	Plant Held for Future Use	-	-	-
26	Changes in Special Funds	-	-	-
27	Net Cash Flows from Investing Activities	$ (657,443)	$ (853,310)	$ (350,952)
28	Cash Flow From Financing Activities			
29	Change in Restricted Cash			
30	Proceeds from Long-Term Debt			
31	Net receipt of contributions in aid of construction	203,587	19,074	
32	Net receipts of advances in aid of construction	(320,367)	3,314	970
33	Repayments of Long-Term Debt			
34	Distributions			
35	Deferred Financing Costs			
36	Paid in Capital			
37	Net Cash Flows Provided by Financing Activities	$ (116,780)	$ 22,388	$ 970
38	Increase(decrease) in Cash and Cash Equivalents	(106,227)	(17,471)	(7,271)
39	Cash and Cash Equivalents at Beginning of Year	(24,074)	(6,602)	669
40	Cash and Cash Equivalents at End of Year	$ (130,301)	$ (24,074)	$ (6,602)
41				
42				
43	SUPPORTING SCHEDULES:		RECAP SCHEDULES:	
44	Workpapers		A-5	
45				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Statement of Changes in Stockholder's Equity

Exhibit
Schedule E-4
Page 1
Witness: Bourassa

Line No.		Stockholder's Equity	Retained Earnings	Total
1				
2				
3				
4	Balance, December 31, 2011	$ 4,609,090	$ -	$ 4,609,090
5	Addnl Paid In Capital Adjustment	-		-
6	Distributions			-
7	Rounding			-
8	Net Income		345,999	345,999
9				
10	Balance, December 31, 2012	$ 4,609,090	$ 345,999	$ 4,955,089
11	Addnl Paid In Capital Adjustment	-		-
12	Distributions		-	-
13	Rounding			-
14	Net Income		537,919	537,919
15				
16	Balance, December 31, 2013	$ 4,609,090	$ 883,918	$ 5,493,008
17	Addnl Paid In Capital Adjustment	-		-
18	Distributions			-
19	Rounding			-
20	Net Income		783,150	783,150
21				
22	Balance, December, 2014	$ 4,609,090	$ 1,667,068	$ 6,276,158
23				
24				
25				
26				
27				
28				
29	SUPPORTING SCHEDULES:		RECAP SCHEDULES:	
30			E-1	
31				
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Detail of Plant in Service

Exhibit
Schedule E-5
Page 1
Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2013	Plant Additions, Reclass-ications or or Retirements	Plant Balance at 12/31/2014
1					
2	351	Organization	$ -	$ -	$ -
3	352	Franchise	-	-	-
4	353	Land	471,186	-	471,186
5	354	Structures & Improvements	3,136,660	36,682	3,173,342
6	355	Power Generation	-	-	-
7	360	Collection Sewer Forced	735,437	74,507	809,944
8	361	Collection Sewers Gravity	4,748,798	(106,501)	4,642,297
9	362	Special Collecting Structures	-	-	-
10	363	Customer Services	219,317	48,419	267,736
11	364	Flow Measuring Devices	39,878	-	39,878
12	365	Flow Measruring Installations	181,932	4,558	186,489
13	366	Reuse Services	-	-	-
14	367	Reuse Meters And Installation	-	-	-
15	370	Receiving Wells	794,191	-	794,191
16	371	Pumping Equipment	969,308	48,089	1,017,397
17	374	Reuse Distribution Reservoirs	-	-	-
18	375	Reuse Trans. and Dist. System	-	-	-
19	380	Treatment & Disposal Equipment	352,564	(51,220)	301,344
20	381	Plant Sewers	129,262	-	129,262
21	382	Outfall Sewer Lines	-	-	-
22	389	Other Sewer Plant & Equipment	971,487	14,790	986,277
23	390	Office Furniture & Equipment	432,166	2,724	434,891
24	390.1	Computers and Software	-	-	-
25	391	Transportation Equipment	79,397	22,930	102,327
26	392	Stores Equipment	-	-	-
27	393	Tools, Shop And Garage Equip	23,418	12,758	36,176
28	394	Laboratory Equip	7,980	3,196	11,176
29	395	Power Operated Equip	-	-	-
30	396	Communication Equip	40,726	3,242	43,968
31	397	Miscellaneous Equip.	-	-	-
32	398	Other Tangible Plant - Scottsdale Capacity	2,718,000	-	2,718,000
33					-
34					-
35					-
36					
37					-
38		TOTAL WATER PLANT	$ 16,051,706	$ 114,174	$ 16,165,880
39					
40	SUPPORTING SCHEDULES			RECAP SCHEDULES:	
41	Workpapers			A-4	
42				E-1	
43					

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Operating Statistics

Exhibit
Schedule E-7
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2014	Prior Year Ended 12/31/2013	Prior Year Ended 12/31/2012
1	WASTEWATER STATISTICS:			
2				
3				
4				
5	Total Gallons Treated (in Thousands)	1,223,828	1,267,560	1,263,468
6				
7				
8				
9	Wastewater Revenues from Customers:[1]	$ 10,161,315	$ 9,785,181	$ 7,157,247
10				
11				
12				
13				
14	Year End Number of Customers	19,433	18,791	18,536
15				
16				
17	Annual Gallons (in Thousands)			
18	Treated Per Year End Customer	63	67	68
19				
20				
21				
22	Annual Revenue per Year End Customer	$ 522.89	$ 520.74	$ 386.13
23				
24	Pumping Cost Per 1,000 Gallons	$ -	$ -	$ -
25	Purchased Water Cost per 1,000 Gallons	$ -	$ -	$ -
26				
27	[1] Effective customer. An effective customer considers the number of units served for multi-unit customers.			
28				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2014	Prior Year Ended 12/31/2013	Prior Year Ended 12/31/2012
1	Description			
2				
3	State Income Taxes	$ -	$ -	$ -
4	Federal Income Taxes	-	-	-
5	Payroll Taxes	-	-	-
6	Property Taxes	-	-	-
7				
8	Totals	$ -	$ -	$ -
9				
10				
11				
12				
13				
14				
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30				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

The Company does not conduct independent audits, reviews and/or compilations. Accordingly, there are no notes which are typically associated with these financial statements. Management makes the following notations to the finanical statements contained herein:

Significant Accounting Policies - The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America and the accounting records of the are are maintained in accordance with the uniform system of accounts as prescribed by the National Association of Regulatory Utility Commissioners (USOA 1996). Significant accounting policies are as follows:

Utility Plant - Property, plant and equipment is stated at cost less accumulated depreciation provided on a straight-line basis.

Depreciation rates for asset classes of utility property, plant and equipment are established by the Commission. The cost of additions, including betterments and replacements of units of utility fixed assets are charged to utility property, plant and equipment. When units of utility property are replaced, renewed or retired, their cost plus removal or disposal costs, less salvage proceeds, is charged to accumulated depreciation.

Revenue Recognition - Revenues are recognized on the accrual method. Under this method, revenue is recognized when earned rather than when collected, and expenses are recognized when incurred rathet than when paid.

Contributions in Aid of Construction - Contributions in aid of construction (CIAC) are nonrefundable contributions by developers and customers for plant expansion. In addition, this amount includes the remaining balance, if any, of advances in aid of construction at the end of the repayment period. The contributions in aid of construction are being amortized at a rate equal to the rate allowed for depreciation, as a reduction of depreciation expense

Advances in Aid of Construction - Customer advances for construction are subject to refund in accordance with agreements approved by the Arizona Corporation Commission. Agreements provide for refunds which are typically equal to 10 percent of annual water revenue generated from the expansion. The repayments are for a maximum agreed upon period or until repaid in full. Any balance remaining at the end of the agreed-upon period for repayment becomes a contribution in aid of construction.

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Projected Income Statements - Present & Proposed Rates

Exhibit
Schedule F-1
Page 1
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2015	At Proposed Rates Year Ended 12/31/2015
1	**Revenues**			
2	Metered Water Revenues	$ 2,202,898	$ 2,212,684	$ 2,269,613
3	Unmetered Water Revenues	16,067	16,067	16,067
4	Other Water Revenues	11,098	11,098	11,098
5		$ 2,230,062	$ 2,239,848	$ 2,296,777
6	**Operating Expenses**			
7	Salaries and Wages	$ 228,309	$ 242,213	$ 242,213
8	Purchased WasteWater Treatment	5,647	5,647	5,647
9	Sludge Removal	-	-	-
10	Purchased Power	65,112	65,112	65,112
11	Fuel for Power Production	-	-	-
12	Chemicals	19,215	19,215	19,215
13	Materials and Supplies	23,875	23,875	23,875
14	Contractual Services - Professional	316,663	313,511	313,511
15	Contractual Services - Testing	8,117	8,117	8,117
16	Contractual Services - Other	361,855	361,855	361,855
17	Rents	23,807	23,807	23,807
18	Transportation	15,371	15,371	15,371
19	Insurance	11,720	11,720	11,720
20	Regulatory Commission	-	-	-
21	Scottsdale Capacity (Operating Lease)	-	164,522	164,522
22	Miscellaneous	58,742	60,542	60,542
23	Depreciation and Amortization	229,669	484,271	484,271
24	Taxes Other Than Income	-	-	-
25	Property Taxes	47,904	49,478	49,897
26	Income Taxes	-	131,980	153,021
27	**Total Operating Expenses**	$ 1,416,004	$ 1,981,235	$ 2,002,695
28	**Operating Income**	$ 814,058	$ 258,613	$ 294,082
29	**Other Income (Expense)**			
30	Interest Income	-	-	-
31	Other income	8,893	8,893	8,893
32	Interest Expense	-	-	-
33	Other Expense	(39,801)	(36,133)	(36,133)
34	Gain/Loss Sale of Fixed Assets	-	-	-
35	**Total Other Income (Expense)**	$ (30,908)	$ (27,240)	$ (27,240)
36	**Net Profit (Loss)**	$ 783,150	$ 231,373	$ 266,842
37				
38				
39	SUPPORTING SCHEDULES:			
40	C-1			
41				
42				
43				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Projected Statements of Changes in Financial Position
Present and Proposed Rates

Exhibit
Schedule F-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2014	At Present Rates Year Ended 12/31/2015	At Proposed Rates Year Ended 12/31/2015
5	Cash Flows from Operating Activities			
6	Net Income	$ 783,150	$ 231,373	$ 266,842
7	Adjustments to reconcile net income to net cash			
8	provided by operating activities:			
9	Depreciation and Amortization	229,669	484,271	484,271
10	Depreciation Adjustments	(44,749)		
11	Changes in Certain Assets and Liabilities:			
12	Accounts Receivable	9,259		
13	Unbilled Revenues	-		
14	Materials and Supplies Inventory	-		
15	Prepaid Expenses	-		
16	Deferred Charges	-		
17	Receivables/Payables to Associated Co.	(431,511)		
18	Accounts Payable	-		
19	Intercompany payable	-		
20	Customer Meter Deposits	8,570		
21	Taxes Payable	-		
22	Other assets and liabilities	113,609		
	Rounding	(1)		
23	Net Cash Flow provided by Operating Activities	$ 667,997	$ 715,644	$ 751,112
24	Cash Flow From Investing Activities:			
25	Capital Expenditures	(657,443)	(194,801)	(194,801)
26	Plant Held for Future Use	-		
27	Changes in debt reserve fund	-		
28	Net Cash Flows from Investing Activities	$ (657,443)	$ (194,801)	$ (194,801)
29	Cash Flow From Financing Activities			
30	Change in Restricted Cash	-		
31	Change in net amounts due to parent and affiliates	-		
32	Net Receipt contributions in aid of construction	203,587	111,331	111,331
33	Net receipts of advances in aid of construction	(320,367)	(105,361)	(105,361)
34	Repayments of Long-Term Debt	-		
35	Dividends Paid	-		
36	Deferred Financing Costs	-		
37	Paid in Capital	-		
38	Net Cash Flows Provided by Financing Activities	$ (116,780)	$ 5,970	$ 5,970
39	Increase(decrease) in Cash and Cash Equivalents	(106,226)	526,813	562,281
40	Cash and Cash Equivalents at Beginning of Year	(24,074)	(130,300)	(130,300)
41	Cash and Cash Equivalents at End of Year	$ (130,300)	$ 396,513	$ 431,981

45 SUPPORTING SCHEDULES:
46 E-3

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Projected Construction Requirements

Exhibit
Schedule F-3
Page 1
Witness: Bourassa

Line No.	Account Number	Plant Asset:	Test Year	2015	2016	2017
1						
2	Account					
3	Number	Plant Asset:	Test Year	2015	2016	2017
4	351	Organization	$ -	$ -	$ -	$ -
5	352	Franchise	-	-	-	-
6	353	Land	-	-	-	-
7	354	Structures & Improvements	36,682	23,500	22,000	1,562,000
8	355	Power Generation	-	-	-	-
9	360	Collection Sewer Forced	74,507	-	-	-
10	361	Collection Sewers Gravity	(106,501)	90,000	85,000	65,000
11	362	Special Collecting Structures	-	-	-	-
12	363	Customer Services	48,419	15,000	4,500	4,500
13	364	Flow Measuring Devices	-	-	-	-
14	366	Reuse Services	-	-	-	-
15	367	Reuse Meters And Installation	-	-	-	-
16	370	Receiving Wells	-	-	-	-
17	371	Pumping Equipment	48,089	55,000	50,000	45,000
18	374	Reuse Distribution Reservoirs	-	-	-	-
19	375	Reuse Trans. and Dist. System	-	-	-	-
20	380	Treatment & Disposal Equipment	(51,220)	150	1,000	1,000
21	381	Plant Sewers	-	-	-	-
22	382	Outfall Sewer Lines	-	-	-	-
23	389	Other Sewer Plant & Equipment	14,790	-	-	-
24	390	Office Furniture & Equipment	2,724	-	-	-
25	390.1	Computers and Software	-	-	-	-
26	391	Transportation Equipment	22,930	-	-	-
27	392	Stores Equipment	-	-	-	-
28	393	Tools, Shop And Garage Equip	12,758	9,651	1,600	1,600
29	394	Laboratory Equip	3,196	1,500	2,000	2,000
30	396	Communication Equip	-	-	5,000	5,000
31	397	Miscellaneous Equipment	3,242	-	-	-
32	398	Other Tangible Plant		-	-	-
33						
34						
35						
36						
37	Total		$ 109,617	$ 194,801	$ 171,100	$ 1,686,100
38						
39						
40						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line No.	
1	Property Taxes were computed using the method used by the Arizona Department
2	of Revenue modified for ratemaking.
3	
4	Projected construction expenditures are shown on Schedule A-4.
5	
6	Expense adjustments are shown on Schedule C2, and are explained in the testimony.
7	
8	Income taxes were computed using statutory state and federal income tax rates.
9	
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity-Demand Method
Returns at Present Rates by Class

Exhibit
Schedule G-1
Page 1
Witness: Bourassa

Line No.		Totals	Residential	Commercial
1	Sewer Revenues	$ 2,201,945	$ 1,623,838	$ 578,108
2	Effluent Revenues	16,067	13,781	2,286
3	Revenue Annualizations	9,786	9,786	-
4	Misc. Revenues[1]	11,098	10,626	472
5	Reconciliation H-1 to C-1[1]	952	912	40
6	Total Revenues	$ 2,239,848	$ 1,658,942	$ 580,906
7				
8	Operating Expenses[2]	$ 1,315,506	$ 1,167,301	$ 148,205
9	Depreciation and			
10	Amortization[2]	484,271	420,907	63,364
11	Property Tax[3]	49,478	36,646	12,832
12	Income Tax[4]	131,980	20,293	111,687
13	Total Operating Expenses	$ 1,981,235	$ 1,645,147	$ 336,087
14	Operating Income	$ 258,613	$ 13,795	$ 244,818
15	Interest Expense[5]	(36,133)	(31,525)	(4,609)
16	Net Income	$ 294,747	$ 45,320	$ 249,427
17	Rate Base[6]	$ 3,412,024	$ 2,976,822	$ 435,202
18	Return on Rate Base[7]	7.58%	0.46%	56.25%
19				
20	**Percent of Total Customers**		95.75%	4.25%
21				
22				
23	**Revenue Requirement Based Upon COSS**			
24				
25				
26				

27 [1] Allocated based on customer counts.
28 [2] Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 1.
29 [3] Property Taxes allocation based on Revenues.
30 [4] Income Tax from Schedule C-1, at present rates. Income Taxes allocated based on taxable income.
31 [5] Interest Synchronized Interest Expense. Allocation based on Rate Base
32 [6] Rate Base computations are shown on Schedule G-3, Page 1
33 [7] Operating Income Divided by Rate Base
34
35

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity-Demand Method
Returns at Proposed Rates by Class

Schedule G-2
Page 1
Witness: Bourassa

Line No.		Totals	Residential	Commercial
1	Sewer Revenues	$ 2,257,875	$ 1,981,109	$ 276,766
2	Effluent Revenues	16,067	15,384	683
3	Revenue Annualizations	11,880	11,880	-
4	Misc. Revenues[1]	11,098	10,626	472
5	Reconciliation H-1 to C-1[1]	(143)	(137)	(6)
6	Total Revenues	$ 2,296,777	$ 2,018,862	$ 277,915
7				
8	Operating Expenses[2]	$ 1,315,506	$ 1,167,301	$ 148,205
9	Depreciation and			
10	Amortization[2]	484,271	420,907	63,364
11	Property Tax[3]	49,897	43,860	6,038
12	Income Tax[4]	153,021	132,464	20,557
13	Total Operating Expenses	$ 2,002,695	$ 1,764,532	$ 238,163
14	Operating Income	$ 294,082	$ 254,329	$ 39,752
15	Interest Expense[5]	(36,133)	(31,525)	(4,609)
16	Net Income	$ 330,215	$ 285,854	$ 44,361
17	Rate Base[6]	$ 3,412,024	$ 2,976,822	$ 435,202
18	Return on Rate Base[7]	8.62%	8.54%	9.13%
19				
20	**Percent of Total Customers**		95.75%	4.25%
21				
22				
23				
24				
25				
26				
27				
28				

29 [1] Allocated based on customer counts.
30 [2] Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 2.
31 [3] Property Taxes allocation based on Revenues
32 [4] Income Tax from Schedule C-1, at proposed rates. Income Taxes allocated based on taxable income
33 [5] Interest Synchronized Interest Expense. Allocation based on Rate Base
34 [6] Rate Base computations are shown on Schedule G-3, Page 1
35 [7] Operating Income Divided by Rate Base
36

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study Using Commodity / Demand Method
Allocation of Assets to Customer Classes

Exhibit
Schedule G-3
Page 1
Witness: Bourassa

Line No.		Totals	Residential	Commercial
1				
2				
3				
4	Plant, Minus Accumulated Depreciation, Advances and Contributions in Aid, Meter Deposits, and Deferred Income Tax (from Schedule G-5, Page 1)			
5	Commodity	$ 728,752	$ 625,077	$ 103,675
6	Demand	2,456,768	2,134,870	321,897
7	Customer	226,504	216,874	9,630
8	Service	-	-	-
9	Meter	-	-	-
10	Total	$ 3,412,024	$ 2,976,822	$ 435,202
11				
12				
13				
14	**Summary**			
15	Net Rate Base	$ 3,412,024	$ 2,976,822	$ 435,202
16	% of Net Rate Base	100.00%	87.25%	12.75%
17				
18				
19				
20				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity Demand Method
Allocation of Expenses to Customer Classes - Present Rates

Exhibit
Schedule G-4
Page 1
Witness: Bourassa

Line No.		Adjusted Per C-1	Residential	Commercial	Effluent	Totals
	Operation and Maintenance Expense (from Schedule G-6, Page 1)					
1	Commodity	$ 471,346	$ 404,291	$ 67,055	$ -	$ 471,346
2	Demand	511,354	444,354	67,000	-	511,354
3	Customer	332,807	318,657	14,150	-	332,807
4	Service	-	-	-	-	-
5	Meter	-	-	-	-	-
6	Totals	$ 1,315,506	$ 1,167,301	$ 148,205	$ -	$ 1,315,506
7						
8	Depreciaton Expense on Plant (from Schedule G-6, Page 2)					
9	Commodity	107,300	$ 92,035	$ 15,265	$ -	$ 107,300
10	Demand	362,356	314,878	47,478	-	362,356
11	Customer	14,616	13,994	621	-	14,616
12	Service	-	-	-	-	-
13	Meter	-	-	-	-	-
14	Totals	$ 484,271	$ 420,907	$ 63,364	$ -	$ 484,271
15						
16	Operation and Maintenance Expense and Depreciation Expense					
17	Commodity	$ 578,645	$ 496,325	$ 82,320	$ -	$ 578,645
18	Demand	873,709	759,232	114,478	-	873,709
19	Customer	347,423	332,651	14,771	-	347,423
20	Service	-	-	-	-	-
21	Meter	-	-	-	-	-
22	Total	$ 1,799,777	$ 1,588,208	$ 211,569	$ -	$ 1,799,777
23						
24	Total Expenses (excluding Income Tax and					
25	Property Taxes)	$ 1,799,777	$ 1,588,208	$ 211,569	$ -	$ 1,799,777
26						
27	Property Taxes, Allocated on Schedules G-1 & G-2	$ 49,478				
28	Income Tax, Allocated on Schedules G-1 & G-2	131,980				
29	Total Expenses	**$ 1,981,235**				
30						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity Demand Method
Allocation of Expenses to Customer Classes - Proposed Rates

Exhibit
Schedule G-4
Page 2
Witness: Bourassa

Line No.		At Proposed C-1	Residential	Commercial	Effluent	Totals
1						
2	Operation and Maintenance Expense (from Schedule G-6, Page 1)					
3	Commodity	$ 471,346	$ 404,291	$ 67,055	$ -	$ 471,346
4	Demand	511,354	444,354	67,000	-	511,354
5	Customer	332,807	318,657	14,150	-	332,807
6	Service	-	-	-	-	-
7	Meter	-	-	-	-	-
8	Totals	$ 1,315,506	$ 1,167,301	$ 148,205	$ -	$ 1,315,506
9						
10	Depreciaton Expense on Plant (from Schedule G-6, Page 3.2)					
11	Commodity	$ 107,300	$ 92,035	$ 15,265	$ -	$ 107,300
12	Demand	362,356	314,878	47,478	-	362,356
13	Customer	14,616	13,994	621	-	14,616
14	Service	-	-	-	-	-
15	Meter	-	-	-	-	-
16	Totals	$ 484,271	$ 420,907	$ 63,364	$ -	$ 484,271
17						
18	Operation and Maintenance Expense and Depreciation Expense					
19	Commodity	$ 578,645	$ 496,325	$ 82,320	$ -	$ 578,645
20	Demand	873,709	759,232	114,478	-	873,709
21	Customer	347,423	332,651	14,771	-	347,423
22	Service	-	-	-	-	-
23	Meter	-	-	-	-	-
24	Total	$ 1,799,777	$ 1,588,208	$ 211,569	$ -	$ 1,799,777
25						
26	Total Expenses (excluding Income Tax and					
27	Property Taxes)	$ 1,799,777	$ 1,588,208	$ 211,569	$ -	$ 1,799,777
28						
29	Property Taxes, Allocated on Schedules G-1 & G-2	$ 49,897				
30	Income Tax, Allocated on Schedules G-1 & G-2	153,021				
31	Total Expenses	**$ 2,002,695**				
32						
33						
34						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity Demand Method
Allocation of Rate Base by Function

Exhibit
Schedule G-5
Page 1
Witness: Bourassa

Line No.		Adjusted Per B-2	Demand	Commodity	Customer
1					
2	**Rate Base**				
3	Plant minus (Accumulated Depreciation	$ 3,412,024	$ 2,456,768	$ 728,752	$ 226,504
4	Contributions in Aid of Construction				
5	Advances in Aid of Construction,				
6	Meter Deposits and Deferred Income Tax)				
7					
8					
9					
10					
11					
12					
13					
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18					
19					
20					
21					
22					

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Allocation of Plant, Less Contributions and Advances in Aid of
Construction , Meter Deposits and Accumulated Depreciation to Functions

Exhibit
Schedule G-5
Page 2
Witness: Bourassa

Line No.	Account No.	Description	Adjusted Original Cost Plant	Accumulated Depreciation	Total Net Plant Values	Allocation Factor Ref.	Demand	Commodity	Customer
1	**Intangible**								
2	351	Organization	$ -	$ -	$ -	F-1	-	-	-
3	352	Franchise	-	-	-	F-1	-	-	-
4									
5	**Subtotal Intangible**		-		-		-	-	-
6									
7	**Collection Plant**								
8	353	Land	$ 471,024	$ -	$ 471,024	F-1	$ 362,688	$ 108,335	$ -
9	354	Structures & Improvements	3,091,815	1,641,790	1,450,025	F-1	1,116,519	333,506	-
10	360	Collection Sewer Forced	1,130,090	342,270	787,820	F-1	606,622	181,199	-
11	361	Collection Sewers Gravity	4,555,232	3,547,500	1,007,732	F-1	775,954	231,778	-
12	362	Special Collecting Structures	-	-	-	F-1	-	-	-
13	363	Customer Services	260,442	171,989	88,453	F-3	-	-	88,453
14									
15	**Subtotal Collection Plant**		$ 9,508,603	$ 5,703,548	$ 3,805,055		$ 2,861,783	$ 854,818	$ 88,453
16									
17	**System Pumping Plant**								
18	355	Power Generation	$ -	$ -	$ -	F-1	-	-	-
19	364	Flow Measuring Devices	31,668	31,668	0	F-1	0	0	-
20	365	Flow Measuring Installations	180,051	162,645	17,407	F-1	13,403	4,004	-
21	370	Receiving Wells	$ 1,028,182	499,821	528,360	F-1	406,837	121,523	-
22	371	Pumping Equipment	937,492	690,332	247,160	F-1	190,313	56,847	-
23									
24									
25	**Subtotal System Plumping Plant**		$ 2,177,394	$ 1,384,466	$ 792,927		$ 610,554	$ 182,373	$ -
26									
27	**Reclaimed Water Distrbution Plant**								
28	366	Reuse Services	$ -	$ -	$ -	F-1	$ -	$ -	$ -
29	367	Reuse Meters And Installation	-	-	-	F-1	-	-	-
30	374	Reuse Distribution Reservoirs	-	-	-	F-1	-	-	-
31	375	Reuse Trans. and Dist. System	-	-	-	F-1	-	-	-
32									
33	**Subtotal Recalimed Water Dist Plant**		$ -	$ -	$ -		$ -	$ -	$ -
34									
35	**Treatment & Disposal Plant**								
36	380	Treatment & Disposal Equipment	$ 326,067	109,481	$ 216,586	F-1	$ 166,772	$ 49,815	$ -
37	381	Plant Sewers	124,527	124,527	0	F-1	0	0	-
38	382	Outfall Sewer Lines	-	-	-	F-1	-	-	-
39	389	Other Sewer Plant & Equipment	992,742	656,611	336,131	F-1	258,821	77,310	-
40	398	Other Tangible Plant - Scottsdale Capacity	486,294	405,245	81,049	F-1	62,408	18,641	-
41					-	F-1	-	-	-
42					-	F-1	-	-	-
43					-	F-1	-	-	-
44					-	F-1	-	-	-
45					-	F-1	-	-	-
46					-	F-1	-	-	-
47					-	F-1	-	-	-

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Allocation of Plant, Less Contributions and Advances in Aid of
Construction , Meter Deposits and Accumulated Depreciation to Functions

Exhibit
Schedule G-5
Page 3
Witness: Bourassa

Line No.	Account No.	Description	Adjusted Original Cost Plant	Accumulated Depreciation	Total Net Plant Values	Allocation Factor Ref.	Demand	Commodity	Customer
1					-	F-1	-	-	-
2					-	F-1	-	-	-
3	**Subtotal Transmission and Distribution Plant**		$ 1,929,630	$ 1,295,864	$ 633,766		$ 488,000	$ 145,766	$ -
4									
5	**General Plant**								
6	390	Office Furniture & Equipment	$ 289,536	$ 173,186	$ 116,349	F-1	$ 89,589	$ 26,760	$ -
7	390.1	Computers and Software	-	-	-	F-1	-	-	-
8	391	Transportation Equipment	80,215	56,967	23,248	F-4	5,812	-	17,436
9	392	Stores Equipment	-	-	-	F-4	-	-	-
10	393	Tools, Shop And Garage Equip	28,942	4,592	24,350	F-4	6,088	-	18,263
11	394	Laboratory Equip	10,683	7,152	3,531	F-4	883	-	2,648
12	395	Power Operated Equipment	-	-	-	F-4	-	-	-
13	396	Communication Equip	43,968	26,962	17,006	F-4	4,251	-	12,754
14	397	Miscellaneous Equip.	-	-	-	F-4	-	-	-
15					-	F-4	-	-	-
16					-	F-4	-	-	-
17					-	F-4	-	-	-
18	**Subtotal General Plant**		$ 453,343	$ 268,859	$ 184,484		$ 106,623	$ 26,760	$ 51,101
19	**Total Direct Plant**		$ 14,068,969	$ 8,652,737	$ 5,416,232		$ 4,066,960	$ 1,209,718	$ 139,554
20									
21	**Allocated General Plant**								
22	399	Allocated Corporate General Plant	97,465	1,944	95,521	F-3	-	-	95,521
23	999	Reconcilation to PIS Balance	-	-	-	F-1	-	-	-
24	**Test Year Ended December 31, 2014**		$ 97,465	$ 1,944	$ 95,521		$ -	$ -	$ 95,521
25	Total Plant		$ 14,166,434	$ 8,654,682	$ 5,511,752		$ 4,066,960	$ 1,209,718	$ 235,074
26									
27	Contributions in Aid of Construction		(5,461,736)	5,240,717	(221,019)	F-1	(170,185)	(50,834)	-
28	Advances in Aid of Construction		(1,743,922)		(1,743,922)	F-1	(1,342,820)	(401,102)	-
29	Security Deposits		(8,570)		(8,570)	F-3	-	-	(8,570)
30	Deferred Income Tax		(75,116)		(75,116)	F-1	(57,840)	(17,277)	-
31	Prepaids		9,493		9,493	F-1	7,310	2,183	-
32	Working Capital		(60,594)		(60,594)	F-1	(46,657)	(13,937)	-
33	Deferred Reg Assets/Liabilities		-		-	F-1	-	-	-
34									
35	Rounding								
36	Totals		$ 6,825,988	$ 13,895,399	$ 3,412,024		$ 2,456,768	$ 728,752	$ 226,504
37	Rate Bases (Plant -(AIAC, CIAC, Meter Deposits & Accum. Depr.)				$ 3,412,024		$ 2,456,768	$ 728,752	$ 226,504
38	Fair Value Rate Base								
39									
40									
41									
42									
43									
44									
45									
46									
47									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity-Demand Method
Allocation of Expenses to Functions
At Present Rates

Exhibit
Schedule G-6
Page 1
Witness: Bourassa

Line No.	Description	Adjusted per C-1	Demand	Commodity	Customer
1	Salaries and Wages	$ 242,213	$ 96,885	$ 48,443	$ 96,885
2	Purchased Water	5,647	-	5,647	-
3	Sludge Removal	-	-	-	-
4	Purchased Power	65,112	-	65,112	-
5	Fuel for Power Production	-	-	-	-
6	Chemicals	19,215	-	19,215	-
7	Materials and Supplies	23,875	-	23,875	-
8	Contractual Services - Professional	313,511	250,809	62,702	-
9	Contractual Services - Testing	8,117	3,247	1,623	3,247
10	Contractual Services - Other	361,855	144,742	72,371	144,742
11	Rents	23,807	9,523	4,761	9,523
12	Transportation	15,371	6,148	3,074	6,148
13	Insurance	11,720	-	-	11,720
14	Regulatory Commission Expense	-	-	-	-
15	Scottsdale Capacity (Operating Lease)	164,522	-	164,522	-
16	Miscellaneous	60,542	-	-	60,542
17	Depreciation and Amortization[1]	484,271	362,356	107,300	14,616
18	Taxes Other Than Income	-	-	-	-
19					
20					
21					
22	Property Taxes, Allocated on Schedules G-1 & G-2				
23	Income Tax, Allocated on Schedules G-1 & G-2				
24					
25	Total	$ 1,799,777	$ 873,709	$ 578,645	$ 347,423
26					
27	**By Class[2]**				
28	Residential				
29	Commercial				
30	Irrigation				
31	Hydrant				
32	Totals				
33					
34	See Schedule G-7, page 2.2 for allocation factors.				
35	[1] Depreciation allocation computed on Schedule G-6, Page 3.1 and 3.2				
36	[2] See Schedule G-5, page 1 for allocations by class.				
37					
38					

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity-Demand Method
Allocation of Expenses to Functions
At Proposed Rates

Exhibit
Schedule G-6
Page 2
Witness: Bourassa

Line No.	Description	At Proposed Per C-1	Demand	Commodity	Customer		
1	Salaries and Wages	$ 242,213	$ 96,885	$ 48,443	$ 96,885		
2	Purchased Water	5,647	-	5,647	-		
3	Sludge Removal	-	-	-	-		
4	Purchased Power	65,112	-	65,112	-		
5	Fuel for Power Production	-	-	-	-		
6	Chemicals	19,215	-	19,215	-		
7	Materials and Supplies	23,875	-	23,875	-		
8	Contractual Services - Professional	313,511	250,809	62,702	-		
9	Contractual Services - Testing	8,117	3,247	1,623	3,247		
10	Contractual Services - Other	361,855	144,742	72,371	144,742		
11	Rents	23,807	9,523	4,761	9,523		
12	Transportation	15,371	6,148	3,074	6,148		
13	Insurance	11,720	-	-	11,720		
14	Regulatory Commission Expense	-	-	-	-		
15	Scottsdale Capacity (Operating Lease)	164,522	-	164,522	-		
16	Miscellaneous	60,542	-	-	60,542		
17	Depreciation and Amortization[1]	484,271	362,356	107,300	14,616		
18	Taxes Other Than Income	-	-	-	-		
19							
20							
21							
22	Property Taxes, Allocated on Schedules G-1 & G-2						
23	Income Tax, Allocated on Schedules G-1 & G-2						
24							
25	Total	$ 1,799,777	$ 873,709	$ 578,645	$ 347,423	$ -	$ -
26							
27	**By Class[2]**						
28	Residential						
29	Commercial						
30	Irrigation						
31	Hydrant						
32	Totals						
33							
34	See Schedule G-7, page 2.2 for allocation factors.						
35	[1] Depreciation allocation computed on Schedule G-6, Page 3.1 and 3.2						
36	[2] See Schedule G-4, page 2 for allocations by class.						
37							
38							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Allocation of Depreciation Expense to Functions

Exhibit
Schedule G-6
Page 3.1
Witness: Bourassa

Line No.	Account No.	Description	Adjusted Original Cost	Full Depr or Non-Depr	Depr Original Cost	Depreciation Rate	Depr./Amort. Expense	Allocation Factor Ref.	Demand	Commodity	Customer
1	**Intangible**										
2	351	Organization	$ -	$ -	$ -	0.000%	$ -	F-1	$ -	$ -	$ -
3	352	Franchise	-	-	-	0.000%	-	F-1	-	-	-
4											
5	**Subtotal Intangible**		$ -	$ -	$ -		$ -		$ -	$ -	$ -
6											
7	**Collection Plant**										
8	353	Land	$ 471,024	$ (471,024)	$ -	0.000%	$ -	F-1	$ -	$ -	$ -
9	354	Structures & Improvements	3,091,815	-	3,091,815	3.330%	102,957	F-1	79,277	23,680	-
10	360	Collection Sewer Forced	1,130,090	-	1,130,090	2.000%	22,602	F-1	17,403	5,198	-
11	361	Collection Sewers Gravity	4,555,232	-	4,555,232	2.000%	91,105	F-1	70,151	20,954	-
12	362	Special Collecting Structures	-	-	-	2.000%	-	F-1	-	-	-
13	363	Customer Services	260,442	-	260,442	2.000%	5,209	F-3	-	-	5,209
14											
15	**Subtotal Collection Plant**		$ 9,508,603	$ (471,024)	$ 9,037,579		$ 221,873	$ -	$ 166,831	$ 49,833	$ 5,209
16											
17	**System Pumping Plant**										
18	355	Power Generation	-	-	-	5.000%	-	F-1	-	-	-
19	364	Flow Measuring Devices	31,668	-	31,668	10.000%	3,167	F-1	2,438	728	-
20	365	Flow Measuring Installations	180,051	-	180,051	10.000%	18,005	F-1	13,864	4,141	-
21	370	Receiving Wells	1,028,182	-	1,028,182	3.330%	34,238	F-1	26,364	7,875	-
22	371	Pumping Equipment	937,492	(552,393)	385,099	12.500%	48,137	F-1	37,066	11,072	-
23											
24											
25	**Subtotal System Plumping Plant**		$ 2,177,394	$ (552,393)	$ 1,625,001		$ 103,548		$ 79,732	$ 23,816	$ -
26											
27	**Reclaimed Water Distrbution Plant**										
28	366	Reuse Services	$ -	$ -	$ -	2.000%	$ -	F-1	$ -	$ -	$ -
29	367	Reuse Meters And Installation	-	-	-	8.330%	-	F-1	-	-	-
30	374	Reuse Distribution Reservoirs	-	-	-	2.500%	-	F-1	-	-	-
31	375	Reuse Trans. and Dist. System	-	-	-	2.500%	-	F-1	-	-	-
32											
33	**Subtotal Recalimed Water Dist Plant**		$ -	$ -	$ -		$ -		$ -	$ -	$ -
34											
35	**Treatment & Disposal Plant**										
36	380	Treatment & Disposal Equipment	$ 326,067	$ -	$ 326,067	5.000%	$ 16,303	F-1	$ 12,554	$ 3,750	$ -
37	381	Plant Sewers	124,527	(124,527)	-	5.000%	-	F-1	-	-	-
38	382	Outfall Sewer Lines	-	-	-	3.330%	-	F-1	-	-	-
39	389	Other Sewer Plant & Equipment	992,742	-	992,742	6.670%	66,216	F-1	50,986	15,230	-
40	398	Other Tangible Plant - Scottsdale Capacity	486,294	-	486,294	10.000%	48,629	F-1	37,445	11,185	-
41											
42											
43											
44											
45											
46											
47											

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Allocation of Depreciation Expense to Functions

Exhibit
Schedule G-6
Page 3.2
Witness: Bourassa

Line No.	Account No.	Description	Adjusted Original Cost	Full Depr or Non-Depr	Depr Original Cost	Depreciation Rate	Depr./Amort. Expense	Allocation Factor Ref.	Demand	Commodity	Customer
1					$ -						
2					-						
3		**Subtotal Transmission and Distribution Plant**	$ 1,929,630	$ (124,527)	$ 1,805,103		$ 131,149		$ 100,984	$ 30,164	$ -
4											
5		**General Plant**									
6	390	Office Furniture & Equipment	$ 289,536	$ -	$ 289,536	6.670%	$ 19,312	F-1	$ 14,870	$ 4,442	$ -
7	390.1	Computers and Software	-	-	-	20.000%	-	F-1	-	-	-
8	391	Transportation Equipment	80,215	(52,063)	28,151	20.000%	5,630	F-4	1,408	-	4,223
9	392	Stores Equipment	-	-	-	4.000%	-	F-4	-	-	-
10	393	Tools, Shop And Garage Equip	28,942	-	28,942	5.000%	1,447	F-4	362	-	1,085
11	394	Laboratory Equip	10,683	-	10,683	10.000%	1,068	F-4	267	-	801
12	395	Power Operated Equipment	-	-	-	5.000%	-	F-4	-	-	-
13	396	Communication Equip	43,968	-	43,968	10.000%	4,397	F-4	1,099	-	3,298
14	397	Miscellaneous Equip.	-	-	-	10.000%	-	F-4	-	-	-
15			-		-	0.000%	-	F-4	-	-	-
16			-		-	0.000%	-	F-4	-	-	-
17			-		-	0.000%	-	F-4	-	-	-
18		**Subtotal General Plant**	$ 453,343	$ (52,063)	$ 401,279		$ 31,854		$ 18,006	$ 4,442	$ 9,407
19		**Total Direct Plant**	$ 14,068,969	$ (1,200,007)	$ 12,868,962		$ 488,424		$ 365,553	$ 108,255	$ 14,616
20		**Allocated General Plant**									
21	399000	Allocated Corporate General Plant	97,465	(8,429)	89,036		4,583	F-1	3,529	1,054	-
22	399000	Reconcilation to PIS Balance	-		-		-	F-1	-	-	-
23		**Test Year Ended December 31, 2014**	$ 97,465	$ (8,429)	$ 89,036		$ 4,583		$ 3,529	$ 1,054	$ -
24		**Total Plant**	$ 14,166,434	$ (1,208,436)	$ 12,957,998		$ 493,006		$ 369,082	$ 109,309	$ 14,616
25											
26											
27	Less:	Contributions in Aid of Construction	$ (5,461,736)	$ 5,232,139	$ (229,597)	3.80%	$ (8,735)	F-1	(6,726)	(2,009)	-
28		Advances in Aid of Construction	(1,743,922)		(1,743,922)	0.00%	-	F-1	-	-	-
29		Meter Deposits	(8,570)		(8,570)	0.00%	-	F-3	-	-	-
30		Deferred Income Tax	(75,116)		(75,116)	0.00%	-	F-1	-	-	-
		Prepaid	9,493		9,493	0.00%	-	F-1	-	-	-
31		Working Capital	(60,594)		(60,594)	0.00%	-	F-1	-	-	-
32		Deferred Reg Assets/Liabilities	-	-	-		-	F-1	-	-	-
33	Total		$ 6,825,988	$ 4,023,703	$ 10,849,691		$ 484,271		$ 362,356	$ 107,300	$ 14,616
34											
35											
36											
37											
38											

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Summary of Commodity - Demand Method Functions Factors

Exhibit
Schedule G-7
Page 1
Witness: Bourassa

Line No.	Class	Demand	Commodity	Customer
1				
2	Class	Demand	Commodity	Customer
3	Residential	0.8690	0.8577	0.9575
4	Commercial	0.1310	0.1423	0.0425
5				
6				
7				
8	Total	1.0000	1.0000	1.0000
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34	SUPPORTING SCHEDULES			
35	G-7, page 3			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
COMMODITY - DEMAND METHOD FUNCTION FACTORS
Plant-in-Service. Accumulated Depreciation and Depreciation Expense Allocations Functions

Exhibit
Schedule G-7
Page 2.1
Witness: Bourassa

Line No.	Factor	Demand	Commodity	Customer
1				
2	Factor	Demand	Commodity	Customer
3	F-1	0.77	0.23	
4	F-2	1.00		
5	F-3			1.00
6	F-4	0.25		0.75
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				

25	Development of F-1 Allocation Factor						
26		MG		RATIO		DEMAND FACTOR	
27		(a)		(b)		(c)	
28	(1) Avg day	0.372438	G-7, page 3	1.00		1.00	1/(b)
29	(2) Max day	0.485261	G-7, page 3	1.30	Max day/Avg day	0.77	1/(b)
30							
31							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity-Demand Method
Expense Allocation Factors

Exhibit
Schedule G-7
Page 2.2
Witness: Bourassa

Line No.	Expense Type	Demand	Commodity	Customer
1				
2	Salaries and Wages	0.40	0.20	0.40
3	Purchased Water	-	1.00	-
4	Sludge Removal	-	1.00	-
5	Purchased Power	-	1.00	-
6	Fuel for Power Production	-	1.00	-
7	Chemicals	-	1.00	-
8	Materials and Supplies	-	1.00	-
9	Contractual Services - Professional	0.80	0.20	-
10	Contractual Services - Testing	0.40	0.20	0.40
11	Contractual Services - Other	0.40	0.20	0.40
12	Rents	0.40	0.20	0.40
13	Transportation	0.40	0.20	0.40
14	Insurance	-	-	1.00
15	Regulatory Commission Expense	-	-	1.00
16	Scottsdale Capacity (Operating Lease)	-	1.00	-
17	Miscellaneous	-	-	1.00
18	Depreciation		See Schedule G-7, page 2.1	
19	Taxes Other Than Income	0.40	0.20	0.40
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity-Demand Method
Development of Class Allocation Factors

Exhibit
Schedule G-7
Page 3
Witness: Bourassa

COMMODITY ALLOCATION FACTOR

	Class	(a) Total Flow (MG) In Test Year	Percent Total
	Residential	116.4652	85.77%
	Commercial	19.3168	14.23%
Totals		135.7820	100.00%

DEMAND ALLOCATION FACTOR

Class	Average Daily Gallons (MG)	Demand Factor	Avg. Peak Day Demand (MG)	Percent of Total
Residential	0.31945	1.32	0.42168	86.90%
Commercial	0.05298	1.20	0.06358	13.10%
Totals	0.37244		0.48526	100.00%

CUSTOMER ALLOCATION FACTOR

	Class	Number of Customers	Percent of Total
	Residential	1,963	95.75%
	Commercial	87	4.25%
Totals		2,050	100.00%

Liberty Utilities (Black Mountain Sewer) Corp.
Revenue Summary
With Annualized Revenues to Year End Number of Customers
Test Year Ended December 31, 2014

Exhibit
Schedule H-1
Witness: Bourassa

Line No.	Customer Classification	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	1,522,310	1,848,053	325,743	21.40%	67.96%	80.46%
2	Residential HOA (11 units)	8,612	10,454	1,843	21.40%	0.38%	0.46%
3	Residential HOA (12 units)	9,395	11,405	2,010	21.40%	0.42%	0.50%
4	Residential HOA (25 units)	19,572	23,760	4,188	21.40%	0.87%	1.03%
5	Apartment (gpd rate)	63,950	-	(63,950)	-100.00%	2.86%	0.00%
6	Residential Apartment (8 units)	-	7,603	7,603	0.00%	0.00%	0.33%
7	Residential Apartment (10 units)	-	9,504	9,504	0.00%	0.00%	0.41%
8	Residential Apartment (74 units)	-	70,330	70,330	0.00%	0.00%	3.06%
9	Commercial	578,108	276,766	(301,341)	-52.13%	25.81%	12.05%
10							
11	Effluent	16,067	16,067	-	0.00%	0.72%	0.70%
12							
13							
14							
15							
16							
17	Subtotal	2,218,012	2,273,942	55,930	2.52%	99.03%	99.01%
18							
19	Revenue Annualization						
20	Residential	9,786	11,880	2,094	21.40%	0.44%	0.52%
21							
22	Misc Service Revenues						
23	Misc Revenues	11,098	11,098	-	0.00%	0.50%	0.48%
24	Reconciling Amount to C-1	952	(143)	(1,095)	-115.02%	0.04%	-0.01%
25	Totals	2,239,848	2,296,777	56,929	2.54%	100.00%	100.00%
26							
27							
28							
29							
30							
31							
32							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Analysis of Revenue by Detailed Class
Special Rate Commercial Customers Pay Standard Commerical Rate

Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers at 12/31/2014[1]	Average Number of Customers at 12/31/2014[2]	Average WW Flow (gpd)	Average Gallons (1,000's)	Average Bill Present Rates[1]	Average Bill Proposed Rates[2]	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	Residential	1,957	1,957	N/A	N/A	$ 65.24	$ 79.20	$ 13.96	21.40%
2	Residential HOA (11 units)	1	1	N/A	N/A	717.64	871.20	154	21.40%
3	Residential HOA (12 units)	1	1	N/A	N/A	782.88	950.40	168	21.40%
4	Residential HOA (25 units)	1	1	N/A	N/A	1,631.00	1,980.00	349	21.40%
5	Apartment (gpd rate)	3	NA	6,475	N/A	1,610.55	N/A		
6	Residential Apartment (8 units)	1	1	2,000	N/A	497.47	633.60	136	27.36%
7	Residential Apartment (10 units)	1	1	2,400	N/A	596.96	792.00	195	32.67%
8	Residential Apartment (74 units)	1	1	17,025	N/A	4,234.70	5,860.80	1,626	38.40%
9									
10	Commercial	120	87	1,612	35,009	401.00	264.60	(136.41)	-34.02%
11									
12									
13	Effluent	1	1	N/A	2,907,452	$ 1,339	$ 1,339	-	0.00%
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24	Total	2,087	2,051						
25									
26									

27 [1] Using current gpd ratings
28 [2] Residential customer bills (including apartments) reflect a flat rate while commercial customer bills reflect both a flat rate plus water usage. Some commercial locations
29 consolidated into one account because there is only one water meter at the location.
30

Liberty Utilities (Black Mountain Sewer) Corp.
Present and Proposed Rates
Test Year Ended December 31, 2014

Exhibit
Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification		Present Rates		Proposed Rates	Percent Change
1						
2	**Customer Classification**		**Present Rates**		**Proposed Rates**	**Percent Change**
3						
4	**Monthly Service Charge:**					
5	Residential, per single family unit		$ 65.24		$ 79.20	21.40%
6						
7	Commercial		NT		$ 85.00	
8						
9	**Commodity Rate:**					
10						
11	Commercial, per gallon per day[1]		$ 0.24873		Remove	
12						
13	Commercial, per 1,000 gals[2]		NT		$ 5.130	
14						
15		per acre foot		per acre foot		
16	Effluent Sales (per 1,000 gallons)	$ 150.00	0.46051	$ 150.00	0.46051	0.00%
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35	NT = no tariff					
36						
37	[1] Commercial wastewater flows are based on the average daily flows set forth in Engineering Bulletin 12, Table 1					
38	published by the Arizona Department of Environmental Quality					
39	[2] Monthly water usage provided by Town of Carfree and City of Scottsdale.					
40						

Liberty Utilities (Black Mountain Sewer) Corp.
Present and Proposed Rates
Test Year Ended December 31, 2014

Exhibit
Schedule H-3
Page 2
Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	$ 25.00	$ 25.00
2	Re-establishment	$ 25.00	[1]
3	Re-connection	No Charge	Remove
4	Re-connection, Deliquent	NT	[2]
5	After hours service [4]	NT	$ 50.00
6	Min Deposit Requirement (Residential)	[3]	[3]
7	Min Deposit Requirement (Non-Residential)	[3]	[3]
8	Deposit Interest	6%	6%
9	NSF Check	10.00	10.00
10	Deferred Payment finance charge, Per Month	1.50%	1.50%
11	Late Payment Charge, Per Month	1.50%	Greater of $5.00 or 1.50% per month
12			on unpaid balance.
13	Main Extension Tariff	Cost	Cost
14	Hook-up Fee	per Tariff	per Tariff
15			
16			

17 [1] Per A.A.C. R14-2-603(D), Within 12 months. Residential and non-residential customers shall pay the applicable minimum charge
18 times the number of months disconnected.
19
20 [2] Customer shall pay the actual cost of physical disconnection and establishment (if same customer) and
21 there shall be no charge for disconnection if no physical work is performed.
22
23 [3] Per A.C.C. R14-2-603B Residential - two times the average bill. Non-residential - two and one-half times the average bill.
24
25 [4] After Hours Service Charge applies to all services performed after regular business hours and is in addtion to the service charge during regular
26 business hours.
27
28
29
30
31
32
33
34
35
36 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM
37 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE
38 TAX. PER COMMISSION RULE (14-2-608.D 5).
39 ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,
40 AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES.
41 COST TO INCLUDE LABOR, MATERIALS AND PARTS, OVERHEADS AND ALL APPLICABLE TAXES.
42

Liberty Utilities (Black Mountain Sewer) Corp.
Bill Comparison
Customer Classification
Residential

Exhibit
Schedule H-4
Page 1
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 65.24	$ 79.20	$ 13.96	21.40%

Present Rates:
Monthly Charge: $ 65.24

Proposed Rates:
Monthly Charge: $ 79.20

Liberty Utilities (Black Mountain Sewer) Corp.
Bill Comparison
Customer Classification
Residential - HOA 11 Units

Exhibit
Schedule H-4
Page 2
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 717.64	$ 871.20	$ 153.56	21.40%

# of Units	11
Rate Per Units	$ 65.24
Present Rates:	
Monthly Charge:	$ 717.64

# of Units	11
Rate Per Units	$ 79.20
Proposed Rates:	
Monthly Charge:	$ 871.20

Liberty Utilities (Black Mountain Sewer) Corp.
Bill Comparison
Customer Classification
Residential - HOA 12 Units

Exhibit
Schedule H-4
Page 3
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 782.88	$ 950.40	$ 167.52	21.40%

# of Units	12
Rate Per Units	$ 65.24
Present Rates:	
Monthly Charge:	$ 782.88

# of Units	12
Rate Per Units	$ 79.20
Proposed Rates:	
Monthly Charge:	$ 950.40

Liberty Utilities (Black Mountain Sewer) Corp.
Bill Comparison
Customer Classification
Residential - HOA 25 Units

Exhibit
Schedule H-4
Page 4
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 1,631.00	$ 1,980.00	$ 349.00	21.40%

# of Units	25
Rate Per Units	$ 65.24
Present Rates:	
Monthly Charge:	$ 1,631.00

# of Units	25
Rate Per Units	$ 79.20
Proposed Rates:	
Monthly Charge:	$ 1,980.00

Liberty Utilities (Black Mountain Sewer) Corp.
Bill Comparison
Customer Classification
Apartment

Exhibit
Schedule H-4
Page 5
Witness: Bourassa

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BILLING COMPARISON NOT POSSIBLE DUE TO CHANGE FROM
GPD RATING TO WATER USAGE

SEE SCEHDULE H-2, PAGE 1

Liberty Utilities (Black Mountain Sewer) Corp.
Bill Comparison
Customer Classification
Commercial

Exhibit
Schedule H-4
Page 6
Witness: Bourassa

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BILLING COMPARISON NOT POSSIBLE DUE TO CHANGE FROM
GPD RATING TO WATER USAGE

SEE SCEHDULE H-2, PAGE 1

Liberty Utilities (Black Mountain Sewer) Corp.
Bill Comparison
Customer Classification
Effluent Sales

Exhibit
Schedule H-4
Page 7
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1,000	0.46	0.46	-	0.00%
2,000	0.92	0.92	-	0.00%
3,000	1.38	1.38	-	0.00%
4,000	1.84	1.84	-	0.00%
5,000	2.30	2.30	-	0.00%
6,000	2.76	2.76	-	0.00%
7,000	3.22	3.22	-	0.00%
8,000	3.68	3.68	-	0.00%
9,000	4.14	4.14	-	0.00%
10,000	4.61	4.61	-	0.00%
12,000	5.53	5.53	-	0.00%
14,000	6.45	6.45	-	0.00%
16,000	7.37	7.37	-	0.00%
18,000	8.29	8.29	-	0.00%
20,000	9.21	9.21	-	0.00%
25,000	11.51	11.51	-	0.00%
30,000	13.82	13.82	-	0.00%
35,000	16.12	16.12	-	0.00%
40,000	18.42	18.42	-	0.00%
45,000	20.72	20.72	-	0.00%
50,000	23.03	23.03	-	0.00%
60,000	27.63	27.63	-	0.00%
70,000	32.24	32.24	-	0.00%
80,000	36.84	36.84	-	0.00%
90,000	41.45	41.45	-	0.00%
100,000	46.05	46.05	-	0.00%
Average Usage				
2,907,452	$ 1,338.92	$ 1,338.92	$ -	0.00%
Median Usage				
2,907,452	$ 1,338.92	$ 1,338.92	$ -	0.00%

Present Rates:

Minimum	$	-
Gallons in Min.		-
Charge Per 1,000 Gallons	$	0.46051

Proposed Rates:

Minimum	$	-
Gallons in Min.		-
Charge Per 1,000 Gallons	$	0.46051

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Residential

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Month	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
	1,934	1,943	1,942	1,942	1,949	1,946	1,942	1,935	1,944	1,950	1,950	1,957	23,334	23,334
													-	23,334
													-	23,334
													-	23,334
													-	23,334
													-	23,334
													-	23,334
													-	23,334
													-	23,334
													-	23,334
													-	23,334
													-	23,334
													-	23,334
													-	23,334
													-	23,334
Totals	1,934	1,943	1,942	1,942	1,949	1,946	1,942	1,935	1,944	1,950	1,950	1,957	23,334	

Average Flow	N/A
Median Flow	N/A
Average # Customers	1,945

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Residential - HOA 11 Units

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Month	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
	1	1	1	1	1	1	1	1	1	1	1	1	12	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
Totals	1	1	1	1	1	1	1	1	1	1	1	1	12	

Average Flow	N/A
Median Flow	N/A
Average # Customers	1

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Residential - HOA 12 Units

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
	1	1	1	1	1	1	1	1	1	1	1	1	12	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
Totals	1	1	1	1	1	1	1	1	1	1	1	1	12	

Average Flow	N/A
Median Flow	N/A
Average # Customers	1

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Residential - HOA 25 Units

Exhibit
Schedule H5
Page 4
Witness: Bourassa

	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
	1	1	1	1	1	1	1	1	1	1	1	1	12	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
Totals	1	1	1	1	1	1	1	1	1	1	1	1	12	

Average Flow	N/A
Median Flow	N/A
Average # Customers	1

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Commercial/Residential (Apartment)
GPD Rating

Exhibit
Schedule H-5
Page 5
Witness: Bourassa

Flow GPD	Flow GPD	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
2,000	2,000	1	1	1	1	1	1	1	1	1	1	1	1	12	12
2,400	2,400	1	1	1	1	1	1	1	1	1	1	1	1	12	24
17,025	17,025	1	1	1	1	1	1	1	1	1	1	1	1	12	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
														-	36
Totals		3	3	3	3	3	3	3	3	3	3	3	3	36	

Average Flow	6,475
Median Flow	2,400
Average # Customers	3

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Residential - Apartment 11 Units
Residential Flat Rate

Exhibit
Schedule H-5
Page 5A
Witness: Bourassa

Month	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
	1	1	1	1	1	1	1	1	1	1	1	1	12	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
Totals	1	1	1	1	1	1	1	1	1	1	1	1	12	

Average Flow	N/A
Median Flow	N/A
Average # Customers	1

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Residential - Apartments 10 Units
Residential Flat Rate

Exhibit
Schedule H-5
Page 5B
Witness: Bourassa

Month	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
	1	1	1	1	1	1	1	1	1	1	1	1	12	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
Totals	1	1	1	1	1	1	1	1	1	1	1	1	12	

Average Flow	N/A
Median Flow	N/A
Average # Customers	1

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Residential - Apartments 74 Units
Residential Flate Rate

Exhibit
Schedule H-5
Page 5C
Witness: Bourassa

Month	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
	1	1	1	1	1	1	1	1	1	1	1	1	12	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
													-	12
Totals	1	1	1	1	1	1	1	1	1	1	1	1	12	

Average Flow	N/A
Median Flow	N/A
Average # Customers	1

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Commercial
GPD Rating

Exhibit
Schedule H-5
Page 6
Witness: Bourassa

Flow GPD	Flow GPD	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
21	21	-	-	-	-	-	-	-	-	1	-	-	-	1	1
45	45	-	-	-	-	-	-	-	-	-	-	1	-	1	2
50	50	8	8	8	8	8	8	8	8	7	7	7	8	93	95
61	61	1	1	1	1	1	1	1	1	1	1	1	1	12	107
72	72	1	1	1	1	1	2	1	1	1	1	1	1	13	120
77	77	1	1	1	1	1	1	1	1	1	1	1	1	12	132
79	79	-	-	-	-	-	-	-	-	-	-	1	-	1	133
83	83	1	1	1	1	1	1	1	1	1	1	1	1	12	145
85	85	1	1	1	1	1	1	1	1	1	1	1	1	12	157
95	95	1	1	1	1	1	1	1	1	1	1	-	-	10	167
98	98	1	1	1	1	1	1	1	1	1	1	1	1	12	179
100	100	5	5	5	5	5	5	5	5	5	5	5	5	60	239
105	105	5	5	5	5	5	5	5	5	5	5	5	5	60	299
125	125	3	3	3	3	3	3	3	3	3	3	3	3	36	335
140	140	1	1	1	1	1	1	1	1	1	1	1	1	12	347
141	141	1	1	1	1	1	1	1	1	1	1	1	1	12	359
142	142	1	-	-	-	-	-	-	-	-	-	-	-	1	360
150	150	5	5	5	5	5	5	5	5	5	5	5	5	60	420
158	158	1	1	1	1	1	1	1	1	1	1	1	1	12	432
166	166	1	1	1	1	1	1	1	1	1	1	1	1	12	444
200	200	7	7	7	7	7	7	7	7	7	7	7	7	84	528
210	210	1	1	1	1	1	1	1	1	1	1	1	1	12	540
211	211	1	1	1	1	1	1	1	1	-	-	-	-	8	548
230	230	1	1	1	1	1	1	1	1	1	1	1	1	12	560
241	241	1	1	1	1	1	-	-	-	-	-	-	-	5	565
249	249	1	1	1	1	1	1	1	1	1	1	1	1	12	577
250	250	3	3	4	4	4	4	4	4	4	4	4	4	46	623
256	256	1	1	1	1	1	1	1	1	1	1	1	1	12	635
284	284	1	1	1	1	1	1	1	1	1	1	1	1	12	647
300	300	1	1	1	1	1	2	1	1	1	1	1	1	13	660
301	301	1	1	1	1	1	1	1	1	1	1	1	1	12	672
307	307	3	3	3	3	3	3	3	3	3	3	3	3	36	708
350	350	-	1	-	-	-	-	-	-	-	-	-	-	1	709
363	363	1	1	1	1	1	1	1	1	1	1	1	1	12	721
450	450	1	1	1	1	1	1	1	1	1	1	1	1	12	733
460	460	1	1	1	1	1	1	1	1	1	1	1	1	12	745
479	479	2	2	2	2	2	2	2	2	2	2	2	2	24	769

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Commercial
GPD Rating

Exhibit
Schedule H-5
Page 6
Witness: Bourassa

Flow GPD	Flow GPD	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
480	480	1	1	1	1	1	1	1	1	1	1	1	1	12	781
500	500	7	7	7	7	7	7	7	7	7	7	7	7	84	865
533	533	1	1	1	1	1	1	1	1	1	1	1	1	12	877
585	585	1	1	1	1	1	1	1	1	1	1	1	1	12	889
600	600	2	2	2	2	2	2	2	2	2	2	2	2	24	913
660	660	1	1	1	1	1	1	1	1	1	1	1	1	12	925
675	675	1	1	1	1	1	1	1	1	1	1	1	1	12	937
700	700	1	1	1	1	1	1	1	1	1	1	1	1	12	949
746	746	1	1	1	1	1	1	1	1	1	1	1	1	12	961
750	750	1	1	1	1	1	1	1	1	1	1	1	1	12	973
800	800	1	1	1	1	1	1	1	1	1	1	1	1	12	985
840	840	-	-	-	-	-	-	-	-	1	1	1	1	4	989
842	842	1	1	1	1	1	1	1	1	1	1	1	1	12	1,001
930	930	-	1	1	1	1	1	1	1	-	-	-	-	7	1,008
1,000	1,000	2	2	2	2	2	1	1	1	1	2	2	2	20	1,028
1,050	1,050	-	1	1	1	-	1	1	1	1	1	1	1	10	1,038
1,074	1,074	1	1	1	1	1	1	1	1	1	1	1	1	12	1,050
1,140	1,140	1	-	-	-	-	-	-	-	-	-	-	-	1	1,051
1,158	1,158	1	1	1	1	1	1	1	1	1	1	1	1	12	1,063
1,230	1,230	1	-	-	-	-	-	-	-	-	-	-	-	1	1,064
1,333	1,333	-	-	-	-	-	-	-	-	1	-	-	-	1	1,065
1,347	1,347	1	1	1	1	1	1	1	1	1	1	1	1	12	1,077
1,407	1,407	-	-	-	-	-	-	-	1	1	1	1	1	5	1,082
1,422	1,422	1	1	1	1	1	1	1	1	1	1	1	1	12	1,094
1,470	1,470	-	-	-	-	1	-	-	-	1	1	1	1	5	1,099
1,500	1,500	1	1	1	1	1	1	1	1	1	1	1	1	12	1,111
1,526	1,526	2	2	2	2	3	3	3	3	3	3	3	3	32	1,143
1,530	1,530	-	1	1	1	-	-	-	-	-	-	-	-	3	1,146
1,560	1,560	-	-	-	-	-	-	-	-	1	1	1	1	4	1,150
1,620	1,620	3	2	2	2	1	1	1	1	1	1	1	1	17	1,167
1,624	1,624	-	-	-	-	-	-	-	-	1	-	-	-	1	1,168
1,680	1,680	-	-	-	-	-	-	-	-	-	1	1	1	3	1,171
1,750	1,750	1	1	1	1	1	1	1	1	1	1	1	1	12	1,183
1,770	1,770	1	-	-	-	1	1	1	1	-	-	-	-	5	1,188
1,800	1,800	1	1	1	1	1	1	1	1	1	1	1	1	12	1,200
1,830	1,830	-	-	-	-	-	-	1	1	-	-	-	-	2	1,202
1,850	1,850	1	1	1	1	1	1	1	1	1	1	1	1	12	1,214

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Commercial
GPD Rating

Exhibit
Schedule H-5
Page 6
Witness: Bourassa

Flow GPD	Flow GPD	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
1,860	1,860	-	-	-	-	-	-	-	-	1	1	1	1	4	1,218
1,890	1,890	-	-	-	-	-	-	-	-	1	1	1	1	4	1,222
1,920	1,920	-	-	-	-	-	-	-	-	1	1	1	1	4	1,226
2,000	2,000	2	2	2	2	2	2	2	2	2	2	2	2	24	1,250
2,010	2,010	-	1	1	1	1	1	1	1	-	-	-	-	7	1,257
2,025	2,025	1	1	1	1	1	1	1	1	1	1	1	1	12	1,269
2,160	2,160	-	1	1	1	-	-	-	-	-	-	-	-	3	1,272
2,220	2,220	1	-	-	-	-	-	-	-	-	-	-	-	1	1,273
2,280	2,280	-	-	-	-	1	1	1	1	-	-	-	-	4	1,277
2,340	2,340	-	1	1	1	-	-	-	-	1	1	1	1	7	1,284
2,490	2,490	1	-	-	-	-	-	-	-	-	-	-	-	1	1,285
2,580	2,580	1	-	-	-	-	-	-	-	-	-	-	-	1	1,286
2,700	2,700	-	-	-	-	-	1	1	1	-	-	-	-	3	1,289
2,730	2,730	-	-	-	-	2	1	-	-	-	-	-	-	3	1,292
2,880	2,880	-	-	-	-	1	1	1	1	-	-	-	-	4	1,296
2,940	2,940	-	1	1	1	-	-	-	-	-	-	-	-	3	1,299
3,000	3,000	1	1	1	1	1	1	1	1	1	1	1	1	12	1,311
3,060	3,060	1	1	1	1	-	-	-	-	-	-	-	-	4	1,315
3,360	3,360	-	-	-	-	-	-	-	-	1	1	1	1	4	1,319
3,450	3,450	-	-	-	-	1	1	1	1	-	-	-	-	4	1,323
3,500	3,500	-	-	-	-	-	-	1	-	-	-	-	-	1	1,324
3,700	3,700	1	1	1	1	1	1	1	1	1	1	1	1	12	1,336
4,000	4,000	1	1	1	1	1	1	1	1	1	1	1	1	12	1,348
5,000	5,000	1	1	1	1	1	1	1	1	1	1	1	1	12	1,360
5,192	5,192	1	1	1	1	1	1	1	1	1	1	1	1	12	1,372
5,400	5,400	-	-	-	-	1	-	-	-	-	-	-	-	-	1,372
6,252	6,252	1	1	1	1	1	1	1	1	1	1	1	1	12	1,384
8,851	8,851	1	1	1	1	1	1	1	1	1	1	1	1	12	1,396
10,736	10,736	-	-	-	1	-	-	-	-	-	-	-	-	1	1,397
12,107	12,107	1	1	1	1	1	1	1	1	1	1	1	1	12	1,409
12,352	12,352	1	1	1	1	1	1	1	1	1	1	1	1	12	1,421
22,505	22,505	1	1	1	1	1	1	1	1	1	1	1	1	12	1,433
39,686	39,686	-	-	-	-	-	-	-	1	1	1	1	1	5	1,438
43,006	43,006	-	-	-	1	-	-	-	-	-	-	-	-	1	1,439
44,489	44,489	1	1	1	-	1	1	1	-	-	-	-	-	6	1,445
														-	1,445
														-	1,445

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Commercial
GPD Rating

Exhibit
Schedule H-5
Page 6
Witness: Bourassa

Flow GPD	Flow GPD	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
														-	1,445
														-	1,445
														-	1,445
	-													-	1,445
	-													-	1,445
-	-													-	1,445
-	-													-	1,445
Totals		120	120	120	121	122	121	120	120	121	120	121	120	1,445	
											Average Flow			1,612	
											Median Flow			450	
											Average # Customers			120	

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Commercial
Water Usage

Exhibit
Schedule H-5
Page 6A
Witness: Bourassa

Usage From:	Usage To:	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
-	-	2	2	2	2	2	2	2	2	3	3	3	3	28	28
-	1,000	11	12	9	6	8	13	14	12	14	13	10	11	133	161
1,001	2,000	10	9	11	12	13	10	11	12	10	10	15	10	133	294
2,001	3,000	11	9	11	11	10	8	6	5	5	6	5	7	94	388
3,001	4,000	5	6	5	5	5	5	6	4	7	4	7	6	65	453
4,001	5,000	4	2	5	-	2	3	3	6	3	3	1	1	33	486
5,001	6,000	3	3	3	5	6	5	3	1	5	3	6	7	50	536
6,001	7,000	1	3	2	3	2	2	3	3	3	2	2	2	28	564
7,001	8,000	1	2	2	1	3	-	1	2	1	4	1	1	19	583
8,001	9,000	4	2	3	1	1	1	2	1	-	1	4	3	23	606
9,001	10,000	1	2	1	1	-	-	1	1	3	1	2	-	13	619
10,001	11,000	1	-	-	3	-	-	1	2	-	2	-	2	11	630
11,001	12,000	2	1	1	2	2	2	1	-	5	1	-	1	18	648
12,001	13,000	1	1	2	2	4	3	2	3	1	4	2	3	28	676
13,001	14,000	1	-	-	-	-	-	-	1	1	-	-	1	4	680
14,001	15,000	3	5	4	2	3	3	3	2	3	3	2	3	36	716
15,001	16,000	2	2	1	3	2	2	1	1	2	2	1	1	20	736
16,001	17,000	-	2	-	1	-	2	1	2	1	1	-	-	10	746
17,001	18,000	3	2	3	3	1	1	2	1	1	1	4	1	23	769
18,001	19,000	-	1	-	2	-	-	-	1	-	-	1	2	7	776
19,001	20,000	-	-	1	-	1	-	1	-	-	-	1	-	4	780
20,001	21,000	1	-	-	1	-	-	1	1	-	1	1	2	8	788
21,001	22,000	-	1	1	-	-	-	2	2	-	-	-	1	7	795
22,001	23,000	-	-	-	1	3	1	-	-	-	1	-	-	6	801
23,001	24,000	1	-	-	-	-	-	-	-	-	-	-	-	1	802
24,001	25,000	-	-	1	1	-	-	-	-	-	1	-	2	5	807
25,001	26,000	-	-	-	-	-	-	-	-	-	-	-	-	-	807
26,001	27,000	1	1	1	1	1	1	1	1	1	1	1	1	12	819
27,001	28,000	-	-	-	-	-	-	1	-	-	-	1	-	2	821
28,001	29,000	-	-	-	-	-	1	-	-	-	-	-	-	1	822
29,001	30,000	1	1	1	1	1	2	1	1	1	1	1	1	13	835
30,001	31,000	-	-	-	-	-	-	-	-	-	-	-	-	-	835
31,001	32,000	-	-	-	-	-	-	-	2	1	1	1	-	5	840
32,001	33,000	-	-	-	1	-	1	-	-	-	1	-	-	3	843
33,001	34,000	-	-	1	-	-	-	-	-	-	-	1	-	2	845
34,001	35,000	-	-	-	-	-	1	-	-	-	-	-	1	2	847
35,001	36,000	1	1	1	1	1	1	2	1	2	1	1	2	15	862
36,001	37,000	-	-	-	-	1	-	-	2	-	-	-	-	3	865
37,001	38,000	-	1	-	-	-	1	-	-	-	1	2	-	5	870
38,001	39,000	-	-	-	-	-	-	-	-	-	-	-	-	-	870

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Commercial
Water Usage

Exhibit
Schedule H-5
Page 6A
Witness: Bourassa

Usage From:	Usage To:	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
39,001	40,000	1	-	-	-	-	1	-	-	-	-	-	-	2	872
40,001	41,000	-	-	-	-	-	-	-	-	-	1	-	-	1	873
41,001	42,000	-	-	-	-	-	-	1	-	1	-	-	-	2	875
42,001	43,000	-	2	1	-	-	-	-	-	2	1	2	1	9	884
43,001	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-	884
44,001	45,000	1	-	-	-	-	-	-	1	-	-	-	-	2	886
45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-	886
46,001	47,000	-	-	1	-	1	-	-	-	-	-	1	1	4	890
47,001	48,000	-	-	-	-	-	-	-	-	-	1	-	-	1	891
48,001	49,000	-	-	-	1	-	-	-	-	-	1	-	-	2	893
49,001	50,000	-	-	-	-	1	1	-	-	-	1	-	-	3	896
50,001	51,000	-	-	-	-	-	-	-	-	1	-	-	-	1	897
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	1	1	898
52,001	53,000	1	1	2	2	1	1	1	1	1	1	1	1	14	912
53,001	54,000	-	-	1	1	1	-	-	-	-	-	-	-	3	915
54,001	55,000	-	-	-	-	1	-	-	-	-	-	-	-	1	916
55,001	56,000	-	-	-	-	-	-	-	-	1	-	-	-	1	917
56,001	57,000	1	1	1	1	2	1	1	1	1	1	1	1	13	930
57,001	58,000	-	1	-	-	-	-	-	1	-	-	-	1	3	933
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-	933
59,001	60,000	1	-	-	-	-	-	1	-	-	-	-	-	2	935
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-	935
61,001	62,000	-	1	-	-	-	-	-	-	-	-	-	-	1	936
62,001	63,000	-	-	-	-	-	1	-	-	-	-	-	-	1	937
63,001	64,000	-	-	-	-	-	-	1	-	-	-	-	-	1	938
64,001	65,000	-	-	-	-	-	-	-	1	-	-	-	-	1	939
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-	939
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-	939
67,001	68,000	-	-	-	-	-	-	1	-	-	-	1	-	2	941
68,001	69,000	-	-	-	-	-	-	-	1	-	-	-	-	1	942
69,001	70,000	-	-	1	-	-	-	-	-	-	-	-	-	1	943
70,001	71,000	-	-	-	-	-	1	-	1	-	-	-	-	2	945
71,001	72,000	-	-	-	1	-	-	-	-	-	-	-	-	1	946
72,001	73,000	-	1	-	-	-	-	-	-	-	-	-	-	1	947
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-	947
74,001	75,000	2	-	-	-	-	-	-	-	-	-	-	-	2	949
75,001	76,000	-	1	-	-	-	-	-	-	-	-	-	-	1	950
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-	950
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-	950
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-	950

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Commercial
Water Usage

Exhibit
Schedule H-5
Page 6A
Witness: Bourassa

Usage From:	Usage To:	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-	950
80,001	81,000	1	1	1	1	1	1	2	1	1	1	1	1	13	963
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-	963
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-	963
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-	963
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-	963
85,001	86,000	-	-	-	1	-	-	-	-	-	1	-	1	3	966
86,001	87,000	-	1	-	-	-	-	-	-	-	-	-	-	1	967
87,001	88,000	1	1	1	1	1	1	1	1	1	1	1	1	12	979
88,001	89,000	1	-	-	-	-	-	-	-	1	-	-	-	2	981
89,001	90,000	-	-	-	-	-	1	-	-	-	-	-	-	1	982
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-	982
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-	982
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-	982
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-	982
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-	982
95,001	96,000	1	-	-	-	-	-	1	-	-	-	-	-	2	984
96,001	97,000	-	-	-	-	-	1	-	-	-	-	-	-	1	985
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-	985
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	-	985
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	985
296,425	296,425	1	1	1	1	1	1	1	1	1	1	1	1	12	997
430,083	430,083	1	1	1	1	1	1	1	1	1	1	1	1	12	1,009
145,400	145,400	1	-	-	-	-	-	-	-	-	-	-	-	1	1,010
144,000	144,000	-	1	-	-	-	-	-	-	-	-	-	-	1	1,011
122,900	122,900	-	1	-	-	-	-	-	-	-	-	-	-	1	1,012
103,380	103,380	-	-	1	-	-	-	-	-	-	-	-	-	1	1,013
157,000	157,000	-	-	1	-	-	-	-	-	-	-	-	-	1	1,014
163,900	163,900	-	-	1	-	-	-	-	-	-	-	-	-	1	1,015
140,050	140,050	-	-	-	1	-	-	-	-	-	-	-	-	1	1,016
197,000	197,000	-	-	-	1	-	-	-	-	-	-	-	-	1	1,017
1,263,370	1,263,370	-	-	-	1	-	-	-	-	-	-	-	-	1	1,018
160,720	160,720	-	-	-	-	1	-	-	-	-	-	-	-	1	1,019
253,000	253,000	-	-	-	-	1	-	-	-	-	-	-	-	1	1,020
113,640	113,640	-	-	-	-	1	-	-	-	-	-	-	-	1	1,021
985,920	985,920	-	-	-	-	1	-	-	-	-	-	-	-	1	1,022
187,910	187,910	-	-	-	-	-	1	-	-	-	-	-	-	1	1,023
322,900	322,900	-	-	-	-	-	1	-	-	-	-	-	-	1	1,024
1,134,190	1,134,190	-	-	-	-	-	1	-	-	-	-	-	-	1	1,025
179,640	179,640	-	-	-	-	-	-	1	-	-	-	-	-	1	1,026

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Commercial
Water Usage

Exhibit
Schedule H-5
Page 6A
Witness: Bourassa

Usage From:	Usage To:	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year	Cumul-ative Billing
179,000	179,000	-	-	-	-	-	-	1	-	-	-	-	-	1	1,027
989,240	989,240	-	-	-	-	-	-	1	-	-	-	-	-	1	1,028
171,600	171,600	-	-	-	-	-	-	-	1	-	-	-	-	1	1,029
226,790	226,790	-	-	-	-	-	-	-	1	-	-	-	-	1	1,030
185,100	185,100	-	-	-	-	-	-	-	1	-	-	-	-	1	1,031
866,990	866,990	-	-	-	-	-	-	-	1	-	-	-	-	1	1,032
166,140	166,140	-	-	-	-	-	-	-	-	1	-	-	-	1	1,033
178,523	178,523	-	-	-	-	-	-	-	-	1	-	-	-	1	1,034
161,000	161,000	-	-	-	-	-	-	-	-	1	-	-	-	1	1,035
1,078,500	1,078,500	-	-	-	-	-	-	-	-	1	-	-	-	1	1,036
157,020	157,020	-	-	-	-	-	-	-	-	-	1	-	-	1	1,037
104,767	104,767	-	-	-	-	-	-	-	-	-	1	-	-	1	1,038
207,000	207,000	-	-	-	-	-	-	-	-	-	1	-	-	1	1,039
1,067,520	1,067,520	-	-	-	-	-	-	-	-	-	1	-	-	1	1,040
119,560	119,560	-	-	-	-	-	-	-	-	-	-	1	-	1	1,041
185,000	185,000	-	-	-	-	-	-	-	-	-	-	1	-	1	1,042
791,410	791,410	-	-	-	-	-	-	-	-	-	-	1	-	1	1,043
117,500	117,500	-	-	-	-	-	-	-	-	-	-	-	1	1	1,044
196,000	196,000	-	-	-	-	-	-	-	-	-	-	-	1	1	1,045
932,610	932,610	-	-	-	-	-	-	-	-	-	-	-	1	1	1,046
	-													-	1,046
	-													-	1,046
	-													-	1,046
	-													-	1,046
	-													-	1,046
	-													-	1,046
	-													-	1,046
	-													-	1,046
Totals		85	86	86	86	87	86	87	87	89	89	89	89	1,046	

Average Usage	35,009
Median Usage	5,500
Average # Customers	87

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Effluent Sales

Exhibit
Schedule H-5
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Witness: Bourassa

Usage From:	Usage To:	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year
-	1,000													-
1,001	2,000													-
2,001	3,000													-
3,001	4,000													-
4,001	5,000													-
5,001	6,000													-
6,001	7,000													-
7,001	8,000													-
8,001	9,000													-
9,001	10,000													-
10,001	11,000													-
11,001	12,000													-
12,001	13,000													-
13,001	14,000													-
14,001	15,000													-
15,001	16,000													-
16,001	17,000													-
17,001	18,000													-
18,001	19,000													-
19,001	20,000													-
20,001	21,000													-
21,001	22,000													-
22,001	23,000													-
23,001	24,000													-
24,001	25,000													-
25,001	26,000													-
26,001	27,000													-
27,001	28,000													-
28,001	29,000													-
29,001	30,000													-
30,001	31,000													-
31,001	32,000													-
32,001	33,000													-
33,001	34,000													-
34,001	35,000													-

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Effluent Sales

Exhibit
Schedule H-5
Page 7
Witness: Bourassa

Usage From:	Usage To:	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year
35,001	36,000													-
36,001	37,000													-
37,001	38,000													-
38,001	39,000													-
39,001	40,000													-
40,001	41,000													-
41,001	42,000													-
42,001	43,000													-
43,001	44,000													-
44,001	45,000													-
45,001	46,000													-
46,001	47,000													-
47,001	48,000													-
48,001	49,000													-
49,001	50,000													-
50,001	51,000													-
51,001	52,000													-
52,001	53,000													-
53,001	54,000													-
54,001	55,000													-
55,001	56,000													-
56,001	57,000													-
57,001	58,000													-
58,001	59,000													-
59,001	60,000													-
60,001	61,000													-
61,001	62,000													-
62,001	63,000													-
63,001	64,000													-
64,001	65,000													-
65,001	66,000													-
66,001	67,000													-
67,001	68,000													-
68,001	69,000													-
69,001	70,000													-

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Effluent Sales

Exhibit
Schedule H-5
Page 7
Witness: Bourassa

Usage From:	Usage To:	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year
70,001	71,000													-
71,001	72,000													-
72,001	73,000													-
73,001	74,000													-
74,001	75,000													-
75,001	76,000													-
76,001	77,000													-
77,001	78,000													-
78,001	79,000													-
79,001	80,000													-
80,001	81,000													-
81,001	82,000													-
82,001	83,000													-
83,001	84,000													-
84,001	85,000													-
85,001	86,000													-
86,001	87,000													-
87,001	88,000													-
88,001	89,000													-
89,001	90,000													-
90,001	91,000													-
91,001	92,000													-
92,001	93,000													-
93,001	94,000													-
94,001	95,000													-
95,001	96,000													-
96,001	97,000													-
97,001	98,000													-
98,001	99,000													-
99,001	100,000													-
Over 50,000 gallons														
2,907,452	2,907,452	1	1	1	1	1	1	1	1	1	1	1	1	12
	-													-
Totals		1	1	1	1	1	1	1	1	1	1	1	1	12
											Average Usage			2,907,452

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Customer Classification
Effluent Sales

Exhibit
Schedule H-5
Page 7
Witness: Bourassa

Usage From:	Usage To:	Month Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total Year
											Median Usage			2,907,452
											Average # Customers			1

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-15-____

DIRECT TESTIMONY OF
THOMAS J. BOURASSA

COST OF CAPITAL

June 22, 2015

EXHIBIT
A-8
ADMITTED

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I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT TESTIMONY ON RATE BASE, INCOME STATEMENT, REVENUE REQUIREMENT AND RATE DESIGN IN THIS DOCKET?

A. Yes, and all of my background information and testimony regarding my qualifications is contained in that portion of my direct testimony.

II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY.

Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR DIRECT TESTIMONY?

A. This portion of my direct testimony will focus on cost of capital. I will testify in support of Liberty Utilities (Black Mountain Sewer) Corp.'s ("Liberty Black Mountain" or the "Company") proposed rate of return on its fair value rate base. I am sponsoring the Company's D Schedules, which are attached to this testimony. Also attached to this testimony are **Exhibits TJB-COC-DT1** and **TJB-COC-DT2**, which are discussed herein. As noted above, I am also sponsoring direct testimony that addresses the Company's rate base, income statement (revenue and operating expenses), required increase in revenue, and its rate design and proposed rates and charges for service. For the convenience of the Commission and the parties, that testimony and my related schedules are being filed separately.

Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.

A. I have determined that the cost of equity for the publicly traded water utilities falls in the range of 9.8 percent to 10.4 percent with an average of 10.1 percent.

After considering the differences in business and financial risk between Liberty Black Mountain and the publicly traded water utilities, the cost of equity for Liberty Black Mountain falls in the range of 10.5 percent to 11.1 percent with a mid-point of 10.8 percent. I am recommending a return on equity ("ROE") of no less than 10.8 percent for Liberty Black Mountain.

Q. WHAT IS THE RECOMMENDED CAPITAL STRUCTURE FOR LIBERTY BLACK MOUNTAIN SEWER?

A. The actual capital structure at the end of the test year (December 31, 2014) was 100 percent equity. However, the Company is requesting approval of long-term debt concurrently with its rate application, which will bring the debt-to-equity ratio to 30 percent debt and 70 percent equity. Therefore, for purposes of my analysis and recommendation, I am assuming a capital structure consisting of 30 percent debt and 70 percent equity.[1]

Q. WHAT IS THE RECOMMENDED COST OF DEBT?

A. The Company's recommended cost of debt is 3.53 percent. The cost of debt is based upon the current 10-year treasury rate of 2.23 percent (May 22, 2015) plus 130 basis points.

Q. WHAT IS THE WEIGHTED AVERAGE COST OF CAPITAL?

A. The weighted cost of capital is 8.62 percent as shown on Schedule D-1 (Projected Year).

Q. PLEASE SUMMARIZE THE APPROACH YOU USED TO ESTIMATE THE COST OF EQUITY FOR THE COMPANY.

A. The cost of equity for Liberty Black Mountain cannot be estimated directly because the Company's equity is not in the form of a publicly traded security and thus there

[1] *See* Direct Testimony of Matthew Garlick at 7-8.

is no market data for Liberty Black Mountain. Consequently, I applied market based models (Discounted Cash Flow ("DCF"), Risk Premium Model ("RPM"), and Modified CAPM ("MCAPM")), using data from a sample of water utilities selected from the Value Line Investment Survey. There are seven water utilities in my sample: American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, SJW Corp., and York Water Company. As explained later in my testimony, these companies aren't really comparable to Liberty Black Mountain, but they are utilities with available market data and they are the same proxies that the Commission's Utilities Division Staff has relied on for data on water utilities in a number of recent water and sewer utility rate cases.

III. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE EXPECTED RETURN ON INVESTMENT.

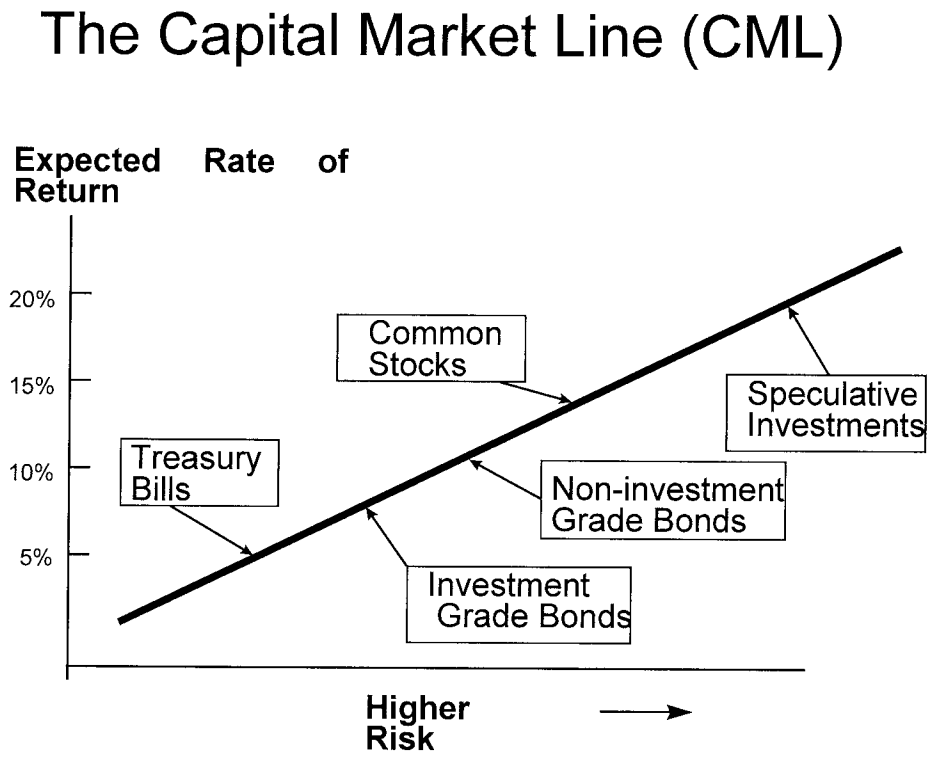
Q. WHAT EXACTLY IS THE COST OF EQUITY?

