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BEFORE THE ARIZONA CORPORATION COMMISSION

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

Docket No. W-02113A-07-0551

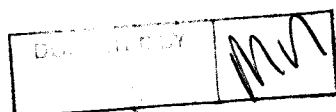
NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
Direct Testimony of William A. Rigsby, CRRA, and Timothy J. Coley in the above-referenced
matter.

RESPECTFULLY SUBMITTED this 30th day of September 2008

Arizona Corporation Commission
DOCKETED

SEP 30 2008



Daniel W. Pozefsky
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 30th day
3 of September 2008 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/
6 mailed this 30th day of September 2008 to:

7 Teena Wolfe
8 Administrative Law Judge
9 Hearing Division
10 Arizona Corporation Commission
11 1200 West Washington
12 Phoenix, Arizona 85007

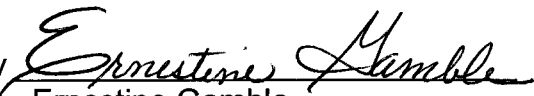
10 Janice Alward, Chief Counsel
11 Legal Division
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

13 Ernest Johnson, Director
14 Utilities Division
15 Arizona Corporation Commission
16 1200 West Washington
17 Phoenix, Arizona 85007

16 Robin Mitchell, Counsel
17 Legal Division
18 Arizona Corporation Commission
19 1200 West Washington
20 Phoenix, Arizona 85007

19 Norman D. James
20 Jay L. Shapiro
21 Fennemore Craig , P.C.
22 3003 N. Central Avenue, Suite 2600
23 Phoenix, Arizona 85012

22 Phil Green
23 OB Sports F.B Management (EM), LLC
24 7025 E. Greenway Parkway, suite 550
Scottsdale, AZ 85254

By 
Ernestine Gamble
Secretary to Daniel Pozefsky

CHAPARRAL CITY WATER COMPANY, INC.

DOCKET NO. W-02113A-07-0551

**DIRECT TESTIMONY
ON RATE CASE EXPENSE IN CONNECTION WITH
THE APPEAL AND REMAND OF DECISION NO. 68176**

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

SEPTEMBER 30, 2008

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1 **INTRODUCTION**

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

3 A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6
7 Q. Have you filed any other direct testimony in this case on behalf of RUCO?

8 A. Yes, on September 30, 2008, I filed, under separate cover, direct
9 testimony which addressed the cost of capital issues associated with
10 Chaparral City Water Company, Inc.'s ("Chaparral" or "Company")
11 application requesting a permanent rate increase ("Application"). The
12 Company filed its Application with the Arizona Corporation Commission
13 ("ACC" or "Commission") on September 27, 2007.

14
15 Q. Please describe your qualifications in the field of utilities regulation and
16 your educational background.

17 A. A complete description of my educational background and my experience
18 in the field of utilities regulation is presented in my direct testimony on the
19 cost of capital issues noted above.

20

21

22 ...

23

1 Q. Please state the purpose of your testimony.

2 A. The purpose of my testimony is to respond to Chaparral's request for
3 recovery of legal expenses in connection with the appeal and remand of
4 Decision No. 68176, dated September 30, 2005 ("Remand Proceeding").
5

6 Q. What is RUCO recommending in regard to Chaparral's request for
7 recovery of legal expenses in connection with the Remand Proceeding?

8 A. RUCO is recommending that the Commission deny the company's
9 request for recovery of legal expenses in connection with the Remand
10 Proceeding.
11

12 Q. How is your direct testimony organized?

13 A. My direct testimony contains four parts: the introduction that I have just
14 presented; a background on the Remand Proceeding; a summary of
15 Chaparral's supplemental testimony that makes its argument for recovery
16 of legal expenses associated with the Remand Proceeding; and RUCO's
17 recommendation on Chaparral's request.
18

19 **BACKGROUND ON THE REMAND PROCEEDING**

20 Q. Please provide the background on the Remand Proceeding that Chaparral
21 is requesting recovery of legal expenses for.

22 A. On August 24, 2004 Chaparral filed an application for a permanent rate
23 increase with the ACC. Over the course of the proceeding the Company

1 argued that an original cost rate of return was the appropriate rate of
2 return to be applied to the Company's fair value rate base ("FVRB"). Both
3 RUCO and ACC Staff opposed the company's argument and advocated
4 that the Commission continue to use the established method used in prior
5 rate cases, and apply a fair value rate of return to the Company's FVRB in
6 order to avoid the awarding of excessive operating income to Chaparral.

7 On September 30, 2005, the Commission approved Decision No. 68176
8 which rejected Chaparral's argument and applied a fair value rate of return
9 to the Company's FVRB. The Decision provided Chaparral with a revenue
10 increase of \$1,107,596 or an increase of 17.86 percent over test year
11 adjusted operating revenues.

12 Following the Commission's decision on Chaparral's rate request, the
13 Company filed an application for rehearing which the Commission took no
14 action on. Chaparral subsequently filed an appeal¹ with the Arizona Court
15 of Appeals, Division One ("Court of Appeals"). Chaparral's appeal
16 claimed that Chaparral was denied a fair rate of return on its invested
17 capital as a result of the Commission's established method of calculating a
18 level of operating income based on the Company's FVRB.

19 On February 13, 2007, the Court of Appeals issued a Memorandum
20 Decision which affirmed in part, vacated, and remanded Decision No.
21 68176 to the Commission for further determination.

¹ Chaparral City Water Co. v Arizona Corp. Comm'n, 1 CA-CC 05-0002, Mem. Decision at 2 (Ariz. Ct. App. 207).

1 Although the Court of Appeals found that the Commission did not comply
2 with Article 15, § 14 of the Arizona Constitution when the Commission set
3 Chaparral's rates based on original cost as opposed to the fair value of the
4 Company's property, it affirmed the Commission's methodologies used to
5 determine Chaparral's cost of equity.

6 On June 7, 2007, the ACC's Hearing Division issued a Remand Hearing
7 Procedural Order which stated that, once a level of operating income,
8 based on Chaparral's FVRB, has been calculated by an appropriate
9 methodology, new just and reasonable rates will be designed to allow
10 Chaparral to recover the amount of revenue that the Company is entitled
11 to. The Remand Hearing Procedural Order also stated that if the results
12 of the process demonstrate that the rates established in Decision No.
13 68176 are either too high or too low, the Commission should consider the
14 necessity of providing a mechanism for either a surcharge or a refund.
15 The Remand Hearing Procedural Order further stated that if the parties'
16 proposed methodologies for determining a return on investment based on
17 FVRB results in a measurably different revenue requirement, it may be
18 necessary to reassess rate design.

19 The Remand Proceeding hearing began as scheduled on Monday,
20 January 28, 2008 at 10:00 a.m. and was concluded on Tuesday, January
21 29, 2008. The Company, ACC Staff and RUCO filed testimony in the
22 proceeding and offered expert witnesses for cross-examination during the
23 hearing.

1 At a special open meeting held on July 17, 2008, the Commission
2 approved Decision No. 70441 by a vote of four to one. The Decision
3 adopted a modified version of the methodology recommended by RUCO
4 witness Ben Johnson, Ph.D., and reduced the Company's cost of equity
5 capital by an inflation factor of 200 basis points. The resulting 6.40
6 percent weighted average cost of capital was then applied to Chaparral's
7 fair value rate base to arrive at an appropriate level of operating income
8 for the Company (the revised annual operating figure provided the
9 company with an additional \$12,143 more than what was originally
10 authorized in Decision No. 68176). The ROO recommended that the
11 recovery, if any, of Chaparral's legal expenses incurred during the appeal
12 and remand proceedings be considered in the Company's pending rate
13 case proceeding.

14
15 **SUMMARY OF CHAPARRAL'S SUPPLEMENTAL TESTIMONY**

16 Q. Have you read the Company's supplemental testimony which requests the
17 recovery of rate case expense associated with the Remand Proceeding?

18 A. Yes. I have read the supplemental testimony of Company witness
19 Thomas J. Bourassa, which was filed on September 8, 2008.

20
21 Q. Briefly summarize Mr. Bourassa's supplementary testimony.

22 A. Briefly, Mr. Bourassa's supplementary testimony argues that the Company
23 should be entitled to collect approximately half of the legal expenses that

1 the Company incurred as a result of Chaparral's appeal of Decision No.
2 68176.

3
4 Q. What specific amount of legal expense is Chaparral seeking and how
5 does it propose to collect it?

6 A. Chaparral seeks to recover \$258,511 out of a total amount of \$520,000 in
7 legal expenses attributed to both the Company's Appeal of Decision No.
8 68176 and the Remand Proceeding. The Company is proposing that the
9 \$258,511 be recovered through a commodity surcharge based on gallons
10 sold (in 000's) during the most recent twelve month period. Mr. Bourassa
11 has calculated a commodity rate of \$0.124 per 1,000 gallons which he
12 believes would allow Chaparral to recover the legal expense over
13 approximately twelve months depending on the level of water sales. The
14 company would cease to collect the surcharge once the \$258,511 is
15 recovered.

16
17 **RECOMMENDATION ON CHAPARRAL'S REQUEST**

18 Q. What is RUCO recommending on Chaparral's request to recover legal
19 expenses attributed to both the Appeal of Decision No. 68176 and the
20 Remand Proceeding?

21 A. RUCO recommends that the Commission reject Chaparral's request for
22 recovery of legal expenses attributed to both the Appeal of Decision No.
23 68176 and the Remand Proceeding.

1 Q. Why does RUCO believe that the Commission should reject Chaparral's
2 request for recovery of the Company's legal expenses?

3 A. RUCO believes that Chaparral made a conscious business decision to
4 appeal Decision No. 68176. In making this business decision, the
5 Company should have weighed all of the possible risks associated in
6 obtaining a satisfactory decision from both the Court of Appeals and the
7 ACC. The Company should have also taken into consideration what a
8 possible outcome could mean in terms of obtaining its desired level of
9 operating income. The chain of events that caused Chaparral to incur the
10 legal expenses that it now seeks to recover from captive ratepayers can
11 be directly attributed to the Company's business decision to appeal
12 Decision No. 68176.

13
14 Q. Does RUCO believe that Chaparral's decision to appeal Decision No.
15 68176 benefited the Company's ratepayers?

16 A. No. Chaparral's Decision to appeal Decision No. 68176 was made strictly
17 to increase the Company's operating income for the benefit of Chaparral's
18 shareholders. Therefore, it is not reasonable for the Company to ask
19 ratepayers to pay the expenses associated with the appeal and Remand
20 Proceeding. In addition, the \$258,511 rate case expense that the
21 Company seeks to recover is excessive and not reasonable for the appeal
22 and Remand Proceeding. The rate case proceeding produced a complete
23 record and a body of evidence that allowed the Commission to set rates

1 that would generate an appropriate level of revenue to cover the
2 Company's operating expenses and provide Chaparral with the
3 opportunity to realize its authorized rate of return. Had the Company not
4 pursued an appeal of Decision No. 68176, it would have realized
5 \$520,000 in funds that would not have been spent on costly litigation that
6 only provided Chaparral with \$12,143 more than what was originally
7 authorized in Decision No. 68176. For this reason RUCO believes that
8 the Commission should deny the Company's request for recovery of the
9 legal expenses associated with both the appeal of Decision No. 68176
10 and the Remand proceeding.

11
12 Q. Is there any amount of recovery that RUCO could agree to should the
13 Commission desire to grant some amount of legal expense to the
14 Company?

15 A. The maximum amount that RUCO could possibly recommend is \$117.79
16 which represents 0.0097 percent of the \$12,143 in additional revenue
17 granted to Chaparral in Decision No. 70441. This is the same percentage
18 of rate case expense to operating revenue that was awarded to Chaparral
19 in Decision No. 68176.

20
21
22 ...

1 Q. Does your silence on any of the issues or positions addressed in the
2 testimony of Mr. Bourassa or any of the Company's other witnesses
3 constitute acceptance?

4 A. No, it does not.

5

6 Q. Does this conclude your direct testimony on Chaparral's request for
7 recovery of rate case expense in connection with the repeal and remand
8 of Decision No. 68176?

9 A. Yes, it does.

CHAPARRAL CITY WATER COMPANY, INC.

DOCKET NO. W-02113A-07-0551

**DIRECT TESTIMONY
ON COST OF CAPITAL**

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

SEPTEMBER 30, 2008

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INTRODUCTION

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

A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please describe your qualifications in the field of utilities regulation and your educational background.

A. I have been involved with utilities regulation in Arizona since 1994. During that period of time I have worked as a utilities rate analyst for both the Arizona Corporation Commission ("ACC" or "Commission") and for RUCO. I hold a Bachelor of Science degree in the field of finance from Arizona State University and a Master of Business Administration degree, with an emphasis in accounting, from the University of Phoenix. I have been awarded the professional designation, Certified Rate of Return Analyst ("CRRRA") by the Society of Utility and Regulatory Financial Analysts ("SURFA"). The CRRRA designation is awarded based upon experience and the successful completion of a written examination. Appendix I, which is attached to this testimony, further describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to present recommendations that are
3 based on my analysis of Chaparral City Water Company Inc.'s
4 ("Chaparral" or "Company") application for a permanent rate increase
5 ("Application") for the Company's Water operations in eastern Maricopa
6 County. Chaparral filed the Application with the ACC on September 26,
7 2007. Chaparral has chosen the operating period ended December 31,
8 2006 for the test year ("Test Year") in this proceeding.

9

10 Q. Briefly describe Chaparral's operations in Arizona.

11 A. According to Chaparral's Application, and the Direct Testimony of the
12 Company's District Manager, Mr. Robert N. Hanford, Chaparral provided
13 water service to approximately 13,500 customers in the Town of Fountain
14 Hills and a small portion of the City of Scottsdale during the Test Year.
15 Chaparral is a wholly owned subsidiary of American States Water
16 Company ("American States"), a utility holding company based in San
17 Dimas, California, which is publicly traded on the New York Stock
18 Exchange ("NYSE"). American States acquired 100 percent of
19 Chaparral's common stock from MCO Properties., Inc. during October
20 2000¹.

21

22 ...

¹ ACC Decision No. 62909 Dated September 18, 2000

1 Q. Please explain your role in RUCO's analysis of Chaparral's Application.

2 A. I reviewed Chaparral's Application and performed a cost of capital
3 analysis to determine a fair rate of return on the Company's invested
4 capital. In addition to my recommended capital structure, my direct
5 testimony will present my recommended costs of common equity and my
6 recommended costs of short-term and long-term debt (Chaparral has no
7 preferred stock). The recommendations contained in this testimony are
8 based on information obtained from Company responses to data requests,
9 the Company's Application and from market-based research that I
10 conducted during my analysis.

11

12 Q. Is this your first case involving Chaparral?

13 A. No. I was the ACC Staff member who recommended Commission
14 approval of American State's proposed acquisition of Chaparral in 2000.
15 Later, as an analyst for RUCO, I testified on the cost of capital issues in
16 Chaparral's prior rate case that was filed with the Commission in August of
17 2004.

18

19 Q. Were you also responsible for conducting an analysis on the Company's
20 proposed revenue level, rate base and rate design?

21 A. No. RUCO witness Timothy J. Coley handled those aspects of the
22 Company's Application.

23

1 Q. What areas will you address in your testimony?

2 A. I will address the cost of capital issues associated with the case. I am
3 also filing, under separate cover, testimony on Chaparral's request to
4 recover legal expenses associated with the Company's appeal of Decision
5 No. 68176.

6
7 Q. Please identify the exhibits that you are sponsoring.

8 A. I am sponsoring Schedules WAR-1 through WAR-9.
9

10 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

11 Q. Briefly summarize how your cost of capital testimony is organized.

12 A. My cost of capital testimony is organized into seven sections. First, the
13 introduction I have just presented and second, the summary of my
14 testimony that I am about to give. Third, I will present the findings of my
15 cost of equity capital analysis, which utilized both the discounted cash flow
16 ("DCF") method, and the capital asset pricing model ("CAPM"). These are
17 the two methods that RUCO and ACC Staff have consistently used for
18 calculating the cost of equity capital in rate case proceedings in the past,
19 and are the methodologies that the ACC has given the most weight to in
20 setting allowed rates of returns for utilities that operate in the Arizona
21 jurisdiction. In this third section I will also provide a brief overview of the
22 current economic climate that Chaparral is operating in. Fourth, I will
23 discuss my recommended cost of debt. Fifth, I will compare my

1 recommended capital structure with the Company-proposed capital
2 structure. Sixth, I will explain my weighted cost of capital recommendation
3 and seventh, I will comment on Chaparral's cost of capital testimony.
4 Schedules WAR-1 through WAR-9 will provide support for my cost of
5 capital analysis.

6
7 Q. Please summarize the recommendations and adjustments that you will
8 address in your testimony.

9 A. Based on the results of my analysis of Chaparral, I am making the
10 following recommendations:

11
12 Cost of Equity Capital – I am recommending a 6.38 percent cost of equity
13 capital to be applied to the Company's fair value rate base ("FVRB"). This
14 6.38 percent figure is based on the results that I obtained in my cost of
15 equity analysis, which employed both the DCF and CAPM methodologies.
16 My recommended FVRB cost of common equity includes a 200 basis
17 point inflation factor adjustment that was calculated using the same
18 method adopted by the Commission in Decision No. 70441.

19
20 Cost of Short-Term Debt – I am recommending a 3.13 percent cost of
21 short-term debt. This is based on my review of the (London Interbank
22 Offered Rate ("LIBOR") assigned to inter-company debt that exists
23 between Chaparral and its parent, American States.

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Cost of Long-Term Debt – I am recommending a 5.34 percent cost of long-term debt. This is based on my review of the costs associated with Chaparral's various bond issuances.

Capital Structure – I am recommending a capital structure which is comprised of 4.10 percent short-term debt, 20.20 percent long-term debt and 75.70 percent common equity, be adopted by the Commission.

Weighted Average Cost of Capital – Based on the results of my recommended capital structure, cost of common equity, and debt analyses, I am recommending a 6.38 percent FVRB cost of capital for Chaparral. This figure represents the weighted cost of my recommended costs of short-term debt, long-term debt and FVRB cost of common equity (which includes a 200 basis point inflation factor adjustment).

Q. Why do you believe that your recommended 6.38 percent cost of capital is an appropriate rate of return for Chaparral to earn on its invested capital?

A. The 6.38 percent cost of capital figure that I have recommended meets the criteria established in the landmark Supreme Court cases of Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two

1 cases affirmed that a public utility that is efficiently and economically
2 managed is entitled to a return on investment that instills confidence in its
3 financial soundness, allows the utility to attract capital, and also allows the
4 utility to perform its duty to provide service to ratepayers. The rate of
5 return adopted for the utility should also be comparable to a return that
6 investors would expect to receive from investments with similar risk.

7 The Hope decision allows for the rate of return to cover both the operating
8 expenses and the "capital costs of the business" which includes interest
9 on debt and dividend payment to shareholders. This is predicated on the
10 belief that, in the long run, a company that cannot meet its debt obligations
11 and provide its shareholders with an adequate rate of return will not
12 continue to supply adequate public utility service to ratepayers.

13

14 Q. Do the Bluefield and Hope decisions indicate that a rate of return sufficient
15 to cover all operating and capital costs is guaranteed?

16 A. No. Neither case *guarantees* a rate of return on utility investment. What
17 the Bluefield and Hope decisions *do allow*, is for a utility to be provided
18 with the *opportunity* to earn a reasonable rate of return on its investment.
19 That is to say that a utility, such as Chaparral, is provided with the
20 opportunity to earn an appropriate rate of return if the Company's
21 management exercises good judgment and manages its assets and
22 resources in a manner that is both prudent and economically efficient.

23

COST OF EQUITY CAPITAL

Q. What is your final recommended cost of equity capital for Chaparral?

A. I am recommending a FVRB cost of equity of 6.83 percent. My recommended 6.83 percent FVRB cost of equity figure represents the 8.83 percent mean average of the results of my DCF and CAPM analyses, which utilized both a sample of publicly traded water providers and a sample of publicly traded natural gas local distribution companies ("LDC") to calculate an original cost rate base ("OCRB") cost of equity capital, and a 200 basis point inflation factor adjustment (Schedule WAR-1 page 4 of 5). My 200 basis point inflation factor adjustment was calculated using the same method adopted by the Commission in Decision No. 70441.

Discounted Cash Flow (DCF) Method

Q. Please explain the DCF method that you used to estimate Chaparral's cost of equity capital.

A. The DCF method employs a stock valuation model known as the constant growth valuation model, that bears the name of Dr. Myron J. Gordon (i.e. the Gordon model), the professor of finance who was responsible for its development. Simply stated, the DCF model is based on the premise that the current price of a given share of common stock is determined by the present value of all of the future cash flows that will be generated by that share of common stock. The rate that is used to discount these cash flows back to their present value is often referred to as the investor's cost

1 of capital (i.e. the cost at which an investor is willing to forego other
2 investments in favor of the one that he or she has chosen).

3 Another way of looking at the investor's cost of capital is to consider it from
4 the standpoint of a company that is offering its shares of stock to the
5 investing public. In order to raise capital, through the sale of common
6 stock, a company must provide a required rate of return on its stock that
7 will attract investors to commit funds to that particular investment. In this
8 respect, the terms "cost of capital" and "investor's required return" are one
9 in the same. For common stock, this required return is a function of the
10 dividend that is paid on the stock. The investor's required rate of return
11 can be expressed as the percentage of the dividend that is paid on the
12 stock (dividend yield) plus an expected rate of future dividend growth.
13 This is illustrated in mathematical terms by the following formula:

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

14 where: k = the required return (cost of equity, equity capitalization rate),

15 $\frac{D_1}{P_0}$ = the dividend yield of a given share of stock calculated

16 by dividing the expected dividend by the current market

17 price of the given share of stock, and

18 g = the expected rate of future dividend growth
19

1 This formula is the basis for the standard growth valuation model that I
2 used to determine Chaparral's cost of equity capital.

3

4 Q. In determining the rate of future dividend growth for Chaparral, what
5 assumptions did you make?

6 A. There are two primary assumptions regarding dividend growth that must
7 be made when using the DCF method. First, dividends will grow by a
8 constant rate into perpetuity, and second, the dividend payout ratio will
9 remain at a constant rate. Both of these assumptions are predicated on
10 the traditional DCF model's basic underlying assumption that a company's
11 earnings, dividends, book value and share growth all increase at the same
12 constant rate of growth into infinity. Given these assumptions, if the
13 dividend payout ratio remains constant, so does the earnings retention
14 ratio (the percentage of earnings that are retained by the company as
15 opposed to being paid out in dividends). This being the case, a
16 company's dividend growth can be measured by multiplying its retention
17 ratio (1 - dividend payout ratio) by its book return on equity. This can be
18 stated as $g = b \times r$.

19

20

21

22 ...

23

Q. Would you please provide an example that will illustrate the relationship that earnings, the dividend payout ratio and book value have with dividend growth?

A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens Utilities Company 1993 rate case by using a hypothetical utility.²

Table I

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Growth</u>
Book Value	\$10.00	\$10.40	\$10.82	\$11.25	\$11.70	4.00%
Equity Return	10%	10%	10%	10%	10%	N/A
Earnings/Sh.	\$1.00	\$1.04	\$1.082	\$1.125	\$1.170	4.00%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	\$0.60	\$0.624	\$0.649	\$0.675	\$0.702	4.00%

Table I of Mr. Hill's illustration presents data for a five-year period on his hypothetical utility. In Year 1, the utility had a common equity or book value of \$10.00 per share, an investor-expected equity return of ten percent, and a dividend payout ratio of sixty percent. This results in earnings per share of \$1.00 (\$10.00 book value x 10 percent equity return) and a dividend of \$0.60 (\$1.00 earnings/sh. x 0.60 payout ratio) during Year 1. Because forty percent (1 - 0.60 payout ratio) of the utility's earnings are retained as opposed to being paid out to investors, book value increases to \$10.40 in Year 2 of Mr. Hill's illustration. Table I

² Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

1 presents the results of this continuing scenario over the remaining five-
2 year period.

3 The results displayed in Table I demonstrate that under "steady-state" (i.e.
4 constant) conditions, book value, earnings and dividends all grow at the
5 same constant rate. The table further illustrates that the dividend growth
6 rate, as discussed earlier, is a function of (1) the internally generated
7 funds or earnings that are retained by a company to become new equity,
8 and (2) the return that an investor earns on that new equity. The DCF
9 dividend growth rate, expressed as $g = b \times r$, is also referred to as the
10 internal or sustainable growth rate.

11
12 Q. If earnings and dividends both grow at the same rate as book value,
13 shouldn't that rate be the sole factor in determining the DCF growth rate?

14 A. No. Possible changes in the expected rate of return on either common
15 equity or the dividend payout ratio make earnings and dividend growth by
16 themselves unreliable. This can be seen in the continuation of Mr. Hill's
17 illustration on a hypothetical utility.

18 Table II

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Growth</u>
19 Book Value	\$10.00	\$10.40	\$10.82	\$11.47	\$12.158	5.00%
20 Equity Return	10%	10%	15%	15%	15%	10.67%
21 Earnings/Sh	\$1.00	\$1.04	\$1.623	\$1.720	\$1.824	16.20%
22 Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
23 Dividend/Sh	\$0.60	\$0.624	\$0.974	\$1.032	\$1.094	16.20%

1 In the example displayed in Table II, a sustainable growth rate of four
2 percent³ exists in Year 1 and Year 2 (as in the prior example). In Year 3,
3 Year 4 and Year 5, however, the sustainable growth rate increases to six
4 percent.⁴ If the hypothetical utility in Mr. Hill's illustration were expected to
5 earn a fifteen-percent return on common equity on a continuing basis,
6 then a six percent long-term rate of growth would be reasonable.
7 However, the compound growth rates for earnings and dividends,
8 displayed in the last column, are 16.20 percent. If this rate were to be
9 used in the DCF model, the utility's return on common equity would be
10 expected to increase by fifty percent every five years, [(15 percent ÷ 10
11 percent) – 1]. This is clearly an unrealistic expectation.

12 Although it is not illustrated in Mr. Hill's hypothetical example, a change in
13 only the dividend payout ratio will eventually result in a utility paying out
14 more in dividends than it earns. While it is not uncommon for a utility in
15 the real world to have a dividend payout ratio that exceeds one hundred
16 percent on occasion, it would be unrealistic to expect the practice to
17 continue over a sustained long-term period of time.

18
19
20 ...
21

³ [(Year 2 Earnings/Sh – Year 1 Earnings/Sh) ÷ Year 1 Earnings/Sh] = [(\$1.04 - \$1.00) ÷
\$1.00] = [\$0.04 ÷ \$1.00] = 4.00%

⁴ [(1 – Payout Ratio) x Rate of Return] = [(1 - 0.60) x 15.00%] = 0.40 x 15.00% = 6.00%

1 Q. Other than the retention of internally generated funds, as illustrated in Mr.
2 Hill's hypothetical example, are there any other sources of new equity
3 capital that can influence an investor's growth expectations for a given
4 company?

5 A. Yes, a company can raise new equity capital externally. The best
6 example of external funding would be the sale of new shares of common
7 stock. This would create additional equity for the issuer and is often the
8 case with utilities that are either in the process of acquiring smaller
9 systems or providing service to rapidly growing areas.

10
11 Q. How does external equity financing influence the growth expectations held
12 by investors?

13 A. Rational investors will put their available funds into investments that will
14 either meet or exceed their given cost of capital (i.e. the return earned on
15 their investment). In the case of a utility, the book value of a company's
16 stock usually mirrors the equity portion of its rate base (the utility's earning
17 base). Because regulators allow utilities the opportunity to earn a
18 reasonable rate of return on rate base, an investor would take into
19 consideration the effect that a change in book value would have on the
20 rate of return that he or she would expect the utility to earn. If an investor
21 believes that a utility's book value (i.e. the utility's earning base) will
22 increase, then he or she would expect the return on the utility's common
23 stock to increase. If this positive trend in book value continues over an

1 extended period of time, an investor would have a reasonable expectation
2 for sustained long-term growth.

3

4 Q. Please provide an example of how external financing affects a utility's
5 book value of equity.

6 A. As I explained earlier, one way that a utility can increase its equity is by
7 selling new shares of common stock on the open market. If these new
8 shares are purchased at prices that are higher than those shares sold
9 previously, the utility's book value per share will increase in value. This
10 would increase both the earnings base of the utility and the earnings
11 expectations of investors. However, if new shares sold at a price below
12 the pre-sale book value per share, the after-sale book value per share
13 declines in value. If this downward trend continues over time, investors
14 might view this as a decline in the utility's sustainable growth rate and will
15 have lower expectations regarding growth. Using this same logic, if a new
16 stock issue sells at a price per share that is the same as the pre-sale book
17 value per share, there would be no impact on either the utility's earnings
18 base or investor expectations.

19

20

21

22 ...

23

1 Q. Please explain how the external component of the DCF growth rate is
2 determined.

3 A. In his book, *The Cost of Capital to a Public Utility*,⁵ Dr. Gordon (the
4 individual responsible for the development of the DCF or constant growth
5 model) identified a growth rate that includes both expected internal and
6 external financing components. The mathematical expression for Dr.
7 Gordon's growth rate is as follows:

$$g = (br) + (sv)$$

10 where: g = DCF expected growth rate,

11 b = the earnings retention ratio,

12 r = the return on common equity,

13 s = the fraction of new common stock sold that
14 accrues to a current shareholder, and

15 v = funds raised from the sale of stock as a fraction
16 of existing equity.

17 and $v = 1 - [(BV) \div (MP)]$

18 where: BV = book value per share of common stock, and

19 MP = the market price per share of common stock.
20

⁵ Gordon, M.J., *The Cost of Capital to a Public Utility*, East Lansing, MI: Michigan State University, 1974, pp. 30-33.

1 Q. Did you include the effect of external equity financing on long-term growth
2 rate expectations in your analysis of expected dividend growth for the DCF
3 model?

4 A. Yes. The external growth rate estimate (sv) is displayed on Page 1 of
5 Schedule WAR-4, where it is added to the internal growth rate estimate
6 (br) to arrive at a final sustainable growth rate estimate.

7
8 Q. Please explain why your calculation of external growth on page 2 of
9 Schedule WAR-4, is the current market-to-book ratio averaged with 1.0 in
10 the equation $[(M \div B) + 1] \div 2$.

11 A. The market price of a utility's common stock will tend to move toward book
12 value, or a market-to-book ratio of 1.0, if regulators allow a rate of return
13 that is equal to the cost of capital (one of the desired effects of regulation).
14 As a result of this situation, I used $[(M \div B) + 1] \div 2$ as opposed to the
15 current market-to-book ratio by itself to represent investor's expectations
16 that, in the future, a given utility will achieve a market-to-book ratio of 1.0.

17
18 Q. Has the Commission ever adopted a cost of capital estimate that included
19 this assumption?

20 A. Yes. In a prior Southwest Gas Corporation rate case⁶, the Commission
21 adopted the recommendations of ACC Staff's cost of capital witness,
22 Stephen Hill, who I noted earlier in my testimony. In that case, Mr. Hill

⁶ Decision No. 68487, Dated February 23, 2006 (Docket No. G-01551A-04-0876)

1 used the same methods that I have used in arriving at the inputs for the
2 DCF model. His final recommendation for Southwest Gas Corporation
3 was largely based on the results of his DCF analysis, which incorporated
4 the same valid market-to-book ratio assumption that I have used
5 consistently in the DCF model as a cost of capital witness for RUCO.

6

7 Q. How did you develop your dividend growth rate estimate?

8 A. I analyzed data on two separate proxy groups. A water company proxy
9 group comprised of four publicly traded water companies and a natural
10 gas proxy group consisting of ten natural gas local distribution companies
11 ("LDC") which have similar operating characteristics to water providers.

12

13 Q. Why did you use a proxy group methodology as opposed to a direct
14 analysis of Chaparral?

15 A. One of the problems in performing this type of analysis is that the utility
16 applying for a rate increase is not always a publicly traded company, as is
17 the case with Chaparral itself. Although shares of Chaparral's parent,
18 American States, are publicly traded, there is no financial data available
19 on dividends paid on *publicly held* shares of Chaparral itself.
20 Consequently it was necessary to create a proxy by analyzing publicly
21 traded water companies and LDC's with similar risk characteristics.

22

23

1 Q. Are there any other advantages to the use of a proxy?

2 A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope
3 decision that a utility is entitled to earn a rate of return that is
4 commensurate with the returns on investments of other firms with
5 comparable risk. The proxy technique that I have used derives that rate of
6 return. One other advantage to using a sample of companies is that it
7 reduces the possible impact that any undetected biases, anomalies, or
8 measurement errors may have on the DCF growth estimate.

9

10 Q. What criteria did you use in selecting the companies that make up your
11 water company proxy for Chaparral?

12 A. Three of the four water companies used in the proxy are publicly traded on
13 the New York Stock Exchange ("NYSE"), and one of them, Southwest
14 Water Company is traded over the counter through the National
15 Association of Securities Dealers Automated Quotation System
16 ("NASDAQ"). All four water companies are followed by The Value Line
17 Investment Survey ("Value Line") and are the same companies that
18 comprise Value Line's large capitalization Water Utility Industry segment
19 of the U.S. economy (Attachment A contains Value Line's July 25, 2008
20 update of the water utility industry and evaluations of the four water
21 companies used in my proxy).

22

23

1 Q. What companies comprise your water company proxy group?

2 A. My water company proxy group includes Chaparral's parent company,
3 American States (stock ticker symbol "AWR"), Aqua America, Inc.
4 ("WTR"), formerly known as Philadelphia Suburban Corporation, California
5 Water Service Group ("CWT") and Southwest Water Company ("SWWC").
6 Each of these water companies face the same types of risk that Chaparral
7 faces. For the sake of brevity, I will refer to each of these companies,
8 with the exception of American States, by their appropriate stock ticker
9 symbols henceforth.