A. The cost of equity is the rate of return that equity investors expect to receive on their investment. Investors can choose from numerous investment options, not simply publicly traded stock. Investments have varying degrees of risk, ranging from relatively low risk assets such as Treasury securities to somewhat higher risk corporate bonds to even higher risk common stocks. As the level of risk increases, investors require higher returns on their investment. The cost of equity is therefore the expected rate of return that the market requires to attract funds to a particular investment.[2] Finance models that are used to estimate the cost of equity rely on this basic concept.

[2] Pratt, Shannon P. and Roger J. Grabowski (2014). *Cost of capital: Applications and Examples, Fifth Edition.* Hoboken, NJ: John Wiley and Sons, at 2.

Q. CAN YOU ILLUSTRATE THE CAPITAL MARKET RISK-RETURN CONCEPT?

A. Yes. The following graph depicts the risk-return relationship that has become widely known as the Capital Market Line ("CML"). The CML illustrates in a general way the risk-return relationship.



The CML can be viewed as a continuum of the available investment opportunities for investors. Investment risk increases as you move upward and to the right along the CML. Again, the return required by investors increases with the risk.

Q. HOW DOES THE RISK-RETURN TRADE OFF CONCEPT WORK IN THE CAPITAL MARKET?

A. As indicated by the CML, the allocation of capital in a free market economy is based upon the relative risk of, and expected return from, an investment.

In general, investors rank investment opportunities in the order of their relative risks. Investment alternatives in which the expected return is commensurate with the perceived risk become viable investment options. If all other factors remain equal, the greater the risk, the higher the rate of return investors will require to compensate them for the possibility of loss of either the principal amount invested or the expected annual income from such investment.

Short-term Treasury bills provide a high degree of certainty and in nominal terms (after considering inflation) are considered virtually risk free. Long-term bonds and preferred stocks, having priority claims to assets and fixed income payments, are relatively low risk, but are not risk free. The market values of long-term bonds often fluctuate when government policies or other factors cause interest rates to change. Common stocks are higher and farther to the right on the CML continuum because they are exposed to more risk. Common stock risk includes the nature of the underlying business and financial strength of the issuing corporation as well as market-wide factors, such as general changes in capital costs.

The capital markets reflect investor expectations and requirements each day through market prices. Prices for stocks and bonds change to reflect investor expectations and the relative attractiveness of one investment relative to others. While the example provided above seems straightforward, returns on common stocks are not directly observable in advance, in contrast to debt or preferred stocks with fixed payment terms. This means that these returns must be estimated from market data. Estimating the cost of equity capital should be a matter of informed judgment about the relative risk of the investment in question and the expected rate of return characteristics of other alternative investments.

The estimation of a utility's cost of equity is complex. It requires an analysis of the factors influencing the cost of various types of capital, such as

interest on long-term debt, dividends on preferred stock, and earnings on common equity. The data for such an analysis comes from highly competitive capital markets, where the firm raises funds by issuing common stock, selling bonds, and by borrowing (both long- and short-term) from banks and other financial institutions. In the capital markets, the cost of capital, whether the capital is in the form of debt or equity, is determined by two important factors: (1) the pure or real rate of interest, often called the risk-free rate of interest; and (2) the uncertainty or risk premium (the compensation the investor requires over and above the real or pure rate of interest for subjecting his capital to additional risk).

Q. PLEASE DISCUSS THESE FACTORS IN GREATER DETAIL.

A. The pure rate of interest essentially reflects both the time preference for and the productivity of capital. From the standpoint of the individual, it is the rate of interest required to induce the individual to forgo present consumption and offer the funds thus saved to others for a specified length of time. Moreover, the pure rate of interest concept is based on the assumption that no uncertainty affects the investment undertaken by the individual, i.e., there is no doubt that the periodic interest payments will be made and the principal returned at the end of the time period. In reality, investments without any risk do not exist. Every commitment of funds involves some degree of uncertainty.

Turning to the second factor affecting the cost of capital, it is generally accepted that the higher the degree of uncertainty, the higher the cost of capital. Investors are regarded as risk averse and require that the rate of return increase as the risk(s) (uncertainty) associated with an investment increase(s).

Q. CAN YOU PROVIDE SOME PERSPECTIVE ON YOUR PREVIOUS DISCUSSION WITH RESPECT TO RETURNS ON COMMON STOCKS?

A. Yes. Conceptually,

[1] Required Return for Common Stocks = Return on a risk-free asset + Risk Premium

where the risk premium investors require for common stocks will be higher than the risk premium they require for investment grade bonds. This relationship is depicted in the graph of the CML above. As I will discuss later in this testimony, this concept is the basis of risk premium methods, such as the Capital Asset Pricing Model ("CAPM"), that are used to estimate the cost of equity.

Q. PLEASE DISCUSS IN MORE DETAIL THE IMPACT OF RISK ON CAPITAL COSTS.

A. With reference to specific utilities, risk is often discussed as consisting of two separate types of risk: business risk and financial risk.

Business risk, the basic risk associated with any business undertaking, is the uncertainty associated with the enterprise's day-to-day operations. In essence, it is a function of the normal day-to-day business environment, both locally and nationally. Business risks include the condition of the economy and capital markets, the state of labor markets, regional stability, government regulation, technological obsolescence, and other similar factors that may impact demand for the business product and its cost of production. For utilities, business risk also includes the volatility of revenues due to abnormal weather conditions, degree of operational leverage, regulation, and regulatory climate. Regulation, for example, can compound the business risk if it is unpredictable in reacting to cost increases, both in terms of the time lag and magnitude for recovery of such increases. Regulatory lag makes it difficult to earn a reasonable return, particularly in an

inflationary environment and/or when there is significant lag between the timing of investment in capital projects and its recognition in rates. Put simply, the greater the degree of uncertainty regarding the various factors affecting a company's business, the greater the risk of an investment in that company and the greater the compensation required by the investor.

Financial risk, on the other hand, concerns the distribution of business risk to the various capital investors in the utility. Permanent capital is normally divided into three categories: long-term debt, preferred stock, and common equity. Because common equity owners have only a residual claim on earnings after debt and preferred stockholders are paid, financial risk tends to be concentrated in that element of the firm's capital. Thus, a decision by management to raise additional capital by issuing additional debt concentrates even more of the financial risk of the utility in the common equity owners.

Q. WHAT ARE THE DETERMINANTS OF THE RISK FREE RATE IN EQUATION [1]?

A. The risk-free rate can be disaggregated in to a "real" rate of interest and an inflation premium (expected future inflation).

Q. WHAT ARE THE DETERMINANTS OF THE REQUIRED RISK PREMIUM FROM EQUATION [1]?

A. The risk premium can be disaggregated into five general components: 1) Interest Rate Risk; 2) Business Risk; 3) Regulatory Risk; 4) Financial Risk; and 5) Liquidity Risk.[3]

Interest Rate Risk refers to the variability in return caused by subsequent changes in interest rates and stems from the inverse relationship between interest

[3] Morin, Roger A. (2006). *New Regulatory Finance*. Vienna, VA: Public Utilities Reports, Inc. ("Morin"), at 36.

rates and asset prices. For example, bond prices fall when interest rates rise and vice versa.

Business risk, the basic risk associated with any business undertaking, is the uncertainty associated with the enterprise's day-to-day operations. In essence, it is a function of the normal day-to-day business environment, both locally and nationally that collectively increase the probability that expected future income flows accruing to investors might not be realized. Business risks include the condition of the economy and capital markets, the state of labor markets, regional stability, technological obsolescence, degree of competition, sales volatility, government regulation, and other similar factors that may impact demand for the business product and its cost of production. For utilities, business risk also includes the volatility of revenues due to abnormal weather conditions and the degree of operational leverage.

Regulatory risk refers to the quality and consistency of regulation applied to a given regulated utility. Regulatory jurisdictions are evaluated on the basis of three major factors: earnable return on equity, regulatory quality, and regulatory practices.[4] These three factors collectively impact a utility's ability to earn its authorized return. The type of test year employed (historical or future), capital structure and rate base issues, and length of regulatory lag are among the reasons a utility may or may not have a reasonable opportunity to earn its authorized return.

Regulation can compound the business risk if it is unpredictable in reacting to cost increases, both in terms of the time lag and magnitude for recovery of such increases. Regulatory lag makes it difficult to earn a reasonable return, particularly in an inflationary environment and/or when there is significant lag between the

[4] Morin at 43.

timing of investment in capital projects and its recognition in rates. Put simply, the greater the degree of uncertainty regarding the various factors affecting a company's business, the greater the risk of an investment in that company and the greater the compensation required by the investor.

Financial risk concerns the distribution of business risk to the various capital investors in the utility and refers to the additional variability imparted to income available to common shareholders stemming from the entity's method of financing its capital needs. As I discussed earlier, because common equity owners have only a residual claim on earnings after debt and preferred stockholders are paid, financial risk tends to be concentrated in that element of the firm's capital.

Construction risk is an important component of financial risk. Construction risk is the risk of both tying capital up in projects that are not earning returns, or of not having sufficient capital to build the assets needed to keep generating returns. If an entity has a large construction budget relative to internally generated cash flows, it will require external financing, which will also have an impact on financial risk. It is important that entities have access to capital funds on reasonable terms and conditions. Utilities are more susceptible to construction risk for two reasons. First, water and wastewater utilities generally have high capital requirements to build plant to serve customers. Second, utilities have a mandated obligation to serve leaving less flexibility both in the timing and discretion of scheduling capital projects. This is compounded by the limited ability to wait for more favorable market conditions to raise the capital necessary to fund the capital projects, and then the lag between when plant can be built and when rates can be approved to provide returns on and of that capital. It is imperative that the utility has access to needed capital and on reasonable terms and conditions. The return allowed on common equity will have a critical role in determining those terms and

conditions.[5]

Although often discussed separately, the two types of risks (business and financial) are interrelated. A study by Scott and Martin found statistically significant results for unregulated firms in twelve industries that "smaller equity ratios (higher leverage use) are generally associated with larger companies."[6] One should expect unregulated enterprises to seek the best balance between debt and equity to obtain the lowest overall cost of capital. The findings of Scott and Martin suggest smaller firms found it prudent to *offset higher business risks related to being small by reducing financial risk.* This evidence suggests the least cost equity ratio for Liberty Black Mountain may be bigger than the average equity ratio for the benchmark water proxy group.

Finally, Liquidity Risk refers to the ability to readily convert an investment into cash without sustaining a loss. Capital market theory generally assumes that investments are liquid and observations about risk and return are drawn from information about liquid investments. Non-publicly traded or privately-held investments possess little liquidity.

Q. IS INVESTMENT RISK IMPACTED BY SIZE?

A. Yes. Investment risk is size related.[7] In other words, investment risk increases as company size decreases.[8] Investment liquidity may be a significant factor explaining this relationship. However, the illiquidity of smaller stocks does not capture the size effect completely.[9] Size may be a proxy for one or more true

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[5] Morin at 48.

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

[7] Morin at 49.

[8] *Id.*

[9] Duff & Phelps, LLC (2014). *2015 Valuation Handbook; Guide to Cost of Capital.* Hoboken, NJ: John Wiley and Sons ("Duff & Phelps"), at 4-21 – 4-22.

unknown factors correlated with size.[10]

IV. THE MEANING OF "JUST AND REASONABLE" RATE OF RETURN.

Q. HAVE THE COURTS SET FORTH ANY CRITERIA THAT GOVERN THE RATE OF RETURN THAT A UTILITY'S RATES SHOULD PRODUCE?

A. Yes. In 1923, the U.S. Supreme Court set forth the following criteria for determining whether a rate of return is reasonable in *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923):

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments on other business undertakings which are attended by corresponding risks and uncertainties .... The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market, and business conditions generally.

Then, in *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944), the U.S. Supreme Court stated the following regarding the return to owners of an entity:

> [T]he return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

[10] Duff & Phelps at 4-25.

320 U.S. at 603.

In summary, under *Hope* and *Bluefield*:

(1) The rate of return should be similar to the return in businesses with similar or comparable risks;

(2) The return should be sufficient to ensure the confidence in the financial integrity of the utility; and

(3) The return should be sufficient to maintain and support the utility's credit.

Q. HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY PROCEEDINGS?

A. Yes, but the application of the "reasonableness" criteria laid down by the Supreme Court has resulted in controversy. The typical method of computing the overall cost of capital is quite straightforward: it is the composite, weighted cost of the various classes of capital (debt, preferred stock, and common equity) used by the utility. Calculating the proportion that each class of capital bears to total capital does the weighting. However, there is no consensus regarding the best method of estimating the cost of equity capital. The increasing regulatory use of market-based finance models in equity return determinations has not led to a universally accepted means of estimating the ROE. In addition, the market-based results are too often applied to a book-value investment base, which, as I will discuss, understates the return expected by investors who invest in real markets based on market values.

V. THE ESTIMATED COST OF EQUITY FOR LIBERTY BLACK MOUNTAIN.

A. The Publicly Traded Utilities That Comprise the Sample Group Used to Estimate the Company's Cost of Equity.

Q. PLEASE DESCRIBE THE APPROACH YOU FOLLOWED IN YOUR COST OF CAPITAL ANALYSIS FOR THE COMPANY.

A. Again, estimating the cost of equity is a matter of informed judgment. The development of an appropriate rate of return for a regulated enterprise involves a determination of the level of risk associated with that enterprise and the determination of an appropriate return for that risk level. Practitioners employ various techniques that provide a link to actual capital market data and assist in defining the various relationships that underlie the equity cost estimation process.

Since Liberty Black Mountain is not publicly traded, the information required to directly estimate its cost of equity is not available. Accordingly, as previously noted, I used a sample group of water utilities as a *starting point* to develop an appropriate cost of equity for the Company. An analysis of a proxy group serves as a starting point because no proxy group is identical in risk to Liberty Black Mountain. Therefore, the proxy group's results must be adjusted to reflect the unique relative risks, financial and business risks, of Liberty Black Mountain, as I will discuss in detail below.

For the three models employed in my analysis, I use data from a sample of publicly traded water utilities, or proxy group, selected from the *Value Line Investment Survey* as a starting point in my analysis. There are seven water utilities in my sample: American States Water (AWR), Aqua America (WTR), California Water Company (CWT), Connecticut Water (CTWS), Middlesex Water (MSEX), SJW Corp. (SJW), and York Water Company (YORW).

The basis of selection for the proxy group of seven water companies was to select those companies that meet the following criteria: 1) they are included in the Water Company Group of AUS Utility Reports (August 2014); 2) they are followed by the *Value Line Investment Survey*; 3) they have at least ten years of historical financial and market information; 4) they have a *Value Line* adjusted beta; 5) they have not cut or omitted their common dividends during the five years ending 2013 or through the time of the preparation of this testimony; 6) they have 60 percent or greater of 2013 total net operating income derived from regulated water operations; and 7) at the time of the preparation of this testimony, they had not publicly announced that they were involved in any major merger or acquisition activity.

Q. BUT THE WATER UTILITIES IN YOUR SAMPLE ARE NOT DIRECTLY COMPARABLE TO THE COMPANY?

A. That is correct. But they are utilities for which market data is available. All of them are regulated, they primarily provide water service, although some provide both water and wastewater services, and their primary source of revenues is from regulated services. Therefore, they provide a useful starting point for developing a cost of equity for the Company recognizing that the proxy group is not perfectly comparable to Liberty Black Mountain.

Q. BRIEFLY, WHY IS A COMPARABLE PROXY GROUP NECESSARY IN A COST OF CAPITAL ANALYSIS?

A. First, a fair rate of return for a specific utility is the return required by investors to hold correspondingly risky assets. Market data for a sample of comparable risk companies provides insight into the investors' required return and that satisfies the U.S. Supreme Court's decisions in *Bluefield* and *Hope*, which I discussed earlier. The comparable earnings standard set forth in the *Hope* and *Bluefield* decisions

requires that the rate of return afforded to utilities be similar to the return in businesses with similar or comparable risks. It follows that a proxy group of companies with comparable risk is the starting point in a cost of capital analysis.

Second, a primary objective of rate regulation is to determine an authorized ROE that is both fair to customers and provides satisfactory returns for Liberty Black Mountain. The best estimate of that ROE is Liberty Black Mountain's cost of equity. The cost of equity is a cost of service fairly recovered from customers through rates. It is also satisfactory to Liberty Black Mountain because it is commensurate with returns an investor in the Company would expect to earn from investments of comparable risk. To estimate the cost of equity requires market data that reveal investor required returns. But Liberty Black Mountain is not publicly traded so there is no market information to determine the cost of equity. This necessitates the selection of a proxy group.

Q. THANK YOU. CAN YOU PLEASE PROVIDE A GENERAL DESCRIPTION OF THE WATER UTILITIES IN YOUR SAMPLE?

A. Yes. Schedule D-4.2 lists the percentages of regulated revenues, operating revenues, net plant, S&P bond ratings, allowed ROE's, *Value Line* betas, market capitalization, and market size category for the seven water utilities. Comparative data for Liberty Black Mountain is also shown in Schedule D-4.2. The seven sample companies may be generally described as follows:

(1) American States Water (AWR) primarily serves the California market through Golden State Water Company, which provides water services to over 256,000 customers within 75 communities in 10 counties in the State of California, primarily in Los Angeles, San Bernardino, and Orange counties. AWR also owns an electric utility service provider (Bear Valley Electric Service) with over

23,600 customers. AWR also provides contractual services to the U.S. government and private entities located in 5 states through its subsidiary, American States Utility Services. Total operating revenues for AWR are nearly $465 million and net plant is nearly $999 million.

(2) Aqua America (WTR) owns regulated utilities in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Indiana, and Virginia, serving nearly 940,000 customers. WTR's utility base is diversified among residential water, commercial water, fire protection, industrial water, other water, and wastewater customers. Total operating revenues for WTR are nearly $780 million and net plant is over $4.4 billion.

(3) California Water Service Group (CWT) owns subsidiaries in California, New Mexico, Washington, and Hawaii serving nearly 506,000 customers. CWT also owns HWS Utility Services which conducts the Company's non-regulated business. These services include providing billing, water quality testing, and water and wastewater system operations and management services to cities and other companies. Operating revenues for CWT are nearly $598 million and net plant is nearly $1.6 billion.

(4) Connecticut Water Services (CTWS) owns subsidiaries in Connecticut and Maine serving over 123,000 customers. CTWS also provides utility operating services under contract to municipalities and other water systems. Revenues for CTWS are nearly $95 million and net plant is nearly $495 million.

(5) Middlesex Water (MSEX) owns subsidiaries in New Jersey and Delaware serving over 100,000 customers, and provides water service under contract to municipalities in central New Jersey serving a population of 219,000. Operating revenues for MSEX are over $117 million and net plant is over $465 million.

(6) SJW Corp. (SJW) owns San Jose Water, which provides water service in a 138 square mile area in San Jose, California, and surrounding communities serving nearly 229,000 customers. SJW also owns operations in Texas serving approximately 12,000 connections. San Jose Water Company also provides non-regulated services under agreements with municipalities and other utilities. Operating revenues for SJW are nearly $318 million and net plant is nearly $944 million.

(7) York Water Company (YORW) provides water service in the state of Pennsylvania serving over 65,000 water and wastewater customers in more than 47 communities. Operating revenues for YORW are nearly $46 million and net plant is nearly $250 million.

Again, it should be obvious that these utilities are very different from Liberty Black Mountain. I will discuss specific measures of business risk that quantify the differences between the Company and the water proxy group later in my testimony.

Q. HOW DOES THE COMPANY COMPARE TO THE SAMPLE WATER UTILITIES?

A. It is much smaller with fewer customers, a relatively small and limited service territory, far less revenues and far less net plant. At the end of the test year, the Company had approximately 2,200 wastewater customers. The larger publicly traded water companies have many times that number of the customers.

Liberty Black Mountain's revenues totaled approximately $2.2 million, and net plant-in-service was approximately $5.5 million. The average revenues of my water proxy group are nearly 155 times greater than the Company and over 220 times the net plant as compared to Liberty Black Mountain. The smallest of the publicly traded water utilities in my proxy group (York Water Company) has nearly 21 times the revenues and over 42 times the net plant than Liberty Black Mountain. So, the water proxy group utilities are much larger and, according to the empirical financial data, they are less risky than Liberty Black Mountain.

Q. DO RECENT DEVELOPMENTS IN THE WATER UTILITY INDUSTRY IMPACT INVESTMENTS?

A. Yes. On the whole, the water and wastewater utility industry is expected to continue to confront increasing need for infrastructure upgrades and replacement, as well as possible additional demand. *Value Line Investment Survey* (July 18, 2014) continues to stress that many utilities have facilities that are decades old and in need of significant maintenance and, in some cases, massive renovation and replacement. As infrastructure costs continue to climb, many smaller companies are at a serious disadvantage. *Value Line* notes that most of the companies in this sector lack the finances necessary to fund improvements on their own. This will require water utilities in this sector to rely heavily upon debt and equity offerings for funding. The additional funding will thwart share-earnings and dilute shareholder gains. A copy of the most recent *Value Line* report on the water industry along with each water utility in my proxy group is attached as **Exhibit TJB-COC-DT1**.

Q. WHAT OTHER RISK FACTORS DISTINGUISH THE COMPANY FROM THE LARGER WATER UTILITIES IN YOUR PROXY GROUP?

A. First, water and wastewater utilities are capital intensive and typically have

relatively large construction budgets. As I have previously discussed in this testimony, firms with large capital budgets face construction risk (a form of financial risk). The size of a utility's capital budget relative to the size of the utility itself often increases construction risk. Large utilities are better able to fund their capital budgets from their earnings, cash flows, and short-term borrowings. For smaller utilities, like Liberty Black Mountain, the ability to fund relatively large capital budgets from earnings, cash flows, and short-term debt is difficult, if not impossible, without reliance upon additional outside capital.

Second, smaller companies are simply less able to cope with significant events that affect sales, revenues and earnings. In general, the loss of revenues from a few larger customers or from trends in the reduction of usage by customers through conservation or the makeup of the customer base, for example, would have a greater effect on a small company than on a much larger company with a larger customer base.

Third, there are a number of other factors, including the differences in regulatory environments, differences in the type of test year used for rate making, and differences in the available regulatory mechanisms, for recovery of costs outside of a rate case. The large water utilities in my water proxy group are generally not subject to the adverse impacts of an unfavorable regulatory environment of one jurisdiction.

All these factors have an impact on the ability of a smaller utility to actually earn its authorized return and leads to a greater variability of earnings for Liberty Black Mountain when compared to the proxy group, which means greater risk.

Q. ARE THERE QUANTITATIVE MEASURES THAT CAN BE USED TO HELP IDENTIFY DIFFERENCES IN BUSINESS RISK?

A. Yes. There are a number of fundamental accounting based risk measures that can

be used to assess the relative differences between firms and include: 1) the co-efficient of variance of ROE; 2) the co-efficient of variance of operating income; 3) the co-efficient of variance of operating margin, and 4) Operating Leverage. The first three reflect the distributions of earnings. These are meaningful when measured against the distribution of earnings of alternative investments, like the water utilities in my water proxy group.

The co-efficient of variance of ROE can be quantified using a relatively simple formula:

[2] Co-efficient of Variance of ROE = Standard Deviation of ROE/Mean of ROE

The co-efficient of variance of operating income can be quantified using a relatively simple formula:

[3] Co-efficient of Variance of Operating Income = Standard Deviation of Operating Income/Mean of Operating Income

The co-efficient of variance of operating margin can be quantified using a relatively simple formula:

[4] Co-efficient of Variance of Operating Margin = Standard Deviation of Operating Margin/Mean of Operating Margin

And, the Operating Leverage formula is expressed as:

[5] Operating Leverage = Percentage Change in Operating Income/ Percentage Change in Sales

Using the business risk measures expressed in equations [2], [3], and [4], the greater the co-efficient of variation or Operating Leverage, the greater the risk to investors of not receiving expected returns.[11] Below are the computed co-efficients of variation for ROE, Operating Income, and Operating Margin, as well as

[11] Tuller, Lawrence W., *The Small Business Valuation Book*, Adams Media Corporation, 1994, at 89.

Operating Leverage using the most recent 5 years of historical data for my water proxy group and Liberty Black Mountain:

Company	Business Risk Co-efficient of variance of ROE	Business Risk Co-efficient of variance of Operating Income	Business Risk Co-efficient of variance of Operating Margin	Operating Leverage
Water Proxy Group	0.1271	0.1579	0.0895	2.48
Liberty Black Mountain	0.6184	0.3355	0.3276	76.86
Relative Risk of Liberty Black Mountain to Water Proxy Group	4.87	2.12	3.66	110.65

This shows that Liberty Black Mountain is 2 to 5 times more risky than the water proxy group (ignoring operating leverage).

Q. CAN METRICS LIKE A COMPANY'S CO-EFFICIENT OF ROE, OPERATING INCOME, AND OPERATING MARGIN, BE USED ALONG WITH MARKET DATA TO DEVELOP COMPANY-SPECIFIC RISK PREMIUMS?

A. Yes. Duff & Phelps publishes comparative risk characteristics using market data that provides a nexus between a market beta and the metrics operating margin, the coefficient of variation in operating margin, and the coefficient of variation in return on equity.[12] This information can be used to develop an implied beta for Liberty Black Mountain for use in the CAPM. By comparing the results of the CAPM for the water proxy group with the CAPM for the Company using the implied beta, an indicated risk premium for Liberty Black Mountain can be developed. As one would expect, the implied beta for Liberty Black Mountain is

[12] Duff & Phelps, Exhibits D-1 through D-3.

higher than the beta of my water proxy group and a risk premium of 150 to 210 basis points over the cost of equity of the water proxy group is indicated. I will discuss this method and the implied beta for Liberty Black Mountain in more detail in the Company Specific Risk Premium section of my direct testimony.

Q. WHAT ABOUT LIQUIDITY RISK, MR. BOURASSA?

A. A rational investor would not regard an investment in Liberty Black Mountain as having the same level of risk as WTR or even CTWS, because of the previously mentioned small size characteristics of Liberty Black Mountain, and the fact that an investment in Liberty Black Mountain is relatively illiquid compared to the publicly traded water utilities. An investor in a publicly traded stock can sell his/her stock in a very short period of time if he/she is dissatisfied with the returns. An investor in a non-publicly traded stock does not have the ability to sell quickly. Consequently, investors will require a greater risk premium, often called liquidity risk premium. As a consequence of these differences in risk, the results produced by the DCF, RPM, and CAPM methodologies, utilizing data for the sample utilities, often understate the appropriate return on equity for a small, regulated wastewater utility provider such as Liberty Black Mountain.

Q. IS THERE A RELATIONSHIP BETWEEN A UTILITY'S CAPITAL STRUCTURE AND ITS COST OF CAPITAL?

A. Yes. Generally speaking, when a firm engages in debt financing, it exposes itself to greater risk. Once debt becomes significant relative to the total capital structure, the risk increases in a geometric fashion compared to the linear percentage increase in the debt ratio itself. This risk is illustrated by considering the effect of leverage on net earnings. For example, as leverage increases, the equity ratio falls. This creates two adverse effects. First, equity earnings decline rapidly and may even disappear. Second, the "cushion" of equity protection for debt falls.

A decline in the protection afforded debt holders, or the possibility of a serious decline in debt protection, will act to increase the cost of debt financing. Therefore, one may conclude that each new financing, whether through debt or equity, impacts the marginal cost of future financing by any alternative method.

For a firm already perceived as being over-leveraged, this additional borrowing would cause the marginal cost of both equity and debt to increase. On the other hand, if the same firm instead successfully employed equity funding, this could actually reduce the real marginal cost of additional borrowing, even if the particular equity issuance occurred at a higher unit cost than an equivalent amount of debt.

Q. HOW DO THE CAPITAL STRUCTURES OF THE SAMPLE WATER UTILITIES COMPARE TO LIBERTY BLACK MOUNTAIN?

A. Schedule D-4.3 shows that the debt and equity capital structure used to develop the cost of capital for Liberty Black Mountain contains 100 percent equity and 30 percent debt, compared to the average of the water utility sample of approximately 55 percent equity and 45 percent debt. Having less debt in its capital structure implies that the Company has lower financial risk than the sample water utilities.

B. <u>Overview of the DCF, RPM, and CAPM Methodologies</u>.

Q. PLEASE EXPLAIN THE GENERAL APPROACHES TO ESTIMATING THE COST OF CAPITAL.

A. There are two broad approaches:

1) identify comparable-risk sample companies and estimate the cost of capital directly, or,

2) find the location of the CML and estimate the relative risk of the company, which jointly determines the cost of capital.

The Discounted Cash Flow ("DCF") method is an example of a method falling into the first general approach. It is a direct method, but uses only a subset of the total capital market evidence. The DCF rests on the premise that the fundamental value of an asset (stock) is its ability to generate future cash flows to the owner of that asset (stock). I will explain the DCF in detail in a moment, but for now, the DCF is simply the sum of a stock's expected dividend yield and the expected long-term growth rate. Dividend yields are readily available, but long-term growth estimates are not.

The Risk Premium Model ("RPM") model and Capital Asset Pricing Model ("CAPM") are examples of methods falling into the second general approach. An equity risk premium is made first by determining the relationship between the cost of equity and an interest rate over time. To implement these approaches, generally, it is assumed that the past relationship will continue on into the future. The RPM generally uses a small subset of the capital market evidence whereas the CAPM uses information on all securities rather than a small subset. I will explain the RPM and CAPM in more detail later. For now, both the RPM and CAPM reflect a risk-return relationship, often depicted graphically as the CML. The RPM and CAPM cost of equity estimates are the sum of a risk-free return and a risk premium.

Each of these methods measures investor expectations. In the final analysis, ROE estimates are subjective and should be based on sound, informed judgment rationally articulated and supported by competent evidence. I have applied three versions of the DCF, one version of the RPM, and two versions of the CAPM to "bracket" the fair cost of equity capital for the publicly traded water utilities in my proxy group. I then add 100 basis points to results of the models for the water proxy group to account for the differences in business risk between the water proxy

group and Liberty Black Mountain.

C. **Explanation of the DCF Model and Its Inputs.**

Q. PLEASE EXPLAIN IN DETAIL THE DCF METHOD OF ESTIMATING THE COST OF EQUITY.

A. The DCF model is based on the concept that the current price of a share of stock is equal to the present value of future cash flows from the purchase of the stock. In other words, the DCF model is an attempt to replicate the market valuation process that sets the price investors are willing to pay for a share of an entity's stock. It rests on the assumption that investors rely on the expected returns (i.e., cash flow they expect to receive) to set the price of a security. The DCF model in its most general form is:

[6] $P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \ldots + CF_n/(1+k)^n$

where k is the cost of equity; n is the number of years and is a very large number; P_0 is the current stock price; and, CF_1, CF_2,...CF_n are all the expected future cash flows expected to be received in periods 1, 2, ... n.

Equation [6] can be written to show that the current price (P_0) is also equal to

[7] $P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \ldots + P_t/(1+k)^t$

where P_t is the price expected to be received at the end of the period t. If the future price (P_t) included a premium (an expected increase in the stock price or capital gain), the price the investor would pay today (in anticipation of receiving that premium) would increase. In other words, by estimating the cash flows from the purchase of a stock in the form of dividends and capital gains, we can calculate the investor's required rate of return, i.e., the rate of return an investor presumptively used in bidding the current price to the stock (P_0) to its current level.

Equation [7] is a Market Price version of the DCF model. As with the general form of the DCF model in equation [6], in the Market Price approach the current stock price (P_0) is the present value of the expected cash inflows. The cash flows are comprised of dividends and the final selling price of the stock. The estimated cost of equity (k) is the rate of return investors expect if they bought the stock at today's price, held the stock and received dividends through the transition period, and then sold it for price (P_t).

Q. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THE MARKET PRICE VERSION OF THE DCF MODEL?

A. Yes. Assume an investor buys a share of common stock for $40. If the expected dividend during the coming year is $2.00, then the expected dividend yield is 5 percent ($2.00/$40 = 5.0 percent). If the stock price is also expected to increase to $43.00 after one year, this $3.00 expected gain adds an additional 7.5 percent to the expected total rate of return ($3.00/$40 = 7.5 percent). Thus, the investor buying the stock at $40 per share expects a total return of 12.5 percent (5 percent dividend yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the appropriate measure of the cost of capital because this is the rate of return that caused the investor to commit $40 of his capital by purchasing the stock.

Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF MODEL.

A. Under the assumption that future cash flow is expected to grow at a constant rate ("g"), equation [6] can be solved for k and rearranged into the simple form:

$$[8] \qquad k = CF_1/P_0 + g$$

where CF_1/P_0 is the expected dividend yield and g is the expected long-term dividend (price) growth rate ("g"). The expected dividend yield is computed as the ratio of next period's expected dividend ("CF_1") divided by the current stock price

("P_0").

This form of the DCF model is known as the constant growth DCF model and recognizes that investors expect to receive a portion of their total return in the form of current dividends and the remainder through future dividends and capital (price) appreciation. A key assumption of this form of the model is that investors expect that same rate of return (k) every year and that market price grows at the same rate as dividends. But, this has not been historically true for the water utility sample, as shown by the data in Schedule D-4.4 and Schedule D-4.5. As a result, estimates of long-term growth rates (g) should take this into account.

Q. ARE THERE ANY CONCERNS ABOUT APPLYING THE DCF MODEL TO UTILITY STOCKS?

A. There are a number of reasons why caution must be used when applying the DCF model to utility stocks. First, a non-publicly traded company does not have a stock market price. Using the stock prices from a proxy group assumes that Liberty Black Mountain's stock would be similarly priced and has similar dividend yields as the publicly traded water companies. Second, the stock price and dividend yield components may be unduly influenced by structural changes in the industry, such as mergers and acquisitions, which influence investor expectations. Third, the DCF model is based on a number of assumptions that may not be realistic given the current capital market environment. The traditional DCF model assumes that the stock price, book value, dividends, and earnings all grow at the same rate. This has not been historically true for the sample water utility companies.

We should be especially concerned with the DCF model's applicability under current market conditions. The Federal Reserve's bond buying programs have kept longer-term bond yields low and interest rates are expected to rise,[13]

[13] *Blue Chip Financial Forecasts*, April 2015.

but in the meantime, and because bond yields are still very low, investors are "chasing yields" and driving up the stock prices of companies that pay dividends, like utilities. The *Value Line* Investment Survey (April 17, 2015) for the for the Water Utility Industry notes:

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

Consider that while dividend yields for the water proxy group have been decreasing, the 1-year, 3-year, and 5-year annualized total returns for the water proxy group are 16.85 percent, 15.83 percent, and 11.98 percent, respectively, which are all significantly higher than my DCF estimate of the cost of equity of 9.4 to 9.7 percent.[14] In fact, the water utility proxy group has outperformed the S&P 500 over the past year.[15] The expected equity returns suggested by the market based DCF model does not line up with recent experience in the markets. As Dr. Morin notes,

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

Another way of stating this point is that the DCF model does not account for the ebb and flow of investor sentiments over the course of the business cycle.

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[14] *Value Line* Analyzer data from May 14, 2015.

[15] Total 1-year return for the S&P 500 as reported by Value Line was 13.94 percent compared to the water proxy group of 16.85 percent.

The problem was particularly acute in the mid 1990's and mid 2000's where investors, faced with very low returns on short-term fixed-income securities and an uncertain market outlook, sought higher yields offered by utility stocks in a so-called flight to quality, boosting their stock price and lowering the dividend yield.[16] The circumstances then are not so different than what is occurring today.

Fourth, the application of the DCF model produces estimates of the cost of equity that are consistent with investor expectations *only* when the market price of a stock and the stock's book value are approximately the same. The DCF model will understate the cost of equity when the market-to-book ratio exceeds 1.0 and conversely will overstate the cost of equity when the market-to-book ratio is less than 1.0. The reason for this is that the market-derived return produced by the DCF is often applied to book value rate base by regulators.

Fifth, the assumption of a constant growth rate may be unrealistic, and there may be difficulty in finding an adequate proxy for the growth rate. Historical growth rates can be downward biased as a result of the impact of anemic historical growth rates in earnings, mergers and acquisitions, restructuring, unfavorable regulatory decisions, and even abnormal weather patterns. Further, by placing too much emphasis on the past, the estimation of future growth becomes circular.

Q. THANK YOU. LET'S TURN TO THE SPECIFIC INPUTS USED IN YOUR DCF MODELS. WHAT DATA HAVE YOU USED TO COMPUTE THE EXPECTED DIVIDEND YIELD (CF_1/P_0) IN YOUR MODELS?

A. First, I computed a current dividend yield (CF_0/P_0). The expected dividend yield (CF_1/P_0) is the current dividend yield (CF_0/P_0) times one plus the growth rate (g). I used the spot price for each of the stocks of the water utilities in the sample group

[16] Morin at 433.

as reported by the *Value Line Investment Analyzer* for May 22, 2015 for P_0. The current dividend (CF_0) is the current indicated dividend as reported by Value Line. In my schedules, the current dividend yield is denoted as (D_0/P_0), where D_0 is the current dividend and P_0 is the spot stock price. (D_1/P_0) is used to denote the expected dividend yield in the schedules.

Q. WHAT MEASURES OF GROWTH ("g") HAVE YOU USED?

A. I have used two estimates of growth – one based on an average of historical and forecast growth and the other based only on forecast growth. For my average historical and forecast growth estimate, I average the 5-year historical average growth rates in the stock price, book value per share ("BVPS"), earnings per share ("EPS") and dividends per share ("DPS") with *Value Line's* forecast of EPS growth.[17] Using the historical average of growth in price, BVPS, EPS, and DPS is reasonable because investors know that, in equilibrium, common stock prices, BVPS, EPS and DPS will all grow at the same rate and would take information about changes in stock prices and growth in BVPS into account when they price utility stocks. As I stated earlier, a basic assumption of the DCF model is that the stock price, BVPS, EPS and DPS all grow at the same rate. For my forecast growth estimate, I have used the growth forecasts from *Value Line.*[18]

Q. WHY DID YOU INCORPORATE AN HISTORICAL GROWTH RATE ESTIMATE INTO ONE OF YOUR GROWTH ESTIMATES?

A. Past growth rates may provide a reasonable basis for determining prospective growth rates. Their use assumes the past is a reflection of the future. While I believe the use of historical growth rates give added recognition to the past, which is already incorporated into analyst estimates of growth, I nevertheless include a

[17] *See* Schedule D-4.4.

[18] *See* Schedule D-4.4.

version of the DCF that reflects historical growth. I would point out, however, that historical growth rates may not be the best measure for the future. The empirical evidence indicates that analyst estimates of growth are the best measure of growth for use in the DCF for utility stocks.[19]

Q. WHY DID YOU USE FORECASTED GROWTH RATES IN YOUR GROWTH ESTIMATES?

A. The DCF model requires estimates of growth that investors expect in the future and not past estimates of growth that have already occurred. Accordingly, I use analysts' forecasts of growth. Logically, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on an entity as well as other more recent information.[20] To the extent that past results provide useful indications of future growth prospects, analysts' forecasts would already incorporate that information. In addition, a stock's current price reflects known historic information on that entity, including its past earnings history. Any further recognition of the past will double count what has already occurred. Therefore, forward-looking growth rates should be used.

D. <u>Explanation of the RPM and Its Inputs</u>.

Q. PLEASE EXPLAIN THE RPM METHODOLOGY FOR ESTIMATING THE COST OF EQUITY.

A. The RPM is sometimes referred to as the "bond yield plus risk premium method."

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[19] Gordon, David A., Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of Estimating Share Yield," *Journal of Portfolio Management*, Spring 1989 ("Gordon, Gordon, and Gould"), at 50-55. Gordon, Gordon and Gould found that a consensus of analysts' forecasts of earnings per share growth for the next five years provides a more accurate estimate of growth required in the DCF model than three different historical measures of growth (historical EPS, historical DPS, and historical retention growth). They explain that this result makes sense because analysts would take into account such past growth as indicators of future growth as well as any new information.

[20] Gordon, Gordon, and Gould.

The general approach is to determine the spread between the return on debt and the return on equity and add this spread to the current debt yield to derive an estimate of the cost of equity. To implement the RPM, it is assumed that the past relationship will continue into the future. The RPM is widely used by analysts and investors.[21]

The RPM formula provides a formal risk-return relationship and is stated as:

(6) $k = K_d +$ Historical bond-equity spread

where k is the expected return on equity and K_d is the current cost of debt or debt yield.

Q. HOW DID YOU DETERMINE THE HISTORICAL BOND-EQUITY SPREAD?

A. I computed the bond-equity spread as the difference between the average total realized market return of my water proxy group and the average annual long-term treasury yields for the years 1999-2014 – a 16-year historical period.[22]

Q. WHY DID YOU USE TOTAL REALIZED MARKET RETURNS?

A. Total realized market returns are market based which makes this approach a market based approach. While the annual actual risk premium in any given year may not equal the required risk premium, over longer periods of time, the average actual risk premiums can provide a good estimate of the average risk premium required.

Q. WHAT DO YOU USE AS THE CURRENT COST OF DEBT (K_d)?

A. I use the expected U.S. Long-term Treasury rate for 2016-2018 as the basis for the risk free rate. Since the cost of capital is an opportunity cost and is prospective, it necessarily requires the use of a forward-looking bond yield. In recent years, interest rates have dropped to very low levels when compared to interest rates for

[21] Morin at 108.

[22] *See* Schedule D-4.9.

similar securities in the past. From 1999 to 2007, the annual average rates for long-term Treasury bonds was 5.24 percent ranging from a low of 4.84 percent in 2007 to a high of 5.94 in 2000. In 2008, and during the recent recession, that annual average dropped to 4.24 percent and dropped further in 2012 to 2.9 percent.

The drop in long-term Treasury rates has been largely attributed to the market intervention by the Federal Reserve through its quantitative easing programs. Long-term Treasury rates for 2013 and 2014 averaged 3.45 percent and 3.34 percent, respectively. For the first 5 months of 2015, long-term Treasury rates have averaged 2.64 percent. The Federal Reserve is expected to raise interest rates towards the end of this year, and as early as September. Notwithstanding these current low rates, 30-year Treasury rates are expected to bounce back up in 2016-2018 timeframe. Analysts at *Value Line* expect that future average to be 4.1 percent. The consensus estimate made by analysts surveyed by the *Blue Chip Financial Forecasts* indicates analysts expect that average to be higher at 4.2 percent. For my analyses, I have relied upon the average of *Value Line Quarterly Forecast* forecasts and the consensus forecast reported by *Blue Chip Financial Forecasts* of 4.2 percent.[23]

Q. WHY DO YOU USE LONG-TERM U.S. TREASURY YIELDS?

A. The yields on long-term Treasury bonds match more closely with the perpetual nature of common stock investments.[24] Further, short-term rates are more volatile, fluctuate widely and are subject to more random disturbances than long-term rates. In short, long-term Treasury rates are preferred for these reasons and because long-term rates are more appropriately matched to securities with an indefinite life or long-term investment horizon.

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[23] *See* Schedule D-4.8.

[24] Morin at 112.

E. **Explanation of the CAPM and Its Inputs.**

Q. PLEASE EXPLAIN THE CAPM METHODOLOGY FOR ESTIMATING THE COST OF EQUITY.

A. Like the RPM, the CAPM is the sum of a risk-free rate plus a risk premium. And, like the RPM, it quantifies the additional return required by investors for bearing incremental risk. The CAPM was developed by William Sharpe and John Lintner in the mid-1960's and is a common topic in college finance textbooks. The CAPM provides a formal risk-return relationship premised on the idea that only market risk matters, as measured by beta. The traditional version of CAPM is represented by the formula:

$$[9] \quad k = R_f + \beta(R_m - R_f)$$

where k is the expected return, R_f is the risk-free rate (or zero beta asset), R_m is the market return, $(R_m - R_f)$ is the market risk premium, and β is beta.

Q. ARE THERE ANY CONCERNS ABOUT APPLYING THE CAPM MODEL TO UTILITY STOCKS?

A. Yes. I have concerns with using this model in most periods because mechanical application of the model may produce unreasonable results. The traditional CAPM only captures a single measure of systematic risk as measured by beta, but there are other forms of systematic risk priced by the market such as company size. A size premium is necessary because, even after adjusting for the beta risk of small stocks, they generally outperform larger stocks. Size may just be a proxy for other risks. Nevertheless, the empirical evidence indicates that beta alone does not measure the risk of smaller companies.[25]

[25] Duff & Phelps at 2-5.

Q. ARE THERE ALTERNATIVES TO THE TRADITIONAL CAPM?

A. Yes, alternative versions of the CAPM have been developed that provide more robust explanations of returns required by investors. A version of the CAPM called the Empirical CAPM or ECAPM was developed to recognize that estimations of R_f is higher than the return on long-term Treasuries. Dr. Roger Morin discusses ECAPM at pages 189-191 of his book, *New Regulatory Finance*. The ECPAM is represented as follows:

$$[10] \quad k = R_f + .25(R_m - R_f) + .75\beta(R_m - R_f)$$

Duff & Phelps suggest a version of the CAPM in which a size premium is included.[26] This modified CAPM ("MCAPM") is represented as follows:

$$[11] \quad k = R_f + \beta(R_m - R_f) + RP_s$$

where k is the expected return, R_f is the risk-free rate (or zero beta asset), R_m is the market return, $(R_m - R_f)$ is the market risk premium, β is beta, and RP_s is the size premium. The MCAPM recognizes the CAPM is incomplete and does not fully account for the higher returns that are needed on small company stocks. In other words, the higher risks associated with smaller firms are not fully accounted for by beta.[27]

Q. IS FIRM SIZE A UNIQUE RISK?

A. No. The firm size is a systematic risk factor and is an adjustment to the pure CAPM.[28] Putting aside the empirical financial data, the need for a risk premium for size makes sense. Company size is a significant element of business risk for which investors expect to be compensated through greater returns. Smaller

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[26] Duff & Phelps at 2-7.

[27] Morningstar, *Ibbotson SBBI 2013 Valuation Yearbook,* at 85-88.

[28] Pratt, Shannon P. and Roger J. Grabowski (2010). *Cost of Capital: Applications and Examples, Fourth Edition.* Hoboken, NJ: John Wiley and Sons, at 56.

companies are simply less able to cope with significant events that impact sales, revenues, and earnings. For example, smaller companies face more risk exposure to business cycles and economic conditions, both nationally and locally. Additionally, the loss of revenues from a few larger customers would have a greater effect on a small entity than on a much larger entity with a larger, more diverse, customer base. Moreover, smaller companies are generally less diverse in their operations and have less financial flexibility.

Q. DID YOU EMPLOY EITHER OF THESE ALTERNATIVE CAPM METHODS AS PART OF YOUR ANALYSIS?

A. No. Instead, I conducted a risk study to develop an indicated additional risk premium for Liberty Black Mountain. Based on this study, I added a risk premium to the results of each method I use (the DCF, RPM, and the CAPM) as an alternative way of dealing with additional risk associated with Liberty Black Mountain. Having said that, these two methods would produce an indicated cost of equity for my water proxy group in the range of 9.8 percent to 11.3 percent with a mid-point of 10.6 percent, which is greater than my overall estimate for my water proxy group of 10.1 percent.

Q. WHAT IS THE RISK-FREE RATE (R_f)?

A. It is the return on an investment with no risk. The U.S. Treasury rate serves as the basis for the risk-free rate because the yields are directly observable in the market and are backed by the U.S. government. Practically speaking, short-term rates are volatile, fluctuate widely and are subject to more random disturbances than long-term rates. In short, long-term Treasury rates are preferred for these reasons and because long-term rates are more appropriately matched to securities with an indefinite life or long-term investment horizon.

Q. WHAT DO YOU ADOPT AS THE RETURN FOR THE RISK-FREE RATE?

A. I use long-term expected Treasury bond rates as the measure of the risk-free return for use with CAPM cost of equity estimates from two sources: the *Blue Chip Financial Forecasts* and the *Value Line Quarterly Forecast*.[29] The appropriate choice for the risk-free rate is the expected return for long-term Treasury securities.[30] Thus, when determining an estimate of the risk-free rate, it is appropriate to adopt a return that is no less than the expected return on the long-term Treasury bond rate. Both of my CAPM estimates are based on expected yields of the long-term Treasury rates for 2016 through 2018 (from *Blue Chip Financial Forecasts* and *Value Line Quarterly Forecasts*).[31] The 2016 to 2018 timeframe is the period when new rates will be in effect for the Company.

Q. WHAT IS BETA AND WHAT DOES IT MEASURE?

A. Beta is a measure of the relative risk of a security in relation to the market. In other words, it is a measure of the sensitivity of a security to the market as a whole. This sensitivity is also known as systematic risk. It is estimated by regressing a security's excess returns against a market portfolio's excess returns. The slope of the regression line is the beta.

Beta for the market is 1.0. A security with a beta greater than 1.0 is considered riskier than the market. A security with a beta less than 1.0 is considered less risky than the market.

There are computational problems surrounding beta. It depends on the return data, the time period used, its duration, the choice of the market index, and whether annual, monthly, or weekly return figures are used. Betas are estimated

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[29] *See* Schedule D-4.9.

[30] Duff & Phelps at 3-1.

[31] *See* Schedule D-4.8.

with error. Based on empirical evidence, high betas will tend to have a positive error (risk is overestimated) and low betas will have a negative error (risk is underestimated).[32]

Q. WHAT DID YOU USE AS THE PROXY OF THE BETA FOR LIBERTY BLACK MOUNTAIN?

A. I used the average beta of the sample water utility companies. Betas were obtained from *Value Line Investment Analyzer* (weekly data as if May 14, 2015). *Value Line* is the source for estimated betas that I regularly employ. The average beta for my water proxy group as shown on Schedule D-4.2 is 0.74. I should note that because the Company is not publicly traded, it has no beta. In my expert opinion, I strongly believe that Liberty Black Mountain, if it were publicly traded, would have a higher beta than the sample water utility companies.

Smaller companies are just inherently more risky than larger companies. Morningstar reports that when betas (a measure of market risk) are properly estimated, betas are greater for small companies than for larger companies.[33] Morningstar also finds that even after accounting for differences in beta risk, small firms require an additional risk premium over and above the added risk premium indicated by differences in beta risk.

Q. PLEASE EXPLAIN THE MARKET RISK PREMIUM.

A. The market-risk premium (R_m-R_f) is the return an investor expects to receive as compensation for market risk. It is the expected market return minus the risk-free rate. Approaches for estimating the market risk premium can be historical or prospective.

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[32] Fama, Eugene F. and Kenneth R. French, "The Capital Asset Pricing Model: Theory and Evidence," *Journal of Economic Perspectives*, Summer 2004, at 25-46.

[33] Morningstar, *Ibbotson SBBI 2012 Valuation Yearbook*, Chapter 7.

Since expected returns are not directly observable, historical realized returns are often used as a proxy for expected returns on the basis that the historical market risk premium follows what is known in statistics as a "random walk." If the historical risk premium does follow the random walk, then one should expect the risk premium to remain at its historical mean. Based on this argument, the best estimate of the future market risk premium is the historical mean. Duff & Phelps provides historical market returns for various asset classes from 1926 to 2014. This publication also provides market risk premiums over U.S. Treasury bonds, which makes it an excellent source for historical market risk premiums.

Prospective market risk premium estimation approaches necessarily require examining the returns expected from common equities and bonds. One method employs applying the DCF model to a representative market index such as the *Value Line* 1700 stocks. The expected return from the DCF is measured for a number of periods of time, and then subtracted from the prevailing risk-free rate for each period to arrive at market risk premium for each period. The market risk premium subsequently employed in the CAPM is the average market risk premium of the overall period.

Q. HOW MANY MARKET RISK PREMIUM ESTIMATES DID YOU PREPARE?

A. I used two market risk premium estimates: an historical market risk premium and a current market risk premium.

Q. HOW DID YOU ESTIMATE THE HISTORICAL MARKET RISK PREMIUM?

A. I used the Duff & Phelps measure of the average premium of the market over long-term treasury securities from 1926 through 2014, which uses the S&P 500 market index. The average historical market risk premium over long-term treasury

securities is 7.0 percent.

Q. IS THE S&P 500 INDEX A LARGE COMPANY INDEX?

A. Yes. The S&P 500 consists of the 500 largest companies and only approximately 20 percent of the S&P 500 would be considered Mid-Cap companies. Further, there are no companies in the Low-Cap or Micro-Cap categories. Because it is heavily weighted with Large-Cap companies, the S&P 500 is essentially a large company index. Morningstar refers to the S&P 500 as a large company index and cautions that "if using a large company index to calculate the equity risk premium, an adjustment is usually needed to account for the different risk and return characteristics of small stocks."[34]

Q. HOW DID YOU ESTIMATE THE CURRENT MARKET RISK PREMIUM?

A. I derived a market risk premium by first, using the DCF model to compute an expected market return for each of the past 12 months using *Value Line's* projections of the median dividend yield for the dividend yield in the DCF and an average of the median EPS, DPS and BVPS growth on the *Value Line* 1700 stocks. I then subtracted the historical monthly average 30-year Treasury yield for each month from the expected market returns to arrive at the expected market risk premiums. Finally, I averaged the computed market risk premiums to determine the current market risk premium for the last 12 months, 9 months, 6 months, and 3 months. The data and computations are shown on Schedule D-4.10. The recent 3 month average current market risk premium is 9.25 percent. Estimates of the current market risk premium have ranged from 8.5 percent to 9.7 percent over the past 12 months. My recommended market risk premium is based on the recent 3-month average estimate of 9.25 percent and is well within the past 12-month range.

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[34] Morningstar, *2014 Ibbotson SBBI 2014 Classic Yearbook,* at 152.

F. Financial Risk Adjustment.

Q. ARE YOU RECOMMENDING A FINANCIAL RISK ADJUSTMENT TO ACCOUNT FOR DIFFERENCES IN LEVERAGE BETWEEN YOUR WATER PROXY GROUP AND LIBERTY BLACK MOUNTAIN?

A. Yes. I have included a downward financial risk adjustment to the cost of equity of 30 basis points based upon the Hamada method[35] to account for the difference in financial risk between Liberty Black Mountain and the water proxy group.[36]

G. Company Specific Risk Premium.

Q. PLEASE DISCUSS YOUR COMPANY-SPECIFIC RISK PREMIUM.

A. As I testified earlier, Liberty Black Mountain is not directly comparable to the publicly traded water utilities in my water proxy group. The characteristics associated with small size, such as the lack of diversification, limited revenue and cash flow, relatively small customer base, lack of investment liquidity, and earnings volatility, increase the risk faced by smaller water and wastewater utilities over the risk associated with the water proxy group.

Q. PLEASE DISCUSS SIZE RISK FOR SMALL UTILITY COMPANIES.

A. Investment risk increases as the firm size decreases, all else remaining constant. There is a great deal of empirical evidence that the firm size phenomenon exists. Morningstar's *Ibbotson SBBI 2013 Valuation Yearbook* (Chapter 7) reports that smaller companies have experienced higher returns that are not fully explainable by their higher betas and that beta is inversely related to firm size. In other words, smaller companies not only have higher betas but higher returns than larger ones. Even after accounting for differences in beta risk, small companies require an

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[35] "Effects of the Firm's Capital Structure on Systematic Risk of Common Stock," *Journal of Finance*, Vol. 27 No. 2, May 1972, at 435 – 453.

[36] *See* Schedule D-4.14.

additional risk premium over and above the added risk premium indicated by differences in beta risk. Dr. Zepp also reported evidence that the stocks of small water or wastewater utilities are more risky than the stocks of larger water utilities, such as those in the water utilities sample.[37] Even the California PUC conducted a study that showed smaller water utilities are more risky than larger ones.[38] Based on the evidence, it is clear that investors require higher returns on small company stocks than on large company stocks. I have included in Schedule D-4.15 the results of a Morningstar study using annual data reporting the size premium based upon firm size and return data (i) provided in Duff & Phelps *2015 Valuation Handbook, Guide to Cost of Capital,* and (ii) contained in Dr. Thomas M. Zepp's 2003 article in The Quarterly Review Economic and Finance. Based on these sources, I have estimated that a small company risk premium in the range of 99 to 367 basis points is appropriate for Liberty Black Mountain.

Q. HAVE YOU CONDUCTED A COMPARATIVE RISK STUDY TO DEVELOP AN INDICATED RISK PREMIUM FOR LIBERTY BLACK MOUNTAIN?

A. Yes. Attached as **Exhibit TJB-COC-DT2** is the risk study I prepared. To conduct my risk study, I started by computing the 5-year historical operating margin, coefficient of variation of operating margin, coefficient of variation of ROE. Operating margin is a measure of profitability. The co-efficient of variation of operating margin is a measure of earnings variability. Both of these metrics are highly correlated with size and risk. Next, I cross-referenced these metrics with

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

[38] Staff Report on Issues Related to Small Water Utilities (dated June 10, 1991), and CPUC Decision 92-03-093.

data published by Duff & Phelps[39] and identified the corresponding market portfolio beta for Liberty Black Mountain and for my water proxy group. I then computed the relative difference in beta between Liberty Black Mountain and my proxy group. Assuming that the relative difference in the market portfolio beta for the all publicly traded companies is the same for publicly traded water utilities, I then computed an implied beta for Liberty Black Mountain using the difference in portfolio betas.[40] Finally, I used the CAPM to compute the indicated cost of equity for Liberty Black Mountain and compared the results to the CAPM results for my water proxy group.[41]

Q. BASED ON YOUR COMPARATIVE RISK STUDY, WHAT ADDITIONAL RISK PREMIUM IS INDICATED?

A. The indicated risk premium for Liberty Black Mountain is in the range of 150 to 210 basis points.

Q. WHAT COMPANY SPECIFIC-RISK PREMIUM DO YOU RECOMMEND FOR LIBERTY BLACK MOUNTAIN?

A. I add an upward risk premium of 100 basis points to the results of my models, which is at the bottom end of the range of my risk premium estimates. I also recommend a 30 basis point downward adjustment for the difference in financial risk between Liberty Black Mountain and the water proxy group. In effect, the net upward adjustment to the indicated cost of equity is 70 basis points (100 basis points less 30 basis points). My recommended 10.8 percent return on equity is 70 basis points above the midpoint of the overall results for the water proxy group of 10.1 percent.

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[39] Duff & Phelps, Exhibits D-1 and D-2.

[40] *See* page 1 of **Exhibit TJB-COC-DT2**.

[41] *See* page 2 of **Exhibit TJB-COC-DT2**.

H. Summary and Conclusions.

Q. HAVE YOU PREPARED A SCHEDULE THAT SUMMARIZES YOUR EQUITY COST ESTIMATES AND PRESENTS YOUR RECOMMENDATIONS?

A. Yes. The equity cost estimates and my recommendations are summarized in Schedule D-4.1.

In the first part of my analysis, I applied two versions of the constant growth DCF model; one using historical and forecast growth and one using only forecast growth. The DCF models produce an indicated equity cost for the water proxy group in the range of 9.4 percent to 9.7 percent.[42]

In the second part of my analysis, I applied a risk premium model. I used historical annual total market returns for the water proxy group and historical average annual average long-term treasury yields to develop an equity risk premium to which I added the expected long-term treasury to estimate the current cost of equity. My risk premium model produces an indicated cost of equity of 10.6 percent for the water proxy group.[43]

In the third part of my analysis, I applied two versions of the CAPM – a historical risk premium CAPM and a current market risk premium CAPM. The CAPM analyses produce an indicated cost of equity in the range of 9.4 percent to 11.0 percent for the water proxy group.[44]

The overall results on the DCF, CAPM, and RPM analyses for the water proxy group are in the range of 9.8 percent to 10.4 percent with a mid-point of 10.1 percent.

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[42] *See* Schedule D-4.7, pages 1 and 2.

[43] *See* Schedule D-4.9.

[44] *See* Schedule D-4.11.

In the fourth part of my analysis, I determine that a downward adjustment of 30 basis points is required to account for the difference in financial risk between the water proxy group and Liberty Black Mountain.

In the fifth part of my analysis, I reviewed the financial literature on the small firm size effect and determined that an appropriate risk premium for small utilities like Liberty Black Mountain that should be applied to the DCF, RPM, and CAPM results is the range of 99 to 367 basis points.[45]

In the sixth part of my analysis, I conducted a comparative risk study using market based information and determined the indicated risk premium for Liberty (Black Mountain Sewer) falls in the range of 150 to 210 basis points.[46] To be conservative, I recommend a risk premium of only 100 basis points. Using my recommended risk premium of 100 basis points, the additional risk premium, the DCF models produce an indicated equity cost for Liberty Black Mountain in the range of 10.4 percent to 10.7 percent. My risk premium model produces an indicated cost of equity of 11.6 percent for Liberty Black Mountain. My CAPM analyses produce an indicated cost of equity in the range of 10.4 percent to 12.0 percent for Liberty Black Mountain. After adjusting for the difference in financial risk, the range of cost of equity estimates falls in the range of 10.5 to 11.1 percent with a midpoint of 10.8 percent.[47]

Q. WHAT EQUITY RETURN DO YOU RECOMMEND?

A. I am recommending a cost of equity of *no less than* 10.8 percent.

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[45] *See* Schedule D-4.12.

[46] *See* **Exhibit TJB-COC-DT2** and Schedule D-4.12.

[47] *See* Schedule D-4.1.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON COST OF CAPITAL?

A. Yes.

LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.

EXHIBIT TJB-COC-DT1

The Water Utility Industry consists almost exclusively of regulated water companies. Thus, these utilities are monopolies in the markets where they operate, but state regulators establish the returns that can be earned on their investments.

California is in the midst of an historic drought. Three utilities in this industry have a major presence in the state. Due, in part, to reasonable regulation, these conditions have not had a meaningful impact on any of the companies.

The water infrastructure in the United States is in need of a major overhaul. Capital improvements have been deferred by just about every water system for years, if not decades. Large sums of money will be required to remove and replace old pipeline distribution systems.

Consolidation should continue to occur as small, cash-strapped, municipally-run water districts sell themselves to large investor-owned companies that have access to the funds needed to modernize systems.

Yield spreads continue to tighten between water utility stocks and the median dividend yield for equities that do distribute income to shareholders.

California's Historic Drought

Several years into a severe lack of rain and mountain snow, the state is in the midst of a severe water shortage. Governor Brown recently mandated that residents reduce water consumption by 25%. How is this situation effecting water utilities operating there? Surprisingly, the three company's in this issue that distribute water in the Golden State, *American States Water*, *California Water*, and *SJW*, have not really been negatively impacted in a meaningful way. We believe constructive regulation by the California Public Utilities Commission (CPUC) is the reason why. In what is not typically identified as a business-friendly state, the CPUC has acted prudently in getting utilities on board in helping to reduce water consumption. Usually, the more water a company sells, the higher the profits it can generate. Conversely, when demand declines, revenues and profits decrease. Thus, it is not in the best interest of water utilities to help curtail demand. The CPUC has resolved this conflict by using a mechanism called "decoupling." Basically, this allows water companies to promote less water usage without their bottom lines taking a bit hit.

An Aging Water Infrastructure

America's water distribution is in terrible shape. This is the result of years of deferring much needed maintenance and modernization. Both investor- and municipally-owned systems are now faced with burdensome construction budgets. Unfortunately, many of the over 50,000 domestic water districts do not have the financial wherewithal to fund the required improvements. As a result, the large companies in this sector have been on acquisition sprees. Instead of making one or two substantial takeovers, most of the purchases are of the tuck-in variety. Because this is one industry that is filled with redundancies, synergies can actually be achieved that help to fuel earnings growth.

INDUSTRY TIMELINESS: 64 (of 97)

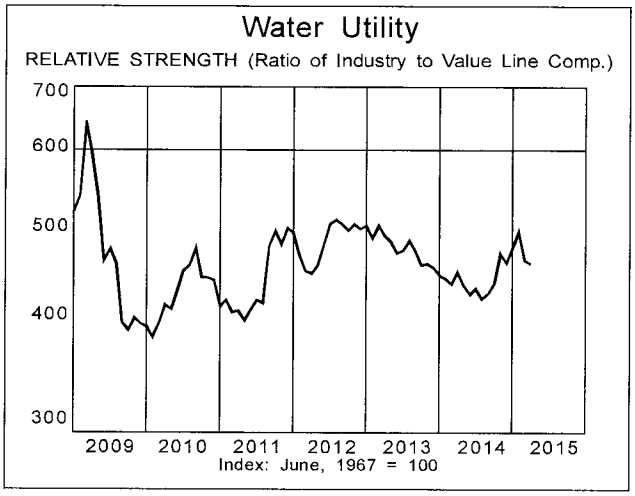
External Financing Will Be Required

To finance the projected capital outlays, water utilities will be forced to issue new debt and equity. Currently, most of these companies have decent balance sheets. (Not one equity in the group has a Financial Strength rating lower than a B+.) Over the next three- to five-year period, we expect the financial metrics of the industry to decline somewhat. Still, there doesn't appear to be any one utility that is expected to become highly leveraged during this period. Much of this is due to relatively constructive state regulatory commissions. Unlike electric utilities, which have been dealt some harsh rulings in the past, in general, authorities have been fair to the water sector. This is probably due to the differences in the industries. Digging up and replacing old pipes is more of a pay as you go operation, whereas, electric utilities sometimes have to spend hundreds of million of dollars on a plant that when finished, could result in huge increases in homeowners monthly bills.

Conclusion

The water utility industry has many positive attributes. State regulators are reasonable, the group has relatively solid finances, earnings are well defined and they don't face market risk that nonregulated industries do because of their monopoly status. However, almost all of the good news appears to be reflected in many of the utilities' stock prices. Out of nine companies, only *American States Water* is ranked to do better than the broader market averages in the year ahead. Moreover, the dividend yields on these stocks are much closer currently than in the past to the yield of the median stock that pays a dividend in the *Value Line* universe. This probably is due to the steep decline in interest rates that has occurred in the U.S. over the past several years. Low bond yields seem to have driven many income-oriented investors into the equity markets. All of this money chasing income has brought down the yield on water utilities, relative to the average stock. Currently, the yield of a typical water utility equity is only about 60 to 65 basis points higher than the average stock. This spread is very low, on an historical basis.

James A. Flood



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AMER. STATES WATER NYSE-AWR

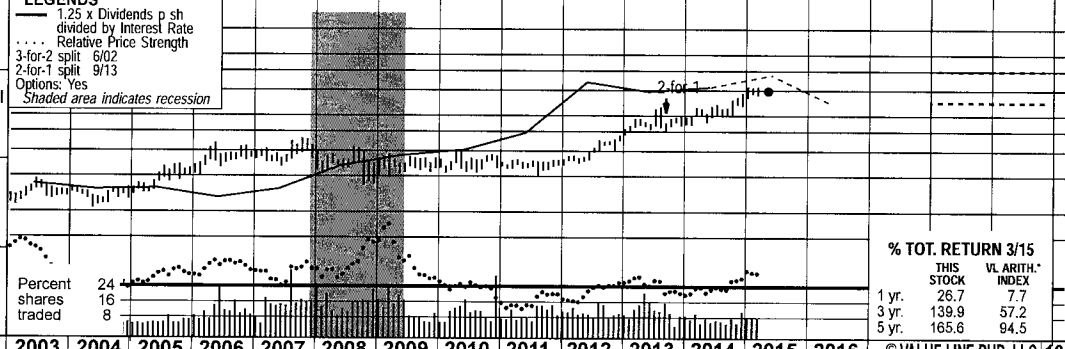
RECENT PRICE 39.76 | P/E RATIO 24.0 (Trailing: 25.5 Median: 21.0) | RELATIVE P/E RATIO 1.24 | DIV'D YLD 2.2% | VALUE LINE

TIMELINESS 3 Lowered 5/16/14
SAFETY 2 Raised 7/20/12
TECHNICAL 2 Raised 4/3/15
BETA .70 (1.00 = Market)

High:	13.4	17.3	21.9	23.1	21.0	19.4	19.8	18.2	24.1	33.1	38.7	41.7	
Low:	10.4	12.2	15.1	16.8	13.5	14.9	15.6	15.3	17.0	24.0	27.0	36.9	

Target Price Range 2018 | 2019 | 2020

LEGENDS
— 1.25 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 6/02
2-for-1 split 9/13
Options: Yes
Shaded area indicates recession



2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+25%)	8%
Low	35	(-10%)	Nil

Insider Decisions

	M	J	J	A	S	O	N	D	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	1	0	1
to Sell	0	1	0	0	1	0	3	0	1

Institutional Decisions

	2Q2014	3Q2014	4Q2014
to Buy	96	81	99
to Sell	68	86	87
Hld's(000)	23236	23032	23380

% TOT. RETURN 3/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	26.7	7.7
3 yr.	139.9	57.2
5 yr.	165.6	94.5

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
6.45	6.08	6.53	6.89	6.99	6.81	7.03	7.88	8.75	9.21	9.74	10.71	11.12	12.12	12.19	12.17	**12.35**	**13.35**	Revenues per sh	**15.35**
1.13	1.10	1.26	1.27	1.04	1.11	1.32	1.45	1.65	1.69	1.70	2.11	2.13	2.48	2.65	**2.65**	**2.70**	**2.80**	"Cash Flow" per sh	**3.70**
.60	.64	.67	.67	.39	.53	.66	.67	.81	.78	.81	1.11	1.12	1.41	1.61	1.57	**1.60**	**1.65**	Earnings per sh A	**2.15**
.43	.43	.43	.44	.44	.44	.45	.46	.48	.50	.51	.52	.55	.64	.76	.83	**.88**	**.93**	Div'd Decl'd per sh B■	**1.12**
2.15	1.51	1.59	1.34	1.88	2.51	2.12	1.95	1.45	2.23	2.09	2.12	2.13	1.77	2.52	1.90	**2.05**	**2.10**	Cap'l Spending per sh	**2.40**
5.91	6.37	6.61	7.02	6.98	7.51	7.86	8.32	8.77	8.97	9.70	10.13	10.84	11.80	12.72	13.24	**13.80**	**14.25**	Book Value per sh	**15.45**
26.87	30.24	30.24	30.36	30.42	33.50	33.60	34.10	34.46	34.60	37.06	37.26	37.70	38.53	38.72	38.29	**38.00**	**37.50**	Common Shs Outst'g C	**37.50**
17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	21.2	15.7	15.4	14.3	17.2	22.2	*Bold figures are*		Avg Ann'l P/E Ratio	**20.5**
.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.36	1.41	1.00	.97	.91	.97	1.17	*Value Line*		Relative P/E Ratio	**1.30**
4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%	3.0%	3.2%	3.1%	2.7%	2.4%	*estimates*		Avg Ann'l Div'd Yield	**2.7%**

CAPITAL STRUCTURE as of 12/31/14
Total Debt $326.1 mill. **Due in 5 Yrs** $41.6 mill.
LT Debt $325.8 mill. **LT Interest** $21.5 mill.
(LT interest earned: 5.7 x: total interest coverage: 5.4 x) (39% of Cap'l)
Leases, Uncapitalized: Annual rentals $0.4 mill.
Pension Assets-12/14 $140.6 mill. **Oblig.** $185.2 mill.
Pfd Stock None.

Common Stock 38,220,567 shs. **as of 2/23/15**

MARKET CAP: $1.5 billion (Mid Cap)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		18-20
236.2	268.6	301.4	318.7	361.0	398.9	419.3	466.9	472.1	465.8	**470**	**500**	Revenues ($mill)	**575**
22.5	23.1	28.0	26.8	29.5	41.4	42.0	54.1	62.7	61.1	**61.0**	**62.5**	Net Profit ($mill)	**80.0**
47.0%	40.5%	42.6%	37.8%	38.9%	43.2%	41.7%	39.9%	36.3%	38.4%	**38.5%**	**38.0%**	Income Tax Rate	**38.0%**
--	12.2%	8.5%	6.9%	3.2%	5.8%	2.0%	2.5%	2.5%	**.5%**	**.5%**	**1.0%**	AFUDC % to Net Profit	**2.0%**
50.4%	48.6%	46.9%	46.2%	45.9%	44.3%	45.4%	42.2%	39.8%	39.1%	**41.0%**	**43.0%**	Long-Term Debt Ratio	**42.0%**
49.6%	51.4%	53.1%	53.8%	54.1%	55.7%	54.6%	57.8%	60.2%	60.9%	**59.0%**	**57.0%**	Common Equity Ratio	**58.0%**
532.5	551.6	569.4	577.0	665.0	677.4	749.1	787.0	818.4	832.6	**890**	**935**	Total Capital ($mill)	**1070**
713.2	750.6	776.4	825.3	866.4	855.0	896.5	917.8	981.5	1003.5	**1060**	**1120**	Net Plant ($mill)	**1240**
5.4%	6.0%	6.7%	6.4%	5.9%	7.6%	7.1%	8.3%	8.9%	8.6%	**9.0%**	**8.5%**	Return on Total Cap'l	**8.5%**
8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.3%	11.9%	12.7%	12.1%	**11.5%**	**11.5%**	Return on Shr. Equity	**13.0%**
8.5%	8.1%	9.3%	8.6%	8.2%	11.0%	10.3%	11.9%	12.7%	12.1%	**11.5%**	**11.5%**	Return on Com Equity	**13.0%**
2.8%	2.7%	3.9%	3.1%	3.2%	5.8%	5.3%	6.6%	6.8%	5.6%	**5.0%**	**5.0%**	Retained to Com Eq	**6.0%**
67%	67%	58%	64%	61%	47%	49%	45%	47%	53%	**55%**	**56%**	All Div'ds to Net Prof	**52%**

CURRENT POSITION ($MILL.)	2012	2013	12/31/14
Cash Assets	23.5	38.2	76.0
Other	160.5	153.4	133.5
Current Assets	184.0	191.6	209.5
Accts Payable	40.6	49.8	41.9
Debt Due	3.3	6.3	.3
Other	49.8	44.8	57.1
Current Liab.	93.7	100.9	99.3
Fix. Chg. Cov.	488%	531%	533%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '18-'20
Revenues	5.5%	6.5%	*4.0%*
"Cash Flow"	7.5%	8.5%	*6.0%*
Earnings	9.0%	13.0%	*6.5%*
Dividends	4.0%	6.5%	*8.0%*
Book Value	5.5%	6.5%	*4.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	107.6	114.3	133.5	111.5	466.9
2013	110.6	120.7	130.9	109.9	472.1
2014	102.0	115.6	138.3	109.9	465.8
2015	*103*	*117*	*140*	*110*	*470*
2016	*105*	*125*	*150*	*120*	*500*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.27	.40	.49	.26	1.41
2013	.35	.43	.53	.30	1.61
2014	.28	.39	.54	.36	1.57
2015	*.30*	*.45*	*.55*	*.30*	*1.60*
2016	*.31*	*.46*	*.57*	*.31*	*1.65*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.13	.14	.14	.14	.55
2012	.14	.14	.1775	.1775	.64
2013	.1775	.1775	.2025	.2025	.76
2014	.2025	.2025	.213	.213	.83
2015	.213				

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden States Water Company, it supplies water to 258,191 customers in 75 communities and 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to 23,716 customers in the city of Big Bear Lake and in areas of San Bernardino County. Sold Chaparral City Water of Arizona (6/11). Has 707 employees. Blackrock, Inc., owns 9.8% of out. shares; Vanguard, 8.5%; off. & dir. 1.5%. (4/15 Proxy). Chairman: Lloyd Ross. President & CEO: Robert J. Sprowls. Inc: CA. Addr: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com.

American States Water's earnings growth should be modest through 2016. The company's main subsidiary, Golden State Water Co., has been coming close to earning the allowable return on its common equity for the past two years. Thus, there isn't much room for bottom-line expansion in the near term. All told, we only expect share net to increase 2% this year, followed by a 3% increase in 2016.

Growth in the military business should bolster long-term profits. Through its ASUS subsidiary, the company provides water to nine armed forces bases under six 50-year contracts. This operation, in which returns are not capped by state regulators, has been responsible for 20% to 25% of American States' share earnings. Over the next five years, up to 50 more bases may privatize their water and wastewater systems. As ASUS has performed successfully in this sector, we expect it to win a proportionate amount of these contracts.

Operating in California has not been a negative for the company. Regulators in the state have worked well with the industry in response to the record-breaking drought now plaguing the region. Usually, a decrease in water usage translates into reduced revenues for a utility, making conservation almost not in their interest. In a process known as decoupling, GSWC is allowed to structure fees that result in it not being penalized to incentivize households to use less water. Indeed, over the past six years, water usage has declined 16%-17%. Moreover, California permits utilities to collect increased expenses as they are incurred, not after the fact, as many other state regulators require.

Management believes that a 5% dividend growth rate is sustainable over the next 3- to 5-year period. Though this is below historical levels, the expected increase in the annual payout is not far off the industry average. With the help from nonregulated businesses, we think there is potential upside to this figure.

American Water shares do not stand out for either short- or long-term potential performance. The stock's strong showing has eliminated much of its attractiveness.

James A. Flood *April 17, 2015*

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 7¢; '05, 13¢; '06, 3¢; '08, (14¢); '10, (23¢) '11, 10¢. Next earnings report due mid-May. Quarterly earnings may not add due to rounding.
(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	A
Stock's Price Stability	85
Price Growth Persistence	70
Earnings Predictability	85

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AQUA AMERICA NYSE-WTR

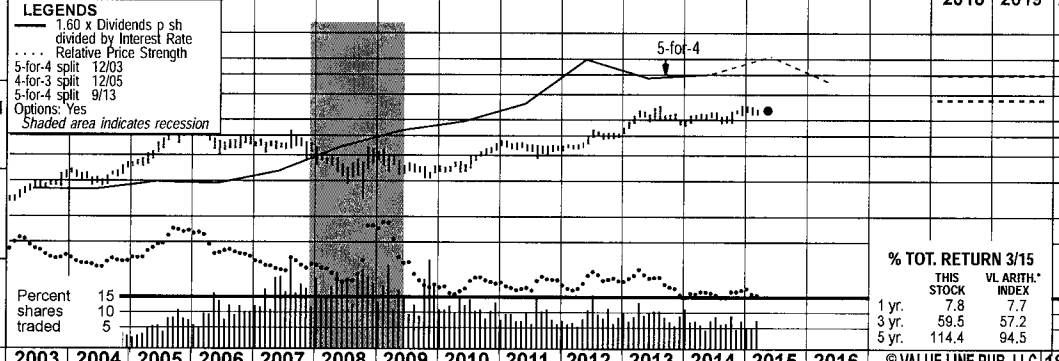
RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
26.81	21.6	(Trailing: 22.2 Median: 24.0)	1.12	2.6%	VALUE LINE

TIMELINESS 3 Lowered 5/24/13
SAFETY 2 Raised 4/20/12
TECHNICAL 2 Raised 4/3/15
BETA .70 (1.00 = Market)

High:	14.8	23.4	23.8	21.3	17.6	17.2	18.4	19.0	21.5	28.1	28.2	28.1
Low:	11.3	14.0	16.1	15.1	9.8	12.3	13.2	15.4	16.8	20.6	22.4	25.4

Target Price Range 2018 | 2019 | 2020

LEGENDS
— 1.60 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
5-for-4 split 12/03
4-for-3 split 12/05
5-for-4 split 9/13
Options: Yes
Shaded area indicates recession



2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+50%)	13%
Low	30	(+10%)	6%

Insider Decisions

	M	J	J	A	S	O	N	D	J
to Buy	0	0	0	0	0	0	0	0	0
Options	2	1	0	1	0	0	2	1	1
to Sell	3	1	1	2	1	2	5	2	2

Institutional Decisions

	2Q2014	3Q2014	4Q2014
to Buy	127	139	137
to Sell	133	126	140
Hld's(000)	81999	80311	81382

% TOT. RETURN 3/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	7.8	7.7
3 yr.	59.5	57.2
5 yr.	114.4	94.5

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
1.93	1.97	2.16	2.28	2.38	2.78	3.08	3.23	3.61	3.71	3.93	4.21	4.10	4.32	4.32	4.37	4.55	4.70	Revenues per sh	5.70
.58	.61	.69	.76	.77	.87	.97	1.01	1.10	1.14	1.29	1.42	1.45	1.51	1.82	1.90	2.35	2.50	"Cash Flow" per sh	3.05
.33	.37	.41	.43	.46	.51	.57	.56	.57	.58	.62	.72	.83	.87	1.16	1.20	1.25	1.30	Earnings per sh A	1.65
.22	.23	.24	.26	.28	.29	.32	.35	.38	.41	.44	.47	.50	.54	.58	.63	.71	.77	Div'd Decl'd per sh B■	.98
.72	.93	.87	.96	1.06	1.23	1.47	1.64	1.43	1.58	1.66	1.89	1.90	1.98	1.73	1.84	1.95	2.00	Cap'l Spending per sh	2.00
2.74	3.08	3.32	3.49	4.27	4.71	5.04	5.57	5.85	6.26	6.50	6.81	7.21	7.90	8.63	9.27	9.65	10.05	Book Value per sh	11.40
133.50	139.78	142.47	141.49	154.31	158.97	161.21	165.41	166.75	169.21	170.61	172.46	173.60	175.43	177.93	178.59	176.50	175.00	Common Shs Outst'g C	170.00
21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	24.9	23.1	21.1	21.3	21.9	21.2	20.2	Bold figures are		Avg Ann'l P/E Ratio	21.5
1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	1.54	1.34	1.34	1.39	1.19	1.06	Value Line		Relative P/E Ratio	1.35
3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.1%	3.1%	2.8%	2.8%	2.4%	2.6%	estimates		Avg Ann'l Div'd Yield	2.6%

CAPITAL STRUCTURE as of 12/31/14
Total Debt $1630.7 mill. **Due in 5 Yrs** $436.9 mill.
LT Debt $1560.7 mill. **LT Interest** $70.0 mill.
(Total interest coverage: 3.9x) (49% of Cap'l)

Pension Assets-12/14 232.4 mill.
Oblig. $281.2 mill.

Pfd Stock None
Common Stock 176,823,519 shares
as of 2/12/15

MARKET CAP: $4.7 billion (Mid Cap)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		18-20
496.8	533.5	602.5	627.0	670.5	726.1	712.0	757.8	768.6	779.9	800	825	Revenues ($mill)	970
91.2	92.0	95.0	97.9	104.4	124.0	144.8	153.1	205.0	213.9	225	230	Net Profit ($mill)	280
38.4%	39.6%	38.9%	39.7%	39.4%	39.2%	32.9%	39.0%	10.0%	10.5%	18.0%	20.0%	Income Tax Rate	27.0%
--	--	--	--	--	--	--	--	1.1%	2.4%	2.0%	2.5%	AFUDC % to Net Profit	3.0%
52.0%	51.6%	55.4%	54.1%	55.6%	56.6%	52.7%	52.7%	48.9%	48.5%	49.5%	50.0%	Long-Term Debt Ratio	50.0%
48.0%	48.4%	44.6%	45.9%	44.4%	43.4%	47.3%	47.3%	51.1%	51.5%	50.5%	50.0%	Common Equity Ratio	50.0%
1690.4	1904.4	2191.4	2306.6	2495.5	2706.2	2646.8	2929.7	3003.6	3216.1	3370	3505	Total Capital ($mill)	3955
2280.0	2506.0	2792.8	2997.4	3227.3	3469.3	3612.9	3936.2	4167.3	4402.0	4550	4700	Net Plant ($mill)	5000
6.9%	6.4%	5.9%	5.7%	5.6%	5.9%	6.9%	6.6%	8.0%	7.5%	8.0%	7.5%	Return on Total Cap'l	8.5%
11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.6%	11.0%	13.4%	12.9%	13.0%	13.0%	Return on Shr. Equity	14.5%
11.2%	10.0%	9.7%	9.3%	9.4%	10.6%	11.6%	11.0%	13.4%	12.9%	13.0%	13.0%	Return on Com Equity	14.5%
4.9%	3.7%	3.2%	2.8%	2.7%	3.7%	4.6%	4.3%	6.7%	6.1%	5.5%	5.5%	Retained to Com Eq	6.0%
56%	63%	67%	70%	72%	65%	60%	61%	50%	53%	57%	53%	All Div'ds to Net Prof	59%

CURRENT POSITION ($MILL.)	2012	2013	12/31/14
Cash Assets	5.5	5.1	4.1
Receivables	92.9	95.4	97.0
Inventory (AvgCst)	11.8	11.4	12.8
Other	150.7	59.8	38.6
Current Assets	260.9	171.7	152.5
Accts Payable	55.5	65.8	60.0
Debt Due	125.4	123.0	70.0
Other	93.3	78.1	95.3
Current Liab.	274.2	266.9	225.3
Fix. Chg. Cov.	413%	388%	389%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '18-'20
Revenues	6.5%	4.0%	4.5%
"Cash Flow"	8.0%	8.0%	9.5%
Earnings	8.5%	11.0%	8.0%
Dividends	7.5%	7.0%	9.0%
Book Value	8.0%	6.0%	5.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2102	164.0	191.7	214.6	187.5	757.8
2013	180.0	195.7	204.3	188.6	768.6
2014	182.7	195.3	210.5	191.4	779.9
2015	185	200	215	200	800
2016	190	205	220	210	825

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	.15	.24	.29	.19	.87
2013	.26	.30	.36	.24	1.16
2014	.24	.31	.38	.28	1.20
2015	.25	.32	.39	.29	1.25
2016	.26	.33	.41	.30	1.30

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.124	.124	.124	.132	.50
2012	.132	.132	.132	.14	.54
2013	.14	.14	.152	.152	.58
2014	.152	.152	.165	.165	.63
2015	.165				

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Has 1,617 employees. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '14: residential, 68%; commercial, 17%; industrial & other, 15%. Officers and directors own .8% of the common stock; Vangurad Group, 6.6%; State Street Capital Corp., 6.3%; Blackrock, Inc, 6.1% (4/14 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

Aqua America has healthy long-term dividend growth prospects. Based upon our projections of the company's ability to internally generate cash, we estimate that the annual payout may increase roughly 9% per annum through 2018-2020. This is a much higher rate than that of the typical stock in the industry.

Earnings gains will probably moderate both this year and next. Excluding the $0.11-a-share gain from the sale of its operations in Fort Wayne, Aqua's share net rose 3.4% in 2014. Considering that 2013 was an exceptional year, the comparison was actually good. Due to some rate relief, synergies from acquisitions, and the ability to earn returns on capital investments with little regulatory lag, we expect the utility to record 4% bottom-line increases in both 2015 and 2016.

Expansion via acquisitions is a major part of the company's strategy. Most water systems in the U.S. are small and municipally owned. Over the past two decades, Aqua has made over 300 purchases, including 16 in 2014. As these smaller water districts realize that they do not have the finances to modernize their aging infrastructures, they will continue to look toward merging with larger companies. With a significant amount of redundancies, cost savings from synergies can be significant in this industry

Low energy prices could impact non-regulated operations. Hydraulic fracking has become a major presence in Aqua's service areas. With each well requiring five million gallons of water, transporting it by truck is both burdensome and expensive. Extending pipeline systems directly to the wells can be very profitable for water utilities. Revenues from this sector should decline, however, as drillers shut wells until the energy market recovers.

Investors willing to sacrifice some returns for more certainty may like these shares. On the plus side, Aqua America stock has a decent well-protected dividend yield, favorable payout growth prospects, a solid balance sheet, the highest (95) mark for Stock Price Stability, well-defined earnings, and a 2 (Above Average) Safety rank. All told, we believe that the potential total returns are adequate on a risk-adjusted basis.

James A. Flood *April 17, 2015*

(A) Diluted egs. Excl. nonrec. gains (losses): '99, (9¢); '00, 2¢; '01, 2¢; '02, 4¢; '03, 3¢; '12, 18¢. Excl. gain from disc. operations: '12, 7¢; '13, 9¢; '14, 11¢. May not sum due to rounding. Next earnings report due mid-May.
(B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount).
(C) In millions, adjusted for stock splits.

Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	60
Earnings Predictability	95

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CALIFORNIA WATER NYSE-CWT

RECENT PRICE	24.76	P/E RATIO	19.2 (Trailing: 23.1 / Median: 20.0)	RELATIVE P/E RATIO	0.99	DIV'D YLD	2.7%	VALUE LINE

TIMELINESS 3 Raised 6/20/14
SAFETY 3 Lowered 7/27/07
TECHNICAL 2 Raised 4/3/15
BETA .75 (1.00 = Market)

High:	19.0	21.1	22.9	22.7	23.3	24.1	19.8	19.4	19.3	23.4	26.4	26.0
Low:	13.0	15.6	16.4	17.1	13.8	16.7	16.9	16.7	16.8	18.4	20.3	23.6

Target Price Range 2018 | 2019 | 2020

2018-20 PROJECTIONS

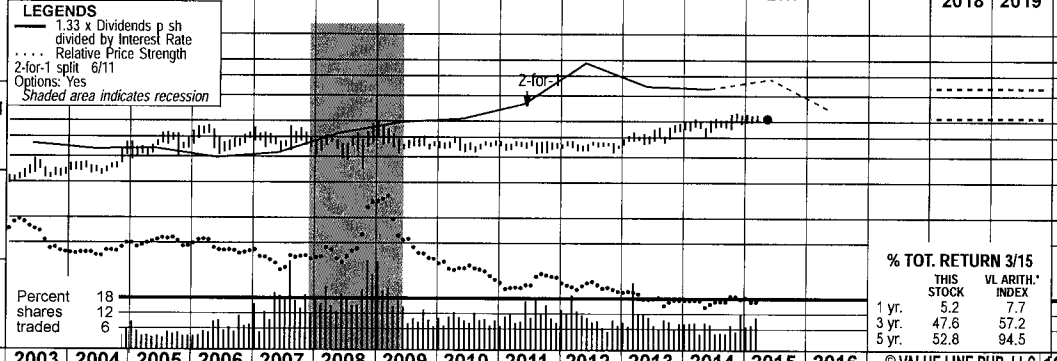
	Price	Gain	Ann'l Total Return
High	35	(+40%)	11%
Low	25	(Nil)	3%

Insider Decisions

	M	J	J	A	S	O	N	D	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	1	0	0	0	0	0
to Sell	1	0	0	0	0	0	3	2	0

Institutional Decisions

	2Q2014	3Q2014	4Q2014
to Buy	57	53	81
to Sell	56	53	59
Hld's(000)	30279	29552	29654



% TOT. RETURN 3/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	5.2	7.7
3 yr.	47.6	57.2
5 yr.	52.8	94.5

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
7.98	8.08	8.13	8.67	8.18	8.59	8.72	8.10	8.88	9.90	10.82	11.05	12.00	13.34	12.23	12.50	12.80	13.25	Revenues per sh	16.80
1.37	1.26	1.10	1.32	1.26	1.42	1.52	1.36	1.56	1.86	1.93	1.93	2.07	2.32	2.21	2.50	2.60	2.65	"Cash Flow" per sh	3.20
.77	.66	.47	.63	.61	.73	.74	.67	.75	.95	.98	.91	.86	1.02	1.02	1.19	1.20	1.20	Earnings per sh A	1.55
.54	.55	.56	.56	.56	.57	.57	.58	.58	.59	.59	.60	.62	.63	.64	.65	.67	.69	Div'd Decl'd per sh B ■	.97
1.72	1.23	2.04	2.91	2.19	1.87	2.01	2.14	1.84	2.41	2.66	2.97	2.83	3.04	2.58	2.75	2.50	2.60	Cap'l Spending per sh	3.10
6.71	6.45	6.48	6.56	7.22	7.83	7.90	9.07	9.25	9.72	10.13	10.45	10.76	11.28	12.54	13.22	13.75	14.25	Book Value per sh C	16.00
25.87	30.29	30.36	30.36	33.86	36.73	36.78	41.31	41.33	41.45	41.53	41.67	41.82	41.98	47.74	47.81	48.00	48.00	Common Shs Outst'g D	50.00
17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.2	26.1	19.8	19.7	20.3	21.3	17.9	20.1	19.3	Bold figures are		Avg Ann'l P/E Ratio	20.0
1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	1.39	1.19	1.31	1.29	1.34	1.14	1.13	1.02	Value Line		Relative P/E Ratio	1.25
4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%	3.0%	3.1%	3.1%	3.2%	3.4%	3.5%	3.1%	2.8%	estimates		Avg Ann'l Div'd Yield	3.2%

CAPITAL STRUCTURE as of 12/31/14
Total Debt $504.9 mill. **Due in 5 Yrs** $206.7 mill.
LT Debt $419.2 mill. **LT Interest** $20.0 mill.
(LT interest earned: 4.2x; total int. cov.: 4.0x)
(40% of Cap'l)
Pension Assets-12/14 $306.3 mill.
Oblig. $390.6 mill.
Pfd Stock None

Common Stock 47,800.997 shs.
as of 2/9/15

MARKET CAP: $1.2 billion (Mid Cap)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		18-20
320.7	334.7	367.1	410.3	449.4	460.4	501.8	560.0	584.1	597.5	615	635	Revenues ($mill) E	840
27.2	25.6	31.2	39.8	40.6	37.7	36.1	42.6	47.3	56.7	57.5	57.5	Net Profit ($mill)	77.5
42.4%	37.4%	39.9%	37.7%	40.3%	39.5%	40.5%	37.5%	30.3%	33.0%	28.5%	29.5%	Income Tax Rate	36.0%
3.3%	10.6%	8.3%	8.6%	7.6%	4.2%	7.6%	8.0%	4.3%	2.7%	2.0%	4.5%	AFUDC % to Net Profit	5.0%
48.3%	43.5%	42.9%	41.6%	47.1%	52.4%	51.7%	47.8%	41.6%	40.1%	43.0%	43.5%	Long-Term Debt Ratio	41.5%
51.1%	55.9%	56.6%	58.4%	52.9%	47.6%	48.3%	52.2%	58.4%	59.9%	57.0%	56.5%	Common Equity Ratio	58.5%
568.1	670.1	674.9	690.4	794.9	914.7	931.5	908.2	1024.9	1045.9	1160	1215	Total Capital ($mill)	1370
862.7	941.5	1010.2	1112.4	1198.1	1294.3	1381.1	1457.1	1515.8	1590.4	1660	1730	Net Plant ($mill)	1820
6.3%	5.2%	5.9%	7.1%	6.5%	5.5%	5.5%	6.3%	6.0%	6.8%	6.5%	6.0%	Return on Total Cap'l	7.0%
9.3%	6.8%	8.1%	9.9%	9.6%	8.6%	8.0%	9.0%	7.9%	9.0%	9.0%	8.5%	Return on Shr. Equity	9.5%
9.3%	6.8%	8.1%	9.9%	9.6%	8.6%	8.0%	9.0%	7.9%	9.0%	9.0%	8.5%	Return on Com Equity	9.5%
2.1%	1.0%	1.8%	3.8%	3.8%	3.0%	2.3%	3.4%	3.4%	4.1%	4.0%	3.5%	Retained to Com Eq	3.5%
78%	86%	77%	61%	60%	66%	71%	62%	56%	55%	56%	58%	All Div'ds to Net Prof	63%

CURRENT POSITION ($MILL.)	2012	2013	12/31/14
Cash Assets	38.8	27.5	19.6
Other	107.8	112.0	134.5
Current Assets	146.6	139.5	154.1
Accts Payable	46.8	55.1	59.4
Debt Due	136.3	54.7	85.7
Other	59.7	56.8	72.6
Current Liab.	242.8	166.6	217.7
Fix. Chg. Cov.	296%	301%	299%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '18-'20
Revenues	4.0%	7.0%	5.0%
"Cash Flow"	6.0%	6.5%	5.5%
Earnings	5.5%	4.0%	7.5%
Dividends	1.0%	1.5%	7.0%
Book Value	5.5%	4.5%	5.5%

Cal-endar	QUARTERLY REVENUES ($ mill.)E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	116.8	143.6	178.1	121.5	560.0
2013	111.4	154.6	184.4	133.7	584.1
2014	110.5	158.4	191.2	137.4	597.5
2015	115	165	195	140	615
2016	120	170	200	145	635

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2012	.03	.31	.56	.12	1.02
2013	.01	.28	.61	.12	1.02
2014	d.11	.36	.70	.24	1.19
2015	Nil	.32	.73	.15	1.20
2016	Nil	.31	.74	.15	1.20

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.154	.154	.154	.154	.62
2012	.1575	.1575	.1575	.1575	.63
2013	.16	.16	.16	.16	.64
2014	.1625	.1625	.1625	.1625	.65
2015	.1675				

BUSINESS: California Water Service Group provides regulated and nonregulated water service to 477,900 customers in 85 communities in the state of California. Accounts for over 94% of total customers. Also operates in Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '14: residential, 68%; business, 19%; industrial, 5%; public authorities, 3%; other 5%. '14 reported depreciation rate: 4.0%. Has 1,105 employees. President, Chairman, and CEO: Peter C. Nelson. Inc.: DE. Address: 1720 North First St., San Jose, CA 95112-4598. Tel.: 408-367-8200. Internet: www.calwatergroup.com.

State regulators (CPUC) have been working well with California Water Services during the region's historic drought. The more water it sells, the more revenues a water utility generates. Due to the ongoing lack of rainfall, the CPUC has implemented "decoupling." This mechanism encourages conservation, without having a major impact on a water utility's profits.

The company had a much better-than-expected fourth quarter. Fueled by rate relief implemented last year and reduced expenses, California Water's earnings per share doubled to $0.24, on a year-over-year basis in the December interim. This resulted in a hefty 17% bottom-line gain in 2014.

We expect profits to be flattish over the next two years. The bulk of the earnings gains resulting from higher rates were reflected in California Water's earnings in 2014. Based on state regulations, California water utilities can only file for adjustments for increased expenses once every three years. With most of the recent cost reductions probably not sustainable, we estimate that the company's share earnings will barely budge from last year's tally of $1.19, and come in at $1.20 for both 2015 and 2016.

The latest dividend hike was a bit of a disappointment. We had been looking for a 4.6% increase in the quarterly payout to $0.17 a share, instead it was only raised by 3.1% to $0.1675.

California Water's finances are in fine shape. The equity-to-total capital ratio was at an industry high of 60% at year-end 2014. Much of this can be attributed to a large equity offering in 2013. Capital expenditures to replace an aging pipleine infrastructure will probably increase in the years ahead. Because of the strong balance sheet, we don't anticipate any major equity offerings out to the late decade. Additional debt may be required, but we believe the utility's financial metrics will remain above the industry averages.

These shares are not of particular interest at this juncture. On the plus side, CWT's yield is higher than most of the stocks in the water industry. Over the pull to 2018-2020, however, the stock has below-average total return potential.

James A. Flood *April 17, 2015*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (4¢); '01, 2¢; '02, 4¢; '11, 4¢. Next earnings report due mid-May. (B) Dividends historically paid in late Feb., May, Aug., and Nov. ■
Div'd reinvestment plan available.
(C) Incl. intangible assets. In '14 : $7.3 mill., $0.15/sh.
(D) In millions, adjusted for splits.
(E) Excludes non-reg. rev.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	40
Earnings Predictability	90

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CONNECTICUT WATER NDQ-CTWS

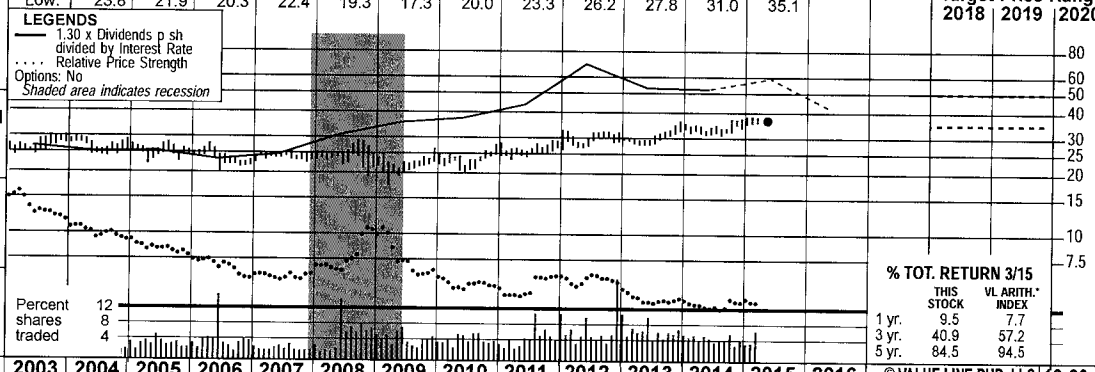
RECENT PRICE 36.82 | P/E RATIO 18.7 (Trailing: 19.2 Median: 22.0) | RELATIVE P/E RATIO 0.97 | DIV'D YLD 2.9% | VALUE LINE

TIMELINESS 3 Lowered 11/21/14
SAFETY 3 New 1/18/13
TECHNICAL 2 Raised 3/27/15
BETA .65 (1.00 = Market)

High:	29.8	28.2	27.7	25.6	29.0	26.4	27.9	29.1	32.8	36.4	37.5	38.6
Low:	23.8	21.9	20.3	22.4	19.3	17.3	20.0	23.3	26.2	27.8	31.0	35.1

Target Price Range 2018 | 2019 | 2020

LEGENDS
— 1.30 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: No
Shaded area indicates recession



2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+35%)	10%
Low	35	(-5%)	2%

Insider Decisions

	M	J	J	A	S	O	N	D	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	2Q2014	3Q2014	4Q2014
to Buy	40	50	36
to Sell	32	34	46
Hld's(000)	4304	4299	4296

Percent shares traded 12 8 4

% TOT. RETURN 3/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	9.5	7.7
3 yr.	40.9	57.2
5 yr.	84.5	94.5

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
5.87	5.70	5.93	5.77	5.91	6.04	5.81	5.68	7.05	7.24	6.93	7.65	7.93	9.47	8.29	8.45	**8.75**	**9.00**	Revenues per sh	**12.50**
1.65	1.73	1.78	1.78	1.89	1.91	1.62	1.52	1.90	1.95	1.93	2.04	2.11	2.64	2.63	**3.00**	**3.20**	**3.35**	"Cash Flow" per sh	**3.60**
1.03	1.09	1.13	1.12	1.15	1.16	.88	.81	1.05	1.11	1.19	1.13	1.13	1.53	1.66	1.92	**2.00**	**2.10**	Earnings per sh A	**2.25**
.79	.79	.80	.81	.83	.84	.85	.86	.87	.88	.90	.92	.94	.96	.98	1.01	**1.05**	**1.09**	Div'd Decl'd per sh B■	**1.30**
1.42	1.43	1.86	1.98	1.49	1.58	1.96	1.96	2.24	2.44	3.28	3.06	2.61	2.79	3.02	4.11	**4.60**	**4.15**	Cap'l Spending per sh	**2.85**
8.61	8.92	9.25	10.06	10.46	10.94	11.52	11.60	11.95	12.23	12.67	13.05	13.50	20.95	17.92	18.84	**20.10**	**21.15**	Book Value per sh D	**24.15**
7.26	7.28	7.65	7.94	7.97	8.04	8.17	8.27	8.38	8.46	8.57	8.68	8.76	8.85	11.04	11.12	**11.20**	**11.35**	Common Shs Outst'g C	**12.00**
18.2	18.2	21.5	24.3	23.5	22.9	28.6	29.0	23.0	22.2	18.4	20.7	23.0	19.4	18.4	17.7	*Bold figures are*		Avg Ann'l P/E Ratio	**19.0**
1.04	1.18	1.10	1.33	1.34	1.21	1.52	1.57	1.22	1.34	1.23	1.32	1.44	1.23	1.03	.93	*Value Line*		Relative P/E Ratio	**1.20**
4.2%	4.0%	3.3%	3.0%	3.0%	3.1%	3.4%	3.6%	3.6%	3.6%	4.1%	3.9%	3.6%	3.2%	3.2%	3.0%	*estimates*		Avg Ann'l Div'd Yield	**2.8%**

CAPITAL STRUCTURE as of 12/31/14
Total Debt $181.0 mill. **Due in 5 Yrs** $19.3 mill.
LT Debt $176.6 mill. **LT Interest** $7.0 mill.
(Total interest coverage: 4.4x)
(46% of Cap'l)
Leases, Uncapitalized: Annual rentals $.1 mill.
Pension Assets-12/14 $61.6 mill.
Oblig. $79.8 mill.

Pfd Stock $0.8 mill. **Pfd Divd** NMF

Common Stock 11,152,627 shs.
as of 3/1/15
MARKET CAP: $400 million (Small Cap)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		18-20
47.5	46.9	59.0	61.3	59.4	66.4	69.4	83.8	91.5	94.0	**98.0**	**102**	Revenues ($mill)	**150**
7.2	6.7	8.8	9.4	10.2	9.8	9.9	13.6	18.3	21.3	**23.0**	**24.0**	Net Profit ($mill)	**27.0**
--	23.5%	32.4%	27.2%	19.5%	35.2%	41.3%	32.0%	28.0%	**14.5%**	**18.0%**	**19.5%**	Income Tax Rate	**30.0%**
--	--	--	1.7%	--	--	--	1.7%	2.0%	2.4%	**2.5%**	**2.5%**	AFUDC % to Net Profit	**2.0%**
44.9%	44.4%	47.8%	46.9%	50.6%	49.5%	53.2%	49.0%	46.9%	45.7%	**45.5%**	**47.5%**	Long-Term Debt Ratio	**47.5%**
54.6%	55.1%	51.8%	52.7%	49.1%	50.2%	46.5%	50.8%	52.9%	54.2%	**54.5%**	**52.5%**	Common Equity Ratio	**52.5%**
172.3	174.1	193.2	196.5	221.3	225.6	254.2	364.6	373.6	386.8	**420**	**455**	Total Capital ($mill)	**550**
247.7	268.1	284.3	302.3	325.2	344.2	362.4	447.9	471.9	506.9	**535**	**560**	Net Plant ($mill)	**675**
5.0%	4.9%	5.5%	5.9%	5.5%	5.4%	4.9%	4.8%	5.9%	**6.4%**	**6.5%**	**6.5%**	Return on Total Cap'l	**6.0%**
7.5%	6.9%	8.7%	9.0%	9.3%	8.6%	8.3%	7.3%	9.2%	10.2%	**10.0%**	**10.0%**	Return on Shr. Equity	**9.5%**
7.6%	7.0%	8.7%	9.1%	9.4%	8.7%	8.3%	7.3%	9.2%	10.2%	**10.0%**	**10.0%**	Return on Com Equity	**9.5%**
.3%	NMF	1.6%	1.9%	2.3%	1.6%	1.4%	2.8%	3.8%	4.5%	**4.5%**	**4.5%**	Retained to Com Eq	**4.0%**
95%	105%	82%	79%	76%	81%	83%	62%	59%	53%	**53%**	**52%**	All Div'ds to Net Prof	**58%**

CURRENT POSITION ($MILL.)	2012	2013	12/31/14
Cash Assets	13.2	18.4	2.5
Accounts Receivable	11.5	12.3	12.0
Other	11.7	16.2	21.7
Current Assets	36.4	46.9	36.2
Accts Payable	10.0	10.8	10.0
Debt Due	3.0	4.1	4.4
Other	2.9	7.8	9.2
Current Liab.	15.9	22.7	23.6
Fix. Chg. Cov.	408%	375%	375%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '18-'20
Revenues	4.0%	5.0%	5.5%
"Cash Flow"	3.0%	6.5%	5.5%
Earnings	2.5%	8.0%	6.5%
Dividends	1.5%	2.0%	4.5%
Book Value	6.0%	8.0%	4.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	18.5	21.3	24.5	19.5	83.8
2013	19.7	22.6	27.6	21.6	91.5
2014	20.3	25.4	27.6	20.7	94.0
2015	**21.5**	**26.5**	**29.0**	**21.0**	**98.0**
2016	**22.5**	**27.5**	**30.0**	**22.0**	**102.0**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.22	.47	.67	.16	1.53
2013	.24	.39	.86	.17	1.66
2014	.27	.67	.76	.22	1.92
2015	**.35**	**.60**	**.80**	**.25**	**2.00**
2016	**.36**	**.62**	**.85**	**.27**	**2.10**

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.233	.233	.238	.238	.942
2012	.238	.238	.2425	.2425	.962
2013	.2425	.2425	.2475	.2475	.98
2014	.2475	.2475	.2575	.2575	1.01
2015	.2575				

BUSINESS: Connecticut Water Service, Inc. is a non-operating holding company, whose income is derived from earnings of its wholly-owned subsidiary companies (regulated water utilities). In 2014, 93% of net income was derived from these activities. Provides water services to 400,000 people in 77 municipalities throughout Connecticut and Maine. Acquired The Maine Water Company, January, 2012; Biddeford and Saco Water, December, 2012. Incorporated: Connecticut. Has 265 employees. Chairman/President/Chief Executive Officer: Eric W. Thornburg. Officers and directors own 2.3% of the common stock; BlackRock, Inc. 7.0%; (4/15 proxy). Address: 93 West Main Street, Clinton, CT 06413. Telephone: (860) 669-8636. Internet: www.ctwater.com.

Connecticut Water Services will be hard-pressed to repeat last year's impressive performance. Share net rose 16% in 2014, thanks mostly to an agreement with regulators regarding a rebate from the IRS. Still, we estimate that the utility can string together two consecutive solid years in 2015 and 2016. Margins are improving as the company is successfully integrating two acquisitions made in 2012. Moreover, the Biddleford and Saco operation in Maine was recently granted a significant rate increase. As a result, we think Connecticut Water can still grow earnings 4%-5% per annum over the next two years.

Capital expenditures are scheduled to be large in the short term. In addition, to having to replace older pipes (like almost every other water utility), the company has agreed to supply water to two new customers. Funds are being spent to extend the infrastructure in Connecticut to service the town of Mansfield and the University of Connecticut's Storrs campus, which is the size of a small city. Overall, we expect the capital budget to average over $50 million a year through 2016, which represents a 10% increase over the relatively large outlays made in 2014. Starting in 2017, however, construction should take a breather.

The balance sheet is strong enough to handle the increased spending. The equity-to-total capital ratio will most likely decline from its very healthy level of 54.5% to 52.5% by year-end 2016. Despite the dip, this percentage is high for a water utility.

Dividend growth prospects have improved. Over the past five- and 10-year periods, the company has only raised its annual payout by 1.5% and 2.0%, respectively. This rate lagged the industry mean by a wide margin. We expect this gap to narrow substantially in the long term. Indeed, dividend hikes through late decade will probably average 4.5%.

Shares of Connecticut Water do not hold much appeal at their recent price. Despite having a high yield, the stock is expected to only perform in line with the market averages in the year ahead. Potential returns through late decade are even less attractive.

James A. Flood *April 17, 2015*

(A) Diluted earnings. Next earnings report due mid-May. Quarterly earnings do not add in 2012 due to rounding.
(B) Dividends historically paid in mid-March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for split.
(D) Includes intangibles. In 2014: $31.7 million/$2.85 a share.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	50
Earnings Predictability	85

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MIDDLESEX WATER NDQ-MSEX

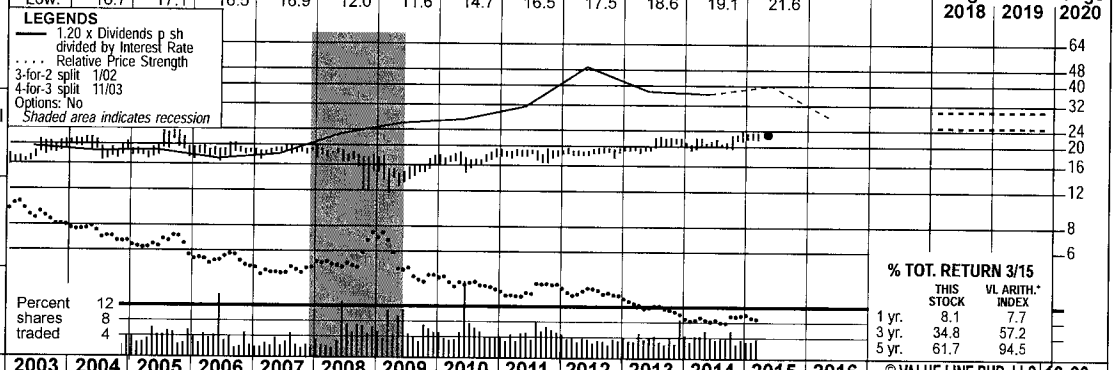
RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
22.97	19.6	(Trailing: 20.3 Median: 21.0)	1.02	3.4%	VALUE LINE

TIMELINESS 3 Lowered 4/11/14
SAFETY 2 New 10/21/11
TECHNICAL 2 Raised 4/3/15
BETA .75 (1.00 = Market)

High:	21.8	23.5	20.5	20.2	19.8	17.9	19.3	19.4	19.6	22.5	23.7	23.5
Low:	16.7	17.1	16.5	16.9	12.0	11.6	14.7	16.5	17.5	18.6	19.1	21.6

Target Price Range
2018 | 2019 | 2020

LEGENDS
— 1.20 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 1/02
4-for-3 split 11/03
Options: No
Shaded area indicates recession



2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+30%)	10%
Low	25	(+10%)	4%

Insider Decisions

	M	J	J	A	S	O	N	D	J
to Buy	2	0	0	0	1	0	1	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	1	0	0	0	1	0	0	0	1

Institutional Decisions

	2Q2014	3Q2014	4Q2014
to Buy	41	32	39
to Sell	34	40	37
Hld's(000)	6463	6339	6372

Percent shares traded 12 8 4

% TOT. RETURN 3/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	8.1	7.7
3 yr.	34.8	57.2
5 yr.	61.7	94.5

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
5.35	5.39	5.87	5.98	6.12	6.25	6.44	6.16	6.50	6.79	6.75	6.60	6.50	6.98	7.19	7.26	*7.40*	*7.70*	Revenues per sh	*9.10*
1.19	.99	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.46	1.56	1.72	*1.90*	*1.95*	*2.00*	"Cash Flow" per sh	*2.25*
.76	.51	.66	.73	.61	.73	.71	.82	.87	.89	.72	.96	.84	.90	1.03	1.13	*1.15*	*1.20*	Earnings per sh A	*1.35*
.60	.61	.62	.63	.65	.66	.67	.68	.69	.70	.71	.72	.73	.74	.75	.76	*.77*	*.78*	Div'd Decl'd per sh B■	*.85*
2.33	1.32	1.25	1.59	1.87	2.54	2.18	2.31	1.66	2.12	1.49	1.90	1.50	1.36	1.26	1.40	*1.80*	*2.00*	Cap'l Spending per sh	*2.00*
6.95	6.98	7.11	7.39	7.60	8.02	8.26	9.52	10.05	10.03	10.33	11.13	11.27	11.48	11.82	12.24	*12.75*	*13.25*	Book Value per sh	*14.30*
10.00	10.11	10.17	10.36	10.48	11.36	11.58	13.17	13.25	13.40	13.52	15.57	15.70	15.82	15.96	16.12	*16.25*	*16.25*	Common Shs Outst'g C	*17.00*
17.6	28.7	24.6	23.5	30.0	26.4	27.4	22.7	21.6	19.8	21.0	17.8	21.7	20.8	19.7	19.5	*Bold figures are*		Avg Ann'l P/E Ratio	*20.5*
1.00	1.87	1.26	1.28	1.71	1.39	1.46	1.23	1.15	1.19	1.40	1.13	1.36	1.32	1.11	1.01	*Value Line*		Relative P/E Ratio	*1.30*
4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	4.0%	4.0%	3.7%	3.5%	*estimates*		Avg Ann'l Div'd Yield	*3.1%*

CAPITAL STRUCTURE as of 12/31/14
Total Debt $160.9 mill. **Due in 5 Yrs** $49.8 mill.
LT Debt $136.0 mill. **LT Interest** $4.6 mill.
(LT interest earned: 6.0x)
(41% of Cap'l)

Pension Assets-12/14 $51.6 mill.
Oblig. $75.0 mill.
Pfd Stock $2.4 mill. **Pfd Div'd:** $.2 mill.

Common Stock 16,129,050 shs.
as of 2/28/15

MARKET CAP: $375 million (Small Cap)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		18-20
74.6	81.1	86.1	91.0	91.2	102.7	102.1	110.4	114.8	117.1	*120*	*125*	Revenues ($mill)	*155*
8.5	10.0	11.8	12.2	10.0	14.3	13.4	14.4	16.6	18.4	*18.6*	*18.6*	Net Profit ($mill)	*23.0*
27.6%	33.4%	32.6%	33.2%	34.1%	32.1%	32.7%	33.9%	34.1%	*35.0%*	*34.5%*	*34.0%*	Income Tax Rate	*34.0%*
--	--	--	--	--	6.8%	6.1%	3.4%	1.9%	*1.0%*	*1.0%*	*1.5%*	AFUDC % to Net Profit	*2.5%*
55.3%	49.5%	49.0%	45.6%	46.6%	43.1%	42.3%	41.5%	40.4%	40.5%	*40.5%*	*42.0%*	Long-Term Debt Ratio	*43.5%*
41.3%	47.5%	49.6%	51.8%	52.1%	55.8%	56.6%	57.4%	58.7%	58.8%	*58.5%*	*57.5%*	Common Equity Ratio	*56.5%*
231.7	264.0	268.8	259.4	267.9	310.5	312.5	316.5	321.4	335.7	*350*	*375*	Total Capital ($mill)	*430*
288.0	317.1	333.9	366.3	376.5	405.9	422.2	435.2	446.5	465.4	*485*	*505*	Net Plant ($mill)	*550*
5.0%	5.1%	5.6%	5.8%	5.0%	5.7%	5.2%	5.4%	5.9%	*6.5%*	*6.5%*	*6.0%*	Return on Total Cap'l	*6.5%*
8.2%	7.5%	8.6%	8.6%	7.0%	8.1%	7.5%	7.8%	8.7%	9.3%	*9.0%*	*9.0%*	Return on Shr. Equity	*9.5%*
8.6%	7.8%	8.7%	8.9%	7.0%	8.2%	7.5%	7.8%	8.7%	9.3%	*9.0%*	*9.0%*	Return on Com Equity	*9.5%*
.6%	1.3%	1.8%	2.0%	.1%	2.1%	1.0%	1.4%	2.4%	3.0%	*3.0%*	*3.0%*	Retained to Com Eq	*3.5%*
94%	84%	79%	78%	98%	75%	87%	83%	73%	67%	*67%*	*65%*	All Div'ds to Net Prof	*63%*

CURRENT POSITION ($MILL.)	2012	2013	12/31/14
Cash Assets	3.0	4.8	2.7
Other	21.6	21.0	20.2
Current Assets	24.6	25.8	22.9
Accts Payable	3.8	6.3	6.4
Debt Due	11.1	33.8	24.9
Other	41.1	12.6	12.6
Current Liab.	56.0	52.7	43.9
Fix. Chg. Cov.	554%	697%	695%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '18-'20
Revenues	1.5%	1.0%	*6.5%*
"Cash Flow"	3.0%	1.5%	*5.5%*
Earnings	3.5%	1.5%	*5.0%*
Dividends	1.5%	1.5%	*2.0%*
Book Value	4.5%	3.0%	*2.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	23.5	27.4	32.4	27.1	110.4
2013	27.0	29.1	31.3	27.4	114.8
2014	27.1	29.2	32.7	28.1	117.1
2015	*28.0*	*30.0*	*33.0*	*29.0*	*120*
2016	*29.0*	*31.0*	*35.0*	*30.0*	*125*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.11	.23	.38	.17	.90
2013	.20	.28	.36	.19	1.03
2014	.20	.29	.42	.22	1.13
2015	*.21*	*.31*	*.43*	*.20*	*1.15*
2016	*.22*	*.32*	*.45*	*.21*	*1.20*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.183	.183	.183	.185	.73
2012	.185	.185	.185	.1875	.74
2013	.1875	.1875	.1875	.19	.75
2014	.19	.19	.19	.1925	.76
2015	.1925				

BUSINESS: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey, Delaware, and Pennsylvania. It also operates water and wastewater systems under contract on behalf of municipal and private clients in NJ and DE. Its Middlesex System provides water services to 60,000 retail customers, primarily in Middlesex County, New Jersey. In 2014, the Middlesex System accounted for 60% of operating revenues. At 12/31/14, the company had 282 employees. Incorporated: NJ. President, CEO, and Chairman: Dennis W. Doll. Officers & directors own 3.5% of the common stock; BlackRock Institutional Trust Co., 6.6% (4/15 proxy). Add.: 1500 Ronson Road, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: www.middlesexwater.com.

Middlesex Water had a surprisingly good 2014. For the second straight year, the company was able to post a double-digit gain in earnings per share. This was impressive considering that the utility is still in recovery mode following the 2013 loss of two major customers — a Hess refinery and the borough of Sayreville.

Bottom-line gains should moderate. The rate relief that was granted in New Jersey and Delaware will not have as positive an impact on profits as was the case last year. On the positive side, an agreement to distribute water at the Dover Air Force Base (a major military installation) should provide a consistent source of revenues. Overall, we expect Middlesex's 2015 share net to barely rise, from $1.13 to $1.15 in 2015. Next year will probably be better, as we think per-share earnings can increase 4%, to $1.20.

We are not expecting Middlesex to change its remarkably consistent dividend policy through 2016. Since 2004, the utility has raised the payout by exactly $0.01 a share each and every year. With a dividend growth rate of 1.5% over both the past five- and 10-year periods, the company has lagged the industry mean by a substantial margin. When this tradition started, the dividend to net profits percentage was relatively high, meaning there was little room for increases. This figure fell to 57% in 2014, so Middlesex appears to have the flexibility to distribute a greater share of profits to shareholders.

The balance sheet may not be big, but it is strong. At the end of last year, Middlesex's equity-to-total capital ratio was close to 59%, the second highest in the industry. And, while this metric will most likely decline as debt is added to help fund the upgrading of the pipeline network, the utility's finances should remain very sound by late decade.

Middlesex stock has the highest yield of any member in the water industry. At 3.4%, the equity has a payout that is almost 80 basis points above the group average. Indeed, it is the only one that has a yield above 3%. Basically, investors are demanding a premium to own shares in this company. Despite the generous current income, the stock's potential returns through 2018-2020 are still subpar.

James A. Flood *April 17, 2015*

(A) Diluted earnings. May not sum due to rounding. Next earnings report due mid-May.
(B) Dividends historically paid in mid-Feb., May, Aug., and November.■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	40
Earnings Predictability	80

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SJW CORP. NYSE-SJW

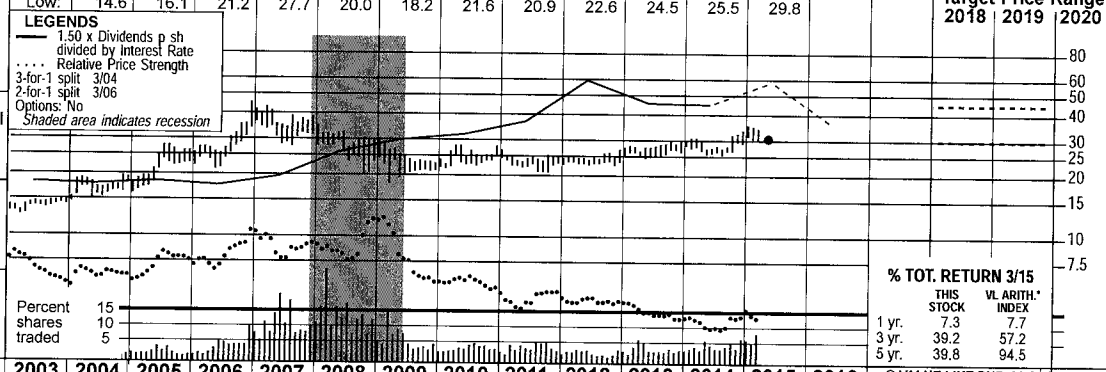
RECENT PRICE **30.62** | P/E RATIO **24.3** (Trailing: 12.1 Median: 24.0) | RELATIVE P/E RATIO **1.26** | DIV'D YLD **2.6%** | VALUE LINE

TIMELINESS 4 Lowered 12/19/14
SAFETY 3 New 4/22/11
TECHNICAL 2 Raised 3/27/15
BETA .80 (1.00 = Market)

High:	19.6	27.8	45.3	43.0	35.1	30.4	28.2	26.8	26.9	30.1	33.7	35.7
Low:	14.6	16.1	21.2	27.7	20.0	18.2	21.6	20.9	22.6	24.5	25.5	29.8

Target Price Range 2018 | 2019 | 2020

LEGENDS
— 1.50 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-1 split 3/04
2-for-1 split 3/06
Options: No
Shaded area indicates recession



2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+45%)	12%
Low	30	(Nil)	2%

Insider Decisions

	M	J	J	A	S	O	N	D	J
to Buy	1	1	0	1	1	0	0	1	0
Options	0	0	0	0	0	0	1	0	0
to Sell	0	0	0	0	1	0	1	0	0

Institutional Decisions

	2Q2014	3Q2014	4Q2014
to Buy	45	38	49
to Sell	40	45	47
Hld's(000)	10965	10784	10867

% TOT. RETURN 3/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	7.3	7.7
3 yr.	39.2	57.2
5 yr.	39.8	94.5

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
6.40	6.74	7.45	7.97	8.20	9.14	9.86	10.35	11.25	12.12	11.68	11.62	12.85	14.01	13.73	15.76	*14.15*	*14.05*	Revenues per sh	*17.60*
1.43	1.23	1.49	1.55	1.75	1.89	2.21	2.38	2.30	2.44	2.21	2.38	2.80	2.97	2.90	*4.50*	*3.45*	*3.55*	"Cash Flow" per sh	*3.90*
.87	.58	.77	.78	.91	.87	1.12	1.19	1.04	1.08	.81	.84	1.11	1.18	1.12	2.54	*1.35*	*1.40*	Earnings per sh A	*1.75*
.40	.41	.43	.46	.49	.51	.53	.57	.61	.65	.66	.68	.69	.71	.73	.75	*.78*	*.81*	Div'd Decl'd per sh B■	*1.05*
1.77	1.89	2.63	2.06	3.41	2.31	2.83	3.87	6.62	3.79	3.17	5.65	3.75	5.67	4.68	*5.00*	*5.00*	*4.95*	Cap'l Spending per sh	*4.90*
7.88	7.90	8.17	8.40	9.11	10.11	10.72	12.48	12.90	13.99	13.66	13.75	14.20	14.71	15.92	17.75	*18.30*	*19.05*	Book Value per sh	*21.30*
18.27	18.27	18.27	18.27	18.27	18.27	18.27	18.28	18.36	18.18	18.50	18.55	18.59	18.67	20.17	20.29	*20.50*	*21.00*	Common Shs Outst'g C	*23.00*
15.5	33.1	18.5	17.3	15.4	19.6	19.7	23.5	33.4	26.2	28.7	29.1	21.2	20.4	24.3	11.0	*Bold figures are*		Avg Ann'l P/E Ratio	*22.0*
.88	2.15	.95	.94	.88	1.04	1.05	1.27	1.77	1.58	1.91	1.85	1.33	1.30	1.37	.58	*Value Line*		Relative P/E Ratio	*1.40*
3.0%	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	1.7%	2.3%	2.8%	2.8%	2.9%	3.0%	2.7%	2.7%	*estimates*		Avg Ann'l Div'd Yield	*2.8%*
						180.1	189.2	206.6	220.3	216.1	215.6	239.0	261.5	276.9	319.7	*290*	*295*	Revenues ($mill)	*405*
						20.7	22.2	19.3	20.2	15.2	15.8	20.9	22.3	23.5	51.8	*27.5*	*29.0*	Net Profit ($mill)	*40.0*
						41.6%	40.8%	39.4%	39.5%	40.4%	38.8%	41.1%	41.1%	38.7%	*32.5%*	*37.0%*	*36.0%*	Income Tax Rate	*38.0%*
						1.6%	2.1%	2.7%	2.3%	2.0%	--	--	--	2.0%	*1.0%*	*1.0%*	*1.0%*	AFUDC % to Net Profit	*1.5%*
						42.6%	41.8%	47.7%	46.0%	49.4%	53.7%	56.6%	55.0%	51.1%	51.6%	*52.5%*	*52.5%*	Long-Term Debt Ratio	*53.5%*
						57.4%	58.2%	52.3%	54.0%	50.6%	46.3%	43.4%	45.0%	48.9%	48.4%	*47.5%*	*47.5%*	Common Equity Ratio	*46.5%*
						341.2	391.8	453.2	470.9	499.6	550.7	607.9	610.2	656.2	744.6	*790*	*845*	Total Capital ($mill)	*1025*
						484.8	541.7	645.5	684.2	718.5	785.5	756.2	831.6	898.7	963.0	*1010*	*1065*	Net Plant ($mill)	*1200*
						7.6%	7.0%	5.7%	5.8%	4.4%	4.3%	4.9%	5.0%	5.0%	8.3%	*5.0%*	*5.0%*	Return on Total Cap'l	*5.5%*
						10.6%	9.7%	8.2%	8.0%	6.0%	6.2%	7.9%	8.1%	7.3%	14.4%	*7.5%*	*7.5%*	Return on Shr. Equity	*8.0%*
						10.6%	9.7%	8.2%	8.0%	6.0%	6.2%	7.9%	8.1%	7.3%	14.4%	*7.5%*	*7.5%*	Return on Com Equity	*8.0%*
						5.6%	5.2%	3.5%	3.3%	1.2%	1.2%	3.1%	3.3%	2.8%	10.1%	*3.0%*	*3.0%*	Retained to Com Eq	*3.5%*
						47%	46%	57%	59%	80%	80%	61%	59%	62%	28%	*58%*	*58%*	All Div'ds to Net Prof	*59%*

CAPITAL STRUCTURE as of 12/31/14
Total Debt $398.2 mill. **Due in 5 Yrs** $21.2 mill.
LT Debt $384.4 mill. **LT Interest** $18.1 mill.
(Total interest coverage: 2.9x) (52% of Cap'l)

Leases, Uncapitalized: Annual rentals $5.5 mill.

Pension Assets-12/14 $91.4 mill.
Oblig. $128.7 mill.

Pfd Stock None.

Common Stock 20,336,409 shs.
as of 2/13/15

MARKET CAP: $625 million (Small Cap)

CURRENT POSITION ($MILL.)	2012	2013	12/31/14
Cash Assets	2.5	2.3	2.4
Other	40.4	37.4	65.7
Current Assets	42.9	39.7	68.1
Accts Payable	8.5	12.6	7.0
Debt Due	20.7	23.0	13.8
Other	19.9	23.6	23.9
Current Liab.	49.1	59.2	44.7
Fix. Chg. Cov.	317%	268%	270%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '18-'20
Revenues	5.5%	4.0%	*4.0%*
"Cash Flow"	6.0%	4.0%	*4.5%*
Earnings	3.5%	.5%	*6.5%*
Dividends	4.5%	3.5%	*5.5%*
Book Value	5.5%	2.5%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	51.1	65.6	82.4	62.4	261.5
2013	50.1	74.2	85.2	67.4	276.9
2014	54.6	70.4	125.4	69.3	319.7
2015	*56.0*	*73.0*	*89.0*	*72.0*	*290*
2016	*57.0*	*74.0*	*90.0*	*74.0*	*295*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.06	.28	.53	.31	1.18
2013	.07	.37	.44	.24	1.12
2014	.04	.34	1.88	.28	2.54
2015	*.05*	*.40*	*.53*	*.37*	*1.35*
2016	*.05*	*.40*	*.57*	*.38*	*1.40*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.173	.173	.173	.173	.69
2012	.1775	.1775	.1775	.1775	.71
2013	.1825	.1825	.1825	.1825	.73
2014	.1875	.1875	.1875	.1875	.75
2015	.1950				

BUSINESS: SJW Corporation engages in the production, purchase, storage, purification, distribution, and retail sale of water. It provides water service to approximately 229,000 connections that serve a population of approximately one million people in the San Jose area and 12,000 connections that serve approximately 36,000 residents in a service area in the region between San Antonio and Austin, Texas. The company offers nonregulated water-related services. Also owns and operates commercial real estate investments. Has about 395 employees. Officers & directors (including Nancy O. Moss) own 27.9% of outstanding shares. Chrm.: Charles J. Toeniskoetter. Inc.: CA. Address: 110 W. Taylor Street, San Jose, CA 95110. Tel.: (408) 279-7800. Int: www.sjwater.com.

SJW's main operating service area is in the midst of an historic drought. The vast majority of the utility's revenues are derived from its water operations in the thriving San Jose area of California. The lack of rain and snow in the mountains has led to the state placing severe restrictions on water usage for conservation purposes. This should result in a steep decline in demand for water. To date, regulators have worked with water utilities using a mechanism know as "decoupling." Basically, this process doesn't meaningfully penalize utilities for encouraging residents to reduce consumption.

SJW's earnings have been skewed. In 2014, the company's profits more than doubled due to a one-time event. The utility received a large payment in the third quarter for past expenses that it was forced to absorb. Since the funds were received as compensation for normal business expenses, we did not classify it as a nonrecurring event.

SJW's bottom line should post decent gains over the next two years. We think that the company's share net can reach $1.35 in 2015. If 2014 had been a normal year, the year-over-year comparison would have been favorable. Next year's per-share earnings will probably only show a modest $0.05-a-share increase to $1.40, however. During 2015 and 2016, opposite forces will be at work pulling the utility's profits in different directions. On the positive side, SJW will be earning a return on the funds spent modernizing its pipeline infrastructure. Conversely, margins may be restrained by the scarcity of surface water, which would force SJW to pay more to either extract more ground water or purchase it from other sources.

The recent dividend increase was adequate. Though the 4% hike was positive in that it was higher than the company's historical growth rate, we thought that there was room for a 5% raise. This would have put the company's growth rate more in line with the industry norm.

These shares are ranked to underperform the broader market averages in the year ahead. Moreover, total return potential over the next three- to five-year period is subpar, as well.

James A. Flood *April 17, 2015*

(A) Diluted earnings. Excludes nonrecurring losses : '03, $1.97; '04, $3.78; '05, $1.09; '06, $16.36; '08, $1.22; '10, $0.46. Next earnings report due mid-May. Quarterly earnings may not add due to rounding.
(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	80
Price Growth Persistence	30
Earnings Predictability	70

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YORK WATER NDQ-YORW

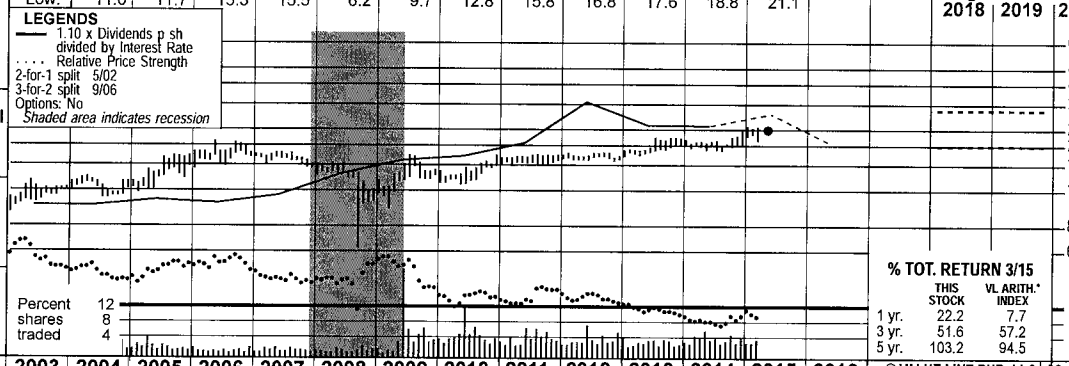
RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
24.01	24.5	(Trailing: 27.0 / Median: 25.0)	1.27	2.5%	VALUE LINE

TIMELINESS 3 Raised 3/27/15
SAFETY 2 New 7/19/13
TECHNICAL 2 Lowered 4/17/15
BETA .70 (1.00 = Market)

High:	14.0	17.9	21.0	18.5	16.5	18.0	18.0	18.1	18.5	22.0	24.3	25.0
Low:	11.0	11.7	15.3	15.5	6.2	9.7	12.8	15.8	16.8	17.6	18.8	21.1

Target Price Range
2018 | 2019 | 2020

LEGENDS
— 1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 5/02
3-for-2 split 9/06
Options: No
Shaded area indicates recession



2018-20 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+25%)	8%
Low	20	(-15%)	-1%

Insider Decisions

	M	J	J	A	S	O	N	D	J
to Buy	1	0	4	2	1	4	0	0	4
Options	0	0	0	0	0	0	0	0	0
to Sell	0	1	0	0	0	0	0	0	0

Institutional Decisions

	2Q2014	3Q2014	4Q2014
to Buy	29	30	32
to Sell	28	30	24
Hld's(000)	3603	3656	3767

% TOT. RETURN 3/15

	THIS STOCK	VL ARITH.* INDEX
1 yr.	22.2	7.7
3 yr.	51.6	57.2
5 yr.	103.2	94.5

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
--	--	2.05	2.05	2.17	2.18	2.58	2.56	2.79	2.89	2.95	3.07	3.18	3.21	3.27	3.58	*3.85*	*4.00*	Revenues per sh	*4.75*
--	--	.59	.57	.65	.65	.79	.77	.86	.88	.95	1.07	1.09	1.12	1.19	*1.35*	*1.50*	*1.55*	"Cash Flow" per sh	*1.75*
--	--	.43	.40	.47	.49	.56	.58	.57	.57	.64	.71	.71	.72	.75	.89	*.95*	*1.00*	Earnings per sh A	*1.15*
--	--	.34	.35	.37	.39	.42	.45	.48	.49	.51	.52	.53	.54	.55	.57	*.60*	*.63*	Div'd Decl'd per sh B	*.79*
--	--	.75	.66	1.07	2.50	1.69	1.85	1.69	2.17	1.18	.83	.74	.94	.76	1.10	*1.10*	*1.20*	Cap'l Spending per sh	*1.15*
--	--	3.79	3.90	4.06	4.65	4.85	5.84	5.97	6.14	6.92	7.19	7.45	7.73	7.98	8.15	*8.15*	*8.65*	Book Value per sh	*9.60*
--	--	9.46	9.55	9.63	10.33	10.40	11.20	11.27	11.37	12.56	12.69	12.79	12.92	12.98	12.83	*12.50*	*12.50*	Common Shs Outst'g C	*12.00*
--	--	17.8	26.9	24.5	25.7	26.3	31.2	30.3	24.6	21.9	20.7	23.9	24.4	26.3	23.6	*Bold figures are*		Avg Ann'l P/E Ratio	*22.5*
--	--	.91	1.47	1.40	1.36	1.40	1.68	1.61	1.48	1.46	1.32	1.50	1.55	1.48	1.24	*Value Line*		Relative P/E Ratio	*1.40*
--	--	4.4%	3.3%	3.2%	3.1%	2.9%	2.5%	2.8%	3.5%	3.6%	3.5%	3.1%	3.1%	2.8%	2.5%	*estimates*		Avg Ann'l Div'd Yield	*3.0%*

CAPITAL STRUCTURE as of 12/31/14
Total Debt $84.8 mill. **Due in 5 Yrs** $30.5 mill.
LT Debt $84.8 mill. **LT Interest** $5.1 mill.
(Total interest coverage: 4.0x)
(45% of Cap'l)

Pension Assets 12/14 $30.6 mill.
Oblig. $40.9 mill.

Pfd Stock None

Common Stock 12,837,661 shs.
as of 3/9/14

MARKET CAP: $300 million (Small Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		18-20
26.8	28.7	31.4	32.8	37.0	39.0	40.6	41.4	42.4	45.9	*48.0*	*50.0*	Revenues ($mill)	*57.0*
5.8	6.1	6.4	6.4	7.5	8.9	9.1	9.3	9.7	11.5	*12.0*	*12.5*	Net Profit ($mill)	*14.0*
36.7%	34.4%	36.5%	36.1%	37.9%	38.5%	35.3%	37.6%	37.6%	29.8%	*29.5%*	*29.5%*	Income Tax Rate	*36.5%*
--	7.2%	3.6%	10.1%	--	1.2%	1.1%	1.1%	.8%	1.3%	*1.5%*	*1.5%*	AFUDC % to Net Profit	*1.0%*
44.1%	48.3%	46.5%	54.5%	45.7%	48.3%	47.1%	46.0%	45.1%	44.8%	*47.5%*	*47.0%*	Long-Term Debt Ratio	*48.0%*
55.9%	51.7%	53.5%	45.5%	54.3%	51.7%	52.9%	54.0%	54.9%	55.2%	*52.5%*	*53.0%*	Common Equity Ratio	*52.0%*
90.3	126.5	125.7	153.4	160.1	176.4	180.2	184.8	188.4	189.4	*195*	*205*	Total Capital ($mill)	*220*
155.3	174.4	191.6	211.4	222.0	228.4	233.0	240.3	244.2	253.2	*260*	*265*	Net Plant ($mill)	*280*
8.4%	6.2%	6.7%	5.7%	6.2%	6.5%	6.4%	6.4%	6.5%	*7.4%*	*7.5%*	*7.5%*	Return on Total Cap'l	*8.0%*
11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.0%	*11.5%*	*11.5%*	Return on Shr. Equity	*12.0%*
11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.0%	*11.5%*	*11.5%*	Return on Com Equity	*12.0%*
3.0%	2.2%	1.7%	1.4%	1.9%	2.7%	2.5%	2.4%	2.4%	*4.0%*	*4.5%*	*4.5%*	Retained to Com Eq	*3.5%*
74%	77%	82%	85%	78%	72%	73%	74%	74%	64%	*63%*	*63%*	All Div'ds to Net Prof	*69%*

CURRENT POSITION ($MILL.)	2012	2013	12/31/14
Cash Assets	4.0	7.6	1.5
Accounts Receivable	6.4	3.8	4.0
Other	1.2	3.8	5.7
Current Assets	11.6	15.2	11.2
Accts Payable	1.1	1.8	1.6
Debt Due	.1	--	--
Other	4.3	6.0	4.3
Current Liab.	5.5	7.8	5.9
Fix. Chg. Cov.	414%	417%	417%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '18-'20
Revenues	4.5%	3.0%	*5.5%*
"Cash Flow"	6.5%	6.5%	*6.5%*
Earnings	5.5%	5.0%	*6.5%*
Dividends	4.5%	2.5%	*5.0%*
Book Value	7.0%	5.0%	*3.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	9.6	10.4	11.0	10.4	41.4
2013	10.1	10.7	10.9	10.7	42.4
2014	10.6	11.8	12.0	11.5	45.9
2015	*11.0*	*12.0*	*12.5*	*12.5*	*48.0*
2016	*11.5*	*12.5*	*13.0*	*13.0*	*50.0*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2012	.15	.17	.22	.18	.72
2013	.17	.18	.19	.21	.75
2014	.16	.22	.23	.28	.89
2015	*.19*	*.25*	*.26*	*.25*	*.95*
2016	*.20*	*.26*	*.28*	*.26*	*1.00*

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2011	.131	.131	.131	.131	.524
2012	.134	.134	.134	.134	.535
2013	.138	.138	.138	.138	.552
2014	.1431	.1431	.1431	.1431	.572
2015	.1495	.1495			

BUSINESS: The York Water Company is the oldest investor-owned regulated water utility in the United States. It has operated continuously since 1816. As of December 31, 2014, the company's average daily availability was 35.2 million gallons and its service territory had an estimated population of 190,000. Has more than 65,100 customers. Residential customers accounted for 63% of 2014 revenues; commercial and industrial (29%); other (8%). It also provides sewer billing services. Incorporated: PA. York had 106 full-time employees at 12/31/14. President/CEO: Jeffrey R. Hines. Officers/directors own 1.1% of the common stock (4/15 proxy). Address: 130 East Market Street York, Pennsylvania 17401. Telephone: (717) 845-3601. Internet: www.yorkwater.com.

York Water had a strong finish in 2014. Share earnings came in at $0.28, $0.04 above our fourth-quarter estimate, which was actually a few cents higher than the Wall Street consensus. For the full year, the company was able to post a robust 19% year-over-year increase in the bottom line.

Earnings growth should moderate, but remain solid. The December interim's gains were due to a combination of a lower tax rate, better cost controls, and higher tariffs being in effect. Although the rate relief will not have as large an impact on profits going forward, we still expect York to benefit from a reduced tax burden and a successful cost-containment program. All told, we expect earnings per share to rise 7% this year, to $0.95, and increase by a nickel in 2016, to $1.00.

Capital spending has picked up. As is the case with almost all of its peers, the company is in the process of repairing and modernizing an aging pipeline and wastewater infrastructure. Last year, construction expenditures rose a hefty 40% as management targeted more funds for this purpose. We believe that the budget will remain near this level through the end of the decade.

The balance sheet is strong enough to handle these expenses. At the end of 2014, York's equity-to-total capital ratio stood at 55%, much higher than the industry norm. And, even though we expect this metric to weaken, we estimate that it will still be a healthy 52% in three to five years.

York shares are expected to perform in line with the broader market averages in the year ahead. True, the company's earnings outlook is improving and the stock's yield is 50 basis points higher than the typical stock followed by *Value Line.* However, these positive attributes appear to be already incorporated into the price of the stock. Indeed, the equity's long-term potential returns are unattractive as it is already trading well within our projected 2018-2020 Target Price Range. Those investors seeking safety, current income, and well-defined earnings, as well as good dividend growth, can probably find a better selection in the water utility industry.

James A. Flood *April 17, 2015*

(A) Diluted earnings. Next earnings report due mid-May.
(B) Dividends historically paid in mid-January, April, July, and October.
(C) In millions, adjusted for splits.

Company's Financial Strength	B+
Stock's Price Stability	90
Price Growth Persistence	55
Earnings Predictability	100

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LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.

EXHIBIT TJB-COC-DT2

Liberty Utilities (Black Mountain Sewer) Corp.
Comparative Risk Study
Computations of Operating Margin and Coefficient of Variation of Operating Margin

Exhibit
Page 1 of 3

Operating Income EBIT ($ in millions)

Line No.	Company	Symbol	2014	2013	2012	2011	2010	Average	Std Dev.	Co-efficient of variation of Operating Income
4	American States Water	AWR	119	119	111	95	73	103.40	19.62	0.1897
5	Aqua America	WTR	314	305	322	286	272	299.80	20.52	0.0685
6	California Water	CWT	109	93	93	90	85	94.00	9.00	0.0957
7	Connecticut Water	CTWS	25	22	20	16	14	19.40	4.45	0.2294
8	Middlesex	MSEX	34	31	28	24	27	28.80	3.83	0.1331
9	SJW Corp.	SJW	93	53	55	54	38	58.60	20.45	0.3490
10	York Water Company	YORW	22	21	21	20	20	20.80	0.84	0.0402
12	Water Proxy Group									0.1579
14	Liberty Utilities (Black Mountain Sewer) Corp. Adjusted[1]		0.65	0.38	0.31	0.31	0.42	0.41	0.14	0.3355
16	**Risk relative to the average risk of the water utilities sample**									**2.12**

Sales ($ in millions)

Line No.	Company	Symbol	2014	2013	2012	2011	2010	Average
20	American States Water	AWR	466	472	467	419	399	445
21	Aqua America	WTR	780	769	758	712	726	749
22	California Water	CWT	598	584	560	502	460	541
23	Connecticut Water	CTWS	94	91	84	69	66	81
24	Middlesex	MSEX	117	115	110	102	103	109
25	SJW Corp.	SJW	320	277	262	239	216	263
26	York Water Company	YORW	46	42	41	41	39	42
28	Liberty Utilities (Black Mountain Sewer) Corp. Adjusted[1]		2.23	2.23	2.19	2.19	2.18	2.20

Operating Margin (%)

Line No.	Company	Symbol	2014	2013	2012	2011	2010	Average	Std Dev.	Co-efficient of variation of Operating Margin
32	Amercian Water Works	AWK	25.54%	25.21%	23.77%	22.67%	18.30%	23.10%	0.03	0.1264
33	Aqua America	WTR	40.26%	39.66%	42.48%	40.17%	37.47%	40.01%	0.02	0.0447
34	California Water	CWT	18.23%	15.92%	16.61%	17.93%	18.48%	17.43%	0.01	0.0637
35	Connecticut Water	CTWS	26.60%	24.18%	23.81%	23.19%	21.21%	23.80%	0.02	0.0815
36	Middlesex	MSEX	29.06%	26.96%	25.45%	23.53%	26.21%	26.24%	0.02	0.0772
37	SJW Corp.	SJW	29.06%	19.13%	20.99%	22.59%	17.59%	21.88%	0.04	0.2029
38	York Water Company	YORW	47.83%	50.00%	51.22%	48.78%	51.28%	49.82%	0.02	0.0304
40	Average Water Proxy Group							28.90%		0.0895
42	Liberty Utilities (Black Mountain Sewer) Corp. Adjusted[1]		29.13%	17.08%	14.23%	14.23%	19.29%	18.79%	0.06	0.3276
44	**Risk relative to the average risk of the water utilities sample**									**3.66**

Return on Equity (ROE)

Line No.	Company	Symbol	2014	2013	2012	2011	2010	Average	Std Dev.	Co-efficient of variation of ROE
50	American States Water	AWR	12.1%	12.7%	11.9%	10.3%	11.0%	11.6%	0.01	0.0818
51	Aqua America	WTR	12.9%	13.4%	11.0%	11.6%	10.6%	11.9%	0.01	0.1015
52	California Water	CWT	9.0%	9.0%	9.0%	8.0%	8.6%	8.7%	0.00	0.0502
53	Connecticut Water	CTWS	10.2%	9.3%	7.3%	8.3%	8.7%	8.8%	0.01	0.1239
54	Middlesex	MSEX	9.3%	8.7%	7.8%	7.5%	8.2%	8.3%	0.01	0.0865
55	SJW Corp.	SJW	14.4%	7.0%	8.1%	7.9%	6.2%	8.7%	0.03	0.3744
56	York Water Company	YORW	11.0%	9.4%	9.3%	9.5%	9.8%	9.8%	0.01	0.0711
58	Water Proxy Group		11.3%	9.9%	9.2%	9.0%	9.0%	9.7%		0.1271
60	Liberty Utilities (Black Mountain Sewer) Corp. Adjusted[1]		12.48%	9.79%	6.98%	12.69%	0.93%	8.58%	0.05	0.5674
62	**Risk relative to the average risk of the water utilities sample**									**4.47**

[1] Adjusted for Scottsdale Capacity Lease Costs

Liberty Utilities (Black Mountain Sewer) Corp.
Comparative Risk Study
Beta Estimate Using Duff and Phelps Risk Study Portfolio Information

Line No.		Portfolio	Operating Margin[1]	Portfolio	CV (Operating Margin)[1]	Portfolio	CV (ROE)[1]	
	A. Beta Estimates for Water Sample Group and Company							
1	Company	6	18.79%	7	32.76%	10	56.74%	
2	Water Proxy Group	2	28.90%	19	8.95%	23	12.71%	
			Portfolio Beta[2]		Portfolio Beta[3]		Portfolio Beta[3]	Average
3	Company		1.06		1.27		1.17	
4	Water Proxy Group		0.83		0.99		0.89	
5	Percentage Difference		27.7%		28.3%		31.5%	**29.2%**
	B. Assume percentage difference is the same for water utilities as companies in general							
6	Water Sample Group[5]		0.74		0.74		0.74	
7	Implied Beta for Company[6]		0.95		0.95		0.97	**0.96**

Notes:
[1] See work papers. CV stands for Coefficient of Variation,
[2] Source is Duff & Phelps 2105 Valuation Handbook, Risk Study, Exhibit D-1, Companies Ranked by Operating Margin.
[3] Source is Duff & Phelps 2105 Valuation Handbook, Risk Study, Exhibit D-2, Companies Ranked by CV (Operating Margin).
[5] Source is Schedule D-4.3.
[6] Calculated by multiplying (1+ percentage difference in risk study betas) times average beta for the water sample group.

Liberty Utilities (Black Mountain Sewer) Corp.
Comparative Risk Study
Traditional Capital Asset Pricing Model (CAPM) Using Implied Beta
To Find Additional Risk Premium

Line No.		Rf[1]	+	Implied beta[2]	x	RP_M		=	k	CAPM Results From Schedule D-4.11	Indicated Company Risk Premium
1	Historical Market Risk Premium CAPM	4.2%	+	0.96	x	7.00%	[3]	=	10.9%	9.4%	1.5%
2	Currrent Market Risk Premium CAPM	4.2%	+	0.96	x	9.25%	[4]	=	13.1%	11.0%	2.1%

Notes:

[1] Forecasts of long-term treasury yields. See Scehdule D-4.9.

[2] Implied Beta computed from Duff and Phelps 2015 Valuation Handbook Risk Study information. See page 1 of exhibit.

[3] Historical Market Risk Premium from (Rp) from Morningstar Ibbotson 214 Classic Yearbook, Long-Horizon ERP on S&P 500. See Schedule D-4.11.

[4] See Schedule D-4.10

LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.

D SCHEDULES

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Summary of Cost of Capital

Exhibit
Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	Adjusted End of Test Year Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Projected Capital Structure Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	1,973,939	30.00%	3.53%	1.06%
2									
3	Stockholder's Equity	6,276,158	100.00%	10.80%	10.80%	4,605,858	70.00%	10.80%	7.56%
4									
5	Totals	6,276,158	100.00%		10.80%	6,579,798	100.00%		8.62%
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22	SUPPORTING SCHEDULES:					RECAP SCHEDULES:			
23	D-1					A-3			
24	D-3								
25	D-4								
26	E-1								
27	Testimony								
28									
29									
30									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Long Term Debt

Exhibit
Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	End of Projected Year Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1									
2	Proposed New Debt		-	0.00%	0.000%	1,973,939	69,680	3.53%	3.530%
3			-	0.00%	0.000%		-	0.00%	0.000%
4									
5									
6									
7									
8									
9									
10									
11									
12									
13	Totals	$ -	-		0.000%	$ 1,973,939	69,680		3.530%
14									
15									
16	Supporting Schdules:								
17	E-1								
18	E-2								
19	Testimony								
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

Line No.		End of Test Year			End of Projected Year		
1							
2							
3	Description	Shares		Dividend	Shares		Dividend
4	of Issue	Outstanding	Amount	Requirement	Outstanding	Amount	Requirement
5							
6							
7	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21	SUPPORTING SCHEDULES:				RECAP SCHEDULES:		
22	E-1				D-1		
23							
24							
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40							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line No.		
1		
2	The Company is proposing a cost of common equity of	10.80%
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	E-1	D-1
19	D-4.1 to D-4.16	
20		

Liberty Utilities (Black Mountain Sewer) Corp.
Summary of Results

Exhibit
Schedule D-4.1
Witness: Bourassa

Line No.		Indicated Cost of Equity for Water Sample Group			Indicated Cost of Equity for rty Utilities (Black Mountain Sewer) C[1]		
1	DCF Constant Growth - Schedule D-4-7	9.4%	to	9.7%	10.4%	to	10.7%
2	Risk Premium Model - Schedule D-4.9		10.6%			11.6%	
3	CAPM - Schedule D-4.11	9.4%	to	11.0%	10.4%	to	12.0%
4	Range of Cost of Equity Estimates	9.8%	to	10.4%	10.8%	to	11.4%
5	Financial Risk Adjustment - Schedule D-4.14		0.0%			-0.30%	
6	Adjusted Range of Cost of Equity Estimates	9.8%	to	10.4%	10.5%	to	11.1%
7	Mid-point		10.1%			10.8%	
8	Cost of Equity Recommendation			10.8%			

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

Liberty Utilities (Black Mountain Sewer) Corp.
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Schedule D-4.2
Witness: Bourassa

Line No.	Company	Symbol	% Water Revenues[1]	Operating Revenues (millions)[1]	Net Plant (millions)[1]	S&P Bond Rating[1]	Moody's Bond Rating[1]	Allowed ROE (%)[1]	Value Line Beta[2]	Market Capitalization[2]	Size Category[3]
1	American States Water	AWR	70%	$ 465.8	$ 998.9	A+	A2	9.43	0.70	$ 1,471.5	Low-Cap
2	Aqua America	WTR	97%	$ 779.9	$ 4,402.0	AA-	NR	9.79	0.75	$ 4,667.4	Mid cap
3	California Water	CWT	100%	$ 597.5	$ 1,571.7	AA-	NR	9.43	0.75	$ 1,142.6	Low-Cap
4	Connecticut Water	CTWS	100%	$ 94.8	$ 494.6	A/A-	NR	9.63	0.70	$ 391.0	Micro-cap
5	Middlesex	MSEX	86%	$ 117.1	$ 465.4	A	NR	9.75	0.75	$ 356.4	Micro-cap
6	SJW Corp.	SJW	96%	$ 319.7	$ 943.7	A	NR	9.43	0.80	$ 609.4	Micro-cap
7	York Water Company	YORW	100%	$ 45.9	$ 250.5	A-	NR	NM	0.75	$ 297.2	Micro-cap
8	Average		93%	$ 345.8	$ 1,303.8			9.58	0.74	$ 1,276.5	Low-Cap
9	Liberty Utilities (Black Mountain Sewer) Corp.		100%	$ 2.2	$ 5.5	NR	NR	-			

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

Liberty Utilities (Black Mountain Sewer) Corp.
Capital Structures

Exhibit
Schedule D-4.3
Witness: Bourassa

Line No.	Company	Symbol	Book Value[1] Long-Term Debt	Book Value[1] Common Equity	Market Value[1] Long-Term Debt	Market Value[1] Common Equity
1	American States Water	AWR	39.8%	60.2%	18.1%	81.9%
2	Aqua America	WTR	48.9%	51.1%	23.9%	76.1%
3	California Water	CWT	41.6%	58.4%	27.2%	72.8%
4	Connecticut Water	CTWS	47.0%	53.0%	30.9%	69.1%
5	Middlesex	MSEX	40.7%	59.3%	26.7%	73.3%
6	SJW Corp.	SJW	51.0%	49.0%	35.5%	64.5%
7	York Water Company	YORW	45.0%	55.0%	22.2%	77.8%
8	Average		44.9%	55.1%	26.4%	73.6%
9	Liberty Utilities (Black Mountain Sewer) Corp.	Proforma	70.0%	30.0%	N/A	N/A

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

Liberty Utilities (Black Mountain Sewer) Corp.
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.4
Witness: Bourassa

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Historical Growth	[6] Value Line Projected Growth[2]	[7] Average of Historical and Proj. Grwth
		Five-year historical average annual changes						
1	American States Water	16.07%	6.50%	13.00%	6.50%	10.52%	6.50%	8.51%
2	Aqua America	11.70%	6.00%	11.00%	7.00%	8.92%	8.00%	8.46%
3	California Water	4.27%	4.50%	4.00%	1.50%	3.57%	7.00%	5.28%
4	Connecticut Water	12.77%	8.00%	8.00%	2.00%	7.69%	6.50%	7.10%
5	Middlesex	8.36%	3.00%	1.50%	1.50%	3.59%	5.50%	4.55%
6	SJW Corp.	4.38%	2.50%	NMF	3.50%	3.46%	6.50%	4.98%
7	York Water Company	8.44%	5.00%	5.00%	2.50%	5.23%	7.00%	6.12%
8	GROUP AVERAGE	9.43%	5.07%	7.08%	3.50%	6.14%	6.71%	6.43%

Notes:
[1] Average of changes in annual stock prices ending on December 31 through 2014. Data from Yahoo Finance website.
[2] Value Line Analyzer, weekly as of May 14, 2015.

Liberty Utilities (Black Mountain Sewer) Corp.
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.5
Witness: Bourassa

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

Notes:
[1] Average of changes in annual stock prices ending December 31, 2014. Data from Yahoo Finance website.
[2] Value Line Analyzer Data, weekly as of May 14, 2015.

Liberty Utilities (Black Mountain Sewer) Corp.
Current Dividend Yields for Water Utility Sample Group

Exhibit
Schedule D-4.6
Witness: Bourassa

Line No.	Company	[1] Stock Price (P_0)[1]	[2] Current Dividend (D_0)[1]	[3] Current Dividend Yield (D_0/P_0)	[4] Average Annual Dividend Yield (D_0/P_0)[1,2]
1	American States Water	$ 38.66	$ 0.88	2.28%	2.75%
2	Aqua America	$ 26.56	$ 0.70	2.64%	2.36%
3	California Water	$ 24.01	$ 0.67	2.79%	3.12%
4	Connecticut Water	$ 35.16	$ 1.07	3.04%	3.21%
5	Middlesex	$ 21.79	$ 0.78	3.58%	3.71%
6	SJW Corp.	$ 30.11	$ 0.79	2.62%	2.68%
7	York Water Company	$ 22.76	$ 0.61	2.68%	2.80%
8	GROUP AVERAGE			2.80%	2.95%

Notes:

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

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

Liberty Utilities (Black Mountain Sewer) Corp.
Discounted Cash Flow Analysis
DCF Constant Growth

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

Line No.		[1] Dividend Yield (D_0/P_0)[1]	[2] Expected Dividend Yield (D_1/P_0)[2]		[3] Value Line Projected Growth (g)[3]		[4] Indicated Cost of Equity (COE) k=Div Yld + g (Cols 2+3)
1	1. American States Water	2.28%	2.42%	+	6.50%	=	8.92%
2	2. Aqua America	2.64%	2.85%	+	8.00%	=	10.85%
3	3. California Water	2.79%	2.99%	+	7.00%	=	9.99%
4	4. Connecticut Water	3.04%	3.24%	+	6.50%	=	9.74%
5	5. Middlesex	3.58%	3.78%	+	5.50%	=	9.28%
6	6. SJW Corp.	2.62%	2.79%	+	6.50%	=	9.29%
7	7. York Water Company	2.68%	2.87%	+	7.00%	=	9.87%
8	Average	2.80%	2.99%		6.71%		9.71%

Notes:

[1] Spot Dividend Yield = D_0/P_0. See Schedule D-4.6.

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

[3] Value Line Growth rate (g). See Schdule D-4.5, Col. 6.

Liberty Utilities (Black Mountain Sewer) Corp.
Discounted Cash Flow Analysis
DCF Constant Growth

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

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

Notes:
[1] Spot Dividend Yield = D_0/P_0. See Table 7.
[2] Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.
[3] Historical Growth rate (g). See Scehdule D-4.5 Col. 7.

Liberty Utilities (Black Mountain Sewer) Corp.
Forecasts of Long-Term Interest Rates

Exhibit
Schedule D-4.8
Witness: Bourassa

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

Notes:
[1] Blue Chip consensus forecasts (June 2015).
[2] Value Line Quarterly forecasts dated May 23, 2014.

Liberty Utilities (Black Mountain Sewer) Corp.
Risk Premium Analysis Based on Total Returns

Exhibit
Schedule D-4.9
Witness: Bourassa

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

Notes:
[1] Composite of average total returns for water utilities. Data from Value Line Analyzer software.
[2] As reported by the Federal Reserve.
[3] Source is Schedule D-4.8.

Liberty Utilities (Black Mountain Sewer) Corp.
Estimation of Current Market Risk Premium
Using DCF Analysis

Exhibit
Schedule D-4.10
Witness: Bourassa

Line No.	Month	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	+	Expected Growth (g)[3]	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate[4]	=	Expected Market Risk Premium (MRP)
1	May 2014	2.37%	2.59%	+	9.42%	=	12.01%	-	3.39%	=	8.62%
2	June	2.34%	2.56%	+	9.33%	=	11.89%	-	3.42%	=	8.47%
3	July	2.42%	2.65%	+	9.50%	=	12.15%	-	3.33%	=	8.82%
4	Aug	2.38%	2.61%	+	9.50%	=	12.11%	-	3.20%	=	8.91%
5	Sept	2.82%	3.10%	+	9.83%	=	12.93%	-	3.26%	=	9.67%
6	Oct	2.45%	2.68%	+	9.50%	=	12.18%	-	3.04%	=	9.14%
7	Nov	2.38%	2.61%	+	9.67%	=	12.27%	-	3.04%	=	9.23%
8	Dec	2.44%	2.67%	+	9.67%	=	12.34%	-	2.83%	=	9.51%
9	Jan 2015	2.45%	2.68%	+	9.50%	=	12.18%	-	2.46%	=	9.72%
10	Feb	2.38%	2.61%	+	9.50%	=	12.11%	-	2.57%	=	9.54%
11	Mar	2.42%	2.64%	+	9.17%	=	11.81%	-	2.63%	=	9.18%
12	Apr	2.40%	2.61%	+	9.00%	=	11.61%	-	2.59%	=	9.02%
13	Recommended	2.40%	2.62%	+	9.22%	=	11.84%	-	2.60%	=	9.25%
14	Short-term Trends										
15	Recent Twelve Months Avg	2.44%	2.67%	+	9.47%	=	12.13%	-	2.98%	=	9.15%
16	Recent Nine Months Avg	2.46%	2.69%	+	9.48%	=	12.17%	-	2.85%	=	9.32%
17	Recent Six Months Avg	2.41%	2.64%	+	9.42%	=	12.05%	-	2.69%	=	9.37%
18	Recent Three Months Avg	2.40%	2.62%	+	9.22%	=	11.84%	-	2.60%	=	9.25%

Notes:
[1] Average Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
[2] Expected Dividend Yield (D_1/P_0) equals current average dividend yield (D_0/P_0) times one plus growth rate(g).
[3] Median of Projected EPS, Projected DPS Growth and Projected BV Growth for VL 1700 stocks. Data from Value Line Investment Analyzer Software.
[4] Monthly average 30 year U.S. Treasury. Federal Reserve.

Liberty Utilities (Black Mountain Sewer) Corp.
Traditional Capital Asset Pricing Model (CAPM)

Exhibit
Schedule D-4.11
Witness: Bourassa

Line No.		Rf[1]	+	beta[2]	x	RP_M		=	k
1	Historical Market Risk Premium CAPM	4.2%	+	0.74	x	7.00%	[3]	=	9.4%
2	Currrent Market Risk Premium CAPM	4.2%	+	0.74	x	9.25%	[4]	=	11.0%
3	Average								10.2%

Notes:
[1] Forecasts of long-term treasury yields. See Schedule D-4.8.
[2] Value Line Investment Analyzer data. See Schedule D-4.3.
[3] Historical Market Risk Premium Duff & Phelps 2015 Valuation Handbook, Appendix 3, Long-Horizon ERP.
[4] See Schedule D-4.10.

Liberty Utilities (Black Mountain Sewer) Corp.
Financial Risk Computation
Unlevered Beta

Exhibit
Schedule D-4.12
Witness: Bourassa

Line No.		Company	VL Beta β_L[1]	Raw Beta Raw β_L[2]	Tax Rate t[3]	MV Debt D[4]	MV Equity E[4]		Unlevered Raw Beta β_U[5]
1									
2									
3									
4									
5	1.	American Water Worl	0.70	0.55	36.3%	18.1%	81.9%		0.48
6	2.	Aqua America	0.75	0.63	10.0%	23.9%	76.1%		0.49
7	3.	California Water	0.75	0.63	30.3%	27.2%	72.8%		0.50
8	4.	Connecticut Water	0.70	0.55	28.0%	30.9%	69.1%		0.42
9	5.	Middlesex	0.75	0.63	34.1%	26.7%	73.3%		0.51
10	6.	SJW Corp.	0.80	0.70	38.7%	35.5%	64.5%		0.52
11	7.	York Water	0.75	0.63	37.6%	22.2%	77.8%		0.53
12									
13		Sample Water Utilitie:	0.74	0.62	30.7%	26.4%	73.6%	#	0.49
14									
15									
16									
17									
18									
19									

20 [1] Value Line Investment Analyzer data. See Schedule D-4.1.
21 Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:
22 Adjusted beta = .33 + (.67) * Raw beta
23 [2] Raw Beta = (VL beta - .33)/(.67)
24 [3] Effective tax rates for year ended December 31, 2013.
25 [4] See Schedule D-4.2.
26 [5] Raw B_u = Raw B_L/ (1+ (1-t)*D/E)
27
28
29
30

Liberty Utilities (Black Mountain Sewer) Corp.
Financial Risk Computation
Relevered Beta

Exhibit
Schedule D-4.13
Witness: Bourassa

Line No.		Unlevered Raw Beta β_U[1]	MV Book Debt BD[2]	MV Equity Capital EC[2]	Tax Rate t[3]	Relevered Raw Beta $\beta_{RL}=\beta_U$ (1+(1-t)BD/EC)) β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
5	Liberty Utilities (Black Mountain Sewer) Corp.	0.49	15.3%	84.7%	39.20%	0.55	0.70

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

	BV (in Thousands)			MV (in Thousands)	MV %
Long-term Debt	$ 1,974	1.00		$ 1,974	15.30%
Preferred Stock	$ -	1.00		-	0.0%
Common Stock	$ 4,606	2.37	(a)	10,912	84.7%
Total Capital	$ 6,580			$ 12,886	100.0%

(a) Current market-to-book ratio of sample water utilities. See work papers.

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

Liberty Utilities (Black Mountain Sewer) Corp.
Financial Risk Computation

Exhibit
Schedule D-4.14
Witness: Bourassa

Line No.											
1	**CAPM**										
2		**Rf**		+	**β**		x	**(Rp)**			**k**
3	Historical Market Risk Premium	4.2%	1	+	0.74	2	x	7.00%	3	=	9.4%
4	Current Market Risk Premium	4.2%	1	+	0.74	2	x	9.25%	4	=	11.0%
5											
6	Average										10.2%
7											
8											
9	**CAPM Relevered Beta**										
10		**Rf**		+	**β**		x	**(Rp)**			**k**
11	Historical Market Risk Premium	4.2%	1	+	0.70	5	x	7.00%	3	=	9.1%
12	Current Market Risk Premium	4.2%	1	+	0.70	5	x	9.25%	4	=	10.7%
13											
14	Average										9.9%
15											
16	Indicated Financial Risk Adjustment										**-0.3%**
17											
18											
19	[1] Forecast of long-term treasury yields. See Schedule D-4.8.										
20	[2] Value Line Investment Analyzer data. See Schedule D-4.1.										
21	[3] Historical Market Risk Premium from (Rp) Duff & Phelps 2015 Valuation Handbook Appendix3 Long-Horizon ERP 1926-2013.										
22	[4] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks										
23	and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.10.										
24	[5] Relevered beta found on Relevered Beta. See Schedule D-4.15.										
25											

Liberty Utilities (Black Mountain Sewer) Corp.
Risk Premium[1]

Exhibit
Schedule D-4.15
Witness: Bourassa

Line No.		Beta(β)	Size Premium	Risk Premium for Small Water Utilities[7]
1	Mid-Cap Companies[2]	1.12	1.07%	
2	Low-Cap Companies[3]	1.22	1.80%	
3	Micro-Cap Companies[4]	1.35	3.74%	
4	Decile 10[5]	1.40	5.78%	3.25%

		Risk Premium for Small Water Utilities
5	Estimated Risk Premium for small utilities[6]	0.99%
6	Estimated Risk Premium for Company[8]	1.50% to 2.10%

[1] Data from Table 4-7 of Duff & Phelps, 2015 Valuation Handbook Guide to Cost of Capital.
[2] Mid-Cap companies includes companies with market capitalization between $2,552 million and $10,106 million.
[3] Low-Cap companies includes companies with market capitalization between $549 million and $2,552 million.
[4] Micro-Cap companies includes companies with market capitalization less than $549 million.
[5] Decile 10 includes companies with market capitalization less than $301 million.
[6] From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.
[7] Computed as the weighted differences between the Micro-Cap risk premium and the inidicated risk premiums for the sample water utlities as shown below. Excludes risk due to differences in beta.

		Market Cap. (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
1.	American States	$ 1,472	Low-Cap	1.80%	3.98%	0.14285714	0.57%
2.	Aqua America	$ 4,667	Mid-Cap	1.07%	4.71%	0.14285714	0.67%
3.	California Water	$ 1,143	Low-Cap	1.80%	3.98%	0.14285714	0.57%
4.	Connecticut Water	$ 391	Micro-Cap	3.74%	2.04%	0.14285714	0.29%
5.	Middlesex	$ 356	Micro-Cap	3.74%	2.04%	0.14285714	0.29%
6.	SJW Corp.	$ 609	Micro-Cap	1.80%	3.98%	0.14285714	0.57%
7.	York Water Company	$ 297	Micro-Cap	3.74%	2.04%	0.14285714	0.29%
			Average	2.53%	Wghtd Size Prem. for Small Utilities		3.25%

[8] Results of Comparative Risk Study. See work papers.

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Attorneys for Liberty Utilities (Black Mountain Sewer) Corp.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR AUTHORITY TO ISSUE EVIDENCE OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED $3,400,000.	DOCKET NO: SW-02361A-15-0206
IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-15-0207

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

RATE BASE, INCOME STATEMENT & RATE DESIGN

January 6, 2016

EXHIBIT
A-9
ADMITTED

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I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

A. I am testifying on behalf of the Liberty Utilities (Black Mountain Sewer) Corp. ("Liberty Black Mountain" or "Company").

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE INSTANT CASE?

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

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. I will provide rebuttal testimony in response to the direct filings by Staff and RUCO. More specifically, this first volume of my rebuttal testimony relates to rate base, income statement and rate design for Liberty Black Mountain. In a second, separate volume of my rebuttal testimony, I will present an update to the Company's requested cost of capital, and provide rebuttal to Staff and RUCO on the cost of capital and rate of return applied to the fair value rate base, and the determination of operating income.

II. SUMMARY OF THE COMPANY'S REBUTTAL POSITION.

Q. WHAT IS THE REVENUE INCREASE THE COMPANY IS PROPOSING IN THIS REBUTTAL TESTIMONY?

A. The Company proposes a total revenue requirement non-inclusive of rate case expense (recovered via a surcharge) of $2,254,363, which constitutes an increase in revenues of $14,515, or 0.65 percent over adjusted test year revenues.

The Company continues to seek annual revenues of $150,000 to recover a total, estimated, rate case expense of $450,000. The total annual revenues the Company seeks at this stage of the rate case are $2,404,363 ($2,254,363 + $150,000) and the total increase in annual revenues is $164,515, or 7.34 percent. This does not include any recovery of the costs of plant closure, which are being separately accounted for and discussed.

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

A. It is somewhat lower. In the direct filing, the Company requested a total revenue requirement non-inclusive of rate case expense (recovered via a surcharge) of $2,296,777, which required an increase in revenues of $56,929, or 2.54 percent. Annual revenues to recover rate case expense were another $150,000. The total annual revenues the Company sought in its direct filing were $2,446,777 ($2,296,777 + $150,000), and the total increase in annual revenues was $200,929, or 9.24 percent.

Q. WHAT'S DIFFERENT?

A. In its rebuttal filing, Liberty Black Mountain has adopted a number of rate base and revenue/expense adjustments recommended by Staff and/or RUCO, as well as proposed additional adjustments of its own. The net result of these adjustments is that the Company's proposed operating expenses have decreased by $27,062, from $1,981,235 in the direct filing to $1,954,172. This includes an increase of $7,386 in rate base from the direct filing of $3,412,024 to $3,419,410 due to proposed changes to plant-in-service ("PIS"), accumulated depreciation ("A/D"), Advances – in-Aid of Construction ("AIAC"), Contributions-in-Aid of Construction ("CIAC"), Accumulated Deferred Income Taxes ("ADIT"), and Cash Working Capital ("CWC").

The Company continues to propose an 8.62 percent return on rate base that is based upon a capital structure consisting of 30 percent debt and 70 percent equity, a cost of debt of 3.53 percent, and a return on equity of 10.8 percent. I discuss the proposed capital structure, cost of debt, and cost of equity in the second volume of my rebuttal testimony covering cost of capital.

Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY, RUCO AND STAFF AT THIS STAGE OF THE PROCEEDING?

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

	Revenue Requirement Plus Rate Case Expense	Revenue Incr.	% Increase
Company-Direct	$2,446,777	$ 200,925	9.24%
Staff	$2,068,334	$(171,514)	-7.66%
RUCO	$1,956,557	$(284,244)	-12.68%
Company-Rebuttal	$2,404,363	$ 164,515	7.34%

Again, I need to emphasize that none of these numbers include recovery of the more than $1 million in plant closure costs the Company has already incurred and requested approval to recover in this rate case.

Q. IS THE COMPANY STILL SEEKING A SEPARATE PLANT CLOSURE SURCHARGE?

A. Yes, the Company is still seeking a plant closure surcharge, however, the Company now requests that the closure cost surcharge be computed in three stages consistent with the Proposed Settlement Agreement (the "Settlement Agreement") reached between Liberty Black Mountain, the Town of Carefree (the "Town"), CP Boulders, LLC dba Boulders Resort (the "Resort"), Wind P1 Mortgage Borrower, L.L.C. ("Wind P1"), and the Boulders Homeowners Association (the "BHOA")

(collectively, the "Signatories"), filed on November 16, 2015. The Town and the Resort are intervenors in this docket.

I will explain the details of the surcharge proposal in the Rate Design section of my rebuttal testimony. For now, to summarize, the Stage 1 surcharge is contemplated to be $6.31 per customer per month; the Stage 2 surcharge is contemplated to be an additional $7.96 per customer per month; and the Stage 3 surcharge is contemplated to be an additional $16.70 per customer per month. All three are year one surcharges, and the surcharge would be recomputed annually to reflect previously recovered amortization. The surcharge would stay in effect until such time as the Commission included the final plant closure costs in rate base. Again, all of these surcharges are understood and supported by the public parties in this case, as is evidenced by the Settlement Agreement; and the surcharges are necessary to allow the Company to move forward with the unprecedented step of closing used and useful plant and contracting for replacement capacity from a third party, the City of Scottsdale.

III. RATE BASE.

A. Overview.

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS.

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

	OCRB	FVRB
Company-Direct	$ 3,412,024	$ 3,412,034
Staff	$ 3,004,503	$ 3,004,503
RUCO	$ 3,235,735	$ 3,235,735
Company Rebuttal	$ 3,419,410	$ 3,419,410

As with the revenue numbers I discussed above, none of these rate bases account for the plant closure costs in any way.

Q. OKAY, THANK YOU. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE?

A. Yes. The Company's rebuttal rate base adjustments OCRB are detailed on rebuttal schedules B-2, pages 3 through 7. Rebuttal Schedule B-2, page 1 and 2, summarize the Company's proposed adjustments and the rebuttal OCRB.

B. <u>Plant-in-Service (PIS)</u>.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED REBUTTAL ADJUSTMENTS TO PIS AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. Rebuttal B-2 adjustment 1, as summarized on Rebuttal Schedule B-2, page 2, consists of five adjustments labeled as "A," "B," "C," "D," and "E" on Rebuttal Schedule B-2, page 3.

Adjustment A reflects the reclassification and the removal of not used and useful PIS, which is based upon the Company's response to Staff data requests DH 3.5, DH 3.6, DH 3.10, and DH 3.35 and summarized in response to RUCO data request 6.03. The Company's net reduction to PIS is $10,254. As will be discussed, both Staff and RUCO recommend similar adjustments but differ in some respects to the Company's recommendation both in the amounts reclassified and the net adjustment to PIS.

Adjustment B removes $317 of AFUDC from PIS and reflects the adoption of RUCO PIS adjustment number 4.

Adjustment C reduces PIS by $29,760 reflecting a correction to a plant addition amount in 2011 for account 389 – Other Plant and Communication equipment.

Adjustment D reflects additional corporate plant totaling $77,992 that was inadvertently omitted in the Company's initial filing. Total corporate plant recommended by the Company now totals $175,457 ($97,465 included in the initial filing plus $77,992). The corporate plant represents the allocated portion of all the used and useful plant used to provide service to customers. As will be discussed, both Staff and RUCO recommend the exclusion of all corporate plant.

Adjustment E reflects the reconciliation of PIS to the reconstructed PIS shown on Schedule B-2, pages 3.5 to 3.12.

Q. PLEASE SUMMARIZE THE RECOMMENDED PIS BALANCES OF THE PARTIES AND THE DIFFERENCES.

A. The Company recommends a PIS balance of $14,204,095.[1] Staff recommends a PIS balance of $14,034,150,[2] a difference of $169,945 compared to the Company's recommended balance. RUCO recommends a PIS balance of $14,060,969,[3] a difference of $143,126 compared to the Company's recommended balance.

Q. WHAT ARE THE REASONS FOR THE DIFFERENCES IN THE RECOMMENDED PIS BALANCES BETWEEN THE COMPANY AND STAFF?

A. There are four reasons. First, Staff's PIS balance excludes $175,457 of corporate plant. Second, Staff's net reclassification and not used and useful adjustment is $(5,059)[4] compared to the Company's net reclassification adjustment of $(10,255),[5] which is a difference of $5,196. Third, the Company is proposing a

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[1] *See* Rebuttal Schedule B-2, page 1.

[2] *See* Staff Direct Schedule CSB-3.

[3] *See* RUCO Direct Schedule TJC-2.

[4] *See* Staff Direct Schedule CSB-6. The schedule shows a net reduction to PIS of $34,819, but this includes a plant addition correction of $29,760. The reclassification and not used and useful PIS adjustment is actually $5,059.

[5] *See* Rebuttal Schedule B-2, page 3.1.

reduction to PIS of $29,760 for a correction to a 2011 plant addition that is reflected in the Staff plant reclassification and not used and useful recommendation. Fourth, the Company has adopted RUCO's recommendation to remove $317 from PIS related to AFUDC, which is not reflected in the Staff recommendations. These four differences total $169,945 ($175,457 less $5,196 less $317).

Q. WHAT ARE THE REASONS FOR THE DIFFERENCES IN THE RECOMMENDED PIS BALANCES BETWEEN THE COMPANY AND RUCO?

A. There are three reasons. First, RUCO's PIS balance excludes $175,457 of corporate plant. Second, RUCO's net reclassification and not used and useful adjustment is $(7,683)[6] compared to the Company's net reclassification adjustment of $(10,254),[7] which is a difference of $(2,572). Third, the Company is proposing a reduction to PIS of $29,760 for a correction to a 2011 plant addition, which is not reflected in the RUCO recommendations. These three differences total $143,125 ($175,457 less $2,572 less $29,760).

1. <u>Allocated Corporate Plant</u>.

Q. PLEASE DISCUSS THE STAFF AND RUCO RECOMMENDATIONS TO EXCLUDE ALLOCATED CORPORATE PLANT.

A. Staff recommends the exclusion of all allocated corporate plant because the plant is owned by the parent company.[8] There are at least two problems with Staff's logic. First, and foremost, Staff's logic suggests that ratepayers should not pay for the cost of capital related to the investment (return $s) in corporate plant that is used by

[6] *See* RUCO Direct Schedule TJC-4(c), page 1 of 2.

[7] *See* Rebuttal Schedule B-2, page 3.1.

[8] *See* Direct Testimony of Crystal S. Brown ("Brown Dt.") at 11.

Liberty Black Mountain to provide service and which provides benefits for the customers. Second, Staff's recommendation is contrary to past recommendations by Staff in other rate cases.

RUCO recommends the exclusion of allocated corporate plant because the Company has not requested allocated corporate plant in past cases for any of the Liberty utilities.[9] RUCO's reasoning is flawed. Under this logic, no utility could seek recovery of any cost it had not previously requested. RUCO is making cost recovery recommendations irrespective of the merits. To make matters worse, RUCO's recommendation to exclude corporate plant, regardless of the merits, is contrary to past recommendations by RUCO in other rate cases.

Q. DOESN'T RUCO ALSO STATE THAT IT REQUESTED BACK-UP DOCUMENTATION OF THE CORPORATE PLANT AND DID NOT RECEIVE IT?

A. Yes. But, RUCO misstated what it requested.[10] RUCO did not request back-up documentation for all corporate plant in RUCO data request 3.11.[11] In RUCO data request 3.11, RUCO inquired about why there was no allocated accumulated depreciation on the corporate computers and software account only. The Company responded that there should have been $264 of allocated A/D. This does not equate to a lack of support for the corporate plant assets.

Q. HAVE YOU INCREASED THE A/D BALANCE FOR CORPORATE COMPUTERS AND SOFTWARE THAT WAS IN THE ORIGINAL FILING?

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[9] *See* Direct Testimony of Timothy J. Coley ("Coley Dt.") at 20 – 21.

[10] Coley Dt. at 21.

[11] Attached as **Exhibit TJB-RB1** is a copy of the Company's response.

A. Yes. However, the increase to A/D is $1,320, not $264.[12]

Q. DO LIBERTY BLACK MOUNTAIN'S RATEPAYERS BENEFIT FROM THE CORPORATE STRUCTURE?

A. Yes. Liberty Black Mountain's corporate structure provides access to lower cost capital, as well as financial, technical and managerial expertise, and the ability to share certain facilities and operating expenses with other systems. In effect, these benefits enable the Company to provide better service at lower cost than would otherwise be available from a stand-alone operation. And, while the parent entity owns the corporate plant, it is used for the provision of service by each of the regulated utilities owned by the parent, including Liberty Black Mountain. Staff even admits that Liberty Black Mountain uses a portion of the corporate plant to provide service to its customers.[13] Denying the recognition of allocated corporate plant ignores these benefits and denies Liberty Black Mountain's investors the recovery of a fair return on <u>all</u> plant investment necessary to provide service to its customers. Further, by denying recognition of allocated corporate plant, Liberty Black Mountain would be penalized for being part of the Liberty/APUC corporate structure, which will discourage use of similar corporate structures and lead to higher costs to customers in the future. This is true because companies will avoid using economies of scale-based approaches to corporate structure, and will instead be force to establish stand-alone companies that do not share in corporate costs, if the shared costs are not recovered.

Q. HAS ALLOCATED CORPORATE PLANT BEEN RECOVERABLE IN OTHER WATER AND/OR WASTEWATER RATE CASES?

A. Yes. Allocated corporate plant has been included in PIS (and rate base) in a

[12] *See* Rebuttal Schedule B-2, page 4.5, line 8.

[13] *Id.*

number of prior rate cases. Examples include the Arizona-American Water Company rate cases (Decision No. 67093, Decision No. 71410, Decision No. 72047, Decision No. 70351, and Decision No. 73145), Chaparral City Water Company rate cases (Decision No. 68176 and Decision No. 71308), and the recent EPCOR Water Arizona rate case (Decision No. 75268).

Q. DID STAFF OR RUCO RECOMMEND THE EXCLUSION OF ALLOCATED CORPORATE PLANT IN THOSE CASES?

A. No. Neither Staff nor RUCO recommended the exclusion of allocated corporate plant used to provide service to customers in any of the rate cases mentioned above.

2. <u>Plant Reclassification and Not Used and Useful Plant</u>.

Q. DO YOU HAVE ANY CONCERNS WITH STAFF'S RECOMMENDED PLANT RECLASSIFICATIONS AND ADJUSTMENTS FOR NOT USED AND USEFUL PLANT ADJUSTMENTS?

A. There are at least two primary concerns with the Staff recommended adjustment. First, Staff's recommended adjustments to PIS do not match Staff's detail schedules. Second, and more importantly, the Company does not agree with some of plant reclassifications. The disagreements were communicated to Staff in the Company's responses to Staff data request DH 3.5, DH 3.6, DH 3.10, and DH 3.35 after the Company reviewed the underlying documentation.

With respect to the first concern, the following table compares Staff Direct Schedule CSB-6 with the Staff detail set forth on pages 9 through 14 of Ms. Hains' testimony:

Table 1

Acct No.	Description	Per Staff Sch. CSB-6	Per Hains' Tables On Pages 9 - 14	Difference
351	Organization	-		-
352	Franchises	-		-
353	Land and Land Rights	1,500	1,500	-
354	Structures and Improvements	(163,446)	(166,838)	3,392
355	Power Generation Equipment	3,839	3,839	(0)
360	Collection Sewers – Force	1,602	1,602	0
361	Collection Sewers – Gravity	(2,370)	(2,010)	(360)
362	Special Collecting Structures	-	-	-
363	Services to Customers	-	-	-
364	Flow Measuring Devices	-	-	-
365	Flow Measuring Installations	-	-	-
366	Reuse Services	-	-	-
367	Reuse Meters And Installation	-	-	-
370	Receiving Wells	-	-	-
371	Effluent Pumping Equipment	113,158	107,469	5,689
374	Reuse Distribution Reservoirs	-	-	-
375	Reuse Trans. and Dist. System	-	-	-
380	Treatment and Disposal Equipment	(5,782)	(5,782)	(0)
381	Plant Sewers	-	-	-
382	Outfall Sewer Lines	-	-	-
389	Other Plant and Misc. Equipment	(1,850)	(3,150)	(1,300)
390	Office Furniture and Equipment	-	-	-
390.1	Computers and Software	-	-	-
391	Transportation Equipment	-	-	-
392	Stores Equipment	-	-	-
393	Tools, Shop and Garage Equipment.	-	-	-
394	Laboratory Equipment	-	-	-
395	Power Operated Equipment	-	-	-
396	Communication Equipment	48,289	51,437	(3,148)
397	Miscellaneous Equip.	-	-	-
398	Other Tangible Plant - Scottsdale Capacity	-	-	-
	Subtotal	$ (5,059)	$ (11,283)	$ 5,196
389	Other Plant and Misc. Equip. Correction	(29,760)	-	(29,760)
	Total	$ (34,819)	$ (11,283)	$ (24,564)

As indicated, not only do the amounts per plant account not match in several instances, but Staff removes $5,196 less than set forth in its own detail schedules.[14] Staff does not explain the discrepancies.[15]

With respect to the second concern and assuming the detail set forth in Ms. Hains' testimony is the correct basis for Staff's reclassification and not used and useful plant adjustment, the following table summarizes the differences between the Company and Staff:

[14] *See* Direct Testimony of Dorothy Hains ("Hains Dt.") at 9 – 14. Compare Ms. Hains' tables on pages 9 and 10 with Ms. Brown's Direct Schedule CSB-6. Ms. Hains recommends removing a total of $11,283 from PIS, which consists of $2,638 of disallowed plant items ($2,577.68 plus $360) and $10,345 ($7142.78 plus $1,202.09) of PIS reclassified to O&M expense.

[15] Brown Dt. at 11.

Table 2

Acct No.	Description	Per Hains Tables On Pages 9 – 14	Company Sch. B-2, p. 3.1	Difference
351	Organization	-	-	-
352	Franchises	-	-	-
353	Land and Land Rights	1,500	1,500	-
354	Structures and Improvements	(163,806)	(152,549)	(11,257)
355	Power Generation Equipment	3,839	3,839	-
360	Collection Sewers - Force	1,602	568	1,034
361	Collection Sewers - Gravity	(2,010)	-	(2,010)
362	Special Collecting Structures	-	-	-
363	Services to Customers	-	-	-
364	Flow Measuring Devices	-	-	-
365	Flow Measuring Installations	-	-	-
366	Reuse Services	-	-	-
367	Reuse Meters And Installation	-	-	-
370	Receiving Wells	-	-	-
371	Effluent Pumping Equipment	105,087	85,996	19,091
374	Reuse Distribution Reservoirs	-	-	-
375	Reuse Trans. and Dist. System	-	-	-
380	Treatment and Disposal Equipment	(5,782)	(5,782)	0
381	Plant Sewers	-	-	-
382	Outfall Sewer Lines	-	-	-
389	Other Plant and Misc. Equipment	(3,150)	(3,150)	-
390	Office Furniture and Equipment	-	(62,224)	62,224
390.1	Computers and Software	-	62,224	(62,224)
391	Transportation Equipment	-	-	-
392	Stores Equipment	-	-	-
393	Tools, Shop and Garage Equipment.	-	-	-
394	Laboratory Equipment	-	-	-
395	Power Operated Equipment	-	-	-
396	Communication Equipment	51,437	59,323	(7,886)
397	Miscellaneous Equip.	-	-	-
398	Other Tangible Plant - Scottsdale Capacity	-	-	-
				-
		$ (11,283)	$ (10,255)	$ (1,028)
389	Other Plant and Misc. Equip. Correction	(29,760)	(29,760)	(0)
	Total	$ (41,043)	$ (40,015)	$ (1,028)

Q. CAN YOU PLEASE EXPLAIN WHAT'S DIFFERENT BETWEEN STAFF'S $11,283 NET REDUCTION AND THE COMPANY'S $10,254 NET REDUCTION TO PIS?

A. The differences by plant account are primarily due to a disagreement about the reclassification from one plant account to another. With respect to the net difference of $1,028, there are the three amounts that comprise the difference: $2,557.96, $(1,190), and $(360). Regarding the $2,577.96, the Company does not agree with Staff to remove this amount $2,577.68 from PIS.[16] After review of the invoice, the Company determined the invoice was for Liberty Black Mountain and not Liberty Utilities (Gold Canyon Sewer), Corp. ("Liberty Gold Canyon") as Staff suggests.[17] Regarding the $1,190, the Company determined that this amount belonged to Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("Liberty Litchfield Park") and proposes to remove this amount from PIS. Finally, regarding the $360, the Company determined that this amount belonged to Liberty Gold Canyon and proposes to remove this amount from PIS.

Q. THANK YOU. PLEASE DISCUSS RUCO'S RECLASSIFICATION AND NOT USED AND USEFUL PLANT ADJUSTMENTS.

A. RUCO's recommended adjustments are based upon the Company response to RUCO data request 6.03.[18] That data response also formed the basis of the Company's recommendation. The following table summarizes the differences between the Company and the RUCO recommendations:

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[16] Hains Dt. at 9. In table under heading Disallowed Plant Items is a description for an invoice to JCPI services for $2,577.68

[17] While the purchase order indicated the invoice was for Liberty Gold Canyon, the Company verified that this asset was installed at a Liberty Black Mountain location and therefore was recorded correctly to Liberty Black Mountain's PIS.

[18] Coley Dt. at 19.

Table 3

Acct No.	Description	RUCO Sch. TJC-4(c)	Company Sch. B-2, p. 3.1	Difference
351	Organization	-	-	-
352	Franchises	-	-	-
353	Land and Land Rights	1,500	1,500	-
354	Structures and Improvements	(152,909)	(152,549)	(360)
355	Power Generation Equipment	3,839	3,839	-
360	Collection Sewers – Force	568	568	-
361	Collection Sewers – Gravity	-	-	-
362	Special Collecting Structures	-	-	-
363	Services to Customers	-	-	-
364	Flow Measuring Devices	-	-	-
365	Flow Measuring Installations	-	-	-
366	Reuse Services	-	-	-
367	Reuse Meters And Installation	-	-	-
370	Receiving Wells	-	-	-
371	Effluent Pumping Equipment	85,996	85,996	-
374	Reuse Distribution Reservoirs	-	-	-
375	Reuse Trans. and Dist. System	-	-	-
380	Treatment and Disposal Equipment	(2,211)	(5,782)	3,572
381	Plant Sewers	-	-	-
382	Outfall Sewer Lines	-	-	-
389	Other Plant and Misc. Equipment	(3,150)	(3,150)	-
390	Office Furniture and Equipment	(62,224)	(62,224)	-
390.1	Computers and Software	62,224	62,224	-
391	Transportation Equipment	-	-	-
392	Stores Equipment	-	-	-
393	Tools, Shop and Garage Equipment.	-	-	-
394	Laboratory Equipment	-	-	-
395	Power Operated Equipment	-	-	-
396	Communication Equipment	58,683	59,323	(640)
397	Miscellaneous Equip.	-	-	-
398	Other Tangible Plant - Scottsdale Capacity	-	-	-
		$ (7,683)	$ (10,254)	$ 2,572

Q. PLEASE EXPLAIN THE DIFFERENCES BETWEEN THE COMPANY AND RUCO.

A. The $360 difference for plant account 354 – Structures and Improvements appears to be due to an error. RUCO's work papers shows that RUCO removed $1,080 from plant account 354 that is associated with Liberty Gold Canyon, but the

Company's response to RUCO data request 6.03 only shows $720 to be reclassified to Liberty Gold Canyon.

The $3,572 difference for plant account 380 – Treatment and Disposal Equipment is related to a filter media invoice totaling $7,142.78. RUCO only removed one-half of the invoice amount because RUCO believes that half-of the remaining life of the media remains.[19] The Company doesn't necessarily disagree with RUCO's position, but the Company has agreed with Staff to remove the full invoice amount.

Finally, the $640 difference for plant account 396 – Communication Equipment appears to be due to an error. The RUCO work papers show a 2011 adjustment for $639.52, but there is no such adjustment appearing in the Company's response to RUCO data request 6.03 for 2011.

C. <u>Accumulated Depreciation (A/D)</u>.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED REBUTTAL ADJUSTMENTS TO A/D AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. Rebuttal B-2 adjustment 2, as summarized on Rebuttal Schedule B-2, page 2, consists of six adjustments labeled as "A," "B," "C," "D," "E," and "F" on Rebuttal Schedule B-2, page 4.

Adjustment A increases A/D to correct a formula error in the Company initial filing plant reconstruction schedule. As will be discussed, both Staff and RUCO recommend adjustments to A/D include a correction of the error.

Adjustment B increases A/D for changes to plant related the reclassification and the removal of not used and useful PIS (Adjustment 1-A) discussed previously.

[19] Coley Dt. at 20.

As will be discussed further below, both Staff and RUCO recommend similar adjustments based upon their respective recommendations for reclassification and removal of not used and useful PIS.

Adjustment C reduces A/D related to the removal of AFUDC from PIS discussed previously (Adjustment 1-B).

Adjustment D reduces A/D related to the plant addition correction discussed previously (Adjustment 1-C).

Adjustment E reflects additional A/D related to the additional corporate plant discussed previously (Adjustment 1-D).

Adjustment F reflects the reconciliation of A/D to the reconstructed A/D shown on Schedule B-2, pages 3.6 to 3.13.

Q. PLEASE SUMMARIZE THE RECOMMENDED A/D BALANCES OF THE PARTIES AND THE DIFFERENCES.

A. The Company recommends an A/D balance of $8,785,220.[20] Staff recommends an A/D balance of $8,747,014,[21] a difference of $38,206 compared to the Company's recommended balance. RUCO recommends a PIS balance of $8,759,927,[22] a difference of $25,293 compared to the Company's recommended balance.

Q. WHAT ARE THE REASONS FOR THE DIFFERENCES IN THE RECOMMENDED A/D BALANCES BETWEEN THE COMPANY AND STAFF AND RUCO?

A. The parties' respective A/D adjustments reflect each of the parties' recommended adjustment to the PIS balances. The major cause of the difference between the Company's recommended A/D balance and the other parties is that the Company's

[20] *See* Rebuttal Schedule B-2, page 1.

[21] *See* Staff Direct Schedule CSB-3.

[22] *See* RUCO Direct Schedule TJC-2.

A/D balance includes $30,594 of A/D related to allocated corporate plant. I discussed earlier that Staff and RUCO exclude allocated corporate plant in PIS and, therefore, the related A/D is also excluded. Other minor differences arise from the fact that the parties reclassify plant differently, particularly Staff, and those differences result from different depreciation rates being applied to the reclassified amounts. Additionally, RUCO's adjustments to PIS do not include the plant addition correction for 2011 of $(29,760) discussed earlier, which, if adopted by RUCO, would eliminate $6,947 of the difference between the Company and RUCO.

Q. PLEASE RESPOND TO MR. COLEY'S DISCUSSION ON PAGES 16 AND 17 OF HIS REBUTTAL TESTIMONY ABOUT SYSTEMATIC AND RATIONAL DEPRECIATION.

A. Candidly, Mr. Coley's discussion is much ado about nothing. I spoke with Mr. Coley several months ago when he called me about what he thought was a formulaic error for computing depreciation from July 2008 to December 2008 in the Company's B-2 plant schedule. He identified the error and I agreed that it was computing depreciation incorrectly. I corrected the error, while on the phone, and we examined each plant account's computation until he was satisfied with the results. I then sent Mr. Coley the revised work paper. I did not hear from him again until his direct testimony claiming the Company's depreciation was irrational.[23]

I just don't get it. I informed Mr. Coley that the Company would correct the A/D balance in its rebuttal filing and that if RUCO proposed a correction in its direct testimony there would be no dispute. This was a formulaic error that was

[23] I subsequently sent Staff the same revised work paper, which appears to be incorporated into Staff's work papers.

readily corrected. It had nothing to do with the Company's or my inability to track plant or calculate depreciation. In other words, it was not a systematic or process issue. So I am perplexed that Mr. Coley spent so much time discussing the subject of "systematic and rationale depreciation" given our previous conversation(s) and agreement on this being a mere formula error. I can only conclude that this part of his testimony, like his assertion that the Company "scratched and clawed" to come up with this rate increase, was intended to put the Company in a bad light in this rate case. Rather than address the case on its own merits, which are unique and complex, including, among other things, the issues surrounding an order that a utility remove used and useful plant at the cost of millions of dollars, and developing a new rate design reliant on billing information from a municipality, RUCO pretends that this is a normal, simple case and its testimony reflects that unfounded pretense.

D. <u>Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization (AA)</u>.

Q. PLEASE DISCUSS THE COMPANY'S PROPOSED REBUTTAL ADJUSTMENTS TO CIAC AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company adopted RUCO's proposed adjustments to CIAC that has resulted in an increase to CIAC of $983,517.[24] The increase to CIAC is primarily the result of reclassifying expired AIAC to CIAC. Both the Company and RUCO recommend a CIA balance of $6,445,253.

[24] *See* RUCO Direct Schedule TJC-6.

Q. PLEASE DISCUSS THE STAFF RECOMMENDED CIAC BALANCE.

A. Staff recommends a CIAC balance of $7,036,330 – $591,077 higher than the Company's recommended balance. Staff's recommended balance is higher for two reasons. First, Staff erroneously reclassifies an accounting error in the AIAC balance from the original filing of $239,786 to CIAC asserting this amount is unsupported AIAC. But, the amount was never AIAC to begin with so it can't then become CIAC. Second, Staff reclassifies $351,292 of unexpired AIAC to CIAC.[25] The Company disagrees with Staff on the reclassification of unexpired AIAC, as AIAC does not become CIAC until the contract expires. Further, the Staff adjustment is partly based upon estimates of post-test year refunds that are not known and measurable at this time because the refunds have not been made, and won't be made until August 2016.

Q. PLEASE COMMENT ON MR. COLEY'S TESTIMONY ON PAGE 38 THAT LINE EXTENSION AGREEMENTS MUST BE EXPIRED AFTER FIVE YEARS PER A.A.C. 14-2-606.

A. Mr. Coley has ignored the fact that the Company has a tariff authorizing ten-year refund periods.[26]

Q. THANK YOU. WHAT ABOUT ACCUMULATED AMORTIZATION (AA)?

A. Also in rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company increases AA by $93,143 to reflect the additional amortization on the AIAC transferred to CIAC as discussed previously. The Company recommends an AA balance of $5,333,859.[27]

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[25] Includes $244,639 for Studios at Carefree, $115,668 for Carefree Ironwood Estates, and less estimated 2015 refunds of $9,015.

[26] *See* Rebuttal Testimony of Matthew Garlick ("Garlick Rb.") at 20.

[27] *See* Rebuttal Schedule B-2, page 2.

Q. HOW DOES THE COMPANY'S RECOMMENDED AA BALANCE COMPARE TO STAFF'S?

A. Staff recommends an AA balance of $5,271,848, which is lower than the Company's recommendation by $62,011. As noted, Staff's recommended balance is misstated because Staff transfers $239,786 for erroneously recorded AIAC to CIAC. Staff's recommended balance also includes amortization of unexpired AIAC that Staff transfers to CIAC. I have previously discussed why the Company does not agree with Staff on this matter.

Q. ARE THERE ANY OTHER ISSUES WITH THE STAFF RECOMMENDED AA BALANCE?

A. Yes. First, Staff treats its transfers from AIAC to CIAC as if occurring entirely in 2014, when in fact some of the contracts expired in 2009 and 2012. Had Staff properly accounted for the year of AIAC expiration, Staff's computed AA balance would be higher. Further, Staff computes a half-year of amortization in the year Staff transfers AIAC to CIAC.[28] This is wrong. The composite depreciation rate is already computed using the half-year convention, so Staff is understating the computed amortization.

Q. WHAT ABOUT RUCO'S RECOMMEND AA BALANCE?

A. RUCO recommends an AA balance of $5,616,555, which is higher than the Company's recommendation by $282,696. The difference in recommended balances is largely due to the fact that RUCO computes amortization on fully amortized CIAC in its reconstruction of the AA balance.

Q. DOESN'T RUCO SAY THERE IS NO FULLY AMORTIZED CIAC?

A. That is what RUCO asserts. But, in making its assertion RUCO follows a group

[28] *See* Staff Direct Schedule CSB-9.

procedure when accounting for CIAC,[29] despite the fact that RUCO uses a vintage group procedure for plant depreciation accounting from the prior test year end to the current test year end to reconstruct it A/D balance.[30] RUCO's approach to accounting for CIAC is inconsistent with its approach to accounting for plant depreciation and should be rejected.

Q. WHAT ABOUT RUCO'S ARGUMENT THAT THE LXA DATE ESTABLISHES THE VINTAGE YEAR NOT THE LXA EXPIRATION DATE?

A. First, it doesn't really matter what you define as the vintage group as long as each vintage group is accounted for separately, which RUCO does not do. It makes the most sense to use the year of expiration because AIAC only becomes CIAC and begins to be amortized when the LXA agreement expires; similar to plant, which does not begin to depreciate until it is placed into service. Second, this is entirely consistent with the ratemaking framework.

Q. PLEASE EXPLAIN.

A. From the time the LXA is originally signed and recorded and up until expiration, the Company records depreciation on the plant and the Company makes refunds on the LXA.[31] Both the net plant balance and the AIAC net balance decrease annually. For ratemaking, utilities are allowed depreciation expense in rates during this time because the depreciation provides the cash flows to make AIAC refunds. Upon expiration of the LXA, the remaining AIAC balance is transferred to CIAC. Refunds cease and from that point forward, the transferred CIAC balance is

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[29] Coley Dt. at 41.

[30] Coley Dt. at 14 – 15.

[31] We don't track vintage groups for AIAC because AIAC is not depreciated or amortized, rather AIAC is refunded according to the terms of the agreement.

amortized and the Company continues to record depreciation on the plant. Ideally, the net plant balance at the time of transfer is approximately equal to the transferred CIAC balance. Going forward, the annual depreciation expense is offset by the CIAC amortization, eliminating the recovery of depreciation expense in rates. And, similar to when the LXA is being refunded, going forward both the net plant balance and the CIAC net balance decrease until they reach zero.

RUCO often argues that when plant is fully depreciated, depreciation should cease otherwise the Company over recovers. Then, in a similar manner, when CIAC is fully amortized, the amortization should also cease; otherwise, the Company will under recover depreciation expense. Ratepayers get a windfall from understated depreciation expense. The Company's recommended treatment of fully amortized CIAC is the only approach that does not result in a mismatch between plant and CIAC.

E. <u>Advances-in-Aid of Construction (AIAC)</u>.

Q. PLEASE DISCUSS THE COMPANY'S PROPOSED REBUTTAL ADJUSTMENTS TO AIAC AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO.

A. In rebuttal B-2 adjustment 3, as shown on Schedule B-2, page 2, the Company reduces AIAC by $1,223,173 to reflect the additional amortization on the AIAC transferred to CIAC as discussed previously. The Company recommends an AIAC balance of $520,739.[32]

Q. PLEASE DISCUSS THE STAFF RECOMMENDED AIAC BALANCE.

A. Staff recommends an AIAC balance of $169,328 – $351,411 lower than the Company's recommended balance. The Staff recommend balance is lower because

[32] *See* Rebuttal Schedule B-2, page 2.

Staff transfers unexpired AIAC to CIAC. The Company disagrees with the transfer of unexpired AIAC to CIAC because, as I have explained already, AIAC does not become CIAC until the contract expires.

Q. PLEASE DISCUSS THE RUCO RECOMMENDED AIAC BALANCE.

A. RUCO recommends an AIAC balance of $614,739 – $94,000 higher than the Company's recommended balance. The $94,000 difference is AIAC that is funding CWIP or is still cash. The Company does not believe that this AIAC should be included in rate base until the plant that it is intended to fund is also in rate base. RUCO's recommended AIAC balance is based on a mismatch.

F. <u>Accumulated Deferred Income Taxes (ADIT)</u>.

Q. PLEASE DISCUSS THE COMPANY'S PROPOSED REBUTTAL ADJUSTMENTS TO ADIT AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO.

A. In rebuttal B-2 adjustment 4, as shown on Schedule B-2, page 2, the Company increases ADIT by $182,942 to reflect the Company's rebuttal recommendations for PIS, A/D, CIAC, and AIAC. The Company also updated the tax basis information to the finalized 2014 tax returns. The Company recommends an ADIT balance of $258,059.[33]

Q. PLEASE DISCUSS THE STAFF RECOMMENDED ADIT BALANCE.

A. Staff recommends an ADIT balance of $212,375 – $45,684 lower than the Company's recommended balance. The Staff recommended balance is based upon the Staff recommended PIS, A/D, AIAC and CIAC balances. However, Staff also artificially reduces the state tax basis in plant to equal the federal tax basis in plant, which results in an overstatement of the ADIT balance. When corrected, Staff's

[33] *See* Rebuttal Schedule B-2, page 2.

ADIT balance should be $158,714, $53,661 lower than Staff recommended ADIT balance.

Q. WHY DOES STAFF FORCE THE STATE TAX BASIS TO EQUAL THE FEDERAL TAX BASIS?

A. I am not quite sure. Ms. Brown states that Staff believes there could be corporate tax items from the consolidated return of APUC in the Company's state ADIT computation and that the Company's ADIT computation did not include a state component.[34]

Q. DO YOU AGREE?

A. No. Let's take Staff's first assertion that the state ADIT computation includes APUC corporate tax items. This is false. Staff was provided a separate tax depreciation schedule for Liberty Black Mountain that served as the basis of Liberty Black Mountain's portion of the consolidated return. Nowhere in the state tax schedule are APUC corporate plant items shown. I have used the same ADIT construction in the instant case as I have for other companies, including Liberty Utilities, and this is the first time I have heard this argument from Staff.[35]

With respect to whether the Company separately stated the state tax component in the ADIT computation in the prior case, it is true. However, that does not mean that a state ADIT component cannot be computed separately from the federal ADIT component. Again, I have used the same ADIT construction in the instant case as in other Liberty Utilities companies rate cases since the last Black Mountain rate case and I have never before heard this argument from Staff.

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[34] Brown Dt. at 27.

[35] *See Liberty Utilities (Rio Rico Water & Sewer) Corp.*, Docket No. WS-02676A-12-0196; *Liberty Litchfield Park*, Docket Nos. SW-01428A-13-0042 and W-01427A-13-0043 (consolidated); *Lago Del Oro Water Company*, Docket No. W-01944A-13-0215; *Quail Creek Water Company, Inc.*, Docket No. W-02514A-14-0343.

Rather than identifying specific APUC corporate items in the tax schedule or identifying any other specific items that need to be taken out of the ADIT computation, Ms. Brown simply makes up a number and adjusts the state tax basis to equal to federal tax basis. Bottom line, both of Staff's "excuses" for forcing the state tax basis to equal the federal tax basis are red herrings and should be rejected.

Q. WHY IS THERE A SEPARATE STATE TAX BASIS COMPONENT IN YOUR COMPUTATION OF ADIT?

A. Because the federal tax basis in plant is different than the state tax basis, particularly because bonus depreciation has been allowed in the past few years (2008-2012) for federal tax purposes, but not allowed for state tax purposes.

Q. IS IT POSSIBLE FOR THE NET STATE TAX BASIS TO EXCEED THE NET BOOK BASIS IN PLANT?

A. Yes. Depending on the book and tax depreciation rates, it is possible that the net state tax basis could exceed the net books basis. In the instant case, the tax depreciation rates on a composite basis are less than the book depreciation rates on a composite basis. What this means is that the useful lives used for depreciating plant on the tax return are on average less than the book useful lives used for computing depreciation for book purposes. It is certainly not due to "excess depreciation" as Staff asserts.[36]

Q. IS THERE DOCUMENTATION SHOWING THAT THE BOOK PLANT HAS BEEN DEPRECIATING FASTER THAN THE TAX PLANT?

A. Yes, despite Mr. Brown's claim.[37] All one needs to determine that fact is to look at the federal and state tax depreciation schedules which show that most plant has been depreciating at a 4 percent (25 year life) and compare that to the historical

[36] Brown Dt. at 26 – 27.

[37] Brown Dt. at 25.

book composite depreciation rates which have been averaging about 4.6 percent.

Q. IS THERE 1986 TO 1996 CIAC FUNDED PLANT IN THE ADIT CALCULATION?

A. Yes. However, to account for this one would adjust both the book basis and the tax basis for this plant and because this plant is now fully depreciated for tax and fully depreciated for book, the end result would be the same.

Q. WHAT ABOUT RUCO'S ADIT RECOMMENDATION?

A. RUCO recommends an ADIT balance of $452,937, $45,684 higher than the Company's recommended balance. Unfortunately, RUCO's ADIT balance is vastly overstated because RUCO's ADIT balance is not based upon all of RUCO's recommended PIS, A/D, AIAC and CIAC balances. Specifically, upon examination of RUCO's work papers, I found that RUCO did not include its recommended CIAC and AA balances in the computation of ADIT. After correcting for this error, the RUCO ADIT balance should be $274,609, which is $178,328 lower than its $452,937 recommendation. This correction has a significant impact on RUCO's rate base and rates.

G. <u>Cash Working Capital (CWC)</u>.

Q. PLEASE DISCUSS THE COMPANY'S PROPOSED REBUTTAL ADJUSTMENTS TO CWC AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO.

A. In rebuttal B-2 adjustment 5, as shown on Schedule B-2, page 2, the Company decreases CWC by $(49,592) to reflect the Company's rebuttal recommendations for revenues and expenses and changes to the computation. The Company recommends a CWC balance of $(110,186).[38]

[38] *See* Rebuttal Schedule B-2, page 2.

Q. WHAT CHANGES HAVE YOU MADE?

A. Three changes. First, the revenue days have been increased from 0.56 days to 2.13 days to reflect the fact the under the proposed rate design for commercial customers, the revenues will now be collected in arrears. Second, synchronized interest expense has been added to the computation. Third, the Company has removed rate case expense from the computation. Both Staff and RUCO include interest expense and exclude rate case expense in their computations.

Q. PLEASE DISCUSS STAFF'S AND RUCO'S RECOMMENDED CWC BALANCE.

A. Staff recommends a CWC balance of $(137,370) – $27,184 lower than the Company's recommended balance. RUCO recommends a CWC balance of $(138,692) – $28,510 lower than the Company's recommended balance. Staff's and RUCO's recommended CWC balances reflect its respective recommended revenues and expenses, as well as the exclusion of rate case expense, which the Company now accepts.

H. <u>Remaining Rate Base Items in Dispute</u>.

1. <u>Regulatory Liability for Scottsdale Capacity</u>.

Q. RUCO PROPOSES A REGULATORY LIABILITY OF $51,451 RELATED TO THE SCOTTSDALE TREATMENT CAPACITY FOR ALLEGED OVER COLLECTION. PLEASE COMMENT.

A. This recommendation by RUCO is simply outrageous. After multiple bites at this apple, RUCO wants another bite by recommending regulatory liability for alleged profit charged to ratepayers over and above actual cost.[39] The Company has included in rates the amounts authorized by the Commission in each of the Company's prior decisions. There is no excess profit.

[39] Coley Dt. at 28.

Q. MR. BOURASSA, CAN YOU PLEASE PROVIDE SOME BACKGROUND ON THIS ISSUE?

A. Yes. The Company has an agreement with the City of Scottsdale that allows it to send wastewater flows to Scottsdale for treatment and disposal ("Scottsdale Capacity"). The Company pays Scottsdale monthly for the use of this capacity according to the parties' written agreement,[40] and this amount is included in purchased wastewater treatment expense. The purchased wastewater treatment costs are separate from this discussion. In contrast, payments for capacity are made in lump sums, not monthly or annually. Under the approach adopted by the Commission in the Company's past rate cases, the debt service on the debt used to fund the acquisition of the Scottsdale Capacity is treated as an operating lease and included in operating expenses as a lease expense.[41] While the loans are not leases (capital or operating), this was the regulatory treatment directed by the Commission. There was no rate base treatment associated with the Scottsdale Capacity loans under the approach ordered by the Commission.

RUCO challenged this ratemaking treatment in the 2005 rate case (Docket No. SW-02361A-05-0657), claiming the rate making treatment for the loan payments as a lease expense was not justified and sought to rate base the remaining balance of the loans and treat the debt as part of the cost of capital. However, the Commission correctly rejected RUCO's challenge in Decision 69164 (December 5, 2006), noting in its order:

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[40] Mr. Garlick discusses the status of the amended capacity agreement between the Company and the City of Scottsdale in his rebuttal testimony. Garlick Rb. at 12 – 13.

[41] *See Boulders Carefree Sewer Corporation*, Decision No. 59944 (December 26, 1996); *Boulders Carefree Sewer Corporation*, Decision No. 60240 (June 12, 1997).

> As Mr. Bourassa points out, if rate base treatment of the Scottsdale [C]apacity costs had been approved in the Company's prior rate case, the revenue requirement would have included a return on and of the capacity costs, thereby resulting in significantly higher rates in the interim period since the last case. In this case, RUCO's proposal to accord rate base treatment to the capacity rights would result in a reduction to the Company's revenue requirement because the original cost of the Scottsdale capacity has been amortized. To switch ratemaking treatment after more than a decade, would be arbitrary and inherently unfair to the Company. We therefore reject RUCO's position on this issue.[42]

In the most recent rate case (Decision 71865 dated September 1, 2010), the loan payments were again included in operating expenses.[43] So, in all of the prior rate cases, the lease expense included in operating expenses was computed according to the formulation set forth in the Company's Application, Schedule C-2, page 6.

Now, RUCO again seeks to challenge what the Commission in multiple rate cases previously approved by making up a so-called over collection of interest (profit) on the loans. However, in each prior rate case, the Commission approved the computation of the lease expense included in operating expenses. In other words, the Commission approved the amount the Company was authorized to include in operating expenses. Therefore, there is no basis to include a regulatory liability in rate base on the grounds that the Company's actual interest expense component of the debt payment was more or less than was authorized in each of last four rate cases. RUCO's proposal is simply another attempt to artificially reduce the Company's rates. The Company has done as directed by the Commission and the Commission should again reject RUCO's collateral attack.

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[42] *Liberty Black Mountain (formerly Black Mountain Sewer Corporation)*, Decision No. 69164, at 8:25 – 9:4.

[43] *See* Application (filed December 19, 2008 in Docket No. SW-02361A-08-0609), Company Direct Schedule C-2, page 4.

2. **Depreciation Study and Plant Inventory.**

Q. STAFF RECOMMENDS THE COMPANY PERIODICALLY PREPARE A DEPRECIATION STUDY. PLEASE COMMENT.

A. I do not disagree with Staff that indicated depreciation rates from a depreciation study might be more accurate.[44] But depreciation studies are very expensive.[45] Very few utilities prepare these studies, including many Class A and B utilities. Given the expense, which should ultimately be borne by the ratepayers, it has been my experience that the typical and customary depreciation rates recommended by the Staff Engineering section have been adopted by utilities in lieu of performing these expensive studies. In fact, the depreciation rates the Company uses are the same depreciation rates proposed by Staff in Liberty Black Mountain's past cases, and in the instant case.

In other words, Ms. Brown wants the Company to spend a lot of money on something about which there is no disagreement in this rate case – the depreciation rates. Given that Staff makes no provision for cost recovery, and the fact that both Staff and RUCO oppose the recovery of reasonable rate case expense, the Commission should not saddle the Company with an expense that is not warranted. All it will end up doing is forcing the Company to defend itself on yet another issue in a future rate case.

Q. WHAT ABOUT STAFF'S CLAIM THAT YOU CANNOT USE GROUP DEPRECIATION WITHOUT PERIODIC DEPRECIATION STUDIES?

A. Staff suggests that the group procedure for accounting for depreciation is not appropriate when companies do not do periodic depreciation studies because plant

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[44] Brown Dt. at 14.

[45] Depreciation studies can cost upwards of $100,000 or more.

could still be depreciated after it is already fully depreciated.[46] I do not agree with Staff that the group method leads to fully depreciated plant being depreciated.

Q. OKAY, BUT WHAT ABOUT MS. BROWN'S ARGUMENT THAT INACCURATE DEPRECIATION RATES LEAD TO OVER OR UNDER RECOVERY OF DEPRECIATION EXPENSE?

A. If Staff's "typical and customary" rates, which we are using in this rate case and which I have used in dozens of rate cases over the past 10-15 years, are too high or too low, then Staff should conduct a depreciation study and quit recommending the rates it currently recommends. I assume, however, that if Staff recommends the same depreciation rates in virtually every rate case, and the Commission routinely adopts those depreciations rates, then the Staff "typical and customary" depreciation rates are neither too high nor too low. I would also note that in all cases, the Company stops depreciating once the group is fully depreciated under the group procedure, so there is no excess or over recovery, contrary to Staff's assertion.[47]

Q. ISN'T THE COMPANY USING A VINTAGE GROUP PROCEDURE IN THIS CASE?

A. Yes. I discuss the Company's approach on page 34 of my direct testimony. I am understandably confused about Staff's discussion about the broad group procedure and using it as a reason for imposing a requirement that the Company perform costly, periodic depreciation studies. Apparently, Ms. Brown believes the Company is still using the broad group procedure.[48] The vintage group procedure breaks plant down into smaller groups, which actually alleviates potential issues

[46] Brown Dt. at 16.

[47] Brown Dt. at 17 – 18.

[48] Brown Dt. at 18.

surrounding the claims (real or imaginary) of fully depreciated plant being depreciated. It can also more readily highlight potential issues about whether the depreciate rates are too high or too low without having to do a costly depreciation study. The bottom line is that this is much ado about nothing, much like RUCO's "irrational" depreciation arguments. The costs of complying with Staff's recommendation far outweigh any potential benefits.

Q. STAFF IS ALSO RECOMMENDING THAT THE COMPANY CONDUCT AN INVENTORY OF ITS PLANT. PLEASE COMMENT.

A. Ms. Brown's recommendation that the Company performs a physical inventory that identifies the location of its plant assets and to file a plan that explains how it will update and periodically reconcile the inventory list to the general ledger is unnecessary.[49] For starters, Ms. Brown's claim that the Company doesn't know where its plant is located is simply false. The Company already has control procedures in place to ensure the Company does not purchase or acquire physical assets unless they are actually received or otherwise constructed, in place, at the agreed upon cost, and provide services to customers. Purchased orders identify the system to which the asset belongs, and accounting audit trails exist that can be used to locate the physical location of the asset if needed. The Company also has a retirement policy, which has been okay with Staff in the past, and this policy ensures that when assets are replaced a retirement is recorded and the plant removed from the books.[50] Further, the already existing system master plan is already updated periodically and shows the major components of the system.

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[49] Brown Dt. at 37.

[50] *See Liberty Utilities (Bella Vista Water) Corp. (formerly Bella Vista Water Co., Inc.), et al.*, Docket Nos. W-02465A-09-0411, W-20453A-09-0412, and W-20454A-09-0413 (consolidated), Decision No. 72251 (April 7, 2011) at 12:16 – 13:12. Liberty Black Mountain is unaware of any opposition by Staff since Decision No. 72251.

A great deal of plant is underground and the only easy way to verify these assets exist during a physical audit is to examine the system master plan.

Perhaps all of these reasons explain why Ms. Brown, who did not do any on-site plant inspections, is making this recommendation when Staff's engineer mentioned nothing about a concern locating plant. Mr. Garlick further addresses this issue in his rebuttal testimony.[51]

Q. BUT DOESN'T STAFF FINDING SOME PLANT COSTS IN THIS CASE THAT NEEDED TO BE REMOVED FROM PIS SUPPORT'S MS. BROWN'S RECOMMENDATION?

A. No. A physical inventory would not necessarily have prevented those errors. Human error and misjudgments can and will occur no matter how robust the accounting controls. The objective is to minimize those errors, and correct them when discovered, which in my view the Company's system of controls does. In the instant case, the materiality of those adjustments (less than $12,000) is extremely small amounting to less than a few hundredths of a percent of the total plant costs. That's an outstanding result, and such as small error rate should not cause the slightest amount of concern to an auditor.

IV. REVENUES AND EXPENSES.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO.

A. The Company's rebuttal adjustments to revenues and/or expenses are detailed on Rebuttal Schedule C-2, pages 1-9. The rebuttal income statement with adjustments is summarized on Rebuttal Schedule C-1, pages 1 and 2.

[51] Garlick Rb. at 21.

Rebuttal adjustment 1 reduces the proposed annualized depreciation and amortization expense by $14,484 to $469,787 based on the Company's proposed rebuttal PIS and CIAC balances. The Staff's recommended depreciation and amortization expense level of $386,040 is lower than the Company's by $83,347.

Q. WHY IS STAFF'S RECOMMENDED DEPRECIATION AND AMORTIZATION EXPENSE LOWER THAN THE COMPANY'S?

A. Besides the differences in the parties' respective plant balances, there are two key reasons why Staff's recommended depreciation expense is lower. First, Ms. Brown has added approximately $1,215,000 more fully depreciated plant to her calculation. Specifically, she added $1,073,782 to fully depreciated plant for account 354 – Structures and Improvements, and $151,507 to fully depreciated plant for account 363 – Services to Customers. The addition of more fully depreciated plant to the depreciation computation reduces the depreciation expense by approximately $39,000.

Second, Staff's amortizable CIAC balance is $591,077 higher than the Company's due to errors, and due to the transfer of unexpired AIAC to CIAC as discussed earlier on pages 18 through 22. The additional amortizable CIAC reduces depreciation expense by approximately $35,000.

The remaining difference between the Company and Staff is mostly due to Staff's exclusion of allocated corporate plant. I have discussed the reasons why the Company disagrees with Staff regarding its exclusion of corporate plant previously on pages 7 through 10.

Q. IS THERE ANY ADDITIONAL FULLY DEPRECIATED PLANT?

A. No. I will explain, but first a little background. In prior cases, the Company used the group procedure for depreciation accounting, and in all cases the approved balances for A/D were based upon this procedure. In the instant case, the

Company used a vintage group procedure from the last test year forward to the end of the current test year. To switch from group to vintage and not violate the prior Commission order, the Company started with prior Commission approved plant and A/D treating the balances by plant as a vintage group (balances ending June 20, 2008), and for each year thereafter, treated each year's plant additions and computed depreciation by each plant account as a separate vintage group.

This was done to try to eliminate disputes with Staff concerning depreciation, which disputes in the past have proven to be costly and time consuming. In recent cases, Staff has challenged the group procedure, regularly asserting that there was fully depreciated plant and that using the vintage group procedure to support its case.[52] However, the Commission found the group procedure as acceptable and rejected Staff's position in those cases.[53] That said, based upon the Company's plant and A/D reconstruction, there was only $769,072 of fully depreciated vintage groups.[54]

The Company thought that transitioning to a vintage group method would help to eliminate disputes over A/D and depreciation between the Company and Staff. The disputes about depreciation accounting have been very contentious in several recent cases, mainly centered on the group method vs. the vintage group method.[55] By using this case to transition to Staff's preferred method, we thought we would eliminate disputes over depreciation accounting methods. As the saying

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[52] *See, e.g.*, *Lago Del Oro Water Company*, Decision No. 74564 (June 20, 2014); *Quail Creek Water Company, Inc.*, Decision No. 75306 (October 27, 2015).

[53] *See id.*

[54] *See* Rebuttal Schedule C-2, page 2. Excluding Land which in non-depreciable, the fully depreciated plant is $769,072 ($1,241,595 less $472,524).

[55] *See, e.g.*, Decision No. 74564; Decision No. 75306.

goes, "No good deed goes unpunished." But then, that is pretty much the theme of the Company's rebuttal position in this rate case.

Q. CAN YOU EXPLAIN THAT LAST BIT OF TESTIMONY, MR. BOURASSA?

A. I think the Company's witnesses have testified very well on this issue and I will reference their rebuttal testimony here.[56] I will generally try to focus on the specifics of Staff and RUCO's recommendations in this rate case. On the broader issue, I would simply state that this rate case is about things (plant closure and new rate design) that the customers and the Commission wanted from Liberty Black Mountain, not anything Liberty Black Mountain has done or failed to do. Liberty Black Mountain is trying to accomplish some extraordinary things for its customers, at great difficulty, expense and risk. In response, Staff and RUCO essentially seek to punish Liberty Black Mountain for coming in for a rate case to address these unusual issues that the customers and the Commission want addressed. One need look no further than the 8.6 percent and 8.95 percent equity return recommendations to see my point. Frankly, I have been doing cases before the Commission for 20 years and I have never seen recommendations by Staff or RUCO that miss the mark more than their approaches in this case.

Q. THANK YOU, MR. BOURASSA. LET'S CONTINUE ADDRESSING THE DEPRECIATION ISSUE WITH STAFF. HOW DID STAFF DETERMINE THAT THERE WAS ANOTHER $1.215 MILLION OF ADDITIONAL FULLY DEPRECIATED PLANT?

A. Ms. Brown went back and reopened the 2005 rate case (Decision No. 69164 using a 2004 test year) and fabricated new 2004 and prior year vintage groups, and then

[56] *E.g.*, Rebuttal Testimony of Greg Sorensen ("Sorensen Rb.") at 1 – 3; Garlick Rb. at 2, 19.

rolled the A/D depreciation forward to see if the vintage groups would be fully depreciated by the end of the current test year.[57] For two of the plant accounts Staff looked at, the 2004 vintage group became fully depreciated at some point before the end of the current test year.

Q. ASSUMING THAT YOU HAD ROLLED FORWARD THE PLANT FROM THE 2004 TEST YEAR, AND NOT THE 2008 TEST YEAR, WOULD THE A/D BALANCE HAVE BEEN LOWER THAN YOUR RECOMMENDED A/D BALANCE?

A. Yes. Following the vintage group procedure, the 2004 vintage group would have stopped depreciating when it was fully depreciated. A/D would have been lower and rate base higher than the Company recommended in its initial filing.

Q. DID STAFF PROPOSE AN ADJUSTMENT TO LOWER THE A/D BALANCE?

A. No. If we assume that the Staff approach is valid, which it is not, then Staff should have recommended a lower A/D and higher rate base as a result.

Q. HAVE YOU SEEN THIS APPROACH BEFORE, WHICH GOES BACK TO THE A/D BALANCES IN THE RATE CASE BEFORE THE LAST RATE CASE AND ROLLS FORWARD THE A/D BALANCE?

A. No. Nor should it be allowed now. The group procedure was used to set the PIS and A/D balances in the prior case. If the Commission chooses to transition to using vintage group instead of the group method, it should do so on a going forward basis from the last rate case. Staff is going back and pretending the Commission used the vintage method in the rate case prior to the last one. I am not

[57] Brown Dt. at 35.

a lawyer, but I have been in a lot of rate cases and, to me, it sounds like either retroactive ratemaking and/or a collateral attack on the prior order.

Q. DOES STAFF DISPUTE THAT THE GROUP PROCEDURE WAS USED TO SET THE PLANT AND A/D BALANCE IN THE PRIOR CASE?

A. No.[58]

Q. WHAT ABOUT RUCO'S RECOMMENDED DEPRECIATION AND AMORTIZATION EXPENSE?

A. RUCO recommends depreciation and amortization expense of $231,132. This is lower than the Company's recommendation by $238,655. There are three reasons why RUCO's depreciation and amortization expense is lower. First, RUCO includes fully amortized CIAC in its computation, which lowers its depreciation and amortization expense by approximately $206,000. I discussed the reasons why the Company disagrees with RUCO regarding fully amortized CIAC previously on pages 22 and 23. Second, RUCO includes amortization of its proposed regulatory liability for the Scottsdale Capacity, which reduces depreciation expense by another $20,500. I discussed the reasons why the Company disagrees with RUCO regarding its proposed regulatory liability previously on pages 29 and 30. Third, the remaining difference is due to RUCO's exclusion of allocated corporate plant. I have also already discussed the reasons why the Company disagrees with RUCO regarding its exclusion of corporate plant previously on pages 7 through 10.

Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE COMPANY'S PROPOSED REBUTTAL REVENUE AND/OR EXPENSE ADJUSTMENTS.

A. Rebuttal adjustment number 2 reflects property tax expense at the Company's

[58] *See* Staff Response to Company Data Request 1.20.

rebuttal proposed revenue level.

Q. ARE THE ANY DISPUTES BETWEEN THE PARTIES ON THE METHODOLOGY FOR COMPUTING PROPERTY TAXES, THE ASSESSMENT RATIO, OR THE PROPERTY TAX RATE?

A. No.

Q. PLEASE CONTINUE.

A. Rebuttal adjustment number 3 is intentionally left blank. Normally, this adjustment corresponds to the Company rate case expense request. However, the Company continues to recommend that rate case expense be recovered via a surcharge because the Company has to file again within three years of the time this rate case will be decided.

Q. WHY DOES THE TIMING OF THE NEXT FILING REQUIRE A SURCHARGE, MR. BOURASSA?

A. Because if the Commission allows Staff or RUCO to "normalize" rate case expense, the Company will never recover all of its rate case expense. When the new rate case is decided, there would be a new, normalized amount of rate case expense and the amount the Company still had not recovered would essentially be forfeited. Given that this complex, contentious, and costly case was brought at the behest of the customers and the Commission, such a result is simply inequitable. This is why the Company continues to recommend total rate case expense of $450,000 to be recovered over a 3-year period.

Q. WHAT ARE THE SPECIFIC RECOMMENDATIONS OF STAFF AND RUCO REGARDING RATE CASE EXPENSE?

A. Staff recommends total rate case expense of $250,000 amortized over 5 years or $50,000 annually.[59] RUCO recommends total rate case expense of $100,000

[59] Brown Dt. at 34.

amortized over 3 years or $33,333 annually.[60] These recommendations are both entirely inadequate.

Q. WHY?

A. First, both of the parties' respective recommendations of total rate case expense are wholly inadequate given the unique circumstances of this rate case. As Mr. Sorensen discusses in detail, Staff and RUCO have missed the point of this case, and therefore do not seem to understand why the rate case expense is higher than one might expect a simple rate case for a Class C utility to be.[61] The Company incurred more than RUCO would allow just getting this complex filing made. We had to design a new commercial rate design, which was a significant effort, and the Company had to explain its ongoing plant closure efforts and its need for recovery. And now, with RUCO and Staff trying to lower the Company's rates as much as possible, it will be close to incurring the amount of Staff's recommended rate case expense by the time the Company completes rebuttal. In this light, the Company's requested rate case expense, and the use of a surcharge to address the unusual and difficult issues that underlie this case, are both extremely reasonable.

Q. DON'T STAFF'S AND RUCO'S WITNESSES SAY THEIR RECOMMENDATIONS ARE BASED ON PAST RATE CASES, INCLUDING THE COMPANY'S PRIOR RATE CASE?

A. Yes, further proving the Company's point that Staff and RUCO have missed the whole point. First of all, the only utility RUCO specifically identifies other than the Company is the EPCOR Water Arizona case (Decision No. 75268 (September 8, 2015)),[62] wherein the utility received total rate case expense of $325,000 spread

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[60] Coley Dt. at 49.

[61] *See* Sorensen Rb. at 14 – 15.

[62] Coley Dt. at 49:22 – 50:3.

out over 5 districts, or $80,000 per district on average.

Q. IS THE EPCOR CASE A REASONABLE COMPARISON?

A. No, which may be why Mr. Coley doesn't do a very good job comparing the specifics of the two cases or pointing out the obvious and material differences. This makes his comparison suspect. First, EPCOR has its own fully staffed regulatory department and only uses outside consultants for very specialized areas. There are also economies of scale gained by filing several districts together helping to reduce rate case expense. Further, I am not aware that the EPCOR case had the same legal and ratemaking complexities of getting several opposing intervenors to resolve major issues. I also do not know whether EPCOR incurred more than the authorized expense and, if so, what reasons existed for it recovering less than it actually incurred. I can think of no good reason for Liberty Black Mountain to incur more rate case expense than it recovers in this rate case. Put bluntly, RUCO's recommendation on rate case expense is one of the most ridiculous positions in a rate case I can recall any party taking.

Q. WHAT COMPARABLES DOES STAFF OFFER?

A. Staff does not identify any comparable utility rate cases. So I really cannot consider Staff's other so-called "comparables." Second, and more importantly, this case is <u>not</u> comparable to any other rate case, and because Ms. Brown and Ms. Coley clearly missed that fact, their entire effort to do comparisons was flawed from the start. The simple fact is that the best indication of rate case expense in this rate case is to look at this case itself. The way things are going, the Company will incur at least as much as it has requested in rate case expense. Probably more. This is why the Commission should totally ignore Staff and RUCO when it comes to determining rate case expense in this case.

Q. OKAY, PLEASE CONTINUE WITH YOUR DISCUSSION OF REVENUES AND EXPENSES.

A. Rebuttal adjustment number 4 reclassifies Salaries and Wages expense to Contractual Services – Professional expense. The net impact on operating expense is zero. Staff proposes a similar adjustment except that Staff reduces expense by $21,615, which is the sum of the 2015/16 expected share of wages increases for the Liberty Utilities employees that work for the Company.[63]

Q. WHAT WAS THE ACTUAL AVERAGE WAGE INCREASE FOR 2015?

A. 2.93 percent.

Q. SO THE 2015 WAGE INCREASE IS KNOWN AND MEASURABLE?

A. Yes.

Q. WILL THE 2016 WAGE INCREASE BE KNOWN AND MEASURABLE BY THE TIME THE COMPANY FILES ITS REJOINDER TESTIMONY IN LATE JANUARY 2016?

A. Yes. And based on the fact that the average rate increase over the past five years has been around 3 percent, I suspect the actual 2016 wage increase to be at least the same as originally estimated (3 percent). At this stage of the proceeding, I see no reason to change or reject the $21,615 total 2015 and 2016 projected wage increase embedded in the Company's proposed operating expenses.

Q. HAS STAFF APPROVED POST TEST YEAR WAGES INCREASES IN THE PAST?

A. Yes.[64]

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[63] Brown Dt. at 29.

[64] *See, e.g.*, *Community Water Company of Green Valley,* Docket No. W-02304A-08-0590. Community Water Company of Green Valley proposed to annualize test year wages including wage increases. Staff did not oppose.

Q. PLEASE CONTINUE.

A. Rebuttal adjustment number 5 reduces Contractual Services – Professional expense by $31,921, which reflects an updated cost allocation. Staff reduces the corporate cost allocation by $30,103,[65] and RUCO reduces the corporate cost allocation by $27,147.[66] While the reductions to the corporate costs allocations are relatively similar, each of the parties determines its adjustment in very different ways.

Q. BUT IT DOESN'T SEEM LIKE THERE IS A LOT OF MONEY AT ISSUE HERE, MR. BOURASSA?

A. Well, to begin with, utilities like Liberty Black Mountain are forced to fight for every dollar in rate cases before the Commission, as can be seen here. So, sadly, if the Company starts to give in on issues that appear "small," before they know it they will have a much lower revenue requirement. But more specific to this rate case, this issue in not primarily about the amount of expense allowed; it is about the cost allocation methodology itself. Staff and RUCO have ignored the most recent Liberty rate cases in an attempt to create a new precedent denying most of the corporate cost allocation by the ultimate parent, APUC.

As the Company's witnesses explain, the positions being advanced by Staff and RUCO ignore the facts and evidence, ignore the progress that has been made since the last Liberty Black Mountain rate case, and deprive the Company of the recovery of necessary expenses, including the costs of obtaining capital for investment.[67] It does strike me as inconsistent for Staff and RUCO to agree that Liberty's access to capital through APUC and the Toronto Stock exchange benefits customers, including claiming to support the Company's multi-million dollar plant

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[65] Brown Dt. at 30.

[66] Coley Dt. at 48.

[67] *See* Rebuttal Testimony of William R. Killeen at 12 – 17; Sorensen Rb. at 9 – 10.

closure, and then to deny the costs APUC is required to pay to be on the stock exchange. Staff and RUCO are trying to get the ratepayers a windfall with their corporate cost allocation adjustments and that effort should be rejected.

Q. OKAY, WHAT IS THE NEXT REBUTTAL ADJUSTMENT IN THE INCOME STATEMENT, MR. BOURASSA?

A. Rebuttal adjustment number 6 increases Contractual Services – Testing by $3,334, which reflects the adoption of Staff's proposed increase in testing expense.[68] RUCO does not propose a similar adjustment.

Q. RUCO PROPOSES TO INCREASE CHEMICALS EXPENSE BY $4,773 FOR RECLASSIFIED CAPITAL COSTS. PLEASE COMMENT.

A. The Company disagrees with the RUCO adjustment because the two plant costs removed from PIS were not test year costs.[69] Typically, unless the cost was incurred in the test year, it is not added to test year expenses.

Q. RUCO ALSO PROPOSES TO INCREASE REVENUES BY $954 FOR A "REVENUE ACCRUAL FIX." PLEASE COMMENT.

A. The Company's disagrees with the RUCO adjustment[70] because the $952 was a reconciling amount to the recorded general ledger revenues.[71] In every case, the revenues from the bill count are never exactly the same as the recorded revenues. There are various reasons for this, including using ranges of usage and mid-point. That said, in my experience, as long as the difference meets a tolerance level of +/- ½ percent of recorded revenues, the amount is immaterial and it is ignored on the

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[68] Brown Dt. at 30.

[69] RUCO's increase to Chemicals expense includes ½ of the $7,143 invoice from 2011 that was removed from PIS in its plant reclassification adjustment and a $1,202 invoice from 2010 that was removed from PIS in its reclassification adjustment. *See* Coley Dt. at 45 – 46.

[70] Coley Dt. at 43.

[71] *See* Rebuttal Schedule H-1, line 24.

income statement (C-1), but accounted for on the revenue summary (H-1). This practice has been used in every case I have been involved in until this one. Mr. Coley's adjustment is unnecessary and should be rejected.

Q. WHAT ABOUT RUCO'S PROPOSAL TO REDUCE THE SCOTTSDALE OPERATING LEASE BY $2,702 TO "TRUE-UP" THE CAPITAL LEASE EXPENSE?

A. The Company disagrees with the RUCO adjustment[72] because the lease expense proposed by the Company utilizes the same Commission-ordered methodology that has been used in the past to set the level of lease expense. I discussed this issue previously on pages 29 and 30.

Q. RUCO ALSO PROPOSES TO REDUCE THE MISCELLANEOUS EXPENSE BY $268 TO ELIMINATE SO-CALLED CORPORATE EXPENSE THAT WOULD NOT BE RECOVERED FROM RATEPAYERS. PLEASE COMMENT.

A. The Company disagrees with the RUCO adjustment[73] because the $268 cost was for an annual fee for statutory representation for Liberty Black Mountain, which is required for licensing and is a necessary expense.

V. <u>COST OF SERVICE STUDY (COSS)</u>.

Q. HAVE YOU UPDATED THE COMPANY'S COST OF SERVICE STUDY?

A. Yes. I have updated the Company's COSS to reflect the Company's rebuttal recommendations for rate base and revenues and expenses.

Q. HAVE YOU MADE ANY CHANGES TO THE ALLOCATIONS?

A. Yes. I have increased the equivalent residential units ("ERUs") and number of customers attributed to the commercial class to reflect updated information about

[72] Coley Dt. at 44 – 45.

[73] Coley Dt. at 44.

the commercial class based upon the Company's most recent physical audit. This has resulted in a greater proportion of the cost of service being attributed to the commercial class.[74] However, because the commercial billing determinants have also changed, the Company's proposed rates for the Commercial class have changed very little from its direct filing. The residential class rates have decreased from the initial filing because more revenues are being recovered from the commercial class. I will further discuss the change in the commercial billing determinants in the Rate Design section of my testimony.

Q. HAVE THE OTHER PARTIES PREPARED COST OF SERVICE STUDIES?

A. No. Staff has reviewed the Company's COSS and states that it considered the COSS as well as other factors when it determined its rate design.[75] RUCO ignored it entirely.

Q. PLEASE DISCUSS THE RESULTS OF THE COMPANY'S UPDATED COSS?

A. As shown on Rebuttal Schedule G-2, the returns at the rebuttal proposed rates for the residential class and the commercial class are similar. The return at proposed rates for the residential class is 8.58 percent and the return for the commercial class is 8.71 percent.[76] It should be noted that these are overall returns, not just equity returns.

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[74] *Compare* Direct Schedule G-7, page 3 with Rebuttal Schedule G-7, page 3.

[75] *See* Direct Testimony of Crystal S. Brown (Rate Design) ("Brown RD Dt.").

[76] *See* Rebuttal Schedule G-2, page 1.

VI. RATE DESIGN.

Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR WASTEWATER SERVICE?

A. The proposed rates are:

Residential Service – Per Month	$73.10
Commercial – per Month	$85.00
Commodity Charge (per 1,000 gallons)[77]	$ 5.12
Effluent Sales	
Per thousand gallons	$0.460510
Additional Charge to Boulders Resort per Thousand Gallons to Recover Plant Closure Costs[78]	$1.488410

Q. IS THE COMPANY PROPOSING CHANGES TO THE RATE DESIGN FROM ITS DIRECT FILING?

A. No. The Company continues to propose a flat or fixed monthly charge for the residential customers and a fixed plus commodity charge for the commercial customers. The actual proposed rates are less for the residential customers and roughly the same for the commercial customers as compared to the Company direct filing proposed rates. In the Company's direct filing, the proposed residential fixed monthly charge was $79.20, and the commercial fixed monthly charge was $85, and the commodity charge was $5.13 per 1,000 gallons of water usage.

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[77] For commercial customers the commodity charge is based upon monthly water usage.

[78] Per the Settlement Agreement with the Resort, the Company will collect $108,000 of costs removed from the Plant Closure Surcharge base amount. This charge assumes new rates will go into effect in June 2016 and will be in effect until November 20, 2018. *See* Garlick Rb. at 3.

Q. WHAT IS THE IMPACT OF THE COMPANY'S PROPOSED BASE CHARGES?

A. The residential monthly bill will increase by $7.86, from $65.24 to $73.10, or a 12.05 percent increase.[79] At the average, the commercial monthly bill will decrease by $149.02, from $401.00 to $251.98, or a 37.16 percent decrease.[80] These impacts do not reflect the proposed plant closure surcharge.

Q. WHAT IS THE IMPACT OF THE COMPANY'S REBUTTAL PROPOSED PLANT CLOSURE SURCHARGE?

A. I will discuss the changes to the proposed plant closure surcharge a bit later, but the Company is proposing the plant closure surcharge be computed and implemented in three stages. The proposed Stage 1 surcharge is $6.31 in year one and will be effective with the authorization for new base rates in the instant case. With the Stage 1 surcharge, the residential monthly bill will increase by $14.17 ($7.86 + $6.31), from $65.24 to $79.41, or a 21.72 percent increase.[81] At the average, the commercial monthly bill will decrease by $149.02 ($(149.02) + $6.31), from $401.00 to $225.29, or a 35.59 percent decrease.[82]

The proposed Stage 2 surcharge is $7.96 in year one and will be effective approximately March 2018. Assuming the rates are approved in the instant case by June 2016, the Stage 1 surcharge will be reduced to $5.96 (on average) for 2018. With the Stage 1 and Stage 2 surcharge, the residential monthly bill will increase by $21.78 ($7.86 + $5.96 + $7.96), from $65.24 to $87.02, or a 33.38 percent increase.[83] At the average, the commercial monthly bill will decrease by $135.10

[79] *See* Rebuttal Schedule H-2, page 1.
[80] *See* Rebuttal Schedule H-2, page 1.
[81] *See* Rebuttal Schedule H-2, page 1.
[82] *See* Rebuttal Schedule H-2, page 1.
[83] *See* Rebuttal Schedule H-2, page 1.

($(149.02) + $5.96 + 7.96), from $401.00 to $265.90, or a 33.69 percent decrease.[84]

The proposed Stage 3 surcharge is $16.70 in year one and will be effective approximately February 2019. Assuming the rates are approved in the instant case by June 2016, the Stage 1 surcharge will be reduced to $5.50 (on average) for 2019 and the Stage 2 surcharge will increase to $9.01. With the Stage 1, Stage 2, and Stage 3 surcharge, the residential monthly bill will increase by $39.07 ($7.86 + $5.50 + $9.01 + $16.70), from $65.24 to $104.31, or a 15.89 percent increase.[85] At the average, the commercial monthly bill will decrease by $117.81 ($(149.02) + $5.50 + 9.01 + 16.70), from $401.00 to $283.19, or a 29.37 percent decrease.[86]

Q. PLEASE EXPLAIN WHY THE PROPOSED RESIDENTIAL RATE HAS BEEN REDUCED AND WHY THE PROPOSED COMMERCIAL RATES ARE ABOUT THE SAME.

A. The rebuttal COSS indicated that less revenues need be recovered from the residential class and more revenues from the commercial class. Thus, the residential rates were reduced accordingly. With respect to the commercial class, and based on Liberty Black Mountain's most recent physical audit, the Company determined that there will be more commercial customers (increase from 87 to 128) and more water usage (increase from approximately 36.62 million gallons to approximately 50.09 million gallons). So, while the COSS indicated that more revenues should be recovered from the commercial class, there are a greater number of billing determinants to recover those revenues.

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[84] *See* Rebuttal Schedule H-2, page 1.

[85] *See* Rebuttal Schedule H-2, page 1.

[86] *See* Rebuttal Schedule H-2, page 1.

Q. WHY DID THE MOST RECENT PHYSICAL AUDIT RESULT IN MORE BILLING DETERMINANTS?

A. The Company had to change its approach because it was impossible to fit the water usage data into the existing billing system locations. Remember, this is an entirely new billing methodology, and the Company did as much of the integration as it could before it filed. However, that effort has been ongoing. The problem discovered was that billing system locations were not tied to metered water locations. So, in order to insure that all metered locations were accounted for, the better approach was to treat each metered commercial location as one billed location, which resulted in an increased number of billable customers (or locations). Additionally, by linking to the metered locations, a greater number of billable gallons resulted.

Q. HOW DO THE STAFF AND RUCO RATE DESIGNS COMPARE?

A. Both Staff and RUCO propose basic rate designs similar to the Company—a fixed monthly charge for the residential customers and a fixed month charge plus commodity charge for the commercial customers. Although each party recovers different proportions of the revenue requirement from the commercial class, there do not appear to be any material disputes over rate design, and I think some of the difference between the Company and RUCO will be eliminated by the application of the updated COSS because we have moved some revenue collection away from the residential customers.

Q. ARE THERE ANY CHANGES TO THE COMPANY'S MISCELLANEOUS SERVICE CHARGES PROPOSED IN THE DIRECT FILING?

A. No, and there does not appear to be a disagreement between the Company and Staff regarding the miscellaneous charges.[87]

[87] Brown RD Dt. at 5 – 7.

Q. DO YOU HAVE ANY COMMENTS AT THIS TIME ON THE STAFF TESTIMONY REGARDING THE COMPANY'S PROPOSED PURCHASED POWER ADJUSTMENT MECHANISM (PTAM) AND THE PROPERTY TAX ADJUSTMENT MECHANISM (PTAM)?

A. Mr. Garlick provides a thorough response to Staff and RUCO regarding the Company's proposed PPAM and PTAM in his rebuttal testimony.[88] But I do want to make just a few comments regarding the PTAM. Staff's support for the PTAM if property taxes are based upon actual property taxes to determine the revenue requirement, but not if property taxes are adjusted to reflect proposed revenues in the revenue requirement is puzzling.[89] No matter what the established base is for property taxes in the PTAM, the mechanism ensures that the property taxes embedded in rates be adjusted up or down based on the actual property taxes incurred each year.

We know that increased revenues will result in an increase in property taxes, all else remaining equal. And, despite reductions in the assessment ratio for utilities over the past several years, property taxes have generally not gone down as tax rates have generally increased. Therefore, in my view, the level of property taxes included in operating expenses should be established using proposed revenues, as is normally done, and this amount becomes the base amount of property taxes for the PTAM. Ms. Brown's optional support is confusing and should be rejected as a basis to reject the PTAM.

Q. HAS THE COMPANY MADE ANY CHANGES IN THE PROPOSED SURCHARGE FOR PLANT CLOSURE COSTS?

A. Yes. As I have stated above, and as Mr. Garlick explains in detail in his rebuttal,

[88] Garlick Rb. at 23 – 24.

[89] Brown RD Dt. at 10.

the Company has entered into a proposed Settlement Agreement with the Town, the Resort and the BHOA.[90] Specifically, per this settlement, the Company, Town and Resort are now proposing a surcharge in this rate case that will have three stages. The Stage 1 surcharge is designed to recover engineering and legal costs already incurred, basically the same as was sought in the Company's initial filing. However, as a result of settlement efforts by the Company with the public parties to this case, the amount to be recovered has been reduced to $825,080. The Stage 1 surcharge is estimated to be $6.31 per customer per month and will become effective with the new rates approved in this rate case.

Q. HOW WAS THE $825,080 DETERMINED?

A. This was a negotiated amount that basically reflects the removal of approximately $308,000 of costs from a revised actual engineering and legal costs incurred to date of $1,133,080.51.[91] Approximately $108,000 of the $308,000 will be recovered through an increase in the effluent charge to be paid by the Resort before the plant is closed per the Settlement Agreement.

Q. HOW ABOUT THE SECOND STAGE OF THE SURCHARGE PROPOSAL BY THE COMPANY, TOWN AND RESORT?

A. The Stage 2 surcharge is designed to recover additional wastewater treatment replacement capacity costs of $1.2 million. The Stage 2 surcharge is estimated to be $7.96 per customer per month and will become effective within 90 days of the Company's payment to Scottsdale. The Stage 2 surcharge will be added to the Stage 1 surcharge for a total surcharge of $14.27.

Q. HOW WAS THE $1.2 MILLION DETERMINED?

A. This the actual amount that must be paid to Scottsdale for replacement capacity.

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[90] Garlick Rb. at 2 – 9.

[91] *See* Garlick Rb. at 3.

The Company expects that this payment must be made before January 1, 2018.[92]

Q. SO THE STAGE 2 SURCHARGE WILL ALLOW FOR RECOVERY OF ACTUAL, KNOWN COSTS OF COMPLYING WITH THE COMMISSION'S ORDER TO CLOSE THE PLANT?

A. Yes, that is correct.

Q. THANK YOU. WHAT ABOUT THE THIRD STAGE OF THE PROPOSED SURCHARGE UNDER THE SETTLEMENT AGREEMENT?

A. The Stage 3 surcharge is designed to recover the remaining cost of the plant closure (not including the post-closure removal costs), which costs are estimated to be approximately $2.699 million. The Stage 3 surcharge is estimated to be $16.70 per customer per month and will become effective within 90 days of completing the plant closure. The Stage 3 surcharge will be added to the Stage 1 and Stage 2 surcharges for a total surcharge of $30.97.

Q. WHY IS THIS AMOUNT AN ESTIMATE MR. BOURASSA?

A. Because the upgrading of the Company's collection and transmission system to accommodate the closure of the plant will not be done until November 30, 2018 per the Settlement Agreement, and until a major construction project is complete the costs can only be estimated. I would note, though, the Settlement Agreement provides the Town, Resort and BHOA's agreement that the estimated cost is reasonable.[93] Moreover, the third stage of the surcharge would not be calculated and go into effect until the final costs are incurred and verified.

Q. HOW WILL EACH OF THE SURCHARGES BE COMPUTED?

A. Each of the surcharge computations follow the basic methodology as set forth in

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[92] Garlick Rb. at 4.

[93] *Id.*

Decision No. 71865 and which I described in my direct testimony.[94] Again, the reasons for changes to the surcharge recovery mechanism since Decision No. 71865 are detailed in the testimonies of Mr. Garlick and Mr. Sorensen.[95] The first year computation of each stage of the surcharge is set forth in **Exhibit TJB-RB2**, pages 1, 2, and 3.

Q. WHAT COST OF CAPITAL IS EMBEDDED IN THE COMPUTATIONS?

A. 8.62 percent. This is the same cost of capital the Company seeks in the instant case.

Q. PLEASE EXPLAIN THE INCREASED EFFLUENT RATE TO THE RESORT.

A. Per the settlement, the Resort has agreed to reimburse the Company for $108,000 of the costs removed from the Stage 1 surcharge base costs through a higher effluent rate. The estimated effluent rate contemplated in the Settlement Agreement is $635 per acre-foot.[96] The surcharge is based upon an approximately 30-month recovery period (June 1, 2016 to November 20, 2018). At the end of the recovery period, the plant will be closed and there won't be any more effluent sales by Liberty Black Mountain.

Q. HOW DO STAFF AND RUCO PROPOSE TO TREAT THESE PLANT CLOSURE COSTS?

A. Neither accepts the settlement terms as proposed. Staff recommends a reduction in the Stage 1 costs to be recovered because it reduces the $825,080 of Stage 1 costs by another $56,836 to $768,244.[97] Staff's recommendation to reduce the costs

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[94] Direct Testimony of Thomas J. Bourassa (Rate Base, Income Statement and Rate Design) at 12.

[95] *E.g.*, Direct Testimony of Greg Sorensen at 26 – 32; Garlick Rb. at 4 – 6.

[96] Notice of Filing Settlement Agreement, Exhibit A at 5.

[97] Direct Testimony of James R. Armstrong "Armstrong Dt.") at 6 – 7.

rests on the argument that the Company should have taken out AFUDC related to the negotiated $308,000 reduction to the total costs of $1,133,080. However, Staff's proposed reduction is misguided. In the Settlement Agreement, the Company agreed to not seek recovery of $308,000, no more and no less. The parties to the agreement agreed that the remaining costs of $825,080 are reasonable and would be recovered via the surcharge, and now Staff is trying to take this reduced amount of closure costs down even further. Staff should not be allowed to pick and choose which parts of the settlement it likes and which parts it doesn't. The Company has not and will not agree to remove any more costs than it agreed to in the settlement. So, while there may be some AFUDC in the $825,080 related to the $308,000, it is the $825,080 the parties agreed would be recovered.

RUCO recommends the Stage 1 costs be put in rate base and amortized over 25 years, and that the Stage 2 costs be put in rate base and amortized over the life of the Scottsdale Capacity agreement in a manner similar to the previously purchased Scottsdale Capacity costs there were not treated as lease expense.[98] Candidly, RUCO's response to the proposed plant closure costs surcharges is incomplete and it is unclear when and how the Company would actually recover its cost of complying with a Commission and customer mandate. As a result of RUCO's haphazard response, all I can really say is that RUCO's proposed treatment of the Company's closure costs is inconsistent with the settlement between the Company and the representatives of the people paying for the plant closure, and it should also be rejected.

[98] Coley Dt. at 52.

Q. DIDN'T STAFF ACTUALLY DO ITS OWN COMPUTATION OF A SURCHARGE?

A. Yes, but again, Staff takes the part of the settlement it likes – the reduced Stage 1 closure costs, and then proposes its own modifications. In fact, Staff has come up with a new surcharge methodology, inconsistent with the one approved in Decision No. 71865. Specifically, Staff computed the Stage 1 surcharge as if it were a loan and used a 4-year recovery period.[99] As such, Staff determined what the monthly payments would be if a loan of $768,044 with an interest rate of 7.08 percent (Staff's cost of capital) and a term of 4 years existed, which it does not. Staff then determined the monthly surcharge per customer of $9.74. The surcharge would remain the same over the 4-year recovery period.

Q. WHAT'S WRONG WITH THE STAFF APPROACH?

A. Besides the lower base cost recovery of $768,244, the Settlement Agreement utilizes a 20-year recovery period.

Q. WAS A 20-YEAR RECOVERY PERIOD CONTEMPLATED FOR THE SURCHARGE IN DECISION 71865?

A. Yes.

Q. WHAT ABOUT THE STAGE 2 AND STAGE 3 SURCHARGES?

A. Staff believes that the Commission can approve a second, separate plant closure surcharge, but not allow recovery to begin until the Plant has actually been closed.[100] Again, this is not the deal the other parties have worked out and Staff's incomplete (they reserve right to make recommendations regarding Stage 3 costs) recommendations to delay recovery are not acceptable to Liberty Black Mountain.

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[99] Armstrong Dt. at 8.

[100] Armstrong Dt. at 9.

Q. DO STAFF OR RUCO HAVE ANY RECOMMENDATIONS REGARDING THE INCREASE IN THE EFFLUENT RATE TO THE RESORT?

A. No, neither Staff nor RUCO have provided any testimony on this subject, nor did either include the higher proposed effluent rate.[101] By ignoring this issue, Staff and RUCO would further deprive the Company of recovery of $108,000 of closure costs.

Q. DO YOU HAVE ANY COMMENTS AT THIS TIME ON THE STAFF TESTIMONY REGARDING THE COMPANY'S PROPOSED MODIFICATION OF THE HOOK-UP FEE?

A. No. Mr. Garlick responds to the Staff testimony regarding the Company's proposed modification to the Hook-up Fee in his rebuttal testimony.[102]

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY ON RATE BASE, INCOME STATEMENT AND RATE DESIGN?

A. Yes.

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[101] *See* Staff Rate Design Schedule CSB-1; RUCO Rate Design Schedule TJC-RD3.

[102] Garlick Rb. at 24 – 26.

EXHIBIT TJB-RB1

LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP.
DOCKET NOS. SW-02361A-15-0206 & SW-02361A-15-0207 (CONSOLIDATED)
RESPONSES TO RUCO'S THIRD SET OF DATA REQUESTS

September 10, 2015

Respondent: Liberty Utilities (Black Mountain Sewer) Corp.

Address: 12725 W. Indian School Rd., Suite D-101
Avondale, AZ 85392

Company Response Number: 3.11

Q. Allocable Corporate Plant on Schedule B-2, Page 4 – Please provide a narrative explanation why there is no accumulated depreciation associated with plant Account 940.1 – Computers and Software. The Company's depreciation expense schedule clearly delineates the account has a 20% annual depreciation rate. The account is also still being depreciated on the depreciation expense schedule, which indicates that it is not fully depreciated in the Test Year as filed. If this is an oversight, please provide the correct accumulated depreciation balance for the Test Year and supporting accounting documentation.

RESPONSE: The Company agrees that this is an oversight. For Account 940.1 – Computers and Software, the Company proposes a correct balance of $ 264.00 in accumulated depreciation. The Company will supplement as appropriate.