10

11 Q. Briefly describe the areas served by the companies in your water
12 company sample proxy.

13 A. In addition to providing water service to residents of Fountain Hills through
14 its wholly owned subsidiary Chaparral, American States also serves
15 communities located in Los Angeles, Orange and San Bernardino
16 counties in California. CWT provides service to customers in seventy-five
17 communities in California, New Mexico and Washington. CWT's principal
18 service areas are located in the San Francisco Bay area, the Sacramento,
19 Salinas and San Joaquin Valleys and parts of Los Angeles. SWWC owns
20 and manages regulated systems in California, New Mexico, Oklahoma
21 and Texas. WTR is a holding company for a large number of water and
22 wastewater utilities operating in nine different states including

1 Pennsylvania, Ohio, New Jersey, Illinois, Maine, North Carolina, Texas,
2 Florida and Kentucky.

3

4 Q. Are these the same water companies that Chaparral used in its
5 application?

6 A. Chaparral's cost of equity witness, Mr. Thomas Bourassa, used the same
7 water companies included in my proxy with the exception of SWWC. Mr.
8 Bourassa also used three other water companies in his cost of capital
9 analysis⁷ which are included in Value Line's Small and Mid Cap Edition.

10

11 Q. Why did you exclude the water companies that are followed in Value
12 Line's Small and Mid Cap Edition?

13 A. Value Line does not provide the same type of forward-looking information
14 (i.e. long-term estimates on return on common equity and share growth)
15 on small and mid-cap companies that it provides on the four water
16 companies that I used in my proxy. Consequently, these water companies
17 are not as suitable as the ones that I have used in my analysis.

18

19 Q. What criteria did you use in selecting the natural gas LDC's included in
20 your proxy for Chaparral?

21 A. As are the water companies that I just described, each of the natural gas
22 LDC's used in the proxy are publicly traded on a major stock exchange (all

⁷ Connecticut Water Service, Inc., Middlesex Water Company and SJW Corp.

1 ten trade on the NYSE) and are followed by Value Line. Each of the ten
2 LDC's in my sample are tracked in Value Line's natural gas Utility industry
3 segment. All of the companies in the proxy are engaged in the provision
4 of regulated natural gas distribution services. Attachment B of my
5 testimony contains Value Line's most recent evaluation of the natural gas
6 proxy group that I used for my cost of common equity analysis.

7
8 Q. What companies are included your natural gas proxy?

9 A. The ten natural gas LDC's included in my proxy (and their NYSE ticker
10 symbols) are AGL Resources, Inc. ("ATG"), Atmos Energy Corp. ("ATO"),
11 Laclede Group, Inc. ("LG"), New Jersey Resources Corporation ("NJR"),
12 Nicor, Inc. ("GAS"), Northwest Natural Gas Co. ("NWN"), Piedmont
13 Natural Gas Company ("PNY"), South Jersey Industries, Inc. ("SJI")
14 Southwest Gas Corporation ("SWX"), which is the dominant natural gas
15 provider in Arizona, and WGL Holdings, Inc. ("WGL"). These are the
16 same ten LDC's that I analyzed recently in the UNS Gas, Inc. proceeding.⁸

17
18 Q. Briefly describe the regions of the U.S. served by the ten natural gas
19 LDC's that make up your sample proxy.

20 A. The ten LDC's listed above provide natural gas service to customers in the
21 Middle Atlantic region (i.e. NJI which serves portions of northern New
22 Jersey, SJI which serves southern New Jersey and WGL which serves the

⁸ Docket No. G-04204A-06-0463

1 Washington D.C. metro area), the Southeast and South Central portions
2 of the U.S. (i.e. ATG which serves Virginia, southern Tennessee and the
3 Atlanta, Georgia area and PNY which serves customers in North Carolina,
4 South Carolina and Tennessee), the South, deep South and Midwest (i.e.
5 ATO which serves customers in Kentucky, Mississippi, Louisiana, Texas,
6 Colorado and Kansas, GAS which provides service to northern and
7 western Illinois, and LG which serves the St. Louis area), and the Pacific
8 Northwest (i.e. NWN which serves Washington state and Oregon).
9 Portions of Arizona, Nevada and California are served by SWX.

10
11 Q. Did the Company's witness also perform a similar analysis using natural
12 gas LDC's?

13 A. No, he did not.

14
15 Q. Please explain your DCF growth rate calculations for the sample
16 companies used in your proxy.

17 A. Schedule WAR-5 provides retention ratios, returns on book equity, internal
18 growth rates, book values per share, numbers of shares outstanding, and
19 the compounded share growth for each of the utilities included in the
20 sample for the historical observation period 2003 to 2007 for both the
21 water and LDC industries. Schedule WAR-5 also includes Value Line's
22 projected 2008, 2009 and 2011-13 values for the retention ratio, equity

1 return, book value per share growth rate, and number of shares
2 outstanding for both the water utilities and the LDC's.

3
4 Q. Please describe how you used the information displayed in Schedule
5 WAR-5 to estimate each comparable utility's dividend growth rate.

6 A. In explaining my analysis, I will use Chaparral's parent, American States
7 as an example. The first dividend growth component that I evaluated was
8 the internal growth rate. I used the "b x r" formula (described on pages 12
9 and 13) to multiply AWR's earned return on common equity by its earnings
10 retention ratio for each year in the 2003 to 2007 observation period to
11 derive the utility's annual internal growth rates. I used the mean average
12 of this five-year period as a benchmark against which I compared the
13 projected growth rate trends provided by Value Line. Because an investor
14 is more likely to be influenced by recent growth trends, as opposed to
15 historical averages, the five-year mean noted earlier was used only as a
16 benchmark figure. As shown on Schedule WAR-5, Page 1, American
17 States had sustainable internal growth that averaged 2.51 percent over
18 the course of the 2003 to 2007 observation period. This reflects an
19 upward trend that began during the 2004 operating period. American
20 States rebounded from negative growth of 0.72 percent in 2003 to 1.01
21 percent in 2004. Internal growth climbed from 1.01 percent in 2004 to
22 3.79 percent during 2007. Value Line is predicting a slight decrease to
23 3.74 percent during 2008 but then sees increased growth through the

1 2011-13 time frame. After weighing Value Line's projections on earnings,
2 dividends and book value, I believe that a 6.50% rate of growth is
3 reasonable for AWR.

4
5 Q. Please continue with the external growth rate component portion of your
6 analysis.

7 A. Schedule WAR-5 demonstrates that the pattern of shares outstanding for
8 American States increased from 15.21 million to 17.23 million from 2003
9 to 2007. Value Line is predicting that this level will increase from 17.75
10 million in 2008 to 19.00 million by the end of 2013. Based on this data, I
11 believe that a 2.50 percent growth in shares is not unreasonable for
12 American States. My final dividend growth rate estimate for AWR is 7.93
13 percent (6.50 percent internal + 1.43 percent external) and is shown on
14 Page 1 of Schedule WAR-4.

15

16 Q. What is your average dividend growth rate estimate using the DCF model
17 for the sample water utilities?

18 A. Based on the DCF model, my average dividend growth rate estimate is
19 6.30 percent as displayed on page 1 of Schedule WAR-4.

20

21 Q. Did you use the same approach to determine an average dividend growth
22 rate for the proxy comprised of natural gas LDC's?

23 A. Yes.

1 Q. What is your average dividend growth rate estimate using the DCF model
2 for the sample natural gas utilities?

3 A. Based on the DCF model, my average dividend growth rate estimate is
4 5.97 percent, which is also displayed on page 1 of Schedule WAR-4.

5
6 Q. How does your average dividend growth rate estimates on water
7 companies compare to the growth rate data published by Value Line and
8 other analysts?

9 A. Schedule WAR-6 compares my sustainable growth estimates with the
10 five-year projections of analysts at both Investment Research, Inc.
11 ("Zacks") (Attachment C) and Value Line. In the case of the water
12 companies, my 6.30 percent estimate falls between Zacks' average long-
13 term EPS projection of 9.15 percent and Value Line's growth projection of
14 5.94 percent (which is an average of EPS, DPS and BVPS). My 6.30
15 percent estimate is also 86 basis points higher than the 5.44 percent
16 average of Value Line's historical and projected data and the consensus
17 opinions published by Zacks. Furthermore, my 6.30 percent estimate is
18 54 basis points higher than the Value Line 5-year compound historical
19 average also displayed in Schedule WAR-6. The estimates of analysts at
20 both Value Line and Zacks indicate that investors are expecting increased
21 performance from water utilities in the future. On balance, I would say my
22 6.30 percent estimate is a good representation of the growth projections
23 that are available to the investing public.

1 Q. How do your average dividend growth rate estimates on natural gas LDC's
2 compare to the growth rate data published by Value Line and other
3 analysts?

4 A. In regard to the natural gas LDC's, my 5.97 percent estimate also falls
5 between the average 6.94 percent long-term consensus projections
6 published by Zacks, and the 4.70 percent Value Line projected estimate
7 (which is an average of EPS, DPS and BVPS). As can also be seen on
8 Schedule WAR-6, the 5.97 percent estimate that I have calculated is 41
9 basis points higher than the 5.56 percent average of the 5-year historic
10 EPS, DPS and BVPS means of Value Line and 23 basis points higher
11 than the 5.74 percent five-year compound historical average of Value Line
12 data (on EPS, DPS and BVPS). In fact, my 5.97 percent estimate is 55
13 basis points higher than the combined 5.42 percent Value Line and Zacks
14 averages displayed in Schedule WAR-6. As with the water companies,
15 the estimates of both Value Line's and Zacks' analysts indicate that
16 investors are expecting increased performance from natural gas
17 distribution companies in the future. In the case of the LDC's I would say
18 that my 5.97 percent estimate, which is lower than Zack's projections but
19 higher than Value Line's forecasts, is a fair representation of the growth
20 projections presented by securities analysts at this point in time.

21
22 ...
23

1 Q. How did you calculate the dividend yields displayed in Schedule WAR-3?

2 A. For both the water companies and the natural gas LDC's I used the
3 estimated annual dividends, for the next twelve-month period, that
4 appeared in Value Line's July 25, 2008 Ratings and Reports water
5 services industry update and Value Line's September 12, 2008 Ratings
6 and Reports natural gas utility update. I then divided those figures by the
7 eight-week average price per share of the appropriate utility's common
8 stock. The eight-week average price is based on the daily closing stock
9 prices for each of the companies in my proxies for the period July 21,
10 2008 to September 12, 2008.

11
12 Q. Based on the results of your DCF analysis, what is your cost of equity
13 capital estimate for the water and natural gas utilities included in your
14 sample?

15 A. As shown in Schedule WAR-2, the cost of equity capital derived from my
16 DCF analysis is 9.00 percent for the water utilities and 9.79 percent for the
17 natural gas LDC's.

Capital Asset Pricing Model (CAPM) Method

Q. Please explain the theory behind CAPM and why you decided to use it as an equity capital valuation method in this proceeding.

A. CAPM is a mathematical tool that was developed during the early 1960's by William F. Sharpe⁹, the Timken Professor Emeritus of Finance at Stanford University, who shared the 1990 Nobel Prize in Economics for research that eventually resulted in the CAPM model. CAPM is used to analyze the relationships between rates of return on various assets and risk as measured by beta.¹⁰ In this regard, CAPM can help an investor to determine how much risk is associated with a given investment so that he or she can decide if that investment meets their individual preferences. Finance theory has always held that as the risk associated with a given investment increases, so should the expected rate of return on that investment and vice versa. According to CAPM theory, risk can be classified into two specific forms: nonsystematic or diversifiable risk, and systematic or non-diversifiable risk. While nonsystematic risk can be virtually eliminated through diversification (i.e. by including stocks of various companies in various industries in a portfolio of securities), systematic risk, on the other hand, cannot be eliminated by diversification.

⁹ William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

¹⁰ Beta is defined as an index of volatility, or risk, in the return of an asset relative to the return of a market portfolio of assets. It is a measure of systematic or non-diversifiable risk. The returns on a stock with a beta of 1.0 will mirror the returns of the overall stock market. The returns on stocks with betas greater than 1.0 are more volatile or riskier than those of the overall stock market; and if a stock's beta is less than 1.0, its returns are less volatile or riskier than the overall stock market.

1 Thus, systematic risk is the only risk of importance to investors. Simply
2 stated, the underlying theory behind CAPM states that the expected return
3 on a given investment is the sum of a risk-free rate of return plus a market
4 risk premium that is proportional to the systematic (non-diversifiable risk)
5 associated with that investment. In mathematical terms, the formula is as
6 follows:

$$k = r_f + [\beta (r_m - r_f)]$$

7
8
9 where: k = the expected return of a given security,
10 r_f = risk-free rate of return,
11 β = beta coefficient, a statistical measurement of a
12 security's systematic risk,
13 r_m = average market return (e.g. S&P 500), and
14 $r_m - r_f$ = market risk premium.
15

16 Q. What types of financial instruments are generally used as a proxy for the
17 risk-free rate of return in the CAPM model?

18 A. Generally speaking, the yields of U.S. Treasury instruments are used by
19 analysts as a proxy for the risk-free rate of return component.
20
21

22 ...
23

1 Q. Please explain why U.S. Treasury instruments are regarded as a suitable
2 proxy for the risk-free rate of return?

3 A. As citizens and investors, we would like to believe that U.S. Treasury
4 securities (which are backed by the full faith and credit of the United
5 States Government) pose no threat of default no matter what their maturity
6 dates are. However, a comparison of various Treasury instruments will
7 reveal that those with longer maturity dates do have slightly higher yields.
8 Treasury yields are comprised of two separate components,¹¹ a true rate
9 of interest (believed to be approximately 2.00 percent) and an inflationary
10 expectation. When the true rate of interest is subtracted from the total
11 treasury yield, all that remains is the inflationary expectation. Because
12 increased inflation represents a potential capital loss, or risk, to investors,
13 a higher inflationary expectation by itself represents a degree of risk to an
14 investor. Another way of looking at this is from an opportunity cost
15 standpoint. When an investor locks up funds in long-term T-Bonds,
16 compensation must be provided for future investment opportunities
17 foregone. This is often described as maturity or interest rate risk and it
18 can affect an investor adversely if market rates increase before the
19 instrument matures (a rise in interest rates would decrease the value of
20 the debt instrument). As discussed earlier in the DCF portion of my

¹¹ As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the true rate of interest, an inflationary expectation, and a risk premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

1 testimony, this compensation translates into higher rates of returns to the
2 investor.

3

4 Q. What security did you use for a risk-free rate of return in your CAPM
5 analysis?

6 A. I used the most recent yield on a 5-year U.S. Treasury instrument which
7 was published in Value Line's September 12, 2008 Selection and Opinion
8 publication. (Attachment E). This resulted in a risk-free (r_f) rate of return
9 of 2.95 percent.

10

11 Q. Why did you use the yield on a 5-year year U.S. Treasury instrument as
12 opposed to a short-term T-Bill?

13 A. While a shorter term instrument, such as a 91-day T-Bill, presents the
14 lowest possible total risk to an investor, a good argument can be made
15 that the yield on an instrument that matches the investment period of the
16 asset being analyzed in the CAPM model should be used as the risk-free
17 rate of return. Since utilities in Arizona generally file for rates every three
18 to five years, the yield on a 5-year U.S. Treasury Instrument closely
19 matches the investment period or, in the case of regulated utilities, the
20 period that new rates will be in effect.

21

22 ...

23

1 Q. How did you calculate the market risk premium used in your CAPM
2 analysis?

3 A. I used both a geometric and an arithmetic mean of the historical returns on
4 the S&P 500 index from 1926 to 2007 as the proxy for the market rate of
5 return (r_m). For the risk-free portion of the risk premium component (r_f), I
6 used the geometric mean of the yields of long-term government bonds for
7 the same eighty-one year period. The risk premium ($r_m - r_f$) that results by
8 using these inputs is 4.90 percent ($10.40\% - 5.50\% = \underline{4.90\%}$). The risk
9 premium that results by using the arithmetic mean calculation is 6.50
10 percent ($12.30\% - 5.80\% = \underline{6.50\%}$).
11

12 Q. How did you select the beta coefficients that were used in your CAPM
13 analysis?

14 A. The beta coefficients (β), for the individual utilities used in both my
15 proxies, were calculated by Value Line and were current as of July 25,
16 2008 for the water companies and September 12, 2008 for the natural gas
17 LDC's. Value Line calculates its betas by using a regression analysis
18 between weekly percentage changes in the market price of the security
19 being analyzed and weekly percentage changes in the NYSE Composite
20 Index over a five-year period. The betas are then adjusted by Value Line
21 for their long-term tendency to converge toward 1.00. The beta
22 coefficients for the service providers included in my water company
23 sample ranged from 0.95 to 1.15 with an average beta of 1.05. The beta

1 coefficients for the LDC's included in my natural gas sample ranged from
2 0.75 to 0.90 with an average beta of 0.82.

3

4 Q. What are the results of your CAPM analysis?

5 A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation
6 using a geometric mean to calculate the risk premium results in an
7 average expected return of 8.10 percent for the water companies and 6.94
8 percent for the natural gas LDC's. My calculation using an arithmetic
9 mean results in an average expected return of 9.78 percent for the water
10 companies and 8.25 percent for the natural gas LDC's.

11

12 Q. Please summarize the results derived under each of the methodologies
13 presented in your testimony.

14 A. The following is a summary of the cost of equity capital derived under
15 each methodology used:

16

17	<u>METHOD</u>	<u>RESULTS</u>
18	DCF (Water Sample)	9.00%
19	DCF (Natural Gas Sample)	9.79%
20	CAPM (Water Sample)	8.10% – 9.78%
21	CAPM (Natural Gas)	6.94% – 8.25%

22

23 Based on these results, my best estimate of an appropriate range for an
24 OCRB cost of common equity for Chaparral is 6.94 percent to 9.79

1 percent. My estimate for an OCRB cost of common equity is 8.83 percent.
2 My final recommended FVRB cost of common equity figure is 6.83
3 percent.

4
5 Q How did you arrive at your final recommended 6.83 percent FVRB cost of
6 common equity?

7 A. My recommended 6.83 percent FVRB cost of common equity is the 8.83
8 percent average of my DCF and CAPM results, less an inflation factor of
9 200 basis points. The calculation for my 6.83 percent FVRB cost of
10 common equity can be seen on Schedule WAR-1, Page 4 of 5.

11
12 Q. Why have you made a 200 basis point inflation factor adjustment to the
13 OCRB results of your DCF analysis?

14 A. The 200 basis point adjustment removes an inflation expectation that is
15 embedded in the OCRB cost of common equity. The method that I have
16 used to derive my 6.83 percent FVRB cost of common equity is consistent
17 with the method that was adopted by the Commission to arrive at a FVRB
18 cost of common equity for Chaparral in Decision No. 70441 ("Remand
19 Proceeding"). During the Remand Proceeding, the Commission was
20 required to develop an appropriate rate of return on Chaparral's FVRB
21 under a remand order from the Arizona Court of Appeals. In doing so, the
22 Commission adopted a methodology that was proposed by Ben Johnson,

1 Ph.D., an expert witness who testified on behalf of RUCO on the FVRB
2 rate of return issue that was central to that proceeding¹².

3

4 Q. How did you calculate your 200 basis point inflation adjustment?

5 A. I relied on the same data sets of information that Dr. Johnson used to
6 develop a similar inflation factor adjustment during the Remand
7 Proceeding (Schedule WAR-1, Page 5 of 5). Since there was virtually no
8 change in the data – which compared Treasury Inflation-Protected
9 Securities (“TIPS”) and U.S. Treasury bonds with similar liquidity and
10 maturity characteristics – that Dr. Johnson relied on, I used the same low-
11 end 200 basis point adjustment that he estimated.

12

13 Q. Can you briefly explain why it is necessary to make an inflation factor
14 adjustment to an OCRB cost of common equity?

15 A. Yes. Unless a utility elects to forego a reconstruction cost new less
16 depreciation (“RCND”) study to develop an RCND rate base, and agrees
17 to use its OCRB as its FVRB, the utility’s FVRB is calculated by averaging
18 its OCRB and its RCND rate base. Because an RCND study restates an
19 OCRB in current dollars (through the use of engineering indexes that

¹² On September 30, 2005, the Commission issued Decision No. 68176 which granted a permanent rate increase to Chaparral. Following the Commission’s decision on the matter, the Company filed an application for rehearing which the Commission took no action on. Chaparral subsequently filed an appeal with the Arizona Court of Appeals, Division One (“Court of Appeals”). The Company’s appeal claimed that Chaparral was denied a fair rate of return on its invested capital as a result of the Commission’s established method of calculating a level of operating income based on the Company’s fair value rate base (“FVRB”). On February 13, 2007, the Court of Appeals issued a Memorandum Decision which affirmed in part, vacated, and remanded Decision No. 68176 to the Commission for further determination.

1 contain certain inflation factors to calculate an RCND rate base), it is
2 inappropriate to apply an OCRB rate of return to a FVRB. This is because
3 the OCRB rate of return, like the FVRB, contains an inflation component in
4 it. Consequently, the application of an OCRB rate of return to a FVRB
5 (calculated using an average of an OCRB and an RCND rate base)
6 produces an inappropriate level of operating income which reflects an
7 over-counting of the effects of inflation. To remedy this situation, the
8 OCRB rate of return is adjusted downward by removing the inflation
9 expectation that is embedded in it. This is the same rationale that the
10 Commission relied on in Decision No. 70441.

11
12 Q. Can you offer any "real world" examples of how inflation is factored into
13 the prices of stocks that would be used to arrive at an OCRB cost of
14 common equity using the DCF model?

15 A. Yes. But before I do that it is important to understand the concept that the
16 current price of a share of a given firm's stock reflects all known and
17 available information on the given firm at any point in time. In the study of
18 finance this concept is known as the efficient market hypothesis. If the
19 efficient market hypothesis is correct – and many academics believe that it
20 is in several different forms – then everyday events, including news on
21 inflation, are weighed by the investment community and are factored into
22 the value of a given firm's stock. Now getting back to the "real world"
23 examples addressed in the question, Attachment F to my testimony

1 contains copies of various articles published in the mainstream press, over
2 the past three years, which report on how investors have reacted to news
3 on inflation and other economic events. I believe that these articles point
4 out the fact that investors clearly do react to news of inflation and that
5 expectations of future inflation are reflected in the price of stocks.

6
7 Q. Did you make any adjustments to your OCRB cost of common equity that
8 took into consideration the higher level of equity contained in Chaparral's
9 capital structure?

10 A. No, I did not. Even though a strong argument (such as the one I
11 presented in a rehearing on Gold Canyon Sewer Company¹³) can be
12 made to recommend a hypothetical capital structure that puts the
13 Company's capital structure in line with the capital structures of the utilities
14 included in my sample, I have not done so in this case.

15
16 Q. How does your recommended cost of equity capital compare with the cost
17 of equity capital proposed by the Company?

18 A. The 10.50 percent cost of equity capital proposed by the Company is 167
19 basis points higher than the 8.83 percent OCRB cost of equity capital that
20 I am recommending.

21

¹³ Docket No. SW-02519A-06-0015

1 Q. Does the Company-proposed cost of common equity include an inflation
2 factor adjustment similar to the one that you are recommending?

3 A. No. However, Mr. Bourassa's testimony in this case was filed prior to
4 Decision No. 70441
5

6 **Current Economic Environment**

7 Q. Please explain why it is necessary to consider the current economic
8 environment when performing a cost of equity capital analysis for a
9 regulated utility.

10 A. Consideration of the economic environment is necessary because trends
11 in interest rates, present and projected levels of inflation, and the overall
12 state of the U.S. economy determine the rates of return that investors earn
13 on their invested funds. Each of these factors represent potential risks
14 that must be weighed when estimating the cost of equity capital for a
15 regulated utility and are, most often, the same factors considered by
16 individuals who are also investing in non-regulated entities.
17

18 Q. Please discuss your analysis of the current economic environment.

19 A. My analysis includes a brief review of the economic events that have
20 occurred since 1990. Schedule WAR-8 displays various economic
21 indicators and other data that I will refer to during this portion of my
22 testimony.

1 In 1991, as measured by the most recently revised annual change in
2 gross domestic product ("GDP"), the U.S. economy experienced a rate of
3 growth of negative 0.20 percent. This decline in GDP marked the
4 beginning of a mild recession that ended sometime before the end of the
5 first half of 1992. Reacting to this situation, the Federal Reserve Board
6 ("Federal Reserve" or "Fed"), then chaired by noted economist Alan
7 Greenspan, lowered its benchmark federal funds rate¹⁴ in an effort to
8 further loosen monetary constraints - an action that resulted in lower
9 interest rates.

10
11 During this same period, the nation's major money center banks followed
12 the Federal Reserve's lead and began lowering their interest rates as well.
13 By the end of the fourth quarter of 1993, the prime rate (the rate charged
14 by banks to their best customers) had dropped to 6.00 percent from a
15 1990 level of 10.01 percent. In addition, the Federal Reserve's discount
16 rate on loans to its member banks had fallen to 3.00 percent and short-
17 term interest rates had declined to levels that had not been seen since
18 1972.

19
20 Although GDP increased in 1992 and 1993, the Federal Reserve took
21 steps to increase interest rates beginning in February of 1994, in order to

¹⁴ This is the interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board, respectively.

1 keep inflation under control. By the end of 1995, the Federal discount rate
2 had risen to 5.21 percent. Once again, the banking community followed
3 the Federal Reserve's moves. The Fed's strategy, during this period, was
4 to engineer a "soft landing." That is to say that the Federal Reserve
5 wanted to foster a situation in which economic growth would be stabilized
6 without incurring either a prolonged recession or runaway inflation.

7
8 Q. Did the Federal Reserve achieve its goals during this period?

9 A. Yes. The Fed's strategy of decreasing interest rates to stimulate the
10 economy worked. The annual change in GDP began an upward trend in
11 1992. A change of 4.50 percent and 4.20 percent were recorded at the
12 end of 1997 and 1998 respectively. Based on daily reports that were
13 presented in the mainstream print and broadcast media during most of
14 1999, there appeared to be little doubt among both economists and the
15 public at large that the U.S. was experiencing a period of robust economic
16 growth highlighted by low rates of unemployment and inflation. Investors,
17 who believed that technology stocks and Internet company start-ups (with
18 little or no history of earnings) had high growth potential, purchased these
19 types of issues with enthusiasm. These types of investors, who exhibited
20 what former Chairman Greenspan described as "irrational exuberance,"
21 pushed stock prices and market indexes to all time highs from 1997 to
22 2000.

1 Q. What has been the state of the economy since 2001?

2 A. The U.S. economy entered into a recession near the end of the first
3 quarter of 2001. The bullish trend, which had characterized the last half of
4 the 1990's, had already run its course sometime during the third quarter of
5 2000. Economic data released since the beginning of 2001 had already
6 been disappointing during the months preceding the September 11, 2001
7 terrorist attacks on the World Trade Center and the Pentagon. Slower
8 growth figures, rising layoffs in the high technology manufacturing sector,
9 and falling equity prices (due to lower earnings expectations) prompted
10 the Fed to begin cutting interest rates as it had done in the early 1990's.
11 The now infamous terrorist attacks on New York City and Washington
12 D.C. marked a defining point in this economic slump and prompted the
13 Federal Reserve to continue its rate cutting actions through December
14 2001. Prior to the 9/11 attacks, commentators, reporting in both the
15 mainstream financial press and various economic publications including
16 Value Line, believed that the Federal Reserve was cutting rates in the
17 hope of avoiding a recession.

18
19 Despite several intervals during 2002 and 2003 in which the Federal Open
20 Market Committee ("FOMC") decided not to change interest rates – moves
21 which indicated that the worst may be over and that the recession might
22 have bottomed out during the last quarter of 2001 – a lackluster economy
23 persisted. The continuing economic malaise and even fears of possible

1 deflation prompted the FOMC to make a thirteenth rate cut on June 25,
2 2003. The quarter point cut reduced the federal funds rate to 1.00
3 percent, the lowest level in forty-five years.

4
5 Even though some signs of economic strength, mainly attributed to
6 consumer spending, began to crop up during the latter part of 2002 and
7 into 2003, Chairman Greenspan appeared to be concerned with sharp
8 declines in capital spending in the business sector.

9
10 During the latter part of 2003, the FOMC went on record as saying that it
11 intended to leave interest rates low "for a considerable period." After its
12 two-day meeting that ended on January 28, 2004, the FOMC announced
13 "that with inflation 'quite low' and plenty of excess capacity in the
14 economy, policy-makers 'can be patient in removing its policy
15 accommodation.'¹⁵"

16
17 Q. What actions has the Federal Reserve taken in terms of interest rates
18 since the beginning of 2001?

19 A. As noted earlier, from January 2001 to June 2003 the Federal Reserve cut
20 interest rates a total of thirteen times. During this period, the federal funds
21 rate fell from 6.50 percent to 1.00 percent. The FOMC reversed this trend
22 on June 29, 2004 and raised the federal funds rate 25 basis points to 1.25

¹⁵ Volk, Martin, "Fed holds interest rates steady," MSNBC, January 28, 2004.

1 percent. From June 29, 2004 to January 31, 2006, the FOMC raised the
2 federal funds rate thirteen more times to a level of 4.50 percent.

3 The FOMC's January 31, 2006 meeting marked the final appearance of
4 Alan Greenspan, who had presided over the rate setting body for a total of
5 eighteen years. On that same day, Greenspan's successor, Ben
6 Bernanke, the former chairman of the President's Council of Economic
7 Advisers and a former Fed governor under Greenspan from 2002 to 2005,
8 was confirmed by the U.S. Senate to be the new Federal Reserve chief.

9 As expected by Fed watchers, Chairman Bernanke picked up where his
10 predecessor left off and increased the federal funds rate by 25 basis
11 points during each of the next three FOMC meetings for a total of
12 seventeen consecutive rate increases since June 2004, and raising the
13 federal funds rate to a level of 5.25 percent. The Fed's rate increase
14 campaign finally came to a halt at the FOMC meeting held on August 8,
15 2006, when the FOMC decided not to raise rates.

16
17 Q. What was the reaction in the financial community to the Fed's decision not
18 to raise interest rates?

19 A. As in the past, banks followed the Fed's lead once again and held the
20 prime rate to a level of 8.25 percent, or 300 basis points higher than the
21 federal funds rate of 5.25 percent established on June 29, 2006.

1 Q. How did analysts view the Fed's actions between January 2001 and
2 August 2006?

3 A. According to an article that appeared in the December 2, 2004 edition of
4 The Wall Street Journal, the FOMC's decision to begin raising rates two
5 years ago was viewed as a move to increase rates from emergency lows
6 in order to avoid creating an inflation problem in the future as opposed to
7 slowing down the strengthening economy.¹⁶ In other words, the Fed was
8 trying to head off inflation *before* it became a problem. During the period
9 following the August 8, 2006 FOMC meeting, the Fed's decisions not to
10 raise rates were viewed as a gamble that a slower U.S. economy would
11 help to cap growing inflationary pressures.¹⁷

12
13 Q. Was the Fed attempting to engineer another "soft landing", as it did in the
14 mid-nineties, by holding interest rates steady?

15 A. Yes, however, as pointed out in an August 2006 article in The Wall Street
16 Journal by E.S. Browning, soft landings – like the one that the Fed
17 managed to pull off during the 1994-95 time frame, in which a recession or
18 a bear market were avoided – rarely happen¹⁸. Since it began increasing
19 the federal funds rate in June 2004, the Fed had assured investors that it

¹⁶ McKinnon, John D. and Greg IP, "Fed Raises Rates by a Quarter Point," The Wall Street Journal, September 22, 2004.

¹⁷ Ip, Greg, "Fed Holds Interest Rates Steady As Slowdown Outweighs Inflation," The Wall Street Journal Online Edition, August 8, 2006.

¹⁸ Browning, E.S, "Not Too Fast, Not Too Slow...", The Wall Street Journal Online Edition, August 21, 2006.

1 would increase rates at a "measured" pace. Many analysts and
2 economists interpreted this language to mean that former Chairman
3 Greenspan would be cautious in increasing interest rates too quickly in
4 order to avoid what is considered to be one of the Fed's few blunders
5 during Greenspan's tenure – a series of increases in 1994 that caught the
6 financial markets by surprise after a long period of low rates. The rapid
7 rise in rates contributed to the bankruptcy of Orange County, California
8 and the Mexican peso crisis¹⁹. According to Mr. Browning, at the time that
9 his article was published, the hope was that Chairman Bernanke would
10 succeed in slowing the economy "just enough to prevent serious inflation,
11 but not enough to choke off growth." In other words, "a 'Goldilocks
12 economy,' in which growth is not too hot and not too cold."

13
14 Q. Was the Fed's attempt to engineer a soft landing successful during the
15 period that followed the August 8, 2006 FOMC meeting?

16 A. It would appear so. Articles published in the mainstream financial press
17 were generally upbeat on the economy during that period. An example of
18 this is an article written by Nell Henderson that appeared in the January
19 30, 2007 edition of The Washington Post. According to Ms. Henderson, "a
20 year into [Fed Chairman] Bernanke's tenure, the [economic] picture has
21 turned considerably brighter. Inflation is falling; unemployment is low;

¹⁹ Associated Press (AP), "Fed begins debating interest rates" USA Today, June 29, 2004.

1 wages are rising; and the economy, despite continued problems in
2 housing, is growing at a brisk clip."²⁰

3
4 Q. What has been the state of the economy over the past year?

5 A. Reports in the mainstream financial press during the majority of 2007
6 reflected the view that the U.S. economy was slowing as a result of a
7 worsening situation in the housing market and higher oil prices. The
8 overall outlook for the economy was one of only moderate growth at best.
9 Also during this period the Fed's key measure of inflation began to exceed
10 the rate setting body's comfort level.

11
12 On August 7, 2007, the FOMC decided not to increase or decrease the
13 federal funds rate for the ninth straight time and left its target rate
14 unchanged at 5.25 percent.²¹ At the time of the Fed's decision, analysts
15 speculated that a rate cut over the next several months was unlikely given
16 the Fed's concern that inflation would fail to moderate. However, during
17 this same period, evidence of an even slower economy and a possible
18 recession was beginning to surface. Within days of the Fed's decision to
19 stand pat on rates, a borrowing crises rooted in a deterioration of the
20 market for subprime mortgages and securities linked to them, forced the
21 Fed to inject \$24 billion in funds (raised through open market operations)

²⁰ Henderson, Nell, "Bullish on Bernanke" The Washington Post, January 30, 2007.

²¹ Ip, Greg, "Markets Gyrate As Fed Straddles Inflation, Growth" The Wall Street Journal, August 8, 2007

1 into the credit markets.²² By Friday, August 17, 2007, after a turbulent
2 week on Wall Street, the Fed made the decision to lower its discount rate
3 (i.e. the rate charged on direct loans to banks) by 50 basis points, from
4 6.25 percent to 5.75 percent, and took steps to encourage banks to
5 borrow from the Fed's discount window in order to provide liquidity to
6 lenders. According to an article that appeared in the August 18, 2007
7 edition of The Wall Street Journal,²³ the Fed had used all of its tools to
8 restore normalcy to the financial markets. If the markets failed to settle
9 down, the Fed's only weapon left was to cut the Federal Funds rate –
10 possibly before the next FOMC meeting scheduled on September 18,
11 2007.

12
13 Q. Did the Fed cut rates as a result of the subprime mortgage borrowing
14 crises?

15 A. Yes. At its regularly scheduled meeting on September 18, 2007, the
16 FOMC surprised the investment community and cut both the federal funds
17 rate and the discount rate by 50 basis points (25 basis points more than
18 what was anticipated). This brought the federal funds rate down to a level
19 of 4.75 percent. The Fed's action was seen as an effort to curb the
20 aforementioned slowdown in the economy. Over the course of the next
21 four months, the FOMC reduced the Federal funds rate by a total 175

²² Ip, Greg, "Fed Enters Market To Tamp Down Rate" The Wall Street Journal, August 9, 2007

²³ Ip, Greg, Robin Sidel and Randall Smith, "Fed Offers Banks Loans Amid Crises" The Wall Street Journal, August 9, 2007

1 basis points to a level of 3.00 percent – mainly as a result of concerns that
2 the economy was slipping into a recession. This included a 75 basis point
3 reduction that occurred one week prior to the FOMC's meeting on January
4 29, 2008.

5
6 Q. What recent actions have the Fed taken in regard to interest rates?

7 A. The Fed made two more rate cuts which included a 75 basis point
8 reduction in the federal funds rate on March 18, 2008 and an additional 25
9 basis point reduction on April 30, 2008. The Fed's decision to cut rates
10 was based on its belief that the slowing economy is a greater concern
11 than the current rate of inflation (which the majority of FOMC members
12 believed will moderate during the present economic slowdown).²⁴ As a
13 result of the Fed's actions, the federal funds rate was reduced to its
14 present level of 2.00 percent. At the time of this writing, the fed elected to
15 leave the fed funds rate unchanged during the last three FOMC meetings.
16 After the September 16, 2008 meeting, prior to which the investment
17 community expected another rate cut, the Fed stated the following:

18 Strains in financial markets have increased significantly and labor
19 markets have weakened further. Economic growth appears to have
20 slowed recently, partly reflecting a softening of household spending.
21 Tight credit conditions, the ongoing housing contraction, and some
22 slowing in export growth are likely to weigh on economic growth over the
23 next few quarters. Over time, the substantial easing of monetary policy,
24 combined with ongoing measures to foster market liquidity, should help
25 to promote moderate economic growth.

26
27 Inflation has been high, spurred by the earlier increases in the prices of
28 energy and some other commodities. The Committee expects inflation to

²⁴ Ip, Greg, "Credit Worries Ease as Fed Cuts, Hints at More Relief" The Wall Street Journal,
March 19, 2008

1 moderate later this year and next year, but the inflation outlook remains
2 highly uncertain.

3
4 The downside risks to growth and the upside risks to inflation are both of
5 significant concern to the Committee. The Committee will monitor
6 economic and financial developments carefully and will act as needed to
7 promote sustainable economic growth and price stability.
8

9 The statement above was released during another week of turmoil in the
10 financial markets as the subprime mortgage crises, noted earlier, had
11 come to a head. The days before and after the Fed's September 16,
12 2008 meeting saw longstanding Wall Street firms such as Lehman
13 Brothers, Merrill Lynch and AIG failing as a result of their subprime
14 holdings. By the end of the week, the Bush administration announced
15 plans to deal with the crises, which include a U.S. Treasury request to
16 Congress for \$700 billion to buy distressed assets as part of a plan to halt
17 what has been described as the worst financial crisis since the 1930's²⁵.
18

19 Q. Putting this all into perspective, how have the Fed's actions since 2000
20 affected benchmark rates?

21 A. Despite the increases (prior to June 2006) by the FOMC, interest rates
22 and yields on U.S. Treasury instruments are for the most part still at
23 historically low levels. The Fed's actions have also had the overall effect
24 of reducing the cost of many types of business and consumer loans. As
25 can be seen in Schedule WAR-8, the previously mentioned federal

²⁵ Soloman, Deborah, Michael R. Crittenden and Damian Paletta, "U.S. Bailout Plan Calms Markets, But Struggle Looms Over Details" The Wall Street Journal, September 20, 2008

1 discount rate (the rate charged to the Fed's member banks), has fallen to
2 2.00 percent from 5.73 percent in 2000.

3
4 Q. What has been the trend in other leading interest rates over the last year?

5 A. As of September 9, 2008, the leading interest rates have all dropped from
6 the levels that existed a year ago (Attachment E). The prime rate has
7 fallen from 8.25 percent a year ago to 5.00 percent. The benchmark
8 federal funds rate, just discussed, has decreased from 5.25 percent, in
9 September 2007, to a level of 2.00 percent (as a result of the April 30, rate
10 cut discussed above). The yields on several maturities of U.S. Treasury
11 instruments have also decreased over the past year. A previous trend,
12 described by former Chairman Greenspan as a "conundrum"²⁶, in which
13 long-term rates fell as short-term rates increased, thus creating a
14 somewhat inverted yield curve that existed as late as June 2007, appears
15 to have ended and a more traditional yield curve (one where yields
16 increase as maturity dates lengthen) presently exists (Attachment E). The
17 5-year Treasury yield, used in my CAPM analysis, has fallen from 4.16
18 percent, in September 2007, to 2.95 percent as of September 9, 2008.
19 The 1-Year Treasury constant maturity rate also decreased from 4.39
20 percent over the past year to 2.07 percent. Again, for the most part, these
21 current yields are considerably lower than corresponding yields that

²⁶ Wolk, Martin, "Greenspan wrestling with rate 'conundrum'," MSNBC, June 8, 2005.

1 existed during the early nineties and at the beginning of the current
2 decade (as can be seen on Schedule WAR-8).

3

4 Q. What is the current outlook for interest rates, inflation, and the economy?

5 A. As a result of the FOMC's April 30, 2008 rate cutting action, the federal
6 funds rate of 2.00 percent is already below The Wall Street Journal's
7 February 2008 Economic Forecasting Survey's prediction that the rate
8 would drop to 2.64 percent by December 2008. The change in the
9 consumer price index, a key measure of inflation, is also expected to fall
10 from the December 2007 level of 4.10 percent to 2.30 percent by
11 December 2008.

12 Value Line's analysts have been decidedly pessimistic in their outlook on
13 the economy as of late and had this to say in their Economic and Stock
14 Market Commentary that appeared in the September 12, 2008 edition of
15 Value Line's Selection and Opinion publication:

16 **Business growth is slowing and the economy could be contracting**
17 **by the final quarter.** That more dour assessment reflects the fact that
18 recent weeks have seen a flattening in manufacturing activity, a drop in
19 personal income, and additional bad news on the housing front. True,
20 U.S. exports should again be supportive, while falling energy prices
21 should help to support consumer spending. Such crosscurrents suggest
22 that the current quarter will see GDP rise anew, but that the prospective
23 gain may be less than half what it was in the second-quarter. Moreover,
24 in the absence of a new stimulus package, it is quite possible that a
25 weakening housing market could turn GDP a bit lower by the final period.

26

27

28 Value Line's analysts went on to state:

29 **The road back for the economy is likely to be slow and uneven.** At
30 best, any decline in GDP engendered by increasing jobless claims,
31 falling home prices, tightening credit, and high food and heating oil costs
32 will be limited to only one quarter. More likely, the late-2008 problems in
33 the economy will carry over to 2009, bringing on the nation's first

1 recession since 2001. For now, we think such a downturn will be brief
2 and fairly mild. However, the ensuing recovery is likely to be a
3 checkered affair in the absence of stronger-than-forecast recoveries in
4 consumer expenditures and housing later next year.
5

6 Q. How has the current economic environment of lower interest rates affected
7 various regulated utility industries as a whole?

8 A. Value Line analyst Nils C. Van Liew took note of the environment of low
9 interest rates that existed in the early part of 2007. In Value Line's Electric
10 Utility (East) Industry update dated March 2, 2007, Mr. Van Liew had this
11 to say:

12 **Low Interest Rates.** Several factors are, no doubt, driving the electric
13 utilities' strong share-price performance. Perhaps most important is a
14 benign interest-rate environment. Utilities frequently tap the credit
15 markets to fund their operations. (Low interest rates mean they can cost
16 effectively build new power plants and maintain existing ones.) "Cheap
17 money" also tends to drive economic expansion, thereby increasing
18 electricity demand. That said, interest rates should remain relatively low,
19 though the likelihood that the Federal Reserve eases (monetary) policy is
20 small, given persistent inflation concerns.
21

22 While Mr. Van Liew's views appeared in Value Line's Electric Utility
23 Industry update, I believe his comments hold true for all regulated utilities
24 including the water and natural gas distribution segments. Given the fact
25 that interest rates are even lower now than they were at the time of Mr.
26 Van Liew's writing, and utility bond rates are currently lower than their
27 2007 averages (Schedule WAR 8), I believe that his views are still valid.
28 In fact, my opinions are supported by Gabe Moreen, an analyst for Merrill
29 Lynch, who had this to say in his February 21, 2008 report²⁷ on SWX:

²⁷ Provided in the Company's response to ACC Staff data request STF-2-8 dated March 6, 2008.

1 **Falling interest rates bode well for utilities** The Fed's recent interest
2 rate cuts buoyed our natural gas utility index stocks, which had
3 underperformed during recent credit market turmoil. The liquidity
4 squeeze elevated concerns over higher capital costs for this capital-
5 intensive industry, but credit market concerns do not fundamentally
6 threaten the sector, in our view. Most gas utilities in our index have
7 investment grade credit and, were the cost of debt to rise, could recover
8 higher capital costs via rate cases. The interest rate cut also boosted
9 gas utility stocks as 10-year Treasury prices rose and yields fell. 10-year
10 Treasury yields provide a common benchmark for utility valuation; like
11 Treasury bills, utility stocks typically offer steady income and are often
12 valued by yield differential above Treasury bills. The dividend yield-
13 Treasury yield differential has recently shrunk to 85 [basis points], just
14 shy of the long-term average 86 [basis point] differential. Treasury yields
15 are relatively low at 3.9%, and we expect this low differential to help
16 sustain gas utility stocks at their high valuations in the near term. For
17 Merrill Lynch's current interest rate outlook, please see The Market
18 Economist. 15 February 2008.
19

20 Q. Has the subprime mortgage crises had an impact on borrowing?

21 A. Yes. The situation has had a strong impact on liquidity for both banks and
22 the capital markets. Hopefully the anticipated actions of both the U.S.
23 Treasury and the Fed, now before an attentive Congress, will succeed in
24 eliminating the logjam that presently exists and restore the credit markets
25 to their pre-subprime status.

26
27 Q. How does the average dividend yield of your sample water and LDC
28 stocks compare to the average dividend yield for all of the water and LDC
29 stocks followed by Value Line?

30 A. As can be seen in Schedule WAR-3, my sample water companies and
31 LDC's have average dividend yields of 2.70 and 3.83 percent respectively.
32 These yields exceed, for water, and fall between, for LDC's, Value Line's
33 2.60 percent and 3.60 percent 2007 average dividend yields for the water
34 and natural gas industries respectively and Value Lines 2011-13 yield

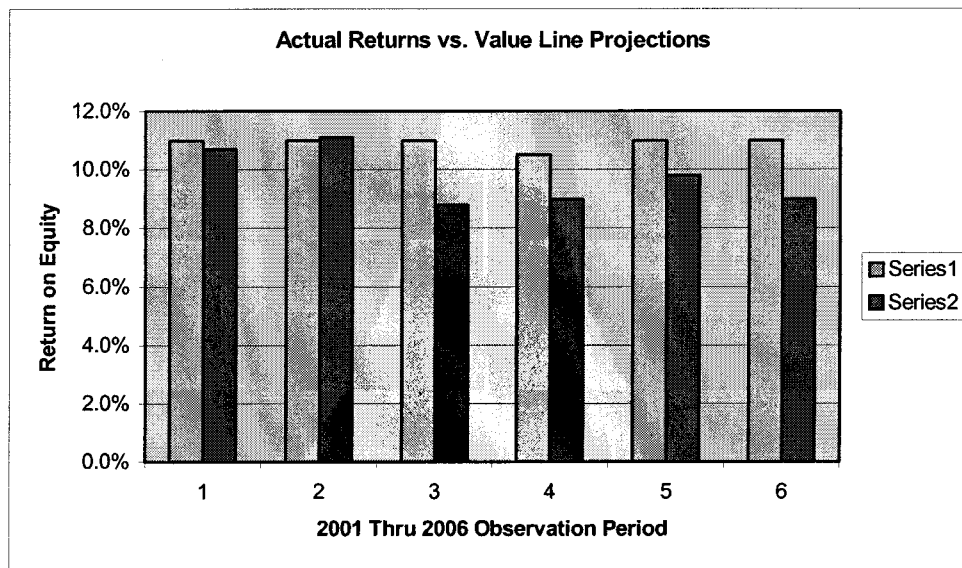
1 projections of 2.30 and 4.60 percent for the water and natural gas
2 industries respectively (Attachments A and B).

3
4 Q. How do the dividend yields of the water and LDC stocks in your sample
5 compare with other stocks followed by Value Line?

6 A. Based on information contained in Value Line's September 12, 2008
7 Summary & Index publication, the median of estimated dividend yields of
8 all dividend paying stocks under review by Value Line was 2.20 percent.
9 The yields of my sample water and LDC stocks exceeded this figure by 50
10 basis points and 163 basis points, respectively.

11
12 Q. What has been the trend in Value Line's return on common equity
13 projections for the water utility industry over the last seven years?

14 A. Up until 2005, and with the exception of 2003, Value Line's analysts have
15 been making downward projections on water industry book returns on
16 common equity ("ROE"). In addition to the downward trend in projections
17 that I just addressed (exhibited in Attachment D), Value Line's analysts
18 have been somewhat more optimistic in their forward-looking one-year
19 and long-term projections. As can be seen in the chart below, Value
20 Line's analysts have been somewhat high in their coming year projections
21 on ROE.



The bar chart above illustrates Value Line's water utility industry projections on ROE (the lighter bar identified as series 1), over the 2001 to 2006 period, versus the actual returns (the darker bar identified as series 2) that actually occurred during that same time frame (observation periods 1 through 6). The actual basis point spreads between the Value Line projections and the actual returns on ROE are as follows:

<u>Year</u>	<u>Value Line Projected</u>	<u>Actual Book Return on ROE</u>	<u>Difference</u>
2001	11.0%	10.7%	-30 Basis Points
2002	11.0%	11.1%	+10 Basis Points
2003	10.5%	8.8%	-170 Basis Points
2004	11.0%	9.0%	-200 Basis Points
2005	11.0%	9.8%	-120 Basis Points
2006	11.0%	9.0%	-200 Basis Points

As can be seen above, with the exception of the 2002 operating period, Value Line's analyst's projections on water utility ROE's from one year out were 30 to 200 basis points higher than the actual returns booked by the water utilities. This is why I rarely rely on projections at face value, and

1 only use Value Line's and Zacks' analyst's projections as guides in
2 developing my growth estimates for the DCF model.

3
4 Q. After weighing the economic information that you've just discussed, do you
5 believe that the 6.83 percent FVRB cost of equity capital that you have
6 estimated is reasonable for Chaparral?

7 A. I believe that my recommended 6.83 percent FVRB cost of equity will
8 provide Chaparral with a reasonable rate of return on the Company's
9 invested capital when economic data on interest rates (that are low by
10 historical standards), the Federal Government's resolution of the subprime
11 mortgage crises (and related housing slowdown), and the Fed's ability to
12 keep inflation in check are all taken into consideration. As I noted earlier,
13 the Hope decision determined that a utility is entitled to earn a rate of
14 return that is commensurate with the returns it would make on other
15 investments with comparable risk. I believe that my cost of equity
16 analysis, which is an average of the results of both the DCF and CAPM
17 models less a 200 basis point inflation factor adjustment, has produced
18 such a return.

COST OF DEBT

Q. Have you reviewed Chaparral's testimony on the Company-proposed costs of short-term and long-term debt?

A. Yes.

Q. Briefly explain how Chaparral calculated the Company-proposed cost of short-term debt.

A. The Company-proposed 6.11 percent cost of short-term debt (which is an inter-company borrowing arrangement between Chaparral and its parent American States) is the one year LIBOR²⁸ rate that existed at the time of the Company's rate application filing.

Q. Have you accepted the Company-proposed cost of short-term debt?

A. No. I have updated Chaparral's cost of short-term debt to 3.13 percent to reflect the one year LIBOR rate published in the September 12, 2008 edition of The Wall Street Journal.

...

²⁸ The London Interbank Offered Rate or LIBOR is an interest rate that banks charge each other for loans (usually in Eurodollars). The rate is applicable to the short-term international interbank market, and applies to very large loans borrowed for anywhere from one day to five years. This market allows banks with liquidity requirements to borrow quickly from other banks with surpluses, enabling banks to avoid holding excessively large amounts of their asset base as liquid assets. The LIBOR is officially fixed once a day by a small group of large London banks, but the rate changes throughout the day. (Source: InvestorWords.com)

1 Q. How did Chaparral calculate the Company-proposed cost of long-term
2 debt?

3 A. The Company-proposed 5.34 percent cost of long-term debt represents
4 the projected weighted cost of Chaparral's various debt instruments that
5 were issued to finance assets that were in place during the Test Year
6 (Schedule War-1, Page 3 of 5).

7

8 Q. Do you agree with the Company-proposed 5.34 percent projected cost of
9 long-term debt?

10 A. Yes.

11

12 **CAPITAL STRUCTURE**

13 Q. Have you reviewed Chaparral's testimony regarding the Company's
14 proposed capital structure?

15 A. Yes.

16

17 Q. Please describe the Company's proposed capital structure.

18 A. The Company is proposing a Test Year capital structure comprised of 3.97
19 percent short-term debt, 19.47 percent long-term debt and 76.56 percent
20 common equity.

21

22 ...

23

1 Q. What capital structure are you proposing for Chaparral?

2 A. I am recommending a capital structure which is comprised of 4.10 percent
3 short-term debt, 20.20 percent long-term debt and 75.70 percent common
4 equity.

5 My recommended capital structure adopts the Company's projected levels
6 of short-term debt and long-term debt. My recommended level of long-
7 term debt reflects the retirement of Chaparral's long-term Series 1997A
8 4.00% to 4.85% serial bonds due 1998 to 2007.

9

10 Q. Do you agree with the Company-proposed level of common equity?

11 A. No. The \$27,002,476 Company-proposed Test Year level of common
12 equity includes a pro forma adjustment of \$1,280,000 for an additional
13 CAP allocation which fails the used and useful standard (an issue that is
14 addressed more fully in the direct testimony of RUCO witness Timothy J.
15 Coley). Accordingly, I have removed the Company's pro forma
16 adjustment to reduce the level of common equity to my recommended
17 figure of \$25,722,476.

18

19 Q. Is Chaparral's capital structure in line with industry averages?

20 A. No. Chaparral's capital structure is heavier in equity than the capital
21 structures of the water companies included in my cost of capital analysis
22 (Schedule WAR-9). The capital structures for those utilities averaged 50.2
23 percent for debt and 49.8 percent for equity (49.7 percent common equity

1 + 0.1 percent preferred equity). In fact Chaparral's capital structure has
2 more equity than the capital structure of its parent American States, which
3 has a capital structure comprised of 46.9 percent debt and 53.1 percent
4 equity.

5 The same is true when Chaparral's capital structure is compared to the
6 LDC's in my sample. The capital structures for those utilities averaged
7 45.7 percent for debt and 54.3 percent for equity (53.6 percent common
8 equity + 0.7 percent preferred equity).

9
10 Q. In terms of risk, how does Chaparral's capital structure compare to the
11 water utilities in your sample?

12 A. The water utilities in my sample would be considered as having a higher
13 level of financial risk (i.e. the risk associated with debt repayment)
14 because of their higher levels of debt and lower levels of common equity.
15 The additional financial risk is due to debt leverage which is embedded in
16 the cost of equities derived for those companies through the DCF
17 analysis. Thus, the cost of equity derived in my DCF analysis is
18 applicable to companies that are more leveraged and, theoretically
19 speaking, riskier than a utility with a lower level of debt similar to
20 Chaparral's. In the case of a publicly traded company, such as those
21 included in my proxy, a company with Chaparral's level of debt would be
22 perceived as having a lower level of financial risk and would therefore also
23 have a lower expected return on common equity.

1 Q. Have you made an adjustment to your DCF estimate based on this
2 perception of higher financial risk?

3 A. No. As discussed earlier, I have not made such an adjustment in this
4 case. My higher recommended cost of common equity figure will
5 compensate the Company's shareholders for any perceived higher levels
6 of company-specific business risk that they believe Chaparral faces.

7
8 **WEIGHTED COST OF CAPITAL**

9 Q. How does the Company's proposed weighted cost of capital compare with
10 your recommendation?

11 A. The Company has proposed a weighted cost of capital of 9.32 percent.
12 This figure is the result of a weighted average of Chaparral's proposed
13 6.11 percent cost of short-term debt, 5.33 percent cost of Test Year Long-
14 term debt and 10.50 percent cost of common equity capital. The
15 Company-proposed 9.32 percent weighted cost of capital is 294 basis
16 points higher than the 6.38 percent FVRB weighted cost of capital that I
17 am recommending which reflects a 200 basis point inflation factor
18 adjustment.

19
20 Q. Has the Company's cost of capital witness made any adjustments to
21 remove an inflation factor from his estimated cost of common equity?

22 A. No. As I stated earlier, Mr. Bourassa's testimony was filed prior to
23 Decision No. 70441 and does not take the Commission's conclusions into

1 account. Consequently the Company is applying an OCRB rate of return
2 to a FVRB which, as I explained earlier, produces an inappropriate level of
3 operating income that reflects an over-counting of the effects of inflation.
4

5 Q. What would the Company's weighted cost of capital be if Mr. Bourassa
6 had made an inflation factor adjustment similar to yours?

7 A. Had Mr. Bourassa made an adjustment similar to the one that I made, his
8 weighted cost of capital, to be applied to a FVRB, would have been 9.01
9 as opposed to 9.32 percent.
10

11 **COMMENTS ON CHAPARRAL'S COST OF EQUITY CAPITAL**

12 **TESTIMONY**

13 Q. How does your recommended cost of equity capital compare with the cost
14 of equity capital proposed by the Company?

15 A. The Company's cost of capital witness, Mr. Bourassa is recommending an
16 OCRB cost of common equity of 10.50 percent which does not include an
17 inflation factor adjustment. His 10.50 percent OCRB cost of equity capital
18 is 167 basis points higher than the 8.83 percent OCRB cost of equity
19 capital that I have calculated and is 367 basis points higher than the final
20 FVRB cost of equity that I am recommending.
21

22 ...
23

1 Q. What methods did Mr. Bourassa use to arrive at his cost of common
2 equity for Chaparral?

3 A. Mr. Bourassa used both the DCF and CAPM methods. His DCF analysis
4 relies on two constant growth versions of the DCF model that are similar
5 to the model that I have used. His first constant growth model relies only
6 on earnings growth estimates for the "g" component of the model while his
7 second constant growth model relies on sustainable growth estimates for
8 the "g" component. Mr. Bourassa also uses a two-stage growth version
9 of the DCF model. The results of his DCF analysis range from 8.10
10 percent to 13.60 percent. His CAPM analysis uses the same model that I
11 have used but he obtains two different results: one obtained by using an
12 historical risk premium and the other by using a current market risk
13 premium. His CAPM analysis produces results of 11.4 percent using an
14 historical risk premium and 11.50 percent using a current market risk
15 premium.

16

17 **DCF Comparison**

18 Q. What are the main reasons for the difference in the results that you
19 obtained from your DCF analysis and the results that Mr. Bourassa
20 obtained from his DCF analysis using the constant growth model?

21 A. Mr. Bourassa conducted his analysis over a year ago and consequently
22 much of the data that he used in his analysis is now dated. This can be
23 seen in a price comparison of three of the water company stocks that we

both used in our samples: The difference between the average closing stock prices used in my DCF model and Mr. Bourassa's DCF models are as follows:

	<u>Rigsby</u>	<u>Bourassa</u>	<u>Difference</u>
AWR	\$38.12	\$36.42	\$1.07
CWT	\$38.07	\$38.02	\$0.05
WTR	\$17.01	\$22.76	-\$5.75

Q. What is the main difference between your constant growth DCF results and Mr. Bourassa's first constant growth model which relied strictly on earnings growth?

A. In respect to Mr. Bourassa's first constant growth model, which relied strictly on earnings growth, there is a 30 basis point difference between the average dividend yields of the three water utilities that our samples have in common; his 2.58 to my 2.88. However, there is a 124 basis point difference between his 7.78 percent average growth estimate ("g") for the three common utilities (i.e. AWR, CWT, and WTR) as opposed to my 6.54 percent estimate which also takes into account other growth estimates on dividends and book value. Subsequently Mr. Bourassa's DCF estimate relying only on earnings growth is 10.36 percent as opposed to my estimate of 9.42 percent which takes into account more recent data on

1 stock prices and growth projections for earnings, dividends and book
2 value on the three water utilities our samples have in common.

3

4 Q. Please explain the main difference between your constant growth DCF
5 results and Mr. Bourassa's second constant growth model which relied on
6 sustainable growth?

7 A. The same 30 basis point difference between our estimated dividend yields
8 exists in Mr. Bourassa's sustainable growth version of the constant growth
9 model. However, his estimate for the "g" component is seriously flawed.
10 As I noted earlier in my testimony, Value Line does not provide long-term
11 projections on earnings, dividends and book value on the other three
12 water utilities used by Mr. Bourassa in his sample. Consequently, Mr.
13 Bourassa uses an unrealistic 6.39 percent average of his growth
14 estimates for AWR, CWT and WTR for the other three water utilities
15 included in his sample as opposed to using actual accounting information
16 that is specific to those water utilities. This has the effect of increasing his
17 DCF model's average estimate by 20 basis points.

18

19 Q. Did you conduct a two-stage DCF analysis like the one conducted by Mr.
20 Bourassa?

21 A. No. Primarily because the growth rate component that I estimated for my
22 single-stage model already takes into consideration both the near-term
23 and long-term growth rate projections that Mr. Bourassa averaged in his

1 multi-stage model. This being the case, I saw no need to conduct a
2 separate DCF analysis.

3
4 **CAPM Comparison**

5 Q. What are the main differences between your CAPM results and Mr.
6 Bourassa's CAPM results?

7 A. The main differences between our CAPM results is attributable to the
8 selection of U.S. Treasury instruments used as inputs for the risk-free rate
9 of return and the time period that has expired since Mr. Bourassa filed his
10 direct testimony. As I explained in my testimony on the economy, the
11 interest rates on U.S. Treasury instruments have fallen over the past year
12 as a result of the Fed's rate cutting actions (Attachment E). In addition,
13 Mr. Bourassa tends to rely on longer term maturities greater than five
14 years that are unrealistic proxies when one takes into account that utilities
15 generally file for new rates every three to five years.

16
17 Q. How did Mr. Bourassa arrive at his final 10.50 percent cost of common
18 equity for Chaparral?

19 A. Mr. Bourassa's final estimate of 10.50 percent is based upon his review of
20 the results of his various DCF and CAPM models. He states that he
21 believes that the 10.50 percent figure is a conservative estimate due to
22 Chaparral's smaller size and higher operational operating risks are taken
23 into consideration.

1 Q. Does your silence on any of the issues, matters or findings addressed in
2 the testimony of Mr. Bourassa or any other witness for Chaparral
3 constitute your acceptance of their positions on such issues, matters or
4 findings?

5 A. No, it does not.

6

7 Q. Does this conclude your testimony on Chaparral?

8 A. Yes, it does.

Qualifications of William A. Rigsby, CRRA

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 & 1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
Phoenix, Arizona
July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase

ATTACHMENT A

Despite being what is typically perceived as a safe haven during tumultuous market conditions such as we are experiencing right now, the Water Utility Industry, as a whole, has shown little, if any, price momentum over the last few months. As a result, the group continues to rank near the bottom of the *Value Line Investment Survey* for Timeliness. Earning power has been restrained for most of the companies operating in this space by unfavorable weather conditions and the higher costs associated with them. Even the anticipated arrival of one of the larger players in this field, *American Water Works Company*, was unable to rally investor opinion. Although an improving regulatory environment ought to boost earnings growth going forward, infrastructure requirements and capital restraints to continue, dampening most of the stocks' growth potential. On that note, the one once lofty dividend yield has lost some shine, too.

Better Backing

Every utility provider is required to comply with specific requirements, upheld by state regulatory boards. These authorities were put in place in an effort to maintain a balance of power between customers and providers, as well as ensure fair business practices. Unfortunately, this has been easier said than done. Some state forces have tended to side with customers and been unfriendly to businesses, handing down untimely and, in many cases, unfavorable rulings. This has been extremely problematic, as utilities typically submit general rate case claims every year, attempting to recapture lost wages, due usually to a variety of circumstances, which are generally weather related. That said, the red tape looks as though it is being removed in many cases. In California, for example, the California Public Utilities Commission (CPUC), under Governor Schwarzenegger's watch, has done a complete 360 and implemented a much more business friendly approach. This augurs well for the future, as the board is currently looking into the possibility enacting some of the proposals of the Water Action Plan of 2005. Such a scenario would further streamline the decision making process and remove some future earnings volatility, via the adoption of a weather normalization clause.

INDUSTRY TIMELINESS: 96 (of 98)

Same Obstacles

The costs of maintaining current water systems in the United States are growing at exorbitant rates. Many of them are more than 100 years in age and in need of refurbishing, and in some cases, complete overhauls. Meanwhile, EPA requirements are becoming more stringent, a trend that will likely only intensify as the threat of bioterrorism continues to mount. In all, infrastructure costs are expected to climb into the hundreds of millions of dollars in the coming decade. However, not everyone in this space can foot the bill. Many of the smaller operators are light on cash and covered in debt. As a result, the acquisition market has been robust of late. *Aqua America* has definitely been the most opportunistic name in this space, buying out hundreds of these smaller players unable to meet the financial burden in recent years. It is likely to maintain its torrid pace, using the current market conditions to continue expanding its geographic footprint and accessing new markets, with a much lower barrier of entry.

Investment Advice

We recommend that investors contemplating entry into the Water Utilities Industry, perhaps reconsider. None of the stocks here stand out for the coming six to 12 months or the 3- to 5-year time frame either. Rising infrastructure costs, coupled with the financial constraints that most water companies are facing, are expected to wipe out most of the benefits of a better regulatory climate, thus limiting shareholder gains. Meanwhile, the current dividend yields do not exactly whet our appetite either, with many better income bearing instruments on the market for investors to consider. Although we always insist that potential investors carefully review the individual reports in the next few pages, we suggest paying particularly close attention to new comer *American Water Works*. Wall Street appears to have already soured on the stock just months after its April IPO. Any further price weakness may entice some attention. *Aqua America* also bears looking at. Its aggressive M&A strategy gives it the most ability to improve its growth profile.