EXHIBIT TJB-RB2

Liberty Utilities (Black Mountain Sewer) Corp.
Modified Plant Closure Surcharge Computation - Stage 1
Year 1

Exhibit
Page 1

Total Costs Incurred	$ 1,133,081
Negotiated Reduction	(308,000)
Plant Close Cost to be Recovered	$ 825,081

Step 1 Compute the Annual Amortization

Net Plant Closure Costs (from Step 1)	$ 825,081
(*) Amortization rate (assuming 20 years)	5%
(=) Equals Annual Amortization	$ 41,254

Step 2 Compute the Annual Return on Investment

Net Plant Closure Costs (from Step 1)	$ 825,081
Less: Prior Years Amortization	-
Total Cost	$ 825,081
(*) Cost of Capital	8.62%
(=) Equals Annual Return on Investment	$ 71,114

Step 3 Compute the Gross Revenue Conversion Factor (GRCF)

GRCF (from most recent rate case) $= \frac{1}{1 - 0.37697} = 1.6050$

Step 4 Find the Incremental Income Tax Factor

Incremental Income Tax Factor = GRCF - 1

= 1.6050 - 1

= 0.6050

Step 5 Find the Annual Income Tax Component of the Cost Recovery Surcharge Revenue

Incremental Income Tax Conversion Factor	0.6050
(*) Times Annual Return on Investment	$ 71,114
(=) Equals Annual Income Tax Component of Annual Cost Recovery Surcharge	$ 43,024

Step 6 Find the Amortization and Return on Investment of the Annual Surcharge Revenue (before Income Taxes)

Annual Return on Investment (from Step 2)	$ 71,114
(+) Plus Annual Amortization (from Step 1)	$ 41,254
(=) Equals Annual Cost Recovery Surcharge Revenue before income taxes	$ 112,368

Step 7 Find the Total Annual Cost Recovery Surcharge Revenue Requirement (with Income Taxes)

Annual Income Tax Component of the Surcharge Revenue (from Step 5)	$ 43,024
(+) Plus Annual Amortization and Return on Investment Component of the Surcharge Revenue (from Step 6)	$ 112,368
(=) Equals the Total Annual Surcharge Revenue Requirement	$ 155,391

Step 8 Find the Monthly Surcharge per Customer

Total Annual Cost Recovery Surcharge Revenue Requirement (from Step 7)	$ 155,391
(/) Divided by 12	12
(=) Equals Total Monthly Surcharge Revenue Requirement	$ 12,949
(/) Divided by Number of Customers at time of filing (assumes test year end nuber of customers)	2,052
(=) Equals the Monthly Surcharge per Customer	**$ 6.31**

Liberty Utilities (Black Mountain Sewer) Corp.
Additional Plant Capacity Surcharge Computation (Option 4)
Year 1

Step 1 Compute the Annual Depreciation /Amortization Expense

Description	Plant Category	Cost	Depr/Amort Rate	Annual Depr Exp[1]
Capital Costs for New Capacity	Treament Plant	1,200,000	5.00%	30,000
Estimated Total Additional Plant Closure Costs		$ 1,200,000		$ 30,000

[1] Half-year Convention

Step 2 Compute the Annual Return on Investment

Estimated Total Additional Plant Closure Costs (from Step 1)	$ 1,200,000
Less: Prior Years Depreication/Amortization	-
Total Cost	$ 1,200,000
(*) Cost of Capital	8.62%
(=) Equals Annual Return on Investment	$ 103,428

Step 3 Compute the Gross Revenue Conversion Factor (GRCF)

GRCF (from most recent rate case) $= \frac{1}{1 - 0.37697} = 1.6050$

Step 4 Find the Incremental Income Tax Factor

Incremental Income Tax Factor = GRCF - 1

= 1.6050 - 1

= 0.6050

Step 5 Find the Annual Income Tax Component of the Cost Recovery Surcharge Revenue

Incremental Income Tax Conversion	0.6050
(*) Times Annual Return on Investment	$ 103,428
(=) Equals Annual Income Tax Component of Annual Cost Recovery Surcharge	$ 62,574

Step 6 Find the Amortization and Return on Investment of the Annual Surcharge Revenue (before Income Taxes)

Annual Return on Investment (from Step 2)	$ 103,428
(+) Plus Annual Depreciation/Amortization (from Step 1)	$ 30,000
(=) Equals Annual Cost Recovery Surcharge Revenue before income taxes	$ 133,428

Step 7 Find the Total Annual Cost Recovery Surcharge Revenue Requirement (with Income Taxes)

Annual Income Tax Component of the Surcharge Revenue (from Step 5)	$ 62,574
(+) Plus Annual Amortization and Return on Investment Component of the Surcharge Revenue (from Step 6)	$ 133,428
(=) Equals the Total Annual Surcharge Revenue Requirement	$ 196,002

Step 8 Find the Monthly Surcharge per Customer

Total Annual Cost Recovery Surcharge Revenue Requirement (from Step 7)	$ 196,002
(/) Divided by 12	12
(=) Equals Total Monthly Surcharge Revenue Requirement	$ 16,333
(/) Divided by Number of Customers at time of filing (assumes test year end nuber of customers)	2,052
(=) Equals the Monthly Surcharge per Customer	**$ 7.96**

Liberty Utilities (Black Mountain Sewer) Corp.
Additional Plant Costs Surcharge Computation - Stage 3
Year 1

Step 1 Compute the Annual Depreciation /Amortization Expense

Description	Plant Category	Cost	Depr/Amort Rate	Annual Depr Exp[1]
Bypass sewers at WRF	Collection Mains	$ 240,800	2.00%	$ 2,408
Decommission and Remove WRF	Treament Plant	439,300	5.00%	10,983
Commercial LS Upgrading	Special Collecting Strructures	411,700	2.00%	4,117
New Force Mains	Collection Mains	990,900	2.00%	9,909
Pavement Replacement	Structures & Improvements	617,000	3.33%	10,273
Estimated Total Additional Plant Closure Costs		$ 2,699,700		$ 37,690

[1] Half-year Convention

Step 2 Compute the Annual Return on Investment

Estimated Total Additional Plant Closure Costs (from Step 1)	$ 2,699,700
Less: Prior Years Depreication/Amortization	-
Total Cost	$ 2,699,700
(*) Cost of Capital	8.62%
(=) Equals Annual Return on Investment	$ 232,687

Step 3 Compute the Gross Revenue Conversion Factor (GRCF)

GRCF (from most recent rate case) $= \frac{1}{1 - 0.37697} = 1.6050$

Step 4 Find the Incremental Income Tax Factor

Incremental Income Tax Factor = GRCF - 1

= 1.6050 - 1

= 0.6050

Step 5 Find the Annual Income Tax Component of the Cost Recovery Surcharge Revenue

Incremental Income Tax Conversion	0.6050
(*) Times Annual Return on Investment	$ 232,687
(=) Equals Annual Income Tax Component of Annual Cost Recovery Surcharge	$ 140,776

Step 6 Find the Amortization and Return on Investment of the Annual Surcharge Revenue (before Income Taxes)

Annual Return on Investment (from Step 2)	$ 232,687
(+) Plus Annual Depreciation/Amortization (from Step 1)	$ 37,690
(=) Equals Annual Cost Recovery Surcharge Revenue before income taxes	$ 270,377

Step 7 Find the Total Annual Cost Recovery Surcharge Revenue Requirement (with Income Taxes)

Annual Income Tax Component of the Surcharge Revenue (from Step 5)	$ 140,776
(+) Plus Annual Amortization and Return on Investment Component of the Surcharge Revenue (from Step 6)	$ 270,377
(=) Equals the Total Annual Surcharge Revenue Requirement	$ 411,152

Step 8 Find the Monthly Surcharge per Customer

Total Annual Cost Recovery Surcharge Revenue Requirement (from Step 7)	$ 411,152
(/) Divided by 12	12
(=) Equals Total Monthly Surcharge Revenue Requirement	$ 34,263
(/) Divided by Number of Customers at time of filing (assumes test year end nuber of customers)	2,052
(=) Equals the Monthly Surcharge per Customer	**$ 16.70**

RATE BASE SCHEDULES

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	3,419,410
2			
3	Adjusted Operating Income		285,676
4			
5	Current Rate of Return		8.35%
6			
7	Required Operating Income	$	294,719
8			
9	Required Rate of Return on Fair Value Rate Base		8.62%
10			
11	Operating Income Deficiency	$	9,043
12			
13	Gross Revenue Conversion Factor		1.6050
14			
15	Increase in Gross Revenue		
16	Requirement	$	14,515
17			
18	Adjusted Test Year Revenues	$	2,239,848
19	Increase in Gross Revenue Revenue Requirement	$	14,515
20	Proposed Revenue Requirement	$	2,254,363
21	% Increase		0.65%

	Customer Classification	**Present Rates**	**Proposed Rates**	**Dollar Increase**	**Percent Increase**
25	Residential	$ 1,522,310	$ 1,705,715	$ 183,405	12.05%
26	Residential HOA (11 units)	8,612	9,649	1,038	12.05%
27	Residential HOA (12 units)	9,395	10,526	1,132	12.05%
28	Residential HOA (25 units)	19,572	21,930	2,358	12.05%
29	Residential Apartment (gpd rate)	63,950	-	(63,950)	-100.00%
30	Residential Apartment (8 units)	-	7,018	7,018	0.00%
31	Residential Apartment (10 units)	-	8,772	8,772	0.00%
32	Residential Apartment (74 units)	-	64,913	64,913	0.00%
33	Commercial	578,108	387,042	(191,066)	-33.05%
34					
35	Effluent	16,067	16,067	-	0.00%
36					
37	Revenue Annualization	9,786	10,965	1,179	12.05%
38	**Subtotal**	$ 2,227,798	$ 2,242,597	$ 14,799	0.66%
39					
40	Miscellaneous Revenues	11,098	11,098	-	0.00%
41	Reconciling Amount	952	668	(284)	-29.83%
42	Rounding			-	0.00%
43	**Total of Water Revenues**	$ 2,239,848	$ 2,254,363	$ 14,515	0.65%

46 SUPPORTING SCHEDULES:
47 B-1
48 C-1
49 C-3
50 H-1

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 14,204,095	$ 14,204,095
3	Less: Accumulated Depreciation	8,785,220	8,785,220
4			
5	Net Utility Plant in Service	$ 5,418,874	$ 5,418,874
6			
7	Less:		
8	Advances in Aid of Construction	520,749	520,749
9			
10	Contributions in Aid of Construction	6,445,253	6,445,253
11			
12	Accumulated Amortization of CIAC	(5,333,859)	(5,333,859)
13			
14	Customer Meter Deposits	8,570	8,570
15	Customer Security Deposits	-	-
16	Accumulated Deferred Income Tax	258,059	258,059
17			
18			
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Prepayments	9,493	9,493
23	Materials and Sup[plies	-	-
24	Cash Working Capital	(110,186)	(110,186)
25			
26			
27	Total Rate Base	$ 3,419,410	$ 3,419,410
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41			
42	SUPPORTING SCHEDULES:		
43	B-2		
44	B-3		
45	B-5		
46			
47			
48			
49			
50			
51			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustment	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 14,166,434	37,661	$ 14,204,095
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	8,654,682	130,539	8,785,220
7				
8				
9	Net Utility Plant			
10	in Service	$ 5,511,752		$ 5,418,874
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	1,743,922	(1,223,173)	520,749
15				
16	Contributions in Aid of			
17	Construction - Gross	5,461,736	983,517	6,445,253
18				
19	Accumulated Amortization of CIAC	(5,240,717)	(93,143)	(5,333,859)
20				
21	Customer Meter Deposits	8,570		8,570
22	Customer Security Deposits	-	-	-
23	Accumulated Deferred Income Tax	75,116	182,942	258,059
24				-
25				-
26				
27	**Plus:**			
28	Unamortized Finance			
29	Charges	-	-	-
30	Prepayments	9,493	-	9,493
31	Materials and Supplies	-	-	-
32	Cash Working capital	(60,594)	(49,592)	(110,186)
33				-
34				
35	Total	$ 3,412,024		$ 3,419,410
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
47	B-2, pages 2			B-1
48	E-1			
49				
50				
51				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at end of Test Year	Proforma Adjustments 1 Plant-in-Service	2 Accumulated Depreciation	3 CIAC	4 AIAC	5 ADIT	6 Working Capital	Rebuttal Adjusted at end of Test Year
1	Gross Utility								
2	Plant in Service	$ 14,166,434	37,661						$ 14,204,095
3									
4	**Less:**								
5	Accumulated								
6	Depreciation	8,654,682		130,539					8,785,220
7									
8									
9	Net Utility Plant								
10	in Service	$ 5,511,752	$ 37,661	$ (130,539)	$ -	$ -	$ -	$ -	$ 5,418,874
11									
12	**Less:**								
13	Advances in Aid of								
14	Construction	1,743,922				(1,223,173)			520,749
15									
16	Contributions in Aid of								
17	Construction (CIAC)	5,461,736			983,517				6,445,253
18									
19	Accumulated Amort of CIAC	(5,240,717)			(93,143)				(5,333,859)
20									
21	Customer Deposits	8,570							8,570
22	Customer Security Deposits	-							-
23	Accumulated Deferred Income Taxes	75,116					182,942		258,059
24									
25									
26	**Plus:**								
27	Unamortized Finance								
28	Charges	-							-
29	Prepayments	9,493							9,493
30	Materials and Supplies	-							-
31	Cash Working Capital	(60,594)						(49,592)	(110,186)
32									
33	Total	$ 3,412,024	$ 37,661	$ (130,539)	$ (890,374)	$ 1,223,173	$ (182,942)	$ (49,592)	$ 3,419,410
34									
35									
36									
37	SUPPORTING SCHEDULES:						RECAP SCHEDULES:		
38	B-2, pages 3-5						B-1		
39									
40									
41									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Adjusted Orginal Cost	A Plant Reclassification	B AFUDC	Adjustments C Plant Addtion Correction	D Corporate Plant	E Adjustments to Reconcile Plant to Reconstruction	Rebuttal Adjusted Original Cost
1	351	Organization	-	-	-	-		-	-
2	352	Franchise	-	-	-	-		-	-
3	353	Land	471,024	1,500	-	-		-	472,524
4	354	Structures & Improvements	3,091,815	(152,549)	(8)	-		0	2,939,259
5	355	Power Generation	-	3,839	-	-		-	3,839
6	360	Collection Sewer Forced	1,130,090	568	(228)	-		0	1,130,430
7	361	Collection Sewers Gravity	4,555,232	-	(51)	-		(0)	4,555,181
8	362	Special Collecting Structures	-	-	-	-		-	-
9	363	Customer Services	260,442	-	(7)	-		(0)	260,435
10	364	Flow Measuring Devices	31,668	-	-	-		-	31,668
11	365	Flow Measruring Installations	180,051	-	-	-		-	180,051
12	366	Reuse Services	-	-	-	-		-	-
13	367	Reuse Meters And Installation	-	-	-	-		-	-
14	370	Receiving Wells	1,028,182	-	-	-		-	1,028,182
15	371	Pumping Equipment	937,492	85,996	(3)	-		(0)	1,023,485
16	374	Reuse Distribution Reservoirs	-	-	-	-		-	-
17	375	Reuse Trans. and Dist. System	-	-	-	-		-	-
18	380	Treatment & Disposal Equipment	326,067	(5,782)	-	-		-	320,285
19	381	Plant Sewers	124,527	-	-	-		-	124,527
20	382	Outfall Sewer Lines	-	-	-	-		-	-
21	389	Other Sewer Plant & Equipment	992,742	(3,150)	-	(29,760)		0	959,832
22	390	Office Furniture & Equipment	289,536	(62,224)	(21)	-		(0)	227,290
23	390.1	Computers and Software	-	62,224	-	-		-	62,224
24	391	Transportation Equipment	80,215	-	-	-		-	80,215
25	392	Stores Equipment	-	-	-	-		-	-
26	393	Tools, Shop And Garage Equip	28,942	-	(0)	-		0	28,942
27	394	Laboratory Equip	10,683	-	-	-		-	10,683
28	395	Power Operated Equip	-	-	-	-		-	-
29	396	Communication Equip	43,968	59,323	-	-		-	103,290
30	397	Miscellaneous Equip.		-	-	-		-	-
31	398	Other Tangible Plant - Scottsdale Capacity	486,294	-	-	-		-	486,294
32		SUBTOTAL	14,068,969	(10,255)	(317)	(29,760)	-	0	14,028,638
33									
34	903	Land and Land Rights	8,429				(9)		8,420
35	904	Structures and Improvments	75,829				15,635		91,464
36	940	Office Furniture & Equipment	-				9,939		9,939
37	940.1	Computers and Software	13,207				52,426		65,633
38			-						-
39			-						-
40		Plant Held for Future Use	-						-
41		TOTALS	$ 14,166,434	$ (10,255)	$ (317)	$ (29,760)	$ 77,992	$ 0	$ 14,204,095
42									
43		Plant-in-Service per Direct							$ 14,166,434
44									
45		Increase (decrease) in Plant-in-Service							$ 37,661
46									
47		Adjustment to Plant-in-Service							$ 37,661
48									
49		SUPPORTING SCHEDULES							
50		B-2, pages 3.1 to 3.5							
51									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - A

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line No.								
1	Plant Reclassification							
2								
3	Acct No.	Description	2010	2011	2012	2013	2014	Total
4	351	Organization						-
5	352	Franchises						-
6	353	Land and Land Rights	1,500					1,500
7	354	Structures and Improvements	(29,825)	(50,642)	(41,192)	(21,589)	(9,299)	(152,549)
8	355	Power Generation Equipment			3,839			3,839
9	360	Collection Sewers - Force					568	568
10	361	Collection Sewers - Gravity						-
11	362	Special Collecting Structures						-
12	363	Services to Customers						-
13	364	Flow Measuring Devices						-
14	365	Flow Measuring Installations						-
15	366	Reuse Services						-
16	367	Reuse Meters And Installation						-
17	370	Receiving Wells						-
18	371	Effluent Pumping Equipment	27,135	31,563	7,480	15,589	4,230	85,996
19	374	Reuse Distribution Reservoirs						-
20	375	Reuse Trans. and Dist. System						-
21	380	Treatment and Disposal Equipment		(7,143)	2,100	1,519	(2,258)	(5,782)
22	381	Plant Sewers						-
23	382	Outfall Sewer Lines						-
24	389	Other Plant and Misc. Equipment		(3,150)				(3,150)
25	390	Office Furniture and Equipment				(62,224)		(62,224)
26	390.1	Computers and Software				62,224		62,224
27	391	Transportation Equipment						-
28	392	Stores Equipment						-
29	393	Tools, Shop and Garage Equipment.						-
30	394	Laboratory Equipment						-
31	395	Power Operated Equipment						-
32	396	Communication Equipment		20,308	27,773	4,482	6,760	59,323
33	397	Miscellaneous Equip.						-
34	398	Other TangiblePlant - Scottsdale Capacity						-
35								
36		Totals	$ (1,190)	$ (9,065)	$ -	$ 0	$ -	$ (10,255)
37								
38								
39								
40								
41								
42								
43	SUPPORTING SCHEDULE							
44	Testimony							
45	Reponse to RUCO DR 6.03							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - B

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

Line No.								
1	AFUDC							
2								
3	Acct No.	Description	2010	2011	2012	2013	2014	Total
4	351	Organization						-
5	352	Franchises						-
6	353	Land and Land Rights						-
7	354	Structures and Improvements					(8)	(8)
8	355	Power Generation Equipment					-	-
9	360	Collection Sewers - Force					(228)	(228)
10	361	Collection Sewers - Gravity					(51)	(51)
11	362	Special Collecting Structures					-	-
12	363	Services to Customers					(7)	(7)
13	364	Flow Measuring Devices					-	-
14	365	Flow Measuring Installations					-	-
15	366	Reuse Services					-	-
16	367	Reuse Meters And Installation					-	-
17	370	Receiving Wells					-	-
18	371	Effluent Pumping Equipment					(3)	(3)
19	374	Reuse Distribution Reservoirs					-	-
20	375	Reuse Trans. and Dist. System					-	-
21	380	Treatment and Disposal Equipment					-	-
22	381	Plant Sewers					-	-
23	382	Outfall Sewer Lines					-	-
24	389	Other Plant and Misc. Equipment					-	-
25	390	Office Furniture and Equipment					(21)	(21)
26	390.1	Computers and Software					-	-
27	391	Transportation Equipment					-	-
28	392	Stores Equipment					-	-
29	393	Tools, Shop and Garage Equipment.					(0)	(0)
30	394	Laboratory Equipment						-
31	395	Power Operated Equipment						-
32	396	Communication Equipment						-
33	397	Miscellaneous Equip.						-
34	398	Other TangiblePlant - Scottsdale Capacity						-
35								
36		Totals	$ -	$ -	$ -	$ -	$ (317)	$ (317)
37								
38								
39								
40								
41								
42								
43	SUPPORTING SCHEDULE							
44	Testimony							
45	RUCO PIS Adjustment No. 4.							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - C

Exhibit
Rebuttal Schedule B-2
Page 3.3
Witness: Bourassa

Line No.								
1	Plant Addtion Correction							
2								
3	Acct No.	Description	2010	2011	2012	2013	2014	Total
4	351	Organization						-
5	352	Franchises						-
6	353	Land and Land Rights						-
7	354	Structures and Improvements						-
8	355	Power Generation Equipment						-
9	360	Collection Sewers - Force						-
10	361	Collection Sewers - Gravity						-
11	362	Special Collecting Structures						-
12	363	Services to Customers						-
13	364	Flow Measuring Devices						-
14	365	Flow Measuring Installations						-
15	366	Reuse Services						-
16	367	Reuse Meters And Installation						-
17	370	Receiving Wells						-
18	371	Effluent Pumping Equipment						-
19	374	Reuse Distribution Reservoirs						-
20	375	Reuse Trans. and Dist. System						-
21	380	Treatment and Disposal Equipment						-
22	381	Plant Sewers						-
23	382	Outfall Sewer Lines						-
24	389	Other Plant and Misc. Equipment		(29,760)				(29,760)
25	390	Office Furniture and Equipment						-
26	390.1	Computers and Software						-
27	391	Transportation Equipment						-
28	392	Stores Equipment						-
29	393	Tools, Shop and Garage Equipment.						-
30	394	Laboratory Equipment						-
31	395	Power Operated Equipment						-
32	396	Communication Equipment						-
33	397	Miscellaneous Equip.						-
34	398	Other TangiblePlant - Scottsdale Capacity						-
35								
36		Totals	$ -	$ (29,760)	$ -	$ -	$ -	$ (29,760)
37								
38								
39								
40								
41								
42								
43	SUPPORTING SCHEDULE							
44	Testimony							
45								

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - D

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Rebuttal Schedule B-2
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Witness: Bourassa

Line No.	Acct. No.	Description	[1] Orginal Cost	[2] Liberty Utilities Factor	[3] BMSC Water Factor	[4] = [1]x[2]x[3] Allocated Orginal Cost	[5] Allocated Orginal Cost per Direct	[6] = [4] - [5] Increase/ Decrease in Corp. Plant
1	Corporate Plant							
6	903	Land and Land Rights	1,396,196	15.64%	3.86%	$ 8,420	$ 8,429	$ (9)
7	904	Structures and Improvments	12,560,664	15.64%	3.86%	75,769	75,829	(61)
8	940.1	Computers and Software	2,187,630	15.64%	3.86%	13,196	13,207	(11)
11	LU Sub-Corp. Plant							
13	903	Land and Land Rights	-		3.86%	$ -	$ -	$ -
14	904	Structures and Improvments	405,370		3.86%	15,635	-	15,635
15	940	Office Furniture and Equipmer	257,704		3.86%	9,939	-	9,939
16	940.1	Computers and Software	1,359,281		3.86%	52,426	-	52,426
28	Total					$ 175,386	$ 97,465	$ 77,921

43 SUPPORTING SCHEDULE
44 Testimony
45 Work papers

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - E

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Line No.

1 Reconciliation of Plant to Plant Reconstruction

Acct. No.	Description	Orginal Cost	B-2 Adjustments	Adjusted Orginal Cost	Plant Per Reconstruction	Difference
351	Organization	$ -	$ -	$ -	$ -	$ -
352	Franchise	-	-	-	-	-
353	Land	471,024	1,500	472,524	472,524	-
354	Structures & Improvements	3,091,815	(152,556)	2,939,259	2,939,259	0
355	Power Generation	-	3,839	3,839	3,839	-
360	Collection Sewer Forced	1,130,090	340	1,130,430	1,130,430	0
361	Collection Sewers Gravity	4,555,232	(51)	4,555,182	4,555,181	(0)
362	Special Collecting Structures	-	-	-	-	-
363	Customer Services	260,442	(7)	260,435	260,435	(0)
364	Flow Measuring Devices	31,668	-	31,668	31,668	-
365	Flow Measruring Installations	180,051	-	180,051	180,051	-
366	Reuse Services	-	-	-	-	-
367	Reuse Meters And Installation	-	-	-	-	-
370	Receiving Wells	1,028,182	-	1,028,182	1,028,182	-
371	Pumping Equipment	937,492	85,993	1,023,485	1,023,485	(0)
374	Reuse Distribution Reservoirs	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	-	-	-	-
380	Treatment & Disposal Equipment	326,067	(5,782)	320,285	320,285	-
381	Plant Sewers	124,527	-	124,527	124,527	-
382	Outfall Sewer Lines	-	-	-	-	-
389	Other Sewer Plant & Equipment	992,742	(32,910)	959,832	959,832	0
390	Office Furniture & Equipment	289,536	(62,246)	227,290	227,290	(0)
390.1	Computers and Software	-	62,224	62,224	62,224	-
391	Transportation Equipment	80,215	-	80,215	80,215	-
392	Stores Equipment	-	-	-	-	-
393	Tools, Shop And Garage Equip	28,942	(0)	28,942	28,942	0
394	Laboratory Equip	10,683	-	10,683	10,683	-
395	Power Operated Equipment	-	-	-	-	-
396	Communication Equip	43,968	59,323	103,290	103,290	-
397	Miscellaenous Equip.	-	-	-	-	-
398	Other Tangible Plant - Scottsdale Capacity	486,294	-	486,294	486,294	-
					-	
	Plant Held for Future Use					-
	TOTALS	$ 14,068,969	$ (40,332)	$ 14,028,637	$ 14,028,638	$ 0

SUPPORTING SCHEDULE
B-2, pages 3.1 through 3.3
B-2, pages 3.6 through 3.13

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Schedule B-2
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						Per Decision No. 71865, September 1, 2010						Current Books		
Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	[1] Book Plant at 6/30/2008	[2] Direct Adjust	[3] RC Adjust-ments	[4] Adjusted Plant at 6/30/2008	[5] Accum Depr 6/30/2008	[6] Net Plant 6/30/2008	[7] Book Plant at 6/30/2008	[8] Accum Depr 6/30/2008	[9] Net Plant 6/30/2008
									[1]+[2]+[3]		[4]-[5]			[7]-[8]
1	351	Organization		0.00%	0.00%	-	-	-	-	-	-	-	-	-
2	352	Franchises		0.00%	0.00%	-	-	-	-	-	-	-	-	-
3	353	Land and Land Rights		0.00%	0.00%	461,446	(146)	-	461,300	-	461,300	461,300	-	461,300
4	354	Structures and Improvements		3.33%	3.33%	2,597,197	(39,277)	2,300	2,560,220	1,089,269	1,470,950	2,560,220	1,089,269	1,470,950
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	371,470	334,822	1,600	707,892	237,047	470,845	707,892	237,047	470,845
7	361	Collection Sewers - Gravity		2.00%	2.00%	4,353,824	(68,876)	-	4,284,948	2,986,891	1,298,057	4,284,948	2,986,891	1,298,057
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	200,306	(1,583)	-	198,723	151,259	47,464	198,723	151,259	47,464
10	364	Flow Measuring Devices		10.00%	10.00%	39,878	(8,366)	-	31,512	31,230	282	31,512	31,230	282
11	365	Flow Measuring Installations		10.00%	10.00%	181,502	(1,880)	-	179,622	48,777	130,845	179,622	48,777	130,845
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	699,191	(8,563)	242,243	932,871	285,616	647,255	932,871	285,616	647,255
15	371	Effluent Pumping Equipment		12.50%	12.50%	661,125	(6,281)	2,803	657,647	401,703	255,944	657,647	401,703	255,944
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	152,796	(9,218)	38,250	181,828	14,930	166,898	181,828	14,930	166,898
19	381	Plant Sewers		5.00%	5.00%	121,651	1,638	1,238	124,527	105,608	18,919	124,527	105,608	18,919
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	970,499	(31,067)	-	939,432	249,600	689,832	939,432	249,600	689,832
22	390	Office Furniture and Equipment		6.67%	6.67%	369,739	(145,152)	-	224,587	71,997	152,590	224,587	71,997	152,590
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	107,368	(1)	-	107,367	47,775	59,592	107,367	47,775	59,592
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	6,276	(522)	-	5,754	203	5,552	5,754	203	5,552
27	394	Laboratory Equipment		10.00%	10.00%	7,488	0	-	7,488	2,250	5,239	7,488	2,250	5,239
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	40,451	0	-	40,451	1,011	39,440	40,451	1,011	39,440
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	486,294	-	-	486,294	97,259	389,035	486,294	97,259	389,035
		TOTAL				11,828,501	15,528	288,434	12,132,463	5,822,426	6,310,037	12,132,463	5,822,426	6,310,037

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Schedule B-2
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Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	July-December 2008 Plant Additions	Plant Adjustments[1]	Plant Reclass	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-		-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%		-		-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%		-		-	-		-		-	461,300	-
4	354	Structures and Improvements		3.33%	3.33%	-	(12,085)	-	(12,085)	-	-	-	-	42,527	2,548,135	1,131,797
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	-	(37)	-	(37)	-	-	-	-	7,079	707,855	244,126
7	361	Collection Sewers - Gravity		2.00%	2.00%	-	(49)	-	(49)	-	-	-	-	42,849	4,284,899	3,029,740
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	-	-	-	-	-	-	-	-	1,987	198,723	153,246
10	364	Flow Measuring Devices		10.00%	10.00%	-	156	-	156	-	-	-	-	438	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	-	8,981	179,622	57,758
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	311	-	311	-	-	-	-	15,535	933,182	301,151
15	371	Effluent Pumping Equipment		12.50%	12.50%	-	1,641	-	1,641	4,461	-	4,461	-	41,015	654,827	438,257
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	-	(33,499)	-	(33,499)	-	-	-	-	4,127	148,329	19,057
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	3,113	124,527	108,721
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	-	3,138	-	3,138	-	-	-	-	31,382	942,570	280,983
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	-	7,490	224,587	79,487
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	-	203	-	203	-	-	-	-	10,747	107,570	58,522
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	-	3,420	-	3,420	-	-	-	-	187	9,174	390
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	374	7,488	2,624
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	275	-	275	-	-	-	-	2,029	40,726	3,041
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	24,315	486,294	121,574
		TOTAL				-	(36,526)	-	(36,526)	4,461	-	4,461	-	244,175	12,091,476	6,062,140

[1] True-up
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

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Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2009 Plant Additions	Plant Adjustments[1]	Plant Reclass	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-		-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%		-		-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%		-		-	-		-		-	461,300	-
4	354	Structures and Improvements		3.33%	3.33%	36,874	(311)	-	36,563	2,504	-	2,504	-	85,420	2,582,194	1,214,712
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	49,900	(5,397)	-	44,503	-	-	-	-	14,602	752,358	258,728
7	361	Collection Sewers - Gravity		2.00%	2.00%	127,133	-	-	127,133	-	-	-	-	86,969	4,412,032	3,116,710
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	3,400	-	-	3,400	-	-	-	-	4,008	202,123	157,255
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	-	17,962	179,622	75,720
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	95,000	-	-	95,000	-	-	-	-	32,657	1,028,182	333,807
15	371	Effluent Pumping Equipment		12.50%	12.50%	10,132	-	-	10,132	4,841	-	4,841	-	82,184	660,118	515,600
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	503	-	-	503	-	-	-	-	7,429	148,832	26,486
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	6,226	124,527	114,947
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	987	-	-	987	-	-	-	-	62,902	943,557	343,885
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	-	14,980	224,587	94,467
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	-	-	-	-	-	-	-	-	21,514	107,570	80,036
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	351	-	-	351	-	-	-	-	467	9,525	857
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	749	7,488	3,373
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	4,073	40,726	7,113
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	48,629	486,294	170,203
		TOTAL				324,280	(5,708)	-	318,572	7,346	-	7,346	-	490,773	12,402,703	6,545,567

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Schedule B-2
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Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2010 Plant Additions	Plant Adjustments[1]	Plant Reclass	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-		-			-		-	-	-
2	352	Franchises		0.00%	0.00%		-		-			-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%		-	1,500	1,500			-		-	462,800	-
4	354	Structures and Improvements		3.33%	3.33%	105,916	(1,282)	(29,825)	74,809	-	-	-	-	87,233	2,657,003	1,301,945
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	94,113	(211)	-	93,901	-	-	-	-	15,986	846,259	274,714
7	361	Collection Sewers - Gravity		2.00%	2.00%	150,760	(189)	-	150,571	-	-	-	-	89,746	4,562,602	3,206,456
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	-	-	-	-	-	-	-	-	4,042	202,123	161,297
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	-	17,962	179,622	93,682
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	-	34,238	1,028,182	368,046
15	371	Effluent Pumping Equipment		12.50%	12.50%	107,891	(189)	27,135	134,837	-	-	-	-	90,942	794,956	606,542
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	186,041	(24)	-	186,017	-	-	-	-	12,092	334,849	38,578
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	6,226	124,527	121,174
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	500	-	-	500	-	-	-	-	62,952	944,057	406,837
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	-	14,980	224,587	109,447
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	-	-	-	-	-	-	-	-	21,514	107,570	101,550
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	1,759	(6)	-	1,753	-	-	-	-	520	11,278	1,377
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	749	7,488	4,122
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	4,073	40,726	11,186
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	48,629	486,294	218,833
		TOTAL				646,979	(1,902)	(1,190)	643,888	-	-	-	-	511,886	13,046,591	7,057,453

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

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Exhibit
Schedule B-2
Page 3.10
Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2011 Plant Additions	Plant Adjustments[1]	Plant Reclass	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-		-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%		-		-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%		-		-	-		-		-	462,800	-
4	354	Structures and Improvements		3.33%	3.33%	109,394	(1,491)	(50,642)	57,260	8,614	-	8,614	-	89,288	2,705,649	1,382,619
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
6	360	Collection Sewers - Force		2.00%	2.00%	99,047	(612)	-	98,435	8,381	-	8,381	-	17,826	936,313	284,159
7	361	Collection Sewers - Gravity		2.00%	2.00%	69,030	(699)	-	68,331	5,072	-	5,072	-	91,885	4,625,861	3,293,269
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	-	-	-	-	-	-	-	-	4,042	202,123	165,339
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	-	17,962	179,622	111,644
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	-	34,238	1,028,182	402,284
15	371	Effluent Pumping Equipment		12.50%	12.50%	76,164	(553)	31,563	107,174	6,482	-	6,482	-	78,591	895,647	678,650
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	33,223	(267)	(7,143)	25,813	-	-	-	-	17,388	360,662	55,966
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	3,353	124,527	124,527
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	3,463	(11)	(3,150)	302	-	-	-	-	62,979	944,359	469,816
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	-	14,980	224,587	124,427
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	-	-	-	-	-	-	-	-	6,020	107,570	107,570
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	3,386	(30)	-	3,356	-	-	-	-	648	14,634	2,025
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	749	7,488	4,871
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	20,308	20,308	-	-	-	-	5,088	61,034	16,274
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	48,629	486,294	267,462
		TOTAL				393,707	(3,664)	(9,065)	380,978	28,549	-	28,549	-	493,666	13,399,021	7,522,570

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Schedule B-2
Page 3.11
Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2012 Plant Additions	Plant Adjustments[1]	Plant Reclass	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%		-		-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%		-		-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%	9,740	(16)		9,724	-		-		-	472,524	-
4	354	Structures and Improvements		3.33%	3.33%	237,042	(1,140)	(41,192)	194,710	11,217	-	11,217	-	93,153	2,889,143	1,464,556
5	355	Power Generation Equipment		5.00%	5.00%	-	-	3,839	3,839	-	-	-	-	96	3,839	96
6	360	Collection Sewers - Force		2.00%	2.00%	60,446	(407)	-	60,039	671	-	671	-	19,320	995,682	302,808
7	361	Collection Sewers - Gravity		2.00%	2.00%	30,677	(141)	-	30,536	842	-	842	-	92,814	4,655,556	3,385,241
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	-	-	-	-	-	-	-	-	4,042	202,123	169,382
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	430	-	-	430	-	-	-	-	17,984	180,051	129,628
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	-	34,238	1,028,182	436,523
15	371	Effluent Pumping Equipment		12.50%	12.50%	59,529	(432)	7,480	66,577	13,118	-	13,118	-	35,679	949,107	701,212
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	2,231	(19)	2,100	4,312	-	-	-	-	18,141	364,974	74,107
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	-	124,527	124,527
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	683	-	-	683	-	-	-	-	63,012	945,042	532,827
22	390	Office Furniture and Equipment		6.67%	6.67%	-	-	-	-	-	-	-	-	14,980	224,587	139,407
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	-	-	-
24	391	Transportation Equipment		20.00%	20.00%	5,228	(7)	-	5,221	-	33,699	33,699	-	522	79,092	74,393
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	-	(24)	-	(24)	-	-	-	-	731	14,610	2,756
27	394	Laboratory Equipment		10.00%	10.00%	-	(2)	-	(2)	-	-	-	-	749	7,486	5,619
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	27,773	27,773	-	-	-	-	7,492	88,807	23,766
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	48,629	486,294	316,091
		TOTAL				406,006	(2,187)	0	403,819	25,847	33,699	59,546	-	451,583	13,743,293	7,914,607

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Schedule B-2
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Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2013 Plant Additions	Plant Adjustments[1]	Plant Reclass	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%				-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%				-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%				-	-		-		-	472,524	-
4	354	Structures and Improvements		3.33%	3.33%	62,428	-	(21,589)	40,839	3,676	452	4,128	-	96,820	2,925,854	1,557,247
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	192	3,839	288
6	360	Collection Sewers - Force		2.00%	2.00%	60,461	-	-	60,461	-	-	-	-	20,518	1,056,143	323,326
7	361	Collection Sewers - Gravity		2.00%	2.00%	15,123	-	-	15,123	-	1,705	1,705	-	93,245	4,668,974	3,476,782
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	15,611	-	-	15,611	-	-	-	-	4,199	217,733	173,580
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	-	18,005	180,051	147,633
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	-	34,238	1,028,182	470,761
15	371	Effluent Pumping Equipment		12.50%	12.50%	84,467	-	15,589	100,056	31,863	5,096	36,960	-	46,094	1,012,203	710,346
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	7,270	-	1,519	8,789	-	-	-	-	18,468	373,763	92,575
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	-	124,527	124,527
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	-	-	-	-	-	-	-	-	63,034	945,042	595,861
22	390	Office Furniture and Equipment		6.67%	6.67%	62,224	-	(62,224)	-	-	-	-	-	14,980	224,587	154,387
23	390.1	Computers and Software		20.00%	20.00%	-	-	62,224	62,224	-	-	-	-	6,222	62,224	6,222
24	391	Transportation Equipment		20.00%	20.00%	-	-	-	-	-	-	-	-	1,044	79,092	75,438
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	1,573	-	-	1,573	-	-	-	-	770	16,184	3,526
27	394	Laboratory Equipment		10.00%	10.00%	-	-	-	-	-	-	-	-	749	7,486	6,368
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	-	-	4,482	4,482	-	-	-	-	9,105	93,289	32,871
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	48,629	486,294	364,721
		TOTAL				309,159	-	(0)	309,159	35,540	7,253	42,793	-	476,313	14,009,660	8,348,127

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Exhibit
Schedule B-2
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Witness: Bourassa

Line No.	NARUC Account No.	Description	Vintage Year	Previous Allowed Deprec. Rate	Allowed Deprec. Rate	2014 Plant Additions	Plant Adjustments[1]	Plant Reclass and AFUDC	Adjusted Plant Additions	Plant Retirements[2]	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization		0.00%	0.00%				-	-		-		-	-	-
2	352	Franchises		0.00%	0.00%				-	-		-		-	-	-
3	353	Land and Land Rights		0.00%	0.00%				-	-		-		-	472,524	-
4	354	Structures and Improvements		3.33%	3.33%	49,937	(13,255)	(9,307)	27,375	13,970	-	13,970	-	97,654	2,939,259	1,640,932
5	355	Power Generation Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	192	3,839	480
6	360	Collection Sewers - Force		2.00%	2.00%	81,757	(7,251)	340	74,847	559	-	559	-	21,866	1,130,430	344,633
7	361	Collection Sewers - Gravity		2.00%	2.00%	135,300	(241,801)	(51)	(106,551)	7,241	-	7,241	-	92,242	4,555,181	3,561,782
8	362	Special Collecting Structures		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
9	363	Services to Customers		2.00%	2.00%	48,419	-	(7)	48,413	5,711	-	5,711	-	4,782	260,435	172,651
10	364	Flow Measuring Devices		10.00%	10.00%	-	-	-	-	-	-	-	-	-	31,668	31,668
11	365	Flow Measuring Installations		10.00%	10.00%	-	-	-	-	-	-	-	-	18,005	180,051	165,638
12	366	Reuse Services		2.00%	2.00%	-	-	-	-	-	-	-	-	-	-	-
13	367	Reuse Meters And Installation		8.33%	8.33%	-	-	-	-	-	-	-	-	-	-	-
14	370	Receiving Wells		3.33%	3.33%	-	-	-	-	-	-	-	-	34,238	1,028,182	505,000
15	371	Effluent Pumping Equipment		12.50%	12.50%	38,455	9,634	4,227	52,316	41,033	-	41,033	-	55,617	1,023,485	724,929
16	374	Reuse Distribution Reservoirs		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
17	375	Reuse Trans. and Dist. System		2.50%	2.50%	-	-	-	-	-	-	-	-	-	-	-
18	380	Treatment and Disposal Equipment		5.00%	5.00%	20,759	(71,979)	(2,258)	(53,478)	-	-	-	-	17,351	320,285	109,926
19	381	Plant Sewers		5.00%	5.00%	-	-	-	-	-	-	-	-	-	124,527	124,527
20	382	Outfall Sewer Lines		3.33%	3.33%	-	-	-	-	-	-	-	-	-	-	-
21	389	Other Plant and Misc. Equipment		6.67%	6.67%	20,988	(6,198)	-	14,790	-	-	-	-	63,528	959,832	659,389
22	390	Office Furniture and Equipment		6.67%	6.67%	2,724	-	(21)	2,703	-	-	-	-	15,070	227,290	169,457
23	390.1	Computers and Software		20.00%	20.00%	-	-	-	-	-	-	-	-	12,445	62,224	18,667
24	391	Transportation Equipment		20.00%	20.00%	22,930	-	-	22,930	21,808	-	21,808	-	3,337	80,215	56,967
25	392	Stores Equipment		4.00%	4.00%	-	-	-	-	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment.		5.00%	5.00%	12,758	-	(0)	12,758	-	-	-	-	1,128	28,942	4,654
27	394	Laboratory Equipment		10.00%	10.00%	3,196	-	-	3,196	-	-	-	-	908	10,683	7,277
28	395	Power Operated Equipment		5.00%	5.00%	-	-	-	-	-	-	-	-	-	-	-
29	396	Communication Equipment		10.00%	10.00%	3,242	-	6,760	10,002	-	-	-	-	9,829	103,290	42,700
30	397	Miscellaneous Equip.		10.00%	10.00%	-	-	-	-	-	-	-	-	-	-	-
31	398	Other TangiblePlant - Scottsdale Capacity		10.00%	10.00%	-	-	-	-	-	-	-	-	48,629	486,294	413,350
		TOTAL				440,466	(330,849)	(317)	109,300	90,322	-	90,322	-	496,821	14,028,638	8,754,626

[1] Affiliate Profit
[2] Retirements Not Recorded

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

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Accumulated Depreciation

Line No.	Acct. No.	Description	Adjusted Accum. Depr.	A Depreciation Calc. Correction	B Plant Reclassification	C AFUDC	D Plant Addition Correction	E Allocated Corporate Plant	F Adjustments to Reconcile A/D to Recon.	Rebuttal Adjusted Accum. Depr.
6	351	Organization	-	-	-	-	-		-	-
7	352	Franchise	-	-	-	-	-		-	-
8	353	Land	-	-	-	-	-		-	-
9	354	Structures & Improvements	1,641,790	14,176	(15,034)	(0)	-		0	1,640,932
10	355	Power Generation	-	0	480	-	-		-	480
11	360	Collection Sewer Forced	342,270	2,360	6	(2)	-		-	344,633
12	361	Collection Sewers Gravity	3,547,500	14,283	-	(1)	-		-	3,561,782
13	362	Special Collecting Structures	-	-	-	-	-		-	-
14	363	Customer Services	171,989	662	-	(0)	-		-	172,651
15	364	Flow Measuring Devices	31,668	-	-	-	-		-	31,668
16	365	Flow Measruring Installations	162,645	2,994	-	-	-		-	165,638
17	366	Reuse Services	-	-	-	-	-		-	-
18	367	Reuse Meters And Installation	-	-	-	-	-		-	-
19	370	Receiving Wells	499,821	5,178	-	-	-		-	505,000
20	371	Pumping Equipment	690,332	0	34,597	(0)	-		-	724,929
21	374	Reuse Distribution Reservoirs	-	-	-	-	-		-	-
22	375	Reuse Trans. and Dist. System	-	-	-	-	-		-	-
23	380	Treatment & Disposal Equipment	109,481	1,376	(930)	-	-		-	109,926
24	381	Plant Sewers	124,527	-	-	-	-		-	124,527
25	382	Outfall Sewer Lines	-	-	-	-	-		-	-
26	389	Other Sewer Plant & Equipment	656,611	10,461	(735)	-	(6,947)		-	659,389
27	390	Office Furniture & Equipment	173,186	2,497	(6,226)	(1)	-		-	169,457
28	390.1	Computers and Software	-	0	18,667	-	-		-	18,667
29	391	Transportation Equipment	56,967	0	-	-	-		-	56,967
30	392	Stores Equipment	-	-	-	-	-		-	-
31	393	Tools, Shop And Garage Equip	4,592	62	-	(0)	-		-	4,654
32	394	Laboratory Equip	7,152	125	-	-	-		-	7,277
33	395	Power Operated Equipment	-	-	-	-	-		-	-
34	396	Communication Equip	26,962	676	15,061	-	-		-	42,700
35	397	Miscellaneous Equip.	-	-	-	-	-		-	-
36	398	Other Tangible Plant - Sottsdale Capacity	405,245	8,105	-	-	-		-	413,350
37	108	Accumulated Depreciation	-	-	-	-	-		-	-
38		SUBTOTAL	8,652,737	62,954	45,886	(4)	(6,947)	-	0	8,754,626
39										
40	903	Land and Land Rights	-							-
41	904	Structures and Improvments	1,944					2,890		4,834
42	940	Office Furniture & Equipment	-					831		831
43	940.1	Computers and Software	-					24,929		24,929
44			-							-
45		Plant Held for Future Use	-							-
46		TOTALS	$ 8,654,682	$ 62,954	$ 45,886	$ (4)	$ (6,947)	$ 28,650	$ 0	$ 8,785,220
47										
48	Accumulated Depreciation per Direct									$ 8,654,682
49										
50	Increase (decrease) in Accumulated Depreciation									$ 130,539
51										
52	Adjustment to Accumulated Depreciation									$ 130,539
53										
54	SUPPORTING SCHEDULES									
55	B-2, pages 4.1 through 4.6									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - A

Exhibit
Rebuttal Schedule B-2
Page 4.1
Witness: Bourassa

Line No.

1 A/D from Depreciation Calculation Correction

Acct. No.	Description	2008	2009	2010	2011	2012	2013	2014	Total Cost
351	Organization	-	-	-	-	-	-	-	$ -
352	Franchises	-	-	-	-	-	-	-	-
353	Land and Land Rights	-	-	-	-	-	-	-	-
354	Structures and Improvements	14,176	-	(0)	0	(0)	(0)	(0)	14,176
355	Power Generation Equipment	-	-	-	-	(0)	0	0	0
360	Collection Sewers - Force	2,360	-	-	-	-	-	(0)	2,360
361	Collection Sewers - Gravity	14,283	-	-	-	-	-	0	14,283
362	Special Collecting Structures	-	-	-	-	-	-	-	-
363	Services to Customers	662	-	-	-	-	-	0	662
364	Flow Measuring Devices	219	(219)	-	-	-	-	-	-
365	Flow Measuring Installations	2,994	-	-	-	-	-	-	2,994
366	Reuse Services	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	-	-	-	-	-	-	-	-
370	Receiving Wells	5,178	-	-	-	-	-	-	5,178
371	Effluent Pumping Equipment	13,672	-	0	(13,672)	0	0	0	0
374	Reuse Distribution Reservoirs	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	-	-	-	-	-	-	-
380	Treatment and Disposal Equipment	1,376	-	-	(0)	(0)	(0)	(0)	1,376
381	Plant Sewers	1,038	-	-	(1,038)	-	-	-	-
382	Outfall Sewer Lines	-	-	-	-	-	-	-	-
389	Other Plant and Misc. Equipment	10,461	-	-	0	0	0	0	10,461
390	Office Furniture and Equipment	2,497	-	-	-	-	(0)	0	2,497
390.1	Computers and Software	-	-	-	-	-	0	0	0
391	Transportation Equipment	3,582	-	-	(3,582)	-	-	-	0
392	Stores Equipment	-	-	-	-	-	-	-	-
393	Tools, Shop and Garage Equipment.	62	-	-	-	-	-	(0)	62
394	Laboratory Equipment	125	-	-	-	-	-	-	125
395	Power Operated Equipment	-	-	-	-	-	-	-	-
396	Communication Equipment	676	-	-	0	0	(0)	0	676
397	Miscellaneous Equip.	-	-	-	-	-	-	-	-
398	Other TangiblePlant - Scottsdale Capacity	8,105	-	-	-	-	-	-	8,105
									-
		81,465	(219)	(0)	(18,292)	0	0	(0)	62,954

SUPPORTING SCHEDULE
Testimony
Work papers

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - B

Exhibit
Rebuttal Schedule B-2
Page 4.2
Witness: Bourassa

Line No.									
1	A/D from Plant Reclassification								
2			Depr.						
3	Acct No.	Description	Rate	2010	2011	2012	2013	2014	Total
4	351	Organization	0.00%	-	-	-	-	-	-
5	352	Franchise	0.00%	-	-	-	-	-	-
6	353	Land	0.00%	-	-	-	-	-	-
7	354	Structures & Improvements	3.33%	(497)	(1,836)	(3,365)	(4,411)	(4,925)	(15,034)
8	355	Power Generation	5.00%	-	-	96	192	192	480
9	360	Collection Sewer Forced	2.00%	-	-	-	-	6	6
10	361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-
11	362	Special Collecting Structures	2.00%	-	-	-	-	-	-
12	363	Customer Services	2.00%	-	-	-	-	-	-
13	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-
14	365	Flow Measruring Installations	10.00%	-	-	-	-	-	-
15	366	Reuse Services	2.00%	-	-	-	-	-	-
16	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-
17	370	Receiving Wells	3.33%	-	-	-	-	-	-
18	371	Pumping Equipment	12.50%	1,696	5,365	7,805	9,246	10,485	34,597
19	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-
20	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-
21	380	Treatment & Disposal Equipment	5.00%	-	(179)	(305)	(214)	(233)	(930)
22	381	Plant Sewers	5.00%	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-
24	389	Other Sewer Plant & Equipment	6.67%	-	(105)	(210)	(210)	(210)	(735)
25	390	Office Furniture & Equipment	6.67%	-	-	-	(2,075)	(4,150)	(6,226)
26	390.1	Computers and Software	20.00%	-	-	-	6,222	12,445	18,667
27	391	Transportation Equipment	20.00%	-	-	-	-	-	-
28	392	Stores Equipment	4.00%	-	-	-	-	-	-
29	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-
30	394	Laboratory Equip	10.00%	-	-	-	-	-	-
31	395	Power Operated Equip	5.00%	-	-	-	-	-	-
32	396	Communication Equip	10.00%	-	1,015	3,419	5,032	5,594	15,061
33	397	Miscellaneous Equip.	10.00%	-	-	-	-	-	-
34	398	Other Tangible Plant - Scottsdale Capacity	10.00%	-	-	-	-	-	-
35									
36		Totals		$ 1,199	$ 4,260	$ 7,440	$ 13,783	$ 19,204	$ 45,886
37									
38									
39									
40									
41									
42									
43	SUPPORTING SCHEDULE								
44	B-2, pages 3.1								
45	Work papers								

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - C

Exhibit
Rebuttal Schedule B-2
Page 4.3
Witness: Bourassa

Line No.									
1	A/D from AFUDC removal								
2			Depr.						
3	Acct No.	Description	Rate	2010	2011	2012	2013	2014	Total
4	351	Organization	0.00%	-	-	-	-	-	-
5	352	Franchise	0.00%	-	-	-	-	-	-
6	353	Land	0.00%	-	-	-	-	-	-
7	354	Structures & Improvements	3.33%	-	-	-	-	(0)	(0)
8	355	Power Generation	5.00%	-	-	-	-	-	-
9	360	Collection Sewer Forced	2.00%	-	-	-	-	(2)	(2)
10	361	Collection Sewers Gravity	2.00%	-	-	-	-	(1)	(1)
11	362	Special Collecting Structures	2.00%	-	-	-	-	-	-
12	363	Customer Services	2.00%	-	-	-	-	(0)	(0)
13	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-
14	365	Flow Measruring Installations	10.00%	-	-	-	-	-	-
15	366	Reuse Services	2.00%	-	-	-	-	-	-
16	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-
17	370	Receiving Wells	3.33%	-	-	-	-	-	-
18	371	Pumping Equipment	12.50%	-	-	-	-	(0)	(0)
19	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-
20	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-
21	380	Treatment & Disposal Equipment	5.00%	-	-	-	-	-	-
22	381	Plant Sewers	5.00%	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-
24	389	Other Sewer Plant & Equipment	6.67%	-	-	-	-	-	-
25	390	Office Furniture & Equipment	6.67%	-	-	-	-	(1)	(1)
26	390.1	Computers and Software	20.00%	-	-	-	-	-	-
27	391	Transportation Equipment	20.00%	-	-	-	-	-	-
28	392	Stores Equipment	4.00%	-	-	-	-	-	-
29	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	(0)	(0)
30	394	Laboratory Equip	10.00%	-	-	-	-	-	-
31	395	Power Operated Equip	5.00%	-	-	-	-	-	-
32	396	Communication Equip	10.00%	-	-	-	-	-	-
33	397	Miscellaneous Equip.	10.00%	-	-	-	-	-	-
34	398	Other Tangible Plant - Scottsdale Capacity	10.00%	-	-	-	-	-	-
35									
36		Totals		$ -	$ -	$ -	$ -	$ (4)	$ (4)
37									
38									
39									
40									
41									
42									
43	SUPPORTING SCHEDULE								
44	B-2, pages 3.2								
45	Work papers								

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - D

Exhibit
Rebuttal Schedule B-2
Page 4.4
Witness: Bourassa

Line No.									
1	A/D from Plant Addtion Correction								
2			Depr.						
3	Acct No.	Description	Rate	2010	2011	2012	2013	2014	Total
4	351	Organization	0.00%	-	-	-	-	-	-
5	352	Franchise	0.00%	-	-	-	-	-	-
6	353	Land	0.00%	-	-	-	-	-	-
7	354	Structures & Improvements	3.33%	-	-	-	-	-	-
8	355	Power Generation	5.00%	-	-	-	-	-	-
9	360	Collection Sewer Forced	2.00%	-	-	-	-	-	-
10	361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-
11	362	Special Collecting Structures	2.00%	-	-	-	-	-	-
12	363	Customer Services	2.00%	-	-	-	-	-	-
13	364	Flow Measuring Devices	10.00%	-	-	-	-	-	-
14	365	Flow Measruring Installations	10.00%	-	-	-	-	-	-
15	366	Reuse Services	2.00%	-	-	-	-	-	-
16	367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-
17	370	Receiving Wells	3.33%	-	-	-	-	-	-
18	371	Pumping Equipment	12.50%	-	-	-	-	-	-
19	374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-
20	375	Reuse Trans. and Dist. System	2.50%	-	-	-	-	-	-
21	380	Treatment & Disposal Equipment	5.00%	-	-	-	-	-	-
22	381	Plant Sewers	5.00%	-	-	-	-	-	-
23	382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-
24	389	Other Sewer Plant & Equipment	6.67%	-	(992)	(1,985)	(1,985)	(1,985)	(6,947)
25	390	Office Furniture & Equipment	6.67%	-	-	-	-	-	-
26	390.1	Computers and Software	20.00%	-	-	-	-	-	-
27	391	Transportation Equipment	20.00%	-	-	-	-	-	-
28	392	Stores Equipment	4.00%	-	-	-	-	-	-
29	393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-
30	394	Laboratory Equip	10.00%	-	-	-	-	-	-
31	395	Power Operated Equip	5.00%	-	-	-	-	-	-
32	396	Communication Equip	10.00%	-	-	-	-	-	-
33	397	Miscellaneous Equip.	10.00%	-	-	-	-	-	-
34	398	Other Tangible Plant - Scottsdale Capacity	10.00%	-	-	-	-	-	-
35									
36		Totals		$ -	$ (992)	$ (1,985)	$ (1,985)	$ (1,985)	$ (6,947)
37									
38									
39									
40									
41									
42									
43	SUPPORTING SCHEDULE								
44	B-2, pages 3.3								
45	Work papers								

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - E

Exhibit
Rebuttal Schedule B-2
Page 4.5
Witness: Bourassa

Line No.									
1	Corporate Plant A/D								
2			[1]	[2]	[3]	[4] = [1]x[2]x[3]	[5]	[6] = [4] - [5]
3				Liberty	BMSC	Allocated	Allocated	Increase/
4	Acct.			Utilities	Water	Orginal	Orginal	Decrease
5	No.	Description	A/D	Factor	Factor	Cost	Cost per Direct	in Corp. Plant
6	903	Land and Land Rights	$ -	15.64%	3.86%	-	$ -	$ -
7	904	Structures and Improvments	322,068	15.64%	3.86%	1,943	$ 1,944	(2)
8	940.1	Computers and Software	218,763	15.64%	3.86%	1,320	$ -	1,320
9								
10								
11	LU Sub-Corp. Plant							
12								
13	903	Land and Land Rights	-		3.86%	-	$ -	$ -
14	904	Structures and Improvments	74,974		3.86%	2,892	-	2,892
15	940	Office Furniture and Equipme	21,535		3.86%	831	-	831
16	940.1	Computers and Software	612,134		3.86%	23,610	-	23,610
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								
31								
32								
33								
34								
35								
36								
37								
38								
39								
40								
41		TOTALS	$ 1,249,474			$ 30,594	$ 1,944	$ 28,650
42								
43								
44	SUPPORTING SCHEDULE							
45	B-2, pages 3.4							
46	Work papers							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - F

Exhibit
Rebuttal Schedule B-2
Page 4.6
Witness: Bourassa

Line No.

1 Reconciliation of A/D to A/D Reconstruction

Acct. No.	Description	A/D Orginal Cost	B-2 Adjustments	Adjusted A/D Orginal Cost	A/D Per Reconstruction	Difference
351	Organization	$ -	$ -	$ -	$ -	$ -
352	Franchise	-	-	-	-	-
353	Land	-	-	-	-	-
354	Structures & Improvements	1,641,790	(859)	1,640,931	1,640,932	0
355	Power Generation	-	480	480	480	-
360	Collection Sewer Forced	342,270	2,363	344,633	344,633	-
361	Collection Sewers Gravity	3,547,500	14,283	3,561,782	3,561,782	-
362	Special Collecting Structures	-	-	-	-	-
363	Customer Services	171,989	662	172,651	172,651	-
364	Flow Measuring Devices	31,668	-	31,668	31,668	-
365	Flow Measruring Installations	162,645	2,994	165,638	165,638	-
366	Reuse Services	-	-	-	-	-
367	Reuse Meters And Installation	-	-	-	-	-
370	Receiving Wells	499,821	5,178	505,000	505,000	-
371	Pumping Equipment	690,332	34,597	724,929	724,929	-
374	Reuse Distribution Reservoirs	-	-	-	-	-
375	Reuse Trans. and Dist. System	-	-	-	-	-
380	Treatment & Disposal Equipment	109,481	446	109,926	109,926	-
381	Plant Sewers	124,527	-	124,527	124,527	-
382	Outfall Sewer Lines	-	-	-	-	-
389	Other Sewer Plant & Equipment	656,611	2,778	659,389	659,389	-
390	Office Furniture & Equipment	173,186	(3,730)	169,457	169,457	-
390.1	Computers and Software	-	18,667	18,667	18,667	-
391	Transportation Equipment	56,967	0	56,967	56,967	-
392	Stores Equipment	-	-	-	-	-
393	Tools, Shop And Garage Equip	4,592	62	4,654	4,654	-
394	Laboratory Equip	7,152	125	7,277	7,277	-
395	Power Operated Equipment	-	-	-	-	-
396	Communication Equip	26,962	15,738	42,700	42,700	-
397	Miscellaneous Equipment	-	-	-	-	-
398	Other Tangible Plant - Scottsdale Capacity	405,245	8,105	413,350	413,350	-
108	Accumulated Depreciation	-	-	-	-	-
	Plant Held for Future Use					-
	TOTALS	$ 8,652,737	$ 101,889	$ 8,754,626	$ 8,754,626	$ 0

SUPPORTING SCHEDULE
B-2, pages 4.1 through 4.5
B-2, pages 3.6 through 3.13

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

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

Line No.		Gross CIAC	Accumulated Amortization
1			
2			
3			
4			
5	Computed balance at end of Test Year	$ 6,445,253	$ 5,333,859
6			
7	Adjusted balance at end of Test Year	$ 5,461,736	$ 5,240,717
8			
9	Increase (decrease)	$ 983,517	$ 93,143
10			
11			
12	Adjustment to CIAC/AA CIAC	$ 983,517	$ (93,143)
13	Label	3a	3b
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	B-2, page 5.1 - 5.3		
21			
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5.1
Witness: Bourassa

Line No.	Description	Vintage	Per Deicision 6/30/2008	Jun.-Jul. 2008 Activity	Balance at 12/31/2008	2009 Activity	Balance at 12/31/2009	2010 Activity	Balance at 12/31/2010
1	Contributions-in-Aid (CIAC)	<=Jun 2008	5,232,139	-	5,232,139	-	5,232,139	-	5,232,139
2	Contributions-in-Aid (CIAC)	>=Jul 2008		154,558	154,558		154,558		154,558
3	Contributions-in-Aid (CIAC)	2009			-		-		-
4	Contributions-in-Aid (CIAC)	2010			-		-		-
5	Contributions-in-Aid (CIAC)	2011			-		-		-
6	Contributions-in-Aid (CIAC)	2012			-		-		-
7	Contributions-in-Aid (CIAC)	2013			-		-		-
8	Contributions-in-Aid (CIAC)	2014			-		-		-
9	**Total Contributions-in-Aid (CIAC)**		5,232,139	154,558	5,386,697	-	5,386,697	-	5,386,697
10									
11	Amortization Rate			2.10%		4.11%		4.08%	
12									
13	Amortization	<=Jun 2008	4,214,384	109,849	4,324,232	215,033	4,539,265	213,371	4,752,636
14		>=Jul 2008		3,245	3,245	6,352	9,597	6,303	
15	Accum Amort.	2009		-	-	-	-	-	-
16	Accum Amort.	2010		-	-	-	-	-	-
17	Accum Amort.	2011		-	-	-	-	-	-
18	Accum Amort.	2012		-	-	-	-	-	-
19	Accum Amort.	2013		-	-	-	-	-	-
20	Accum Amort.	2014		-	-	-	-	-	-
21									
22	**Total Accum Amort.**		4,214,384	113,094	4,327,477	221,385	4,548,862	219,674	4,752,636
23									
24									
25	Net CIAC	<=Jun 2008	1,017,755		907,907		692,874		479,503
26	Net CIAC	>=Jul 2008	-		151,313		144,961		154,558
27	Net CIAC	2009	-		-		-		-
28	Net CIAC	2010	-		-		-		-
29	Net CIAC	2011	-		-		-		-
30	Net CIAC	2012	-		-		-		-
31	Net CIAC	2013	-		-		-		-
32	Net CIAC	2014	-		-		-		-
33									
34	**Total Net CIAC**		1,017,755	-	1,059,220	-	837,835	-	634,061
35									
36									
37									
38									
39									
40									
41									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5.2
Witness: Bourassa

Line No.	Description	Vintage	2011 Activity	Balance at 12/31/2011	2012 Activity	Balance at 12/31/2012	2013 Activity	Balance at 12/31/2013	2014 Activity	Balance at 12/31/2014
1	Contributions-in-Aid (CIAC)	<=Jun 2008	-	5,232,139	-	5,232,139	-	5,232,139	-	5,232,139
2	Contributions-in-Aid (CIAC)	>=Jul 2008		154,558		154,558		154,558		154,558
3	Contributions-in-Aid (CIAC)	2009		-		-		-		-
4	Contributions-in-Aid (CIAC)	2010		-		-		-		-
5	Contributions-in-Aid (CIAC)	2011		-		-		-		-
6	Contributions-in-Aid (CIAC)	2012		-	504,936	504,936		504,936		504,936
7	Contributions-in-Aid (CIAC)	2013		-		-		-		-
8	Contributions-in-Aid (CIAC)	2014		-		-		-	553,620	553,620
9	**Total Contributions-in-Aid (CIAC)**		-	5,386,697	504,936	5,891,633	-	5,891,633	553,620	6,445,253
10										
11	Amortization Rate		3.83%		3.64%		3.75%		3.88%	
12										
13	Amortization	<=Jun 2008	200,156	4,952,792	190,385	5,143,178	88,961	5,232,139	-	5,232,139
14		>=Jul 2008	5,913	5,913	5,624	11,537	5,790	17,327	6,001	23,328
15	Accum Amort.	2009	-	-	-	-	-	-	-	-
16	Accum Amort.	2010	-	-	-	-	-	-	-	-
17	Accum Amort.	2011	-	-	-	-	-	-	-	-
18	Accum Amort.	2012	-	-	18,373	18,373	18,917	37,291	19,606	56,896
19	Accum Amort.	2013	-	-	-	-	-	-	-	-
20	Accum Amort.	2014	-	-	-	-	-	-	21,496	21,496
21										
22	**Total Accum Amort.**		206,069	4,958,705	214,383	5,173,088	113,669	5,286,757	47,103	5,333,859
23										
24										
25	Net CIAC	<=Jun 2008		279,347		88,961		-		-
26	Net CIAC	>=Jul 2008		148,645		143,021		137,231		131,230
27	Net CIAC	2009		-		-		-		-
28	Net CIAC	2010		-		-		-		-
29	Net CIAC	2011		-		-		-		-
30	Net CIAC	2012		-		486,563		467,645		448,040
31	Net CIAC	2013		-		-		-		-
32	Net CIAC	2014		-		-		-		532,124
33										
34	**Total Net CIAC**		-	427,992	-	718,545	-	604,876	-	1,111,393
35										
36										
37										
38										
39										
40										
41										

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 4
Advances-in-Aid of Construction (AIAC)

Exhibit
Rebuttal Schedule B-2
Page 6
Witness: Bourassa

Line No.			
1			
2	Contract		
3	Studios at Carefree	$	244,639
4	Lowe's		160,442
5	Carefree Ironwood Estates		115,668
6			
7	Total	$	520,749
8			
9	Adjusted balance at End of Test Year	$	1,743,922
10			
11	Increase (decrease)	$	(1,223,173)
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22	SUPPORTING SCHEDULES		
23	Work papers		
24			
25			
26			
27			
28			
29			
30			
31			
32			
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35			
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37			
38			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 5

Exhibit
Rebuttal Schedule B-2
Page 7.0
Witness: Bourassa

Deferred Income Tax as of December 31, 2014

Line No.			Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
6		Plant-in-Service	$ 13,731,570 [1]								
7		Accum. Deprec.	(8,756,571) [1]								
8		CIAC	(1,475,918) [3]								
9	Fed.	Fixed Assets	$ 3,499,082	$ 2,433,867 [2]	100.0%	$ (1,065,215)	32.33%		-		(344,427)
11	State	Fixed Assets	$ 3,499,082	$ 4,015,340 [2]	100.0%	$ 516,258	4.900%		25,297		-
13	Fed &State	AIAC		164,795 [4]	100.0%	$ 164,795 [4]	37.234%		$ 61,360		
15								$ -	$ 86,656	$ -	$ (344,427)
17		Net Asset (Liability)						$ (257,770)			
19		Allocated Corporate ADIT[5]						(288)			
21		Net Asset (Liability)						$ (258,059)			
23		Allocation Factor						1.0000			
25		Net Asset (Liability)						$ (258,059)			
27		DIT Asset (Liability) per Direct						$ (75,116)			
29		Adjustment to DIT						$ 182,942			

Footnotes - See page 7.1

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 7.1
Witness: Bourassa

Line No.		FEDERAL			STATE		
1	[1] **Per adjusted book balances, land not included, coporate plant not included**						
2							
3	[2] **Computation of Net Tax Value December 31, 2014**						
4							
5	Based on 2014 Tax Depreciation report (December 31, 2014)						
6	Unadjusted Cost at December 31, 2014 per federal and state tax depr. report	$ 10,737,218			$ 10,737,218		
7	Reconciling Items not on tax report:						
8							
9	True-up	-			-		
10	Scottsdale Plant Recovered Elsewhere	(1,913,706)			(1,913,706)		
11							
12							
13							
14							
15	Net Unadjusted Cost tax Basis at December 31, 2014			$ 8,823,512			$ 8,823,512
16							
17	Reductions						
18	Basis Reduction 2014 and Prior Years per federal and state tax depr. report	$ (2,148,262)			$ -		
19	Accumulated Depreciation 2014 and prior per federal and state tax depr. report	(6,027,024)			(6,593,805)		
20	Scottsdale Plant Recovered Elsewhere	1,785,641			1,785,633		
21							
22							
23							
24							
25							
26	Net Reductions through December 31, 2014			(6,389,645)			(4,808,172)
27	Net tax value of plant-in-service at December 31. 2014			$ 2,433,867			$ 4,015,340
28							
29	[3] **CIAC (including impact of change to probability of realization)**						
30	Gross CIAC per adjusted book balances		$ 6,445,253				
31	CIAC reductions/addtions						
32	A.A per adjusted book balances	$ (5,333,859)					
33		-					
34							
35	Net CIAC before unrealized AIAC		(5,333,859)				
36				$ 1,111,393			
37	Unrealized AIAC Component						
38	AIAC per adjusted book balances		$ 520,749				
39	Adjusted Net AIAC (see footnote 5 below)		70.0%				
40	Unrealized AIAC Component % (1-Realized AIAC Component)			$ 364,524			
41	Total realizable CIAC			$ 1,475,918			
42							
43							
44	[4] **AIAC (including impact of change in probability of realization)**						
45	AIAC per adjusted book balances			$ 520,749			
46	Less: Unrealized AIAC (from Note 3, above)			$ (364,524)			
47							
48	Subtotal			$ 156,225			
49	Meter and Service Line Installation Charges per adjusted book balances			8,570			
50	Total realizable AIAC			$ 164,795			
51							
52	[5] **See work papers and response to Staff DR 10.3**						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cash Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line No.	Description	Proforma Test Year Amount[1]	Revenue Lag (Lead) Days	Expense Lag (Lead) Days	Net Lag (Lead) Days Col. C - Col. D	Lead/Lag Factor Col. E/365	Cash Working Capital Required Col. B * Col. F
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
7	OPERATING EXPENSES						
8	Salaries and Wages	$ -	2.13	20.00	(17.87)	(0.04895272)	$ -
9	Purchased Water	5,647	2.13	28.22	(26.09)	(0.07147327)	(404)
10	Sludge Removal	-	2.13	-	2.13	0.00584180	-
11	Purchased Power	65,112	2.13	34.37	(32.24)	(0.08832258)	(5,751)
12	Fuel for Power Production	-	2.13	-	2.13	0.00584180	-
13	Chemicals	19,215	2.13	4.94	(2.81)	(0.00769245)	(148)
14	Materials and Supplies	23,875	2.13	(20.42)	22.55	0.06178701	1,475
15	Contractual Services - Professional	523,803	2.13	20.05	(17.92)	(0.04908971)	(25,713)
16	Contractual Services - Testing	11,451	2.13	27.61	(25.48)	(0.06980204)	(799)
17	Contractual Services - Other	361,855	2.13	46.68	(44.55)	(0.12204861)	(44,164)
18	Rents	23,807	2.13	27.28	(25.15)	(0.06889793)	(1,640)
19	Transportation	15,371	2.13	24.75	(22.62)	(0.06196642)	(952)
20	Insurance	11,720	2.13	(182.50)	184.63	0.50584180	5,928
21	Scottsdale Capacity (Operating Lease)	164,522	2.13	(15.00)	17.13	0.04693769	7,722
22	Miscellaneous	60,542	2.13	8.56	(6.43)	(0.01761026)	(1,066)
23	Interest Expense	36,212	2.13	14.71	(12.58)	(0.03445957)	(1,248)
26	TAXES						
27	General Taxes-Property[1]	$ 49,586	2.13	213.96	(211.83)	(0.58034542)	$ (28,777)
28	General Taxes-Other	-	2.13	-	2.13	0.00584180	-
29	Income Tax[1]	153,352	2.13	37.00	(34.87)	(0.09552806)	(14,649)
31	OTHER						
32	Regulatory Commission Expense	-	2.13	(136.54)	138.67	0.37992856	-
34	TOTAL	$ 1,526,069		WORKING CASH REQUIREMENT			$ (110,186)

[1]At proposed rates.

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 2,212,684	$ -	$ 2,212,684	$ 14,515	$ 2,227,199
3	Unmetered Water Revenues	16,067	-	16,067		16,067
4	Other Water Revenues	11,098	-	11,098		11,098
5		$ 2,239,848	$ -	$ 2,239,848	$ 14,515	$ 2,254,363
6	**Operating Expenses**					
7	Salaries and Wages	$ 242,213	(242,213)	$ -		$ -
8	Purchased WasteWater Treatment	5,647	-	5,647		5,647
9	Sludge Removal	-	-	-		-
10	Purchased Power	65,112	-	65,112		65,112
11	Fuel for Power Production	-	-	-		-
12	Chemicals	19,215	-	19,215		19,215
13	Materials and Supplies	23,875	-	23,875		23,875
14	Contractual Services - Professional	313,511	210,292	523,803		523,803
15	Contractual Services - Testing	8,117	3,334	11,451		11,451
16	Contractual Services - Other	361,855	-	361,855		361,855
17	Rents	23,807	-	23,807		23,807
18	Transportation	15,371	-	15,371		15,371
19	Insurance	11,720	-	11,720		11,720
20	Regulatory Commission	-	-	-		-
21	Scottsdale Capacity (Operating Lease)	164,522	-	164,522		164,522
22	Miscellaneous	60,542	-	60,542		60,542
23	Depreciation and Amortization	484,271	(14,484)	469,787		469,787
24	Taxes Other Than Income	-	-	-		-
25	Property Taxes	49,478	1	49,479	107	49,586
26	Income Taxes	131,980	16,007	147,987	5,365	153,352
27	**Total Operating Expenses**	$ 1,981,235	$ (27,062)	$ 1,954,172	$ 5,472	$ 1,959,644
28	**Operating Income**	$ 258,613	$ 27,062	$ 285,676	$ 9,043	$ 294,719
29	**Other Income (Expense)**					
30	Interest and Dividend Income	-	-	-		-
31	AFUDC Income	8,893	-	8,893		8,893
32	Miscellaneous Non-Utility Expenses	-	-	-		-
33	Interest Expense	(36,133)	(78)	(36,212)		(36,212)
34						
35	**Total Other Income (Expense)**	$ (27,240)	$ (78)	$ (27,319)	$ -	$ (27,319)
36	**Net Profit (Loss)**	$ 231,373	$ 26,984	$ 258,357	$ 9,043	$ 267,400
37						
38	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
39	C-1, page 2				A-1	
40	E-2					
41						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2
Witness: Bourassa

Line No.		LABEL>>>>> Test Year Adjusted Results	1 Depreciation	2 Property Taxes	3 Intentionally Left Blank	4 Reclassify Expenses	5 Corporate Costs Adjustment	6 Testing Expense	7 Interest Synch.	8 Income Taxes	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**												
2	Flat Rate Revenues	$ 2,212,684									$ 2,212,684	$ 14,515	$ 2,227,199
3	Metered Water Revenues	16,067									16,067		16,067
4	Other Water Revenues	11,098									11,098		11,098
5		$ 2,239,848	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,239,848	$ 14,515	$ 2,254,363
6	**Operating Expenses**												
7	Salaries and Wages	$ 242,213				(242,213)					$ -		$ -
8	Purchased Water	5,647									5,647		5,647
9	Sludge Removal	-									-		-
10	Purchased Power	65,112									65,112		65,112
11	Fuel for Power Production	-									-		-
12	Chemicals	19,215									19,215		19,215
13	Materials and Supplies	23,875									23,875		23,875
14	Contractual Services - Professional	313,511				242,213	(31,921)				523,803		523,803
15	Contractual Services - Testing	8,117						3,334			11,451		11,451
16	Contractual Services - Other	361,855									361,855		361,855
17	Rents	23,807									23,807		23,807
18	Transportation	15,371									15,371		15,371
19	Insurance	11,720									11,720		11,720
20	Regulatory Commission Expense	-									-		-
21	Scottsdale Capacity (Operating Lease)	164,522									164,522		164,522
22	Miscellaneous	60,542									60,542		60,542
23	Depreciation and Amortization	484,271	(14,484)								469,787		469,787
24	Taxes Other Than Income	-									-		-
25	Property Taxes	49,478		1							49,479	107	49,586
26	Income Taxes	131,980								16,007	147,987	5,365	153,352
27													
28	**Total Operating Expenses**	$ 1,981,235	$ (14,484)	$ 1	$ -	$ -	$ (31,921)	$ 3,334	$ -	$ 16,007	$ 1,954,172	$ 5,472	$ 1,959,644
29	**Operating Income**	$ 258,613	$ 14,484	$ (1)	$ -	$ -	$ 31,921	$ (3,334)	$ -	$ (16,007)	$ 285,676	$ 9,043	$ 294,719
30	**Other Income (Expense)**												
31	Interest and Dividend Income	-									-		-
32	AFUDC Income	8,893									8,893		8,893
33	Miscellaneous Non-Utility Expenses	-									-		-
34	Interest Expense	(36,133)							(78)		(36,212)		(36,212)
35		-									-		-
36	**Total Other Income (Expense)**	$ (27,240)	$ -	$ -	$ -	$ -	$ -	$ -	$ (78)	$ -	$ (27,319)	$ -	$ (27,319)
37	**Net Profit (Loss)**	$ 231,373	$ 14,484	$ (1)	$ -	$ -	$ 31,921	$ (3,334)	$ (78)	$ (16,007)	$ 258,357	$ 9,043	$ 267,400
38													
39	SUPPORTING SCHEDULES:												
40	C-2												
41	E-2												

RECAP SCHEDULES:
C-1, page 1

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	Subtotal
		Depreciation	Property Taxes	Intentionally Left Blank	Reclassify Expenses	Corporate Costs Adjustment	Testing Expense	
4	Revenues	-	-	-	-	-	-	-
6	Expenses	(14,484)	1	-	-	(31,921)	3,334	(43,070)
9	Operating Income	14,484	(1)	-	-	31,921	(3,334)	43,070
12	Interest Expense							-
14	Other Income / Expense							-
17	Net Income	14,484	(1)	-	-	31,921	(3,334)	43,070

Line No.		Adjustments to Revenues and Expenses						
		7	8	9	10	11	12	Subtotal
		Capitalized Expense	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	
25	Revenues	-	-	-	-	-	-	-
27	Expenses	-	16,007	-	-	-	-	(27,062)
30	Operating Income	-	(16,007)	-	-	-	-	27,062
33	Interest Expense	-						-
35	Other Income / Expense							-
38	Net Income	-	(16,007)	-	-	-	-	27,062

Line No.		Adjustments to Revenues and Expenses						
		13	14	15	16	17	18	Total
		Interest Synch.	Income Taxes	Intentionally left Blank	Intentionally left Blank	Intentionally left Blank	Intentionally left Blank	
46	Revenues	-	-					-
48	Expenses	-	-		-			(27,062)
51	Operating Income	-	-	-	-	-	-	27,062
54	Interest Expense	(78)						(78)
56	Other Income / Expense		-					-
59	Net Income	(78)	-	-	-	-	-	26,984

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Adjusted Original Cost	Non-Depr. or Fully Depr. Plant	Depr Original Cost	Proposed Rates	Depreciation Expense
1	351	Organization	-		-	0.00%	-
2	352	Franchise	-		-	0.00%	-
3	353	Land	472,524	(472,524)	-	0.00%	-
4	354	Structures & Improvements	2,939,259		2,939,259	3.33%	97,877
5	355	Power Generation	3,839		3,839	5.00%	192
6	360	Collection Sewer Forced	1,130,430		1,130,430	2.00%	22,609
7	361	Collection Sewers Gravity	4,555,181		4,555,181	2.00%	91,104
8	362	Special Collecting Structures	-		-	2.00%	-
9	363	Customer Services	260,435		260,435	2.00%	5,209
10	364	Flow Measuring Devices	31,668	(31,668)	-	10.00%	-
11	365	Flow Measuring Installations	180,051		180,051	10.00%	18,005
12	366	Reuse Services	-		-	2.00%	-
13	367	Reuse Meters And Installation	-		-	8.33%	-
14	370	Receiving Wells	1,028,182		1,028,182	3.33%	34,238
15	371	Pumping Equipment	1,023,485	(552,393)	471,092	12.50%	58,887
16	374	Reuse Distribution Reservoirs	-		-	2.50%	-
17	375	Reuse Trans. and Dist. System	-		-	2.50%	-
18	380	Treatment & Disposal Equipment	320,285		320,285	5.00%	16,014
19	381	Plant Sewers	124,527	(124,527)	-	5.00%	-
20	382	Outfall Sewer Lines	-		-	3.33%	-
21	389	Other Sewer Plant & Equipment	959,832		959,832	6.67%	64,021
22	390	Office Furniture & Equipment	227,290		227,290	6.67%	15,160
23	390.1	Computers and Software	62,224		62,224	20.00%	12,445
24	391	Transportation Equipment	80,215	(52,063)	28,151	20.00%	5,630
25	392	Stores Equipment	-		-	4.00%	-
26	393	Tools, Shop And Garage Equip	28,942		28,942	5.00%	1,447
27	394	Laboratory Equip	10,683		10,683	10.00%	1,068
28	395	Power Operated Equipment	-		-	5.00%	-
29	396	Communication Equip	103,290		103,290	10.00%	10,329
30	397	Miscellaneous Equip.	-		-	10.00%	-
31	398	Other Tangible Plant - Scottsdale Capacity	486,294		486,294	10.00%	48,629
32	903	Land and Land Rights	8,420	(8,420)	-	0.00%	-
33	904	Structures and Improvments	91,464		91,464	2.56%	2,341
34	940.1	Computers and Software	65,633		65,633	20.00%	13,127
35							
36		TOTALS	$ 14,194,155	$ (1,241,595)	$ 12,952,560		$ 518,333
37							
38	Less: Amortization of Contributions						
39				FullY Amortized	Net		
40			Gross CIAC	CIAC	CIAC	Amort. Rate	
41			$ 6,445,253	$ (5,232,139)	$ 1,213,114	4.0018%	$ (48,546)
42							
43			$ 6,445,253	$ (5,232,139)	$ 1,213,114		
44	Total Depreciation Expense						$ 469,787
45							
46	Adjusted Test Year Depreciation Expense						$ 484,271
47							
48	Increase (decrease) in Depreciation Expense						$ (14,484)
49							
50	Adjustment to Revenues and/or Expenses						$ (14,484)
51							
52	SUPPORTING SCHEDULE						
53	B-2, page 3						
54	Work papers						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 2,239,848	$ 2,239,848
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	4,479,696	4,479,696
4	Company Recommended Revenue	2,239,848	2,254,363
5	Subtotal (Line 4 + Line 5)	6,719,544	6,734,059
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	2,239,848	2,244,686
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	4,479,696	4,489,373
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	3,406	3,406
12	Full Cash Value (Line 9 + Line 10 - Line 11)	4,476,290	4,485,967
13	Assessment Ratio	18.0%	18.0%
14	Assessment Value (Line 12 * Line 13)	805,732	807,474
15	Composite Property Tax Rate - Obtained from ADOR	6.1409%	6.1409%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 49,479	$ 49,586
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	$ 49,479	
19	Test Year Property Taxes	$ 49,478	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	**$ 1**	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 49,586
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 49,479
24	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 107**
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 107
27	Increase in Revenue Requirement		$ 14,515
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		0.73691%
29			
30			
31			
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Reclassify Expenses

Line No.			
1	Reduce Salaries and Wages	$	(242,213)
2			
3	Increase Contractual Services - Professional		242,213
4			
5	Increase (decrease) in Expenses	$	-
6			
7			
8			
9			
10	Adjustment to Revenue and/or Expense		-
11			
12	Reference		
13	Testimony		
14			
15			
16			
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20			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rebuttal Schedule C-2
Page 6
Witness: Bourassa

Corporate Cost Allocation (Non-Labor) Adjustment

Line No.			
1	Revised Coporate Cost Allocation		$ 122,606
2	Allocated Corporate Costs Recorded in Test Year	$ 165,389	
3	Direct Filing Adjustment	(10,863)	
4	Adjusted Allocated Corporate Costs		$ 154,526
5			
6	Increase (decrease) in Corporate Allocation		$ (31,921)
7			
8			
9	Adjustment to Contractual Services - Professional		$ (31,921)
10			
11			
12	Adjustment to Revenue and/or Expense		(31,921)
13			
14	Reference		
15	Testimony		
16	Work Papers		
17			
18			
19			
20			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Rebuttal Schedule C-2
Page 7
Witness: Bourassa

Testing Expense

Line No.			
1			
2	Staff recommended Increase to Testing Expense	$	3,334
3			
4			
5	Increase(decrease) to Contractual Services - Testing	$	3,334
6			
7			
8	Adjustment to Revenue and/or Expense	$	3,334
9			
10	Reference		
11	Testimony		
12			
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Rebuttal Schedule C-2
Page 8
Witness: Bourassa

Interest Synchronization

Line No.			
1			
2			
3			
4	Fair Value Rate Base	$ 3,419,410	
5	Weighted Cost of Debt	1.06%	
6	Interest Expense		$ 36,212
7			
8	Test Year Interest Expense		$ 36,133
9			
10	Increase (decrease) in Interest Expense		78
11			
12			
13			
14	Adjustment to Revenue and/or Expense		$ (78)
15			
16			
17	Weighted Cost of Debt Computation		
18	Pro forma Capital Structure		Weighted
19		Percent	Cost	Cost
20	Debt	30.00%	3.53%	1.06%
21	Equity	70.00%	10.80%	7.56%
22	Total	100.00%		8.62%
23				
24				
25				
26				
27				
28				
29				
30				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Adjustment to Revenues and/or Expenses
Adjustment Number 8

Exhibit
Rebuttal Schedule C-2
Page 9
Witness: Bourassa

Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Compauted Income Tax	$ 147,987	$ 153,352
5	Test Year Income tax Expense	-	147,987
6	Adjustment to Income Tax Expense	$ 147,987	$ 5,365
7			
8			
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13	SUPPORTING SCHEDULE		
14	C-3, page 2		
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Effective Income Tax Rate	32.334%
2		
3	State Effective Income Tax Rate	4.900%
4		
5	Property Taxes	0.463%
6		
7		
8	Total Tax Percentage	37.697%
9		
10	Operating Income % = 100% - Tax Percentage	62.303%
11		
12		
13		
14		
15	$\frac{1}{\text{Operating Income \%}}$ = Gross Revenue Conversion Factor	
16		1.6050
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
28	C-3, page 2	A-1
29		
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014

Exhibit
Rebuttal Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)
	Calculation of Gross Revenue Conversion Factor:			
1	Revenue	100.0000%		
2	Uncollecible Factor (Line 11)	0.0000%		
3	Revenues (L1 - L2)	100.0000%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	37.6965%		
5	Subtotal (L3 - L4)	62.3035%		
6	**Revenue Conversion Factor (L1 / L5)**	1.605047		
	Calculation of Uncollectible Factor:			
7	Unity	100.0000%		
8	Combined Federal and State Tax Rate (L17)	37.2340%		
9	One Minus Combined Income Tax Rate (L7 - L8)	62.7660%		
10	Uncollectible Rate	0.0000%		
11	Uncollectible Factor (L9 * L10)		0.0000%	
	Calculation of Effective Tax Rate:			
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%		
13	Arizona State Income Tax Rate	4.9000%		
14	Federal Taxable Income (L12 - L13)	95.1000%		
15	Applicable Federal Income Tax Rate (L55, Col E)	34.0000%		
16	Effective Federal Income Tax Rate (L14 x L15)	32.3340%		
17	Combined Federal and State Income Tax Rate (L13 +L16)		37.2340%	
	Calculation of Effective Property Tax Factor			
18	Unity	100.0000%		
19	Combined Federal and State Income Tax Rate (L17)	37.2340%		
20	One Minus Combined Income Tax Rate (L18-L19)	62.7660%		
21	Property Tax Factor	0.7369%		
22	Effective Property Tax Factor (L20*L21)		0.4625%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			37.6965%

24	Required Operating Income	$ 294,719	
25	AdjustedTest Year Operating Income (Loss)	$ 285,676	
26	Required Increase in Operating Income (L24 - L25)		$ 9,043
27	Income Taxes on Recommended Revenue (Col. (E), L52)	$ 153,352	
28	Income Taxes on Test Year Revenue (Col. (B), L54)	$ 147,987	
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 5,365
30	Recommended Revenue Requirement	$ 2,254,363	
31	Uncollectible Rate (Line 10)	0.0000%	
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	$ -	
33	Adjusted Test Year Uncollectible Expense	$ -	
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ -
35	Property Tax with Recommended Revenue	$ 49,586	
36	Property Tax on Test Year Revenue	$ 49,479	
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 107
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 14,515

		(A)	(B)	(C)	(D)	[E]	[F]
		Test Year			Company Recommended		
		Total	Sewer		Total	Sewer	
	Calculation of Income Tax:						
39	Revenue	$ 2,239,848	$ 2,239,848		$ 2,254,363	$ 2,254,363	
40	Operating Expenses Excluding Income Taxes	$ 1,806,186	$ 1,806,186		$ 1,806,293	$ 1,806,293	
41	Synchronized Interest (L47)	$ 36,212	$ 36,212		$ 36,212	$ 36,212	
42	Arizona Taxable Income (L39 - L40 - L41)	$ 397,451	$ 397,451		$ 411,860	$ 411,860	
43	Arizona State Effective Income Tax Rate (see work papers)	4.9000%	4.9000%		4.9000%	4.9000%	
44	Arizona Income Tax (L42 x L43)	$ 19,475	$ 19,475		$ 20,181	$ 20,181	
45	Federal Taxable Income (L42- L44)	$ 377,976	$ 377,976		$ 391,679	$ 391,679	
46							
47	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 7,500	$ 7,500		$ 7,500	$ 7,500	
48	Federal Tax on Second Income Bracket ($50,001 - $75,000) @ 25%	$ 6,250	$ 6,250		$ 6,250	$ 6,250	
49	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500	$ 8,500		$ 8,500	$ 8,500	
50	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 91,650	$ 91,650		$ 91,650	$ 91,650	
51	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ 14,612	$ 14,612		$ 19,271	$ 19,271	
52							
53	Total Federal Income Tax	$ 128,512	$ 128,512		$ 133,171	$ 133,171	
54	Combined Federal and State Income Tax (L35 + L42)	$ 147,987	$ 147,987		$ 153,352	$ 153,352	

55	COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / [Col. [D], L45 - Col. [A], L45]	34.0000%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L53] / [Col. [E], L45 - Col. [B], L45]		34.0000%	
57	WATER Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Col. [F], L45 - Col. [C], L45]			0.0000%

		Sewer	
	Calculation of Interest Synchronization:		
58	Rate Base	$ 3,419,410	
59	Weighted Average Cost of Debt	1.0590%	
60	Synchronized Interest (L45 X L46)	$ 36,212	

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity-Demand Method
Returns at Present Rates by Class

Exhibit
Rebuttal Schedule G-1
Page 1
Witness: Bourassa

Line No.		Totals	Residential	Commercial
1	Sewer Revenues	$ 2,201,945	$ 1,623,838	$ 578,108
2	Effluent Revenues	16,067	12,878	3,189
3	Revenue Annualizations	9,786	9,786	-
4	Misc. Revenues[1]	11,098	10,418	679
5	Reconciliation H-1 to C-1[1]	952	894	58
6	Total Revenues	$ 2,239,848	$ 1,657,814	$ 582,034
7				
8	Operating Expenses[2]	$ 1,286,920	$ 1,072,642	$ 214,278
9	Depreciation and			
10	Amortization[2]	469,787	384,280	85,507
11	Property Tax[3]	49,479	36,622	12,857
12	Income Tax[4]	147,987	50,052	97,935
13	Total Operating Expenses	$ 1,954,172	$ 1,543,595	$ 410,577
14	Operating Income	$ 285,676	$ 114,219	$ 171,457
15	Interest Expense[5]	36,212	29,846	6,366
16	Net Income	$ 249,464	$ 84,373	$ 165,091
17	Rate Base[6]	$ 3,419,410	$ 2,818,295	$ 601,116
18	Return on Rate Base[7]	8.35%	4.05%	28.52%
19				
20	**Percent of Total Customers**		93.88%	6.12%
21				
22				
23	**Revenue Requirement Based Upon COSS**			
24				
25				
26				

27 [1] Allocated based on customer counts.
28 [2] Operating Expenses and Depreciation computations are shown on Rebuttal Schedule G-4, Page 1.
29 [3] Property Taxes allocation based on Revenues.
30 [4] Income Tax from Rebuttal Schedule C-1, at present rates. Income Taxes allocated based on taxable income.
31 [5] Interest Synchronized Interest Expense. Allocation based on Rate Base
32 [6] Rate Base computations are shown on Rebuttal Schedule G-3, Page 1
33 [7] Operating Income Divided by Rate Base
34
35

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity-Demand Method
Returns at Proposed Rates by Class