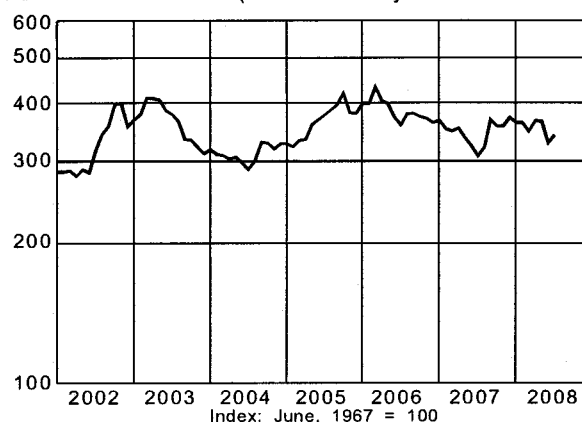
Andre J. Costanza

Composite Statistics: Water Utility Industry

2004	2005	2006	2007	2008	2009		11-13
1173.6	1256.9	3454.1	3100.0	3900	4300	Revenues (\$mill)	5300
127.1	148.2	d5.8	d278.0	360	450	Net Profit (\$mill)	625
39.1%	40.5%	NMF	NMF	27.5%	35.0%	Income Tax Rate	38.5%
1.0%	1.1%	3.7%	NMF	5.0%	5.0%	AFUDC % to Net Profit	5.0%
49.1%	50.4%	54.0%	50.1%	53.0%	54.0%	Long-Term Debt Ratio	52.0%
50.7%	49.5%	45.9%	49.9%	47.0%	46.0%	Common Equity Ratio	48.0%
2782.1	3049.9	12110.2	10790.6	12900	13675	Total Capital (\$mill)	16500
3836.9	4200.7	13308.3	11522.4	15180	16050	Net Plant (\$mill)	18375
6.0%	6.3%	1.6%	NMF	5.0%	5.5%	Return on Total Cap'l	7.0%
9.0%	9.8%	NMF	NMF	6.0%	7.0%	Return on Shr. Equity	8.0%
9.0%	9.8%	NMF	NMF	6.0%	7.0%	Return on Com Equity	8.0%
3.1%	3.7%	NMF	NMF	3.0%	3.0%	Retained to Com Eq	4.5%
66%	62%	NMF	NMF	50%	57%	All Div'ds to Net Prof	55%
25.4	29.4	NMF	NMF	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	18.0
.79	1.57	NMF	NMF			Relative P/E Ratio	1.20
6.1%	5.2%	2.0%	2.6%			Avg Ann'l Div'd Yield	2.3%

Water Utility

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



AMER. STATES WATER NYSE-AWR

RECENT PRICE **33.80**

P/E RATIO **20.5**

22.4
20.0

RELATIVE P/E RATIO **1.39**

DIV'D YLD **3.0%**

VALUE LINE

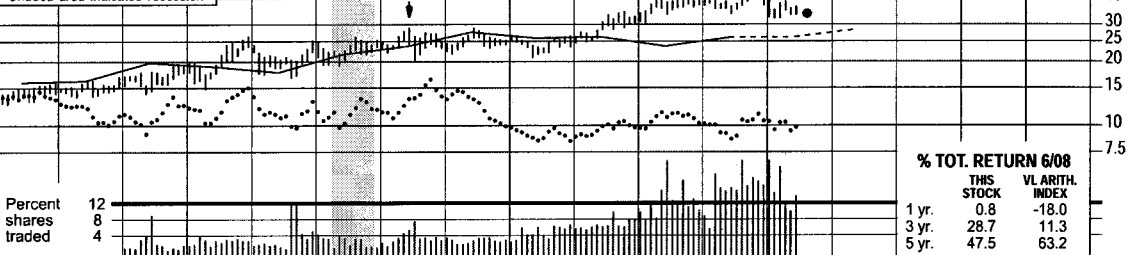
TIMELINESS 4 Lowered 2/15/08
SAFETY 3 New 2/4/00
TECHNICAL 4 Lowered 5/30/08
BETA 1.05 (1.00 = Market)

LEGENDS
— 1.25 x Dividends p sh
divided by Interest Rate
... Relative Price Strength
3-for-2 split 6/02
Options: No
Shaded area indicates recession

2011-13 PROJECTIONS
Price Gain Ann'l Total
High 65 (+90%) 20%
Low 40 (+20%) 7%

Insider Decisions
S O N D J F M A M
to Buy 1 0 0 1 0 0 0 0 0
Options 2 0 4 0 0 0 0 0 1
to Sell 2 0 4 0 0 0 0 0 1

Institutional Decisions
3Q2007 4Q2007 1Q2008
to Buy 63 63 53
to Sell 53 52 59
Hld's(000) 10424 9617 9783



1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
10.10	9.27	10.43	11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	15.76	17.49	17.00	18.05	Revenues per sh	21.85
1.81	1.67	1.68	1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.64	2.89	3.31	3.40	3.40	"Cash Flow" per sh	4.70
1.15	1.11	.95	1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.32	1.33	1.62	1.65	1.85	Earnings per sh A	2.50
.77	.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	.96	1.00	1.08	Div'd Decl'd per sh B=	1.20
2.31	1.90	2.43	2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	3.91	2.89	3.80	3.75	Cap'l Spending per sh	4.00
8.85	9.95	10.07	10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	16.64	17.53	17.75	18.05	Book Value per sh	19.20
9.96	11.71	11.77	11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	17.05	17.23	17.75	18.00	Common Shs Outst'g C	19.00
10.6	13.4	12.8	11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	21.0
.64	.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.26			Relative P/E Ratio	1.40
6.3%	5.3%	6.6%	6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%			Avg Ann'l Div'd Yield	2.4%

CAPITAL STRUCTURE as of 3/31/08
Total Debt \$315.4 mill. Due in 5 Yrs \$41.1 mill.
LT Debt \$267.2 mill. LT Interest \$22.5 mill.
(LT interest earned: 3.0x; total interest coverage: 2.8x)

Leases, Uncapitalized: None
Pension Assets-12/07 \$70.9 mill.
Oblig. \$83.4 mill.
Pfd Stock: None.

Common Stock 17,245,224 shs.
MARKET CAP: \$575 million (Small Cap)

CURRENT POSITION (\$MILL.)	2006	2007	3/31/08
Cash Assets	3.2	1.7	.8
Receivables	14.8	16.1	14.5
Inventory (Avg Cst)	1.6	1.6	1.6
Other	44.8	43.7	42.9
Current Assets	64.4	63.1	59.8
Accts Payable	24.0	29.1	27.8
Debt Due	32.6	37.8	48.6
Other	29.3	27.4	26.1
Current Liab.	85.9	94.3	102.5
Fix. Chg. Cov.	268%	314%	300%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07
Revenues	3.5%	4.0%	6.0%
"Cash Flow"	5.0%	4.0%	8.0%
Earnings	3.0%	1.5%	10.0%
Dividends	1.0%	1.5%	5.0%
Book Value	4.5%	4.5%	3.0%

Cal-endar	QUARTERLY REVENUES (\$mill.)	Full Year
	Mar.31 Jun. 30 Sep. 30 Dec. 31	
2005	49.8 60.5 68.1 57.8	236.2
2006	64.3 63.0 75.0 66.3	268.6
2007	72.3 79.3 75.8 74.0	301.4
2008	68.9 79.1 76.0 78.0	302
2009	74.0 84.0 85.0 82.0	325

Cal-endar	EARNINGS PER SHARE A	Full Year
	Mar.31 Jun. 30 Sep. 30 Dec. 31	
2005	.22 .34 .47 .29	1.32
2006	.35 .36 .32 .30	1.33
2007	.40 .42 .44 .35	1.62
2008	.30 .43 .47 .45	1.65
2009	.35 .50 .55 .45	1.85

Cal-endar	QUARTERLY DIVIDENDS PAID B=	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2004	.221 .221 .221 .225	.89
2005	.225 .225 .225 .225	.90
2006	.225 .225 .225 .235	.91
2007	.235 .235 .235 .250	.96
2008	.250 .250	

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00). Has roughly 572 employees. Officers & directors own 4.4% of common stock (4/08 Proxy). Chairman: Lloyd Ross, President & CEO: Floyd Wicks, Inc. CA. Addr.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tele.: 909-394-3600. Internet: www.aswater.com.

American States Water got off to an inauspicious start. The company posted earnings of \$0.30 a share in the first quarter, 25% off last year's figure and \$0.08 below our estimate. Sales decreased 4%, to \$68.9 million, due mainly to a reduction in fees from military bases. Water consumption would have declined even further if not for continued improvements in the regulatory process, namely the recent rate hike, effective January 1st, implemented by the California Public Utilities Commission (CPUC).

The outlook for the remainder of the year has dried up, too. Extremely arid weather (the driest on record in roughly 70 years) in California has prompted Governor Schwarzenegger to declare a drought and urge citizens to be more conservative with water usage. This is obviously not a favorable development for American, and we have therefore reduced our share-net estimate by \$0.15, to \$1.65, and our revenues figure by \$10 million, to reflect minimal revenue growth.

We expect that earnings growth ought to improve next year, though. Weather conditions ought to improve, replenishing

reserves and sparking higher usage. Plus, the CPUC will likely continue handing down favorable general rate case decisions, a trend that began when the Governor took the reins. In all, we look for double-digit earnings growth in 2009.

Nevertheless, these shares do not whet our appetite. They've tumbled roughly 10% since our last review in April, and are ranked 4 (Below Average) for Timeliness. Growth will probably remain under wraps for the coming six to 12 months due to concerns regarding inventory levels and escalating operating costs. Longer term, we are concerned about the effects of growing infrastructure needs and the company's ability to fund such endeavors. American has a feeble cash position and will have to look to outside financiers to fund future capital expenditures. Not only will such activity result in higher interest costs and share count, thus diluting shareholder gains, but it will also limit the company's ability to make acquisitions and expand its customer base. Meanwhile, the issue does not stand out as an income producer versus other utilities.

Andre J. Costanza

July 25, 2008

(A) Primary earnings. Excludes nonrecurring gains: '91, 73¢; '92, 13¢; '04, 14¢; '05, 25¢; '06, 6¢. Next earnings report due early August. 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.

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Company's Financial Strength	B++
Stock's Price Stability	75
Price Growth Predictability	85
Earnings Predictability	60

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CALIFORNIA WATER NYSE-CWT

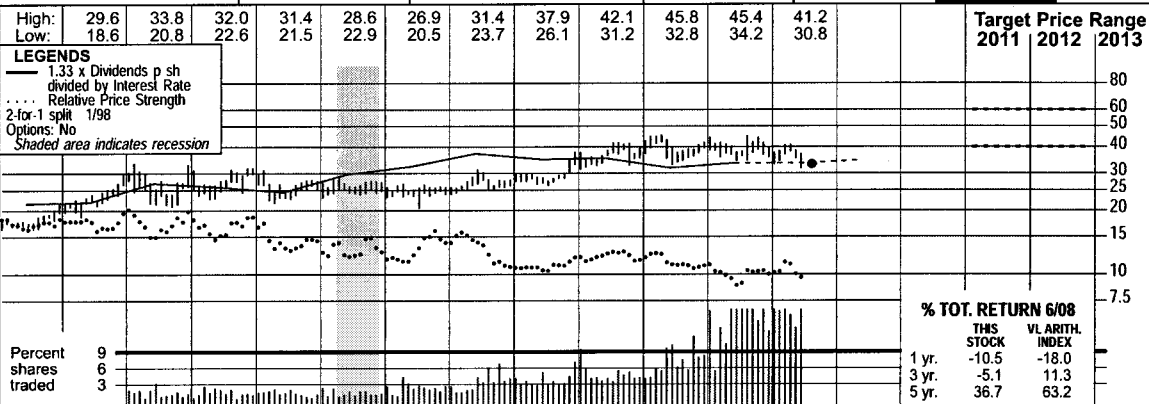
RECENT PRICE **33.21** P/E RATIO **20.8** 23.1 22.0 RELATIVE P/E RATIO **1.41** DIV'D YLD **3.5%** VALUE LINE

TIMELINESS 3 Raised 3/7/08
SAFETY 3 Lowered 7/27/07
TECHNICAL 3 Raised 6/20/08
BETA 1.15 (1.00 = Market)

2011-13 PROJECTIONS
 Price 60 Gain (+80%) Ann'l Total Return 18%
 High 40 Low 40

Insider Decisions
 S O N D J F M A M
 to Buy 0 0 0 0 0 0 1 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
 3Q2007 4Q2007 1Q2008
 to Buy 45 62 60
 to Sell 46 49 40
 Hld's(000) 9581 9554 10255



1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
12.29	13.34	12.59	13.17	14.48	15.48	14.76	15.96	16.16	16.26	17.33	16.37	17.18	17.44	16.20	17.76	17.90	19.55	Revenues per sh	21.25
1.92	2.25	2.02	2.07	2.50	2.92	2.60	2.75	2.52	2.20	2.65	2.51	2.83	3.03	2.71	3.12	3.30	3.65	"Cash Flow" per sh	4.25
1.09	1.35	1.22	1.17	1.51	1.83	1.45	1.53	1.31	.94	1.25	1.21	1.46	1.47	1.34	1.50	1.60	1.85	Earnings per sh A	2.35
.93	.96	.99	1.02	1.04	1.06	1.07	1.09	1.10	1.12	1.12	1.12	1.13	1.14	1.15	1.16	1.17	1.18	Div'd Decl'd per sh B	1.21
3.09	2.53	2.26	2.17	2.83	2.61	2.74	3.44	2.45	4.09	5.82	4.39	3.73	4.01	4.28	3.68	4.90	4.60	Cap'l Spending per sh	4.25
10.51	10.90	11.56	11.72	12.22	13.00	13.38	13.43	12.90	12.95	13.12	14.44	15.66	15.79	18.15	18.50	19.05	19.75	Book Value per sh C	21.80
11.38	11.38	12.49	12.54	12.62	12.62	12.62	12.94	15.15	15.18	15.18	16.93	18.37	18.39	20.66	20.67	21.25	21.75	Common Shs Outst'g D	25.00
14.1	13.6	14.1	13.7	11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.2	26.1	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	21.0
.86	.80	.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	1.37			Relative P/E Ratio	1.40
6.1%	5.2%	5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%	3.0%			Avg Ann'l Div'd Yield	2.4%

CAPITAL STRUCTURE as of 3/31/08
 Total Debt \$305.2 mill. Due in 5 Yrs \$16.2 mill.
 LT Debt \$288.5 mill. LT Interest \$20.0 mill.

(LT interest earned: 3.8x; total int. cov.: 3.6x)

Pension Assets-12/07 \$85.3 mill.
 Oblig. \$105.8 mill.
 Pfd Stock \$3.5 mill. Pfd Div'd \$1.15 mill.
 139,000 shares, 4.4% cumulative (\$25 par).

Common Stock 20,716,702 shs.
 as of 5/1/08
MARKET CAP: \$700 million (Small Cap)

CURRENT POSITION	2006	2007	3/31/08
(\$MILL.)			
Cash Assets	60.3	6.7	3.0
Other	49.3	53.3	48.0
Current Assets	109.6	60.0	51.0
Accts Payable	33.1	36.7	26.7
Debt Due	1.8	2.7	16.7
Other	35.3	30.3	35.3
Current Liab.	70.2	69.7	78.7
Fix. Chg. Cov.	317%	365%	375%

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07
of change (per sh)			
Revenues	2.0%	0.5%	3.5%
"Cash Flow"	1.5%	4.0%	6.0%
Earnings	-0.5%	4.5%	8.5%
Dividends	1.0%	0.5%	1.0%
Book Value	3.5%	6.0%	4.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.)	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2005	60.3 81.5 101.1 77.8	320.7
2006	65.2 81.1 107.8 80.6	334.7
2007	71.6 95.8 113.8 85.9	367.1
2008	72.9 95.1 120 92.0	380
2009	80.0 110 135 100	425

Cal-endar	EARNINGS PER SHARE A	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2005	.03 .41 .71 .32	1.47
2006	.04 .31 .68 .31	1.34
2007	.07 .37 .67 .39	1.50
2008	.01 .40 .77 .42	1.60
2009	.10 .45 .85 .45	1.85

Cal-endar	QUARTERLY DIVIDENDS PAID B	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2004	.283 .283 .283 .283	1.13
2005	.285 .285 .285 .285	1.14
2006	.2875 .2875 .2875 .2875	1.15
2007	.290 .290 .290 .290	1.16
2008	.293 .293	

BUSINESS: California Water Service Group provides regulated and nonregulated water service to roughly 463,600 customers in 83 communities in California, Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired National Utility Company (5/04); Rio Grande Corp. (11/00).

California Water Service Group barely eked out a gain in the first quarter. The water utility provider posted a profit of \$0.01, a stark contrast to the \$0.07 gain reported last year, and roughly a dime below our expectation. Revenue growth came in at a disappointing 2%, as the benefits of ongoing regulatory improvements were offset by unusually wet weather conditions. Higher administration costs were also a problem, cutting into operating margins. **Ironically, dryer weather conditions are threatening profitability over the next few quarters.** California, where the company does most of its business, saw extremely hot temperatures in the second quarter, which evaporated most water supplies and caused a drought. That said, the company, at Governor Schwarzenegger's urging to be more conservative, has instituted the first stage of its plan aimed at reducing water usage by 10% for the roughly two million people it serves in its 24 operating districts. Although this does not seem to be in the company's best interest at first blush, we believe that it must play ball in order to continue receiving the

Revenue breakdown, '07: residential, 69%; business, 18%; public authorities, 5%; industrial, 5%; other, 3%. '07 reported depreciation rate: 2.2%. Has roughly 890 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson (4/08 Proxy). Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwatergroup.com.

backing of the current administration with general rate cases. As a result, we've lowered our full-year earnings outlook by 9%, to \$1.60 a share. **An improved operating environment ought to clear the way for 16% share-net growth in 2009.** It appears as though some of the regulatory agendas in the 2005 Water Action Plan will come to fruition, streamlining the regulatory process. **We recommend taking a pass on this issue.** CWT shares have tumbled 18% since our April review and are ranked 3 (Average) for Timeliness. Meanwhile, the capital-intensive nature of the business will likely underpin the stock going forward, making it a below-average selection for the next 3 to 5 years. There are better income vehicles out there too. **We endorse the company's effort to expand its presence in other areas, though.** Although regulatory backing in the Golden State has been much improved, diversification of the business model into other states could well improve the stock's appeal. This will be a difficult task, however, given CWT's financial constraints.

Andre J. Costanza July 25, 2008

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; '02, 8¢. Next earnings report due early Aug.	(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.	(C) Incl. deferred charges. In '07: \$69.7 mill., \$3.37/sh.	(D) In millions, adjusted for split.	Company's Financial Strength B++	Stock's Price Stability 65	Price Growth Persistence 75	Earnings Predictability 75
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SOUTHWEST WATER NDQ-SWWC										RECENT PRICE	9.61	P/E RATIO	32.0	35.6 25.0	RELATIVE P/E RATIO	2.18	DIV'D YLD	2.5%	VALUE LINE																				
TIMELINESS 4 Lowered 11/23/07 SAFETY 3 New 10/28/05 TECHNICAL 3 Raised 7/11/08 BETA 1.05 (1.00 = Market)										High: 5.0 Low: 2.6	5.6 3.5	9.2 3.6	8.3 5.1	10.2 6.9	12.4 7.6	11.2 8.1	14.3 10.3	15.2 9.0	19.1 10.8	16.4 11.5	12.8 9.4	Target Price Range 2011 2012 2013																	
2011-13 PROJECTIONS Price Gain Ann'l Total High 20 (+110%) 22% Low 14 (+45%) 12%										LEGENDS 2.50 x Dividends p sh divided by Interest Rate Relative Price Strength 6-for-5 split 12/96 5-for-4 split 10/98 3-for-2 split 10/99 5-for-4 split 1/01 4-for-3 split 1/04 Options: No Shaded area indicates recession																				40 32 24 16 12 10 8 6 4									
Insider Decisions S O N D J F M A M to Buy 1 0 0 0 0 0 0 0 0 Options to Sell 0 0 0 0 0 0 0 1 3 to Sell 1 1 1 1 1 0 0 0 2										Institutional Decisions 3Q2007 4Q2007 1Q2008 to Buy 34 31 41 to Sell 27 26 23 Hld's(000) 10913 11090 12145										Percent shares traded 15 10 5										% TOT. RETURN 6/08 THIS STOCK VL ARITH. INDEX 1 yr. -19.9 -18.0 3 yr. -10.8 11.3 5 yr. 8.8 63.2									
1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009										© VALUE LINE PUB., INC. 11-13										Revenues per sh 10.35 "Cash Flow" per sh 1.60 Earnings per sh A .70 Div'd Decl'd per sh B .30 Cap'l Spending per sh 1.70 Book Value per sh D 7.85 Common Shs Outst'g C 28.00 Avg Ann'l P/E Ratio 25.0 Relative P/E Ratio 1.65 Avg Ann'l Div'd Yield 1.7%																			
CAPITAL STRUCTURE as of 3/31/08 Total Debt \$183.8 mill. Due in 5 Yrs \$60.5 mill. LT Debt \$181.9 mill. LT Interest \$9.0 mill. (Total interest coverage: 2.7x) (48% of Cap'l)										72.2 80.9 104.7 115.5 130.8 173.0 188.0 203.2 224.2 217.3 225 240 3.4 4.2 5.4 6.2 6.0 7.2 4.5 7.3 9.3 5.0 7.5 10.5										Revenues (\$mill) 300 Net Profit (\$mill) 20.5																			
Leases, Uncapitalized: Annual rentals \$6.7 mill. Pension Liability None										39.5% 39.0% 37.0% 36.0% 34.9% 35.9% 36.1% 36.0% 35.0% NMF 35.0% 35.0% -- -- -- 14.4% 3.2% -- 11.0% 9.5% 12.5% 11.0% 11.0% 11.5%										Income Tax Rate 36.0% AFUDC % to Net Profit 14.0%																			
Pfd Stock \$.458 mill. Pfd Div'd \$.020 mill. Common Stock 24,467,595 shs. as of 5/2/08										48.7% 45.2% 48.8% 51.4% 56.7% 47.9% 44.7% 43.6% 50.0% 50.5% 47.5% 50.5% 54.1% 50.7% 48.2% 42.9% 51.8% 52.0% 55.1% 56.3% 50.0% 49.5% 52.5%										Long-Term Debt Ratio 38.0% Common Equity Ratio 62.0%																			
MARKET CAP: \$225 million (Small Cap)										68.5 73.9 95.0 113.0 142.8 152.8 242.0 262.9 295.2 290.0 335 335 109.2 113.7 157.8 171.1 203.9 219.5 302.6 344.8 389.6 410.3 440 460										Total Capital (\$mill) 370 Net Plant (\$mill) 525																			
CURRENT POSITION (\$MILL.)										7.1% 7.6% 7.6% 7.6% 5.8% 6.2% 3.1% 4.1% 4.5% 3.0% 3.5% 4.5%										Return on Total Cap'l 6.5%																			
Cash Assets 4.3 2.9 2.2 Receivables 27.5 26.0 27.7 Inventory (Avg Cst) -- -- -- Other 16.5 32.7 32.8 Current Assets 48.3 61.6 62.7 Accts Payable 12.7 14.9 8.4 Debt Due 1.4 1.9 1.9 Other 21.7 29.4 27.6 Current Liab. 35.8 46.2 37.9										9.5% 10.3% 11.1% 11.4% 9.7% 9.0% 3.6% 5.0% 5.6% 3.5% 4.5% 6.0%										Return on Shr. Equity 9.0%																			
ANNUAL RATES Past Past Est'd '05-'07 of change (per sh) 10 Yrs. 5 Yrs. to '11-'13 Revenues 5.5% 2.0% 2.0% "Cash Flow" 2.0% -6.5% 13.0% Earnings -1.5% -19.5% 12.0% Dividends 9.5% 9.0% 6.0% Book Value 10.5% 11.5% 3.0%										6.0% 7.0% 7.8% 7.8% 6.3% 5.8% 8% 2.1% 2.6% NMF 1.0% 2.5% 38% 33% 31% 32% 36% 36% 78% 58%										Return on Com Equity 9.0%																			
QUARTERLY REVENUES (\$mill.)										38% 33% 31% 32% 36% 36% 78% 58%										Retained to Com Eq 5.5%																			
Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year										54% NMF 80% 65%										All Div'ds to Net Prof 43%																			
2005 45.2 51.3 54.7 52.0 203.2										BUSINESS: Southwest Water Company provides a broad range of services including water production, treatment and distribution; wastewater collection and treatment; utility billing and collection; utility infrastructure construction management; and public works services. It operates out of two groups, Utility (43% of 2007 revenues) and Services (57%). Utility owns and manages rate-regulated public water utilities in California, New Mexico, Oklahoma, and Texas. Services does mostly maintenance work on a contract basis. Off. & dir. own 6.4% of com. shs.; Stein Roe Investment Council, 9.2% (4/08 proxy). CEO and Chairman: Mark Swatek. Inc.: DE. Addr.: One Wilshire Building, 624 S. Grand Ave. Ste. 2900, Los Angeles, CA 90017. Tel.: 213-929-1800. Internet: www.swwc.com.																													
2006 50.8 55.4 60.1 57.9 224.2										Southwest Water's bottom line hit a dry spell during the first quarter. Indeed, despite revenue growth of nearly 6%, year over year, the company registered a deficit of \$0.01 per share. This was due to an increase in SG&A expenses of about \$1.8 billion, including \$700 million for fees incurred during the pursuit of a failed strategic opportunity, \$800 million related to expenses for the Cornerstone Project (discussed below), and \$300 million in higher restructuring and business engineering costs. As a result, we have lowered our full-year earnings estimates for both 2008 and 2009 by a dime.																													
2007 48.1 55.0 57.4 56.8 217.3										The company is petitioning for higher rates. In the California courts, an increase request of approximately \$6.8 million per annum has been submitted for approval. If agreed to, these higher prices would be implemented in January of 2009. Also, in Texas, negotiations are under way to raise rates in Southwest's Monarch subsidiary. Decisions for these cases should occur by the end of 2008. Another possible benefit may be realized in New Mexico, where a proposal was presented to collect wastewater fees through a customer surcharge.																													
2008 50.8 57.0 59.0 58.2 225										If successful, these gains should add to both the top and bottom line out to the 2011-2013 period.																													
2009 55.0 62.0 63.0 60.0 240										The Cornerstone Project may improve margins in the coming years. As a part of this initiative, the company has installed the Oracle software platform to consolidate all its financial accounting functions. Other aspects will be the expanded management reporting capabilities, and the development of a financial services center to centralize some administrative processes. Once the expenses related to this restructuring, which are likely to extend to the latter half of 2009, are eliminated, operating margins should begin to show improvements.																													
EARNINGS PER SHARE A										This untimely stock does not hold much appeal at this time. Even though the ongoing restructuring efforts and the possible rate hikes are likely to bolster earnings growth over the next few years, these gains have been discounted in the current quotation. As such, the below-average appreciation potential over the next 3 to 5 years is not very attractive at this juncture.																													
Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year										John D. Burke										July 25, 2008																			
2005 d.01 .15 .14 .06 .34																																							
2006 .03 .08 .16 .13 .40																																							
2007 .03 .09 .09 .11 .31																																							
2008 d.01 .09 .10 .12 .30																																							
2009 .03 .11 .12 .14 .40																																							
QUARTERLY DIVIDENDS PAID B																																							
Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year																																							
2004 .044 .044 .044 .048 .18																																							
2005 .048 .048 .048 .052 .20																																							
2006 .052 .052 .052 .058 .21																																							
2007 .058 .058 .058 .058 .23																																							
2008 .06 .06																																							

(A) Diluted earnings. Excludes nonrecurring gains (losses): '00, (3¢); '01, (5¢); '02, 1¢; '05, (23¢); '07, (54¢). Next earnings report due mid-September.

(B) Dividends historically paid in late January, April, July, and October.
(C) In millions, adjusted for splits.
(D) Includes intangibles. In 2007: \$19.9 million.

\$0.83/share.
(E) Earnings may not add due to rounding.

Company's Financial Strength B
Stock's Price Stability 55
Price Growth Persistence 70
Earnings Predictability 60

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AQUA AMERICA NYSE-WTR

RECENT PRICE **14.66** P/E RATIO **17.2** 21.2 24.0 RELATIVE P/E RATIO **1.17** DIV'D YLD **3.4%** VALUE LINE

TIMELINESS 5 Lowered 5/16/08
SAFETY 3 Lowered 8/1/03
TECHNICAL 4 Lowered 6/13/08
BETA .95 (1.00 = Market)

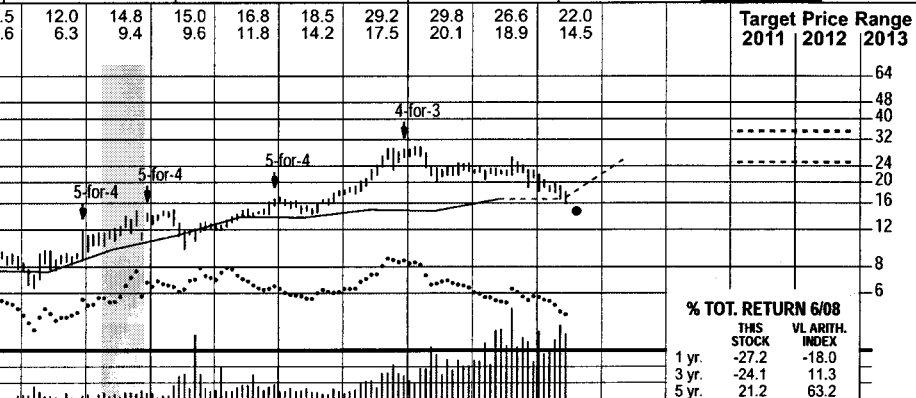
2011-13 PROJECTIONS
 Price 35 (+140%)
 Gain 26%
 Ann'l Total Return 16%
 High 35
 Low 25

Insider Decisions
 S O N D J F M A M
 to Buy 0 0 0 0 0 0 0 0 0
 to Sell 2 1 1 0 0 1 0 0 1
 Options 3 1 1 0 0 0 0 0 1

Institutional Decisions
 3Q2007 4Q2007 1Q2008
 to Buy 84 115 99
 to Sell 114 88 111
 Hld's(000) 55922 59091 62485

LEGENDS
 1.00 x Dividends p sh
 divided by Interest Rate
 Relative Price Strength
 3-for-2 split 7/96
 4-for-3 split 1/98
 5-for-4 split 12/00
 5-for-4 split 12/01
 5-for-4 split 12/03
 4-for-3 split 12/05
 Options: Yes
 Shaded area indicates recession

Percent shares traded
 15
 10
 5



1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
1.82	1.70	1.82	1.84	1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	4.03	4.52	4.80	5.00	Revenues per sh	5.60
.39	.42	.42	.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.26	1.37	1.65	1.85	"Cash Flow" per sh	2.35
.24	.24	.26	.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	.71	.85	.95	Earnings per sh ^A	1.20
.20	.21	.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.48	.50	.56	Div'd Decl'd per sh ^B	.68
.60	.47	.46	.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	2.05	1.79	1.85	1.90	Cap'l Spending per sh	2.15
2.09	2.29	2.41	2.46	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.96	7.32	7.70	8.20	Book Value per sh	10.10
51.20	59.40	59.77	63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	132.33	133.40	134.50	135.50	Common Shs Outst'g ^C	139.00
12.5	14.4	13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	25.0
.76	.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70			Relative P/E Ratio	1.65
6.8%	5.9%	6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%			Avg Ann'l Div'd Yield	2.7%

CAPITAL STRUCTURE as of 3/31/08
 Total Debt \$1239.0 mill. Due in 5 Yrs \$207.9 mill.
 LT Debt \$1215.0 mill. LT Interest \$65.0 mill.
 (LT interest earned: 3.3x; total interest coverage: 3.1x)

Pension Assets-12/07 \$147.8 mill.
 Oblig. \$194.5 mill.

Pfd Stock None
 Common Stock 133,630,229 shares as of 4/22/08

MARKET CAP: \$2.0 billion (Mid Cap)

CURRENT POSITION (\$MILL.)	2006	2007	3/31/08
Cash Assets	44.0	14.5	16.5
Receivables	72.1	82.9	73.7
Inventory (AvgCst)	10.2	8.8	10.2
Other	8.4	9.3	9.7
Current Assets	134.7	115.5	110.1
Accts Payable	49.4	45.8	23.4
Debt Due	150.4	80.8	24.0
Other	55.8	56.6	127.1
Current Liab.	255.6	183.2	174.5
Fix. Chg. Cov.	352%	323%	305%

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07
of change (per sh)			to '11-'13
Revenues	8.0%	9.0%	5.0%
"Cash Flow"	9.5%	8.5%	10.5%
Earnings	8.5%	7.0%	9.0%
Dividends	7.0%	7.5%	7.5%
Book Value	10.0%	10.5%	6.5%

Cal-endar	QUARTERLY REVENUES (\$ mill.)	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2005	114.0 123.1 136.8 122.9	496.8
2006	117.9 131.7 147.0 136.9	533.5
2007	137.3 150.6 165.5 149.1	602.5
2008	139.3 165 185 155.7	645
2009	145 175 195 160	675

Cal-endar	EARNINGS PER SHARE A	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2005	.15 .17 .22 .17	.71
2006	.13 .17 .21 .19	.70
2007	.13 .17 .22 .19	.71
2008	.11 .22 .28 .24	.85
2009	.16 .25 .26 .28	.95

Cal-endar	QUARTERLY DIVIDENDS PAID B	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2004	.09 .09 .09 .09	.37
2005	.098 .098 .098 .107	.40
2006	.107 .107 .115 .115	.44
2007	.115 .115 .125 .125	.48
2008	.125 .125	

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately 2.8 million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and

Aqua America Inc. began the year on a weak note. Even though revenues grew slightly year over year, the bottom line dropped about 15%. A reduction in housing starts dampened the rate of customer growth, increased foreclosures have lowered revenue contributions from these consumers, and higher fuel costs hurt margins during the March interim. Also, the recent loss of customers from the land seized by the government of Fort Wayne, Indiana (under the eminent domain doctrine) has already begun to cut into profits, and will likely hinder growth until late 2009.

The company may be able to gain some momentum in the latter half of the year. A factor that will probably benefit the top and bottom lines are the 17 rate cases that are in varied stages of regulatory processes. These price increase requests should be decided by the end of the year, and can add upwards of \$65 million per annum to revenues. It should also be noted that some of these cases are for "rate-relief", which would yield higher price increases to offset the capital investments and rising costs that have been ac-

crued during the integration period. Also, Aqua will likely sell an undisclosed franchise for approximately \$10 million late in the third or fourth quarter.

Aqua America has acquired a wastewater and irrigation system in Florida. This will expand the company's customer base with the 4,000 residents of the Fountain Lakes development in Lee County serviced by these systems. The waste-water assets will be run as a regulated utility, subject to rate-increase petitions. Over the next few years, about \$400,000 in capital expenditures will be spent to improve and integrate these systems. Further acquisitions are likely to be made during the year, but management has stated that its focus will shift towards making larger, fewer purchases.

These untimely shares may be best suited for patient investors. Although the recent difficulties have hampered its short term appeal, Aqua is establishing and improving facilities in strong locations, which should bolster earnings growth and enhance its appreciation potential over the coming 3 to 5 years.

John D. Burke July 25, 2008

(A) Primary shares outstanding through '96; diluted thereafter. Excl. nonrec. gains (losses): '92, (38¢); '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96,

2¢. May not sum due to rounding. Next earnings report due early August.
 (B) Dividends historically paid in early March, June, Sept. & Dec. = Div'd. reinvestment plan

available (5% discount).
 (C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	90
Price Growth Persistence	80
Earnings Predictability	100

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ATTACHMENT B

The Natural Gas Utility Industry continues to operate in a tough environment. Warmer-than-normal weather, a sluggish domestic economy, and a challenging regulatory climate are all impacting this sector's performance. This group has remained resilient, though, by developing new opportunities to drive growth. Still, prospects for these utilities are unimpressive. Therefore, most investors will probably want to look elsewhere.

A Weak Economy

The ongoing weakness in the domestic economy has added pressure to an already challenging operating environment in this industry. Most notably, the struggling housing market has hurt results across this group. Customers have become more cost conscious and, as a result, usage is down at many of these companies. The tough times have also made bill collection harder due to weakness in household income. All told, these factors will probably continue to weigh on these stocks in the foreseeable future.

Climate Changes

Warmer-than-expected weather has also been a drag on results of late. Unseasonable conditions create volatility for these utilities. Warm weather can cause customer usage to drop, which pressures earnings. It also affects the predictable growth these companies usually enjoy. To address this, an increasing number of utilities are using weather-adjusted rate mechanisms, which stabilize results when there is volatility. As such, investors looking for companies with more stable results may want to consider stocks that have a rate mechanism. Despite weather-related factors, we still assume results will improve over the coming six months when the heating season should peak.

Regulation

The players in this industry are regulated by their respective state commissions, which determine the return on equity these utilities can achieve. Many of the companies in this sector have insufficient relief. This has caused the sector's infrastructure to age and profitability to diminish. Numerous utilities, such as *Southwest Gas*, *Nicor*, and *New Jersey Resources*, have cases pending. A positive or negative ruling in these decisions can drive a particular stock's performance. The state commissions try to strike a balance between consumer and

INDUSTRY TIMELINESS: 56 (of 99)

shareholder interest. However, numerous companies are operating with a tight budget of late. As a result, many shareholders feel they are not getting their fair share. In brief, these cases remain a key factor in this industry's performance.

Business Strategy

In light of the ongoing challenges in this sector, many companies have sought other opportunities to drive growth. These utilities have been able to weather some of the aforementioned challenges by diversifying their revenue base. Nonregulated ventures have been a popular choice to accomplish this goal. These operations are not regulated by the state commissions and add flexibility to these otherwise stable businesses. These opportunities currently make up a small part of the industry's performance. However, they will probably be an increasingly more common means to drive profitability. Moreover, companies have been expanding their regulated operations in an effort to drive growth. New facilities and added pipelines are examples of some of the ways these utilities have ramped up their capabilities. Others have looked to acquisitions. Indeed, the Natural Gas Utility Industry has experienced some consolidation over the past year. This allows companies to expand their business via a mature operation. Another opportunity some of the companies have been pursuing is conservation. Some governments offer these programs to help utilities embrace sector trends without damaging their bottom line.

Investment Advice

The Natural Gas Industry is ranked near the middle of our industry spectrum for Timeliness. Most of the companies here offer uninspiring prospects in the year ahead. What's more, the long-term picture is not much better. However, many of these stocks offer attractive dividend yields. In fact, the average yield for this group (3.7%) is well above the *Value Line* median (2.2%). Thus, conservative accounts may be enticed by some of these stocks for their solid businesses and attractive yields. Interested investors should look for utilities with a favorable regulatory environment, as these issues are more likely to post gains over the coming years. Still, we recommend most investors look elsewhere given the limited growth potential in this sector.

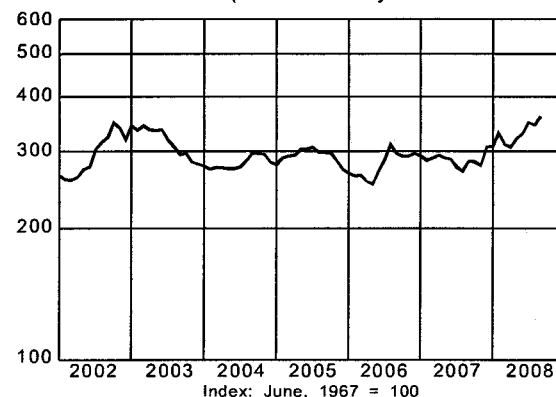
Richard Gallagher

Composite Statistics: Natural Gas Utility

2004	2005	2006	2007	2008	2009		11-13
21683	28176	30783	30588	32000	34000	Revenues (\$mill)	40500
908.1	1087.3	1218.7	1250.4	1325	1400	Net Profit (\$mill)	1650
36.4%	36.7%	35.4%	33.5%	36.0%	36.0%	Income Tax Rate	36.0%
4.2%	3.9%	4.0%	4.1%	4.1%	4.1%	Net Profit Margin	4.1%
50.9%	51.3%	51.5%	49.5%	51.0%	51.0%	Long-Term Debt Ratio	52.0%
48.9%	48.6%	48.4%	50.4%	48.0%	48.0%	Common Equity Ratio	46.0%
16806	18933	20687	21592	22500	24000	Total Capital (\$mill)	27500
18979	21340	22849	23904	25250	26500	Net Plant (\$mill)	40000
6.9%	7.5%	7.5%	7.4%	6.0%	6.0%	Return on Total Cap'l	6.0%
11.0%	11.8%	12.2%	11.5%	11.0%	11.5%	Return on Shr. Equity	12.0%
11.0%	11.8%	12.2%	11.5%	11.0%	11.5%	Return on Com Equity	12.0%
4.3%	4.9%	5.4%	4.9%	5.3%	5.5%	Retained to Com Eq	6.0%
61%	59%	55%	57%	60%	60%	All Div'ds to Net Prof	60%
15.5	15.9	14.7	16.1	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	13.0
.82	.85	.79	.85			Relative P/E Ratio	.85
3.9%	3.7%	3.8%	3.6%			Avg Ann'l Div'd Yield	4.6%
359%	371%	381%	397%	375%	375%	Fixed Charge Coverage	400%

Natural Gas Utility

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



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	VALUE LINE
100%	
90%	
80%	
70%	
60%	
50%	
40%	
30%	
20%	
10%	
0%	

	Target Price	Range
2011	2012	2013
		80
		60
		50

[illegible]

% TOT. RETURN 8/08

	THIS STOCK	VL ARITH. INDEX
r.	14.6	-9.4
r.	27.1	12.4
r.	76.5	56.8

2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
79.63	72.62	85.70	87.30	Revenues per sh ^A	92.05
2.73	2.44	2.00	3.05	"Cash Flow" per sh ^B	3.70
1.87	1.55	1.10	2.15	Earnings per sh ^C	2.80
.96	1.01	1.11	1.17	Div'ds Decl'd per sh ^C	1.36
1.28	1.46	1.55	1.65	Cap'l Spending per sh	1.80
15.00	15.50	15.45	16.95	Book Value per sh ^D	22.85
41.44	41.61	42.00	42.50	Common Shs Outst'g ^E	44.00
16.1	21.6	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	14.0
.87	1.13			Relative P/E Ratio	.95
3.2%	3.0%			Avg Ann'l Div'd Yield	4.0%

3299.6	3021.8	3600	3710	Revenues (\$mil) ^A	4050
78.5	65.3	46.0	91.5	Net Profit (\$mil)	125
38.9%	38.8%	39.0%	39.0%	Income Tax Rate	40.0%
2.4%	2.2%	1.3%	2.5%	Net Profit Margin	3.1%
34.8%	37.3%	43.5%	41.0%	Long-Term Debt Ratio	35.5%
65.2%	62.7%	56.5%	59.0%	Common Equity Ratio	64.5%
954.0	1028.0	1150	1220	Total Capital (\$mil)	1560
924.0	920.0	990	1040	Net Debt (\$mil)	1070

1994-95	1995-96	1996-97	1997-98	Net Plant (\$ mil)	1997-98
9.6%	7.7%	5.0%	8.5%	Return on Total Cap'l	9.0%
12.6%	10.1%	7.0%	12.5%	Return on Shr. Equity	12.5%
12.6%	10.1%	7.0%	12.5%	Return on Com Equity	12.5%

6.3%	3.6%	<i>NMF</i>	6.0%	Retained to Com Eq	6.5%
50%	64%	101%	54%	All Div's to Net Prof	48%

and electric utility, 36% off-system and capacity release). N.J. Natural Energy subsidiary provides unregulated retail/wholesale natural gas and related energy svcs. 2007 dep. rate: 2.8%. Has 808 empls.

Off./dir. own about 2% of common (12/07 Proxy). Chrmn., CEO, & Pres.: Laurence M. Downes. Inc.: N.J. Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1480. Web: www.njresources.com.

Capital projects ought to bear fruit in the years to come. The FERC recently approved the development of 12 billion cubic feet of working natural gas storage

cubic feet or working natural gas storage capacity in Pennsylvania for the Steckman Ridge location. This facility will provide extra capacity during the peak winter and summer months to the Northeast. Meanwhile, construction has begun on a new 16-inch main pipeline that will bring natural gas from the Ohio-MI border to

These shares may appeal to conservative, income-oriented accounts. A solid dividend yield and high marks for Price Stability make this stock a selectively attractive purchase. Meanwhile, the equity

is ranked to mirror the broader market for the coming year. On the downside, the stock's current quotation sits within our Target Price Range. This suggests the issue offers little, if any, appreciation potential for the pull to 2011-2013.

Bryan Fong *September 12, 2008*

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	65

Earnings Predictability	50
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N.W. NAT'L GAS NYSE: NWN				RECENT PRICE	49.07	P/E RATIO	18.4	(Trailing: 18.6 Median: 16.0)	RELATIVE P/E RATIO	1.18	DIV'D YLD	3.2%	VALUE LINE					
TIMELINESS	3	Raised 8/8/08	High:	31.4	30.8	27.9	27.5	26.8	30.7	31.3	34.1	39.6	43.7	52.8	50.7			Target Price Range
SAFETY	1	Raised 3/18/05	Low:	23.0	24.3	19.5	17.8	21.7	23.5	24.0	27.5	32.4	32.8	39.8	41.1			2011 2012 2013
TECHNICAL	3	Raised 8/1/08	LEGENDS															
BETA	.75	(1.00 = Market)	1.10 x Dividends p sh divided by Interest Rate															
2011-13 PROJECTIONS			3-for-2 split 9/96															
			Options: Yes															
			Shaded area indicates recession															
Ann'l Total																		
High	Price	Gain																
Low	55	(+30%)																
Insider Decisions																		
Institutional Decisions																		
to Buy																		
to Sell																		
Hld's(000)																		
16848																		
16772																		
16947																		
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3.73																		
12.41																		
19.46																		
27.0																		
1.64																		
5.7%																		
CAPITAL STRUCTURE as of 6/30/08																		
Total Debt \$584.7 mill.																		
LT Debt \$512.0 mill.																		
(Total interest coverage: 4.0x)																		
Pension Assets-12/07 \$241 mill.																		
Oblig. \$260 mill.																		
Pfd Stock None																		
Common Stock 26,435,373 shs.																		
as of 7/31/08																		
MARKET CAP \$1.3 billion (Mid Cap)																		
CURRENT POSITION																		
(\$MILL.)																		
Cash Assets																		
Other																		
Current Assets																		
Accts Payable																		
Debt Due																		
Other																		
Current Liab.																		
Fx. Chg. Cov.																		
ANNUAL RATES																		
of change (per sh)																		
Past 10 Yrs.																		
Past 5 Yrs.																		
Est'd '05-'07																		
to '11-'13																		
Revenues																		
"Cash Flow"																		
Earnings																		
Dividends																		
Book Value																		
Cal-endar																		
QUARTERLY REVENUES (\$ mill.)																		
Mar.31 Jun.30 Sep.30 Dec.31																		
Full Year																		
2005																		
2006																		
2007																		
2008																		
2009																		
Cal-endar																		
EARNINGS PER SHARE ^																		
Mar.31 Jun.30 Sep.30 Dec.31																		
Full Year																		
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2007																		
2008																		
2009																		
Cal-endar																		
QUARTERLY DIVIDENDS PAID ^																		
Mar.31 Jun.30 Sep.30 Dec.31																		
Full Year																		
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2007																		
2008																		
2009																		

to Buy
Options
to Sell

ON DJFMAMJ
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0 4 0 0 0 0 0 0 1
0 5 1 0 0 0 0 0 1

to Buy
to Sell
Hld's(000)

4Q2007 1Q2008 2Q2008
95 77 78
60 92 71
16848 16772 16947

Percent
shares
traded

9
6
3

1 yr. 8.4
3 yr. 47.1
5 yr. 106.0

8.4
47.1
106.0

-9.4
12.4
56.8

Revenues per sh
"Cash Flow" per sh
Earnings per sh ^
Div'ds Decl'd per sh ^
Cap'l Spending per sh
Book Value per sh
Common Shs Outst'g ^
Avg Ann'l P/E Ratio
Relative P/E Ratio
Avg Ann'l Div'd Yield

40.55
5.40
2.80
1.60
9.00
23.65
26.50
18.0
1.20
3.1%

Revenues (\$mill)
Net Profit (\$mill)
Income Tax Rate
Net Profit Margin
Long-Term Debt Ratio
Common Equity Ratio
Total Capital (\$mill)
Net Plant (\$mill)
Return on Total Cap'l
Return on Shr. Equity
Return on Com Equity
Retained to Com Eq
All Div'ds to Net Prof

1400
94.0
37.0%
6.7%
48.0%
52.0%
1500
2000
7.0%
11.0%
11.0%
5.0%
56%

Business: Northwest Natural Gas Co. distributes natural gas to 90 communities, 657,000 customers, in Oregon (90% of customers) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.5 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system.

Owns local underground storage. Rev. breakdown: residential, 55%; commercial, 28%; industrial, gas transportation, and other, 17%. Employs 1,130. Barclays Global owns 6.5% of shares; officers and directors, 1.3% (4/08 proxy). CEO: Mark S. Dodson. Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Internet: www.nwnatural.com.

Northwest Natural's second-quarter earnings reflected a rare loss on gas costs. In Oregon, the company retains one-third of the difference between its forecast and actual gas costs. (All gas costs are passed on to customers in Washington.) Northwest usually makes money from the purchased gas adjustment mechanism (PGA), but in the June period, the PGA cost it about \$0.12 a share. In the first half of 2007, the PGA boosted earnings by around \$0.23 a share. Lower operations and maintenance expenses partially offset the PGA loss in the second quarter.

We look for little earnings progress in the second half of 2009 . . . The decline in operating expenses that helped in the June period is unlikely to continue, since some costs will probably be moved to the second half. And the company received a positive tax adjustment in the summer quarter last year. Customer growth, however, continues, though at roughly 2% per year, compared with the 3% pace that Northwest tallied for years through 2007. Conversions from oil to natural gas heating are replacing some of the falloff in new home construction.

... but earnings gains should resume next year. Northwest is working with the Oregon public utility commission to modify the gas cost-sharing mechanism, and a new version will likely take effect with the start of the heating season in November. The new arrangement will probably minimize, if not quite eliminate, earnings fluctuations due to profits or losses from gas costs. Customer growth will probably continue at around 2% for the first half of 2009, and new construction should begin to revive by the second half of the year.

Two large projects could significantly boost earnings by 2013. Northwest and PG&E plan to build a gas storage facility at Gill Ranch, near Fresno, which should come on stream by 2011. The eastern half of the Palomar pipeline, which would give Northwest a second source of gas, could open by 2012. Northwest's portions of the two projects could amount to \$500 million and contribute up to \$0.80 a share beyond our current, conservative forecast.

These top-quality shares offer solid risk-adjusted total-return potential out to 2011-2013.

Sigourney B. Romaine September 12, 2008

3

	Target Price	Range
	2011	2012
80		
60		
50		
40		

			30
			25
			20

			15
			10
6 TOT RETURN 8/08			7.5

	THIS STOCK	VL ARITH. INDEX
r.	13.5	-9.4
r.	31.7	12.4
r.	80.9	56.8

VALUE LINE PUB., INC.	11-13
Revenues per sh ^A	30.90
Cash Flow ⁿ per sh	3.25
Earnings per sh ^B	1.95
Div'ds Decl'd per sh ^C	1.19
Cap'l Spending per sh	2.30
Book Value per sh ^D	15.05
Common Shs Outst'g ^E	72.00
Ann'l P/E Ratio	18.0
Relative P/E Ratio	1.50
Ann'l Div'd Yield	3.1%

Revenues (\$mill) ^A	2225
Profit (\$mill)	145
Income Tax Rate	35.0%
Profit Margin	6.5%
Long-Term Debt Ratio	45.5%

Long-Term Debt Ratio	43.3%
Common Equity Ratio	54.5%
Total Capital (\$mill)	1985
Plant (\$mill)	2400
Total Debt	858

Return on Total Capital	8.5%
Return on Shr. Equity	13.0%
Return on Com Equity	13.0%
Return on Retained to Com Eq	5.0%

Div'ds to Net Prof	60%
--------------------	-----

sale of gas-powered heating
pane sales. Has about 1,876
ss than 1% of common stock

while, a bit of un-

capital projects

any recently an-
construct a liquefied
e facility in North
in its preliminary

its cost to range million. The new of storing rough- of natural gas for k demand. It is ex-

**peal to income-
tressing safety.**
the solid dividend

or Price Stability.
t that the stock's
near our Target
return potential for
is only average for

September 12, 2008

Financial Strength	B++
Stability	100
Persistence	60
Profitability	85

call 1-800-833-0046.

8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,876 employees. Officers & directors own less than 1% of common stock (1/08 proxy). Chairman, CEO, & President: Thomas E. Skains, Inc.: NC. Addr.: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-364-3120. Internet: www.piedmontng.com.

comparable basis. Meanwhile, a bit of uncertainty stems from the company's joint venture with Southstar. Its profitability has been hurt as a result of the difficult natural gas markets.

On a brighter note, capital projects augur well for Piedmont's longer-term prospects. The company recently announced its plans to construct a liquefied natural gas peak storage facility in North Carolina. This project is in its preliminary stages, and PNY expects its cost to range from \$300 million-\$350 million. The new facility should be capable of storing roughly 1.25 billion cubic feet of natural gas for use during times of peak demand. It is expected to be in service for the 2012-2013 winter heating season.

These shares may appeal to income-oriented accounts stressing safety. This is made possible by the solid dividend yield and high mark for Price Stability. However, given the fact that the stock's current quotation sits near our Target Price Range, its total return potential for the coming 3 to 5 years is only average for a gas utility.

Bryan Fong *September 12, 2008*

Bryan Fong September 12, 2008

Financial Strength	B++
Stability	100
Persistence	60
Profitability	85

To subscribe call 1-800-833-0046.

SOUTHWEST GAS NYSE-SWX										RECENT PRICE	30.18	P/E RATIO	14.7	(Trailing: 16.2 Median: 18.0)	RELATIVE P/E RATIO	0.94	DIV'D YLD	3.0%	VALUE LINE													
TIMELINESS	3	Raised 5/23/08	High:	20.3	26.9	29.5	23.0	24.7	25.3	23.6	26.2	28.1	39.4	39.9	31.7				Target Price	Range												
SAFETY	3	Lowered 1/4/91	Low:	16.1	17.3	20.4	16.9	18.6	18.1	19.3	21.5	23.5	26.0	26.5	25.1				2011	2012												
TECHNICAL	3	Lowered 6/27/08	LEGENDS																	2013												
BETA	.80	(1.00 = Market)	2.00 x Dividends p sh divided by Interest Rate Relative Price Strength																													
2011-13 PROJECTIONS																																
High	Price	Gain	Ann'l Total																													
Low	50	(+65%)	16%																													
	30	(Nil)	3%																													
Insider Decisions																																
	O	N	D	J	F	M	A	M	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																																
	4Q2007	1Q2008	2Q2008																													
To Buy	82	80	85																													
To Sell	84	88	65																													
Hld's(000)	34975	34496	34150																													

WGL HOLDINGS NYSE-WGL					RECENT PRICE	32.48	P/E RATIO	14.4	(Trailing: 8.2 Median: 15.0)	RELATIVE P/E RATIO	0.93	DIV'D YLD	4.4%	VALUE LINE																					
TIMELINESS	3	Raised 5/25/07	High:	31.4	30.8	29.4	31.5	30.5	29.5	28.8	31.4	34.8	33.6	35.9	36.2																				
SAFETY	1	Raised 4/2/93	Low:	20.9	23.1	21.0	21.8	25.3	19.3	23.2	26.7	28.8	27.0	29.8	30.3																				
TECHNICAL	3	Lowered 5/30/08	LEGENDS 1.30 x Dividends p sh divided by Interest Rate Relative Price Strength 2-for-1 split 5/95 Options: Yes Shaded area indicates recession																																
BETA	.85	(1.00 = Market)	2011-13 PROJECTIONS Ann'l Total High Price Gain Return Low 40 25% 10% 7% 35 10% 7%																																
Insider Decisions			O N D J F M A M J to Buy 0 0 0 0 0 0 0 1 0 Options 3 0 0 0 0 0 0 5 1 to Sell 3 0 1 2 0 0 0 7 1																																
Institutional Decisions			4Q2007 1Q2008 2Q2008 to Buy 92 106 95 to Sell 94 89 100 Hld's(000) 35393 35559 34195 Percent shares traded 9 6 3																																
															% TOT. RETURN 8/08 THIS STOCK VL ARITH. INDEX 1 yr. 2.1 -9.4 3 yr. 11.4 12.4 5 yr. 48.8 56.8																				
															© VALUE LINE PUB., INC. 11-13																				
1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Revenues per sh ^A	54.60																
21.55	21.69	19.30	22.19	24.16	23.74	20.92	22.19	29.80	32.63	42.45	42.93	44.94	53.96	53.51	52.55	53.45	4.25	4.35	"Cash Flow" per sh	4.55															
2.17	2.25	2.43	2.51	2.93	3.02	2.79	2.74	3.20	3.24	4.00	3.87	3.97	3.93	3.89	4.25	4.35	2.40	2.45	Earnings per sh ^B	2.55															
1.27	1.31	1.42	1.45	1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.98	2.11	1.94	2.10	2.40	2.45	1.44	1.44	Div'ds Decl'd per sh ^C	1.56														
1.07	1.09	1.11	1.12	1.14	1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.30	1.32	1.34	1.37	1.40	1.44	3.00	3.00	Cap'l Spending per sh	2.50														
2.17	2.43	2.84	2.63	2.85	3.20	3.62	3.42	2.67	2.68	3.34	2.65	2.33	2.32	3.27	3.33	3.35	3.00	2.40	2.40	Book Value per sh ^D	25.40														
10.66	11.04	11.51	11.95	12.79	13.48	13.86	14.72	15.31	16.24	15.78	16.25	16.95	17.80	18.28	19.83	21.15	22.15	49.50	49.60	Common Shs Outst'g ^E	50.00														
40.62	41.50	42.19	42.93	43.70	43.70	43.84	46.47	46.47	48.54	48.56	48.63	48.67	48.65	48.89	49.45	49.50	49.60	15.5	15.6	Avg Ann'l P/E Ratio	15.0														
13.6	15.6	14.0	12.7	11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	14.7	15.5	15.6	15.5	15.5	8.2	8.2	Relative P/E Ratio	1.00														
.82	.92	.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	.84	.82	.82	.82	4.2%	4.2%	Avg Ann'l Div'd Yield	4.2%														
6.2%	5.3%	5.6%	6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%	4.2%	4.5%	4.2%	4.2%	4.2%																		
CAPITAL STRUCTURE as of 6/30/08															1040.6					972.1	1031.1	1446.5	1584.8	2064.2	2089.6	2186.3	2637.9	2646.0	2600	2650	Revenues (\$mill) ^A	2730			
Total Debt \$695.8 mill. Due in 5 Yrs \$399.5 mill.															68.6					68.8	84.6	89.9	55.7	112.3	98.0	104.8	95.1	102.9	120	122	120	122	Net Profit (\$mill)	130	
LT Debt \$600.5 mill. LT Interest \$40.1 mill.															35.6%					36.0%	36.1%	39.6%	34.0%	38.0%	38.2%	37.4%	39.0%	39.1%	38.0%	38.0%	38.0%	38.0%	Income Tax Rate	38.0%	
(LT interest earned: 6.7x; total interest coverage: 5.7x)															6.6%					7.1%	8.2%	6.2%	3.5%	5.4%	4.7%	4.8%	3.6%	3.9%	4.6%	4.6%	4.6%	4.6%	Net Profit Margin	4.7%	
Pension Assets-9/07 \$740.7 mill.															40.3%					41.5%	43.1%	41.7%	45.7%	43.8%	40.9%	39.5%	38.5%	37.9%	36.0%	34.5%	34.5%	34.5%	Long-Term Debt Ratio	32.0%	
Oblig. \$680.3 mill.															57.1%					56.1%	54.8%	56.3%	52.4%	54.3%	57.2%	58.6%	61.5%	60.3%	62.5%	63.5%	63.5%	63.5%	Common Equity Ratio	67.0%	
Preferred Stock \$28.2 mill. Pfd. Div'd \$1.3 mill.															1064.8					1218.5	1299.2	1400.8	1462.5	1454.9	1443.6	1478.1	1497.8	1625.4	1675	1730	1730	1730	Total Capital (\$mill)	1895	
Common Stock 49,912,444 shs. as of 7/31/08															1319.5					1402.7	1460.3	1519.7	1606.8	1874.9	1915.6	1969.7	2067.9	2150.4	2235	2325	2325	2325	Net Plant (\$mill)	2615	
MARKET CAP: \$1.6 billion (Mid Cap)															8.0%					7.1%	7.9%	7.9%	5.3%	9.1%	8.2%	8.5%	7.7%	7.6%	8.5%	8.0%	8.0%	8.0%	8.0%	Return on Total Cap'l	8.0%
CURRENT POSITION															10.8%					9.7%	11.4%	11.0%	7.0%	13.7%	11.5%	11.7%	10.3%	10.2%	11.5%	11.0%	11.0%	11.0%	11.0%	Return on Shr. Equity	10.0%
2006 2007 6/30/08															11.1%					9.9%	11.7%	11.2%	7.2%	14.0%	11.7%	12.0%	10.2%	10.4%	12.0%	11.5%	11.5%	11.5%	Return on Com Equity	10.5%	
(\$MILL.)															2.5%					1.8%	3.7%	3.8%	NMF	6.2%	4.1%	4.6%	3.1%	3.5%	4.5%	4.5%	4.5%	4.5%	Retained to Com Eq	4.0%	
Cash Assets 4.4 4.9 21.6															78%					82%	69%	67%	112%	56%	65%	62%	70%	66%	58%	59%	59%	59%	All Div'ds to Net Prof	61%	
Other 556.9 568.8 698.7																																			
Current Assets 561.3 573.7 720.3																																			
Accts Payable 208.5 216.9 351.6																																			
Debt Due 238.4 205.4 95.3																																			
Other 113.9 134.8 177.8																																			
Current Liab. 560.8 557.1 624.7																																			
Fix. Chg. Cov. 465% 460% 460%																																			
ANNUAL RATES																																			
Past 10 Yrs. Past 5 Yrs. Est'd '05-'07																																			
of change (per sh)																																			
Revenues 9.0% 12.5% 1.0%																																			
"Cash Flow" 3.5% 5.0% 2.5%																																			
Earnings 2.0% 5.0% 3.5%																																			
Dividends 1.5% 1.5% 2.5%																																			
Book Value 4.0% 3.5% 5.0%																																			
Fiscal Year Ends																																			
QUARTERLY REVENUES (\$ mill.) ^A																																			
Dec.31 Mar.31 Jun.30 Sep.30 Full Fiscal Year																																			
2005 623.4 929.8 349.0 284.1 2186.3																																			
2006 902.9 1064.5 346.9 323.6 2637.9																																			
2007 732.9 1119.9 467.5 325.7 2646.0																																			
2008 751.6 1020.0 464.7 363.7 2600																																			
2009 760 1050 480 360 2650																																			
Fiscal Year Ends																																			
EARNINGS PER SHARE ^{A B}																																			
Dec.31 Mar.31 Jun.30 Sep.30 Full Fiscal Year																																			
2005 .88 1.63 d.17 d.23 2.11																																			
2006 .93 1.17 d.01 d.15 1.94																																			
2007 .92 1.27 .22 d.31 2.10																																			
2008 .96 1.66 .06 d.28 2.40																																			
2009 .97 1.50 .23 d.25 2.45																																			
Cal-endar																																			
QUARTERLY DIVIDENDS PAID ^C																																			
Mar.31 Jun.30 Sep.30 Dec.31 Full Year																																			
2004 .32 .325 .325 .325 1.30																																			
2005 .325 .333 .333 .333 1.32																																			
2006 .333 .338 .338 .338 1.34																																			
2007 .34 .34 .34 .34 1.36																																			
2008 .34 .36 .36																																			
(A) Fiscal years end Sept. 30th.																																			
(B) Based on diluted shares. Excludes non-recurring losses: '01, (13¢); '02, (34¢); '07, (4¢) discontinued operations; '06, (15¢). Next earnings report due late Oct. (C) Dividends historically paid early February, May, August, and November. (D) Dividend reinvestment plan available.																																			
(D) Includes deferred charges and intangibles. '07: \$322.2 million, \$6.51/sh.																																			
(E) In millions, adjusted for stock split.																																			
Company's Financial Strength																																			
Stock's Price Stability																																			
Price Growth Persistence																																			
Earnings Predictability																																			
To subscribe call 1-800-833-0046.																																			

BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA and MD to residential and comm'l users (1,046,201 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and pro-

vides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. American Century Inv. own 8.2% of common stock; Off./dir. less than 1% (1/08 proxy). Chrmn. & CEO: J.H. DeGraffenreid, Inc.: D.C. and VA. Addr.: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

WGL Holdings posted lower-than-expected financial results for the June period. Revenues declined a bit, as warmer-than-normal weather led to weaker demand. Too, the company's electric volumes have slowed. Its retail energy marketing segment has been seeing a shift in its business mix away from larger commercial accounts toward an increasing retail residential base. Meanwhile, its regulated utility segment experienced diminished profitability as this unit was affected by the seasonal nature of the utility operations business. In all, WGL's third-quarter results were lackluster. Still, **The company ought to register a share-net advance of roughly 14% this year.** The earnings miss in the June period was offset by a solid performance during the first half of the year. Meanwhile, the implementation of new rates in Maryland, the increase in realized margins from the asset optimization program, and the addition of over 8,000 active customer meters since last year, all stand to benefit both the top and bottom lines in the remaining months of 2008. However, the economic slowdown may be an offset-

ting factor, as consumers begin to conserve energy in an effort to save money. **In 2009, WGL will likely experience low single-digit growth in revenues and earnings.** Financial results should moderate a bit in the coming year. This trend will likely stem from the previously mentioned shift in the electric segment's customer mix. Meanwhile, the downturn in the U.S. housing and construction markets will likely continue to limit growth from new customer accounts. Too, rising commodity prices will remain an issue in the near term, as they may continue pressuring margins. However, the expansion of the company's asset management program should help offset those effects. Also, pending rate cases in Maryland ought to augur well for earnings. **These neutrally ranked shares may appeal to conservative income-oriented accounts.** The equity offers an above-average dividend yield in relation to its peers. Furthermore, investors can take comfort in the stock's top mark for Price Stability (100), and Above-Average Safety rank (1).

Bryan Fong

September 12, 2008

ATTACHMENT C

**AMERICAN STS WTR CO (NYSE)**

Scottrade

AWR 37.13 ▼ -0.65 (-1.72%) Vol. 132,434

15:18 ET

American States is a public utility company engaged principally in the purchase, production, distribution and sale of water. The company also distributes electricity in some communities. In the customer service areas for both water and electric, rates and operations are subject to the jurisdiction of the California Public Utilities Commission.