Rebuttal Schedule G-2
Page 1
Witness: Bourassa

Line No.		Totals	Residential	Commercial
1	Sewer Revenues	$ 2,215,565	$ 1,828,523	$ 387,042
2	Effluent Revenues	16,067	15,083	984
3	Revenue Annualizations	10,965	10,965	-
4	Misc. Revenues[1]	11,098	10,418	679
5	Reconciliation H-1 to C-1[1]	668	627	41
6	Total Revenues	$ 2,254,363	$ 1,865,617	$ 388,746
7				
8	Operating Expenses[2]	$ 1,286,920	$ 1,072,642	$ 214,278
9	Depreciation and			
10	Amortization[2]	469,787	384,280	85,507
11	Property Tax[3]	49,586	41,035	8,551
12	Income Tax[4]	153,352	125,782	27,570
13	Total Operating Expenses	$ 1,959,644	$ 1,623,739	$ 335,905
14	Operating Income	$ 294,719	$ 241,878	$ 52,840
15	Interest Expense[5]	36,212	29,846	6,366
16	Net Income	$ 258,507	$ 212,032	$ 46,475
17	Rate Base[6]	$ 3,419,410	$ 2,818,295	$ 601,116
18	Return on Rate Base[7]	8.62%	8.58%	8.79%
19				
20	**Percent of Total Customers**		93.88%	6.12%
21				
22				
23				
24				
25				
26				
27				
28				

29 [1] Allocated based on customer counts.
30 [2] Operating Expenses and Depreciation computations are shown on Rebuttal Schedule G-4, Page 2.
31 [3] Property Taxes allocation based on Revenues
32 [4] Income Tax from Rebuttal Schedule C-1, at proposed rates. Income Taxes allocated based on taxable income
33 [5] Interest Synchronized Interest Expense. Allocation based on Rate Base
34 [6] Rate Base computations are shown on Rebuttal Schedule G-3, Page 1
35 [7] Operating Income Divided by Rate Base
36

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study Using Commodity / Demand Method
Allocation of Assets to Customer Classes

Exhibit
Rebuttal Schedule G-3
Page 1
Witness: Bourassa

Line No.		Totals	Residential	Commercial
1				
2				
3				
4	Plant, Minus Accumulated Depreciation, Advances and Contributions in Aid, Meter Deposits, and Deferred Income Tax (from Rebuttal Schedule G-5, Page 1)			
5	Commodity	$ 709,274	$ 568,485	$ 140,790
6	Demand	2,402,410	1,960,921	441,489
7	Customer	307,726	288,889	18,837
8	Service	-	-	-
9	Meter	-	-	-
10	Total	$ 3,419,410	$ 2,818,295	$ 601,116
11				
12				
13				
14	**Summary**			
15	Net Rate Base	$ 3,419,410	$ 2,818,295	$ 601,116
16	% of Net Rate Base	100.00%	82.42%	17.58%
17				
18				
19				
20				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity Demand Method
Allocation of Expenses to Customer Classes - Present Rates

Exhibit
Rebuttal Schedule G-4
Page 1
Witness: Bourassa

Line No.		Adjusted Per C-1	Residential	Commercial	Effluent	Totals
	Operation and Maintenance Expense (from Rebuttal Schedule G-6, Page 1)					
1	Commodity	$ 465,628	$ 373,202	$ 92,426	$ -	$ 465,628
2	Demand	584,036	476,708	107,328	-	584,036
3	Customer	237,255	222,732	14,524	-	237,255
4	Service	-	-	-	-	-
5	Meter	-	-	-	-	-
6	Totals	$ 1,286,920	$ 1,072,642	$ 214,278	$ -	$ 1,286,920
7						
8	Depreciaton Expense on Plant (from Rebuttal Schedule G-6, Page 2)					
9	Commodity	102,604	$ 82,237	$ 20,367	$ -	$ 102,604
10	Demand	348,118	284,145	63,973	-	348,118
11	Customer	19,065	17,898	1,167	-	19,065
12	Service	-	-	-	-	-
13	Meter	-	-	-	-	-
14	Totals	$ 469,787	$ 384,280	$ 85,507	$ -	$ 469,787
15						
16	Operation and Maintenance Expense and Depreciation Expense					
17	Commodity	$ 568,232	$ 455,439	$ 112,793	$ -	$ 568,232
18	Demand	932,154	760,853	171,301	-	932,154
19	Customer	256,320	240,630	15,691	-	256,320
20	Service	-	-	-	-	-
21	Meter	-	-	-	-	-
22	Total	$ 1,756,706	$ 1,456,922	$ 299,785	$ -	$ 1,756,706
23						
24	Total Expenses (excluding Income Tax and					
25	Property Taxes)	$ 1,756,706	$ 1,456,922	$ 299,785	$ -	$ 1,756,706
26						
27	Property Taxes, Allocated on Schedules G-1 & G-2	$ 49,479				
28	Income Tax, Allocated on Schedules G-1 & G-2	147,987				
29	Total Expenses	**$ 1,954,172**				
30						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity Demand Method
Allocation of Expenses to Customer Classes - Proposed Rates

Exhibit
Rebuttal Schedule G-4
Page 2
Witness: Bourassa

Line No.		At Proposed C-1	Residential	Commercial	Effluent	Totals
1						
2	Operation and Maintenance Expense (from Rebuttal Schedule G-6, Page 1)					
3	Commodity	$ 465,628	$ 373,202	$ 92,426	$ -	$ 465,628
4	Demand	584,036	476,708	107,328	-	584,036
5	Customer	237,255	222,732	14,524	-	237,255
6	Service	-	-	-	-	-
7	Meter	-	-	-	-	-
8	Totals	$ 1,286,920	$ 1,072,642	$ 214,278	$ -	$ 1,286,920
9						
10	Depreciaton Expense on Plant (from Rebuttal Schedule G-6, Page 3.2)					
11	Commodity	$ 102,604	$ 82,237	$ 20,367	$ -	$ 102,604
12	Demand	348,118	284,145	63,973	-	348,118
13	Customer	19,065	17,898	1,167	-	19,065
14	Service	-	-	-	-	-
15	Meter	-	-	-	-	-
16	Totals	$ 469,787	$ 384,280	$ 85,507	$ -	$ 469,787
17						
18	Operation and Maintenance Expense and Depreciation Expense					
19	Commodity	$ 568,232	$ 455,439	$ 112,793	$ -	$ 568,232
20	Demand	932,154	760,853	171,301	-	932,154
21	Customer	256,320	240,630	15,691	-	256,320
22	Service	-	-	-	-	-
23	Meter	-	-	-	-	-
24	Total	$ 1,756,706	$ 1,456,922	$ 299,785	$ -	$ 1,756,706
25						
26	Total Expenses (excluding Income Tax and					
27	Property Taxes)	$ 1,756,706	$ 1,456,922	$ 299,785	$ -	$ 1,756,706
28						
29	Property Taxes, Allocated on Schedules G-1 & G-2	$ 49,586				
30	Income Tax, Allocated on Schedules G-1 & G-2	153,352				
31	Total Expenses	**$ 1,959,644**				
32						
33						
34						

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity Demand Method
Allocation of Rate Base by Function

Exhibit
Rebuttal Schedule G-5
Page 1
Witness: Bourassa

Line No.		Adjusted Per B-2	Demand	Commodity	Customer
1					
2	**Rate Base**				
3	Plant minus (Accumulated Depreciation	$ 3,419,410	$ 2,402,410	$ 709,274	$ 307,726
4	Contributions in Aid of Construction				
5	Advances in Aid of Construction,				
6	Meter Deposits and Deferred Income Tax)				
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Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Allocation of Plant, Less Contributions and Advances in Aid of
Construction , Meter Deposits and Accumulated Depreciation to Functions

Exhibit
Rebuttal Schedule G-5
Page 2
Witness: Bourassa

Line No.	Account No.	Description	Adjusted Original Cost Plant	Accumulated Depreciation	Total Net Plant Values	Allocation Factor Ref.	Demand	Commodity	Customer
1	**Intangible**								
2	351	Organization	$ -	$ -	$ -	F-1	-	-	-
3	352	Franchise	-	-	-	F-1	-	-	-
4									
5	**Subtotal Intangible**		-		-		-	-	-
6									
7	**Collection Plant**								
8	353	Land	$ 472,524	$ -	$ 472,524	F-1	$ 363,843	$ 108,680	$ -
9	354	Structures & Improvements	2,939,259	1,640,932	1,298,327	F-1	999,712	298,615	-
10	360	Collection Sewer Forced	1,130,430	344,633	785,798	F-1	605,064	180,733	-
11	361	Collection Sewers Gravity	4,555,181	3,561,782	993,399	F-1	764,917	228,482	-
12	362	Special Collecting Structures	-	-	-	F-1	-	-	-
13	363	Customer Services	260,435	172,651	87,784	F-3	-	-	87,784
14									
15	**Subtotal Collection Plant**		$ 9,357,830	$ 5,719,998	$ 3,637,832		$ 2,733,537	$ 816,511	$ 87,784
16									
17	**System Pumping Plant**								
18	355	Power Generation	$ 3,839	$ 480	$ 3,359	F-1	2,587	773	-
19	364	Flow Measuring Devices	31,668	31,668	0	F-1	0	0	-
20	365	Flow Measuring Installations	180,051	165,638	14,413	F-1	11,098	3,315	-
21	370	Receiving Wells	1,028,182	505,000	523,182	F-1	402,850	120,332	-
22	371	Pumping Equipment	1,023,485	724,929	298,556	F-1	229,888	68,668	-
23									
24									
25	**Subtotal System Plumping Plant**		$ 2,267,226	$ 1,427,715	$ 839,511		$ 646,423	$ 193,087	$ -
26									
27	**Reclaimed Water Distrbution Plant**								
28	366	Reuse Services	$ -	$ -	$ -	F-1	$ -	$ -	$ -
29	367	Reuse Meters And Installation	-	-	-	F-1	-	-	-
30	374	Reuse Distribution Reservoirs	-	-	-	F-1	-	-	-
31	375	Reuse Trans. and Dist. System	-	-	-	F-1	-	-	-
32									
33	**Subtotal Recalimed Water Dist Plant**		$ -	$ -	$ -		$ -	$ -	$ -
34									
35	**Treatment & Disposal Plant**								
36	380	Treatment & Disposal Equipment	$ 320,285	109,926	$ 210,359	F-1	$ 161,976	$ 48,383	$ -
37	381	Plant Sewers	124,527	124,527	0	F-1	0	0	-
38	382	Outfall Sewer Lines	-	-	-	F-1	-	-	-
39	389	Other Sewer Plant & Equipment	959,832	659,389	300,443	F-1	231,341	69,102	-
40	398	Other Tangible Plant - Scottsdale Capacity	486,294	413,350	72,944	F-1	56,167	16,777	-
41					-	F-1	-	-	-
42					-	F-1	-	-	-
43					-	F-1	-	-	-
44					-	F-1	-	-	-
45					-	F-1	-	-	-
46					-	F-1	-	-	-
47					-	F-1	-	-	-

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Allocation of Plant, Less Contributions and Advances in Aid of
Construction , Meter Deposits and Accumulated Depreciation to Functions

Exhibit
Rebuttal Schedule G-5
Page 3
Witness: Bourassa

Line No.	Account No.	Description	Adjusted Original Cost Plant	Accumulated Depreciation	Total Net Plant Values	Allocation Factor Ref.	Demand	Commodity	Customer
1					-	F-1	-	-	-
2					-	F-1	-	-	-
3	**Subtotal Transmission and Distribution Plant**		$ 1,890,938	$ 1,307,192	$ 583,746		$ 449,484	$ 134,262	$ -
4									
5	**General Plant**								
6	390	Office Furniture & Equipment	$ 227,290	$ 169,457	$ 57,833	F-1	$ 44,532	$ 13,302	$ -
7	390.1	Computers and Software	62,224	18,667	43,557	F-1	33,539	10,018	-
8	391	Transportation Equipment	80,215	56,967	23,248	F-4	5,812	-	17,436
9	392	Stores Equipment	-	-	-	F-4	-	-	-
10	393	Tools, Shop And Garage Equip	28,942	4,654	24,288	F-4	6,072	-	18,216
11	394	Laboratory Equip	10,683	7,277	3,406	F-4	852	-	2,555
12	395	Power Operated Equipment	-	-	-	F-4	-	-	-
13	396	Communication Equip	103,290	42,700	60,591	F-4	15,148	-	45,443
14	397	Miscellaneous Equip.	-	-	-	F-4	-	-	-
15					-	F-4	-	-	-
16					-	F-4	-	-	-
17					-	F-4	-	-	-
18	**Subtotal General Plant**		$ 512,644	$ 299,721	$ 212,923		$ 105,954	$ 23,320	$ 83,649
19	**Total Direct Plant**		$ 14,028,638	$ 8,754,626	$ 5,274,011		$ 3,935,398	$ 1,167,180	$ 171,433
20									
21	**Allocated General Plant**								
22	399	Allocated Corporate General Plant	175,457	30,594	144,863	F-3	-	-	144,863
23	999	Reconcilation to PIS Balance	-	-	-	F-1	-	-	-
24	**Test Year Ended December 31, 2014**		$ 175,457	$ 30,594	$ 144,863		$ -	$ -	$ 144,863
25	Total Plant		$ 14,204,095	$ 8,785,220	$ 5,418,874		$ 3,935,398	$ 1,167,180	$ 316,296
26									
27	Contributions in Aid of Construction		(6,445,253)	5,333,859	(1,111,393)	F-1	(855,773)	(255,620)	-
28	Advances in Aid of Construction		(520,749)		(520,749)	F-1	(400,977)	(119,772)	-
29	Security Deposits		(8,570)		(8,570)	F-3	-	-	(8,570)
30	Deferred Income Tax		(258,059)		(258,059)	F-1	(198,705)	(59,353)	-
31	Prepaids		9,493		9,493	F-1	7,310	2,183	-
32	Working Capital		(110,186)		(110,186)	F-1	(84,843)	(25,343)	-
33	Deferred Reg Assets/Liabilities		-		-	F-1	-	-	-
34									
35	Rounding								
36	Totals		$ 6,870,771	$ 14,119,080	$ 3,419,410		$ 2,402,410	$ 709,274	$ 307,726
37	Rate Bases (Plant -(AIAC, CIAC, Meter Deposits & Accum. Depr.)				$ 3,419,410		$ 2,402,410	$ 709,274	$ 307,726
38	Fair Value Rate Base								
39									
40									
41									
42									
43									
44									
45									
46									
47									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity-Demand Method
Allocation of Expenses to Functions
At Present Rates

Exhibit
Rebuttal Schedule G-6
Page 1
Witness: Bourassa

Line No.	Description	Adjusted per C-1	Demand	Commodity	Customer
1	Salaries and Wages	$ -	$ -	$ -	$ -
2	Purchased Water	5,647	-	5,647	-
3	Sludge Removal	-	-	-	-
4	Purchased Power	65,112	-	65,112	-
5	Fuel for Power Production	-	-	-	-
6	Chemicals	19,215	-	19,215	-
7	Materials and Supplies	23,875	-	23,875	-
8	Contractual Services - Professional	523,803	419,042	104,761	-
9	Contractual Services - Testing	11,451	4,580	2,290	4,580
10	Contractual Services - Other	361,855	144,742	72,371	144,742
11	Rents	23,807	9,523	4,761	9,523
12	Transportation	15,371	6,148	3,074	6,148
13	Insurance	11,720	-	-	11,720
14	Regulatory Commission Expense	-	-	-	-
15	Scottsdale Capacity (Operating Lease)	164,522	-	164,522	-
16	Miscellaneous	60,542	-	-	60,542
17	Depreciation and Amortization[1]	469,787	348,118	102,604	19,065
18	Taxes Other Than Income	-	-	-	-
19					
20					
21					
22	Property Taxes, Allocated on Schedules G-1 & G-2				
23	Income Tax, Allocated on Schedules G-1 & G-2				
24					
25	Total	$ 1,756,706	$ 932,154	$ 568,232	$ 256,320
26					
27	**By Class[2]**				
28	Residential				
29	Commercial				
30	Irrigation				
31	Hydrant				
32	Totals				
33					
34	See Rebuttal Schedule G-7, page 2.2 for allocation factors.				
35	1 Depreciation allocation computed on Rebuttal Schedule G-6, Page 3.1 and 3.2				
36	2 See Rebuttal Schedule G-5, page 1 for allocations by class.				
37					
38					

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity-Demand Method
Allocation of Expenses to Functions
At Proposed Rates

Exhibit
Rebuttal Schedule G-6
Page 2
Witness: Bourassa

Line No.	Description	At Proposed Per C-1	Demand	Commodity	Customer
1	Salaries and Wages	$ -	$ -	$ -	$ -
2	Purchased Water	5,647	-	5,647	-
3	Sludge Removal	-	-	-	-
4	Purchased Power	65,112	-	65,112	-
5	Fuel for Power Production	-	-	-	-
6	Chemicals	19,215	-	19,215	-
7	Materials and Supplies	23,875	-	23,875	-
8	Contractual Services - Professional	523,803	419,042	104,761	-
9	Contractual Services - Testing	11,451	4,580	2,290	4,580
10	Contractual Services - Other	361,855	144,742	72,371	144,742
11	Rents	23,807	9,523	4,761	9,523
12	Transportation	15,371	6,148	3,074	6,148
13	Insurance	11,720	-	-	11,720
14	Regulatory Commission Expense	-	-	-	-
15	Scottsdale Capacity (Operating Lease)	164,522	-	164,522	-
16	Miscellaneous	60,542	-	-	60,542
17	Depreciation and Amortization[1]	469,787	348,118	102,604	19,065
18	Taxes Other Than Income	-	-	-	-
19					
20					
21					
22	Property Taxes, Allocated on Schedules G-1 & G-2				
23	Income Tax, Allocated on Schedules G-1 & G-2				
24					
25	Total	$ 1,756,706	$ 932,154	$ 568,232	$ 256,320
26					
27	**By Class[2]**				
28	Residential				
29	Commercial				
30	Irrigation				
31	Hydrant				
32	Totals				
33					
34	See Rebuttal Schedule G-7, page 2.2 for allocation factors.				
35	1 Depreciation allocation computed on Rebuttal Schedule G-6, Page 3.1 and 3.2				
36	2 See Rebuttal Schedule G-4, page 2 for allocations by class.				
37					
38					

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Allocation of Depreciation Expense to Functions

Exhibit
Rebuttal Schedule G-6
Page 3.1
Witness: Bourassa

Line No.	Account No.	Description	Adjusted Original Cost	Full Depr or Non-Depr	Depr Original Cost	Depreciation Rate	Depr./Amort. Expense	Allocation Factor Ref.	Demand	Commodity	Customer
1	**Intangible**										
2	351	Organization	$ -	$ -	$ -	0.000%	$ -	F-1	$ -	$ -	$ -
3	352	Franchise	-	-	-	0.000%	-	F-1	-	-	-
4											
5	**Subtotal Intangible**		$ -	$ -	$ -		$ -		$ -	$ -	$ -
6											
7	**Collection Plant**										
8	353	Land	$ 472,524	$ (472,524)	$ -	0.000%	$ -	F-1	$ -	$ -	$ -
9	354	Structures & Improvements	2,939,259	-	2,939,259	3.330%	97,877	F-1	75,366	22,512	-
10	360	Collection Sewer Forced	1,130,430	-	1,130,430	2.000%	22,609	F-1	17,409	5,200	-
11	361	Collection Sewers Gravity	4,555,181	-	4,555,181	2.000%	91,104	F-1	70,150	20,954	-
12	362	Special Collecting Structures	-	-	-	2.000%	-	F-1	-	-	-
13	363	Customer Services	260,435	-	260,435	2.000%	5,209	F-3	-	-	5,209
14											
15	**Subtotal Collection Plant**		$ 9,357,830	$ (472,524)	$ 8,885,306		$ 216,798	$ -	$ 162,924	$ 48,666	$ 5,209
16											
17	**System Pumping Plant**										
18	355	Power Generation	3,839	-	3,839	5.000%	192	F-1	148	44	-
19	364	Flow Measuring Devices	31,668	(31,668)	-	10.000%	-	F-1	-	-	-
20	365	Flow Measuring Installations	180,051	-	180,051	10.000%	18,005	F-1	13,864	4,141	-
21	370	Receiving Wells	1,028,182	-	1,028,182	3.330%	34,238	F-1	26,364	7,875	-
22	371	Pumping Equipment	1,023,485	(552,393)	471,092	12.500%	58,887	F-1	45,343	13,544	-
23											
24											
25	**Subtotal System Plumping Plant**		$ 2,267,226	$ (584,061)	$ 1,683,165		$ 111,322		$ 85,718	$ 25,604	$ -
26											
27	**Reclaimed Water Distrbution Plant**										
28	366	Reuse Services	$ -	$ -	$ -	2.000%	$ -	F-1	$ -	$ -	$ -
29	367	Reuse Meters And Installation	-	-	-	8.330%	-	F-1	-	-	-
30	374	Reuse Distribution Reservoirs	-	-	-	2.500%	-	F-1	-	-	-
31	375	Reuse Trans. and Dist. System	-	-	-	2.500%	-	F-1	-	-	-
32											
33	**Subtotal Recalimed Water Dist Plant**		$ -	$ -	$ -		$ -		$ -	$ -	$ -
34											
35	**Treatment & Disposal Plant**										
36	380	Treatment & Disposal Equipment	$ 320,285	$ -	$ 320,285	5.000%	$ 16,014	F-1	$ 12,331	$ 3,683	$ -
37	381	Plant Sewers	124,527	(124,527)	-	5.000%	-	F-1	-	-	-
38	382	Outfall Sewer Lines	-	-	-	3.330%	-	F-1	-	-	-
39	389	Other Sewer Plant & Equipment	959,832	-	959,832	6.670%	64,021	F-1	49,296	14,725	-
40	398	Other Tangible Plant - Scottsdale Capacity	486,294	-	486,294	10.000%	48,629	F-1	37,445	11,185	-
41											
42											
43											
44											
45											
46											
47											

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Allocation of Depreciation Expense to Functions

Exhibit
Rebuttal Schedule G-6
Page 3.2
Witness: Bourassa

Line No.	Account No.	Description	Adjusted Original Cost	Full Depr or Non-Depr	Depr Original Cost	Depreciation Rate	Depr./Amort. Expense	Allocation Factor Ref.	Demand	Commodity	Customer
1					$ -						
2					-						
3	**Subtotal Transmission and Distribution Plant**		$ 1,890,938	$ (124,527)	$ 1,766,411		$ 128,664		$ 99,072	$ 29,593	$ -
4											
5	**General Plant**										
6	390	Office Furniture & Equipment	$ 227,290	$ -	$ 227,290	6.670%	$ 15,160	F-1	$ 11,673	$ 3,487	$ -
7	390.1	Computers and Software	62,224	-	62,224	20.000%	12,445	F-1	9,583	2,862	-
8	391	Transportation Equipment	80,215	(52,063)	28,151	20.000%	5,630	F-4	1,408	-	4,223
9	392	Stores Equipment	-	-	-	4.000%	-	F-4	-	-	-
10	393	Tools, Shop And Garage Equip	28,942	-	28,942	5.000%	1,447	F-4	362	-	1,085
11	394	Laboratory Equip	10,683	-	10,683	10.000%	1,068	F-4	267	-	801
12	395	Power Operated Equipment	-	-	-	5.000%	-	F-4	-	-	-
13	396	Communication Equip	103,290	-	103,290	10.000%	10,329	F-4	2,582	-	7,747
14	397	Miscellaneous Equip.	-	-	-	10.000%	-	F-4	-	-	-
15			-		-	0.000%	-	F-4	-	-	-
16			-		-	0.000%	-	F-4	-	-	-
17			-		-	0.000%	-	F-4	-	-	-
18	**Subtotal General Plant**		$ 512,644	$ (52,063)	$ 460,581		$ 46,080		$ 25,875	$ 6,349	$ 13,856
19	**Total Direct Plant**		$ 14,028,638	$ (1,233,175)	$ 12,795,463		$ 502,865		$ 373,588	$ 110,212	$ 19,065
20	**Allocated General Plant**										
21	399000	Allocated Corporate General Plant	175,457	(8,420)	167,037		15,468	F-1	11,910	3,558	-
22	399000	Reconcilation to PIS Balance	-		-		-	F-1	-	-	-
23	**Test Year Ended December 31, 2014**		$ 175,457	$ (8,420)	$ 167,037		$ 15,468		$ 11,910	$ 3,558	$ -
24	**Total Plant**		$ 14,204,095	$ (1,241,595)	$ 12,962,499		$ 518,333		$ 385,499	$ 113,769	$ 19,065
25											
26											
27	Less:	Contributions in Aid of Construction	$ (6,445,253)	$ 5,232,139	$ (1,213,114)	4.00%	$ (48,546)	F-1	(37,381)	(11,166)	-
28		Advances in Aid of Construction	(520,749)		(520,749)	0.00%	-	F-1	-	-	-
29		Meter Deposits	(8,570)		(8,570)	0.00%	-	F-3	-	-	-
30		Deferred Income Tax	(258,059)		(258,059)	0.00%	-	F-1	-	-	-
31		Prepaid	9,493		9,493	0.00%	-	F-1	-	-	-
32		Working Capital	(110,186)		(110,186)	0.00%	-	F-1	-	-	-
33		Deferred Reg Assets/Liabilities	-	-	-		-	F-1	-	-	-
34	Total		$ 6,870,771	$ 3,990,544	$ 10,861,315		$ 469,787		$ 348,118	$ 102,604	$ 19,065
35											
36											
37											
38											
39											

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Summary of Commodity - Demand Method Functions Factors

Exhibit
Rebuttal Schedule G-7
Page 1
Witness: Bourassa

Line No.	Class	Demand	Commodity	Customer
1				
2	Class	Demand	Commodity	Customer
3	Residential	0.8162	0.8015	0.9388
4	Commercial	0.1838	0.1985	0.0612
5				
6				
7				
8	Total	1.0000	1.0000	1.0000
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34	SUPPORTING SCHEDULES			
35	G-7, page 3			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
COMMODITY - DEMAND METHOD FUNCTION FACTORS
Plant-in-Service. Accumulated Depreciation and Depreciation Expense Allocations Functions

Exhibit
Rebuttal Schedule G-7
Page 2.1
Witness: Bourassa

Line No.	Factor	Demand	Commodity	Customer
1				
2	Factor	Demand	Commodity	Customer
3	F-1	0.77	0.23	
4	F-2	1.00		
5	F-3			1.00
6	F-4	0.25		0.75
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25	Development of F-1 Allocation Factor			

	MG		RATIO		DEMAND FACTOR	
	(a)		(b)		(c)	
(1) Avg day	0.370644	G-7, page 3	1.00		1.00	1/(b)
(2) Max day	0.480422	G-7, page 3	1.30	Max day/Avg day	0.77	1/(b)

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity-Demand Method
Expense Allocation Factors

Exhibit
Rebuttal Schedule G-7
Page 2.2
Witness: Bourassa

Line No.	Expense Type	Demand	Commodity	Customer
1	Expense Type	Demand	Commodity	Customer
2	Salaries and Wages	0.40	0.20	0.40
3	Purchased Water	-	1.00	-
4	Sludge Removal	-	1.00	-
5	Purchased Power	-	1.00	-
6	Fuel for Power Production	-	1.00	-
7	Chemicals	-	1.00	-
8	Materials and Supplies	-	1.00	-
9	Contractual Services - Professional	0.80	0.20	-
10	Contractual Services - Testing	0.40	0.20	0.40
11	Contractual Services - Other	0.40	0.20	0.40
12	Rents	0.40	0.20	0.40
13	Transportation	0.40	0.20	0.40
14	Insurance	-	-	1.00
15	Regulatory Commission Expense	-	-	1.00
16	Scottsdale Capacity (Operating Lease)	-	1.00	-
17	Miscellaneous	-	-	1.00
18	Depreciation		See Rebuttal Schedule G-7, page 2.1	
19	Taxes Other Than Income	0.40	0.20	0.40
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Service Study, Using Commodity-Demand Method
Development of Class Allocation Factors

Exhibit
Rebuttal Schedule G-7
Page 3
Witness: Bourassa

COMMODITY ALLOCATION FACTOR

	Class	(a) Total Flow (MG) In Test Year	Percent Total
	Residential	108.8295	80.15%
	Commercial	26.9525	19.85%
Totals		135.7820	100.00%

DEMAND ALLOCATION FACTOR

Class	Average Daily Gallons (MG)	Demand Factor	Avg. Peak Day Demand (MG)	Percent of Total
Residential	0.29707	1.32	0.39214	81.62%
Commercial	0.07357	1.20	0.08829	18.38%
Totals	0.37064		0.48042	100.00%

CUSTOMER ALLOCATION FACTOR

	Class	Number of Customers	Percent of Total
	Residential	1,963	93.88%
	Commercial	128	6.12%
Totals		2,091	100.00%

Liberty Utilities (Black Mountain Sewer) Corp.
Revenue Summary
With Annualized Revenues to Year End Number of Customers
Test Year Ended December 31, 2014

Exhibit
Rebuttal Schedule H-1
Witness: Bourassa

Line No.	Customer Classification	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	1,522,310	1,705,715	183,405	12.05%	67.96%	75.66%
2	Residential HOA (11 units)	8,612	9,649	1,038	12.05%	0.38%	0.43%
3	Residential HOA (12 units)	9,395	10,526	1,132	12.05%	0.42%	0.47%
4	Residential HOA (25 units)	19,572	21,930	2,358	12.05%	0.87%	0.97%
5	Apartment (gpd rate)	63,950	-	(63,950)	-100.00%	2.86%	0.00%
6	Residential Apartment (8 units)	-	7,018	7,018	0.00%	0.00%	0.31%
7	Residential Apartment (10 units)	-	8,772	8,772	0.00%	0.00%	0.39%
8	Residential Apartment (74 units)	-	64,913	64,913	0.00%	0.00%	2.88%
9	Commercial	578,108	387,042	(191,066)	-33.05%	25.81%	17.17%
10							
11	Effluent	16,067	16,067	-	0.00%	0.72%	0.71%
12							
13							
14							
15							
16							
17	Subtotal	2,218,012	2,231,632	13,620	0.61%	99.03%	98.99%
18							
19	Revenue Annualization						
20	Residential	9,786	10,965	1,179	12.05%	0.44%	0.49%
21							
22	Misc Service Revenues						
23	Misc Revenues	11,098	11,098	-	0.00%	0.50%	0.49%
24	Reconciling Amount to C-1	952	668	(284)	-29.83%	0.04%	0.03%
25	Totals	2,239,848	2,254,363	14,515	0.65%	100.00%	100.00%
26							
27							
28							
29							
30							
31							
32							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Analysis of Revenue by Detailed Class
Special Rate Commercial Customers Pay Standard Commerical Rate

Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers at 12/31/2014[1]	Average Number of Customers at 12/31/2014[2]	Average WW Flow (gpd)	Average Gallons (1,000's)	Average Bill Present Rates[1]	Average Bill Proposed Rates[2]	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	Residential	1,957	1,957	N/A	N/A	$ 65.24	$ 73.10	$ 7.86	12.05%
2	Residential HOA (11 units)	1	1	N/A	N/A	717.64	804.10	86	12.05%
3	Residential HOA (12 units)	1	1	N/A	N/A	782.88	877.20	94	12.05%
4	Residential HOA (25 units)	1	1	N/A	N/A	1,631.00	1,827.50	197	12.05%
5	Apartment (gpd rate)	3	NA	6,475	N/A	1,610.55	N/A		
6	Residential Apartment (8 units)	1	1	2,000	N/A	497.47	584.80	87	17.56%
7	Residential Apartment (10 units)	1	1	2,400	N/A	596.96	731.00	134	22.45%
8	Residential Apartment (74 units)	1	1	17,025	N/A	4,234.70	5,409.40	1,175	27.74%
9									
10	Commercial	120	128	1,612	32,613	401.00	251.98	(149.02)	-37.16%
11									
12									
13	Effluent	1	1	N/A	2,907,452	$ 1,339	$ 1,339	-	0.00%
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24	Total	2,087	2,092						
25									
26									

27 [1] Using current gpd ratings

28 [2] Residential customer bills (including apartments) reflect a flat rate while commercial customer bills reflect both a flat rate plus water usage. Some commercial locations
29 consolidated into one account because there is only one water meter at the location.

Liberty Utilities (Black Mountain Sewer) Corp.
Present and Proposed Rates
Test Year Ended December 31, 2014

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification		Present Rates		Proposed Rates	Dollar Change	Percent Change
1							
2	**Customer Classification**		**Present Rates**		**Proposed Rates**	**Dollar Change**	**Percent Change**
3							
4	**Monthly Service Charge:**						
5	Residential, per single family unit		$ 65.24		$ 73.10	$ 7.86	12.05%
6							
7	Commercial		NT		$ 85.00		
8							
9	**Commodity Rate:**						
10							
11	Commercial, per gallon per day[1]		$ 0.24873		Remove		
12							
13	Commercial, per 1,000 gals[2]		NT		$ 5.120		
14							
15		per acre foot		per acre foot*			
16	Effluent Charge (per 1,000 gallons)	$ 150.00	0.460512				
17							
18	Effuent Add-on Charge	$ 485.00	1.488410				
19							
20	Total Effluent Charge	$ 635.00	$ 1.948922	See Settlement Agreement . See Testimony.			
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35	NT = no tariff						
36							
37	[1] Commercial wastewater flows are based on the average daily flows set forth in Engineering Bulletin 12, Table 1						
38	published by the Arizona Department of Environmental Quality						
39	[2] Monthly water usage provided by Town of Carfree and City of Scottsdale.						
40							

Liberty Utilities (Black Mountain Sewer) Corp.
Present and Proposed Rates
Test Year Ended December 31, 2014

Exhibit
Rebuttal Schedule H-3
Page 2
Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	$ 25.00	$ 25.00
2	Re-establishment	$ 25.00	[1]
3	Re-connection	No Charge	Remove
4	Re-connection, Deliquent	NT	[2]
5	After hours service [4]	NT	$ 50.00
6	Min Deposit Requirement (Residential)	[3]	[3]
7	Min Deposit Requirement (Non-Residential)	[3]	[3]
8	Deposit Interest	6%	6%
9	NSF Check	10.00	10.00
10	Deferred Payment finance charge, Per Month	1.50%	1.50%
11	Late Payment Charge, Per Month	1.50%	Greater of $5.00 or 1.50% per month on unpaid balance.
12			
13	Main Extension Tariff	Cost per Tariff	Cost per Tariff
14	Hook-up Fee		
15			
16			
17	[1] Per A.A.C. R14-2-603(D), Within 12 months. Residential and non-residential customers shall pay the applicable minimum charge		
18	times the number of months disconnected.		
19			
20	[2] Customer shall pay the actual cost of physical disconnection and establishment (if same customer) and		
21	there shall be no charge for disconnection if no physical work is performed.		
22			
23	[3] Per A.C.C. R14-2-603B Residential - two times the average bill. Non-residential - two and one-half times the average bill.		
24			
25	[4] After Hours Service Charge applies to all services performed after regular business hours and is in addtion to the service charge during regular		
26	business hours.		
27			
28			
29			
30			
31			
32			
33			
34			
35			
36	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
37	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
38	TAX. PER COMMISSION RULE (14-2-608.D 5).		
39	ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,		
40	AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES.		
41	COST TO INCLUDE LABOR, MATERIALS AND PARTS, OVERHEADS AND ALL APPLICABLE TAXES.		
42			

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Capacity Reservation Charges

Exhibit
Schedule H-3
Page 3
Witness: Bourassa

Line No.			
1			
2	**Off-site Capacity Reservation Charge (Hook-up Fee)**		
3			
4			
5	Lateral Service Size	Present	Proposed
6	4 Inch	$ 1,734.00	$ 1,734.00
7	6 Inch and larger	$ 3,901.00	$ 3,901.00
8	8 Inch	$ 6,936.00	$ 6,936.00
9	10 Inch	$10,837.00	$ 10,837.00
10			
11			
12			
13			
14			
15			
16			
17			
18	N/T = No Tariff		
19			
20			

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR AUTHORITY TO ISSUE EVIDENCE OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED $3,400,000.	DOCKET NO: SW-02361A-15-0206
IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-15-0207

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

COST OF CAPITAL

January 6, 2016

EXHIBIT
A-10
ADMITTED

TABLE OF CONTENTS

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I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

A. I am testifying on behalf of the Applicant Liberty Utilities (Black Mountain Sewer) Corp. ("Liberty Black Mountain or "Company").

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

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

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

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

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

A. Summary of the Company's Rebuttal Recommendation.

Q. WHAT IS YOUR RECOMMENDED COST OF CAPITAL?

A. I recommend a return on equity of 10.8 percent, which is above the mid-point of the range of my DCF, Risk Premium, and CAPM analyses of 10.1 percent for the publicly traded water utilities ("water proxy group"). My recommended 10.8 percent is below the mid-point of the range of estimates for Liberty Black Mountain of

11.0 percent, which takes into account a downward financial risk adjustment of 40 basis points, and which recognizes the Company's lower financial risk compared to the water proxy group, and an upward risk adjustment for Liberty Black Mountain of 150 basis points to recognize the investment risk of an investment in Liberty Black Mountain compared to the water proxy group.[1] I also recommend a capital structure consisting of 30 percent debt and 70 percent equity and a cost of debt of 3.53 percent. Based on these recommendations, the weighted average cost of capital ("WACC") is 8.62 percent.[2] Therefore, I recommend a return of at least 8.62 percent be applied to Liberty Black Mountain's fair value rate base ("FVRB").

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL ANALYSIS?

A. Yes, the results of my updated analysis for the water proxy group are somewhat lower than those in my direct testimony. The range of my rebuttal DCF, Risk Premium, and CAPM analyses for the water proxy group is from 9.5 percent to 10.3 percent with a mid-point of 9.9 percent.[3] This compares to my direct filing where the range was from 9.8 percent to 10.4 percent with midpoint estimate of 10.1 percent.[4]

The results of my updated analysis for Liberty Black Mountain are somewhat higher than those in my direct testimony. The range of my rebuttal DCF, Risk Premium, and CAPM analyses for Liberty Black Mountain is 10.6 percent to 11.4 percent with a mid-point of 11.0 percent.[5] My direct DCF, Risk Premium, and CAPM analyses for Liberty Black Mountain showed the indicated cost of equity in

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[1] *See* Rebuttal Schedule D-4.1.
[2] *See* Rebuttal Schedule D-1.
[3] *See* Rebuttal Schedule D-4.1.
[4] *See* Direct Schedule D-4.1.
[5] *See* Rebuttal Schedule D-4.1.

the range of 10.5 percent to 11.1 percent with a midpoint of 10.8 percent.[6]

After considering the differences in business and financial risk between Liberty Black Mountain and the publicly traded water utilities, the cost of equity for Liberty Black Mountain falls in the range of 10.6 percent to 11.4 percent with a mid-point of 11.0 percent. However, despite a somewhat higher indicated cost of equity for Liberty Black Mountain, I continue to recommend a return on equity ("ROE") of no less than 10.8 percent for Liberty Black Mountain.

Q. HAVE YOU CHANGED YOUR METHODS?

A. No. However, besides updating my analysis to reflect more recent market data, I have modified my DCF growth estimate in response to criticisms by RUCO. I have made a change to how I compute one of the inputs to the DCF model. I have also changed my recommendation on the risk premium for Liberty Black Mountain.

Q. LET'S START WITH YOUR CHANGE TO THE DCF GROWTH ESTIMATE. WHAT CHANGE DID YOU MAKE?

A. I changed the stock price growth estimates shown on Rebuttal Schedule D-4.4 and D-4.5, which now reflect a geometric mean rather than an arithmetic mean.[7] While I still maintain that there is no theoretical basis for use of a geometric mean as opposed to an arithmetic mean for the growth estimate, I have made this change in an effort to reduce what is already an unusually large number of issues in dispute between the Company and Staff and RUCO.

Q. WHAT CHANGE HAVE YOU MADE TO YOUR RECOMMEND RISK PREMIUM FOR LIBERTY BLACK MOUNTAIN?

A. Instead of recommending a 100 basis point premium to reflect the additional risks of an investment in Liberty Black Mountain compared to the water proxy group, I now

[6] *See* Company Direct Schedule D-4.1.

[7] *See* Direct Testimony of John A. Cassidy ("Cassidy Dt.") at 28 – 29.

recommend 150 basis points which is at the low end of my risk premium estimates based upon my risk study. My risk study was shown in my direct Exhibit TJB-COC-DT2. I provide an updated risk study for rebuttal in rebuttal **Exhibit TJB-COC-RB1**.

Q. WHY HAVE YOU CHANGED YOUR RISK PREMIUM RECOMMENDATION?

A. In my direct analysis, I was overly conservative by recommending a risk premium that was 50 basis points below the indicated risk premium from my study, which indicated a 150 to 210 basis point risk premium. I no longer believe that the risk premium should be only 100 basis points given the now indisputably unique nature of regulation in Arizona relative to the other states in which the sample companies operate, and the risks such regulation brings. The latter risk, the inherent uncertainty in which regulated utilities operate, is well illustrated in this rate case in the dispute between the Company and Staff and RUCO over millions of dollars invested and to be invested at the behest of the customers and the Commission. Even when the utility does everything right, and its customers express their willingness to pay the cost, the utility is left fighting for every dollar to which it is entitled.

Q. WHAT DO YOU MEAN BY THE "NOW" INDISPUTABLY UNIQUE NATURE OF ARIZONA REGULATION?

A. On or about August 18, 2015, the Arizona court of appeals issued its decision in *RUCO v. Arizona Corporation Commission* ("SIB Decision"). In the SIB Decision, the court declared the recently approved SIB mechanisms to be contrary to Arizona law.[8] The court further concluded that a fair value finding cannot be made without considering all of the other elements of ratemaking like revenues and expenses.[9]

[8] SIB Decision at 18 ¶¶ 49-50.

[9] SIB Decision at 14-15 ¶¶ 40-42.

The court's written opinion repeatedly recognizes the unique nature of Arizona's legal framework for utility regulation, and makes it clear that notwithstanding the demands of the public interest, the law trumps all. As the court put it -

> We recognize the Commission's legitimate desire to "initiate innovative procedures in an attempt to deal promptly and equitably with increasingly complex regulatory matters," and its corresponding goal of avoiding "a constant series of extended rate hearings [that] are not necessary to protect the public interest." (Citation omitted). But the question before us is not whether the SIB mechanism represents prudent public policy. Our focus is on the propriety of that mechanism given the unique and express provisions of our state constitution.[10]

Even our state courts recognize the unique regulatory risk utilities in Arizona face.

Q. BUT MR. BOURASSA, YOU ARE NOT AN ATTORNEY. HOW CAN YOU OFFER YOUR OPINION ON THIS LEGAL DECISION?

A. I do not have to be an attorney to read the opinion. More importantly, I have nearly 20 years experience testifying before multiple PUCs as an expert on ratemaking, including cost of capital analysis. In that capacity I believe I am unquestionably qualified to evaluate the court's opinion and assess the impacts on the rate setting process. Indeed, the court's opinion echoes what I have claimed for years, which is that the regulatory risks Arizona utilities face are unique. Unfortunately, the court also limits the tools available to the Commission to address regulatory risks.

Q. DON'T ALL ARIZONA UTILITIES FACE THE SAME REGULATORY RISKS?

A. I don't think the *Bluefield* and *Hope* comparable risk standard (discussed below) would allow for such a narrow consideration, but that's not the point. The point is that we use a group of sample publicly traded utility companies to determine the returns on equity for water and sewer companies in rates cases before the

[10] SIB Decision at 17 ¶ 48.

Commission. Those utilities operate in other states—states that do not face the limitations of Arizona's "unique" constitution. Regulation, along with other factors (size, limited service territory, smaller customer base, etc.), impact an Arizona utility's ability to earn its authorized return and cause greater fluctuation in earnings.[11] This is risk that investors do not ignore. Therefore, we have to take those differences into account in determining equity returns.

Unlike the other parties presenting cost of capital recommendations in this case, I have actually quantified the relative risk differences between the water proxy group and Liberty Black Mountain using commonly accepted metrics that valuation experts would, and regulators should, consider in determining the cost of capital.[12]

Q. HASN'T THE COMMISSION REJECTED SMALL COMPANY RISK PREMIUMS IN THE PAST?

A. Yes. Mr. Cassidy has repeatedly made this point in the past and does so again in the instant case.[13] However, I would point out that my recommended risk premium in the instant case is not a generic small company risk premium. It is based upon specific and quantifiable evidence. It is certainly far different in that respect from the Economic Assessment Adjustment ("EAA") Mr. Cassidy routinely recommended when he was working for Staff.[14] If Mr. Cassidy was comfortable with the Commission adopting his EAA without any specific or quantifiable evidence, it seems he shouldn't take issue with my risk premium analysis, which is

[11] *See* Direct Testimony of Thomas J. Bourassa (Cost of Capital) ("Bourassa COC Dt.") at 11:8 – 12:1.

[12] Bourassa COC Dt. at 21 – 22.

[13] Cassidy Dt. at 59.

[14] *See Liberty Utilities (Rio Rico Water & Sewer) Corp. ("Liberty Rio Rico")*, Docket No. WS-02676A-12-0196; *Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("Liberty Litchfield Park")*, Docket Nos. SW-01428A-13-0042 and W-01427A-13-0043 (consolidated); *Lago Del Oro Water Company*, Docket No. W-01944A-13-0215; *Quail Creek Water Co., Inc.*, Docket No. W-02514A-14-0343.

based on objective inputs. That said, the risk differences between an investment in Liberty Black Mountain and the water proxy group may be, in part, the result of Liberty Black Mountain being small by comparison, but whatever the reasons, Liberty Black Mountain is demonstrably more risky and that added risk cannot just be magically eliminated by saying "small company risk is not accepted by the Commission.

B. <u>Summary of the Staff and RUCO Recommendations</u>.

Q. PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF STAFF AND RUCO FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.

A. Staff is recommending a capital structure consisting of 30 percent debt and 70 percent equity, the same as the Company.[15] Staff determined a cost of equity of 8.6 percent based on the average cost of equity produced by its DCF and CAPM models.[16] Staff also determined the cost of debt to be 3.53 percent. Staff used a sample of seven publicly traded water utilities; all of which are the same as those I used in my analysis.[17] Staff did not consider financial risk, firm size, or firm-specific risks in its analysis. Based on its capital structure recommendation, Staff determined the WACC for Liberty Black Mountain to be 7.08 percent.[18]

RUCO is also recommending a capital structure consisting of 30 percent debt and 70 percent equity.[19] RUCO determined a cost of equity of 8.95 percent based on the average cost of equity produced by its DCF, CAPM and Comparable Earnings

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[15] Direct Testimony of Crystal S. Brown ("Brown Dt.") at 43.

[16] *Id.*

[17] Brown Dt. at 53.

[18] Brown Dt. at 80.

[19] Cassidy Dt. at 3.

models.[20] RUCO also determined the cost of debt to be 3.53 percent. RUCO used a sample of nine publicly traded water utilities; seven of which are the same as those I used in my analysis.[21] RUCO did not consider financial risk, firm size, or firm-specific risks in its analysis. Based on its capital structure recommendation, RUCO determined the WACC for Liberty Black Mountain to be 7.32 percent.[22]

C. <u>Comments on the Cost of Equity Recommendations of Staff and RUCO</u>.

Q. DO YOU HAVE ANY CRITICISMS OF THE STAFF AND/OR RUCO COST OF CAPITAL ANALYSES?

A. Only a few at this time. While I could criticize the Staff and RUCO approaches extensively as I have done in the past, particularly on their respective inputs and failure to recognize the assumptions and limitations of the DCF and CAPM models, I believe the unreasonableness of their cost of equity recommendations speak for themselves. ROEs of 8.6 percent and 8.95 percent are not even within the realm of reasonableness as measured by currently authorized returns and projected equity returns; both of which are available to investors to consider and both of which are considerably higher than either party's recommendation.

Q. HOW DO THE RECOMMENDATIONS OF STAFF AND RUCO COMPARE TO ACTUAL AND FORECAST COMMON EQUITY RETURNS AND CURRENTLY AUTHORIZED RETURNS?

A. *Value Line*, a reputable publication used by the Company, Staff, and RUCO cost of capital witnesses, publishes forecasts of returns on common equity for larger water publicly traded companies. These water utilities are included in my sample group

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[20] *Id.*

[21] Cassidy Dt. at 12. RUCO has added American Water (AWK) and Artesian Resources (ARTNA) to its analysis.

[22] Cassidy Dt. at 3.

and in both RUCO's and Staff's sample groups. AUS Utility Reports also provides the currently authorized return on equity for these utilities. The reported currently authorized returns as the projected returns are as follows:

Company	Symbol	Currently Authorized[1]	Value Line[2] 2014 Act.	2015 Proj.	2016 Proj.	2018-20 Proj.
American States Water	AWR	9.43%	12.00%	12.50%	13.00%	14.50%
American Water	AWK	9.75%	8.70%	9.00%	9.00%	14.50%
Artesian Resources	ARTNA	10.00%	7.60%			
Aqua America	WTR	9.79%	12.90%	12.00%	13.00%	14.00%
California Water	CWT	9.43%	8.10%	9.50%	9.50%	9.50%
Connecticut Water	CTWS	9.63%	9.10%	8.50%	9.50%	9.50%
Middlesex	MSEX	9.75%	10.20%	10.50%	10.50%	9.50%
SJW Corp.	SJW	9.43%	14.40%	8.00%	8.00%	7.50%
York Water Company	YORW	NM	11.00%	10.50%	11.50%	12.00%
Average		9.65%	10.44%	10.06%	10.50%	11.38%

[1] AUS Utility Reports (December 2015)
[2] Value Line Rating and Reports (October 16, 2015)

The Staff and RUCO recommended returns of 8.6 percent and 8.95 percent, respectively, are well below all of the returns listed above.[23] Even Mr. Cassidy's own comparable earnings analysis indicates a 10.44 percent return on equity.[24] I would also note that, but for the inclusion of his 10.44 percent Comparable Earnings analysis result, Mr. Cassidy's DCF and CAPM results would indicate a cost of equity of just 8.20 percent.[25] Again, the ROEs recommended by Staff and RUCO are too low to even warrant a serious discussion of how they arrived at their recommended

[23] The Staff and RUCO recommendations are 70 to 105 basis points below the currently authorized returns, 149 to 184 basis points below the actual equity returns for 2014, 111 to 146 basis points below the 2015 projected equity returns, and 243 to 278 basis points below the projected returns for 2018-2010.

[24] Cassidy Dt. at 20.

[25] Mr. Cassidy's DCF result is 8.85 percent and his CAPM result is 7.56 percent. The average of these two is 8.2 percent.

ROEs

Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE RETURN DATA YOU JUST PRESENTED, MR. BOURASSA?

A. For one, they are all much higher than the Staff and RUCO returns produced by their models, before any consideration of financial or other risks. For another, since we are applying a return to a book value rate base, book equity returns have relevance. If we are to meet the comparable earnings standards set forth in *Hope* and *Bluefield,* then a comparison to book returns is an essential element. These utilities' rates will be in effect during approximately the same time period as Liberty Black Mountain's new rates. Yet, if the Staff or RUCO recommendation is adopted, Liberty Black Mountain will be allowed to earn much less, failing the *Hope and Bluefield* standard.

Something is very wrong with the Staff and RUCO recommendations. Investors would be better off investing in the publicly traded utility companies than investing Liberty Black Mountain, or in every other utility investment in the APUC/Liberty portfolio.[26] Only the Company's cost of capital analysis comes close to reflecting what the public traded companies are expected to earn. At the end of the day, when all the expert and lawyer wrangling over inputs and assumptions is done, the results should still pass the simple, common-sense "smell test" and the Staff and the RUCO recommendations don't come close to passing that test.

I am not surprised by the reaction of the Company to the Staff and RUCO recommendations.[27] Liberty Black Mountain has spent several years and over a million dollars already, with millions of dollars more capital to be spent, to address an order of the Commission requested by the customers, with the expectation it would receive a reasonable return on that investment. It came into this rate case with

[26] *See* Rebuttal Testimony of Matthew Garlick ("Garlick Rb.") at 18 – 19.

[27] *E.g.*, Rebuttal Testimony of Greg Sorensen at 1 – 3; Garlick Rb. at 2, 19.

a 10.2 ROE from the last case, in order to address additional Commission and customer concerns over the commercial rate design. So, the Company has more financial risk, yet Staff and RUCO have dropped the return on investment by 180 and 135 basis points, respectively. If either Staff's or RUCO's low recommendation is adopted, Liberty Black Mountain will not be able to attract capital. It is really that simple.

III. RESPONSES TO THE CRITICISMS OF THE COMPANY'S COST OF CAPITAL ANALYSIS BY STAFF AND/OR RUCO.

Q. PLEASE RESPOND TO CASSIDY'S TESTIMONY, ON PAGE 23, THAT THE STOCK PRICE GROWTH METRIC SHOULD NOT BE USED IN ASSESSING THE DCF GROWTH RATE.

A. I do not agree, particularly under current market conditions. As I noted in my direct testimony, the DCF model is based on a number of assumptions that may not be realistic given the current capital market environment. An underlying assumption of the standard DCF is that the stock price, book value, dividends, and earnings all grow at the same rate.[28] This has not been historically true for the sample water utility companies. I also noted that the 1-year, 3-year, and 5-year annualized total returns for the water proxy group are 16.85 percent, 15.83 percent, and 11.98 percent, respectively,[29] which are all significantly higher than even the high end of the range of my rebuttal DCF estimate of the cost of equity of 9.8 percent. So even with the inclusion of the stock price growth as one of the metrics, my DCF estimate on the cost of equity is low. Mr. Cassidy's DCF estimate is even lower at 8.85 percent.

Q. ARE YOUR MEASURES OF STOCK PRICE GROWTH REALLY MEASURES OF TOTAL RETURN?

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[28] Bourassa COC Dt. at 29.

[29] Bourassa COC Dt. at 29 – 30.

A. No, Mr. Cassidy is confused, or just making things confusing.[30] My computation of stock price growth is based upon the adjusted closing price of the stock as reported by Yahoo Finance. Yahoo Finance explains that the adjusted closing price is the stock price adjusted for all stock splits and dividends. In other words, the stock price is reduced pre-dividend to remove any impact of the dividend on the stock price. For example, when a $0.08 cash dividend is distributed on Feb 19 (ex- date), and the Feb 18 closing price is $24.96, the pre-dividend price is multiplied by (1-0.08/24.96) = 0.9968 and the adjusted close price is $24.53.[31] The adjusted closing price does not reflect reinvestment of dividends as would be required in measuring total returns.

The bottom line is that the adjusted closing price is a way to compare the price of a stock before and after a stock split and/or dividend payment. It is therefore a useful measure of the "real" closing price without being influenced by dividends or splits. Simply put, using adjusted closing prices and comparing them are not measures of total return; rather, they are measures of the real increases in the stock price.

Q. THEN WHY IS THE STOCK PRICE GROWTH SO SIMILAR TO TOTAL RETURNS?

A. Because the predominant driver in total returns for the water utilities has been increases in the stock price. My points on the assumptions inherent in the DCF model, and their validity under the current capital market conditions, remain valid.

Q. RUCO ALSO CLAIMS IT COULD NOT INDEPENDENTLY CONFIRM THE HISTORICAL TOTAL RETURNS DATA YOU USED FOR YOUR RISK PREMIUM ANALYSIS. PLEASE COMMENT.

A. This data was provided by *Value Line* through its Value Line Analyzer software.

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[30] Cassidy Dt. at 24.

[31] This example is found on the Yahoo Finance website under the Help section.

I have had this subscription for many years and it is still available as a Value Line product. I provided the historical *Value Line* data from 1999 to 2014, including the 1999-2004 period, which RUCO complains it never received.[32] If RUCO chooses to rely solely on the published quarterly reports from *Value Line* that is RUCO's issue, not mine. But Mr. Cassidy had everything he needed to "confirm" the data I used.

Q. WAS YOUR TOTAL RETURN DATA IN YOUR RISK PREMIUM ANALYSIS MISSTATED FOR 1999 AND 2000, AS MR. CASSIDY ASSERTS ON PAGE 37 OF HIS DIRECT TESTIMONY?

A. Not unless *Value Line* reported the data incorrectly, and I am not aware of any correction notification. Even Mr. Cassidy admits he has no reason to believe that *Value Line* incorrectly reported the data.[33]

Q. BUT, MR. BOURASSA, AREN'T MR. CASSIDY'S TOTAL RETURN COMPUTATIONS FOR 1999 AND 2000 BASED UPON THE YAHOOO FINANCE ADJUSTED CLOSING PRICE, AND DIDN'T YOU TESTIFY THAT COMPARING THE ADJUSTED CLOSING PRICE DOES NOT REFLECT TOTAL RETURNS?

A. Yes. In my view Mr. Cassidy's analyses on pages 39-46 of his direct testimony are flawed as a result. Regardless, if Mr. Cassidy is assumed to be correct, then my risk premium analysis understates the cost of equity. Using the total return of 30.74 percent for 1999 and 8.99 percent for 2000, as asserted by Mr. Cassidy,[34] my indicated cost of equity would increase from 10.5 percent as shown on Rebuttal Schedule D-4.6 to 11.2 percent as shown in **Exhibit TJB-COC-RB2**.

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[32] *See* Company response to RUCO Data Request 4.6.

[33] Cassidy Dt. at 39.

[34] *Id.*

Q. THEN WHY DOES MR. CASSIDY ASSERT (ON PAGE 41) THAT YOUR RISK PREMIUM ANALYSIS SHOULD PRODUCE A LOWER RETURN THAN THE 10.5 PERCENT IN YOUR DIRECT SCHEDULE D-4.6?

A. Because Mr. Cassidy is being deceptive. He dismisses his corrected 1999 total return of 30.74 percent and eliminates it from his restated analysis. He then computes a 15-year average risk premium (2000-2014) using his own total return data developed from the Yahoo Finance adjusted closing price. I could play the same game. I could just as well argue that it is not a 15- or 16- year period that we should use, but rather a 5-year period (2010 to 2014). The 5-year risk premium would be 10.01 percent. If a 10.01 risk premium is used in my risk premium analysis, the indicated cost of equity would be 14.11 percent.

I could also re-compute the market risk premium Mr. Cassidy uses in his CAPM by selectively choosing the time period the market risk premium is computed. I could then criticize Mr. Cassidy's analysis similar to the way he criticizes my risk premium analysis.

Q. PLEASE EXPLAIN.

A. In computing his market risk premium as shown on RUCO Schedule JAC-4, page 2 of 2, Mr. Cassidy computes an average market risk premium using the S&P 500 index as a benchmark for the period 1977 to 2014 (a 38 year period). As shown on his schedule, the computed average market risk premium is 6.85 percent. If the period 1999 to 2014 were used (the same 16 year period I use for my risk premium analysis), the average market risk premium would be 8.56 percent. If the 8.56 percent market risk premium is used in his CAPM analysis, the indicated CAPM cost of equity would increase by over 120 basis points, from 7.56 percent to 8.77 percent. If the period 2000 to 2014 were used (the same 15 year period he argues for), the average market risk premium would be 8.35 percent. If the

8.35 percent market risk premium is used in his CAPM analysis, the CAPM indicated cost of equity would increase by over 105 basis points, from 7.56 percent to 8.62 percent. If the period 2010 to 2014 were used, the average market risk premium would be 10.9 percent. If the 10.9 percent market risk premium is used in his CAPM analysis, the CAPM indicated cost of equity would increase by 285 basis points, from 7.56 percent to 10.41 percent. So, three significantly higher CAPMs can be obtained simply by changing the time period. I could justify the changes by simply opining that the 5, 15, or 16 year time frame is representative of future expectations. But this sort of selective gamesmanship is inappropriate and the Commission should not be fooled by RUCO.

Q. ON PAGE 47 HIS DIRECT TESTIMONY, MR. CASSIDY ASSERTS THAT EXCLUSIVELY USING AN ARITHMETIC MEAN IN YOUR RISK PREMIUM ANALYSIS IS INCORRECT BECAUSE IT LEADS TO HIGHER AND POTENTIALLY EXCESSIVE RISK PREMIUMS. PLEASE COMMENT.

A. I was puzzled by this criticism since Mr. Cassidy exclusively uses an arithmetic mean his market risk premium in his CAPM analysis.[35] But, Mr. Cassidy is again, misguided. As various finance experts have explained, an arithmetic mean is the correct approach to use in estimating the cost of capital.[36] As Dr. Morin states:

> Because valuation is forward-looking, the appropriate average is the one that most accurately approximates the expected future rate of return. *The best estimate of the expected returns over a future holding period is the arithmetic average....*

[35] *See* RUCO Direct Schedule JAC-4, page 2 of 2.

[36] Zvi Bode, Alex Kane, Alan J. Marcus, Investments (McGraw-Hill 6th ed., 2005)("Bode"), pp. 864 – 865; Richard A. Brealey, Stewart C. Myers, Frankin Allen, Principles of Corporate Finance (McGraw-Hill 11th ed.) ("Brealey"), pp. 162 – 163.

> There is no theoretical or empirical justification for the use of geometric mean rates as a measure of the appropriate discount rate or computing present values. In any event, the CAPM is developed on the premise of expected returns being averages and risk being measured with standard deviation. Since the latter is estimated around the arithmetic average, not the geometric average, it is logical to stay with the arithmetic averages to estimate the market risk premium. [37]

The consensus among these experts makes sense. Only arithmetic mean return rates and yields are appropriate for cost of capital purposes because ex-post (historical) total returns and equity risk premiums differ in size and direction over time, providing insight into the variance and standard deviation of returns. The geometric mean of ex-post equity risk premiums provides no insight into the potential variance of future returns because the geometric mean relates the change over many periods to a constant rate of change, rather than the year-to-year fluctuations, or variance, which are critical to risk analysis. In short, the conclusion of these financial experts is that while the geometric mean is useful in comparing what happened in the past, it should not be used to determine estimates of expected future returns or market risk premiums.

Q. TO REBUT ANY IMPACT OF SIZE FOR UTILITY COMPANIES, MR. CASSIDY REFERENCES A STUDY BY ANNIE WONG (AT PAGE 58). ARE YOU FAMILIAR WITH THIS STUDY?

A. Yes. Ms. Wong's now decades old, one of its kind study has been criticized soundly: "[her] weak evidence provides little support for a small firm effect existing or not existing in <u>either</u> the industrial <u>or</u> the utility sector."[38] Dr. Zepp found that

[37] Morin, Roger A. (2006). *New Regulatory Finance*. Vienna, VA: Public Utilities Reports, Inc. ("Morin"), pp. 156 – 157 (emphasis added).

[38] Thomas M. Zepp, "Utility Stocks and the Size Effect – Revisited," The Quarterly Review

Ms. Wong's empirical results were not strong enough to conclude that beta risk of utilities is unrelated to size; he found that her use of monthly, weekly, and daily data may be the cause of her inability to find a relationship; and he found other studies that show trading infrequency to be a powerful cause of bias in beta risk when time intervals of a month or less are used to estimate beta's for small stocks.[39] The studies relied on in Mr. Zepp's published paper found, "when a stock is thinly traded, its stock price does not reflect the movement of the market, which drives down the covariance with the market and creates an artificially low beta estimate."[40] Thus, Ms. Wong's weak results were due to a flawed analysis.

More importantly, Ms. Wong's study is not relevant. I am not recommending a risk premium based upon size. As I stated earlier, unlike Mr. Cassidy, I have completed a risk study and I have actually examined and quantified the relative risk differences between the water proxy group and Liberty Black Mountain. My risk study results happen to be consistent with other market data regarding size as well as Dr. Zepp's study.[41] However, whether it is Liberty Black Mountain's small size itself, Arizona regulatory risk, or a higher business risk in general for utilities in Arizona, the fact still remains inarguable - Liberty Black Mountain is demonstrably more risky than the publicly traded water companies. So, I am not sure why Mr. Cassidy brings up the Annie Wong study in the first place.

Q. DO YOU HAVE ANY RESPONSES TO MS. BROWN'S TESTIMONY ON YOUR COST OF CAPITAL ANALYSIS?

A. Just a few comments. Ms. Brown asserts her cost of capital analysis is more

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Economics and Finance, Vol. 43, Issue 3, Autumn 2003, pp. 578 – 582.

[39] *Id.* at 579.

[40] *Id.*

[41] *See* Rebuttal Schedule D-4.15.

straightforward, conceptually sound, and simpler to understand.[42] I disagree. Let's start with Staff's assertion that is models are straightforward. I would not characterize the DCF and CAPM as straightforward or easy to understand, after all, they have many assumptions that do not always hold true and the process of determining reasonable inputs is not easy. That said, apart from the differences in the inputs, I employ the same basic DCF and CAPM models as the other parties. So, the Company's approach is not any less straightforward than Staff's in that respect.

I would also disagree that Staff's models are conceptually sound. First, with all due respect, Ms. Brown has never before been a cost of capital witness and, therefore, lacks the expertise and experience to make these sweeping assertions. Second, Staff does not discuss and, therefore, does not recognize, the limitations imposed by the assumptions underlying the DCF and CAPM. For example, that the DCF assumes that earnings, dividends, book value, and market price, all grow at this same rate.[43] Or, that Staff gives less weight to the best estimate of growth for the DCF.[44] Or, that Staff makes no accommodation and/or consideration of current capital market conditions to recognize this.[45]

Likewise, Staff also uses spot interest rates for its risk-free rate in its CAPM when the cost of capital estimation in a ratemaking setting is a forward looking process. As such, models to determine the cost of capital, like the CAPM, are prospective in nature, which require expectational inputs such as forecasted interest

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[42] Brown Dt. at 73.

[43] Bourassa COC Dt. at 28.

[44] Bourassa COC Dt. at 31 – 32.

[45] *See* page 11, *supra*.

rates.[46] I can go on, but in the end, the failure to recognize and account for the limitations in the use of these complex models undermines Ms. Brown's bold assertion that Staff's cost of capital analysis is always conceptually sound.

Indeed, Staff's approach is only simpler in the sense that Staff ignores the necessary work and analysis required by *Hope* and *Bluefield* to provide Liberty Black Mountain with a return that is commensurate with returns on investments of comparable risk.[47] Obviously, Liberty Black Mountain is more risky than the large publicly traded water utilities. A great deal of my direct testimony was devoted to this.[48] Further, I prepared a risk study to quantify this risk difference, which happens to be consistent with the empirical financial data and with published studies.[49]

Q. MS. BROWN TESTIFIES (ON PAGE 75) THAT YOUR FINANCIAL RISK ADJUSTMENT AND YOUR RISK PREMIUM FOR THE COMPANY IS ARBITRARY. PLEASE COMMENT.

A. Again, Ms. Brown's inexperience and lack of expertise on this aspect of ratemaking is impacting her testimony. The financial risk adjustment I recommend is anything but arbitrary. In fact, Staff has used the Hamada method in past cases to adjust for financial risk, the Commission has adopted it many times on Staff's recommendation, and never do I recall Staff referring to the Hamada method as arbitrary.[50] The Hamada method is an accepted method for quantifying the

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[46] Morin, p. 172.

[47] Bourassa COC Dt. at 12 – 13.

[48] Bourassa COC Dt. at 18 – 23; 41 – 43.

[49] *See* **Exhibit TJB-COC-RB1** and Rebuttal Schedule D-4.15.

[50] *See Liberty Utilities (Bella Vista Water) Corp. (formerly Bella Vista Water Company),et al.*, W-02465A-09-0411, W-20453A-09-0412, and W-20454A-09-0413; *Liberty Litchfield Park (formerly Litchfield Park Service Company)*, Docket Nos. SW-01428A-09-0103, W-01427A-09-0104, W-01427A-09-0116, and W-01427A-09-0120 (consolidated); *Liberty Rio Rico (formerly Rio Rico Utilities, Inc.)*, Docket No. WS-02676A- 09-0257.

differences in financial risk between firms with different level of leverage (the amount of debt in capital structure). Professor Hamada developed his methodology from an extension of the CAPM using market values of firms.[51] Dr. Morin describes the same methodology in his textbook, *New Regulatory Finance*.[52]

With regard to my risk premium adjustment, I have not only identified the risk differences between Liberty Black Mountain and the water proxy group, but quantified them as well. I did not pick a number out of thin air. My recommended risk premium adjustment is supported by facts and a detailed analysis. I not only described all the reasons for the risk differences, but quantified the relative risks and computed a specific range of risk adjustments that would be appropriate based upon market data.[53] In the end, the results of my detailed risk study are entirely consistent with the numerous reasons why the Liberty Black Mountain is more risky and consistent with the empirical market financial data. My work hardly qualifies as arbitrary.

Q. THANK YOU, MR. BOURASSA. MS. BROWN TESTIFIES (ON PAGE 74) THAT ANY RETURN ON EQUITY FALLING IN THE RANGE OF A COST OF CAPITAL ANALYSIS COULD BE CONSIDERED A REASONABLE RETURN ON EQUITY. DO YOU AGREE?

A. No. I disagree. First of all, whose cost of capital analysis is Staff referring to? Its own? Clearly, there are differences in the indicated costs of equity results produced by the models each party in the instant case uses. Just because Staff's CAPM produces a certain indicated cost of equity doesn't mean that the result is

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[51] "Effects of the Firm's Capital structure on Systematic Risk of Common Stock," *Journal of Finance*, Vol. 27 No. 2 (May 1972) 435 – 453.

[52] Morin, pp. 222 – 223.

[53] Bourassa COC Dt. at 18 – 23; 41 – 43.

reasonable. Compare Staff's results to the data I previously discussed on page 9. By this comparison, none of the cost of equity in Staff's range of results is even close to being reasonable.

Second, each of the methods used by the parties are not perfect proxies for estimating the cost of capital. Each has its own way of estimating the cost of capital and each has its own underlying assumptions. That is why multiple methods should be used and considerable and reasoned judgement must be made on the inputs and their applicability under current market conditions. As Dr. Morin states:

> Each methodology requires the exercise of considerable judgment on the reasonableness of the assumptions underlying the methodology and on the reasonableness of the proxies used to validate a theory. *The inability of the DCF model to account forchanges in relative market valuation, discussed below, is a vivid example of the potential shortcomings of the DCF model when applied to a given company.* Similarly, the inability of the CAPM to account for variables that affect security returns other than beta tarnishes its use (emphasis added).
>
> No one individual method provides the necessary level of precision for determining a fair return, but each method provides useful evidence to facilitate the exercise of an informed judgment. Reliance on any single method or preset formula is inappropriate when dealing with investor expectations because of possible measurement difficulties and vagaries in individual companies' market data.
>
> When measuring equity costs, which essentially deals with the measurement of investor expectations, no single methodology provides a foolproof panacea. Each methodology requires the exercise of considerable judgment on the reasonableness of the assumptions underlying the methodology and on the reasonableness of the proxies used to validate the theory. It follows that more than one methodology should be employed in arriving at a judgment on the cost of equity and that these methodologies should be applied across a series of comparable risk companies. [54]

[54] Morin, pp. 428-429.

In sum, Ms. Brown's self-laudatory blessing of Staff's range of equity returns is of no value in this rate case.

Q. MS. BROWN ALSO TESTIFIES (ON PAGE 76) THAT STAFF'S RECOMMENDATION OF THE MID-POINT FALLING IN THE RANGE OF AN ANALYSIS MAKES A REASONABLE AKNOWLEDGEMENT OF OR CONCESSION TO THE OTHER RISK FACTORS ATTRIBUTED TO LIBERTY BLACK MOUNTAIN. DO YOU AGREE?

A. No. First, because the cost of capital is an estimation process and we don't know whether the low point of a range is correct or the high point of a range is correct, the mid-point (and sometimes the median) is arguably the most "fair" estimate, unless there is a reasonable argument to do otherwise. Mr. Cassidy, for example, does not use the mid-point of its DCF analysis; rather Mr. Cassidy, who was the Staff cost of capital witness before Ms. Brown recently took over, chooses the highest DCF result.[55] Mr. Cassidy does not thoroughly explain his reasoning for doing so except that he believes his 8.85 percent result represents the current cost of equity.[56] I would disagree that 8.85 percent represents the current cost of equity, but that is still his conclusion based upon his view.

Second, in my experience, Staff typically recommends the mid-point of its analyses of its water proxy group in almost every case. In past cases, Staff did not argue that it chose the mid-point because Staff was recognizing other additional risks associated with an investment in the utility in the rate case. In fact, Staff has argued in the past, using portfolio theory, that investors should not be expected to receive higher returns for Company specific risks (unique risks) and that an investment in the utility therefore has no more risk than the water proxy group. Why is this case

[55] Cassidy Dt. at 16.

[56] *Id.*

any different for Staff? The answer is, it isn't, or at least shouldn't be.

Q. BUT, MR. BOURASSA, YOU ARE RECOMMENDING A SPECIFIC RISK PREMIUM ADJUSTMENT FOR LIBERTY BLACK MOUNTAIN. WOULDN'T STAFF'S PORTFOILIO THEORY ARGUMENT BE JUSTIFICATION FOR DENYING YOUR RECOMMENDED ADJUSTMENT?

A. No. First, the risk of smaller companies is a systematic risk and not a unique risk.[57] Second, in quantifying my risk premium for Liberty Black Mountain in my risk study, I use market portfolio data provided by Duff & Phelps to quantify the additional systematic risk of Liberty Black Mountain.[58]

Q. DO YOU HAVE ANY FURTHER COMMENTS ON MS. BROWN'S TESTIMONY?

A. Not at this time. Again, I think the result, an 8.6 return on equity, clearly shows how flawed Staff's cost of capital analysis is in this rate case.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY ON COST OF CAPITAL?

A. Yes.

[57] Bourassa COC Dt. at 36.

[58] Bourassa COC Dt. at 41 – 43.

EXHIBIT TJB-COC-RB1

Liberty Utilities (Black Mountain Sewer) Corp.
Comparative Risk Study
Computations of Operating Margin and Coefficient of Variation of Operating Margin

Line No.	Operating Income EBIT ($ in millions)									Co-efficient of variation
			2014	2013	2012	2011	2010	Average	Std Dev.	of Operating Income
	Company	Symbol								
4	American States Water	AWR	119	119	111	95	73	103.40	19.62	0.1897
5	Aqua America	WTR	314	305	322	286	272	299.80	20.52	0.0685
6	California Water	CWT	109	93	93	90	85	94.00	9.00	0.0957
7	Connecticut Water	CTWS	25	22	20	16	14	19.40	4.45	0.2294
8	Middlesex	MSEX	34	31	28	24	27	28.80	3.83	0.1331
9	SJW Corp.	SJW	93	53	55	54	38	58.60	20.45	0.3490
10	York Water Company	YORW	22	21	21	20	20	20.80	0.84	0.0402
11										
12	Water Proxy Group									0.1579
13										
14	Liberty Utilities (Black Mountain Sewer) Corp. Adjusted[1]		0.65	0.38	0.31	0.31	0.42	0.41	0.14	0.3355
15										
16	**Risk relative to the average risk of the water utilities sample**									**2.12**
17										
18	Sales ($ in millions)		2014	2013	2012	2011	2010	Average		
19	Company	Symbol								
20	American States Water	AWR	466	472	467	419	399	445		
21	Aqua America	WTR	780	769	758	712	726	749		
22	California Water	CWT	598	584	560	502	460	541		
23	Connecticut Water	CTWS	94	91	84	69	66	81		
24	Middlesex	MSEX	117	115	110	102	103	109		
25	SJW Corp.	SJW	320	277	262	239	216	263		
26	York Water Company	YORW	46	42	41	41	39	42		
27										
28	Liberty Utilities (Black Mountain Sewer) Corp. Adjusted[1]		2.23	2.23	2.19	2.19	2.18	2.20		
29										
30	Operating Margin (%)									Co-efficient of variation
31	Company	Symbol	2014	2013	2012	2011	2010	Average	Std Dev.	of Operating Margin
32	Amercian Water Works	AWK	25.54%	25.21%	23.77%	22.67%	18.30%	23.10%	0.03	0.1264
33	Aqua America	WTR	40.26%	39.66%	42.48%	40.17%	37.47%	40.01%	0.02	0.0447
34	California Water	CWT	18.23%	15.92%	16.61%	17.93%	18.48%	17.43%	0.01	0.0637
35	Connecticut Water	CTWS	26.60%	24.18%	23.81%	23.19%	21.21%	23.80%	0.02	0.0815
36	Middlesex	MSEX	29.06%	26.96%	25.45%	23.53%	26.21%	26.24%	0.02	0.0772
37	SJW Corp.	SJW	29.06%	19.13%	20.99%	22.59%	17.59%	21.88%	0.04	0.2029
38	York Water Company	YORW	47.83%	50.00%	51.22%	48.78%	51.28%	49.82%	0.02	0.0304
39										
40	Average Water Proxy Group							28.90%		0.0895
41										
42	Liberty Utilities (Black Mountain Sewer) Corp. Adjusted[1]		29.13%	17.08%	14.23%	14.23%	19.29%	18.79%	0.06	0.3276
43										
44	**Risk relative to the average risk of the water utilities sample**									**3.66**
45										
46										
47	Return on Equity (ROE)									Co-efficient of variation
48			2014	2013	2012	2011	2010	Average	Std Dev.	of ROE
49	Company	Symbol								
50	American States Water	AWR	12.1%	12.7%	11.9%	10.3%	11.0%	11.6%	0.01	0.0818
51	Aqua America	WTR	12.9%	13.4%	11.0%	11.6%	10.6%	11.9%	0.01	0.1015
52	California Water	CWT	9.0%	9.0%	9.0%	8.0%	8.6%	8.7%	0.00	0.0502
53	Connecticut Water	CTWS	10.2%	9.3%	7.3%	8.3%	8.7%	8.8%	0.01	0.1239
54	Middlesex	MSEX	9.3%	8.7%	7.8%	7.5%	8.2%	8.3%	0.01	0.0865
55	SJW Corp.	SJW	14.4%	7.0%	8.1%	7.9%	6.2%	8.7%	0.03	0.3744
56	York Water Company	YORW	11.0%	9.4%	9.3%	9.5%	9.8%	9.8%	0.01	0.0711
57										
58	Water Proxy Group		11.3%	9.9%	9.2%	9.0%	9.0%	9.7%		0.1271
59										
60	Liberty Utilities (Black Mountain Sewer) Corp. Adjusted[1]		12.48%	9.79%	6.98%	12.69%	0.93%	8.58%	0.05	0.5674
61										
62	**Risk relative to the average risk of the water utilities sample**									**4.47**

[1] Adjusted for Scottsdale Capacity Lease Costs

Liberty Utilities (Black Mountain Sewer) Corp.
Comparative Risk Study
Beta Estimate Using Duff and Phelps Risk Study Portfolio Information

Line No.		Portfolio	Operating Margin[1]	Portfolio	CV (Operating Margin)[1]	Portfolio	CV (ROE)[1]	
	A. Beta Estimates for Water Sample Group and Company`							
1	Company	6	18.79%	7	32.76%	10	56.74%	
2	Water Proxy Group	2	28.90%	19	8.95%	23	12.71%	
			Portfolio Beta[2]		Portfolio Beta[3]		Portfolio Beta[3]	Average
3	Company		1.06		1.27		1.17	
4	Water Proxy Group		0.83		0.99		0.89	
5	Percentage Difference		27.7%		28.3%		31.5%	**29.2%**
	B. Assume percentage difference is the same for water utilities as companies in general							
6	Water Sample Group[5]		0.72		0.72		0.72	
7	Implied Beta for Company[6]		0.92		0.92		0.95	**0.93**

Notes:
[1] See work papers. CV stands for Coefficient of Variation,
[2] Source is Duff & Phelps 2105 Valuation Handbook, Risk Study, Exhibit D-1, Companies Ranked by Operating Margin.
[3] Source is Duff & Phelps 2105 Valuation Handbook, Risk Study, Exhibit D-2, Companies Ranked by CV (Operating Margin).
5 Source is Rebuttal Schedule D-4.3.
[6] Calculated by multiplying (1+ percentage difference in risk study betas) times average beta for the water sample group.

Liberty Utilities (Black Mountain Sewer) Corp.
Comparative Risk Study
Traditional Capital Asset Pricing Model (CAPM) Using Implied Beta
To Find Additional Risk Premium

Line No.		Rf[1]	+	Implied beta[2]	x	RP_M		=	k	CAPM Results From uttal Schedule D-	Indicated Company Risk Premium
1	Historical Market Risk Premium CAPM	4.1%	+	0.93	x	7.00%	3	=	10.6%	9.1%	1.5%
2	Currrent Market Risk Premium CAPM	4.1%	+	0.93	x	8.97%	4	=	12.4%	10.6%	1.8%

Notes:

[1] Forecasts of long-term treasury yields. See Scehdule D-4.9.

[2] Implied Beta computed from Duff and Phelps 2015 Valuation Handbook Risk Study information. See page 1 of exhibit.

3 Historical Market Risk Premium from (Rp) from Morningstar Ibbotson 214 Classic Yearbook, Long-Horizon ERP on S&P 500. See Rebuttal Schedule D-4.11.

4 See Rebuttal Schedule D-4.10

EXHIBIT TJB-COC-RB2

Liberty Utilities (Black Mountain Sewer) Corp.
Risk Premium Analysis Based on Total Returns

Exhibit
Restated Schedule D-4.9
Witness: Bourassa

Line No.		Annual Total Return[1]	Treasury Bond Yields[2]	Annual Risk Premiums
1	1999	**30.74%**	5.87%	24.87%
2	2000	**8.99%**	5.94%	3.05%
3	2001	16.00%	5.49%	10.51%
4	2002	-4.16%	5.42%	-9.58%
5	2003	23.72%	5.05%	18.67%
6	2004	13.78%	5.12%	8.66%
7	2005	19.02%	4.56%	14.46%
8	2006	15.86%	4.91%	10.95%
9	2007	-2.71%	4.84%	-7.55%
10	2008	-1.87%	4.28%	-6.15%
11	2009	-0.20%	4.08%	-4.28%
12	2010	15.26%	4.25%	11.01%
13	2011	1.52%	3.91%	-2.39%
14	2012	15.08%	2.92%	12.16%
15	2013	20.34%	3.45%	16.89%
16	2014	14.98%	2.59%	12.39%
17		16-Year Average	4.5%	7.1%
18		Expected Long-term Treasury Bond Rate[3]		4.1%
19		Projected Returns on Equity for Sample		11.2%

Notes:
[1] Composite of average total returns for water utilities. Data from Value Line Analyzer software.
[2] As reported by the Federal Reserve.
[3] Source is Rebuttal Schedule D-4.8.

D SCHEDULES

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Summary of Cost of Capital

Exhibit
Rebuttal Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	Adjusted End of Test Year Dollar Amount	Adjusted End of Test Year Percent of Total	Adjusted End of Test Year Cost Rate	Adjusted End of Test Year Weighted Cost	Projected Capital Structure Dollar Amount	Projected Capital Structure Percent of Total	Projected Capital Structure Cost Rate	Projected Capital Structure Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	1,960,354	30.00%	3.53%	1.06%
2									
3	Stockholder's Equity	6,276,158	100.00%	10.80%	10.80%	4,574,160	70.00%	10.80%	7.56%
4									
5	Totals	6,276,158	100.00%		10.80%	6,534,515	100.00%		8.62%
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22	SUPPORTING SCHEDULES:					RECAP SCHEDULES:			
23	D-2								
24	D-3								
25	D-4								
26	Testimony								
27									
28									
29									
30									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Long Term Debt

Exhibit
Rebuttal Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	End of Projected Year Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1									
2	Proposed New Debt		-	0.00%	0.000%	1,960,354	69,201	3.53%	3.530%
3			-	0.00%	0.000%		-	0.00%	0.000%
4									
5									
6									
7									
8									
9									
10									
11									
12									
13	Totals	$ -	-		0.000%	$ 1,960,354	69,201		3.530%
14									
15									
16	Supporting Schdules:								
17	E-1								
18	E-2								
19	Testimony								
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Preferred Stock

Exhibit
Rebuttal Schedule D-3
Page 1
Witness: Bourassa

Line No.		End of Test Year			End of Projected Year		
1							
2							
3	Description	Shares		Dividend	Shares		Dividend
4	of Issue	Outstanding	Amount	Requirement	Outstanding	Amount	Requirement
5							
6							
7	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21	SUPPORTING SCHEDULES:			RECAP SCHEDULES:			
22				D-1			
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							

Liberty Utilities (Black Mountain Sewer) Corp.
Test Year Ended December 31, 2014
Cost of Common Equity

Exhibit
Rebuttal Schedule D-4
Page 1
Witness: Bourassa

Line No.		
1		
2	The Company is proposing a cost of common equity of	10.80%
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
18	D-4.1 to D-4.16	D-1
19		
20		

Liberty Utilities (Black Mountain Sewer) Corp.
Summary of Results

Exhibit
Rebuttal Schedule D-4.1
Witness: Bourassa

Line No.		Indicated Cost of Equity for Water Sample Group			Indicated Cost of Equity for Liberty Utilities (Black Mountain Sewer) Corp. [1]		
1	DCF Constant Growth - Rebuttal Schedule D-4-7	8.8%	to	9.8%	10.3%	to	11.3%
2	Risk Premium Model - Rebuttal Schedule D-4.9		10.5%			12.0%	
3	CAPM - Rebuttal Schedule D-4.11	9.1%	to	10.6%	10.6%	to	12.1%
4	Range of Cost of Equity Estimates	9.5%	to	10.3%	11.0%	to	11.8%
5	Financial Risk Adjustment - Rebuttal Schedule D-4.14		0.0%			-0.40%	
6	Adjusted Range of Cost of Equity Estimates	9.5%	to	10.3%	10.6%	to	11.4%
7	Mid-point		9.9%			11.0%	
8	Cost of Equity Recommendation				10.8%		

Notes:
[1]Estimates include an equity risk premium of 150 basis points based on comparative risk study. See Testimony.

Liberty Utilities (Black Mountain Sewer) Corp.
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Rebuttal Schedule D-4.2
Witness: Bourassa

Line No.	Company	Symbol	% Water Revenues[1]	Operating Revenues (millions)[1]	Net Plant (millions)[1]	S&P Bond Rating[1]	Moody's Bond Rating[1]	Allowed ROE (%)[1]	Value Line Beta[2]	Market Capitalization[2]	Size Category[3]
1	American States Water	AWR	72%	$ 458.4	$ 1,032.1	A+	A2	9.43	0.70	$ 1,494.8	Low-Cap
2	Aqua America	WTR	95%	$ 808.5	$ 4,605.5	AA-	NR	9.79	0.75	$ 5,150.2	Mid cap
3	California Water	CWT	98%	$ 587.3	$ 1,663.6	AA-	NR	9.43	0.75	$ 1,075.8	Low-Cap
4	Connecticut Water	CTWS	100%	$ 97.9	$ 529.0	A/A-	NR	9.63	0.65	$ 394.1	Micro-cap
5	Middlesex	MSEX	86%	$ 123.2	$ 477.8	A	NR	9.75	0.70	$ 403.8	Micro-cap
6	SJW Corp.	SJW	95%	$ 286.8	$ 991.5	A	NR	9.43	0.75	$ 583.5	Micro-cap
7	York Water Company	YORW	100%	$ 46.7	$ 257.3	A-	NR	NM	0.75	$ 298.3	Micro-cap
8	Average		92%	$ 344.1	$ 1,365.3			9.58	0.72	$ 1,342.9	Low-Cap
9	Liberty Utilities (Black Mountain Sewer) Corp.		100%	$ 2.2	$ 5.5	NR	NR	-			

Notes:
[1] AUS Utility Reports (December 2015).
[2] Value Line Analyzer Data (Weekly as of December 10, 2015)
[3] See Schdule D-4.15 for definitions of size category

Liberty Utilities (Black Mountain Sewer) Corp.
Capital Structures

Exhibit
Rebuttal Schedule D-4.3
Witness: Bourassa

Line No.	Company	Symbol	Book Value[1] Long-Term Debt	Book Value[1] Common Equity	Market Value[1] Long-Term Debt	Market Value[1] Common Equity
1	American States Water	AWR	39.1%	60.9%	17.9%	82.1%
2	Aqua America	WTR	48.5%	51.5%	23.3%	76.7%
3	California Water	CWT	40.1%	59.9%	28.0%	72.0%
4	Connecticut Water	CTWS	45.8%	54.2%	30.9%	69.1%
5	Middlesex	MSEX	40.8%	59.2%	25.2%	74.8%
6	SJW Corp.	SJW	51.6%	48.4%	39.7%	60.3%
7	York Water Company	YORW	44.8%	55.2%	22.1%	77.9%
8	Average		44.4%	55.6%	26.7%	73.3%
9	Liberty Utilities (Black Mountain Sewer) Corp.	Proforma	70.0%	30.0%	N/A	N/A

[1] Value Line Analyzer Data (Weekly as of December 10, 2015)

Liberty Utilities (Black Mountain Sewer) Corp.
Comparisons of Past and Future Estimates of Growth

Exhibit
Rebuttal Schedule D-4.4

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Historical Growth	[6] Value Line Projected Growth[2]	[7] Average of Historical and Proj. Grwth
		Five-year historical average annual changes						
1	American States Water	19.79%	6.50%	14.00%	8.50%	12.20%	6.00%	9.10%
2	Aqua America	16.93%	6.50%	13.00%	7.00%	10.86%	7.50%	9.18%
3	California Water	9.41%	5.00%	4.00%	2.00%	5.10%	6.50%	5.80%
4	Connecticut Water	11.68%	9.50%	9.00%	2.00%	8.05%	4.50%	6.27%
5	Middlesex	9.74%	3.00%	4.50%	1.50%	4.69%	5.00%	4.84%
6	SJW Corp.	10.40%	3.50%	10.50%	3.00%	6.85%	1.50%	4.17%
7	York Water Company	13.20%	4.50%	6.00%	2.50%	6.55%	6.50%	6.52%
8	GROUP AVERAGE	13.02%	5.50%	8.71%	3.79%	7.76%	5.36%	6.56%

Notes:
[1] Average (geometric) of changes in annual stock prices ending on December 31 through 2014. Data from Yahoo Finance website.
[2] Value Line Analyzer, weekly as of December 10, 2015.