General Information

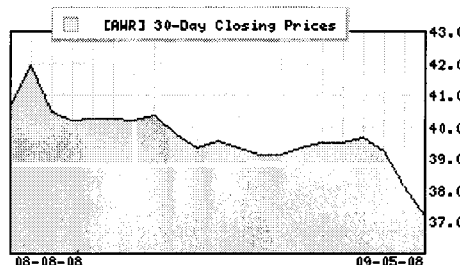
AMER STATES WTR
630 East Foothill Boulevard
San Dimas, CA 91773-1212
Phone: 909 394-3600
Fax: 909 394-0711
Web: www.gswater.com
Email: investorinfo@aswater.com

Industry: UTIL-WATER
Sector: SPLY
Utilities

Fiscal Year End: December
Last Reported Quarter: 06/30/08
Next EPS Date: 11/06/2008

Price and Volume Information

Zacks Rank:
Yesterday's Close: 37.78
52 Week High: 46.14
52 Week Low: 31.78
Beta: 0.66
20 Day Moving Average: 128,454.00
Target Price Consensus: 42.67

**% Price Change**

4 Week: -9.85
12 Week: 4.60
YTD: 0.27

% Price Change Relative to S&P 500

4 Week: -7.19
12 Week: 12.22
YTD: 16.60

Share Information

Shares Outstanding (millions): 17.25
Market Capitalization (millions): 651.86
Short Ratio: 10.63
Last Split Date: 06/10/2002

Dividend Information

Dividend Yield: 2.65%
Annual Dividend: \$1.00
Payout Ratio: 0.61
Change in Payout Ratio: -0.15
Last Dividend Payout / Amount: 08/06/2008 / \$0.25

EPS Information

Current Quarter EPS Consensus Estimate: 0.62
Current Year EPS Consensus Estimate: 1.79
Estimated Long-Term EPS Growth Rate: 10.00
Next EPS Report Date: 11/06/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.40
30 Days Ago: 2.25
60 Days Ago: 2.00
90 Days Ago: 2.00

Fundamental Ratios**P/E**

Current FY Estimate: 21.17
Trailing 12 Months: 23.18
PEG Ratio: 2.12

EPS Growth

vs. Previous Year: 28.57%
vs. Previous Quarter: 80.00%

Sales Growth

vs. Previous Year: 1.35%
vs. Previous Quarter: 16.49%

Price Ratios

Price/Book: 2.11 06/30/08

ROE**ROA**

9.33 06/30/08 2.90

Price/Cash Flow	11.72	03/31/08	8.81	03/31/08	2.73
Price / Sales	2.18	12/31/07	8.98	12/31/07	2.76
Current Ratio			Quick Ratio		Operating Margin
06/30/08	0.59	06/30/08	0.57	06/30/08	9.47
03/31/08	0.58	03/31/08	0.56	03/31/08	8.84
12/31/07	0.67	12/31/07	0.65	12/31/07	8.79
Net Margin			Pre-Tax Margin		Book Value
06/30/08	16.35	06/30/08	16.35	06/30/08	17.93
03/31/08	15.56	03/31/08	15.56	03/31/08	17.60
12/31/07	16.20	12/31/07	16.20	12/31/07	17.57
Inventory Turnover			Debt-to-Equity		Debt to Captial
06/30/08	59.45	06/30/08	0.86	06/30/08	46.35
03/31/08	58.96	03/31/08	0.88	03/31/08	46.82
12/31/07	57.63	12/31/07	0.88	12/31/07	46.94

**CALIFORNIA WTR SVC GROUP (NYSE)****Scottrade**

CWT	38.68	▼-0.06	(-0.15%)	Vol. 105,928	15:24 ET
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California Water Service Company's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. It also provides water related services under agreements with municipalities and other private companies. The nonregulated services include full water system operation, and billing and meter reading services.


General Information

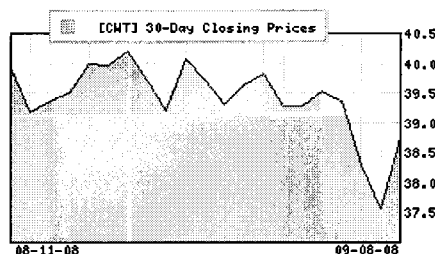
CALIF WATER SVC
 1720 North First Street
 San Jose, CA 95112
 Phone: 408 367-8200
 Fax: 408 437-9185
 Web: www.calwatergroup.com
 Email: klichtenbergl@calwater.com

Industry: UTIL-WATER
 SPLY
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 06/30/08
 Next EPS Date: 11/05/2008

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 38.74
 52 Week High: 44.50
 52 Week Low: 30.84
 Beta: 1.26
 20 Day Moving Average: 137,703.30
 Target Price Consensus: 43

**% Price Change**

4 Week	-2.98
12 Week	5.59
YTD	4.65

% Price Change Relative to S&P 500

4 Week	-0.11
12 Week	13.28
YTD	19.92

Share Information

Shares Outstanding (millions)	20.72
Market Capitalization (millions)	802.58
Short Ratio	10.24
Last Split Date	01/26/1998

Dividend Information

Dividend Yield	3.02%
Annual Dividend	\$1.17
Payout Ratio	0.80
Change in Payout Ratio	-0.06
Last Dividend Payout / Amount	07/31/2008 / \$0.29

EPS Information

Current Quarter EPS Consensus Estimate	0.79
Current Year EPS Consensus Estimate	1.67
Estimated Long-Term EPS Growth Rate	9.30
Next EPS Report Date	11/05/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	1.67
30 Days Ago	1.40
60 Days Ago	1.33
90 Days Ago	1.57

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 23.20	vs. Previous Year: 29.73%	vs. Previous Year: 10.23%
Trailing 12 Months: 26.35	vs. Previous Quarter: 4,700.00%	vs. Previous Quarter: 44.79%
PEG Ratio: 2.51		

Price Ratios		ROE		ROA		
Price/Book	2.08	06/30/08		7.95	06/30/08	2.53
Price/Cash Flow	14.07	03/31/08		7.39	03/31/08	2.37
Price / Sales	2.12	12/31/07		7.80	12/31/07	2.51
Current Ratio		Quick Ratio		Operating Margin		
06/30/08	0.61	06/30/08		0.57	06/30/08	8.05
03/31/08	0.65	03/31/08		0.59	03/31/08	7.62
12/31/07	-	12/31/07		-	12/31/07	8.03
Net Margin		Pre-Tax Margin		Book Value		
06/30/08	-	06/30/08		-	06/30/08	18.60
03/31/08	-	03/31/08		-	03/31/08	18.38
12/31/07	-	12/31/07		-	12/31/07	-
Inventory Turnover		Debt-to-Equity		Debt to Capital		
06/30/08	-	06/30/08		0.75	06/30/08	42.57
03/31/08	-	03/31/08		0.76	03/31/08	42.94
12/31/07	-	12/31/07		-	12/31/07	

**SOUTHWEST WTR CO (NASD)**

Scottrade

SWWC	10.90	▼ -0.10	(-0.91%)	Vol. 54,796	15:25 ET
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Southwest Water Company provides a broad range of utility and utility management services and serves people from coast to coast. Through its various subsidiaries, Southwest operates and manages water and wastewater treatment facilities along with providing utility submetering and billing and collection services.

General Information**SOUTHWEST WATER**

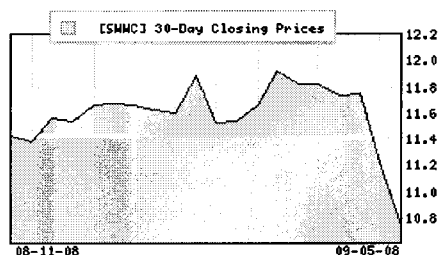
One Wilshire Building 624 South Grand Avenue
Suite 2900
Los Angeles, CA 90017-3782
Phone: 213 929-1800
Fax: 626-915-1558
Web: www.southwestwater.com
Email: swwc@swwc.com

Industry	UTIL-WATER
Sector:	SPLY
	Utilities

Fiscal Year End	December
Last Reported Quarter	06/30/08
Next EPS Date	11/07/2008

Price and Volume Information

Zacks Rank	
Yesterday's Close	11.00
52 Week High	13.88
52 Week Low	9.41
Beta	0.50
20 Day Moving Average	82,427.25
Target Price Consensus	12

**% Price Change**

4 Week	-3.76
12 Week	5.26
YTD	-12.14

% Price Change Relative to S&P 500

4 Week	-0.91
12 Week	12.93
YTD	1.30

Share Information

Shares Outstanding (millions)	24.59
Market Capitalization (millions)	270.51
Short Ratio	21.08
Last Split Date	12/28/2005

Dividend Information

Dividend Yield	2.18%
Annual Dividend	\$0.24
Payout Ratio	1.09
Change in Payout Ratio	0.46
Last Dividend Payout / Amount	06/26/2008 / \$0.06

EPS Information

Current Quarter EPS Consensus Estimate	0.13
Current Year EPS Consensus Estimate	0.30
Estimated Long-Term EPS Growth Rate	8.50
Next EPS Report Date	11/07/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.50
30 Days Ago	2.50
60 Days Ago	3.00
90 Days Ago	3.00

Fundamental Ratios**P/E**

Current FY Estimate:	36.97
Trailing 12 Months:	50.00
PEG Ratio	4.35

EPS Growth

vs. Previous Year	-55.56%
vs. Previous Quarter	500.00%

Sales Growth

vs. Previous Year	3.80%
vs. Previous Quarter:	12.42%

Price Ratios**ROE****ROA**

Price/Book	1.72	06/30/08	3.39	06/30/08	1.03
Price/Cash Flow	13.45	03/31/08	4.13	03/31/08	1.30
Price / Sales	1.22	12/31/07	4.62	12/31/07	1.51
Current Ratio		Quick Ratio		Operating Margin	
06/30/08	1.82	06/30/08	1.82	06/30/08	2.45
03/31/08	1.65	03/31/08	1.65	03/31/08	3.08
12/31/07	1.33	12/31/07	1.33	12/31/07	3.55
Net Margin		Pre-Tax Margin		Book Value	
06/30/08	-3.43	06/30/08	-3.43	06/30/08	6.41
03/31/08	-2.54	03/31/08	-2.54	03/31/08	6.51
12/31/07	-1.94	12/31/07	-1.94	12/31/07	6.55
Inventory Turnover		Debt-to-Equity		Debt to Captial	
06/30/08	-	06/30/08	1.22	06/30/08	54.91
03/31/08	-	03/31/08	1.15	03/31/08	53.49
12/31/07	-	12/31/07	0.92	12/31/07	47.73



AQUA AMERICA INC (NYSE)					Scottrade
WTR	17.26	▼-0.11	(-0.63%)	Vol. 1,062,185	15:28 ET

Aqua America is the largest publicly-traded U.S.-based water utility serving residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. The company has been committed to the preservation and improvement of the environment throughout its history, which spans more than 100 years.


General Information

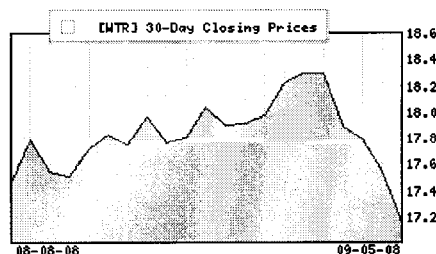
AQUA AMER INC
762 W Lancaster Avenue
Bryn Mawr, PA 19010-3489
Phone: 610 527-8000
Fax: 610-645-1061
Web: www.suburbanwater.com
Email: ir.aquaamerica.com

Industry: UTIL-WATER
SPLY
Sector: Utilities

Fiscal Year End: December
Last Reported Quarter: 06/30/08
Next EPS Date: 11/05/2008

Price and Volume Information

Zacks Rank 
Yesterday's Close: 17.37
52 Week High: 25.10
52 Week Low: 14.46
Beta: 0.67
20 Day Moving Average: 796,566.88
Target Price Consensus: 22.25



% Price Change

4 Week: -2.36
12 Week: 3.09
YTD: -18.07

% Price Change Relative to S&P 500

4 Week: 0.53
12 Week: 10.60
YTD: -4.38

Share Information

Shares Outstanding (millions): 134.86
Market Capitalization (millions): 2,342.52
Short Ratio: 13.84
Last Split Date: 12/02/2005

Dividend Information

Dividend Yield: 2.88%
Annual Dividend: \$0.50
Payout Ratio: 0.72
Change in Payout Ratio: 0.10
Last Dividend Payout / Amount: 08/14/2008 / \$0.13

EPS Information

Current Quarter EPS Consensus Estimate: 0.24
Current Year EPS Consensus Estimate: 0.73
Estimated Long-Term EPS Growth Rate: 8.80
Next EPS Report Date: 11/05/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 1.89
30 Days Ago: 2.00
60 Days Ago: 2.00
90 Days Ago: 2.00

Fundamental Ratios

P/E

Current FY Estimate: 23.75
Trailing 12 Months: 25.17
PEG Ratio: 2.70

EPS Growth

vs. Previous Year: -5.56%
vs. Previous Quarter: 54.55%

Sales Growth

vs. Previous Year: 0.08%
vs. Previous Quarter: 8.23%

Price Ratios

ROE

ROA

Price/Book	2.27	06/30/08	9.26	06/30/08	2.84
Price/Cash Flow	12.65	03/31/08	9.57	03/31/08	2.92
Price / Sales	3.87	12/31/07	9.97	12/31/07	3.05
Current Ratio		Quick Ratio		Operating Margin	
06/30/08	0.73	06/30/08	0.67	06/30/08	15.10
03/31/08	0.63	03/31/08	0.57	03/31/08	15.30
12/31/07	0.63	12/31/07	0.58	12/31/07	15.77
Net Margin		Pre-Tax Margin		Book Value	
06/30/08	24.80	06/30/08	24.80	06/30/08	7.65
03/31/08	25.08	03/31/08	25.08	03/31/08	7.35
12/31/07	25.82	12/31/07	25.82	12/31/07	7.33
Inventory Turnover		Debt-to-Equity		Debt to Captial	
06/30/08	0.00	06/30/08	1.19	06/30/08	54.30
03/31/08	0.00	03/31/08	1.24	03/31/08	55.35
12/31/07	0.00	12/31/07	1.24	12/31/07	55.49



AGL RES INC (NYSE)					Scottrade
ATG	32.23	▼ -0.39	(-1.20%)	Vol. 424,605	15:39 ET

AGL Resources principal business is the distribution of natural gas to customers in central, northwest, northeast and southeast Georgia and the Chattanooga, Tennessee area through its natural gas distribution subsidiary. AGL's major service area is the ten county metropolitan Atlanta area.


General Information

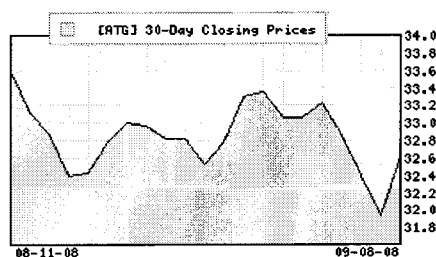
AGL RESOURCES
 Ten Peachtree Place NE
 Atlanta, GA 30309
 Phone: 404 584-4000
 Fax: 404 584-3945
 Web: www.aglresources.com
 Email: scave@aglresources.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 06/30/08
 Next EPS Date: 11/06/2008

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 32.62
 52 Week High: 41.16
 52 Week Low: 31.37
 Beta: 0.33
 20 Day Moving Average: 472,252.34
 Target Price Consensus: 39.79



% Price Change

4 Week: -2.92
 12 Week: -4.28
 YTD: -13.34

% Price Change Relative to S&P 500

4 Week: -0.04
 12 Week: 2.69
 YTD: 0.30

Share Information

Shares Outstanding (millions): 76.67
 Market Capitalization (millions): 2,501.01
 Short Ratio: 2.13
 Last Split Date: 12/04/1995

Dividend Information

Dividend Yield: 5.15%
 Annual Dividend: \$1.68
 Payout Ratio: 0.67
 Change in Payout Ratio: 0.11
 Last Dividend Payout / Amount: 08/13/2008 / \$0.42

EPS Information

Current Quarter EPS Consensus Estimate: 0.36
 Current Year EPS Consensus Estimate: 2.75
 Estimated Long-Term EPS Growth Rate: 4.80
 Next EPS Report Date: 11/06/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.14
 30 Days Ago: 2.14
 60 Days Ago: 2.11
 90 Days Ago: 2.00

Fundamental Ratios

P/E

Current FY Estimate: 11.87
 Trailing 12 Months: 13.10
 PEG Ratio: 2.50

EPS Growth

vs. Previous Year: -25.00%
 vs. Previous Quarter: -74.14%

Sales Growth

vs. Previous Year: -4.93%
 vs. Previous Quarter: -56.13%

Price Ratios

Price/Book: 1.48 06/30/08

ROE

11.42 06/30/08

ROA

3.08

Price/Cash Flow	7.04	03/31/08	11.86	03/31/08	3.29
Price / Sales	1.00	12/31/07	12.72	12/31/07	3.57
Current Ratio			Quick Ratio		Operating Margin
06/30/08	1.03	06/30/08	0.67	06/30/08	7.61
03/31/08	1.01	03/31/08	0.80	03/31/08	7.82
12/31/07	1.10	12/31/07	0.77	12/31/07	8.46
Net Margin			Pre-Tax Margin		Book Value
06/30/08	9.96	06/30/08	9.96	06/30/08	22.03
03/31/08	12.52	03/31/08	12.52	03/31/08	22.52
12/31/07	13.55	12/31/07	13.55	12/31/07	21.69
Inventory Turnover			Debt-to-Equity		Debt to Captial
06/30/08	2.60	06/30/08	0.97	06/30/08	49.78
03/31/08	2.64	03/31/08	0.88	03/31/08	47.34
12/31/07	2.49	12/31/07	1.01	12/31/07	50.89



ATMOS ENERGY CORP (NYSE)				Scottrade	
ATO	26.12	▼-0.39	(-1.47%)	Vol. 399,473	15:42 ET

Atmos Energy Corporation distributes and sells natural gas to residential, commercial, industrial, agricultural and other customers. Atmos operates through five divisions in cities, towns and communities in service areas located in Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Missouri, South Carolina, Tennessee, Texas and Virginia. The Company has entered into an agreement to sell all of its natural gas utility operations in South Carolina. The Company also transports natural gas for others through its distribution system.

General Information


ATMOS ENERGY CP

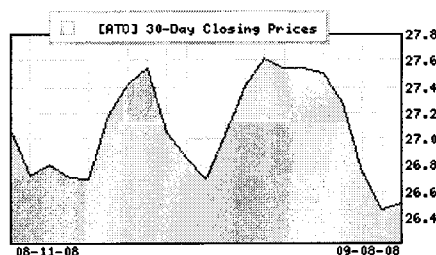
Three Lincoln Centre, 5430 Lbj Freeway
Suite 1800
Dallas, TX 75240
Phone: 972 934-9227
Fax: 972 855-3040
Web: www.atmosenergy.com
Email: InvestorRelations@atmosenergy.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: September
Last Reported Quarter: 06/30/08
Next EPS Date: 11/05/2008

Price and Volume Information

Zacks Rank 
Yesterday's Close: 26.51
52 Week High: 29.63
52 Week Low: 25.00
Beta: 0.61
20 Day Moving Average: 361,637.00
Target Price Consensus: 28.83



% Price Change

4 Week: -2.10
12 Week: -0.60
YTD: -5.46

% Price Change Relative to S&P 500

4 Week: 0.79
12 Week: 6.64
YTD: 11.54

Share Information

Shares Outstanding (millions): 90.63
Market Capitalization (millions): 2,402.55
Short Ratio: 5.64
Last Split Date: 05/17/1994

Dividend Information

Dividend Yield: 4.90%
Annual Dividend: \$1.30
Payout Ratio: 0.67
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: 08/21/2008 / \$0.32

EPS Information

Current Quarter EPS Consensus Estimate: -0.04
Current Year EPS Consensus Estimate: 1.97
Estimated Long-Term EPS Growth Rate: 5.40
Next EPS Report Date: 11/05/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.50
30 Days Ago: 2.30
60 Days Ago: 2.30
90 Days Ago: 2.30

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 13.47	vs. Previous Year: 53.33%	vs. Previous Year: 34.56%
Trailing 12 Months: 13.60	vs. Previous Quarter: -105.65%	vs. Previous Quarter: -34.01%
PEG Ratio: 2.48		

Price Ratios		ROE		ROA	
Price/Book	1.14	06/30/08		8.50	06/30/08
Price/Cash Flow	6.36	03/31/08		8.29	03/31/08
Price / Sales	0.35	12/31/07		8.14	12/31/07
Current Ratio		Quick Ratio		Operating Margin	
06/30/08	1.20	06/30/08		0.71	06/30/08
03/31/08	1.22	03/31/08		0.87	03/31/08
12/31/07	1.14	12/31/07		0.72	12/31/07
Net Margin		Pre-Tax Margin		Book Value	
06/30/08	3.92	06/30/08		3.92	06/30/08
03/31/08	4.00	03/31/08		4.00	03/31/08
12/31/07	4.22	12/31/07		4.22	12/31/07
Inventory Turnover		Debt-to-Equity		Debt to Capital	
06/30/08	10.64	06/30/08		1.01	06/30/08
03/31/08	10.40	03/31/08		1.00	03/31/08
12/31/07	9.87	12/31/07		1.05	12/31/07



LACLEDE GROUP INC (NYSE)					Scottrade
LG	44.01	▼-0.21	(-0.47%)	Vol. 218,777	15:50 ET

The Laclede Group, Inc. is a public utility engaged in the retail distribution and transportation of natural gas. The Company, which is subject to the jurisdiction of the Missouri Public Service Commission, serves the City of St. Louis, St. Louis County, the City of St. Charles, St. Charles County, the town of Arnold, and parts of Franklin, Jefferson, St. Francois, Ste. Genevieve, Iron, Madison and Butler Counties, all in Missouri.

General Information

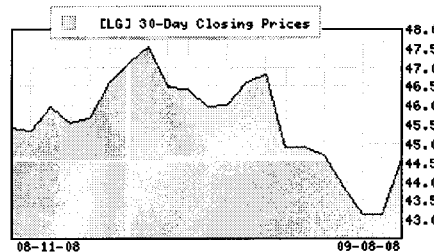
LACLEDE GRP INC
 720 Olive Street
 St. Louis, MO 63101
 Phone: 314-342-0500
 Fax: -
 Web: www.thelacledgroup.com
 Email: mkullman@lacledegas.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Reported Quarter: 06/30/08
 Next EPS Date: 10/24/2008

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 44.22
 52 Week High: 47.98
 52 Week Low: 30.60
 Beta: 0.65
 20 Day Moving Average: 203,131.05
 Target Price Consensus: N/A



% Price Change

4 Week: -1.78
 12 Week: 11.31
 YTD: 30.26

% Price Change Relative to S&P 500

4 Week: 1.12
 12 Week: 19.41
 YTD: 48.88

Share Information

Shares Outstanding (millions): 21.97
 Market Capitalization (millions): 979.95
 Short Ratio: 14.97
 Last Split Date: 03/08/1994

Dividend Information

Dividend Yield: 3.36%
 Annual Dividend: \$1.50
 Payout Ratio: 0.53
 Change in Payout Ratio: -0.14
 Last Dividend Payout / Amount: 06/09/2008 / \$0.38

EPS Information

Current Quarter EPS Consensus Estimate: -0.08
 Current Year EPS Consensus Estimate: 2.45
 Estimated Long-Term EPS Growth Rate: 10.00
 Next EPS Report Date: 10/24/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.67
 30 Days Ago: 3.00
 60 Days Ago: 3.00
 90 Days Ago: 3.00

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 18.20	vs. Previous Year: -2.33%	vs. Previous Year: 10.39%
Trailing 12 Months: 15.87	vs. Previous Quarter: -69.78%	vs. Previous Quarter: -32.39%
PEG Ratio: 1.82		
Price Ratios	ROE	ROA
Price/Book: 2.02	06/30/08: 13.24	06/30/08: 3.65

Price/Cash Flow	10.96	03/31/08	13.64	03/31/08	3.69
Price / Sales	0.46	12/31/07	11.91	12/31/07	3.20
Current Ratio		Quick Ratio		Operating Margin	
06/30/08	1.32	06/30/08	0.98	06/30/08	2.86
03/31/08	1.29	03/31/08	1.16	03/31/08	2.94
12/31/07	1.02	12/31/07	0.73	12/31/07	2.55
Net Margin		Pre-Tax Margin		Book Value	
06/30/08	4.21	06/30/08	4.21	06/30/08	22.13
03/31/08	4.41	03/31/08	4.41	03/31/08	22.06
12/31/07	3.84	12/31/07	3.84	12/31/07	20.32
Inventory Turnover		Debt-to-Equity		Debt to Captial	
06/30/08	14.15	06/30/08	0.64	06/30/08	39.01
03/31/08	14.24	03/31/08	0.74	03/31/08	42.49
12/31/07	13.60	12/31/07	0.81	12/31/07	44.63

**NEW JERSEY RES (NYSE)**

Scottrade

NJR **35.76** ▼ **-0.14** **(-0.39%)** Vol. 277,651

15:52 ET

NJ RESOURCES is an exempt energy svcs holding company providing retail & wholesale natural gas & related energy services to customers from the Gulf Coast to New England. Subsidiaries include: (1) N J Natural Gas Co, a natural gas distribution company that provides regulated energy & appliance services to residential, commercial & industrial customers in central & northern N J. (2) NJR Energy Holdings Corp formerly NJR Energy Svcs Corp & (3) NJR Development Corp, a sub-holding company of NJR, which includes the Company's remaining unregulated operating subsidiaries.


General Information

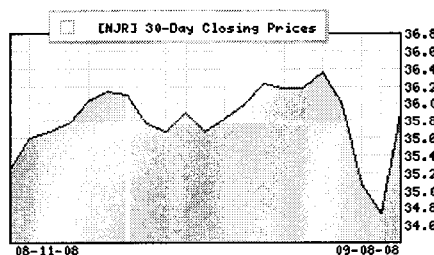
NJ RESOURCES
 1415 Wyckoff Road
 Wall, NJ 07719
 Phone: 732 938-1480
 Fax: 732 938-3154
 Web: www.njresources.com
 Email: investcont@njresources.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Reported Quarter: 06/30/08
 Next EPS Date: 11/13/2008

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 35.90
 52 Week High: 37.00
 52 Week Low: 29.22
 Beta: 0.53
 20 Day Moving Average: 272,222.84
 Target Price Consensus: 35.5

**% Price Change**

4 Week: 1.84
 12 Week: 7.10
 YTD: 7.66

% Price Change Relative to S&P 500

4 Week: 4.86
 12 Week: 14.90
 YTD: 23.14

Share Information

Shares Outstanding (millions): 42.03
 Market Capitalization (millions): 1,509.02
 Short Ratio: 15.32
 Last Split Date: 03/04/2008

Dividend Information

Dividend Yield: 3.12%
 Annual Dividend: \$1.12
 Payout Ratio: 0.50
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 06/11/2008 / \$0.28

EPS Information

Current Quarter EPS Consensus Estimate: -0.41
 Current Year EPS Consensus Estimate: 2.19
 Estimated Long-Term EPS Growth Rate: 8.00
 Next EPS Report Date: 11/13/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.33
 30 Days Ago: 2.33
 60 Days Ago: 2.00
 90 Days Ago: 2.00

Fundamental Ratios**P/E**

Current FY Estimate: 16.39
 Trailing 12 Months: 15.89
 PEG Ratio: 2.05

EPS Growth

vs. Previous Year: 16.39
 vs. Previous Quarter: 15.89

Sales Growth

vs. Previous Year: 16.67%
 vs. Previous Quarter: -105.38%

Price Ratios		ROE		ROA		
Price/Book	2.29	06/30/08		14.36	06/30/08	3.94
Price/Cash Flow	14.84	03/31/08		14.16	03/31/08	4.09
Price / Sales	0.42	12/31/07		14.64	12/31/07	4.26
Current Ratio		Quick Ratio		Operating Margin		
06/30/08	1.15	06/30/08		0.79	06/30/08	2.65
03/31/08	1.10	03/31/08		0.81	03/31/08	2.89
12/31/07	1.12	12/31/07		0.63	12/31/07	3.12
Net Margin		Pre-Tax Margin		Book Value		
06/30/08	-0.40	06/30/08		-0.40	06/30/08	15.69
03/31/08	-0.40	03/31/08		-0.40	03/31/08	16.04
12/31/07	3.42	12/31/07		3.42	12/31/07	16.07
Inventory Turnover		Debt-to-Equity		Debt to Capital		
06/30/08	8.90	06/30/08		0.73	06/30/08	42.27
03/31/08	7.87	03/31/08		0.53	03/31/08	34.78
12/31/07	6.88	12/31/07		0.54	12/31/07	34.93

**NICOR INC (NYSE)****Scottrade**
GAS **46.04** ▼-0.04 (-0.09%) Vol. 1,327,056

15:54 ET

Nicor Inc. is a holding company and is a member of the Standard & Poor's 500 Index. Its primary business is Nicor Gas, one of the nation's largest natural gas distribution companies. Nicor owns Tropical Shipping, a containerized shipping business serving the Caribbean region and the Bahamas. In addition, the company owns and has an equity interest in several energy-related businesses.


General Information

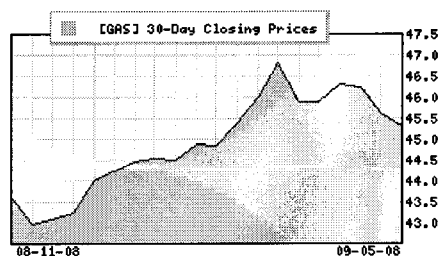
NICOR INC
 1844 Ferry Road
 Naperville, IL 60563-9600
 Phone: 630-305-9500
 Fax: 630-983-9328
 Web: www.nicor.com
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 06/30/08
 Next EPS Date: 11/06/2008

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 46.08
 52 Week High: 46.84
 52 Week Low: 32.35
 Beta: 0.55
 20 Day Moving Average: 599,842.75
 Target Price Consensus: 41.56

**% Price Change**

4 Week: 5.69
 12 Week: 7.49
 YTD: 8.81

% Price Change Relative to S&P 500

4 Week: 8.82
 12 Week: 15.32
 YTD: 26.40

Share Information

Shares Outstanding (millions): 45.15
 Market Capitalization (millions): 2,080.47
 Short Ratio: 9.04
 Last Split Date: 04/27/1993

Dividend Information

Dividend Yield: 4.04%
 Annual Dividend: \$1.86
 Payout Ratio: 0.57
 Change in Payout Ratio: -0.19
 Last Dividend Payout / Amount: 06/26/2008 / \$0.47

EPS Information

Current Quarter EPS Consensus Estimate: 0.14
 Current Year EPS Consensus Estimate: 2.37
 Estimated Long-Term EPS Growth Rate: 5.80
 Next EPS Report Date: 11/06/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 3.25
 30 Days Ago: 3.50
 60 Days Ago: 3.33
 90 Days Ago: 3.20

Fundamental Ratios**P/E**

Current FY Estimate: 19.47
 Trailing 12 Months: 14.91
 PEG Ratio: 3.39

EPS Growth

vs. Previous Year: 60.00%
 vs. Previous Quarter: -29.67%

Sales Growth

vs. Previous Year: 25.66%
 vs. Previous Quarter: -56.14%

Price Ratios

Price/Book: 2.11 06/30/08

ROE**ROA**

14.73 06/30/08 3.25

Price/Cash Flow	6.60	03/31/08	13.83	03/31/08	3.11
Price / Sales	0.58	12/31/07	14.12	12/31/07	3.21
Current Ratio			Quick Ratio		Operating Margin
06/30/08	0.80	06/30/08	0.75	06/30/08	3.92
03/31/08	0.80	03/31/08	0.78	03/31/08	3.76
12/31/07	0.80	12/31/07	0.68	12/31/07	4.09
Net Margin			Pre-Tax Margin		Book Value
06/30/08	5.27	06/30/08	5.27	06/30/08	21.81
03/31/08	5.07	03/31/08	5.07	03/31/08	21.53
12/31/07	5.80	12/31/07	5.80	12/31/07	20.95
Inventory Turnover			Debt-to-Equity		Debt to Capital
06/30/08	24.11	06/30/08	0.38	06/30/08	27.46
03/31/08	24.66	03/31/08	0.38	03/31/08	27.71
12/31/07	22.95	12/31/07	0.45	12/31/07	30.89

**NORTHWEST NAT GAS CO (NYSE)****Scottrade**

NWN	48.46	▼ -0.26	(-0.53%)	Vol. 180,771	15:57 ET
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NW Natural is principally engaged in the distribution of natural gas. The Oregon Public Utility Commission (OPUC) has allocated to NW Natural as its exclusive service area a major portion of western Oregon, including the Portland metropolitan area, most of the fertile Willamette Valley and the coastal area from Astoria to Coos Bay. NW Natural also holds certificates from the Washington Utilities and Transportation Commission (WUTC) granting it exclusive rights to serve portions of three Washington counties bordering the Columbia River.


General Information**NORTHWEST NAT G**

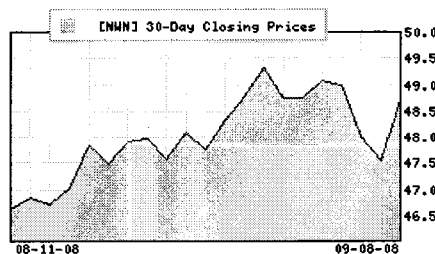
220 NW Second Avenue
Portland, OR 97209
Phone: 503 226-4211
Fax: 503 273-4824
Web: www.nwnatural.com
Email: Bob.Hess@nwnatural.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: December
Last Reported Quarter: 06/30/08
Next EPS Date: 11/06/2008

Price and Volume Information

Zacks Rank 
Yesterday's Close: 48.72
52 Week High: 50.89
52 Week Low: 41.07
Beta: 0.64
20 Day Moving Average: 126,548.10
Target Price Consensus: 52

**% Price Change**

4 Week	4.53
12 Week	5.02
YTD	0.12

% Price Change Relative to S&P 500

4 Week	7.62
12 Week	12.67
YTD	15.48

Share Information

Shares Outstanding (millions)	26.43
Market Capitalization (millions)	1,287.91
Short Ratio	14.30
Last Split Date	09/09/1996

Dividend Information

Dividend Yield	3.08%
Annual Dividend	\$1.50
Payout Ratio	0.57
Change in Payout Ratio	-0.07
Last Dividend Payout / Amount	07/29/2008 / \$0.38

EPS Information

Current Quarter EPS Consensus Estimate	-0.28
Current Year EPS Consensus Estimate	2.58
Estimated Long-Term EPS Growth Rate	6.50
Next EPS Report Date	11/06/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	1.80
30 Days Ago	1.80
60 Days Ago	2.00
90 Days Ago	2.00

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 18.88	vs. Previous Year	20.00% vs. Previous Year
Trailing 12 Months: 18.39	vs. Previous Quarter	-92.64% vs. Previous Quarter
PEG Ratio: 2.91		

Price Ratios**ROE****ROA**

Price/Book	2.06	06/30/08	11.55	06/30/08	3.56
Price/Cash Flow	9.02	03/31/08	11.51	03/31/08	3.57
Price / Sales	1.24	12/31/07	12.31	12/31/07	3.87
Current Ratio			Quick Ratio		Operating Margin
06/30/08	0.65	06/30/08	0.49	06/30/08	6.79
03/31/08	0.76	03/31/08	0.65	03/31/08	6.78
12/31/07	0.71	12/31/07	0.50	12/31/07	7.21
Net Margin			Pre-Tax Margin		Book Value
06/30/08	10.81	06/30/08	10.81	06/30/08	23.64
03/31/08	10.80	03/31/08	10.80	03/31/08	23.83
12/31/07	11.47	12/31/07	11.47	12/31/07	22.48
Inventory Turnover			Debt-to-Equity		Debt to Capital
06/30/08	10.39	06/30/08	0.82	06/30/08	45.05
03/31/08	9.50	03/31/08	0.81	03/31/08	44.86
12/31/07	9.07	12/31/07	0.86	12/31/07	46.26

**PIEDMONT NAT GAS INC (NYSE)****Scottrade**

PNY	28.95	▲ 0.54	(1.90%)	Vol. 665,486	15:59 ET
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Piedmont Natural Gas Co, Inc., is an energy and services company engaged in the transportation and sale of natural gas and the sale of propane to residential, commercial and industrial customers in North Carolina, South Carolina and Tennessee. The Company is the second-largest natural gas utility in the southeast. The Company and its non-utility subsidiaries and divisions are also engaged in acquiring, marketing and arranging for the transportation and storage of natural gas for large-volume purchasers, and in the sale of propane to customers in the Company's three-state service area.

General Information**PIEDMONT NAT GA**

4720 Piedmont Row Drive

Charlotte, NC 28210

Phone: 704-364-3120

Fax: 704-365-3849

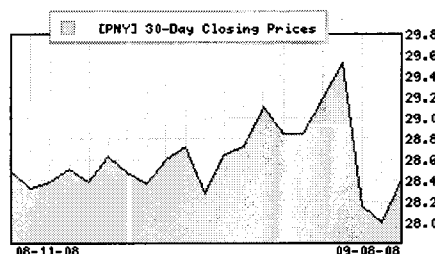
Web: www.piedmontng.comEmail: margaret.griffith@piedmontng.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	October
Last Reported Quarter	07/31/08
Next EPS Date	12/26/2008

Price and Volume Information

Zacks Rank	
Yesterday's Close	28.41
52 Week High	29.74
52 Week Low	24.01
Beta	0.51
20 Day Moving Average	331,389.00
Target Price Consensus	28.6

**% Price Change**

4 Week	-0.28
12 Week	4.99
YTD	8.60

% Price Change Relative to S&P 500

4 Week	2.67
12 Week	12.64
YTD	26.51

Share Information

Shares Outstanding (millions)	73.38
Market Capitalization (millions)	2,084.64
Short Ratio	22.66
Last Split Date	11/01/2004

Dividend Information

Dividend Yield	3.66%
Annual Dividend	\$1.04
Payout Ratio	0.00
Change in Payout Ratio	0.00
Last Dividend Payout / Amount	06/23/2008 / \$0.26

EPS Information

Current Quarter EPS Consensus Estimate	-0.13
Current Year EPS Consensus Estimate	1.51
Estimated Long-Term EPS Growth Rate	5.60
Next EPS Report Date	12/26/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.20
30 Days Ago	1.80
60 Days Ago	2.14
90 Days Ago	2.57

Fundamental Ratios**P/E**

Current FY Estimate:	18.83
Trailing 12 Months:	18.10
PEG Ratio	3.36

EPS Growth

vs. Previous Year	16.67%
vs. Previous Quarter	-115.15%

Sales Growth

vs. Previous Year	58.04%
vs. Previous Quarter:	-44.07%

Price Ratios		ROE		ROA	
Price/Book	2.19	07/31/08		-	07/31/08
Price/Cash Flow	10.64	04/30/08		12.43	04/30/08
Price / Sales	1.01	01/31/08		12.80	01/31/08
					4.10
Current Ratio		Quick Ratio		Operating Margin	
07/31/08	-	07/31/08		-	07/31/08
04/30/08	1.19	04/30/08		1.19	04/30/08
01/31/08	1.04	01/31/08		0.83	01/31/08
					5.89
					6.36
Net Margin		Pre-Tax Margin		Book Value	
07/31/08	-	07/31/08		-	07/31/08
04/30/08	8.04	04/30/08		8.04	04/30/08
01/31/08	10.44	01/31/08		10.44	01/31/08
					12.96
					12.57
Inventory Turnover		Debt-to-Equity		Debt to Capital	
07/31/08	-	07/31/08		-	07/31/08
04/30/08	12.87	04/30/08		0.87	04/30/08
01/31/08	9.41	01/31/08		0.90	01/31/08
					46.44
					47.24

**SOUTH JERSEY INDS INC (NYSE)**

Scottrade

SJI 34.85 ▲ 0.03 (0.09%) Vol. 42,338

11:39 ET

South Jersey Inds Inc. is engaged in the business of operating, through subsidiaries, various business enterprises. The company's most significant subsidiary is South Jersey Gas Company (SJG). SJG is a public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also makes off-system sales of natural gas on a wholesale basis to various customers on the interstate pipeline system and transports natural gas.


General Information

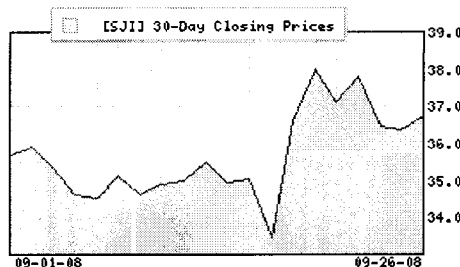
SOUTH JERSEY IN
 1 South Jersey Plaza
 Folsom, NJ 08037
 Phone: 609 561-9000
 Fax: 609 561-8225
 Web: www.sjindustries.com
 Email: sharehd@sjindustries.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 09/30/08
 Next EPS Date: 11/06/2008

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 34.82
 52 Week High: 39.36
 52 Week Low: 31.90
 Beta: 0.54
 20 Day Moving Average: 257,733.84
 Target Price Consensus: 40.33

**% Price Change**

4 Week: -2.38
 12 Week: -3.87
 YTD: -3.52

% Price Change Relative to S&P 500

4 Week: 13.18
 12 Week: 8.81
 YTD: 23.26

Share Information

Shares Outstanding (millions): 29.73
 Market Capitalization (millions): 1,035.16
 Short Ratio: 11.15
 Last Split Date: 07/01/2005

Dividend Information

Dividend Yield: 3.10%
 Annual Dividend: \$1.08
 Payout Ratio: 0.50
 Change in Payout Ratio: -0.03
 Last Dividend Payout / Amount: 09/08/2008 / \$0.27

EPS Information

Current Quarter EPS Consensus Estimate: 0.09
 Current Year EPS Consensus Estimate: 2.30
 Estimated Long-Term EPS Growth Rate: 7.80
 Next EPS Report Date: 11/06/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.60
 30 Days Ago: 2.60
 60 Days Ago: 1.80
 90 Days Ago: 1.67

Fundamental Ratios**P/E**

Current FY Estimate: 15.14
 Trailing 12 Months: 16.12
 PEG Ratio: 1.95

EPS Growth

vs. Previous Year: 23.81%
 vs. Previous Quarter: -80.30%

Sales Growth

vs. Previous Year: -20.87%
 vs. Previous Quarter: -60.97%

Price Ratios**ROE****ROA**

Price/Book	2.16	06/30/08	13.31	06/30/08	4.16
Price/Cash Flow	10.88	03/31/08	13.08	03/31/08	4.14
Price / Sales	1.15	12/31/07	10.75	12/31/07	3.36
Current Ratio			Quick Ratio		Operating Margin
06/30/08	0.92	06/30/08	0.61	06/30/08	7.13
03/31/08	1.11	03/31/08	1.11	03/31/08	6.71
12/31/07	1.00	12/31/07	0.61	12/31/07	5.30
Net Margin			Pre-Tax Margin		Book Value
06/30/08	6.62	06/30/08	6.62	06/30/08	16.13
03/31/08	10.75	03/31/08	10.75	03/31/08	16.74
12/31/07	10.96	12/31/07	10.96	12/31/07	16.27
Inventory Turnover			Debt-to-Equity		Debt to Capital
06/30/08	7.05	06/30/08	0.69	06/30/08	41.06
03/31/08	6.80	03/31/08	0.72	03/31/08	41.95
12/31/07	5.72	12/31/07	0.74	12/31/07	42.69

**SOUTHWEST GAS CORP (NYSE)****Scottrade**

SWX	30.14	▲0.24	(0.80%)	Vol. 402,269	16:04 ET
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SOUTHWEST GAS CORP. is principally engaged in the business of purchasing, transporting, and distributing natural gas in portions of Arizona, Nevada, and California. The Company also engaged in financial services activities, through PriMerit Bank, Federal Savings Bank (PriMerit or the Bank), a wholly owned subsidiary.


General Information

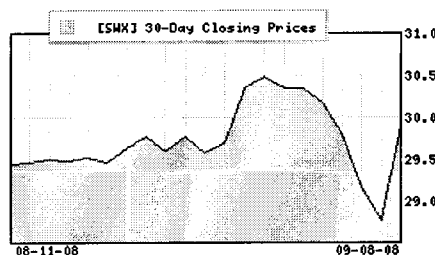
SOUTHWEST GAS
 5241 Spring Mountain Road
 P.O. Box 98510
 Las Vegas, NV 89193-8510
 Phone: 702 876-7237
 Fax: 702-876-7037
 Web: www.swgas.com
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 06/30/08
 Next EPS Date: 11/11/2008

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 29.90
 52 Week High: 31.74
 52 Week Low: 25.14
 Beta: 0.62
 20 Day Moving Average: 173,254.59
 Target Price Consensus: 33.88

**% Price Change**

4 Week	1.53
12 Week	-1.58
YTD	0.44

% Price Change Relative to S&P 500

4 Week	4.53
12 Week	5.59
YTD	14.19

Share Information

Shares Outstanding (millions)	43.53
Market Capitalization (millions)	1,301.64
Short Ratio	12.60
Last Split Date	N/A

Dividend Information

Dividend Yield	3.01%
Annual Dividend	\$0.90
Payout Ratio	0.48
Change in Payout Ratio	-0.04
Last Dividend Payout / Amount	08/13/2008 / \$0.22

EPS Information

Current Quarter EPS Consensus Estimate	-0.25
Current Year EPS Consensus Estimate	2.03
Estimated Long-Term EPS Growth Rate	8.00
Next EPS Report Date	11/11/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.50
30 Days Ago	2.50
60 Days Ago	2.50
90 Days Ago	2.50

Fundamental Ratios**P/E**

Current FY Estimate:	14.74
Trailing 12 Months:	16.08
PEG Ratio	1.84

EPS Growth

vs. Previous Year	-500.00%
vs. Previous Quarter	-105.26%

Sales Growth

vs. Previous Year	4.87%
vs. Previous Quarter:	-45.02%

Price Ratios

Price/Book	1.26
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ROE

06/30/08	8.05
----------	------

ROA

06/30/08	2.27
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Price/Cash Flow	4.80	03/31/08	8.45	03/31/08	2.35
Price / Sales	0.59	12/31/07	8.69	12/31/07	2.39
Current Ratio			Quick Ratio		
06/30/08	0.70	06/30/08	0.70	06/30/08	3.66
03/31/08	0.85	03/31/08	0.85	03/31/08	3.80
12/31/07	0.95	12/31/07	0.95	12/31/07	3.87
Net Margin			Pre-Tax Margin		
06/30/08	5.80	06/30/08	5.80	06/30/08	23.80
03/31/08	6.04	03/31/08	6.04	03/31/08	23.99
12/31/07	6.09	12/31/07	6.09	12/31/07	23.07
Inventory Turnover			Debt-to-Equity		
06/30/08	-	06/30/08	1.23	06/30/08	55.19
03/31/08	-	03/31/08	1.22	03/31/08	55.03
12/31/07	-	12/31/07	1.39	12/31/07	58.14
			Operating Margin		
			0.70	06/30/08	3.66
			0.85	03/31/08	3.80
			0.95	12/31/07	3.87
			Book Value		
			5.80	06/30/08	23.80
			6.04	03/31/08	23.99
			6.09	12/31/07	23.07
			Debt to Captial		
			1.23	06/30/08	55.19
			1.22	03/31/08	55.03
			1.39	12/31/07	58.14

**WGL HLDGS INC (NYSE)****Scottrade**

WGL 32.48 ▼-0.42 (-1.28%) Vol. 640,569 16:02 ET

WASHINGTON GAS LIGHT CO is a public utility that delivers and sells natural gas to metropolitan Washington, D.C. and adjoining areas in Maryland and Virginia. A distribution subsidiary serves portions of Virginia and West Virginia. The Company has four wholly-owned active subsidiaries that include: Shenandoah Gas Company (Shenandoah) is engaged in the delivery and sale of natural gas at retail in the Shenandoah Valley, including Winchester, Middletown, Strasburg, Stephens City and New Market, Virginia, and Martinsburg, West Virginia.


General Information

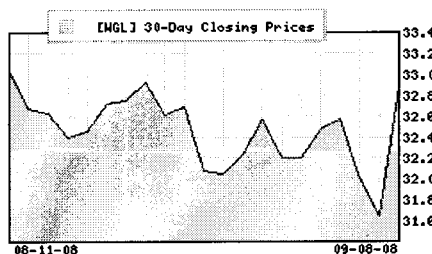
WGL HLDGS INC
 101 Constitution Avenue NW
 Washington, DC 20080
 Phone: 703 750-2000
 Fax: 703 750-4828
 Web: www.wglholdings.com
 Email: madams@washgas.com

Industry UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End September
 Last Reported Quarter 06/30/08
 Next EPS Date 11/05/2008

Price and Volume Information

Zacks Rank 
 Yesterday's Close 32.90
 52 Week High 36.22
 52 Week Low 30.26
 Beta 0.66
 20 Day Moving Average 471,249.25
 Target Price Consensus 34

**% Price Change**

4 Week -0.39
 12 Week -6.67
 YTD 0.43

% Price Change Relative to S&P 500

4 Week 2.55
 12 Week 0.13
 YTD 14.15

Share Information

Shares Outstanding 49.91
 (millions)
 Market Capitalization 1,642.10
 (millions)
 Short Ratio 9.46
 Last Split Date 05/02/1995

Dividend Information

Dividend Yield 4.32%
 Annual Dividend \$1.42
 Payout Ratio 0.60
 Change in Payout Ratio -0.08
 Last Dividend Payout / Amount 07/08/2008 / \$0.35

EPS Information

Current Quarter EPS Consensus Estimate -0.33
 Current Year EPS Consensus Estimate 2.35
 Estimated Long-Term EPS Growth Rate 7.50
 Next EPS Report Date 11/05/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 2.25
 30 Days Ago 2.25
 60 Days Ago 2.00
 90 Days Ago 2.00

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 13.99	vs. Previous Year -72.73%	vs. Previous Year -0.60%
Trailing 12 Months: 13.88	vs. Previous Quarter -96.39%	vs. Previous Quarter: -54.45%
PEG Ratio 1.87		

Price Ratios**ROE****ROA**

Price/Book	1.51	06/30/08	11.37	06/30/08	3.64
Price/Cash Flow	8.07	03/31/08	12.32	03/31/08	4.00
Price / Sales	0.64	12/31/07	10.53	12/31/07	3.41
Current Ratio			Operating Margin		
06/30/08	1.15	06/30/08	0.71	06/30/08	4.60
03/31/08	1.15	03/31/08	0.98	03/31/08	4.90
12/31/07	0.88	12/31/07	-	12/31/07	3.96
Net Margin			Book Value		
06/30/08	7.32	06/30/08	7.32	06/30/08	21.72
03/31/08	8.23	03/31/08	8.23	03/31/08	21.80
12/31/07	6.81	12/31/07	6.81	12/31/07	20.49
Inventory Turnover			Debt to Capital		
06/30/08	7.96	06/30/08	0.56	06/30/08	35.26
03/31/08	8.82	03/31/08	0.55	03/31/08	35.06
12/31/07	9.33	12/31/07	0.59	12/31/07	36.30

ATTACHMENT D

Infrastructure costs in the Water Utility Industry will continue to rise over the long term. Larger companies will acquire smaller ones in an effort to achieve economies of scale.

Foreign companies had been buying a number of U.S. water utilities, but that trend appears to be waning.

Water utility stocks are ranked to underperform the market over the coming 12 months; however, conservative investors can find attractive risk-adjusted choices here.

The Need For Consolidation

Long-term trends in the Water Utility Industry indicate that infrastructure costs will steadily rise. Many of the facilities and pipes that now purify and transport drinking water were built about 100 years ago. Ongoing upgrading and replacement are necessary for these old systems to remain in compliance with rules laid out by the Environmental Protection Agency (EPA). The cost of fixing and upgrading these systems is significantly higher than in the past (even adjusting for inflation) because more-expensive materials need to be used for modern construction. Moreover, transportation costs are much higher and should continue to rise, as nearby sources of water are depleted and farther-away bodies of water must be used. Water is quite difficult and expensive to move because it is heavy and cannot be compressed. Also adding to industry costs is the ongoing issuance of guidelines from the EPA that typically require water utilities to comply with more-stringent water-purity standards. Industry sources estimate that about \$140 billion will be needed over the next 20 years to fund necessary water-system infrastructure improvements.

Small and mid-sized water companies usually welcome large-scale suitors. Smaller utilities generally lack the funds needed for long-term structural improvements, and might risk being out of compliance with local and federal laws at some point down the road. In an effort to prevent this unpleasant scenario from happening, many of these smaller companies welcome larger utilities that have the capital resources to remain in compliance with the law. The larger company gains greater geographic diversity from its acquisitions, which helps lessen its susceptibility to weather fluctuations that might cause volatility in earnings. Acquirers also benefit from economies of scale in which costs are

INDUSTRY TIMELINESS: 81 (of 92)

generally reduced. Too, the regulatory-intensive nature of the Water Utility Industry means that some specific local governments might be more uncooperative with the utilities than other comparable local officials. A larger territory lessens the impact of a particularly onerous regulatory atmosphere.

Acquisition Update

Foreign companies have purchased a large number of domestic water utilities over the past year. These global water companies are attracted to this country's relatively safe political climate and its trend towards the privatization of municipal water and wastewater systems. Currently, there is concern among investors that the large premiums paid for U.S. takeover targets, which approached three times book value, will become more infrequent. British utilities are having regulatory difficulties at home that stand to weaken their designs on the U.S. market. Consequently, there appear to be fewer bidders in the market.

SDWA Regulations

The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorized the EPA to work with state and local governments to test for five potential impurities in drinking water every five years. The EPA mandates what levels of a certain contaminant is acceptable per a specified amount of water. Water utilities typically spend about 15% to 50% of their annual capital outlays in efforts to comply with SDWA guidelines. These companies must also stay in compliance with the Clean Water Act, and numerous state and local laws. At present, the EPA is considering lowering the allowable level of arsenic in drinking water from 50 parts per billion (ppb) to 5 ppb. This measure would be controversial because it would be lower than the standard of the World Health Organization (10 ppb) and would potentially cost domestic water companies billions of dollars.

Investment Advice

Most of the water utility stocks that are covered in this review are not timely for the coming six to 12 months. Nonetheless, favorable Safety ranks among the group make some of these issues appealing for risk-averse investors seeking decent dividend yields.

Joseph Espallat

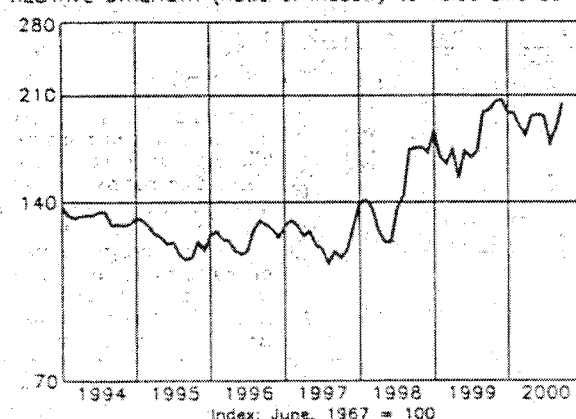
Composite Statistics: Water Utility Industry

1996	1997	1998	1999	2000	2001		03-05
1793.9	1924.7	1994.2	2422.6	2550	2750	Revenues (\$mil)	3500
214.4	29.2	265.6	295.3	315	335	Net Profit (\$mil)	415
39.2%	37.8%	37.0%	38.2%	39.0%	39.0%	Income Tax Rate	39.0%
7.0%	8.3%	7.5%	8.7%	8.0%	8.0%	AFUDC % to Net Profit	8.0%
55.7%	56.5%	56.5%	55.3%	53.0%	52.0%	Long-Term Debt Ratio	50.0%
40.0%	39.5%	39.7%	42.0%	45.0%	46.0%	Common Equity Ratio	48.0%
6271.8	5703.3	6188.6	7223.7	7300	7900	Total Capital (\$mil)	9300
6377.2	6785.5	7361.9	8961.3	8700	9300	Net Plant (\$mil)	9700
6.0%	6.2%	6.2%	6.0%	6.5%	7.0%	Return on Total Cap'l	7.5%
9.2%	9.7%	10.0%	9.3%	10.5%	10.5%	Return on Shr. Equity	11.5%
9.7%	10.2%	10.4%	9.5%	11.0%	11.0%	Return on Com Equity	12.0%
3.3%	3.6%	3.3%	3.2%	3.5%	3.5%	Retained to Com Eq	4.5%
68%	66%	64%	67%	70%	70%	All Div'ds to Net Prof	60%
14.5	15.3	18.3	20.2			Avg Ann'l P/E Ratio	13.0
.91	.91	.95	1.15			Relative P/E Ratio	.85
4.6%	4.1%	3.4%	3.3%			Avg Ann'l Div'd Yield	5.0%

Bold figures are
Value Line
estimates

Water Utility

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



The events of September 11th have altered many priorities in the Water Utility Industry.

Long-term trends in the industry indicate that the cost of maintaining and upgrading water/wastewater systems will rise. The industry is consolidating, with larger companies acquiring smaller operators to achieve economies of scale.

Water Utility stocks are ranked to underperform the year-ahead market, though some of these issues offer conservative investors appealing risk-adjusted, total-return potential.

Security Issues

In response to the events of September 11th, the need to secure water systems against terrorism has become a top priority for regulators and water utilities alike, pushing many other legislative issues to the side. The FBI has stated that water companies should be on alert for potential threats in the months ahead. Many water companies are already heeding this warning, and incurring additional costs in the process that may limit near-term bottom-line growth. Also, the industry and regulators are working together to provide approximately \$5 billion in federal funds for immediate infrastructure improvements as part of the pending economic stimulus legislation.

Industry Consolidation

Infrastructure costs in the Water Utility Industry will likely rise dramatically over the next 20 years. These companies have to maintain and upgrade their systems continually in order to remain in compliance with increasingly stringent rules issued by the Environmental Protection Agency (EPA) and local regulators. Many of the facilities and pipes that now treat and transport drinking water were built about a century ago. The costs of replacing those systems are significantly higher these days, even adjusting for inflation. Adding to the cost is the fact that nearby bodies of water tend to get depleted and expensive to use, so more distant sources of water must be brought in to keep up with increasing demand for purified water. Water is difficult and costly to transport, since it is heavy and incompressible. All in all, industry sources estimate that over \$140 billion will be needed to upgrade the nation's water-distribution system over the next 20 years.

The costs of staying in compliance with drinking water laws are especially onerous for smaller regional opera-

INDUSTRY TIMELINESS: 85 (of 97)

tors, since they have a limited base of customers over which to spread these costs. Small and mid-sized utilities generally welcome takeover offers from larger acquirers because of their superior capital resources. The acquiring utility attempts to achieve economies of scale through the transactions. Also, it gains greater geographic diversity, and that can reduce its susceptibility to unfavorable weather patterns and potentially burdensome local regulators.

Large-scale foreign acquirers have been very interested in purchasing domestic water utilities over the past few years, and the latest evidence is the generous takeover offer RWE AG made for *American Water Works*, the nation's largest public water company. RWE, a Germany-based firm, stands to gain cost synergies in the deal, along with geographic diversity in a politically stable country. Foreign utilities have been fascinated with the risk-adjusted earnings potential of U.S. water companies, and they are likely to continue their buying spree over the next few years. As such, the number of investor-owned water providers with large territories is steadily dwindling. This development gives additional hope to those U.S. water utilities and investors looking for substantial buyout offers.

SDWA Regulations

The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorizes the EPA to work with state and local governments to test for five potential impurities in drinking water every five years. The EPA mandates what levels of a certain contaminant is acceptable per a specified amount of water. Water utilities usually spend a significant portion of their annual capital budgets on efforts to stay in compliance with SDWA guidelines. These companies must also comply with the Clean Water Act, and numerous state and local laws.

Investment Advice

The Water Utility stocks in this review are not timely for investment over the next six to 12 months. Nonetheless, a few of these issues possess favorable Safety ranks and solid dividend-growth prospects that may appeal to conservative investors.

Joseph Espallat

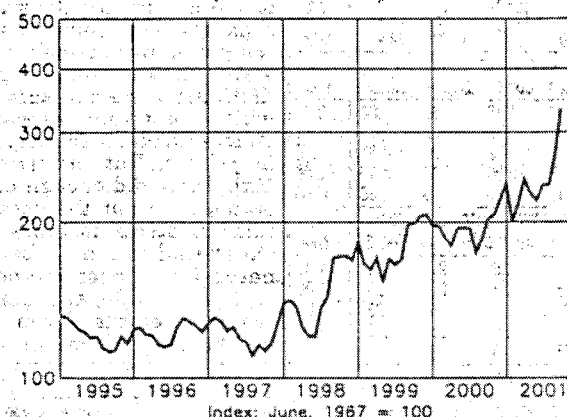
Composite Statistics: Water Utility Industry

1997	1998	1999	2000	2001	2002		04-06
1439.5	1503.1	1898.0	2054.9	2210	2315	Revenues (\$mill)	2895
183.2	192.9	232.8	254.2	270	295	Net Profit (\$mill)	410
38.4%	39.1%	39.7%	40.1%	40.0%	40.0%	Income Tax Rate	40.0%
6.4%	7.9%	9.6%	5.5%	6.5%	6.5%	AFUDC % to Net Profit	7.5%
57.3%	58.0%	56.2%	54.9%	54.5%	54.0%	Long-Term Debt Ratio	53.0%
40.0%	39.7%	41.9%	44.0%	44.5%	45.0%	Common Equity Ratio	46.0%
4113.2	4524.8	5566.3	5654.6	6055	6335	Total Capital (\$mill)	7495
5069.2	5544.7	7039.7	7545.4	7975	8425	Net Plant (\$mill)	9935
6.5%	8.3%	6.2%	6.6%	6.0%	6.0%	Return on Total Cap'l	6.5%
10.4%	10.2%	9.6%	9.8%	10.5%	11.0%	Return on Shr. Equity	11.5%
10.9%	10.5%	9.8%	9.3%	10.5%	11.0%	Return on Com Equity	11.5%
4.7%	4.4%	4.1%	4.0%	4.5%	4.5%	Retained to Com Eq	5.0%
57%	53%	59%	61%	60%	59%	All Div'ds to Net Prof	52%
15.2	19.4	19.2	16.3	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	13.5
.88	1.01	1.09	1.08			Relative P/E Ratio	.90
3.7%	3.0%	3.0%	3.7%			Avg Ann'l Div'd Yield	3.0%

Bold figures are
Value Line
estimates

Water Utility

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



Index: June, 1987 = 100

Infrastructure costs in the Water Utility Industry will rise considerably over the coming 20 years. Consequently, larger companies are buying smaller ones in an attempt to achieve economies of scale.

Water utility stocks are ranked to perform in the middle of the pack over the coming 12 months. Nonetheless, conservative investors can find above-average Safety ranks and attractive dividends in the group.

Industry Consolidation

Infrastructure costs in the water utility industry will likely soar over the next two decades. These companies must constantly repair and upgrade their existing water/wastewater systems in order to comply with increasingly strict rules issued by the Environmental Protection Agency (EPA) and local regulators. Many of the facilities and pipes that transport water were constructed over 100 years ago. The costs of replacing these systems is considerably higher now than it was in the past, even adjusting for inflation. Too, the ongoing depletion of nearby sources of water forces many water utilities to obtain water from more-distant, more-expensive sources. Water is difficult and costly to transport because it is heavy and incompressible. Nonetheless, utilities must continue to keep pace with rising demand for drinking water from growing residential and industrial customers. Recent estimates are that it will cost hundreds of billions of dollars to replace and upgrade failing water infrastructures over the next 20 years. This amounts to more than the entire current assets of the water industry in America. Much of these costs will likely be financed by federal spending and higher water rates. Nevertheless, water utilities are going to have to ante up much higher capital investments over the coming years.

The costs of staying in compliance with drinking water laws are especially onerous for smaller regional companies because they have fewer customers over which to spread their costs. Small and mid-sized water utilities tend to welcome takeover offers from larger, better-capitalized companies so that they can utilize the bigger firm's superior resources. For instance, the EPA's new rules on the allowable levels of arsenic in drinking water (10 parts per billion by January, 2006) is compelling some smaller utilities to merge with larger ones in an effort to remain in compliance with the new standards. By purchasing these smaller entities, large utilities seek

INDUSTRY TIMELINESS: 54 (of 98)

to achieve economies of scale. Also, a bigger company gains greater geographic diversity that can reduce its susceptibility to unfavorable weather patterns and potentially burdensome local regulators. For example, the regulatory climate in California has been extra costly for utilities in the past couple of years, so companies, such as *California Water*, have been actively looking for acquisition targets outside of the state. On a positive note, the passage of a new law in California will allow water utilities to charge higher rates to customers (subject to refund) if regulators do not render decisions on rate cases within established processing periods. This ought to improve revenues for three out of four companies in this review.

Recent Challenges

The events of September 11, 2001 have introduced a whole new set of challenges for the industry. Companies have been spending a lot of time, energy, and money on making sure that their water systems are reasonably secure from potential terrorist attacks. Utilities have turned to local and federal regulators for reimbursement and additional funding, but the amount and timing of future funds is uncertain. Also, insurance costs have soared in the past year, as insurers are now more reluctant to cover companies, like water utilities, that can potentially have catastrophic losses.

SDWA Regulations

The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorizes the EPA to work with state and local governments to test for potential impurities in drinking water. The EPA mandates what particular level of a certain contaminant is acceptable per a specified amount of water. Water utilities routinely spend large portions of their annual capital expenditures on efforts to remain in compliance with SDWA guidelines. These companies must also comply with the 1972 Clean Water Act, and numerous other state and local laws, another costly endeavor.

Decent Grounds For Conservative Investors

The water-utility stocks in this review are unlikely to outperform the year-ahead market. Nonetheless, they offer above-average Safety ranks, attractive dividend yields, and decent risk-adjusted total-return potential.

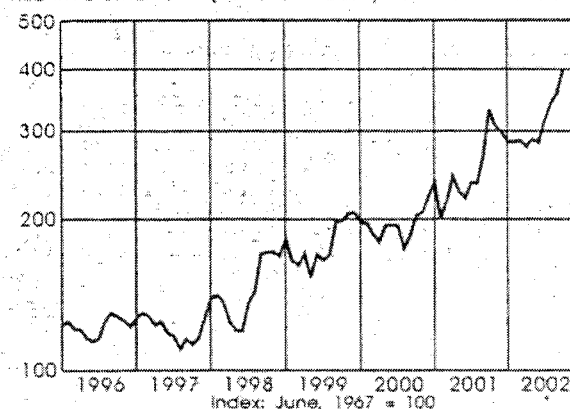
Joseph Espallat

Composite Statistics: Water Utility Industry

1998	1999	2000	2001	2002	2003		05-07
1503.1	1898.0	2054.9	2190.5	2495	2710	Revenues (\$mill)	3360
192.9	232.8	249.7	281.8	275	315	Net Profit (\$mill)	465
39.1%	39.7%	40.1%	39.5%	41.5%	40.0%	Income Tax Rate	40.0%
7.9%	9.5%	5.5%	3.4%	2.0%	2.0%	AFUDC % to Net Profit	3.0%
58.0%	56.2%	54.9%	56.7%	57.0%	56.0%	Long-Term Debt Ratio	52.5%
39.6%	41.9%	44.0%	42.4%	42.0%	43.0%	Common Equity Ratio	47.0%
4524.6	5568.3	5654.6	6198.1	7005	7085	Total Capital (\$mill)	8790
5544.7	7039.7	7545.4	7991.2	9210	9940	Net Plant (\$mill)	12085
6.3%	6.2%	6.6%	6.3%	6.0%	6.5%	Return on Total CapT	7.0%
10.2%	9.6%	9.8%	9.8%	10.0%	10.5%	Return on Shr. Equity	11.5%
10.5%	9.8%	9.9%	9.9%	10.0%	10.5%	Return on Com Equity	11.5%
4.4%	4.1%	4.0%	3.9%	3.0%	4.5%	Retained to Com Eq	6.0%
59%	59%	50%	61%	61%	58%	All Div'ds to Net Prof	47%
19.4	19.2	16.3	20.9	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	13.5
1.01	1.09	1.06	1.07			Relative P/E Ratio	.90
3.0%	3.0%	3.7%	2.9%			Avg Ann'l Div'd Yield	3.0%

Water Utility

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



The Water Utility Industry's consolidation continues to gain momentum, as industry leaders look for opportunities to buy out smaller companies that are struggling to keep up with escalating infrastructure costs and heightened regulatory requirements.

Water Utility stocks are unlikely to outperform the broad market for the year ahead. With that said, however, some of these issues offer conservative investors attractive risk-adjusted, total-return potential.