Liberty Utilities (Black Mountain Sewer) Corp.
Comparisons of Past and Future Estimates of Growth

Exhibit
Rebuttal Schedule D-4.5

Line No.	Company	[1] Price[1]	[2] Book Value[2]	[3] EPS[2]	[4] DPS[2]	[5] Average Col 1-4	[6] Value Line Growth[2]	[7] Average of Historical and Proj. Grwth
		Ten-year historical average annual changes						
1	American States Water	14.46%	6.00%	11.00%	5.50%	9.24%	6.00%	7.62%
2	Aqua America	8.84%	7.50%	8.50%	7.50%	8.09%	7.50%	7.79%
3	California Water	5.99%	5.50%	5.00%	1.50%	4.50%	6.50%	5.50%
4	Connecticut Water	6.91%	6.50%	4.00%	2.00%	4.85%	4.50%	4.68%
5	Middlesex	5.94%	4.50%	4.00%	1.50%	3.98%	5.00%	4.49%
6	SJW Corp.	8.61%	6.00%	6.50%	4.00%	6.28%	1.50%	3.89%
7	York Water Company	9.29%	6.50%	5.50%	4.00%	6.32%	6.50%	6.41%
8	GROUP AVERAGE	8.58%	6.07%	6.36%	3.71%	6.18%	5.36%	5.77%

Notes:
[1] Average (geometric) of changes in annual stock prices ending on December 31 through 2014. Data from Yahoo Finance website.
[2] Value Line Analyzer Data, weekly as of December 10, 2015.

Liberty Utilities (Black Mountain Sewer) Corp.
Current Dividend Yields for Water Utility Sample Group

Exhibit
Rebuttal Schedule D-4.6
Witness: Bourassa

Line No.	Company	[1] Stock Price (P_0)[1]	[2] Current Dividend (D_0)[1]	[3] Current Dividend Yield (D_0/P_0)	[4] Average Annual Dividend Yield (D_0/P_0)[1,2]
1	American States Water	$ 42.63	$ 0.91	2.13%	2.63%
2	Aqua America	$ 30.51	$ 0.73	2.39%	2.53%
3	California Water	$ 23.29	$ 0.69	2.96%	2.77%
4	Connecticut Water	$ 38.62	$ 1.08	2.80%	3.00%
5	Middlesex	$ 26.80	$ 0.80	2.99%	3.65%
6	SJW Corp.	$ 29.51	$ 0.80	2.71%	2.64%
7	York Water Company	$ 24.82	$ 0.63	2.54%	2.79%
8	GROUP AVERAGE			2.65%	2.86%

Notes:
[1] Stock prices as of December 18, 2015. Indicated Dividend from Value Line Analyzer weekly as of December 10, 2015.
[2] Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. As report by Value Line Analyzer software. For comparison purposes only.

Liberty Utilities (Black Mountain Sewer) Corp.
Discounted Cash Flow Analysis
DCF Constant Growth

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

Line No.		[1] Dividend Yield (D_0/P_0)[1]	[2] Expected Dividend Yield (D_1/P_0)[2]		[3] Value Line Projected Growth (g)[3]		[4] Indicated Cost of Equity (COE) k=Div Yld + g (Cols 2+3)	[5] Indicated Cost of Equity (COE) k=Div Yld + g (Cols 2+3)[4]
1	1. American States Water	2.13%	2.26%	+	6.00%	=	8.26%	8.26%
2	2. Aqua America	2.39%	2.57%	+	7.50%	=	10.07%	10.07%
3	3. California Water	2.96%	3.16%	+	6.50%	=	9.66%	9.66%
4	4. Connecticut Water	2.80%	2.92%	+	4.50%	=	7.42%	7.42%
5	5. Middlesex	2.99%	3.13%	+	5.00%	=	8.13%	8.13%
6	6. SJW Corp.	2.71%	2.75%	+	1.50%	=	4.25%	
7	7. York Water Company	2.54%	2.70%	+	6.50%	=	9.20%	9.20%
8	Average						8.14%	8.79%
	Adjusted Average4							

Notes:
[1] Spot Dividend Yield = D0/P0. See Rebuttal Schedule D-4.6.
[2] Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.
[3] Value Line Growth rate (g). See Rebuttal Schedule D-4.5, Col. 6.
[4] Remove any results less than the projected cost of Baa Bonds plus 100 basis points.

Liberty Utilities (Black Mountain Sewer) Corp.
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Rebuttal Schedule D-4.7 (page 2)

Line No.		[1] Dividend Yield (D_0/P_0)[1]	[2] Expected Dividend Yield (D_1/P_0)[2]		[3] Average of Historical and Proj. Grwth[3]		[4] Indicated Cost of Equity (COE) k=Div Yld + g (Cols 2+3)	[5] Indicated Cost of Equity (COE) k=Div Yld + g (Cols 2+3)[4]
1	1. American States Water	2.13%	2.33%	+	9.10%	=	11.43%	11.43%
2	2. Aqua America	2.39%	2.61%	+	9.18%	=	11.79%	11.79%
3	3. California Water	2.96%	3.13%	+	5.80%	=	8.94%	8.94%
4	4. Connecticut Water	2.80%	2.97%	+	6.27%	=	9.24%	9.24%
5	5. Middlesex	2.99%	3.13%	+	4.84%	=	7.97%	7.97%
6	6. SJW Corp.	2.71%	2.82%	+	4.17%	=	7.00%	
7	7. York Water Company	2.54%	2.70%	+	6.52%	=	9.23%	9.23%
8	Average						9.37%	9.77%

Notes:

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

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

[3] Historical Growth rate (g). See Scehdule D-4.5 Col. 7.

[4] Remove any results less than the projected cost of Baa Bonds plus 100 basis points.

Liberty Utilities (Black Mountain Sewer) Corp.
Forecasts of Long-Term Interest Rates

Exhibit
Rebuttal Schedule D-4.8
Witness: Bourassa

Line No.		2016	2017	2018	Average
1	Long-term Treasury Rates				
2	Blue Chip Consensus Forecasts[1]	3.40%	4.00%	4.40%	
3	Value Line[2]	3.90%	4.40%	4.60%	
4	Average				4.1%
5	Aaa Corporate Bonds				
6	Blue Chip Consensus Forecasts[1]	4.50%	5.10%	5.50%	
7	Value Line[2]	4.90%	5.50%	5.80%	
8	Average				5.2%
9	Baa Corporate Bonds				
10	Blue Chip Consensus Forecasts[1]	5.60%	6.00%	6.50%	
11	Value Line[2]				
12	Average				6.0%

Notes:
[1] Blue Chip consensus forecasts (December 2015).
[2] Value Line Quarterly forecasts dated December 4, 2015.

Liberty Utilities (Black Mountain Sewer) Corp.
Risk Premium Analysis Based on Total Returns

Exhibit
Rebuttal Schedule D-4.9
Witness: Bourassa

Line No.		Annual Total Return[1]	Treasury Bond Yields[2]	Annual Risk Premiums
1	1999	26.28%	5.87%	20.41%
2	2000	2.70%	5.94%	-3.24%
3	2001	16.00%	5.49%	10.51%
4	2002	-4.16%	5.42%	-9.58%
5	2003	23.72%	5.05%	18.67%
6	2004	13.78%	5.12%	8.66%
7	2005	19.02%	4.56%	14.46%
8	2006	15.86%	4.91%	10.95%
9	2007	-2.71%	4.84%	-7.55%
10	2008	-1.87%	4.28%	-6.15%
11	2009	-0.20%	4.08%	-4.28%
12	2010	15.26%	4.25%	11.01%
13	2011	1.52%	3.91%	-2.39%
14	2012	15.08%	2.92%	12.16%
15	2013	20.34%	3.45%	16.89%
16	2014	14.98%	2.59%	12.39%
17		16-Year Average	4.5%	6.4%
18		Expected Long-term Treasury Bond Rate[3]		4.1%
19		Projected Returns on Equity for Sample		10.5%

Notes:
[1] Composite of average total returns for water utilities. Data from Value Line Analyzer software.
[2] As reported by the Federal Reserve.
[3] Source is Rebuttal Schedule D-4.8.

Liberty Utilities (Black Mountain Sewer) Corp.
Estimation of Current Market Risk Premium
Using DCF Analysis

Exhibit
Rebuttal Schedule D-4.10
Witness: Bourassa

Line No.	Month	Dividend Yield (D_0/P_0)[1]	Expected Dividend Yield (D_1/P_0)[2]	+	Expected Growth (g)[3]	=	Expected Market Return (k)	-	Monthly Average 30 Year Treasury Rate[4]	=	Expected Market Risk Premium (MRP)
1	May 2014	2.37%	2.59%	+	9.42%	=	12.01%	-	3.39%	=	8.62%
2	June	2.34%	2.56%	+	9.33%	=	11.89%	-	3.42%	=	8.47%
3	July	2.42%	2.65%	+	9.50%	=	12.15%	-	3.33%	=	8.82%
4	Aug	2.38%	2.61%	+	9.50%	=	12.11%	-	3.20%	=	8.91%
5	Sept	2.82%	3.10%	+	9.83%	=	12.93%	-	3.26%	=	9.67%
6	Oct	2.45%	2.68%	+	9.50%	=	12.18%	-	3.04%	=	9.14%
7	Nov	2.38%	2.61%	+	9.67%	=	12.27%	-	3.04%	=	9.23%
8	Dec	2.44%	2.67%	+	9.67%	=	12.34%	-	2.83%	=	9.51%
9	Jan 2015	2.45%	2.68%	+	9.50%	=	12.18%	-	2.46%	=	9.72%
10	Feb	2.38%	2.61%	+	9.50%	=	12.11%	-	2.57%	=	9.54%
11	Mar	2.42%	2.64%	+	9.17%	=	11.81%	-	2.63%	=	9.18%
12	Apr	2.40%	2.61%	+	9.00%	=	11.61%	-	2.59%	=	9.02%
13	May	2.41%	2.63%	+	9.00%	=	11.63%	-	2.96%	=	8.67%
14	June	2.50%	2.72%	+	8.83%	=	11.56%	-	3.11%	=	8.45%
15	July	2.56%	2.78%	+	8.83%	=	11.62%	-	3.07%	=	8.55%
16	Aug	2.70%	2.95%	+	9.00%	=	11.95%	-	2.86%	=	9.09%
17	Sept	2.84%	3.10%	+	9.00%	=	12.10%	-	2.95%	=	9.15%
18	Oct	2.67%	2.91%	+	9.00%	=	11.91%	-	2.89%	=	9.02%
19	Nov.	2.70%	2.94%	+	8.83%	=	11.77%	-	3.03%	=	8.74%
20	Recommended	2.74%	2.98%	+	8.94%	=	11.92%	-	2.96%	=	8.97%
21	Short-term Trends										
22	Recent Twelve Months Avg	2.54%	2.77%	+	9.11%	=	11.88%	-	2.83%	=	9.05%
23	Recent Nine Months Avg	2.58%	2.81%	+	8.96%	=	11.77%	-	2.90%	=	8.87%
24	Recent Six Months Avg	2.66%	2.90%	+	8.92%	=	11.82%	-	2.99%	=	8.83%
25	Recent Three Months Avg	2.74%	2.98%	+	8.94%	=	11.92%	-	2.96%	=	8.97%

Notes:
[1] Average Dividend Yield (D_0/P_0) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
[2] Expected Dividend Yield (D_1/P_0) equals current average dividend yield (D_0/P_0) times one plus growth rate(g).
[3] Median of Projected EPS, Projected DPS Growth and Projected BV Growth for VL 1700 stocks. Data from Value Line Investment Analyzer Software.
[4] Monthly average 30 year U.S. Treasury. Federal Reserve.

Liberty Utilities (Black Mountain Sewer) Corp.
Traditional Capital Asset Pricing Model (CAPM)

Exhibit
Rebuttal Schedule D-4.11
Witness: Bourassa

Line No.		Rf[1]	+	beta[2]	x	RP_M		=	k
1	Historical Market Risk Premium CAPM	4.1%	+	0.72	x	7.00%	[3]	=	9.1%
2	Currrent Market Risk Premium CAPM	4.1%	+	0.72	x	8.97%	[4]	=	10.6%
3	Average								9.9%

Notes:
[1] Forecasts of long-term treasury yields. See Rebuttal Schedule D-4.8.
[2] Value Line Investment Analyzer data. See Rebuttal Schedule D-4.3.
[3] Historical Market Risk Premium Duff & Phelps 2015 Valuation Handbook, Appendix 3, Long-Horizon ERP.
[4] See Rebuttal Schedule D-4.10.

Liberty Utilities (Black Mountain Sewer) Corp.
Financial Risk Computation
Unlevered Beta

Exhibit
Rebuttal Schedule D-4.12
Witness: Bourassa

Line No.		Company	VL Beta β_L[1]	Raw Beta Raw β_L[2]	Tax Rate t[3]	MV Debt D[4]	MV Equity E[4]		Unlevered Raw Beta β_U[5]
1									
2									
3									
4									
5	1.	American Water Worl	0.70	0.55	38.4%	17.9%	82.1%		0.48
6	2.	Aqua America	0.75	0.63	10.5%	23.3%	76.7%		0.50
7	3.	California Water	0.75	0.63	33.0%	28.0%	72.0%		0.50
8	4.	Connecticut Water	0.65	0.48	14.4%	30.9%	69.1%		0.35
9	5.	Middlesex	0.70	0.55	35.0%	25.2%	74.8%		0.45
10	6.	SJW Corp.	0.75	0.63	32.5%	39.7%	60.3%		0.44
11	7.	York Water	0.75	0.63	29.8%	22.1%	77.9%		0.53
12									
13		Sample Water Utilitie:	0.72	0.59	27.7%	26.7%	73.3%	#	0.46
14									
15									
16									
17									
18									
19									

20 [1] Value Line Investment Analyzer data. See Rebuttal Schedule D-4.1.
21 Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:
22 Adjusted beta = .33 + (.67) * Raw beta
23 [2] Raw Beta = (VL beta - .33)/(.67)
24 [3] Effective tax rates for year ended December 31, 2013.
25 [4] See Rebuttal Schedule D-4.2.
26 [5] Raw B_u = Raw B_L/ (1+ (1-t)*D/E)
27
28
29
30

Liberty Utilities (Black Mountain Sewer) Corp.
Financial Risk Computation
Relevered Beta

Exhibit
Rebuttal Schedule D-4.13
Witness: Bourassa

Line No.		Unlevered Raw Beta β_U[1]	MV Book Debt BD[2]	MV Equity Capital EC[2]	Tax Rate t[3]	Relevered Raw Beta $\beta_{RL}=\beta_U(1+(1-t)BD/EC)$ β_{RL}	VL Adjusted Relevered Beta .33 + .67(Raw Beta) β_{RL}
1							
2							
3							
4							
5	Liberty Utilities (Black Mountain Sewer) Corp.	0.46	14.8%	85.2%	37.23%	0.51	0.67
6							
7							
8							
9							
10							
11							
12							

13 [1] Unlevered Beta fron Unlevered Beta tab in WP.
14 [2] Proforma Capital Structure of Company per D-1

15		BV (in Thousands)			MV (in Thousands)	MV %
17	Long-term Debt	$ 1,960	1.00		$ 1,960	14.80%
18	Preferred Stock	$ -	1.00		-	0.0%
19	Common Stock	$ 4,574	2.46	(a)	11,263	85.2%
20	Total Capital	$ 6,535			$ 13,223	100.0%

21
22 (a) Current market-to-book ratio of sample water utilities. See work papers.
23
24 [3] Current Tax rate based on test year ending 12/31/2014. See Rebuttal Schedule C-3.
25
26

Liberty Utilities (Black Mountain Sewer) Corp.
Financial Risk Computation

Exhibit
Rebuttal Schedule D-4.14
Witness: Bourassa

Line No.											
1	**CAPM**										
2		**Rf**		+	**β**		x	**(Rp)**			**k**
3	Historical Market Risk Premium	4.1%	1	+	0.72	2	x	7.00%	3	=	9.1%
4	Current Market Risk Premium	4.1%	1	+	0.72	2	x	8.97%	4	=	10.6%
5											
6	Average										9.9%
7											
8											
9	**CAPM Relevered Beta**										
10		**Rf**		+	**β**		x	**(Rp)**			**k**
11	Historical Market Risk Premium	4.1%	1	+	0.67	5	x	7.00%	3	=	8.8%
12	Current Market Risk Premium	4.1%	1	+	0.67	5	x	8.97%	4	=	10.1%
13											
14	Average										9.5%
15											
16	Indicated Financial Risk Adjustment										**-0.4%**
17											

18
19 [1] Forecast of long-term treasury yields. See Rebuttal Schedule D-4.8.
20 [2] Value Line Investment Analyzer data. See Rebuttal Schedule D-4.1.
21 [3] Historical Market Risk Premium from (Rp) Duff & Phelps 2015 Valuation Handbook Appendix 3 Long-Horizon ERP 1926-2014.
22 [4] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks
23 and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rebuttal Schedule D-4.10.
24 [5] Relevered beta found on Relevered Beta. See Rebuttal Schedule D-4.15.
25

Liberty Utilities (Black Mountain Sewer) Corp.
Risk Premium[1]

Exhibit
Rebuttal Schedule D-4.15
Witness: Bourassa

Line No.		Beta(β)	Size Premium	Risk Premium for Small Water Utilities[7]
1	Mid-Cap Companies[2]	1.12	1.07%	
2	Low-Cap Companies[3]	1.22	1.80%	
3	Micro-Cap Companies[4]	1.35	3.74%	
4	Decile 10[5]	1.40	5.78%	3.25%

		Risk Premium for Small Water Utilities
5	Estimated Risk Premium for small utilities[6]	0.99%
6	Estimated Risk Premium for Company[8]	1.50% to 1.80%

[1] Data from Table 4-7 of Duff & Phelps, 2015 Valuation Handbook Guide to Cost of Capital.
[2] Mid-Cap companies includes companies with market capitalization between $2,552 million and $10,106 million.
[3] Low-Cap companies includes companies with market capitalization between $549 million and $2,552 million.
[4] Micro-Cap companies includes companies with market capitalization less than $549 million.
[5] Decile 10 includes companies with market capitalization less than $301 million.
[6] From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.
[7] Computed as the weighted differences between the Micro-Cap risk premium and the inidicated risk premiums for the sample water utlities as shown below. Excludes risk due to differences in beta.

		Market Cap. (Millions)	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
1.	American States	$ 1,495	Low-Cap	1.80%	3.98%	0.14285714	0.57%
2.	Aqua America	$ 5,150	Mid-Cap	1.07%	4.71%	0.14285714	0.67%
3.	California Water	$ 1,076	Low-Cap	1.80%	3.98%	0.14285714	0.57%
4.	Connecticut Water	$ 394	Micro-Cap	3.74%	2.04%	0.14285714	0.29%
5.	Middlesex	$ 404	Micro-Cap	3.74%	2.04%	0.14285714	0.29%
6.	SJW Corp.	$ 584	Micro-Cap	1.80%	3.98%	0.14285714	0.57%
7.	York Water Company	$ 298	Micro-Cap	3.74%	2.04%	0.14285714	0.29%
			Average	2.53%	Wghtd Size Prem. for Small Utilities		3.25%

[8] Results of Comparative Risk Study. See work papers.

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-15-____

DIRECT TESTIMONY OF

GREG SORENSEN

June 22, 2015

EXHIBIT
A-11
ADMITTED

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I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Greg Sorensen. My business address is 701 National Avenue, Tahoe Vista, California 96148.

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

A. I am employed by Liberty Utilities Service Corp, a wholly owned subsidiary of Liberty Utilities Co. Prior to June 1, 2015, I was President – AZ/TX. As of that date, however, I took a new position with Liberty Utilities as President – California. In Arizona, Matthew Garlick is the new President of AZ/TX.

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

A. I'm providing this testimony on behalf of the applicant Liberty Utilities (Black Mountain Sewer) Corp. (hereafter "Liberty Black Mountain" or the "Company"), formerly known as Black Mountain Sewer Corporation, and before that, Boulders Carefree Sewer Corporation. Mr. Garlick was second-in-command in Arizona during my tenure as President and he is also familiar with the Company's activities and operations. Nevertheless, because of my day-to-day involvement with the Company for the last several years, including the unique issues discussed below, I will continue to be one of the Company's witnesses in this case after my move to California.

Q. PLEASE DESCRIBE THE RESPONSIBILITIES OF THE PRESIDENT OF LIBERTY UTILITIES IN ARIZONA/TEXAS.

A. The Liberty Utilities state president in Arizona/Texas is responsible for Liberty Utilities' water and sewer operations in Missouri, Texas and Arizona.[1]

[1] In Arizona, along with Liberty Black Mountain, Liberty Utilities also owns and operates Liberty Utilities (Bella Vista Water) Corp., Liberty Utilities (Entrada del Oro Sewer) Corp., Liberty Utilities (Gold Canyon Sewer) Corp., Liberty Utilities (Litchfield Park Water & Sewer) Corp., and Liberty Utilities (Rio Rico Water & Sewer) Corp.

This includes directing the daily operations and administration of all of the utilities, including their financial and operating results, capital and operating cost budgeting, rate case planning and oversight, and rate setting policies and procedures. The President also oversees customer and development services, environmental, health and safety, accounting/finance, human resources, engineering, and conservation planning. As mentioned, this is the position I held until May 31, 2015 and that Mr. Garlick now holds.

Q. WHAT WAS YOUR EDUCATION AND EMPLOYMENT PRIOR TO LIBERTY UTILITIES?

A. I earned a Bachelor's degree in Accounting from Wake Forest University in 1993. I then worked for Arthur Andersen in public accounting for five years, after which I was a Director of Financial Reporting & Analysis, Controller, and VP Finance for Excel Agent Services, an international call center company.

Q. WHAT OTHER POSITIONS HAVE YOU HELD WITH LIBERTY UTILITIES?

A. When I was hired in 2005, I started out as the Divisional Controller and Vice President of Finance. I was responsible for the accounting system and journal entries for 18 water and wastewater utilities in Arizona, Texas, Missouri and Illinois, including rate cases and other regulatory matters. In 2009, I was promoted to Director of Operations and my responsibilities included oversight of all aspects of water and wastewater operations for Liberty Utilities' regulated utilities in Arizona, Texas and Missouri, including compliance, operation and maintenance, system planning and capital budgeting. From 2011-2012, I was Vice President of Service Delivery and General Manager, including responsibility for all aspects of the water and wastewater utilities in Arizona, Texas and Missouri. My responsibilities included accounting, environmental/health/safety/security,

operations, engineering, rates/regulatory, development services and customer service. In 2013, I became President of Liberty Utilities in Arizona/Texas and I remained the senior Liberty Utilities executive in Arizona until May 31, 2015 as discussed.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA CORPORATION COMMISSION?

A. Yes. I have testified in numerous Arizona Corporation Commission ("Commission") proceedings for all of Liberty Utilities' entities in Arizona, including several rate cases. I testified in both phases of the last rate case for Liberty Black Mountain, and I most recently testified in November 2014 in the *Venues Café* complaint proceeding (Docket No. SW-02361A-13-0359). I will discuss that proceeding later in my testimony.[2]

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. To support Liberty Black Mountain's requests for rate relief. Specifically, I will provide background on Liberty Utilities generally and the Company specifically. I also will discuss the capital investment that has been made to comply with the Commission's directive that the Company close the East Boulders Wastewater Treatment Plant ("Boulders WWTP") and explain the Company's requests for certain relief in this case related to the closure. I also will provide an explanation of the reasons for and development of a proposed new rate design for commercial customers based on water usage.

[2] See Section III(C), *infra*.

II. OVERVIEW OF LIBERTY UTILITIES.

Q. PLEASE PROVIDE AN OVERVIEW OF LIBERTY UTILITIES.

A. Liberty Utilities Co. ("Liberty Utilities") is a Delaware corporation that operates regulated gas, water, sewer and electric utilities in ten states—Arizona, Arkansas, California, Iowa, Illinois, Missouri, Georgia, Massachusetts, New Hampshire and Texas.[3] Liberty Utilities Co. is a subsidiary of Liberty Utilities (Canada) Corp. ("Liberty Utilities Canada"). The Arizona utilities are wholly owned subsidiaries of Liberty Utilities (Sub) Corp., which is a wholly owned subsidiary of Liberty Utilities. Algonquin Power & Utilities Corp., or APUC, a publicly traded member of the Toronto Stock Exchange, ultimately owns all of the Liberty Utilities entities, including Liberty Black Mountain.

APUC is a $4.1 billion electric generation, transmission and distribution utility company based in Oakville, Ontario. APUC is listed on the Toronto Stock Exchange and is a registrant with the U.S. Security and Exchange Commission. APUC subsidiaries own and operate regulated utilities in the United States, and own non-regulated generation facilities and regulated electric transmission and natural gas pipelines throughout the United States and Canada. The distribution business group operates in the United States as Liberty Utilities and provides rate-regulated water, electricity and natural gas utility services to over 488,000 customers.[4] The electric generation business group operates as Algonquin Power Co. and owns or has interests in a portfolio of North American based contracted wind, solar, hydroelectric and natural gas powered generating facilities representing more than 1,150 MW of installed capacity. The transmission business

[3] Liberty Utilities Co. has also recently reached agreement to acquire three other regulated water companies—two in California and one in Montana.

[4] Upon regulatory approval for the water company acquisitions in California and Montana, Liberty Utilities will have over 550,000 regulated customers.

group invests in rate regulated electric transmission and natural gas pipeline systems in the United States and Canada. Common shares and preferred shares are traded on the Toronto Stock Exchange under the symbols AQN, AQN.PR.A and AQN.PR.D. The APUC website is www.AlgonquinPowerandUtilities.com.

Q. WHAT IS LIBERTY UTILITIES' OVERALL PHILOSOPHY REGARDING THE OPERATION OF ITS REGULATED UTILITY BUSINESSES?

A. Liberty Utilities and the Liberty family share a common set of organizational values to help guide day-to-day business decisions. Those organizational values are Family, Quality, Efficiency, Community, Care and Commitment. Those values are the underpinning of the Liberty Utilities culture and provide guidance on day-to-day business operations. Overarching all of those organization values is Safety. Liberty Utilities considers Safety a meta-level value and places the safety of customers, employees and community first and foremost. In addition to local operations, strategic oversight and administrative support services are provided centrally from the Liberty Utilities Canada and APUC level to the local utility businesses. We take this approach because we believe these services can be provided more cost effectively and in a manner that ensures consistent quality across all of our operating utilities if provided on a shared services basis. We strive to ensure, however, that doing so will not detract from the local presence that is valued by our customers and regulators. Customers receive significant benefits from this shared services model and the local approach in the provision of high quality utility service.

Q. HOW DOES LIBERTY UTILITIES' REGULATORY PHILOSOPHY AFFECT THE WAY IN WHICH IT APPROACHES THE MANAGEMENT AND OPERATION OF THE UTILITIES IT OWNS?

A. We believe that there is no adequate substitute for local management, local

decision-making and local operational control for a utility that is serious about achieving the highest level of customer satisfaction and maintaining strong regulatory compliance. We believe that utilities can best meet the needs of customers and regulators when the people making the decisions affecting the communities they serve are located near those customers and are in easy, regular, close contact with customers and regulators. In terms of operating its regulated utilities, Liberty Utilities focuses on local management control and operation. We operate on the corporate mantra—Local. Responsive. We Care. Each state has a President who directs the utilities in that state. The state presidents have local decision making authority and responsibility, including operational and financial authority. We have local customer service representatives to interact with customers directly. Customers, based on our experience, appreciate the "local" aspect of our service, and we try to accomplish that wherever reasonably possible.

Q. WHAT ROLE DOES LIBERTY UTILITIES PLAY IN THE OPERATION AND MANAGEMENT OF LIBERTY BLACK MOUNTAIN?

A. Liberty Utilities is more than just a holding company – it is the operator of Liberty Black Mountain. Employees that operate, administer and manage the day-to-day operations are employed by Liberty Utilities Service Corp. ("LUSC"), a direct subsidiary of Liberty Utilities. Liberty Utilities is also Liberty Black Mountain's source of capital for utility plant investment with investment capital ultimately coming from APUC.

Q. ARE THERE ADVANTAGES TO OPERATING IN THIS MANNER?

A. There are substantial advantages. It is all about achieving economies of scale that allow us to provide better services at a lower price. As a stand-alone utility, Liberty Black Mountain would have to hire and pay full time engineering staff, human resources, safety and rates personnel, repair and maintenances staff,

accounting and billing staff, and customer service and management. In turn, those stand-alone costs would be incorporated into rates. The Commission sees these financial realities daily in the hundreds of small water and sewer utilities it regulates. In Arizona, Liberty Utilities currently has 107 employees working to provide the best possible service at a reasonable cost to the customers of six different water and wastewater utilities.

Q. BUT DOES LIBERTY BLACK MOUNTAIN REALLY NEED THAT MANY FULL-TIME STAFF TO OPERATE SAFELY AND RELIABLY?

A. Liberty Black Mountain does not have any full-time staff, which illustrates the benefits of Liberty's operations model. For example, there has been a substantial project going on for Liberty Black Mountain—the Boulders WWTP closure—and our engineering and regulatory staff spend a great deal of time focused on that project. Several years ago, we had a major plant expansion at the Liberty Utilities (Litchfield Park Water & Sewer) Corp. Palm Valley Water Reclamation Facility, and we are expecting another expansion of that facility in the near future. The next time it may be Liberty Utilities (Rio Rico Water & Sewer) Corp. Under our structure, each of our Arizona utilities has access to personnel with experience and expertise available to focus on major capital improvement projects for multiple utilities. And while the engineers and operators focus on capital improvements and maintenance of the existing systems, the billing clerks focus on getting bills out and payments in, and the customer service folks handle customer inquiries. Each of us has a role in the running of all of the utility operations and that allows us to have the right people with the right skills available to do the job for each and any utility as needed.

Q. DOESN'T THIS ARRANGEMENT RESULT IN CONFUSION OVER THE COSTS FOR LIBERTY UTILITIES' VARIOUS ARIZONA UTILITIES?

A. No. All direct costs related to each utility's specific operations are direct charged. Common costs are pooled and allocated through a central cost allocation. Mr. Killeen, Director, Regulatory Strategy for Liberty Utilities (Canada) Corp., addresses the corporate cost allocations from APUC and Liberty Utilities Canada in his direct testimony. All of the costs are scrutinized in the ratemaking process. None of this is unusual – holding companies operating multiple utility systems through shared-services models are common in Arizona and across the country.

III. OVERVIEW OF LIBERTY BLACK MOUNTAIN.

A. DESCRIPTION OF THE COMPANY.

Q. PLEASE PROVIDE AN OVERVIEW OF LIBERTY BLACK MOUNTAIN.

A. Liberty Black Mountain's service area is located in the northeastern portion of the Phoenix metropolitan area. The Company serves primarily in the Town of Carefree ("Carefree") and in unincorporated Maricopa County, as well as in portions of the City of Scottsdale ("Scottsdale"). Liberty Black Mountain currently has 2,214 customers, 1,987 of which are residential, 144 are commercial, and 82 are homeowners' association customers.

Presently, Liberty Black Mountain operates one 120,000 gallon per day wastewater treatment facility, the Boulders WWTP, which is located in the Boulders Resort area. Pursuant to an agreement with Scottsdale, all other wastewater flows are diverted into Scottsdale's wastewater treatment system and then delivered with wastewater flows from Scottsdale's other customers to the regional City of Phoenix 91st Avenue Wastewater Treatment Plant. Currently, all of the effluent produced at the Boulders WWTP is delivered to the Boulders Resort where it is used for irrigation.

Q. WHEN DID THE CURRENT RATES GO INTO EFFECT?

A. The current rates were approved in Decision No. 71865 (September 1, 2010). These rates were based on a test year ended June 30, 2008. With a test year ending December 31, 2014 for this filing, it will have been over six years between test years.

Q. WHY HAS IT BEEN SO LONG BETWEEN RATE CASES, MR. SORENSEN?

A. Because of the closure of the Boulders WWTP ordered in Decision No. 73885 (May 8, 2013). I had hoped not to have to file another rate case until that project was completed but, by April of this year, I knew that was no longer possible. I will discuss the Boulders WWTP closure and the need for a new rate design in more detail in separate sections of my testimony.[5] Generally, however, Liberty Utilities prefers to file for rates on a more regular cycle of every 2-4 years because in Arizona, with the historical test year, a utility's revenues are almost always behind their costs and this makes it nearly impossible for utilities to earn their authorized rate of return.

Q. THANK YOU. PLEASE DESCRIBE ANY SIGNIFICANT PLANT UPGRADES OR IMPROVEMENTS SINCE THE LAST TEST YEAR ENDED.

A. Besides the ongoing process of closing the Boulders WWTP, Liberty Black Mountain has performed various lift station improvements to increase the life of the asset, replaced motors and pumps, completed collection main improvements in an effort to reduce inflow and infiltration into the system, as well as increased odor control measures.

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[5] See Sections III(B) and III(C), *infra*.

Q. HAVE THERE BEEN ANY NOTEWORTHY CHANGES IN OPERATIONS SINCE THE LAST RATE CASE?

A. Not particularly. The Company has continued odor initiatives, at the Boulders WWTP and elsewhere in the system, and complaints have been greatly reduced. The focus has otherwise been on maintaining the existing infrastructure in preparation for the major modification – closure of the WWTP. Other significant changes were neither necessary nor warranted.

Q. WHAT IS LIBERTY BLACK MOUNTAIN'S COMPLIANCE STATUS?

A. A check prior to filing showed that Liberty Black Mountain was in compliance with the rules and regulations of ADEQ/Maricopa County and the Commission. Commission compliance includes the requirement arising out of the last rate case, Decision No. 71865, that the Company address the existing commercial rate design in the next rate case. I address that issue in further detail below in a separate section, as will Mr. Bourassa in his direct testimony.[6]

Q. SO EXACTLY WHY IS LIBERTY BLACK MOUNTAIN FILING FOR NEW RATES AT THIS TIME?

A. There are several factors significantly contributing to the need for this rate case. The urgency to make this rate filing arises from customer frustration with the rate design for commercial customers. As the Commission heard in the recently concluded *Venues Café* proceeding, some commercial customers and Carefree believe use of ADEQ Engineering Bulletin No. 12 by Liberty Black Mountain is outdated, at best.[7] Carefree has already drafted a resolution urging the Company to file a rate case to address that rate design issue, and in the *Venues Café* proceeding,

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[6] Direct Testimony of Thomas J. Bourassa – Rate Base, Income Statement and Rate Design ("Bourassa Dt.") at 3:16-23; 29-33.

[7] *See* Docket No. SW-02361A-13-0359; *In the Matter of Carefree 34, Inc. / Office on Easy Street, Inc. dba Venues Café*, Decision No. 75042 (April 23, 2015).

the Commission also appeared ready to move on from the use of that engineering bulletin as a proxy for wastewater flows. Since that Open Meeting on April 14, 2015, when Liberty Black Mountain's lawyer told the Commission that the Company would get this rate case filed as soon as possible, the Company and the Commission have been deluged with complaints and demands from restaurants and landlords in Carefree about the current sewer rates for commercial customers. The Company is filing this rate case, in part, to address the commercial rate design issues as soon as possible.

Q. IS LIBERTY BLACK MOUNTAIN EARNING ITS AUTHORIZED RETURN?

A. No, and that is another fundamental reason for filing this rate case.

B. <u>CLOSURE OF BOULDERS WWTP</u>.

Q. RETURNING TO THE SUBJECT OF THE PLANT CLOSURE, WHY IS LIBERTY BLACK MOUNTAIN CLOSING THE BOULDERS WWTP?

A. The simple answer is that the Company is closing the Boulders WWTP because the Commission ordered the Company to do so in Decision No. 73885 (May 8, 2013).

1. <u>Prior Matters and Proceedings</u>.

Q. HOW LONG HAS THE BOULDERS WWTP BEEN IN ITS CURRENT LOCATION?

A. Over 40 years. It appears to have been built by the same entity that developed the Boulders' community in Carefree, including the Boulders Resort. It was built on one of the golf courses, presumably so that the effluent produced at the facility could be readily used for irrigation on the golf course. Over the years, the community was built up around the golf course and, therefore, around the Boulders WWTP. As a result, the Boulders WWTP is situated less than 100 feet from three

homes and within 1,000 feet of approximately 300 homes.[8]

Q. HOW DID THE BOULDERS WWTP BECOME AN ISSUE IN THE COMPANY'S LAST RATE CASE, MR. SORENSEN?

A. To answer that, I need to go back to the 2005 Liberty Black Mountain rate case. One of the more contentious issues in that proceeding involved allegations that objectionable odors were emanating from the Company's system. Carefree intervened, and after trial and briefing, the Commission ordered Liberty Black Mountain to take certain steps to mitigate odors coming from the Company's collection system.[9] Liberty Black Mountain subsequently undertook multiple remediation measures to address the odor issues in full compliance with the Commission's decision.

Q. WHAT MEASURES WERE TAKEN AFTER DECISION NO. 69164?

A. Liberty Black Mountain deactivated and removed a lift station, and rerouted sewer lines and installed air-jumper pipelines at four locations along the street between manholes to allow air to flow with the sewage, thereby preventing it from escaping into the atmosphere. The Company also installed other remediation measures, including installation of an odor scrubber at the Boulders WWTP.

Q. WHAT HAPPENED NEXT?

A. On December 19, 2008, Liberty Black Mountain filed another application for a rate increase ("Phase 1").[10] The Boulders Home Owners Association ("BHOA") intervened in the proceeding, seeking further relief related to odors. No one disputed that the remedial measures taken subsequent to Decision No. 69164 had substantially mitigated the odors from the collection system; however, the

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[8] Decision No. 73885 at 49 ¶ 19.

[9] *Liberty Black Mountain*, Decision No. 69164 (December 5, 2006) at 38 ¶ 5, 42-43.

[10] Docket No. SW-02361A-08-0609.

Commission had received over 500 public comments complaining about the Boulders WWTP. Les Petersen, then BHOA president and the current Mayor of Carefree, testified that odors from the Boulders WWTP continued to be very noticeable, and were objectionable to Boulders residents.

Q. DID THE COMPANY AGREE THAT THERE WAS AN ODOR ISSUE AT THE BOULDERS WWTP?

A. I would not characterize the situation that way.

Q. FAIR ENOUGH. HOW WOULD YOU CHARACTERIZE IT, MR. SORENSEN?

A. It comes down to a matter of location. As Mayor Peterson further testified in "Phase 2,"[11] when the Boulders WWTP was constructed, it was expected to be a temporary wastewater treatment solution until another location could be secured further away from homes. I cannot say why that never happened, but as the community grew, it came into closer proximity with the facility. Most people simply do not want a water reclamation facility as a neighbor, even one that operates in full compliance with every applicable regulation.

Q. SO THERE WERE NO VIOLATIONS RELATED TO THE OPERATION OF THE BOULDERS WWTP?

A. None. The Boulders WWTP meets or exceeds every applicable regulation governing its operation, and the evidence in Phase 2 showed that the Company had taken all available steps to mitigate odors and noises from the operation of the facility.[12]

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[11] A second phase of the rate case proceeding addressed issues related to the Boulders WWTP. This resulted in Decision No. 73885 ("Phase 2").

[12] Decision No. 73885 at 49 ¶ 26.

Q. THEN HOW DID LIBERTY BLACK MOUNTAIN RESPOND TO THE BHOA'S INTERVENTION AND REQUEST FOR RELIEF?

A. We sat down with representatives from the BHOA and discussed a solution to their concerns. Our efforts resulted in an agreement to close the Boulders WWTP if certain conditions were met. Liberty Black Mountain's obligations under that agreement, known as the "Closure Agreement," were subject to a number of conditions, including the "[s]uccessful renegotiation of the Effluent [Delivery] Agreement with the Resort to allow termination of the agreement with little or no cost to BMSC upon closure of the treatment plant."[13]

Q. CAN YOU EXPLAIN THE EFFLUENT DELIVERY AGREEMENT BETWEEN LIBERTY BLACK MOUNTAIN AND THE BOULDERS RESORT?

A. Under the Effluent Delivery Agreement, or EDA, all of the effluent produced at the Boulders WWTP was to be delivered to the Resort for irrigating its golf courses. It is my understanding that the effluent produced at the Boulders WWTP constitutes about 15 percent of the Resort's annual irrigation requirements.[14]

Q. DID THE COMMISSION APPROVE THE CLOSURE AGREEMENT?

A. The Commission "approved of" the Closure Agreement in the Phase 1 decision when it found that the Closure Agreement between Liberty Black Mountain and the BHOA concerning the Boulders WWTP provided "an appropriate and creative solution" to address ongoing odor issues related to the plant.[15] The Commission also established a surcharge mechanism to allow the Company to promptly recover

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[13] Decision No. 73885 at 46-47 ¶ 3.

[14] Direct Testimony of Dean Hunter (filed March 16, 2012 in Docket No. SW-02361A-08-0609) at 3:12-13.

[15] Decision No. 71865 at 53:20-22.

costs associated with closure of the Boulders WWTP.[16] I will discuss the surcharge in more detail below.

Q. WHAT DID THE COMPANY DO AFTER THE PHASE 1 DECISION WAS ISSUED?

A. Along with the BHOA, we attempted to reach some sort of resolution with the Resort, the sole effluent user. Over several months, we met with representatives from the Resort, the BHOA, and Carefree, and discussed the Resort's needs and possible alternatives to effluent from Liberty Black Mountain for irrigation of the Resort's golf courses, as well as possible relocation of the facility to another site within the golf course. We also had discussions with the Town of Cave Creek, which has a wastewater treatment plant approximately four miles from the Boulders WWTP. This would have presented an opportunity for the Resort to continue to obtain effluent from the treatment of the Company's wastewater. But we never reached any sort of resolution with the Resort. Put simply, the Resort refused to cooperate, instead preferring litigation.

Q, COULD THE BOULDERS WWTP SIMPLY BE RELOCATED?

A. Relocation of the existing facility is not a viable option. You can't just pick up and move a more than 40-year-old treatment plant. We did look into building a new facility on a site proposed by the Resort. The costs were extremely high, and we were still talking about a treatment plant on the same golf course. The community wants the facility out of the neighborhood, not moved from one location to another. I think we would have a very difficult time getting approval to build another plant in Carefree under the circumstances, even assuming we can meet the latest set back requirements. These requirements are more restrictive today than they were when

[16] Decision No. 71865 at 54:7 – 55:7.

the Boulders WWTP was originally sited and built.

Q. SO THE NEGOTIATIONS WITH THE RESORT WERE UNSUCCESSFUL?

A. Yes, and after several months the Resort simply left the table and threatened the Company with arbitration under the EDA. Meanwhile, in June 2011, the BHOA filed a motion with the Commission requesting that the WWTP be closed. In its motion, the BHOA asserted that, despite Liberty Black Mountain's good faith efforts to negotiate with the Resort, the negotiations had reached an impasse, and the Company and the Resort had been unable to agree on termination of the EDA.

Q. HOW DID THE RESORT RESPOND TO THAT FILING?

A. On July 6, 2011, the Resort filed a motion to intervene in the Company's 2008 rate case and requested a hearing to present evidence and legal arguments regarding the WWTP and the EDA. On January 24, 2012, the Commission voted to reopen Decision No. 71865 pursuant to A.R.S. § 40-252, and directed its Hearing Division to conduct proceedings to address the issues related to the WWTP and Phase 2 commenced. On January 26, 2012, the Resort's motion to intervene was granted.

Q. WHAT WAS THE RESORT'S POSITION?

A. That the Commission did not have authority to order Liberty Black Mountain to close the Boulders WWTP, and even if it did have such authority, it should not exercise it.

Q. WHAT WAS LIBERTY BLACK MOUNTAIN'S POSITION?

A. That we were caught in the middle between our customers who wanted the Boulders WWTP closed and who were willing to pay the cost, and the Resort, which claimed it has an inviolable right to the effluent irrigation water we currently provide. In the end, the Commission ordered Liberty Black Mountain to close the Boulders WWTP, and reaffirmed the surcharge mechanism.

Q. CAN YOU SUMMARIZE WHY THE COMMISSION ORDERED LIBERTY BLACK MOUNTAIN TO CLOSE THE BOULDERS WWTP?

A. Because the Commission determined that closure was "necessary to protect the health and safety of the public, and provide for the comfort and convenience of customers."[17] As a result, the Commission ultimately concluded that "[t]he record supports a finding that due to its location, the Boulders WWTP can no longer be operated in a manner consistent with the public interest[.]"[18] That "record" included several key facts, which I have paraphrased below:

- Complaints have been received that odors from the Boulders WWTP are noticeable and objectionable to Boulders residents. Those residents also complained that odors from the Boulders WWTP are irritating and sometimes interfere with residents' opportunity to leave their windows open to enjoy fresh air in the immediate vicinity of the facility.[19]
- Complaints from residents regarding odors from the Boulders WWTP appear more frequent from October through April.[20]
- Since Decision No. 71865 was issued, Liberty Black Mountain has received and logged 23 odor complaints (including a lawsuit filed in Maricopa County Superior Court by a resident living adjacent to the Boulders WWTP).[21]
- A portion of the north Boulders golf course is adjacent to the Boulders WWTP. Golfers playing the north Boulders golf course have also complained at times of noticeable odors as they pass by the Boulders WWTP.[22]
- The Boulders WWTP is operated in full compliance with all applicable law and industry standards. In addition, Liberty Black Mountain has taken steps to minimize odors and noises

[17] Decision No. 73885 at 50:4-5.
[18] Decision No. 73885 at 49:16-17.
[19] Decision No. 73885 at 48 ¶ 20.
[20] Decision No. 73885 at 48 ¶ 21.
[21] Decision No. 73885 at 48 ¶ 22.
[22] Decision No. 73885 at 48 ¶ 23.

from the operation of the facility, including, among other improvements, the installation of an odor-scrubber.[23]

- It is not feasible to completely eliminate odor and noise from the operation of the Boulders WWTP.[24]

Having been personally involved with this matter for the last decade, I think it is fair to sum it up by saying that the community is simply tired of having a wastewater treatment plant stuck in the middle of it. That's why the BHOA filed a request that the Commission order Liberty Black Mountain to close the Boulders WWTP.[25] And that's why Phase 2 of our last rate case ended with Commission Decision No. 73885 ordering us to move forward with the closure.

2. <u>Update on the Closure of the Boulders WWTP</u>.

Q. WHEN WILL THE BOULDERS WWTP BE CLOSED?

A. As soon as possible.

Q. CAN YOU BE MORE SPECIFIC THAN THAT?

A. Unfortunately, I can't. It isn't a simple matter to close a wastewater treatment plant under the best of circumstances, and the Company has faced and continues to deal with significant hurdles.

Q. WHAT DO YOU MEAN BY "HURDLES"?

A. For starters, we have been mired in the seemingly endless litigation brought by the Boulders Resort. Furthermore, the closure project has already cost more than was anticipated, and the Company is facing higher than expected costs going forward to complete the closure. In addition, there have been some uncertainties over replacement capacity.

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[23] Decision No. 73885 at 49 ¶ 26.

[24] Decision No. 73885 at 49 ¶ 27.

[25] Decision No. 73885 at 47 ¶ 3.

Q. WHY IS THE RESORT BRINGING LEGAL ACTION?

A. Because they do not want the Boulders WWTP to close. As mentioned above, Liberty Black Mountain and the Resort were parties to the EDA, which called for the delivery of all of the effluent produced at the Boulders WWTP so that the Resort could utilize it for irrigating its golf courses.

Q. YOU SAID THAT LIBERTY BLACK MOUNTAIN AND THE RESORT "WERE" PARTIES TO THE EDA. IF YOU DID NOT REACH A RESOLUTION TO TERMINATE THE EDA, WHAT HAPPENED TO IT?

A. It is the Company's position that the EDA was terminated when the Commission issued Decision No. 73885 in May 2013. The EDA provides:

> The obligations of [Liberty Black Mountain] under this paragraph [6] shall terminate if physical conditions at the Boulders East Plant or any laws, regulations, *orders or other regulatory requirements prevent or materially limit the operation of the Boulders East Plant or render the operation of such plant uneconomic.* (Emphasis added)

The Company believes that paragraph speaks for itself.

Q. DID THE BHOA KNOW OF THIS PROVISION OF THE EDA WHEN IT ASKED THE COMMISSION TO ORDER THE PLANT CLOSED?

A. Yes, through their intervention in the rate case and the discussions we had over the Closure Agreement, and then with the Resort after the Phase 2 decision, the BHOA would have been aware of the provisions in the EDA. After the Resort made it clear it was never going to help the community rid itself of the Boulders WWTP, the BHOA felt it had no choice but to go to the Commission for help. The BHOA specifically asked the Commission to order Liberty Black Mountain to close the Boulders WWTP.

Q. OKAY, YOU ALSO MENTIONED UNCERTAINTY OVER REPLACEMENT CAPACITY. DID LIBERTY BLACK MOUNTAIN FURTHER PURSUE THE OPTION OF ACQUIRING CAPACITY IN THE TOWN OF CAVE CREEK'S TREATMENT FACILITY?

A. Yes. The Company was willing to consider replacing the Boulders' WWTP treatment capacity with capacity from Cave Creek if it could be acquired at the same relative cost as capacity from Scottsdale, and if we could provide a source of effluent for the Resort. We also hoped it would end the Resort's litigious streak so we continued discussions with Cave Creek until just a few weeks before the filing of this rate case. Unfortunately, the cost of replacement capacity from Cave Creek is just too expensive relative to the Scottsdale alternative.

Liberty Black Mountain currently has a wastewater treatment agreement with Scottsdale ("Scottsdale Agreement") under which it has already acquired 400,000 gpd of treatment capacity. Under that agreement, Liberty Black Mountain also has the right to buy additional capacity at $6 a gallon until December 31, 2016. That was the price we used when we estimated the cost of closing the Boulders WWTP in Phase 1.

Q. WHY HASN'T LIBERTY BLACK MOUNTAIN GONE AHEAD AND PURCHASED THE REPLACEMENT CAPACITY FROM SCOTTSDALE?

A. Because when I met with Scottsdale's representative in late 2013, I was informed that $6 per gallon no longer covers their cost of the capacity.

Q. BUT YOU HAVE AN AGREEMENT?

A. Yes, and the Scottsdale Agreement states that the contract terminates if the Company closes the Boulders WWTP. That is one of the reasons closure is also conditioned on an amendment to the Scottsdale Agreement.[26] If the Company

[26] Decision No. 71865 at 42.

forces Scottsdale to honor the $6 per gallon price, making their customers subsidize Liberty Black Mountain's, then Scottsdale likely won't agree to amend the agreement to continue to treat the Company's wastewater after closure.

Q. IS SCOTTSDALE WILLING TO AMEND THE SCOTTSDALE AGREEMENT?

A. That was my understanding and Liberty Black Mountain was in the midst of negotiating an amendment at the time of this filing.

Q. DO YOU KNOW THE PRICE SCOTTSDALE WANTS FOR THE REPLACEMENT CAPACITY?

A. When I met with Scottsdale's representatives, I was informed that Scottsdale's cost was $10 per gallon, and Liberty Black Mountain would have to cover that cost. This will increase the estimated cost of closing the Boulders WWTP by at least $480,000 (120,000 gpd times $10 per gallon versus $6 per gallon). This is just one of the hurdles the Company has faced in moving forward with closure.

Q. HOW DOES THAT COST COMPARE TO THE COST TO BUY CAPACITY IN CAVE CREEK'S FACILITY?

A. Suffice to say, a price of $10 per gallon would still be substantially less than we would have had to pay Cave Creek.

Q. HAS LIBRTY BLACK MOUNTAIN BEGUN TO INCUR ACTUAL COSTS RELATED TO THE CLOSURE OF THE BOULDERS WWTP?

A. Yes, through May 31, 2015, the closure related costs are $1,120,403.31. That amount represents engineering costs and legal expenses. The details of these costs are shown in **Exhibit GS-DT1**.

3. Plant Closure Costs and Cost Recovery.

Q. WILL YOU SUMMARIZE THE ENGINEERING COSTS INCURRED IN RELATION TO THE PLANT CLOSURE?

A. Yes. The bulk of the engineering costs relate to the need to send an additional 120,000 gallons of wastewater that is now treated at the Boulders WWTP down the line to be treated elsewhere, presumably to Scottsdale for delivery to the 91st Avenue plant along with the rest of the Company's collected wastewater. During Phase 1, we were only able to do a preliminary assessment of the necessary improvements, and then Phase 2 commenced before we could do much of the necessary engineering. But the Company has since completed a substantial portion of the engineering analysis related to the collection and transmission of wastewater after closure.

Q. WHAT HAS THIS MORE IN-DEPTH ENGINEERING ANALYSIS SHOWN ABOUT THE CLOSURE PROJECT?

A. That the costs to upgrade the collection and transmission system so Liberty Black Mountain can eliminate the Boulders WWTP are substantially higher than we were able to estimate during Phase 1 in 2010.[27] The current estimate is over $2.6 million, well over the $900,000 used in Phase 1. With the additional cost for replacement capacity I mentioned above (at least $480,000), the price tag has gone up over $2 million, plus the legal expenses.

Q. CAN YOU PLEASE SUMMARIZE THE LEGAL EXPENSES?

A. Yes. Liberty Black Mountain has incurred over $600,000 in legal fees relating to closure of the Boulders WWTP. Those legal costs were the result of the circumstances underpinning the Commission's decision to order closure of the

[27] *See* Decision No. 71865 at 44:3-5.

plant. The legal costs relate to various closure-related items and issues, including negotiations with the Resort and Scottsdale, regulatory requirements of closing the Boulders WWTP, the costs of the Marshall lawsuit seeking closure of the plant, and the Resort's choice to litigate various issues rather than cooperate with the Company.

Q. WHAT LITIGATION HAS THE RESORT UNDERTAKEN?

A. First, the Resort invoked the alternative dispute resolution process under the EDA, threatening to arbitrate and demanding that we meet in good faith as required by that agreement. Then, the Resort filed for extraordinary relief from the Arizona Supreme Court. After that, the Resort pursued a costly appeal of the Phase 2 decision in the Maricopa County Superior Court. The Commission's decision to order closure was not reversed by either court, nevertheless, the Resort is now appealing to the Arizona Court of Appeals. In no uncertain terms, the Resort pursued those various legal actions to void the Commission's closure order and require Liberty Black Mountain to continue operation of the Boulders WWTP.

Q. WHAT WAS THE MARSHAL LAWSUIT?

A. Until a couple years ago, Mr. Marshall was the owner of the home closest to the Boulders WWTP and Mr. Marshall was very much in support of the plan to close and remove the facility. As mentioned, the Phase 1 decision was issued in September 2010 with the Commission's blessing for the closure of the Boulders WWTP. By early 2011, Mr. Marshall was already fed up waiting for the Resort and filed suit specifically to force closure of the plant given the Resort's opposition to closure.

Q. WHAT RELIEF DID MR. MARSHALL SEEK IN HIS LAWSUIT?

A. A preliminary injunction requiring the Company to cease operating the Boulders WWTP and a permanent injunction prohibiting the plant from operating again. He

also sought damages.

Q, WHAT HAPPENED TO THE MARSHALL LITIGATION?

A. After about three years of litigation, it was settled.

Q. WHY SHOULD THE COSTS OF THE MARSHALL LITIGATION BE INCLUDED IN THE AMOUNT THE COMPANY RECOVERS?

A. Mr. Marshall sought to use his lawsuit to facilitate Liberty Black Mountain's closure of the Boulders WWTP, which virtually every customer except the Resort has wanted since at least 2010. Immediately after filing his suit, Mr. Marshall reached out to the Company and explained his reasoning and desire to help us hasten the inevitable. The Company, however, was unable to reach any sort of agreement to cease operating the Boulders WWTP without the Resort's consent because the EDA was still in effect at that time.

Thereafter, the Commission reopened the rate case to further address closure of the Boulders WWTP, and the Resort commenced its own legal actions. At that point, the Company was stuck again – unable to settle, unable to close the plant, unable to do anything but defend Mr. Marshall's lawsuit. In other words, but for the Resort's opposition to the Commission's order that the Company close the boulders WWTP, Mr. Marshall's lawsuit would have been resolved quickly and inexpensively.

Q. DO YOU HAVE AN UPDATED ESTIMATE OF THE TOTAL COST TO CLOSE THE BOULDERS WWTP?

A. The best I can say at this time is that the Company is looking at an estimated $1.2 million for replacement capacity, an estimated $2.6 million for upgrades to the collection and transmission system, an estimated $750,000 for legal fees (assuming the Resort loses its current appeal and stops litigating), for a total of at least $4.5 million, plus the costs to remove the facility after closure, which will be partially

offset by the sale of the land. Of course, engineers can only give their best estimates based on known conditions, and I can't possibly predict the future legal costs.

Q. DO YOU HAVE ANY ESTIMATES OF THE REMOVAL COSTS?

A. No. Since Decision No. 71865, the Company has learned that the removal will take some time as, among other things, there is going to be a complicated regulatory process. So the closure project should now be seen as having to proceed in three stages. The first stage can be referred to as the litigation phase, and it has been ongoing since before the Phase 2 decision in May 2013. Hopefully, that segment is coming to an end when the pending appeal is decided but that is not within Liberty Black Mountain's control. The second stage is the actual closure phase, where the Company will acquire replacement capacity and upgrade the lines to deliver all of the wastewater to Scottsdale for treatment. That stage has begun and the Company is continuing with the engineering, negotiations with Scottsdale, and other planning. The third stage will be the removal phase. This will commence after the Boulders WWTP is taken off-line and no longer treating wastewater, which will be the end of the second stage.

Q. IS LIBERTY BLACK MOUNTAIN SEEKING TO RECOVER ANY OF THE CLOSURE COSTS IN THIS RATE CASE?

A. Yes, the amount that has been incurred through May 31, 2015, as mentioned above, and shown in **Exhibit GS-DT1**.

Q. HOW DOES LIBERTY BLACK MOUNTAIN PROPOSE TO RECOVER THESE CLOSURE COSTS?

A. Through the plant closure cost surcharge mechanism approved by the Commission in the Phase 1 decision. Mr. Bourassa details the determination of a surcharge of

$8.57 per month per customer in his direct testimony.[28]

Q. IS THE AMOUNT OF THE PROPOSED SURCHARGE THE SAME AMOUNT THE COMMISSION APPROVED IN DECISION NO. 71865?

A. The Commission approved the methodology for the surcharge mechanism but did not approve any specific amount.[29] Instead, the Commission set the parameters for implementation and recovery of a plant closure cost surcharge. Among other things, the Commission order addresses:

- Filing of schedules to support the costs to be included in the surcharge.
- Limiting the Company to one surcharge request before Boulders WWTP closure was complete.
- A $15 cap on the amount of the monthly surcharge.
- Company to file a rate case "no later than 12 months after completion of the closure project."
- Surcharge to go into effect only after Commission approval.[30]

Q. WHAT RELIEF IS LIBERTY BLACK MOUNTAIN SEEKING IN THIS RATE CASE?

A. First, Liberty Black Mountain seeks to implement the plant closure cost surcharge to allow it to begin recovering the costs incurred through May 31, 2015 in relation to the closure of the Boulders WWTP. Second, Liberty Black Mountain is asking to eliminate the restriction to a single surcharge. Third, Liberty Black Mountain is requesting that the $15 cap on a plant closure cost surcharge be eliminated.

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[28] Bourassa Dt. at 11:8 – 13:9.

[29] Decision No. 71865 at 55:1-3.

[30] Decision No. 71865 at 54:13-55:4.

Q. WHY DOES LIBERTY BLACK MOUNTAIN BELIEVE IT SHOULD START RECOVERING CLOSURE COSTS NOW?

A. Because it has already invested a substantial amount of capital in pursuit of closure as overwhelmingly demanded by its customers and ordered by the Commission. The fact that the Boulders WWTP has not been closed yet is not due to Liberty Black Mountain's actions or inaction. The Company has worked on this project for some seven years now and it would not be fair to force it to wait several more years to start recovery of those costs. The Company has made the investment necessary to move forward to close the Boulders WWTP and it is time for the customers to start to pay a return on that investment.

Q. OKAY. WHY DOES THE RESTRICTION TO A SINGLE SURCHARGE NEED TO BE ELIMINATED?

A. So that the Company can also begin to promptly recover the substantial costs it will be incurring for replacement capacity and upgrading the transmission system when the Boulders WWTP ceases to be used. As I explained, there will be a delay between the time the Boulders WWTP ceases to treat wastewater (i.e., closure) and the time the equipment and facilities can be completely removed. The Company does not want to have to wait to begin recovery on and of millions of dollars of capital invested at the behest of its customers and by order of the Commission until the Boulders WWTP is completely removed.

Q. SO WHEN WILL LIBERTY BLACK MOUNTAIN FILE THE NEXT RATE CASE AFTER THIS ONE?

A. After the Boulders WWTP is closed, which, as I mentioned, looks like it will be well before the plant is physically removed. But it will be well after the Company's has spent millions of dollars on top of what it has already incurred on the closure project.

Q. WHY CAN'T LIBERTY BLACK MOUNTAIN WAIT UNTIL THE BOULDERS WWTP HAS BEEN REMOVED BEFORE COST RECOVERY STARTS?

A. Because that would not be fair. Again, Liberty Black Mountain has, for years now, invested capital to give customers what they want and the Commission ordered, which is the closing down of a plant that is used and useful and fully compliant with all applicable regulations and requirements. The operation of the Boulders WWTP will no longer be a potential source of odors or noises, which is the reason for the closure. Postponing recovery until after removal—a date that is potentially years away and is now expected to follow closure by a year or two—is simply unfair to Liberty Black Mountain.

Q. BUT WASN'T THE GOAL OF THE BHOA AND THE COMMISSION TO GET THE PLANT OUT OF THE COMMUNITY?

A. Yes, and Liberty Black Mountain will keep working to finish the job unless the customers and Commission have changed their minds given the increased price tag. But the reasons the Boulders WWTP closure is taking longer have little to do with the Company and the closure itself will eliminate the facility as a source of any odors or noise. Removal of the physical facility will occur as soon after the Boulders WWTP ceases to operate as possible, but much of that timing is beyond the Company's control.

I think it also bears remembering that this project was conceived with and based on the fact that the customers are willing to pay for what they wanted, closure of the Boulders WWTP. Asking for that recovery to start now, and then increase when the plant ceases to operate, is fair and just under these circumstances, including the Company's stranded investment to date to achieve the closure goal. On the other hand, delaying recover of those costs for several more

years, until the plant is ultimately removed, would not be even remotely fair to the Company under these circumstances.

Q. WILL LIBERTY BLACK MOUNTAIN BE ABLE TO UNILATERALLY INCREASE THE SURCHARGE?

A. No. After the plant is closed—no longer receiving or treating wastewater—the Company would file the information necessary for Staff to review the expenditures and make a recommendation to the Commission. This would be very similar to the surcharge contemplated in the Phase 1 decision, except that the $15 cap would not be applicable.

Q. AND WHY IS LIBERTY BLACK MOUNTAIN ALSO SEEKING TO ELIMINATE THE CAP ON THE SURCHARGE?

A. Because the $15 cap imposed by the Commission in Phase 1 was based on the then-estimated costs of $720,000 for replacement capacity and less than $1 million for the system upgrades. Given what is now known about the increased costs and the time this closure project is taking, the cap is no longer reasonable and should be eliminated.

Q. BUT MR. SORENSEN, AREN'T THE RISKS OF DELAYED RECOVERY OF INVESTMENT ON THE UTILITY?

A. Maybe in those instances where the Company makes the decision to invest, and where that risk is recognized in setting the rate of return. But here, the Company was asked by its customers (and even sued by one of them) and then ordered by the Commission to remove an asset that everyone agrees is used and useful and fully compliant, simply because the community does not want the plant there anymore. That was why the BHOA agreed to support and the Commission approved the plant closure cost surcharge in the first place. The fact that the road to closure has been longer and more costly to travel is not the Company's fault and the Company

should not bear the financial burden alone.

Q. IS THE PRICE TAG NOW TOO HIGH, MR. SORENSEN?

A. That's not Liberty Black Mountain's decision. If the customers no longer want to pay for plant closure, and/or the Commission thinks the cost is too high, then the Commission directive that the Boulders WWTP be closed needs to be modified by the Commission. Of course, in that scenario, the Company still should recover the costs incurred up to that date. The Company is not responsible for the higher price tag for closure of the Boulders WWTP, and it has incurred costs with the assurance that costs incurred to give customers what they want and comply with a Commission order requiring closure of the WWTP would be recovered through rates.

Q. DOES LIBERTY BLACK MOUNTAIN SEEK ANY OTHER RELIEF RELATED TO THE RECOVERY OF PLANT CLOSURE COSTS?

A. Yes. In Decision No. 71865, the Commission left open the time for Staff review prior to Commission approval of the plant closure cost surcharge. The Company believes that specific timeframes work better and, therefore, the Company recommends that Staff be required to make its recommendation within 60 days of the Company's filing of the required schedules and other information.

Q. DOES THAT TIME FRAME APPLY TO THE INITIAL IMPLEMENTATION OF THE SURCHARGE REQUESTED IN THIS RATE CASE?

A. No. The surcharge would start with the effective date of the new rates approved in this rate case, where all parties will have the chance to review and make their own recommendations.

Q. SO, CAN YOU SUMMARIZE HOW THE PLANT SURCHARGE WOULD WORK?

A. Initially, the amount of the plant closure surcharge will be $8.57, as Mr. Bourassa explains in his direct testimony.[31] The amount would be recalculated annually to recognize the portion that has been recovered. Then, when the closure is complete, and those costs are known, Liberty Black Mountain will file to increase the surcharge to begin recovering the substantial costs to close the Boulders WWTP. Upon Commission approval, the new surcharge amount would then be collected. The Company would also file a rate case within 12 months of the date the Boulders WWTP is taken off line. The long-term cost recovery related to the plant closure costs would be addressed in that rate case.

Q. HOW WOULD THE COMPANY RECOVER THE COSTS OF REMOVAL?

A. The plant closure surcharge could again be increased, and, at some point after the Boulders WWTP has been physically removed, it is likely another rate case will need to be filed. Hopefully in the next rate case, the one after closure, a clearer picture of the removal time frame and costs will be available and it can be further discussed in that rate case. If things go more quickly than expected, the removal costs might even be available in time for that rate case as post-test year plant. Again, the key for the Company is that it be allowed to promptly start recovering its costs of complying with the order to close the plant.

Q. DOES THE RELIEF REQUESTED BY LIBERTY BLACK MOUNTAIN, AS YOU HAVE DESCRIBED IT, REQUIRE MODIFICATION OF EITHER DECISION NO. 71865 AND/OR 73885?

A. From my non-lawyer's perspective, the Commission has broad powers to fashion

[31] Bourassa Dt. at 11:8-11.

relief in this rate case, and I believe the Commission has authority to approve Liberty Black Mountain's requested implementation of the surcharge mechanism, including the ability to increase that surcharge upon closure of the Boulders WWTP without the $15 cap previously adopted. Additionally, the rate application requests that the Commission rely on A.R.S. § 40-252 to the extent necessary to grant the relief being requested in this rate case with respect to closure of the Boulders WWTP.

C. <u>COMMERCIAL RATE DESIGN</u>.

Q. YOU MENTIONED THAT LIBERTY BLACK MOUNTAIN IS PROPOSING A NEW RATE DESIGN FOR ITS COMMERCIAL CUSTOMERS?

A. Yes, this was a directive of the Commission in Decision No. 71865,[32] and more recently, has become the request of Carefree and a number of our commercial customers.

Q. IS THERE A PROBLEM WITH THE CURRENT RATE DESIGN FOR COMMERCIAL CUSTOMERS?

A. No, it is not a problem, but I would describe it as a concern. Several commercial customers in Carefree certainly believe that the current rate design has outlived its usefulness. I will explain.

Near as we can tell, in a rate case for Liberty Black Mountain some thirty years ago, Commission Staff recommended that an ADEQ Engineering Bulletin be used as a proxy for actual wastewater flows. The bulletin provides estimated flows for various types of commercial establishments – offices, hospitals, and restaurants, among others. That engineering bulletin is intended for use by developers,

[32] *See* Decision No. 71865 at 67.

engineers and regulators as a methodology to determine how much wastewater a new commercial establishment will generate for purposes of designing and planning sewer system capacity. In its service territory, Liberty Black Mountain provides sewer service only and water service is provided by other entities (currently, water service is provided to Company customers by Carefree, Scottsdale, and Cave Creek Water Company). Therefore, the ADEQ Engineering Bulletin was adopted as a proxy for Liberty Black Mountain to calculate customer wastewater flows without any actual water or wastewater flow information.

Originally, the Commission adopted ADEQ Bulletin No. 11 in the Company's tariff. Eventually, ADEQ issued an updated version, Engineering Bulletin No. 12, and the Commission, in turn, employed ADEQ Engineering Bulletin No. 12 in the Company's tariff. For over 20 years, the Company has used ADEQ Engineering Bulletin No. 12 to calculate sewage flows for commercial customers in order to bill for wastewater service.

Q. WHAT SPECIFICALLY DID THE COMMISSION ORDER LIBERTY BLACK MOUNTAIN TO DO WITH RESPECT TO THE COMMERCIAL RATE DESIGN?

A. In Decision No. 71865, the Commission ordered that Liberty Black Mountain, in its next rate case, which is this one, "present evidence regarding alternative methods for calculating sewage flow assumptions used for billing commercial customers. The Company shall consider, at a minimum: contacting ADEQ regarding plans for revising Bulletin No. 12; other sewage flow data based on technological improvements and conservation assumptions; and whether it is possible to obtain actual water usage data from the water utilities in the Company's service area for purposes of calculating more accurate wastewater flows on its

system."[33]

Q. WHAT HAS LIBERTY BLACK MOUNTAIN DONE TO COMPLY WITH THIS COMMISSION ORDER?

A. We are proposing a commercial rate design based on actual water usage. Mr. Bourassa explains the details of the rate design in his direct testimony.[34]

Q. DID THE COMPANY CONSIDER ANY OTHER ALTERNATIVES TO THE CURRENT RATE DESIGN?

A. Not really. There are really only two ways to bill sewer customers – actual flow data or some sort of a proxy. Since it is not practical or feasible to meter all wastewater flows, we can only use actual water use data if it is available. Otherwise, we need a proxy – like ADEQ Engineering Bulletin No. 12.

Q. DID YOU CONTACT ADEQ ABOUT AN UPDATED VERSION OF ENGINEERING BULLETIN NO. 12?

A. Actually, yes. ADEQ advised that the Arizona Administrative Code has superseded Bulletin No. 12.[35]

Q. YOU MENTIONED THE *VENUES CAFÉ* PROCEEDING A FEW TIMES. WHAT HAPPENED IN THAT PROCEEDING?

A. One of our commercial customers – Carefree 34, Inc. d/b/a Venues Café – a restaurant and bar in Carefree, filed a formal complaint on October 22, 2013, claiming that the rates being charged by the Company amount to "rate discrimination/unreasonable difference in rate between classes of service" in violation of Ariz. Const. art. 15, § 12 and A.R.S. § 40-334, and that such rates are

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[33] Decision No. 71865 at 67.

[34] Bourassa Dt. at 29-30.

[35] *See* A.A.C. R18-9-E.301, *et seq.*

"unreasonable and unaffordable."[36]

Put simply, Venues Café believed that use of ADEQ Bulletin No. 12 in the Company's tariff was unfair and illegal. On that issue, the record in the complaint demonstrated that Liberty Black Mountain billed Venues Café and other restaurant customers in accordance with the tariff of rates and charges approved by the Commission in Decision No. 71865. The Venues Café complaint went to a full evidentiary hearing (including testimony from multiple restaurant owners) and it went before the Commission at open meeting twice.

Q. WHAT DID THE COMMISSION FIND?

A. In Decision No. 75042, issued on April 23, 2015, the Commission expressly determined that the "evidence in this matter, including testimony from [Venues Café's] witnesses, establish that the Company is following its tariff with respect to its sewage charges to restaurants."[37] In Decision No. 75042, the Commission dismissed the complaint filed by Venues Café and determined that Liberty Black Mountain is in full compliance with its tariff and applicable law in billing Venues Café and other restaurants based on seat count. Cognizant of the need to change rates and/or revenues in rate cases, the Commission also made it abundantly clear in the *Venues Café* proceeding that Liberty Black Mountain should file a rate case and propose a new rate design, preferably based on actual water usage, as soon as possible. As mentioned, Carefree has also passed a resolution urging the Commission to force the Company to file a rate case to address the rate design, especially as it applies to the restaurants we serve in in Carefree.[38]

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[36] Formal Complaint (filed October 22, 2013 in Docket No. SW-02361A-13-0359) at 1.

[37] Decision 75042 at 12 ¶ 62.

[38] Resolution 2014-05 (dated May 6, 2014 and filed November 5, 2014 in Docket No. SW-02361A-13-0359).

Q. WHAT IS THE ISSUE WITH THE RESTAURANTS?

A. Well, let me just say that the restaurants operating in Carefree do not like their current sewer bills. We have heard from a number of restaurant customers demanding that we reduce their bills by changing our billing methodology before this rate case is finished. All we can do, and what we have done here, is file a new rate case so the Commission can address the matter after hearing from all of the interested stakeholders.

Q. SO YOU EXPECT CAREFREE AND/OR ONE OR MORE OF THE RESTAURANTS TO INTERVENE IN THIS RATE CASE?

A. Absolutely. The Company has and will continue to encourage interested stakeholders to participate in this rate case relating to the commercial rate design. I actually expect several intervenors in this rate case, including Carefree, the BHOA, the Resort, and probably the Carefree Restaurant Association. There could be others as well. I expect this to be a fairly contested rate case with multiple parties asserting their interests.

Q. HOW ARE RESTAURANTS BILLED UNDER THE PROPOSED RATE DESIGN IN THIS CASE?

A. The same as all commercial customers – based on actual water usage.[39] However, as Mr. Bourassa's testimony reflects, the restaurants will see a significant decrease in their rates under the Company's proposed rate design.[40]

Q. HOW MANY COMMERCIAL CUSTOMERS DOES LIBERTY BLACK MOUNTAIN SERVE?

A. 133 in Carefree, two in the service territory of Cave Creek Water Company and nine in Scottsdale.

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[39] Bourassa Dt. at 29:19 – 30:24.

[40] Bourassa Dt. at 31:20-24.

Q. HAS THE COMPANY OBTAINED ACTUAL WATER DATA FOR ALL OF THEM IN THE PROPOSED RATE DESIGN?

A. Yes. I would note, too, our ability to implement and use a water usage based rate design going forward is contingent on the water providers in the service area providing accurate water usage data on a timely basis.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS MATTER?

A. Yes.

LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.

EXHIBIT GS-DT1

Exhibit GS-DT1

Row Labels	Sum of Cost Code Actual Cost TTD
Capitalized Overhead	105,017.80
Capitalized AFUDC	75,459.26
Capitalized Direct Labor	2,496.08
Engineering	267,446.02
Legal	669,984.15
Grand Total	**1,120,403.31**

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR AUTHORITY TO ISSUE EVIDENCE OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED $3,400,000.	DOCKET NO: SW-02361A-15-0206
IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-15-0207

REBUTTAL TESTIMONY OF

GREG SORENSEN

January 6, 2016

EXHIBIT
A-12
ADMITTED

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II. STAFF AND RUCO HAVE MISSED THE POINT OF THIS RATE CASE 2

I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Greg Sorensen. My business address is 701 National Avenue, Tahoe Vista, California 96148.

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

A. I am providing this testimony on behalf of the applicant Liberty Utilities (Black Mountain Sewer) Corp. (hereafter "Liberty Black Mountain" or the "Company").

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

A. I am employed by Liberty Utilities Service Corp, a wholly owned subsidiary of Liberty Utilities Co., as President – California. I am also President of Liberty Utilities Co., which is the corporate entity through which funding passes from the ultimate parent, APUC, to the operating utility subsidiaries, like Liberty Black Mountain. I also am a member of the Liberty Utilities Capital Review Committee (CRC), which is an administrative body having oversight and authority over all capital expenditure projects where Liberty Utilities Co. funding is being used.

Q. DID YOU PREVIOUSLY PROVIDE TESTIMONY ON BEHALF OF LIBERTY BLACK MOUNTAIN IN THIS CASE?

A. Yes. My direct testimony was filed on June 22, 2015 with the Company's application.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The primary purpose of my rebuttal testimony is to explain why Staff and RUCO seem to have missed the point of this rate filing all together. I will also address the likely detrimental impacts that would follow from adoption of either Staff's or RUCO's recommendations in this rate case. Put another way, I will address the consequences of the Commission adopting either Staff's or RUCO's recommendations in this case relating to recovery of plant closure costs, returns on

equity, surcharges and corporate costs.

II. STAFF AND RUCO HAVE MISSED THE POINT OF THIS RATE CASE.

Q. WHY WAS THIS RATE CASE FILED WHEN IT WAS FILED, MR. SORENSEN?

A. I think the reason was stated very clearly in this Q&A from my direct testimony.

> **Q. SO EXACTLY WHY IS LIBERTY BLACK MOUNTAIN FILING FOR NEW RATES AT THIS TIME?**
>
> A. There are several factors significantly contributing to the need for this rate case. The urgency to make this rate filing arises from customer frustration with the rate design for commercial customers. As the Commission heard in the recently concluded *Venues Café* proceeding, some commercial customers and Carefree believe use of ADEQ Engineering Bulletin No. 12 by Liberty Black Mountain is outdated, at best (footnote omitted). Carefree has already drafted a resolution urging the Company to file a rate case to address that rate design issue, and in the *Venues Café* proceeding, the Commission also appeared ready to move on from the use of that engineering bulletin as a proxy for wastewater flows. Since that Open Meeting on April 14, 2015, when Liberty Black Mountain's lawyer told the Commission that the Company would get this rate case filed as soon as possible, the Company and the Commission have been deluged with complaints and demands from restaurants and landlords in Carefree about the current sewer rates for commercial customers. The Company is filing this rate case, in part, to address the commercial rate design issues as soon as possible.[1]

Q. AND IT IS YOUR TESTIMONY THAT STAFF AND RUCO SEEM TO HAVE MISSED THE POINT OF THIS RATE CASE?

A. Yes, they either missed the point, or their witnesses are seeking to portray something different for their own reasons. As we explained to representatives from Staff and RUCO, before and after this rate case was filed, Liberty Black Mountain was pressured into filing by the Town, some of Liberty Black Mountain's commercial customers, and the Commission, in order to address Engineering

[1] Direct Testimony of Greg Sorensen ("Sorensen Dt.") at 10:15 – 11:8.

Bulletin No. 12 and its use in the commercial rate design. Since we had to file this rate case, or ignore our customers and the Commission, we also thought that it would be a good time and place to address issues that had arisen with respect to the Company's efforts to comply with the Commission's order to close the East Boulders Wastewater Treatment Plant ("Boulders WWTP" or "Plant"). Reading the Staff and RUCO testimony, however, one could be led to the conclusion that this rate case was filed to recover a small rate increase and a large amount of rate case expense. Nothing could be further from the truth.

Q. CAN YOU POINT TO ANY SPECIFIC TESTIMONY FROM STAFF AND RUCO TO ILLUSTRATE YOUR POINT, MR. SORENSEN?

A. Yes. Staff's testimony that the "primary reasons" for this rate case are "to recover operating expenses and earn [the] authorized rate of return."[2] Every rate case seeks rates that recover operating expenses and a fair return. But clearly the primary reasons for this rate case are the commercial rate design and plant closure.

Mr. Coley's testimony is even worse. It seems to us that Mr. Coley is actually accusing Liberty of doing something to disadvantage the customers when he testified that

> This begs the question "why did the Company file this rate case to begin with." From what RUCO can tell the Company had to ***scratch and claw*** to get its revenue requirement to reflect a positive increase.[3]

Obviously Mr. Coley has ignored pages of my direct testimony answering his own question, "why this rate case was filed."[4] In light of the real reasons that we brought this rate case—to address the customers' desire to have the Plant closed

[2] Direct Testimony of Crystal S. Brown ("Brown Dt.") at 3:1-4.

[3] Direct Testimony of Timothy J. Coley ("Coley Dt.") at 7:20 – 8:3.

[4] *See* Sorensen Dt. at 22 – 32.

and the customers' desire for a new rate design—Mr. Coley's allegation that we "scratched and clawed" to come up with a rate increase so we could file this case is offensive. All of which begs the question, who does RUCO represent? The Company's residential customers support the closure of the Boulders WWTP, and their elected representatives have entered into a settlement concerning the critical Plant closure issues in this rate case.[5] And not one customer, residential or otherwise, has objected to the new commercial rate design. So, it sort of appears as if RUCO has its own agenda here.

Q. BUT MR. SORENSEN, DON'T BOTH PARTIES EXPRESS SUPPORT FOR THE PLANT CLOSURE AND SETTLEMENT AGREEMENT?

A. Mr. Armstrong claims that Staff supports the Settlement Agreement.[6] Mr. Coley claims that RUCO supports the customers' desire to see the Plant closed but doesn't mention the Settlement Agreement.[7] These claims of support are illusory. The recommendations by Staff and RUCO relating to very low returns on equity, delayed recovery of closure costs, denial of corporate costs, and reductions in rate case expense illustrate that Staff's and RUCO's primary goal is to keep rates low at any cost, including preventing Liberty Black Mountain from closing the Plant as the Town, the BHOA, and customers have requested.

This is the Liberty perspective. Liberty Black Mountain has already spent over $1.1 million (excluding rate case expenses) and is ready to spend millions more to meet a Commission mandate compelled by customers. Along the way, Liberty Black Mountain has worked cooperatively and collaboratively with

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[5] Notice of Filing Proposed Settlement Agreement (filed November 16, 2015), Exhibit A; Rebuttal Testimony of Matthew Garlick ("Garlick Rb.") at 2 – 9.

[6] Direct Testimony of James R. Armstrong at 2:6-8.

[7] *See* Coley Dt. at 52 – 53.

stakeholders, reaching agreement after agreement to resolve obstacles to complete an extraordinary mandate to close a used and useful wastewater treatment plant. I am not aware of any other case where the Commission has compelled a utility to close a used and useful plant. Then, while all that is going on, the Commission and customers also wanted us to get rid of the current commercial rate design, a rate design based on an approach that Staff recommended and the Commission adopted decades ago. So we filed a rate case to address these matters, and not only do Staff and RUCO not support the relief the Company needs to finish the Plant closure, their recommendations will leave the Company financially strapped and unable to attract capital, including capital needed to close the Boulders WWTP.

Q. BUT MR. SORENSEN, ISN'T LIBERTY BLACK MOUNTAIN UNDER COMMISSION ORDER TO CLOSE THE PLANT?

A. Yes, an order premised on prompt recovery of the costs of closure, issued in a rate case docket where Liberty Black Mountain received a 10.2 percent return on equity. This is what makes Staff's and RUCO's bait and switch on the equity return so potentially harmful. The shareholder is already weary of further investment in Arizona. It simply isn't going to happen if the Company is losing money and unable to earn a reasonable rate of return, which is what will happen if the Commission adopts Staff's and RUCO's recommendations in this rate case.

It is critical to note that the premise of the Commission's closure decision, and the Company's agreement to closure, was that the Company would recover all of its closure costs promptly and subject to a fair and reasonable rate of return of 10.2 percent. There is no other way to put it but to state that Staff and RUCO's recommendations here would materially change the deal. The Company would never have agreed to close a used and useful plant for a return of 8.6 percent or 8.95 percent now being recommended, not to mention delaying recovery of those

costs until some future rate case, and not recovering the costs of obtaining capital in the first place because Staff and RUCO recommend denying those costs as well. I was President of Arizona in 2010 and I can, without hesitation, tell the Commission that Liberty Black Mountain never would have agreed to close the Boulders WWTP under those conditions.

In fact, I would also state that were the Commission to adopt the recommendations of Staff or RUCO in this rate case, I can fully support a decision not to close the Plant under these conditions. If that happens, Staff and RUCO can explain to the Town, the BHOA and the rest of Liberty Black Mountain's customers why the plant will continue to operate and closure does not occur.

Q. CAN YOU ELABORATE ON YOUR TESTIMONY THAT THE SHAREHOLDER HAS GROWN WEARY OF INVESTMENT IN ARIZONA?

A. Yes. Arizona offers lower authorized returns than almost any other state in which Liberty Utilities operates. Additionally, rates are artificially lowered by disallowance of reasonably incurred, prudent costs that will continue to be incurred, including corporate costs and at-risk compensation as examples in this case. This makes the Commission approved ROE "unachievable." Imagine this from the perspective of the shareholder. We are trying to take steps to address the concerns of our customers and regulators, and Staff and RUCO are using it as an opportunity to get the lowest possible rates. Again, I can only hope the Commission doesn't agree with those tactics.

Q. OKAY, BUT COULDN'T THE COMPANY BE ACCUSED OF "BAIT AND SWITCH" TACTICS TOO SINCE ITS ASKED FOR A 10.8 PERCENT RETURN IN THIS CASE, HIGHER THAN THE 10.2 PERCENT AUTHORIZED IN THE LAST CASE?

A. I have no doubt Staff and RUCO believe the requested 10.8 percent is inflated. But taking a simple, common sense approach, the last case was decided in 2010. The economy was worse, Liberty Black Mountain had less debt than it will now, and Liberty Black Mountain is under order to close a used and useful, fully compliant plant. If that doesn't increase risk, I have no idea what does. Furthermore, we have been told to change our rate design, and to not use the model that the Commission has used for the entire time Liberty and Algonquin have operated in Arizona. This creates additional risk going forward. And all of those factors are occurring at the same time for Liberty Black Mountain. Yet Staff and RUCO now recommend the lowest ROEs we have seen suggested this decade.

If 10.2 percent was fair in 2010, I do not see how 10.8 percent is not fair now. Staff should have come in at least at 10.2 percent, consistent with the last case and its position elsewhere that it is perfectly reasonable to give a public service corporation the same ROE it got last time.[8] Recommended returns on equity under 9 percent are simply ridiculous. The average authorized returns for the sample companies are 9.58 percent, and again, common sense indicates that an investment in Liberty Black Mountain is more risky than an investment in a large publicly traded utility.[9] This is particularly true since the recent appellate court decision issued recognizing the unique risk Arizona public service corporations face due to constitutional constraints on ratemaking by the Commission.[10] If the goal is to chase investment out of Arizona, then Staff and RUCO have provided recommendations that will achieve the goal. Likewise, if the goal of Staff and

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[8] Direct Testimony of Elijah Abinah (filed November 6, 2015 in Docket No. E-04204A-15-0142) at 2 – 3.

[9] Direct Testimony of Thomas J. Bourassa (Cost of Capital) at 16 – 22.

[10] *RUCO v. Arizona Corporation Commission*, issued by the Arizona Court of Appeals (Division One) on August 18, 2015.

RUCO is to prevent closure of the Boulders WWTP, then Staff and RUCO have provided recommendations that will achieve that goal as well.

Q. ARE YOU SAYING THAT CC&N HOLDERS WON'T INVEST AS NEEDED TO PROVIDE SAFE AND RELIABLE UTILITY SERVICE IN ARIZONA?

A. I can't speak for others, but Mr. Garlick will have to fight for every dollar he needs to invest in infrastructure in Arizona. Liberty Utilities has over 67,594 customers in Arizona, and given the ever-decreasing returns and difficulty earning even those low returns, the investor is going to do the rational thing for an investor to do—place capital in utilities in other states with lower risk and higher returns.[11] Again, nearly every investment in the APUC portfolio of utility investments is a better investment than Arizona. As a result, while APUC will provide every penny that Liberty Arizona operations require to maintain safe, adequate, and reliable service, it is absolutely impossible for me to imagine APUC providing one penny more than that bare minimum.

Q. THANK YOU. YOU TESTIFIED THAT STAFF'S AND RUCO'S OTHER RECOMMENDATIONS WOULD DETRIMENTALLY IMPACT THE COMPANY'S FINANCIAL HEALTH. CAN YOU ADDRESS SPECIFIC EXAMPLES?

A. Yes, I will address two of them – the corporate cost allocation recommendations and the rate case expense recommendations. Starting with the issues surrounding allocated costs, I want to provide additional support for Mr. Killeen's testimony that Staff and RUCO have "turned back the clock" with respect to this issue.[12]

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[11] Garlick Rb. at 18 – 19.

[12] Rebuttal Testimony of William R. Killeen ("Killeen Rb.") at 2:3-13, 12:8-14, 17:21 – 18:3.

Mr. Killeen has provided rebuttal to Staff and RUCO addressing the types of costs included in the APUC allocation, and why these costs are reasonable and necessary costs of service.[13] He has also addressed the history of this issue before the Commission in Liberty rate cases as well as the evidence submitted in this case.[14] I will not repeat that testimony, my focus is limited to the efforts that Liberty took after the earlier round of rate cases to better develop the Commission's understanding of the APUC cost allocation.

Q. WHAT EFFORTS ARE YOU REFERRING TO, MR. SORENSEN?

A. I was responsible for some of Liberty's earlier rate cases, like the last Liberty Black Mountain case and Decision No. 72059 (January 6, 2011) for Liberty Utilities (Rio Rico Water & Sewer) Corp. ("Liberty Rio Rico"). After the Commission rejected recovery of most of the corporate cost allocation from the parent in Canada, I knew Liberty had to do something different. When I took over as President, this remained one of my priorities. So, first we looked at what other utilities were doing in and out of Arizona. We looked at Cost Allocation Manuals (CAMs) and developed one for Liberty Utilities. We met with Staff and RUCO multiple times, going over the issues surrounding the recovery of the APUC cost allocation, modifying what we were doing based on input from those other parties, and believed we had moved well past this being an issue in every Liberty rate case. When we received Commission approval supported by Staff and RUCO to recover most of the APUC allocation in our most recent rate cases before this one, Decision No. 73996 (July 30, 2013) for Liberty Rio Rico and Decision No. 74437 (April 18, 2014) for Liberty Utilities (Litchfield Park Water & Sewer) Corp., I thought we had finally succeeded in showing that these were reasonable and necessary costs

[13] Killeen Rb. at 2 – 12.

[14] Killeen Rb. at 12 – 17.

and eliminating this as an issue in Liberty rate cases in Arizona.[15]

Q. SO WHAT HAPPENED IN THIS RATE CASE?

A. I am not entirely sure. Sadly, as with much of what we have seen from Staff and RUCO in this case, their recommendations to eliminate nearly all recovery of the APUC allocation is consistent with a lowest rates at all cost mentality. How else can we explain Staff and RUCO both relying primarily on the last Liberty Black Mountain rate case, ignoring the CAM, ignoring all of the evidence presented in this rate case and the most recent Liberty rate cases, and ignoring the Commission decisions finding those costs to be necessary and reasonable. It is hard not to conclude that Staff and RUCO's witnesses intended to present the Commission with an unduly narrow view of this issue in an effort to deny recovery.

Again, this is very disappointing. Not only are Staff and RUCO recommending denial of costs that are necessary and required to raise capital, thereby forcing the shareholder to further subsidize the customers, they are sending the message that working cooperatively with Staff and RUCO to resolve contentious issues doesn't matter.

Q. OKAY, THANK YOU MR. SORENSEN. YOU ALSO MENTIONED RATE CASE EXPENSE AS AN ISSUE SUPPORTING YOUR REBUTTAL TESTIMONY THAT STAFF AND RUCO'S RECOMMENDATIONS ARE DETRIMENTAL TO THE COMPANY'S FINANCIAL HEALTH. PLEASE DISCUSS.

A. Both parties' recommendations on rate case expense, if adopted, would leave Liberty Black Mountain further subsidizing its customers' desire for fundamental changes without opportunity for recovery. These recommendations also further

[15] Killeen Rb. at 13:30 – 16:19.

illustrate my point that Staff and RUCO have missed or ignored the point of this rate filing.

Q. WHAT DID THE COMPANY REQUEST AS FAR AS RATE CASE EXPENSE?

A. Liberty Black Mountain requested that it be authorized $450,000 of rate case expense to be recovered through a rate case expense surcharge over three years.[16] This request recognized the unique, unprecedented, and complicated nature of the issues in this case. The Company was required to develop an entirely new rate design for this case. This required a cost of service study and substantial efforts to obtain, evaluate and integrate water use data from the Town of Carefree for that new commercial rate design. That's not a simple feat; it's not as if Carefree and Liberty and every private utility and municipal service provider use the same accounting programs, tools, and data sets. And it must be remembered, too, that the Company's development of this new rate design was at the behest of the Commission, the Town, and our customers.

In addition, this case involved complex issues surrounding the Plant closure. Now, the Company worked out a settlement with the Town, the BHOA, and the Boulders Resort, which should have dramatically reduced the contested issues in this case.[17] Had Staff and RUCO signed off on that settlement, the Company's rate case expense could have been substantially reduced. Ironically, and unfortunately, any chance to save and reduce rate case expense due to the Settlement Agreement and lack of dispute by the customers over the new rate design has been lost due to Staff's and RUCO's myopic attempt to use this case to lower Liberty Black

[16] Direct Testimony of Thomas J. Bourassa (Rate Base, Income Statement and Rate Design) at 14:5-7.

[17] Garlick Rb. at 2 – 9.

Mountain's rates for service.

Q. WHAT EXACTLY DOES STAFF RECOMMEND AND WHAT REASONS DOES MS. BROWN OFFER IN SUPPORT OF HER POSITION?

A. Staff recommends $250,000 of rate case expense normalized at $50,000 per year for five years.[18] Ms. Brown testifies that she looked at other cases for Liberty Black Mountain, and the average interval between rate cases. Again, she either missed or ignored the point of this rate case.[19] Let's start with the amortization period. Staff knows full well Liberty Black Mountain has to come in for another rate case in roughly three years *because of the Plant closure ordered by the Commission itself.* Again, this was the basis for seeking to recover rate case expense through a three-year surcharge. In this light, Staff's 5-year amortization appears intended to exact a forfeiture on the Company of 40 percent of Ms. Brown's already unreasonable rate case expense level.

Q. HOW DO YOU RESPOND TO STAFF'S REASONS FOR REJECTING THE RATE CASE EXPENSE SURCHARGE?

A. Ms. Brown argues first that rates should not guarantee recovery.[20] But rates should not work to ensure forfeiture either, which is what Ms. Brown is trying to do here. Again, Ms. Brown knows that the Company has to come in roughly two years before her recommended 5-year amortization period ends, ensuring that the Company under recovers the cost of bringing a rate case, at the Commission's urging and primarily for reasons that benefit the customers.

Second, Ms. Brown claims surcharges encourage companies to overspend. This is nonsense. For one thing, as Mr. Garlick testified, utilities do not try to

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[18] Brown Dt. at 34:1-13.

[19] *See id.*

[20] Direct Testimony of Crystal S. Brown (Rate Design) ("Brown RD Dt.") at 9:5-19.

spend more money than is needed.[21] It's simple financial sense. More importantly, we are talking about rate case expense. Whether the Company recovers the amount the Commission authorizes through a surcharge or not, the amount being incurred does not change. This is just a red herring.

Third, Ms. Brown claims normalization is just the way things are done.[22] But rate case expense is a different animal than other operating expenses and Staff's normalization argument is simply a way for Staff to further ensure that utilities do not recover their costs.[23] The Commission should end Staff's deceptive use of normalization to deny utilities recovery of the high cost of setting rates. As can be seen in this case, the amount of rate case expense is driven by the facts of that case, and this is not a "normal" rate case.

Q. WHY IS STAFF'S RECOMMENDED RATE CASE EXPENSE UNREASONABLE?

A. Because the amount will not come close to covering the actual cost of this complicated and now hotly contested rate case. Because Ms. Brown has made no effort to look at the specific circumstances of this rate case, including not pointing to anything the Company might have done or not done to unreasonably increase the cost of prosecuting this case.[24] Given that, and that this case was for all practical purposes forced by the Commission and the customers, the actual expense in this case is the best evidence of the amount that should be recovered.

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[21] *See* Direct Testimony of Matthew Garlick at 4:18-22.

[22] Brown RD Dt. at 9:16-19.

[23] Rebuttal Testimony of Thomas J. Bourassa (Rate Base, Income Statement and Rate Design) ("Bourassa Rb.") at 40.

[24] *See* Brown Dt. at 33:14 – 34:13.

Q. DIDN'T LIBERTY BLACK MOUNTAIN'S DELAY IN RESPONDING TO SOME DATA REQUESTS DELAY THE PROCEDURAL SCHEDULE?

A. Yes, which illustrates the large number of complex data requests Liberty Black Mountain received from Staff and RUCO, and the Company's desire to provide as complete a supporting record as possible. This included numerous efforts by Mr. Bourassa to work informally with Staff to answer their questions about the cost of service study and several other aspects of the filing. But the delay did not have an adverse impact on the amount of rate case expense requested. Not like the breadth of discovery conducted by Staff and RUCO and their recommendations, which recommendations are now giving rise to every contested issue in this case.

Q. EXCUSE ME, MR. SORENSEN. YOU'RE NOT SUGGESTING THAT STAFF AND RUCO BE DENIED THE CHANCE TO EXPRESS THEIR VIEWS, EVEN IF THOSE VIEWS DIFFER FROM THE POSITIONS OF THE CUSTOMERS THE COMPANY ACTUALLY SERVES, ARE YOU?

A. No, not at all. I am suggesting that when Staff and RUCO choose to attack the utility, deprive it of fair rates, and ignore the wishes of the customers, there should be consequences. One such consequence is higher rate case expense, which makes Staff's and RUCO's positions hypocritical as well as unreasonable. I will leave it to RUCO to explain to its constituency why RUCO is contradicting its wishes, and making this case more expensive than it otherwise could have been.

Q. WHAT DOES RUCO SPECIFICALLY RECOMMEND IN THIS RATE CASE FOR A RATE CASE EXPENSE SURCHARGE?

A. RUCO recommends rate case expense of $100,000 amortized over three years.[25] RUCO rejects the use of a surcharge to recover this cost.[26]

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[25] Coley Dt. at 49:9-12.

[26] Coley Dt. at 54:1-12.

Q. IS RUCO'S RECOMMENDED LEVEL OF RATE CASE EXPENSE REASONABLE?

A. No, it's utterly absurd. This is a Class C utility that was a Class B utility until a year ago, and this is a complex rate case involving multiple parties, the development of an entirely new rate design, and significant issues related to the closure of the Boulders WWTP. Mr. Bourassa points to much smaller utilities that have been awarded as much or more rate case expense. There is simply no rational basis for Mr. Coley's recommendation. But then, Mr. Coley admitted to not knowing why we filed this rate case and accused us of working diligently to come up with a revenue increase. Since he admits that his absurdly low recommended rate case expense is based primarily on his "review of the Company's financials as filed,"[27] it remains clear that Mr. Coley simply doesn't get it. As a result, Mr. Coley's recommendation is clearly not rational in the first place.

Q. WHAT ABOUT RUCO'S OPPOSITION TO THE PROPOSED RATE CASE EXPENSE SURCHARGE?

A. Mr. Coley's testimony has a footnote that says the rate case expense is an estimate.[28] Of course it is. The case is ongoing and not complete. All we can do is estimate rate case expense at the time a rate case is filed, more than a year before it is complete and before most of the work is done. Besides, the fact that rate case expense has to be estimated is irrelevant to whether we use a surcharge. Obviously, the surcharge would only allow the Company to recover the amount authorized by the Commission for rate case expense. Therefore, the amount to be recovered won't be an estimate. It is just another flawed aspect of Mr. Coley's recommendations.

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[27] Coley Dt. at 49:12-14.

[28] Coley Dt. at 5, n.1.

Q. ANYTHING ELSE, MR. SORENSEN?

A. Just to reiterate Liberty's profound disappointment with Staff and RUCO. We have worked for the past decade to foster a cooperative working relationship with both parties. Yet, here we are, again, in with a rate case we were forced to file, and both parties try a no holds barred approach to lower Liberty Black Mountain's rates. But their recommended revenue decreases, which are based on returns on equity under 9 percent and denial of the costs of attracting capital and necessary rate case expense, among other things, will leave the Company unable to attract capital. So the Commission should ignore Staff and RUCO, adopt the Settlement Agreement along with Liberty Black Mountain's proposed rates, and help the Company to finish the closure of the Boulders WWTP. After years of effort by numerous stakeholders, the pathway to closure is finally in front of the Commission. The Commission should approve this pathway to closure, notwithstanding Staff and RUCO opposition.

Q. BUT WHAT ABOUT MR. COLEY'S TESTIMONY (AT 7:4-18) THAT THE RELIEF LIBERTY NOW SEEKS DOES NOT COMPLY WITH DECISION NO. 71865?

A. Mr. Coley is not a lawyer, and perhaps he should not try to tackle legal issues as he is attempting to do here.[29] I am not a lawyer either, but it seems pretty obvious to me that if the Commission wishes to alter the relief previously granted, it is free to do so in this case. Again, Mr. Coley does not seem to understand the point of this rate case so he is not able to see the changed circumstances upon which we have asked the Commission to modify the prior relief. Nor does his attempted legal argument justify his leaving all recovery of closing costs, incurred or to be incurred, out of the ratemaking equation.

[29] Coley Dt. at 4:8-18.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (BLACK MOUNTAIN SEWER) CORP., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-15-____

DIRECT TESTIMONY OF

WILLIAM R. KILLEEN

June 22, 2015

EXHIBIT
A-13
ADMITTED

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I. INTRODUCTION AND PURPOSE OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William R. Killeen. My business address is 345 Davis Road, Oakville, Ontario, Canada, L6J ZX1.

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

A. I am the Director of Regulatory Strategy for Liberty Utilities (Canada) Corp. ("Liberty Utilities Canada"). Liberty Utilities Canada is the ultimate parent company of Liberty Utilities Co. ("Liberty Utilities"). Liberty Utilities Canada is a wholly owned subsidiary of Algonquin Power & Utilities Corp. ("APUC"). Liberty Utilities (Black Mountain Sewer) Corp. ("Liberty Black Mountain") is a wholly owned subsidiary of Liberty Utilities (Sub) Corp. Liberty Utilities (Sub) Corp. is a wholly owned subsidiary of Liberty Utilities Co.

As the Director of Regulatory Strategy, I am responsible for overall strategy development and management of regulatory affairs for all of Liberty Utilities' regulated utilities currently providing water, wastewater, electric and gas utility services in Arizona, Arkansas, California, Georgia, Illinois, Iowa, Massachusetts, Missouri, New Hampshire and Texas. Liberty Utilities is continuing to expand its regulated utility footprint and holdings throughout the United States. For example, Liberty Utilities recently acquired three new regulated water utilities—two in California and one in Montana.[1]

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I earned a Bachelor of Engineering Science (Chemical) degree from the University of Western Ontario (now Western University) in 1985. I also earned a Master's

[1] Those acquisitions are subject to approval by the regulatory commissions in Montana and California, which are currently pending.

degree in Business Administration from the Ivey School of Business at Western University in 1989.

I have 26 years of professional experience in the energy and utilities industries in the areas of regulation, supply, operations and customer service. I have worked at natural gas and electric utilities, as well as in consulting, marketing, and government positions. Early in my career, I was employed by Union Gas Limited, a major natural gas utility serving over 1.4 million customers in Ontario, Canada, for twelve years in varying capacities, including regulatory and supply.

Prior to joining Liberty Utilities in February 2014, I was employed by Enersource Hydro Mississauga Inc., a major electric utility serving the City of Mississauga, Ontario, for three years as Manager, Regulatory Affairs. In between my employment at these two large utilities, I was employed at various other companies, always retaining responsibility for oversight of regulatory affairs, typically in Ontario or eastern Canada. These companies include Engage Energy Canada Inc., Direct Energy as Manager, Regulatory Affairs and a consulting company, ECNG Energy LP, as Director, Supply and Regulatory Affairs for eight years. Following ECNG, I spent a brief tenure within the Ministry of Energy of the Ontario Government. My Curriculum Vitae is attached as **Exhibit WRK-DT1**.

Q. DO YOU HAVE ANY PROFESSIONAL DESIGNATIONS?

A. Yes. I am a licensed Professional Engineer in the Province of Ontario and a member of the Ontario Society of Professional Engineers.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS OR ANY OTHER COMMISSION?

A. I have not testified previously before the Arizona Corporation Commission. I have testified, however, in a number of gas and electric utility pricing cases and facility

approval cases before the Ontario Energy Board. Also, I most recently testified in a rate case before the Arkansas Public Service Commission (Docket No. 14-020-U) on behalf of Liberty Utilities (Pine Bluff Water) Inc.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to support Liberty Black Mountain's request for new rates by addressing the corporate costs and allocation methods employed by all companies within the APUC organization. In my testimony, I explain the APUC and Liberty Utilities corporate cost allocation model and the benefits of our shared service model to Liberty Black Mountain and the other regulated utilities operated by Liberty Utilities.

II. OVERVIEW OF LIBERTY UTILITIES' BUSINESS MODEL.

Q. WILL YOU PLEASE SUMMARIZE THE LIBERTY UTILITIES BUSINESS MODEL?

A. As mentioned above, APUC serves as the overall corporate parent and has two major operating subsidiaries, Algonquin Power Co. ("APCo") and Liberty Utilities. APCo is an unregulated entity that provides renewable power generation from facilities owned throughout the United States and Canada. As mentioned above, Liberty Utilities owns regulated water, wastewater, gas and electric utilities in ten states.

Q. PLEASE EXPLAIN THE LIBERTY UTILITIES SHARED SERVICES AND CORPORATE COST ALLOCATION MODEL.

A. Two corporate groups provide shared services to entities within the APUC organizational structure, including Liberty Utilities and its regulated utilities. One is APUC, and the other is the shared services department within Liberty Utilities Canada.

Q. WHAT SHARED SERVICES DOES APUC PROVIDE?

A. APUC is structured as a publicly traded holding company and provides substantial benefits to its regulated utilities and generation facilities through access to capital markets. As the ultimate corporate parent, APUC also provides financial, strategic management, corporate governance, administrative and support services to Liberty Utilities and APCo.

APUC's Financing Services involve selling units to public investors in order to generate the funding and capital necessary (be it short term or long term funding, including equity and debt) for Liberty Utilities, as well as providing legal services in connection with the issuance of public debt. In connection with the provision of Financing Services, APUC incurs the following types of costs: (i) strategic management costs (board of director, third-party legal services, accounting services, tax planning and filings, insurance, and required auditing); (ii) capital access costs (communications, investor relations, trustee fees, escrow and transfer agent fees); (iii) financial control costs (audit and tax expenses); and (iv) administrative (rent, depreciation, general office costs).[2] Non-labor costs, including corporate capital, are pooled and allocated to Liberty Utilities and APCo using the "multi-factor" method summarized in Table 1 of the APUC Cost Allocation Manual ("CAM"). Without question, the services provided by APUC are necessary for Liberty Utilities and its regulated subsidiaries to have access to capital markets for capital projects and operations.

Q. WHAT TYPES OF SHARED SERVICES DOES LIBERTY UTILITIES CANADA PROVIDE?

A. Liberty Utilities Canada provides Liberty Utilities (and its regulated utilities) with

[2] Appendix 2 of the APUC Cost Allocation Manual or "CAM" referenced below provides a more detailed discussion of the costs incurred by APUC.

the following services: accounting, administration, corporate finance, human resources (including training and development), information technology, rates and regulatory affairs, environment, health and safety, and security, customer service, procurement, risk management, legal and utility planning. Specific examples of these services include: (i) budgeting, forecasting, and financial reporting services including preparation of reports and preservation of records, cash management (including electronic fund transfers, cash receipts processing, managing short-term borrowings and investments with third parties); (ii) development of customer service policies and procedures; (iii) development of human resource policies and procedures; (iv) selection of information systems and equipment for accounting, engineering, administration, customer service, emergency restoration and other functions and implementation thereof; (v) development, placement and administration of insurance coverages and employee benefit programs, including group insurance and retirement annuities, property inspections and valuations for insurance; (vi) purchasing services including preparation and analysis of product specifications, requests for proposals and similar solicitations, and vendor and vendor-product evaluations; and (vii) development of regulatory strategy.

Liberty Utilities Canada will direct charge or assign costs that can be directly attributable to a specific utility. Those costs include direct labor and direct non-labor costs. Indirect Liberty Utilities Canada costs, however, cannot be directly attributed to an individual utility. Within the formal organizational structure, Liberty Utilities Canada provides certain services that benefit the entire company, i.e., both Liberty Utilities and APCo. Those indirect business services and costs from these shared service functions are allocated between APCo and Liberty Utilities using the "multi-factor" methodology shown in Table 4 of the CAM. Those factors are designed to closely align the costs with the driver of the

activity. These shared service functions include risk management, information technology, human resources, training, facilities and building rent, financial reporting and administration, environmental health safety and security, legal costs, treasury, internal auditing, procurement, and communications.

Once those indirect costs are allocated between APCo and Liberty Utilities, the indirect labor and indirect non-labor costs, including capital costs, attributable to Liberty Utilities are then reallocated to its regulated utilities using the Utility Four Factor Methodology set forth in Table 2 of the CAM:

CAM Table 2: Utility Four Factor Methodology

Factor	Weight
Utility Plant	25%
Customer Count	25%
Non-Labor Expenses	25%
Labor	25%
Total	**100%**

Q. HOW DOES LIBERTY UTILITIES SERVICE CORP. FIT INTO THIS BUSINESS MODEL?

A. Liberty Utilities Service Corp. ("LUSC") is a wholly owned subsidiary of Liberty Utilities. The purpose of LUSC is simple—all United States regulated utility employees are, or will be, employed by LUSC. The purpose of LUSC is to streamline administration of payroll across the United States-based companies. All employee costs, such as salaries, benefits, insurance, etc. are or will be paid by LUSC and direct charged to the extent possible to the regulated utility for which the employee performs dedicated work. In situations where time sheets do not allow direct charging of LUSC costs (which is expected to be an infrequent occurrence), those indirect costs are allocated using the allocation methodology set

forth in Table 5 of the CAM.

Q. HOW DO LIBERTY BLACK MOUNTAIN AND THE OTHER REGULATED UTILITIES IN ARIZONA BENEFIT FROM THIS SHARED-SERVICES MODEL?

A. The Liberty Utilities shared services business model serves a significant and very important role for Liberty Black Mountain and its sister companies in Arizona. The benefits of this shared service model are significant, including:

1. **Access to Skilled Strategic Management**. This means Liberty Black Mountain enjoys access to wide ranging expertise and resources that are typically not available to small utilities with less than 20,000 customers. That is a direct result of the nationwide utility footprint of Liberty Utilities and our shared services model.

2. **Controls and Processes**. Through this business model, controls and processes are in place to ensure that accounting methodologies are consistent with generally accepted accounting principles and fully adhere to Sarbanes Oxley compliance and other appropriate internal controls. That means Liberty Black Mountain benefits from sound accounting, capital investment and operational expertise.

3. **Economies of Scale**. By sharing regional resources with other utilities, Liberty Black Mountain enjoys the benefits of lower overall cost structures while at the same time maintaining a local flavor in its day-to-day operations and customer contact. Further, as Liberty Utilities grows, its overall costs will be allocated over a larger base of utilities, lowering the cost of shared services to each subsidiary utility, including Liberty Black Mountain.

4. **Access to Capital**. As discussed earlier, APUC is the entity that is traded on the Toronto Stock Exchange and ensures that Liberty Black Mountain has uninterrupted access to capital. The APUC family (including Liberty Utilities) has access to over $600M in credit facilities and, from 2010-2014, raised over $1.7B in capital through the issuance of long-term debt and equity. The capital expenditure budget for 2015 is $82M for Liberty Utilities.

Q. DOES THE UNDERLYING RECORD AND EVIDENCE SUPPORT THE NECESSITY AND BENEFIT OF THESE APUC AND LUC COSTS?

A. Yes, many of these costs are requirements of APUC being a publicly traded entity on the Toronto Stock Exchange (TSX). APUC, a publicly traded entity, must issue certain communications subject to the TSX's rules and regulations. For example, Section 714 of the TSX Company Manual states that "TSX may delist securities of a listed issuer that has failed to comply with the TSX's Timely Disclosure Policy… or with disclosure requirements under any securities law to which the issuer is subject." Additionally, section 406 of the TSX Company Manual in part states "It is a cornerstone policy of the Exchange that all persons investing in securities listed on the Exchange have equal access to information that may affect their investment decisions…. Companies whose securities are listed on the Exchange are legally obligated to comply with the provisions on timely disclosure..." Finally, Ontario Securities Commission National Policy 51-201 states in Section 4.5 that "Companies who do not comply with an exchange's requirements could find themselves subject to an administrative proceeding before a provincial securities regulator."

These requirements and related costs are no different than publicly traded companies on the New York Stock Exchange (NYSE), whose Listed Company

Manual, Section 202.05 states "A listed company is expected to release quickly to the public any news or information which might reasonably be expected to materially affect the market for its securities. This is one of the most important and fundamental purposes of the listing agreement which the company enters into with the Exchange." Put simply, the APUC and LUC costs are the same types of costs that entities traded on the NYSE are required to incur. These costs are a necessary and unavoidable part of a publicly traded entity's cost of doing business. APUC's presence on the TSX is the means by which Liberty Utilities obtains capital for investment and I do not think anyone disputes that APUC's access to capital is a benefit to Liberty Black Mountain and its customers in Arizona. If we need access to capital, then we must incur those costs to obtain the needed capital, and those costs should be included if we show they are required. The underlying record illustrates that those costs are required. Copies of these pertinent provisions of the TSX and NYSE rules are attached as **Exhibit WRK-DT2**.

III. <u>COST ALLOCATION MANUAL</u>.

Q. YOU HAVE REFERRED TO A COST ALLOCATION MANUAL OR CAM THAT GOVERNS THE LIBERTY UTILITIES BUSINESS MODEL. CAN YOU PLEASE DESCRIBE THE CAM?

A. Yes. Our cost allocation methodologies and processes are set forth in the Algonquin Power & Utilities Corp. Cost Allocation Manual or CAM, which is attached as **Exhibit WRK-DT3**. Shared services and corporate costs are allocated to Liberty Black Mountain in accordance with the methodologies and processes set forth in the CAM. Specifically, the CAM outlines the methods of direct charge and cost allocations between (1) APUC and its affiliates, APCo and Liberty Utilities; (2) Liberty Utilities Canada and APCo/Liberty Utilities; (3) Liberty Utilities and its regulated utility subsidiaries; and (4) LUSC and its affiliates.

The CAM is based on the National Association of Regulatory Utility Commissions ("NARUC") Guidelines for Cost Allocations and Affiliate Transactions. The NARUC Guidelines are attached as Appendix 1 to the CAM. The fundamental premise of those guidelines and the CAM is to direct charge costs as much as possible and to use reasonable allocation factors where allocation of indirect costs is necessary and direct charging is not possible.

Q. CAN YOU CITE THE KEY PRINCIPLES FROM THE NARUC GUIDELINES TO WHICH YOU ARE REFERRING?

A. Yes. The CAM utilizes the following "Cost Allocation Principles" as stated in the NARUC Guidelines:

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

among, the regulated entity and its affiliates, and vice versa (NARUC Guidelines at 2-3, § B.4).

5. All costs should be classified to services or products, which, by their very nature, are regulated, non-regulated, or common to both (NARUC Guidelines at 3, § B.5).

6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost between regulated and non-regulated services or products (NARUC Guidelines at 3, § B.6).

7. The indirect costs of each business unit, including the allocated costs of shared services, should be spread to the services or products to which they relate using relevant cost allocators (NARUC Guidelines at 3, § B.7).

Our CAM follows these cost allocation principles and, as a result, provides for the appropriate allocation of prudently incurred corporate costs and shared services to Liberty Black Mountain.

Q. CAN YOU BRIEFLY EXPLAIN HOW THE ALLOCATION PROCESS WORKS FOR APUC CORPORATE COSTS AND SHARED SERVICES?

A. Yes. APUC will charge costs that can be directly attributable to a specific utility to that utility. APUC charges labor rates for these shared services at cost. These labor costs are charged directly to a specific utility based on timesheets. If such labor is for the benefit of all subsidiaries and, therefore, not directly chargeable to a single entity, then those indirect labor costs are allocated using the methodologies in the CAM. To start, indirect non-labor and indirect labor costs incurred by APUC, including corporate capital, are pooled and allocated to Liberty Utilities Canada and APCo using the methodology in Table 1 of the CAM. Once those costs are allocated between Liberty Utilities Canada and APCo, the

APUC costs allocated to Liberty Utilities Canada are then allocated to the regulated utilities under Liberty Utilities using the Four Factor Methodology set forth in Table 2 of the CAM (as set forth above).

Q. CAN YOU BRIEFLY EXPLAIN HOW THE ALLOCATION PROCESS WORKS FOR LIBERTY UTILITIES CANADA CORPORATE COSTS AND SHARED SERVICES?

A. Liberty Utilities Canada will charge costs that can be directly attributable to a specific utility to that utility. Those costs include direct labor and direct non-labor costs. Any remaining indirect corporate costs incurred by Liberty Utilities Canada that can't be directly attributed or billed to an individual utility are then allocated using the Four Factor Method in Table 2 of the CAM.

Due to an internal restructuring, Liberty Utilities Canada, through a shared services department, now provides certain services to both Liberty Utilities (and its regulated utilities) and APCo. Those shared services are as follows: treasury; financial reporting and administration; internal audit; risk management; training; information technology; human resources; environmental, health, safety, and security; legal; procurement; and communication. These services were previously within APUC prior to the restructuring. As noted above, costs will continue to be directly charged where possible.

When shared services costs cannot be directly assigned to either APCo or Liberty Utilities, indirect costs incurred by the shared services department within Liberty Utilities Canada first will be allocated between Liberty Utilities and APCo using the cost drivers and methodologies shown in Table 4 of the CAM. Once those indirect corporate costs are allocated between APCo and Liberty Utilities, the resulting indirect charges of Liberty Utilities Canada that are allocated to Liberty Utilities by the shared services department are then reallocated to the

regulated utilities using the Four Factor Methodology noted above. Put simply, Liberty Utilities Canada allocates its indirect labor and indirect non-labor costs, including capital costs, to its regulated utilities using the Four Factor Methodology noted above to allocate those costs incurred for the benefit of all of its regulated utilities. Those indirect costs are allocated to the Liberty Utilities regulated entities from the shared services departments within Liberty Utilities Canada, using the Four Factor Utility Methodology (utility plant, customer count, non-labor expenses, and labor). Each factor is equally weighted to more accurately reflect the size and scope of each utility.

Q. CAN YOU PLEASE DESCRIBE HOW THE CAM IS USED TO ASSIGN AND ALLOCATE COSTS TO LIBERTY BLACK MOUNTAIN?

A. Yes, under the CAM, corporate costs are incurred in one of three ways: (1) Direct Costs – costs incurred directly by a local operating company for its own purposes; (2) Assigned costs – costs incurred by one company for the exclusive benefit of one or more other companies, and which are directly charged to the company or companies that specifically benefited; and (3) Allocated costs – costs incurred by one company that are for the benefit of either (a) all of the Algonquin companies or (b) all of the regulated Liberty Utilities companies. Allocated costs are charged to the benefited companies using a methodology and set of logical allocation factors that establish a reasonable link between cost causation and cost recovery.

Q. CAN YOU PROVIDE EXAMPLES?

A. Yes. First, costs that are incurred by Liberty Black Mountain as part of providing utility services in Arizona are direct costs, and thus are neither assigned nor allocated under the CAM. Second, costs that are incurred by APUC, LUC, or LUSC for the exclusive benefit of Liberty Black Mountain's operations are directly assigned to Liberty Black Mountain. Third, costs that are incurred by APUC, LUC

or LUSC that benefit other companies within the Algonquin corporate family are allocated on a rational basis that logically links cost causation to cost recovery using a two-step process.

Q. WHAT IS THAT TWO-STEP ALLOCATION PROCESS?

A. The CAM addresses those assigned and allocated costs under the following two-step process. Boiled down, all allocated costs have two levels of allocation filters applied. The first level is designed to appropriately separate common costs between the regulated and the unregulated businesses. The second level is designed to appropriately allocate the costs that have been allocated to the group of regulated utilities to each of the individual regulated utilities.

Q. PLEASE ILLUSTRATE THESE CORPORATE COST ALLOCATION METHODOLOGIES.

A. As noted above, Liberty Black Mountain can be assigned and/or allocated costs from APUC, LUC and LUSC. I provide an overview of the methodology for each cost center in the following paragraphs.

Q. LET'S START WITH APUC.

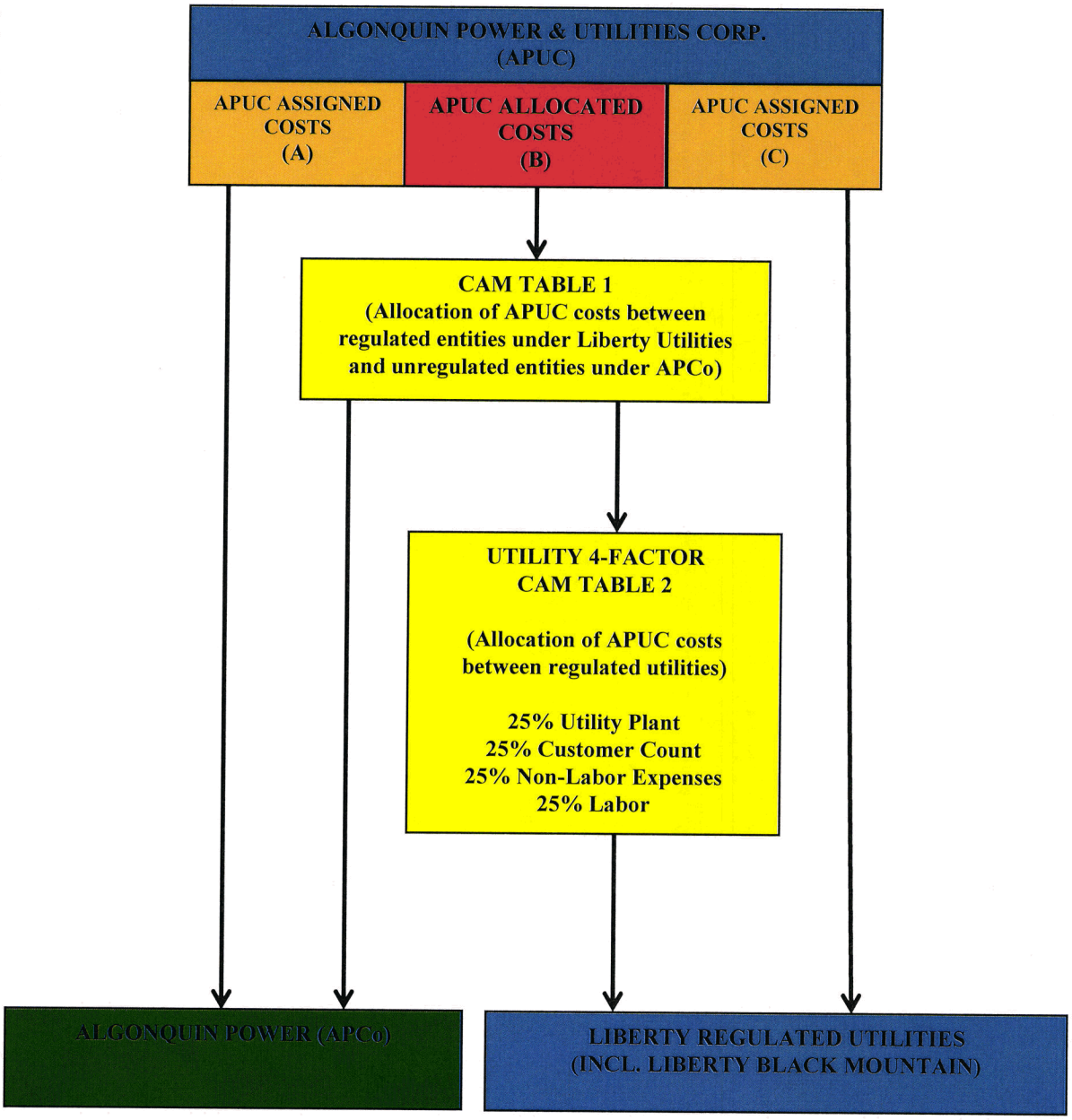
A. As noted below on Appendix 1 below (Illustration of CAM Allocation of APUC Services) and as described in §3.1 of the CAM, APUC incurs three types of costs that are allocated to its direct and indirect subsidiaries. The first type is APUC's costs that directly benefit a particular unregulated company. Those "Assigned Costs" on Appendix 1 are directly assigned to that unregulated company (APCo). The second type is APUC's Assigned Costs that directly benefit a particular regulated company. Those costs are directly assigned to that regulated company. The third type is APUC's remaining "Allocated Costs" that benefit the entire enterprise (both regulated and unregulated), which are allocated between regulated and unregulated company groups under CAM Table 1. CAM Table 1 specifies:

(a) each type of cost incurred by APUC that is to be allocated between regulated and unregulated parts of the business; (b) the factors used to allocate each type of cost between regulated and unregulated activity; (c) the rationale for selecting the factors that are used for allocation; and (d) examples of the specific allocated costs.

Once those Allocated Costs are allocated between APCo (unregulated) and Liberty Utilities (regulated) using CAM Table 1, the total of those Allocated Costs allocated to Liberty Utilities is then reallocated to individual utilities using the Four-Factor Utility Allocation Methodology set forth in CAM Table 2.

Appendix 1 below labeled "Liberty Black Mountain Illustration of CAM Allocation of APUC Services" provides a flow chart illustration of how the APUC direct and indirect costs are allocated under the CAM. The APUC cost allocations for Liberty Black Mountain here follow this allocation methodology and process.

APPENDIX 1: LIBERTY BLACK MOUNTAIN
ILLUSTRATION OF CAM ALLOCATION OF APUC SERVICES



(A): Costs that are directly assigned and charged to unregulated entities (APCo).
(B): Costs that benefit both unregulated entities and regulated utilities.
(C): Costs that are directly assigned and charged to regulated utilities (Liberty Utilities).

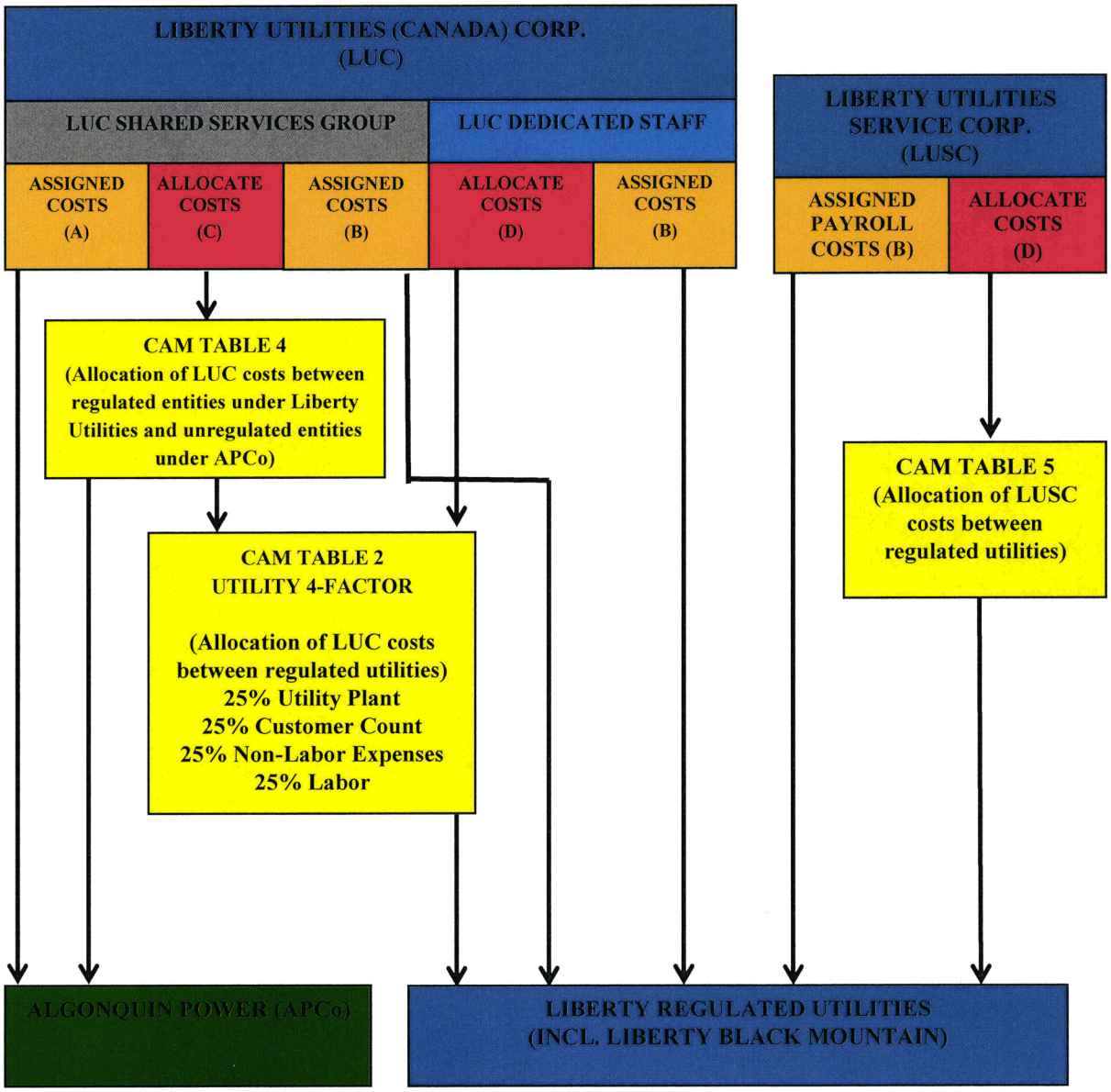
Q. OKAY, CAN YOU PLEASE ILLUSTRATE THE LIBERTY UTILITIES CANADA ALLOCATIONS?

A. As illustrated in Appendix 2 below and as described in section 4 of the CAM, Liberty Utilities Canada incurs three types of costs that are passed on to other direct or indirect subsidiaries of APUC. The first type is Assigned Costs that directly benefit a particular regulated company, which are directly assigned to that regulated company. The second type is Shared Services Costs that benefit both the regulated group of companies and the unregulated group of companies. Those Shared Services Costs are allocated between the two groups under the methodology set forth in CAM Table 4. CAM Table 4 includes: (a) each type of cost incurred by Liberty Utilities Canada that is to be allocated between regulated and unregulated parts of the business; (b) the factors used to allocate each type of cost between regulated and unregulated activity; (c) the rationale for selecting the factors that are used for allocation; and (d) examples of the specific allocated costs. In turn, the Shared Services costs that are allocated to the regulated companies as a group are then reallocated to individual companies using the four-factor utility allocation methodology set forth in CAM Table 2, resulting in utility-specific allocated charges from Liberty Utilities Canada.

The third type of costs allocated by Liberty Utilities Canada is Allocated Costs that benefit all of the regulated companies, which are allocated using the four-factor method in CAM Table 2. Appendix 2 below illustrates the cost allocation methodology relating to the direct and indirect services provided and costs incurred by Liberty Utilities Canada for the benefit of Liberty Black Mountain. The Liberty Utilities Canada cost allocations for Liberty Black Mountain follow this allocation methodology and process.

APPENDIX 2: LIBERTY BLACK MOUNTAIN

ILLUSTRATION OF CAM ALLOCATION OF LUC AND LUSC SERVICES



(A): Costs that are directly assigned to unregulated companies.
(B): Costs that are directly assigned to regulated companies.
(C): Costs that benefit both unregulated and regulated companies and operations.
(D): Costs that benefit all regulated companies and operations.

Q. FINALLY, CAN YOU ILLUSTRATE HOW THE ALLOCATION PROCESS WORKS FOR LUSC COSTS?

A. As illustrated in Appendix 2 above and as described in section 5 of the CAM, LUSC can incur two types of costs that can be passed on to regulated utilities of Liberty Utilities. The first type is LUSC Assigned Payroll Costs that directly benefit a particular regulated company. Those Assigned Payroll Costs are directly assigned to that regulated company. Currently, payroll expenses for all regulated operating company employees are or will be incurred by LUSC, and those utility-specific expenses are directly assigned to each operating utility.

The second type of cost that may be incurred by LUSC is Allocated Costs that benefit all of the regulated operating companies. LUSC does not provide services to any unregulated entity, so there is no reason to allocate these costs between APCo and Liberty Utilities. As such, the only allocation by LUSC occurs under CAM Table 5 between the regulated utilities of Liberty Utilities. Currently, LUSC is not incurring any of these costs and LUSC has not allocated any Allocated Costs to Liberty Black Mountain. I only mention it here because if those costs are incurred by LUSC in the future, those costs would be allocated to Liberty Black Mountain under CAM Table 5.

Q. HOW WOULD YOU SUMMARIZE APUC'S COST ALLOCATION METHODOLOGIES AS APPLIED TO LIBERTY BLACK MOUNTAIN UNDER THE CAM?

A. Ultimately, our cost allocation process applies a reasonable and common sense approach. To start, costs are assigned and allocated from the three cost centers (APUC, LUC and LUSC) each month. Where there is a factual basis to do so, costs incurred specifically for Liberty Black Mountain are directly assigned to Liberty Black Mountain. The cost allocation methodologies are applied only after

all direct charges have been assigned to Liberty Black Mountain and the other APUC subsidiaries. The allocations deal only with remaining costs that are not specific to a particular operating entity. Cost allocations involve a two-step approach. The first step is to split all costs between the unregulated businesses (APCo) and the regulated businesses (Liberty Utilities and its subsidiaries). The second step is to allocate the costs that are attributable to the regulated utilities among those regulated entities, including Liberty Black Mountain, to determine utility-specific charges. All of those costs are allocated among the regulated utilities to determine utility-specific charges.

Q. WHEN WAS THE CAM MOST RECENTLY UPDATED?

A. The current CAM became effective January 1, 2014 and includes updates to reflect the growth of the companies within the APUC group of companies and Liberty Utilities. As discussed above, some corporate service functions were relocated from APUC into Liberty Utilities Canada, further enhancing the shared services department structure. A thorough review of the cost drivers also was done, including a department-by-department identification of cost drivers. Essentially, each department was asked to confirm the factors driving their costs, and the weightings of the factors if there were multiple drivers. Going forward, we intend to review the CAM annually to evaluate whether the methodology is achieving its purposes—i.e., to achieve a fair allocation of shared services and corporate costs, and to adjust for changes in the number and size of companies receiving shared services and benefitting from the shared services model. That could occur more frequently in the event of a significant acquisition that could change the balance of utility sizes and scope or the overall cost structure.

Q. HAS THE ARIZONA CORPORATION COMMISSION APPROVED THIS COST ALLOCATION MODEL IN THE MOST RECENT RATE CASES FOR LIBERTY UTILITIES?

A. I was not involved in the most recent rate cases for Liberty Utilities (Litchfield Park Water & Sewer) Corp. and Liberty Utilities (Rio Rico Water & Sewer) Corp., but my understanding is that the Commission approved the APUC/Liberty Utilities cost allocation model in the recent case decisions for those entities. In both of those cases, the Liberty entities reached an accord with Commission Staff and RUCO relating to the allocated level of costs. We also have received favorable treatment and review of this cost allocation model in other states.

Q. HAVE THE APUC AND LUC CORPORATE COST POOLS CHANGED SINCE THE LAST RATE CASES FOR LIBERTY UTILITIES?

A. No, the general costs allocated from APUC and LUC have not changed. We are allocating the same general corporate costs from APUC and LUC to Liberty Black Mountain and the other Arizona utilities. Although the types of costs allocated have not changed, we have made changes to how those costs are allocated. As noted above, we updated the cost methodologies to reflect the growth of APUC and its subsidiaries, and we made some changes in allocation factors to ensure that the proper cost drivers are reflected in the allocation methodologies. As Liberty Utilities evolves as a company, we continually strive to implement our own best practices and link costs to cost drivers. That is why we intend to annually review the allocation methodologies and the results of the APUC and LUC allocations.

Q. WHAT IS THE CORPORATE COST ALLOCATION FOR LIBERTY BLACK MOUNTAIN IN THE 2014 TEST YEAR?

A. For 2014, the corporate cost allocation for Liberty Black Mountain is $75,453. That is a very good price for the level of services received.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

LIBERTY UTILITIES
(BLACK MOUNTAIN SEWER) CORP.

EXHIBIT WRK-DT1

CURRICULUM VITAE OF WILLIAM R. KILLEEN

Work Experience:

Liberty Utilities (Canada) Corp. (2014 to Present)
Director, Regulatory Strategy

Enersource Hydro Mississauga Inc. (2011 – 2014)
Manager, Regulatory Affairs

Ministry of Energy, Energy Supply and Competition Branch (2011)
Senior Advisor, External Energy Supply

ECNG Energy LP (2003 -2010)
Director, Energy Supply and Regulatory

Direct Energy (2002-2003)
Manager, Regulatory Affairs

Engage Energy Canada Inc. (2001-2002)
Manager, Marketing and Sales

Union Gas Limited (1989 – 2001)
Team Leader, Customer Support Services
Manager, Gas Supply Planning
Coordinator, Regulatory Affairs

Education:

Masters of Business Administration, Richard Ivey School of Business, University of Western Ontario (now Western University), 1989

Bachelor of Engineering Science, Chemical Engineering, University of Western Ontario (now Western University), 1985

Appearances before the Ontario Energy Board (on behalf of Union Gas):

EBRO 499
EBRO 493-04/494-06
EBRO 493/494
EBRO 486-04
EBRO 486-03
EBRO 486
EBO 174
EBLO 243
EBRM 103

EBRM 104
EBLO 244
EBRO 476-03

Appearances before the Ontario Energy Board (on behalf of Enersource):

EB-2012-0033

Other Representations at the Ontario Energy Board:

EB-2002-0130
EB-2005-0520
EB-2008-0106
EB-2008-0219
EB-2008-0292

Other Testimony (on behalf of Liberty Utilities):

Arkansas Public Service Commission - Docket No. 14-020-U – on behalf of Liberty Utilities (Pine Bluff Water) Inc.

Memberships:

Professional Engineers of Ontario
Ontario Society of Professional Engineers
Ontario Energy Association (OEA): Former Chairperson, Energy Markets Committee; Member of Utilities Sector Committee; Former Member of Marketers and Retailers Committee

LIBERTY UTILITIES

(BLACK MOUNTAIN SEWER) CORP.

EXHIBIT WRK-DT2

Language

TSX Company Manual

Location: TSX Company Manual » Part VII Halting of Trading, Suspension and Delisting of Securities » D. Delisting Criteria » (4) Failure To Comply With TSX Requirements & Policies » Disclosure Policies » Sec. 714.

« Disclosure Policies Payment of Fees or Charges »

Sec. 714.

TSX may delist the securities of a listed issuer that has failed to comply with TSX's Timely Disclosure policy (see Sections 406 to 423.8 and 472 to 475) or with disclosure requirements under any securities law to which the listed issuer is subject. In addition, TSX may delist the securities of a listed issuer that is engaged in the business of mineral exploration, development or production if such listed issuer has failed to comply with TSX's "Disclosure Standards for Companies Engaged in Mineral Exploration, Development & Production" (see Appendix B).

« Disclosure Policies Payment of Fees or Charges »

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  - Part IV Maintaining a Listing -- General Requirements
  - Part V Special Requirements for Non-Exempt Issuers
  - Part VI Changes in Capital Structure of Listed Issuers
  - Part VII Halting of Trading, Suspension and Delisting of Securities
    - A. General
    - B. Halting of Trading
    - C. Suspension and Delisting
    - D. Delisting Criteria
      - (1) Insolvency
      - (2) Financial Condition and/or Operating Results
      - (3) Market Value and Public Distribution
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          - Sec. 714.
        - Payment of Fees or Charges
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Language

TSX Company Manual

Location: TSX Company Manual » Part IV Maintaining a Listing – General Requirements » B. Timely Disclosure » Introduction » Sec. 406.

« Introduction Material Information »

Sec. 406.

It is a cornerstone policy of the Exchange that all persons investing in securities listed on the Exchange have equal access to information that may affect their investment decisions. Public confidence in the integrity of the Exchange as a securities market requires timely disclosure of material information concerning the business and affairs of companies listed on the Exchange, thereby placing all participants in the market on an equal footing.

The timely disclosure policy of the Exchange is the primary timely disclosure standard for all TSX listed issuers. National Policy 51-201 *Disclosure Standards* of the CSA, "Disclosure Standards", assists issuers in meeting their legislative disclosure requirements. While the legislative and Exchange timely disclosure requirements differ somewhat, the CSA clearly state in National Policy 51-201 *Disclosure Standards* that they expect listed issuers to comply with the requirements of the Exchange.

To minimize the number of authorities that must be consulted in a particular matter, in the case of securities listed on the Exchange, the Exchange is the relevant contact. The issuer may, of course, consult with the government securities administrator of the particular jurisdiction. In the case of securities listed on more than one stock market, the issuer should deal with each market.

The requirements of the Exchange and National Policy 51-201 *Disclosure Standards* are in addition to any applicable statutory requirements. The Exchange enforces its own policy. Companies whose securities are listed on the Exchange are legally obligated to comply with the provisions on timely disclosure set out in section 75 of the OSA and the Regulation under the Act. Reference should also be made to National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*, National Instrument 55-102 *System for Electronic Disclosure by Insiders*, and National Instrument 62-103 *The Early Warning System and Related Take-Over bid and Insider Reporting Issues*.

In addition to the foregoing requirements, companies whose securities are listed on the Exchange and who engage in mineral exploration, development and/or production, must follow the "Disclosure Standards for Companies Engaged in Mineral Exploration, Development and Production" as outlined in Appendix B of this Manual for both their timely and continuous disclosure.

The Market Surveillance Division monitors the timely disclosure policy on behalf of the Exchange.

« Introduction Material Information »

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OSC (http://www.osc.gov.on.ca/en/home.htm)

Securities Law & Instruments

PDF Version (/documents/en/Securities-Category5/pol_20020712_51-201.pdf)

NATIONAL POLICY 51-201 DISCLOSURE STANDARDS

Part I - Introduction

1.1 Purpose

(1) It is fundamental that everyone investing in securities have equal access to information that may affect their investment decisions. The Canadian Securities Administrators ("the CSA" or "We") are concerned about the selective disclosure of material corporate information by companies to analysts, institutional investors, investment dealers and other market professionals. Selective disclosure occurs when a company discloses material nonpublic information to one or more individuals or companies and not broadly to the investing public. Selective disclosure can create opportunities for insider trading and also undermines retail investors' confidence in the marketplace as a level playing field.

(2) This policy provides guidance on "best disclosure" practices in a difficult area involving competing business pressures and legislative requirements. Our recommendations are not intended to be prescriptive. We encourage companies to adopt the suggested measures, but they should be implemented flexibly and sensibly to fit the situation of individual companies.

(3) The timely disclosure requirements and prohibitions against selective disclosure are substantially similar everywhere in Canada, but there are differences among the provinces and territories, so companies should carefully review the legislation which is applicable to them for the details.

in government policy that affects most companies in a particular industry does not require an announcement, but if it affects only one or a few companies in a material way, such companies should make an announcement.

4.5 Exchange Policies

(1) The Toronto Stock Exchange Inc. (the "TSX") and the TSX Venture Exchange Inc. ("TSX Venture") each have adopted timely disclosure policy statements which include many examples of the types of events or information which may be material. Companies should also refer to the guidance provided in these policies when trying to assess the materiality of a particular fact, change or piece of information.

(2) The TSX and TSX Venture policies require the timely disclosure of "material information". Material information includes both material facts and material changes relating to the business and affairs of a company. The timely disclosure obligations in the exchanges' policies exceed those found in securities legislation. It is not uncommon, or inappropriate, for exchanges to impose requirements on their listed companies which go beyond those imposed by securities legislation.31 We expect listed companies to comply with the requirements of the exchange they are listed on. Companies who do not comply with an exchange's requirements could find themselves subject to an administrative proceeding before a provincial securities regulator.32

Part V - Risks Associated with Certain Disclosures

5.1 Private Briefings with Analysts, Institutional Investors and other Market Professionals

About the Listed Company Manual

The New York Stock Exchange Listed Company Manual is the comprehensive rulebook for listed companies. The Manual also details original and continued listing requirements of the Exchange and sets forth NYSE rules and policies on such matters as corporate governance, shareholder communications, and shareholder approval.

Listed Company Manual

Sections

- General Organization
- Section 1 - The Listing Process
- Section 2 - Disclosure and Reporting Material Information
- Section 3 - Corporate Responsibility
- Section 4 - Shareholders' Meetings and Proxies
- Section 5 - Certificates
- Section 6 - Agencies, Depositories, Trustees
- Section 7 - Listing Applications
- Section 8 - Suspension and Delisting
- Section 9 - Exchange Forms

Voting Rights Interpretations Under Listed Company Manual Section 313 (pdf)

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The determination to impose restrictions is based on a careful inspection of the trading for the latest one week period, defir year's average weekly volume to the volume for the period considered, arbitrage, stop order bans, short position, earnings

The restriction itself is aimed primarily at eliminating the extension of credit to those who buy a security and sell it the same requirement is usually imposed on all other margin customers in that they must put up the full purchase price within five bu in seven days.

202.05 Timely Disclosure of Material News Developments

A listed company is expected to release quickly to the public any news or information which might reasonably be expected into with the Exchange.

A listed company should also act promptly to dispel unfounded rumors which result in unusual market activity or price varia

The issuer of income deposit securities traded as a unit shall publicize any change in the terms of the unit, such as change component), or to the ratio of the components within the unit. Such publication shall be made as soon as practicable in rela issuer must provide information regarding the terms and conditions of the components of the unit (including information wit

202.06 Procedure for Public Release of Information

(A) Immediate Release Policy

Information required to be released quickly to the public under Section 202.05 above should be disclosed by means of any issuers must comply with the timely alert policy set forth in Section 202.05 and may do so by any method (or combination c companies to comply with the immediate release policy by issuing press releases.

The spirit of the immediate release policy is not considered to be violated on weekends where a "Hold for Sunday or Mond

Annual and quarterly earnings, dividend announcements, mergers, acquisitions, tender offers, stock splits, major managen News of major new products, contract awards, expansion plans, and discoveries very often fall into the same category. Un disguise unfavorable news endangers management's reputation for integrity. Changes in accounting methods to mask suc

It should be a company's primary concern to assure that news will be handled in proper perspective. This necessitates app qualified, conservative and factual. Excessive or misleading conservatism should be avoided. Likewise, the repetitive relea

Few things are more damaging to a company's shareholder relations or to the general public's regard for a company's secu trivia.

Premature announcements of new products whose commercial application cannot yet be realistically evaluated should be not match earlier projections, this too should be reported and explained.

Judgment must be exercised as to the timing of a public release on those corporate developments where the immediate re company should weigh the fairness to both present and potential shareholders who at any given moment may be consideri

(B) Telephone Alert to the Exchange

When the announcement of news of a material event or a statement dealing with a rumor which calls for immediate release representative by telephone at least ten minutes prior to release of the announcement, to inform the Exchange of the subsl information necessary to locate the news upon publication. When the announcement is in written form, the company must to release of the announcement. If the Exchange receives such notification in time, it will be in a position to consider wheth openings and trading halts.) A delay in trading after the appearance of the news on the Dow Jones, Reuters or Bloomberg specialist's book in view of the news announcement. Even if limit orders are not canceled or changed during the halt, the fa regardless of the previously entered limit. A longer delay in trading may be necessary if there is an unusual influx of orders overall importance of fairness to all those participating in the market demands that these procedures be followed.

(C) Release to Newspapers and News Wire Services

LIBERTY UTILITIES

(BLACK MOUNTAIN SEWER) CORP.

EXHIBIT WRK-DT3

ALGONQUIN POWER & UTILITIES CORP.

COST ALLOCATION MANUAL

Effective: January 1st, 2014

This document outlines the methods of direct charge and cost allocations: (i) between Algonquin Power & Utilities Corp. and its affiliates, Algonquin Power Company and Liberty Utilities (Canada) Corp.;(ii) between Liberty Utilities (Canada) Corp. and its regulated utility subsidiaries; (iii) between Liberty Utilities (Canada) Corp.'s service companies and its regulated utility subsidiaries; and (iv) between Liberty Utilities (Canada) Corp and Algonquin Power Company.

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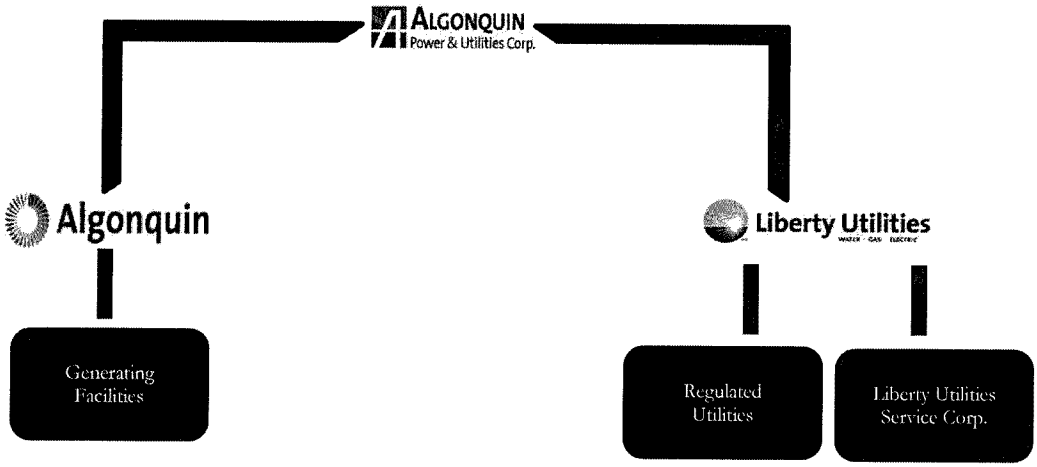
1. INTRODUCTION

The purpose of this paper is to provide a detailed explanation of services provided by Algonquin Power & Utilities Corp ("APUC"), and its affiliates, Algonquin Power Company ("APCo"), Liberty Utilities (Canada) Corp. ("LUC"), and Liberty Utilities Service Corp. ("LUSC") to the regulated utilities and to describe the Direct Charge and Cost Allocation Methodologies used by APUC, APCo, LUC, and LUSC. The following organization chart identifies the relationships between the separate entities.

Figure 1: Algonquin Power & Utilities Corporate Structure



This Cost Allocation Manual ("CAM") has been completed in accordance and conformance with the NARUC Guidelines for Cost Allocations and Affiliate Transactions ("NARUC Guidelines"). More specifically, the founding principles of this Cost Allocation Manual are to a) directly charge as much as possible to the entity that procures any specific service, and b) to ensure that inappropriate subsidization of unregulated activities by regulated activities, and vice versa, does not occur. For ease of reference, the NARUC Guidelines are attached as Appendix 1.

Costs charged and allocated pursuant to this CAM shall include direct labor, direct materials, direct purchased services associated with the related asset or services, and overhead amounts. The direct charges are assigned as follows:

a. Tariffed rates or other pricing mechanisms established by rate setting authorities shall be used to provide all regulated services;

b. Services not covered by (a) shall be charged by the providing party to the receiving party at fully distributed cost; and
c. Facilities and administrative services rendered to a rate-regulated subsidiary shall be charged on the following basis:

(i) the prevailing price for which the service is provided for sale to the general public by the providing party (i.e., the price charged to non-affiliates if such transactions with non-affiliates constitute a substantial portion of the providing party's total revenues from such transactions) or, if no such prevailing price exists, (ii) an amount not to exceed the fully distributed cost incurred by the providing party in providing such service to the receiving party.

2. THE APUC CORPORATE STRUCTURE

APUC's primary business is direct interest or equity ownership in renewable and thermal power generating facilities and regulated utilities. APUC owns a widely diversified portfolio of independent power production facilities and regulated utilities consisting of water distribution, wastewater treatment facilities, electric and gas utilities. While power production facilities are located in both Canada and the United States, regulated utility operations are exclusively in the United States. APUC is publicly traded on the Toronto Stock Exchange. Its structure as a publicly traded holding company provides substantial benefits to its regulated utilities through access to capital markets.

APUC is the ultimate corporate parent and affiliate that provides financial, strategic management, corporate governance, administrative and support services to LUC and its subsidiaries as well as to the numerous generation assets held by APCo. The services provided by APUC are necessary for LUC and its subsidiaries to have access to capital markets for capital projects and operations. These services are expensed at APUC and are performed for the benefit of APCo and LUC and their respective businesses.

APUC and its affiliates capitalize on APUC's expertise and access to the capital markets through the use of certain shared services, which maximizes economies of scale and minimizes redundancy. In short, it provides for maximum expertise at lower costs. Further, the use of shared expertise allows each of the entities to

receive a benefit they may not be able to achieve on a stand-alone basis such as strategic management advice and access to capital at more competitive rates.

3. SCOPE OF SERVICES AMONG AFFILIATES AND HOW THOSE COSTS ARE ALLOCATED

3.1. Labor Services and Cost Allocation from APUC to LUC and APCo

APUC provides benefits to its affiliate companies by use of certain shared services. APUC charges labor rates for these shared services at cost, which is the dollar hourly rate per employee as recorded in APUC's payroll systems, grossed up for burdens such as payroll taxes, health benefits, retirement plans, other insurance provided to employees, and other employee benefits. These labor costs are charged directly based on timesheets to the extent possible. If labor is for the benefit of all subsidiaries then the allocation methodologies used for non-labor costs are applied.

APUC's non-labor services include Financing Services. As used herein Financing Services means the selling of units to public investors in order to generate the funding and capital necessary (be it short term or long term funding, including equity and debt) for LUC and APCo as well as providing legal services in connection with the issuance of public debt.

The capital and funds obtained from the sale of shares in APUC are used by LUC and APCo for current and future capital investments. The services provided by APUC are critical and necessary to LUC and APCo because without those services they would not have a readily available source of capital funding. Further, relatively small utilities may have difficulty attracting capital on a stand-alone basis.

The services provided by APUC specifically optimize the performance of the utilities, keeping rates low for customers while ensuring access to capital is available. If the utilities did not have access to the services provided by APUC, then they would be forced to incur associated costs for financing, capital investment, audits, taxes and other similar services on a stand-alone basis, which would substantially increase such costs. Simply put, without incurring these costs, APUC would not be able to invest capital in its subsidiaries, including the regulated utilities.

In connection with the provision of Financing Services, APUC incurs the following types of costs: (i) strategic management costs (board of director, third-party legal services, accounting services, tax planning and filings, insurance, and required auditing); (ii) capital access costs (communications, investor relations, trustee fees, escrow and transfer agent fees); (iii) financial control costs (audit and tax expenses); and (iv) administrative (rent, depreciation, general office costs). See Appendix 2 for a more detailed discussion of the costs incurred by APUC.

Non-labor costs, including corporate capital, are pooled and allocated to LUC and APCo using the method summarized in Table 1. Each corporate cost type, or function, has been carefully reviewed to properly identify the factors driving those costs. Each function or cost type is typically driven by more than one factor each has been assigned an appropriate weighting. Table 1 includes brief commentary on the rationale for each cost driver and weighting, along with examples for each cost type.

Table 1: Summary of Corporate Allocation Method of APUC Indirect Costs

Type of Cost	Allocation Methodology	Rationale	Examples
Legal Costs	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	This function is driven by factors which include Net Plant, as typically the higher the value of plant, the more legal work it attracts; similarly, a greater number of employees are typically more indicative of larger facilities that require greater levels of attention; and O&M costs tend to be a third factor indicative of size and legal complexity.	Employee labor and related administration and programs; third party legal

Tax Services	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by a variety of factors that influence the size and relative tax complexity, including Revenues, O&M and Net Plant. Tax activity can be driven by each of these factors.	Employee labor and related administration and programs, including Third party tax advice and services
Audit	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by a variety of factors that influence the size and complexity of Audit, including Revenues, O&M and Net Plant. Audit activity can be driven by each of these factors.	Employee labor and related administration and programs, including t Third party accounting and audit services
Investor Relations	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Employee labor and related administration and programs, including third party Investor day communications and materials
Director Fees and Insurance	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Board of Director fees, insurance and administration

Licenses, Fees and Permits	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs
Escrow and Transfer Agent Fees	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs
Other Professional Services	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs
Office Administration	Oakville Employees 50% Square Footage 50%	This function is driven by factors which are indicative of number of employees and square footage utilized by these employees.	Office space and utility costs. Employee labor and related administration

Notwithstanding the above, if a charge is related either solely to the regulated utility business, i.e., LUC, or to the power generation business, i.e., APCo, then all of those costs will be allocated to the business segment for which they are incurred (i.e. it is a direct charge).

Lastly, if a cost can be directly attributable to a specific entity, it will be directly charged to that entity. For an example of how an invoice would be allocated, please see Appendix 3.

Certain costs, which are incurred for the benefit of APUC's businesses, are not allocated to any subsidiary. These include costs such as donations, certain corporate travel, and certain overheads.

3.2. Labor Services and Cost Allocation From APCo To LUC

From time to time, APCo may provide Engineering and Technical Labor to LUC or its utilities. These charges plus an allocation for corporate overheads such as rent, materials/supplies, etc. are capitalized and directly charged to the relevant utility.

From time to time, APCo employees may provide administrative support to LUC or its utilities. These charges are direct charged using time sheets.

4. SCOPE OF SERVICES PROVIDED BY LUC TO ITS SUBSIDIARIES, APUC AND APCO, AND HOW THOSE COSTS ARE ALLOCATED

LUC provides its regulated utilities with the following services: accounting, administration, corporate finance, human resources (including training and development), information technology, rates and regulatory affairs, environment, health and safety, and security, customer service, procurement, risk management, legal, and utility planning. The following are examples of some of the services provided: (i) budgeting, forecasting, and financial reporting services including preparation of reports and preservation of records, cash management (including electronic fund transfers, cash receipts processing, managing short-term borrowings and investments with third parties); (ii) development of customer service policies and procedures; (iii) development of human resource policies and procedures; (iv) selection of information systems and equipment for accounting, engineering, administration, customer service, emergency restoration and other functions and implementation thereof; (v) development, placement and administration of insurance coverages and employee benefit programs, including group insurance and retirement annuities, property inspections and valuations for insurance; (vi) purchasing services including preparation and analysis of product specifications, requests for proposals and similar solicitations; and vendor and

vendor-product evaluations; (vii) energy procurement oversight and load forecasting; and (viii) development of regulatory strategy.

LUC will charge costs that can be directly attributable to a specific utility. These include direct labor and direct non-labor costs. However, the indirect LUC costs cannot be directly attributed to an individual utility. LUC allocates its indirect labor and indirect non-labor costs, including capital costs, to its regulated utilities using a Utility Four Factor Methodology. LUC uses the Utility Four Factor Methodology to allocate costs incurred for the benefit of all of its regulated assets ("System-Wide Costs") to all of its utilities.

The Utility Four Factor Methodology allocates costs by relative size of the utilities. The methodology used by LUC involves four allocating factors, or drivers, (1) Utility Plant, (2) Total Customers, (3) Non-Labor Expenses, and (4) Labor, with each factor assigned an equal weight, as shown in Table 2 below.

Table 2: Utility Four Factor Methodology Factors and Weightings

Factor	Weight
Utility Plant	25%
Customer Count	25%
Non-Labor Expenses	25%
Labor	25%
Total	**100%**

LUC also uses the Utility Four Factor Methodology to allocate to its regulated utilities the system-wide indirect labor and indirect non-labor costs allocated to LUC from APUC.

Table 3 provides a simplified hypothetical example to demonstrate how the Utility Four Factor Methodology would be calculated based on ownership of only two hypothetical utilities.

Table 3: Utility Four Factor Methodology Example

Factor	Utility 1	Utility 2	Total All Utilities	Utility 1 % of Total	Factor Weight	Utility 1 Allocation
Utility Plant ($)	727	371	1098	66%	25%	17%
Customer Count (#)	6000	1000	7000	86%	25%	21%
Labor ($)	57	32	89	64%	25%	16%
Non-Labor Expenses ($)	108	41	149	72%	25%	18%
Total Allocation						72%

As can be seen from these hypothetical numbers in Table 3, Utility 1 would be allocated 72% of the total Administrative/Overhead Costs incurred by LUC, based on its relative size and application of the Utility Four Factor Methodology. Utility 2 would be allocated the remaining 28%. LUC has developed and utilized this methodology to better allocate costs, recognizing that larger utilities require more time and management attention and incur greater costs than smaller ones.

LUC may also provide services to APUC and APCo. In these instances, LUC staff provide time sheets that depict the amount of time that is to be direct charged to either APUC or APCo.

In addition, LUC provides certain services that benefit the entire company, i.e., APCo and the utilities. These indirect costs are allocated using the following methodology shown in Table 4, which are designed to closely align the costs with the driver of the activity.

Table 4: Summary of Corporate Allocation Method of LUC Indirect Costs

Type of Cost	Allocation Methodology	Rationale	Examples
Risk Management	Net Plant 33.3% Revenue 33.3% O&M 33.3%	This function is driven by factors which reflect the relative size and complexity of Risk Management -	Software platform, fees and administration

		Revenues, Net Plant and O&M costs.	
Information Technology	Number of Employees 90% O&M 10%	IT function is driven by factors which include number of employees and O&M. The larger the number of employees, the more support, software and IT infrastructure is required.	Enterprise wide support, architecture, etc. Third party fees
Human Resources	Number of Employees 100%	HR function is driven by number of employees. A greater number of employees requires additional HR support	HR policies, payroll processing, benefits, employee surveys
Training	Number of Employees 100%	Training is directly proportional to the number of employees per function	Courses, lectures, in house training sessions by third party providers
Facilities and Building Rent	Square Footage 100%	Office space occupied accurately reflects space requirements of each subsidiary	Corporate office building
Financial Reporting and Administration	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and complexity of Financial Reporting and Admin. - Revenues, Net	Employee labor and related administration and third party fees

		Plant and O&M costs.	
Environment, Health, Safety and Security	Number of Employees 100%	EHSS training, etc. is directly proportional to the number of employees per function	Enterprise wide programs, employee labor and related administration
Legal Costs	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	This function is driven by factors which include Net Plant, as typically the higher the value of plant, the more legal work it attracts; similarly, a greater number of employees are typically more indicative of larger facilities that require greater levels of attention; and O&M costs tend to be a third factor indicative of size and legal complexity.	Employee labor and related administration and programs, including third party legal
Treasury	Capital Expenditures 25% O&M 50% Net Plant 25%	Treasury activity is typically guided by the amount of necessary capex/plant for each utility, and operating costs/cashflow	Third party financing, employee labor and related administration and programs
Internal Audit	Net Plant 25% O&M 75%	This function is driven by factors which reflect the relative size and	Third party fees, employee labor and related administration

		complexity of Internal audit activity. Larger Plant and operating costs drive of a given facility drive more activity from IA.	and programs
Procurement	O&M 50% Capital Expenditures 50%	Procurement function is based on typical proportion of expenditures	Enterprise wide support and related administration
Communications	Number of Employees 100%	Communications cost is directly proportional to the number of employees	Enterprise wide support and related administration

5. LIBERTY UTILTIES SERVICE CORP.

All US utility employees are employed by Liberty Utilities Service Corp. (LUSC). All employees' costs, such as salaries, benefits, insurances etc. are paid by LUSC and direct charged to the extent possible. Services provided from LUSC to each regulated utility shall be done on a time sheet basis to the extent possible. In instances where time sheeting may not be possible, the allocation factors shown in Table 5 are to be used.

Table 5: Summary of Corporate Allocation Method of LUSC Indirect Costs

Type of Cost	Allocation Methodology	Rationale	Examples
Customer Care and Billing	Customer count 100%	Customer count accurately reflects the resource requirements of the Customer Care and	Customer Care and Billing employees and related administrations

		Billing group	
IT/Tech Support	Number of Employees 100%	Technical support requirements are related to the number of employees	Tech support staff, associated administration, and required software, hardware, etc.
Human Resources	Number of Employees 100%	HR function is driven by number of employees. A greater number of employees requires additional HR support	HR policies, payroll processing, benefits, employee surveys
Gas Control	Net Plant 100%	The greater the plant, the more control required	Gas Control labor, administration, and associated programs
Legal	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	Allocated based on the relative size of affiliate and employee count.	Employee labor and related administration and programs, including third party legal
Regulatory	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	Allocated based on the relative size of affiliate and employee count.	Utility-wide studies or third party costs beneficial to all utilities
Environment, Health, Safety and Security	Number of Employees 100%	EHSS training, etc. is directly proportional to the number of employees	Utility-wide programs, employee labor and related administration
Procurement	O&M 50% Capital Expenditures 50%	Based on typical proportion of expenditures	Utility-wide support and related administration

Please note the allocation methodology can be adjusted based on the number of participating utilities. For example, Customer Service representatives who serve only the New Hampshire utilities will only have their costs allocated based on the number of customers within New Hampshire. Labor cost associated with energy procurement is directly billed to the utilities using timesheets.

6. CORPORATE CAPITAL

From time to time, APUC or LUC makes capital investments for the benefit of all the utilities or facilities it owns (examples include corporate headquarters, IT systems, etc.). All the capital investments will be kept at corporate level and charged monthly in the form of corporate capital rents to the regulated utilities. All costs associated to service the investment will be allocated to each utility based on that department's allocation where the capital investment is made. For example, if the capital investment is made in HR then the allocation methodology used for HR to allocate non-capital indirect costs as shown in Table 4 will be used to allocate the rent associated with the corporate capital expenditures, including the cost of capital, depreciation, property tax, operation and maintenance costs and all other cost associated with it. .

7. APPENDICES

APPENDIX 1 - NARUC GUIDELINES FOR COST ALLOCATIONS

Guidelines for Cost Allocations and Affiliate Transactions:

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

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

The Guidelines were developed by the NARUC Staff Subcommittee on Accounts in compliance with the Resolution passed on March 3, 1998 entitled "Resolution Regarding Cost Allocation for the Energy Industry" which directed the Staff Subcommittee on Accounts together with the Staff Subcommittees on Strategic Issues and Gas to prepare for NARUC's consideration, "Guidelines for Energy Cost Allocations." In addition, input was requested from other industry parties. Various levels of input were obtained in the development of the Guidelines from

the Edison Electric Institute, American Gas Association, Securities and Exchange Commission, the Federal Energy Regulatory Commission, Rural Utilities Service and the National Rural Electric Cooperatives Association as well as staff of various state public utility commissions.

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

A. DEFINITIONS

1. Affiliates - companies that are related to each other due to common ownership or control.

2. Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.

3. Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.

4. Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).

5. Common Costs - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.

6. Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.

7. Direct Costs - costs which can be specifically identified with a particular service or product.

8. Fully Allocated costs - the sum of the direct costs plus an appropriate share of indirect costs.

9. Incremental pricing - pricing services or products on a basis of only the additional costs added by their operations while one or more pre-existing services or products support the fixed costs.

10. Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.

11. Non-regulated - that which is not subject to regulation by regulatory authorities.

12. Prevailing Market Pricing - a generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.

13. Regulated - that which is subject to regulation by regulatory authorities.

14. Subsidization - the recovery of costs from one class of customers or business unit that are attributable to another.

B. COST ALLOCATION PRINCIPLES

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

1. To the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided.

2. The general method for charging indirect costs should be on a fully allocated cost basis. Under appropriate circumstances, regulatory authorities may consider incremental cost, prevailing market pricing or other methods for allocating costs and pricing transactions among affiliates.

3. To the extent possible, all direct and allocated costs between regulated and non-regulated services and products should be traceable on the books of the applicable regulated utility to the applicable Uniform System of Accounts. Documentation should be made available to the appropriate regulatory authority upon request regarding transactions between the regulated utility and its affiliates.

4. The allocation methods should apply to the regulated entity's affiliates in order to prevent subsidization from, and ensure equitable cost sharing among the regulated entity and its affiliates, and vice versa.

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

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

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

C. COST ALLOCATION MANUAL (NOT TARIFFED)

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

1. An organization chart of the holding company, depicting all affiliates, and regulated entities.

2. A description of all assets, services and products provided to and from the regulated entity and each of its affiliates.

3. A description of all assets, services and products provided by the regulated entity to non-affiliates.

4. A description of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

D. AFFILIATE TRANSACTIONS (NOT TARIFFED)

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

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

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

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

3. Generally, transfer of a capital asset from the utility to its non-regulated affiliate should be at the greater of prevailing market price or net book value, except as

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

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

E. AUDIT REQUIREMENTS

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

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

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

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

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

F. REPORTING REQUIREMENTS

1. The regulated entity should report annually the dollar amount of non-tariffed transactions associated with the provision of each service or product and the use or sale of each asset for the following:

a. Those provided to each non-regulated affiliate.
b. Those received from each non-regulated affiliate.
c. Those provided to non-affiliated entities.

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

Source:
http://www.naruc.org/Publications/Guidelines%20for%20Cost%20Allocations%20and%20Affiliate%20Transactions.pdf

APPENDIX 2 – DETAILED EXPLANATION OF APUC COSTS

1. APUC STRATEGIC MANAGEMENT COSTS

Strategic management decisions are critical for any public utility. The need for strategic management is even more pronounced for APUC as a publicly traded company, which depends on access to capital funding through public sales of units. APUC seeks to hire talented strategic managers that aid in running each facility owned by the company as efficiently and effectively as possible. This ensures the long term health of each utility and ensures that rates are kept as low as possible without compromising the level of service. It also facilitates each regulated utility's access to necessary capital funding at reduced costs. The costs included in Strategic Management Costs fall into the following categories.

a. Board of Directors

The Board of Directors provides strategic oversight on all company affairs including high level approvals of strategy, operation and maintenance budgets, capital budgets, etc. In addition, the Board of Directors provides corporate governance and ensures that capital and costs are incurred prudently, which ultimately protects ratepayers.

b. General Legal Services

General legal services involve legal matters not specific to any single facility, including review of audited financial statements, annual information filings, Sedar filings, review of contracts with credit facilities, incorporation, tax issues of a legal nature, market compliance, and other similar legal costs. These legal services are required in order for APUC to provide capital funding to individual utilities, without which the utilities could not provide adequate service. Additionally, the services ensure that APUC's subsidiaries remain compliant in all aspects of operations and prevents those entities from being exposed to unnecessary risks.

c. Professional Services

Professional Services including strategic plan reviews, capital market advisory services, ERP System maintenance, benefits consulting, and other similar professional services. By providing these services at a parent level, the subsidiaries are able to benefit from economies of scale. Additionally, some of these services improve APUC's access to capital which benefits all of its subsidiaries.

2. ACCESS TO CAPITAL MARKETS

One of APUC's primary functions is to ensure its subsidiaries have access to quality capital. APUC is listed on the Toronto Stock Exchange, a leading financial market. In order to allow its subsidiaries to have continued access to those capital markets, APUC incurs the following costs. These services and costs are a prerequisite to the subsidiaries continued access to those capital markets.

a. License and Permit Fees

In connection with APUC's participation in the Toronto Stock Exchange, APUC incurs certain license and permit fees such as Sedar fees, annual filing fees, licensing fees, etc. These licensing and permit fees are required in order to sell units on the Toronto Stock Exchange, which in turn provides funding for utility operations.

b. Escrow Fees

In connection with the payment of dividends to unit holders, APUC incurs escrow fees. Escrow fees are incurred to ensure continued access to capital and ensure continuing and ongoing investments by shareholders. Without such escrow fees, APUC's subsidiaries would not have a readily available source of capital funding.

c. Unit Holder Communications

Unit holder communication costs are incurred to comply with filing and regulatory requirements of the Toronto Stock Exchange and meet the expectations of shareholders. These costs include items such as news releases and unit holder conference calls. In the absence of shareholder communication costs, investors would not invest in the units of APUC, and in turn, APUC would not have capital to invest in its subsidiaries. With such communications services, the subsidiaries would not have a readily available source of capital funding.

3. APUC FINANCIAL CONTROLS

Financial control costs incurred by APUC include costs for audit services and tax services. These costs are necessary to ensure that the subsidiaries are operating in a manner that meets audit standards and regulatory requirements, which have strong financial and operational controls, and financial transactions are recorded

accurately and prudently. Without these services, the regulated utilities would not have a readily available source of capital funding.

a. Audit Fees

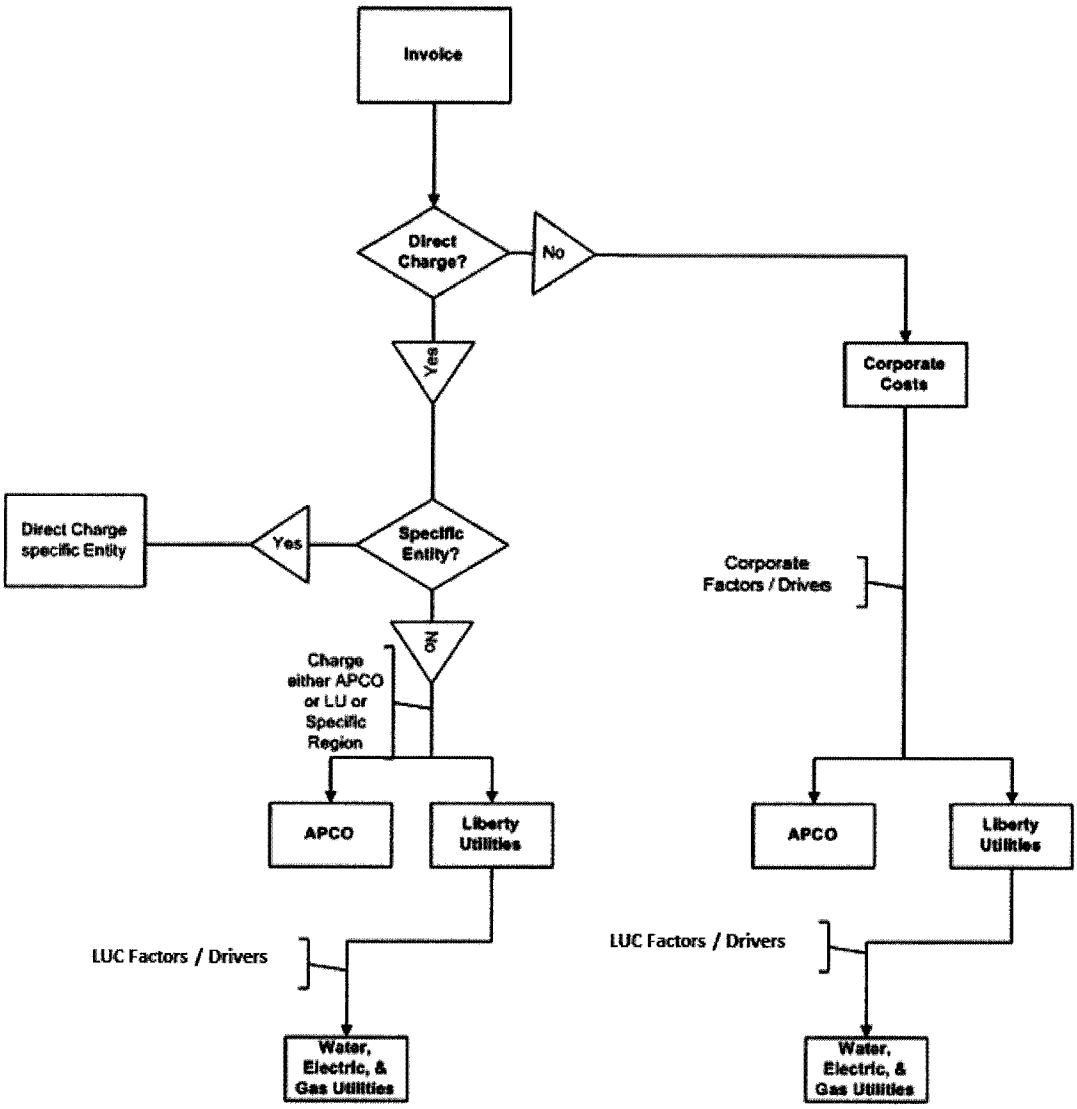
Audits are done on a yearly basis and reviews are performed quarterly on all facilities owned by APUC on an aggregate level. These corporate parent level audits reduce the cost of the stand-alone audits significantly for utilities which must perform its own separate audits. Where stand-alone audits are not required, ratepayers receive benefits of additional financial rigor, as well as access to capital, and financial soundness checks by third parties. Finally, during rate cases, the existence of audits provides staff and intervenors additional reliance on the company records, thus reducing overall rate case costs. The aggregate audit is necessary for the regulated utilities to have continued access to capital markets and unit holders.

b. Tax Services

Taxes are paid on behalf of the regulated utilities at the parent level as part of a consolidated United States tax return. Tax services such as planning and filing are provided by third parties. Filing tax returns on a consolidated basis benefits each regulated utility by reducing the costs that otherwise would be incurred by such utility in filing its own separate tax return.

4. APUC Administrative Costs

Finally, administrative costs incurred by APUC such as rent, depreciation of office furniture, depreciation of computers, and general office costs are required to house all the services mentioned above. Without these administrative costs, the employees of APUC could not perform their work and provide the necessary services to the regulated utilities. These administrative costs also include training for corporate employees.

APPENDIX 3 – LIFE OF AN INVOICE

A hypothetical example is being provided of an invoice received by APUC for services to be allocated to its subsidiaries. The diagram below is intended to visually explain APUC's allocation to APCo and Liberty Utilities.