Government Regulations

In order to keep water supplies safe, national purification standards have been established that the water industry is required to meet. Amended in 1996, the Safe Drinking Water Act (SDWA) of 1974 authorizes the Environmental Protection Agency (EPA) to work with state and local governments to periodically test for impurities in drinking water and regulate the levels of contaminants that are acceptable per a specified amount of water. These standards take into account the health effects of chemicals, measurement capabilities, and technical feasibility. One of the most significant contaminants that the industry screens for is arsenic, a naturally occurring substance. However, the EPA is in the process of lowering the tolerated amount of arsenic to 10 parts per billion from 20 parts currently. The change is expected to be in effect by January, 2006. Large chunks of water utilities' annual capital budgets are already spent on infrastructure maintenance and improvements in order to stay in compliance with the SDWA, the Clean Water Act, and numerous state and local laws. This percentage is likely to climb even higher, as fears of terrorism have prompted officials to further tighten regulation requirements.

Rising Infrastructure Costs

Along with the necessity to remain in compliance with increasingly strict water purity standards, water companies are also being pressured to continually upgrade aging facilities. Many of the water/wastewater systems that are presently in use were built over 100 years ago and are growing outdated. The costs associated with replacing these systems are dramatically higher now than when they initially were put in place. The EPA and other industry sources indicate that hundreds of billions

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of dollars over the next 20 years will be needed to repair the nation's entire water system. The Water Infrastructure Network believes that there will be a \$12 billion annual shortfall for wastewater infrastructure over that period, and long-term help from the federal government is needed to solve the problem. Water companies will most likely foot the majority of the bill, though, as budget deficits at state and local levels will limit funds dedicated to the industry.

Industry Consolidation

With the costs of meeting safe drinking water guidelines on the rise, many smaller companies lack the funds to commit to long-term structural improvements. As such, these smaller water companies have been increasingly willing to accept takeover offers from larger suitors with significantly greater capital resources. The larger utilities benefit from economies of scale, which enables them to reduce overhead. In addition, the acquisitions usually enhance geographic diversity, reducing a company's vulnerability to weather fluctuations. Then, too, a multistate territory helps to alleviate a company's exposure to especially onerous regulatory atmospheres. Large foreign utilities have been particularly active in recent years, swallowing up domestic water companies in an effort to gain exposure to the United States' steady population growth.

Investment Advice

None of the stocks under review are timely at this juncture, as poor weather conditions have resulted in inconsistent earnings patterns. Although *Philadelphia Suburban, California Water Services Group, and American States Water* all have below-average total-return potential out to 2006-2008, income-oriented investors might find one of these stocks attractive, given their favorable risk profile. Income-bearing stocks have gained some additional popularity of late, because of the recent federal tax bill that reduced the top rate investors pay on dividend income to 15%. As usual, though, we recommend that potential investors carefully review individual reports before making any new commitments.

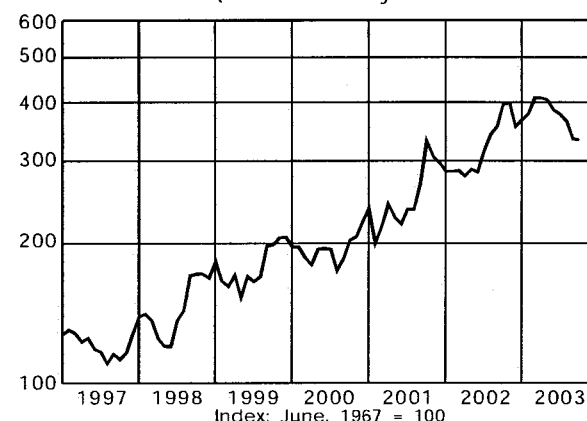
Andre J. Costanza

Composite Statistics: Water Utility Industry

1999	2000	2001	2002	2003	2004		06-08
637.2	704.3	751.8	794.4	845	950	Revenues (\$mill)	1185
72.4	90.9	95.4	106.6	105	130	Net Profit (\$mill)	190
40.0%	41.2%	40.2%	38.8%	39.0%	39.5%	Income Tax Rate	40.0%
--	--	--	--	Nil	.5%	AFUDC % to Net Profit	.5%
51.1%	50.3%	52.4%	53.9%	53.0%	51.5%	Long-Term Debt Ratio	51.0%
48.3%	49.3%	47.2%	45.9%	46.5%	48.5%	Common Equity Ratio	49.0%
1444.7	1661.0	1840.7	1973.6	2250	2425	Total Capital (\$mill)	3050
2100.3	2342.5	2532.3	2751.1	3025	3225	Net Plant (\$mill)	3950
7.4%	7.0%	6.8%	7.0%	6.5%	7.0%	Return on Total Cap'l	7.5%
11.5%	10.7%	10.6%	11.2%	10.0%	10.5%	Return on Shr. Equity	12.0%
11.5%	10.8%	10.7%	11.2%	10.0%	11.0%	Return on Com Equity	12.0%
3.8%	3.6%	3.3%	3.9%	3.0%	4.0%	Retained to Com Eq	5.5%
68%	67%	69%	66%	75%	65%	All Div'ds to Net Prof	54%
19.5	18.6	22.6	21.5	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	13.5
1.11	1.21	1.16	1.17			Relative P/E Ratio	.90
3.5%	3.6%	3.1%	3.1%			Avg Ann'l Div'd Yield	3.0%

Water Utility

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



The Water Utility industry continues to rank near the bottom of the *Value Line* investment universe. Infrastructure costs will limit earnings for at least the near future, as the high expenses associated with maintaining and improving the country's water-distribution systems continue to rise.

However, it appears that relief is on the way for some companies. Favorable regulatory rate case rulings have been handed down across the country and look as though they might become the norm.

Meanwhile, consolidation remains the name of the game. Although many of the industry's smaller players lack the capital requirements to meet growing government regulations, larger companies are using the consolidation as way to boost profitability via growing its customer base.

Infrastructure Costs

Infrastructure costs continue to climb higher as water utility companies, with little help from strapped government branches, are forced to deal with maintaining and upgrading existing facilities. Costs are becoming an even greater concern as time passes because a number of the functioning systems currently in place are over 100 years old and in need of significant repair. That said, we believe that it will take hundreds of billions of dollars to renovate existing pipelines over the next few decades. To make matters worse, the costs of staying in compliance with regulatory laws are growing even more difficult, due to fears of terrorist activities against the country's drinking supplies. Although the Safe Drinking Water Act (SDWA) of 1974 remains the authority for the safety and purity of drinking water, recent amendments are making compliance even more demanding. In 1996, an amendment authorized the Environmental Protection Agency (EPA) to step up local compliance levels. And, governing law-makers now insist that the EPA work with local and state governments to test for impurities in drinking water and to regulate the levels of contaminants that are acceptable.

A Buying Opportunity

The growing regulations and costs associated with staying in compliance with government standards re-

INDUSTRY TIMELINESS: 94 (of 98)

lated to the quality and purification of drinking water is forcing many of the smaller water companies to look to larger suitors. Bigger companies with the market scale to withstand the current onslaught of costs are clearly taking advantage of this situation. Indeed, these firms are growing their businesses at relatively low costs as well as diversifying their operations into less regulated and more-rapidly developing areas of the U.S. *Aqua America* is a perfect example, making nearly 20 acquisitions since the close of last year. *Aqua* recently purchased a number of Pennsylvania-based companies in order to help drive top-line growth. We anticipate that the current consolidation theme will persist, as we expect restructuring costs to continue to rise.

Regulatory Assistance

Although water utility company's have been forced to deal with lethargic case rulings in the past couple of years, some governing bodies are picking up the pace. In California, for example, the California Public Utilities Commission (CPUC) has handed down a number of favorable rate-relief rulings in recent months, and more are expected. With the California electric crisis seemingly in the rearview mirror, the current administration seems intent on delivering more timely assessments. *American States Water Company* and *California Water Service Group* have both seen profits benefit from recent case rulings over the past quarter.

Investment Advice

Most investors will want to take a pass on the stocks covered in the next few pages, as they offer uninspiring returns out to decade's end. In addition, not one of the stocks in this edition is ranked to outperform the market in the next six to 12 months. Nonetheless, income-oriented investors may like the industry's solid dividend yields. *California Water* may have some added appeal for the risk-averse, given its above average Safety rank. Still, we advise that potential investors carefully review the individual reports in the ensuing pages before making a commitment to any of the stocks mentioned above.

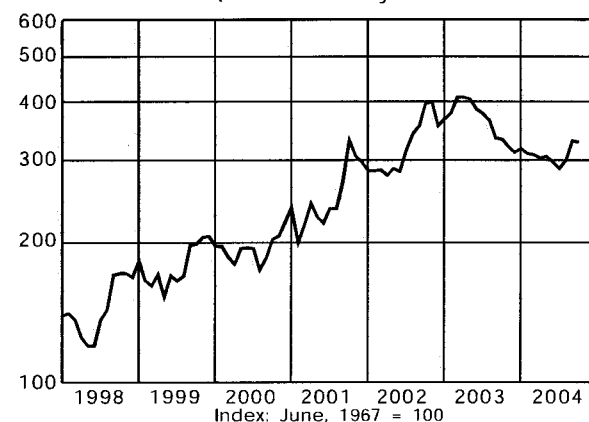
Andre J. Costanza

Composite Statistics: Water Utility Industry

2000	2001	2002	2003	2004	2005		07-09
704.3	751.8	794.4	857.0	990	1075	Revenues (\$mill)	1345
90.9	95.4	106.6	98.6	130	150	Net Profit (\$mill)	205
41.2%	40.2%	38.8%	40.0%	40.0%	40.0%	Income Tax Rate	40.0%
-	--	--	--	Nil	Nil	AFUDC % to Net Profit	Nil
50.3%	52.4%	53.9%	51.2%	51.0%	51.0%	Long-Term Debt Ratio	50.0%
49.3%	47.2%	45.9%	48.6%	49.0%	49.0%	Common Equity Ratio	50.0%
1661.0	1840.7	1973.6	2296.4	2615	2870	Total Capital (\$mill)	3550
2342.5	2532.2	2751.1	3186.1	3400	3605	Net Plant (\$mill)	4150
7.0%	6.8%	7.0%	5.9%	6.5%	7.0%	Return on Total Cap'l	7.0%
10.7%	10.6%	11.2%	8.8%	9.5%	9.5%	Return on Shr. Equity	10.0%
10.8%	10.7%	11.2%	8.8%	9.5%	9.5%	Return on Com Equity	10.0%
3.6%	3.3%	3.8%	2.5%	3.5%	4.0%	Retained to Com Eq	4.5%
67%	69%	66%	72%	62%	58%	All Div'ds to Net Prof	52%
18.6	22.6	21.5	26.0	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	18.0
1.21	1.16	1.17	1.49			Relative P/E Ratio	1.20
3.6%	3.1%	3.1%	2.8%			Avg Ann'l Div'd Yield	3.5%

Water Utility

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



After showing some brief signs of a turnaround last year, the Water Utility Industry appears to have reverted back to its old ways. Feeling the effects of uncooperating weather conditions and high infrastructure costs, the stocks in this industry have had trouble meeting earnings expectations and, as a result, have sorely underperformed the broader market in recent months. In fact, none of the water utility stocks that are covered in the next few pages are ranked better than 3 (Average) for Timeliness, based on our momentum based ranking system. As a whole, the industry ranks near the bottom of the Value Line investment universe.

And the future does not look much brighter. Although a more favorable regulatory landscape and normalized weather conditions ought to provide a better landscape, we are concerned that rapidly growing infrastructure costs will continue to undermine this group's earnings out to late decade.

Easing Tensions

Although designed to keep a balance of power between consumers and providers, regulatory authorities, have long been a thorn in the side of water utility companies. Rate relief case decisions had often been unfavorable and untimely, with some rulings being pushed off for as long as two years. But, it finally looks as though things are taking a turn for the better, especially in the state of California. The California Public Utilities Commission (CPUC), which is responsible for ruling on general rate case requests in the Golden State, has been handing down more-favorable and timely decisions in recent months, thanks, in part, to the efforts of Governor Schwarzenegger. He has replaced members thought to be antagonists of rate relief with more-business-friendly members, and additional moves may be in the works. The recent changes makes for a favorable backdrop for water utility companies operating in California, such as *American States Water Co.* and *California Water Service Group*.

Costs

But, while regulators are easing their stance on rate case decisions, this does not look to be the case for infrastructure demands. Many of the current infrastruc-

INDUSTRY TIMELINESS: 93 (of 98)

tures are upwards of 100 years old and are in severe need of maintenance and, in some cases, massive renovations and rebuilding. And, given the geopolitical volatility worldwide and the heightened threat of bioterrorism on U.S. water pipelines and reservoirs, these costs are likely to continue to only rise, as companies strive to comply with EPA water purification standards. Infrastructure repair costs are expected to climb in the hundreds of millions of dollars over the next two decades, putting many smaller water companies at a distinct disadvantage. With a dearth of resources to fund these improvements, many such companies are being forced to sell. But, given the current landscape, larger companies with the flexibility and capital to deal with the higher costs are utilizing the weakness to add additional legs of growth to their businesses. *Aqua America*, the largest water utility in our survey, for example, has made more than 90 acquisitions in the past five years, doubling its revenue base during that time. The company does not seem to be slowing its aggressive spending ways and has the highest return on equity of any of the stocks that we cover here.

Investment Advice

Most investors will probably want to take a pass on the stocks in this industry. Typically market laggards, not one of the issues covered in the next few pages stands out for near-term or long-term capital gains potential. The limited financial resources of most of these companies, along with the capital-intensive nature of the industry, will probably limit any substantial growth out to late decade.

Those seeking to add an income component to their portfolio may find an attractive option here, though. Each of the stocks in this industry carries an above-average dividend yield, with *American States Water* and *California Water* offering the highest percentages. *California Water* offers some additional appeal, as it has a 2 (Above Average) Safety rank. As is always the case, we recommend that all potential investors take a more in depth look at the individual reports on the following pages before considering making any future financial commitments.

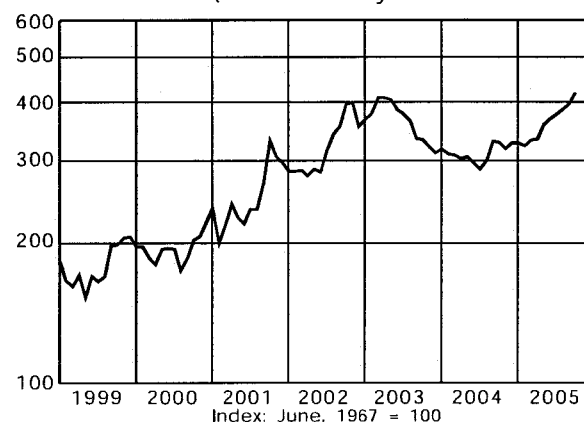
Andre J. Costanza

Composite Statistics: Water Utility Industry

2001	2002	2003	2004	2005	2006		08-10
751.8	794.4	857.0	985.6	1250	1350	Revenues (\$mill)	1725
95.4	106.6	98.6	122.4	155	170	Net Profit (\$mill)	235
40.2%	38.8%	40.0%	39.4%	39.5%	39.5%	Income Tax Rate	39.5%
--	--	--	--	Nil	Nil	AFUDC % to Net Profit	Nil
52.4%	53.9%	51.2%	50.0%	52.0%	51.0%	Long-Term Debt Ratio	48.0%
47.2%	45.9%	48.6%	50.0%	48.0%	49.0%	Common Equity Ratio	52.0%
1840.7	1973.6	2296.4	2543.6	3000	3400	Total Capital (\$mill)	4100
2532.2	2751.1	3186.1	3532.5	4050	4250	Net Plant (\$mill)	5000
6.8%	7.0%	5.9%	6.7%	7.0%	7.5%	Return on Total Cap'l	7.0%
10.6%	11.2%	8.8%	10.7%	11.0%	11.0%	Return on Shr. Equity	11.5%
10.7%	11.2%	8.8%	10.7%	11.0%	11.0%	Return on Com Equity	11.5%
3.3%	3.8%	2.5%	4.6%	5.0%	5.0%	Retained to Com Eq	3.0%
69%	66%	72%	57%	60%	55%	All Div'ds to Net Prof	45%
22.6	21.5	26.0	25.5	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	18.0
1.16	1.17	1.48	1.36			Relative P/E Ratio	1.20
3.1%	3.1%	2.8%	2.2%			Avg Ann'l Div'd Yield	3.4%

Water Utility

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



Despite better regulatory backing, most of the water utility companies covered in the next few pages have continued to struggle in recent months. Unseasonably wet weather conditions and escalating infrastructure costs remain at the heart of the problem, pressuring margins and limiting bottom-line growth. As a result, these perennial market laggards continue to rank at the bottom of the *Value Line* investment universe for Timeliness. Although we suspect that more-normal weather conditions will eventually resume, the growing need for infrastructure renovations remains a major concern going forward. Higher spending poses a threat to the industry's long-term prospects, especially given the capital constraints that most companies are facing. As a result, none of the issues in this industry hold worthwhile 3- to 5-year appreciation potential at this time. Meanwhile, dividend yields have lost some appeal, as well.

Regulatory Landscape

Regulatory authorities, designed to keep a balance of power between consumers and providers, have long been a nemesis to water utility companies. Rate case decisions have been unfavorable and untimely, sometimes taking as long as two years to complete. However, the tide appears to have turned more recently, particularly in California, where a few of the utilities in this *Survey* generate a fair portion of their revenues. The California Public Utilities Commission, for example, behind the efforts of Governor Schwarzenegger, has been handing down more-favorable and timely decisions. He has replaced members thought to be adversaries of rate relief with more-lenient constituents. The changes provide a healthy backdrop for utility companies that request a step-up in rates each year.

Drowning In Expenses

Although regulators appear to be more business-friendly with case decisions, they are becoming increasingly more stringent with infrastructure demands. Many of the current infrastructures are more than 100 years old, and in need of serious upkeep and even complete renovation in some cases. Meanwhile, the Environmental Protection Agency (EPA) continues to increase its water purification standards, given the

INDUSTRY TIMELINESS: 96 (of 97)

geopolitical volatility worldwide and the threat of bioterrorist actions on U.S. water systems. In all, infrastructure repair costs are expected to climb into the hundreds of millions of dollars over the next two decades. However, these increasing costs will make it very difficult for water utility companies to maintain the earnings momentum that we expect the improved regulatory landscape to produce this year out to late decade.

Opportunity???

With limited resources to fund rising capital expenditures, many smaller companies in this industry are being forced to shop their businesses, presenting an opportunity for larger suitors with the resources to foot the bill. No company exemplifies this better than *Aqua America*, the largest water utility in our *Survey*. It has made well over 100 acquisitions in the past five years, using the aforementioned weakness of smaller players to improve their operations and increase their presence. It has drastically increased its customer base and clearly improved its longer-term prospects, and therefore holds the best 3- to 5-year appreciation potential of all the stocks in this industry. We expect that the consolidation trend will continue as water standards continue to climb.

Investment Advice

This is not an industry that most investors will want to emphasize. Not one of the stocks here stand out for Timeliness or 3- to 5-year appreciation potential. Making matters worse, higher interest rates have increased the income-producing appeal of alternative investments, making the yields found in this industry modestly attractive at best. Thus, most will want to avoid this untimely industry for now. However, *California Water* is ranked 2 for Safety. This, along with its historically steady stream of income, may appeal to more-conservative investors. As always, though, we recommend that investors study the individual reports of each company in the next few pages before making any financial commitments.

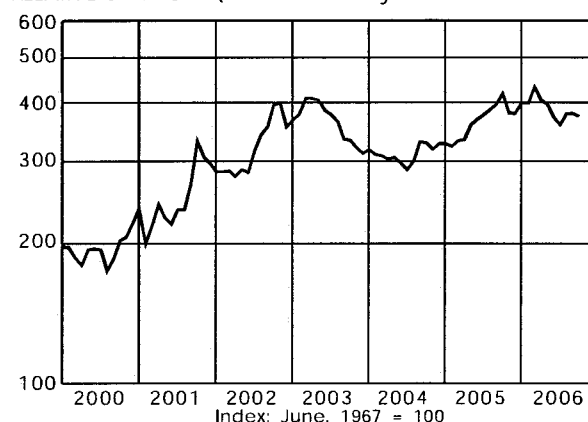
Andre J. Costanza

Composite Statistics: Water Utility Industry

2002	2003	2004	2005	2006	2007		09-11
925.2	1030.0	1173.6	1256.9	1350	1485	Revenues (\$mill)	2025
107.8	112.6	105.7	148.3	150	185	Net Profit (\$mill)	265
38.6%	39.7%	39.1%	40.5%	39.0%	39.0%	Income Tax Rate	39.0%
.2%	1.9%	1.0%	1.1%	1.0%	1.0%	AFUDC % to Net Profit	1.0%
54.1%	51.0%	49.1%	50.4%	50.0%	50.0%	Long-Term Debt Ratio	50.0%
45.7%	48.8%	50.7%	49.5%	50.0%	50.0%	Common Equity Ratio	50.0%
2116.4	2449.1	2785.6	3057.5	3300	3600	Total Capital (\$mill)	4565
2995.1	3405.6	3836.9	4194.7	4475	4750	Net Plant (\$mill)	5650
6.9%	5.9%	6.0%	6.3%	7.5%	8.0%	Return on Total Cap'l	9.0%
11.1%	8.8%	9.0%	9.8%	9.5%	10.5%	Return on Shr. Equity	11.5%
11.1%	8.8%	9.0%	9.8%	9.5%	10.5%	Return on Com Equity	11.5%
4.0%	2.7%	3.1%	3.7%	4.0%	4.5%	Retained to Com Eq	5.0%
64%	70%	66%	62%	60%	55%	All Div'ds to Net Prof	55%
21.6	25.6	25.4	29.4	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	18.0
1.18	1.46	1.34	1.57			Relative P/E Ratio	1.20
3.0%	2.7%	2.6%	2.1%			Avg Ann'l Div'd Yield	2.5%

Water Utility

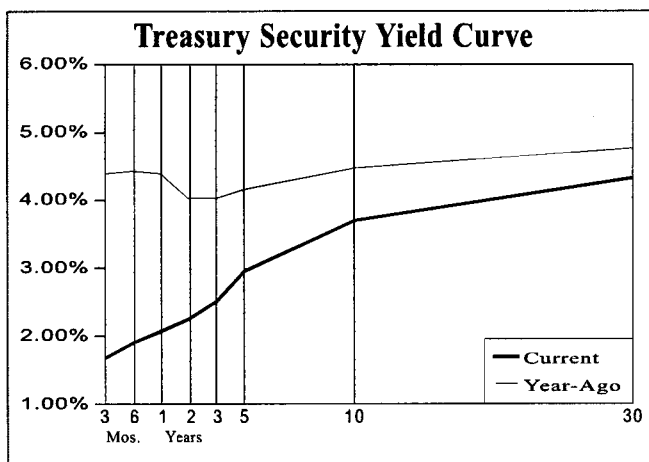
RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



ATTACHMENT E

Selected Yields

	Recent (9/03/08)	3 Months Ago (6/04/08)	Year Ago (9/05/07)		Recent (9/03/08)	3 Months Ago (6/04/08)	Year Ago (9/05/07)
TAXABLE							
Market Rates							
Discount Rate	2.25	2.25	5.75				
Federal Funds	2.00	2.00	5.25				
Prime Rate	5.00	5.00	8.25				
30-day CP (A1/P1)	2.88	2.47	5.31				
3-month LIBOR	2.81	2.67	5.72				
Bank CDs							
6-month	1.60	1.76	2.96				
1-year	2.26	2.25	3.66				
5-year	4.15	3.37	3.94				
U.S. Treasury Securities							
3-month	1.68	1.84	4.39				
6-month	1.90	1.97	4.43				
1-year	2.07	2.13	4.39				
5-year	2.95	3.26	4.16				
10-year	3.70	3.98	4.47				
10-year (inflation-protected)	1.64	1.44	2.31				
30-year	4.32	4.70	4.77				
30-year Zero	4.37	4.79	4.78				
Mortgage-Backed Securities							
GNMA 6.5%	5.60	5.49	5.89				
FHLMC 6.5% (Gold)	5.67	5.46	6.01				
FNMA 6.5%	5.48	5.36	5.94				
FNMA ARM	3.89	4.25	5.83				
Corporate Bonds							
Financial (10-year) A	6.69	5.74	5.99				
Industrial (25/30-year) A	6.11	6.22	6.00				
Utility (25/30-year) A	6.13	6.23	6.11				
Utility (25/30-year) Baa/BBB	6.54	6.50	6.27				
Foreign Bonds (10-Year)							
Canada	3.48	3.64	4.35				
Germany	4.14	4.38	4.21				
Japan	1.47	1.78	1.63				
United Kingdom	4.50	4.95	5.04				
Preferred Stocks							
Utility A	6.16	6.29	6.31				
Financial A	6.97	6.75	6.85				
Financial Adjustable A	5.53	5.53	5.53				



TAX-EXEMPT

Bond Buyer Indexes							
20-Bond Index (GOs)	4.68	4.52	4.70				
25-Bond Index (Revs)	5.17	4.99	4.83				
General Obligation Bonds (GOs)							
1-year Aaa	1.58	1.77	3.58				
1-year A	1.68	1.87	3.68				
5-year Aaa	2.74	2.94	3.59				
5-year A	2.84	3.04	3.69				
10-year Aaa	3.55	3.58	3.89				
10-year A	3.75	3.78	4.39				
25/30-year Aaa	4.69	4.47	4.57				
25/30-year A	5.07	4.67	4.87				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.85	4.75	4.87				
Electric AA	4.80	4.80	4.82				
Housing AA	5.15	4.95	4.92				
Hospital AA	5.25	5.05	4.90				
Toll Road Aaa	4.80	4.80	4.88				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	8/27/08	8/13/08	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	2042	1844	198	2134	2191	1910
Borrowed Reserves	168089	167636	453	169077	140773	80722
Net Free/Borrowed Reserves	-166047	-165792	-255	-166942	-138582	-78812

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	8/18/08	8/11/08	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1379.8	1396.1	-16.3	6.8%	2.1%	1.3%
M2 (M1+savings+small time deposits)	7717.6	7728.1	-10.5	1.2%	3.6%	5.4%

ATTACHMENT F



Stocks Rise on Soothing Inflation News

Thursday , February 24, 2005

FOX NEWS

NEW YORK —

Stock rose on Wednesday, rebounding from Tuesday's massive losses, as investors welcomed a tame report on January consumer prices, >better-than-expected corporate earnings and two merger deals.

The **Dow Jones industrial average** ([search](#)) closed up 62.59 points, or 0.59 percent, at 10,673.79. The **Standard & Poor's 500 Index** ([search](#)) was up 6.64 points, or 0.56 percent, at 1,190.80. The technology-laced **Nasdaq Composite Index** ([search](#)) was up 0.93 points, or 0.05 percent, at 2,031.25.

"We were heavily oversold yesterday on the oil news and we are getting a technical bounce a little bit. Oil is down today and it is definitely being helped by the fact that the dollar is up," said Tom Schrader, managing director, U.S. equity trading, Legg Mason Wood Walker.

Investors also said minutes from the last meeting of the **Federal Open Market Committee** ([search](#)) revealed little to suggest the Fed would increase the pace of future rate increases.

The blue-chip Dow and the broader Standard & Poor's 500 index got a boost from Procter & Gamble Co. ([PG](#)), which jumped 2.4 percent to \$53.49, after UBS raised its rating to "buy" from "neutral," citing optimism about the consumer products maker's deal to buy Gillette Co.

The Nasdaq stayed just in positive territory as Apple Computer Inc. ([AAPL](#)) jumped 3.4 percent to \$88.19 after it introduced new versions of its hugely popular digital music player, including an 'iPod mini' with a color screen.

"Judging by conversations with our clients, people were looking to re-engage," said Brian G. Belski, market strategist at Piper Jaffray. "If we'd had a stronger semblance of inflation, this thing could've really come uncoupled today."

The **Labor Department** ([search](#)) reported a tiny 0.1 percent rise in consumer prices during January as energy costs slid for a second straight month. The data, which suggests consumer inflation remains very much under control, was at odds with last week's report on wholesale prices.

Wall Street economists had expected a 0.2 percent rise in the CPI, both overall and excluding food and energy, but traders had been bracing for the possibility of larger gains after a report on Friday showed a big pickup in core producer prices, which raised concerns of more aggressive hikes in interest rates by the Fed.

"There was a lot of relief over the CPI figure — the fear was it was going to be higher and this would trigger a change in strategy by the Fed," said Michael Metz, chief investment strategist at Oppenheimer & Co.

The Federal Reserve concluded at its last meeting on Feb. 1-2 that interest rates likely remained too low to keep inflation stable and held open the possibility of altering the pace of future increases, minutes of the meeting issued on Wednesday showed.

On balance, the central bank's policy-setting Federal Open Market Committee felt its policy of pushing rates up would keep

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inflation in check but left no doubt it intended to keep on raising them.

The dollar, which tumbled Tuesday on rumors that South Korea planned to diversify its currency holdings away from the greenback, recovered somewhat after Seoul's central bank denied the report. Gold fell, as did oil prices, which skidded 25 cents to \$51.17 per barrel on the **New York Mercantile Exchange** ([search](#)).

Pharmacy benefits manager Medco Health Solutions Inc. (**MHS**) was down 29 cents at \$43.14 after saying it had agreed to buy Accredo Health Inc. (**ACDO**), a distributor of specialty drugs and services, for about \$2.2 billion in cash and stock. The deal would create the nation's largest specialty pharmacy business, Medco said. Accredo shares surged 39 percent, or \$11.87, to \$42.11.

Trucking company USF Corp. (**USFC**) jumped 13 percent, or \$4.37, to \$37.73, after The Wall Street Journal reported that Yellow Roadway Corp. (**YELL**) was in talks to acquire it in a deal possibly valued at more than \$1 billion. Yellow shares added 4.7 percent, or \$2.60, to \$57.95.

Toll Brothers Inc. (**TOL**) rose 4 percent, or \$3.21, to \$84.25, as soaring demand for luxury homes boosted profits in the first quarter, prompting the company to raise delivery estimates for 2005. Its earnings blew past the estimates of analysts surveyed by Thomson First Call.

Lowe's Cos. (**LOW**) was up 37 cents at \$57.90 after the nation's second largest home improvement chain reported a nearly 27 percent rise in fourth quarter earnings on an almost 18 percent increase in sales. The results beat Wall Street's expectations by a wide margin.

Chiquita Brands International Inc. (**CQB**) was up 5 cents at \$22.05 after the banana grower announced plans to acquire Fresh Express, the nation's top seller of bagged salads, from Performance Food Group Co. for \$855 million in cash. The announcement came a day after Chiquita reported its profit more than tripled in the fourth quarter.

Trading in stocks was active, with 1.5 billion shares changing hands on the New York Stock Exchange, just above the 1.46 billion daily average for last year. About 1.87 billion shares were traded on Nasdaq, just above the 1.81 billion daily average last year.

On the NYSE, advancing stocks outnumbered declining stocks by 2-to-1. The number of rising stocks was about equal to declining stocks on the Nasdaq.

The Russell 2000 index, which tracks smaller company stocks, was up 2.61, or 0.42 percent, at 620.54.

Overseas, Japan's Nikkei stock average shed 0.84 percent. In Europe, France's CAC-40 lost 0.63 percent, Britain's FTSE 100 slid 0.88 percent and Germany's DAX index dipped 0.29 percent.

Reuters and the Associated Press contributed to this report.

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Stock continue to fall on inflation, economic worries

NEW YORK (AP) — Stocks fell hard for a second day Wednesday, with the Dow Jones industrial average losing more than 120 points after a surprisingly weak reading on the service sector of the economy raised concerns about the continuing impact of higher energy prices.

The Dow Jones industrial average fell 123.75, or 1.2%, to 10,317.36. The decline followed a drop of 94.37, or 0.9%, on Tuesday.

Broader stock indicators were lower. The Standard & Poor's 500 index fell 18.08, or 1.49%, to 1196.39, and the Nasdaq composite index fell 36.34, or 1.7%, to 2103.02. The major indexes are at their lowest points since the week of July 4.

Equities opened lower after Tuesday's sell-off, then fell further when the Institute for Supply Management reported that its non-manufacturing business index, which measures the service sector, dropped to 53.3 in September from 65.0 in August.

While any reading above 50 indicates the economy is expanding, the sharp drop in the index was unexpected, following a strong report in manufacturing earlier this month.

Wednesday's reading, which indicated supply managers were worried about higher energy costs, spooked investors already nervous about the effects that rising oil and gas prices will have going forward.

The market was still mulling Tuesday's comments from Dallas Federal Reserve Bank President Robert Fisher, who said inflation was nearing the high end of the Fed's comfort zone — a clear signal that the Fed's short-term interest rate hikes would continue. The higher prices for energy have been filtering into the rest of the economy.

Investors are also jittery about earnings season, which officially starts Monday. Some companies such as Clorox Co. have already begun to warn their earnings will not meet expectations.

"We need to get (earnings season) out of the way and see how companies are doing," said Barry Berman, head trader for Robert W. Baird & Co. in Milwaukee.

Small caps, which are highly sensitive to interest rates, dropped sharply. The Russell 2000 index of smaller companies fell 18.86, or 2.84%, to 644.98.

A barrel of light crude settled at \$62.79, down \$1.11, on the New York Mercantile Exchange.

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Bonds rose, with the yield on the 10-year Treasury note falling to 4.35% from 4.38% late Tuesday. The U.S. dollar was mixed against other major currencies in European trading. Gold prices fell.

Investors are facing a Wall Street nightmare: A slower economy and higher interest rates.

Those looking for signs of a slowdown are finding them. For instance, home equity lending at banks has slowed from a peak rate of \$2 billion to \$3 billion a week to "a trickle" of \$100 million in the past several weeks, according to a Citigroup report.

"There's just a lot of nervousness and cross currents," Berman said.

One example: Home builder Hovnanian Enterprises (HOV) fell \$1.09 to \$48.19 despite its report that new contracts rose 61.5% in September. Investors are concerned that the steep run-up in housing prices is starting to stall as interest rates climb; those fears were compounded by a *New York Times* report Tuesday that insiders in home building companies have sold, in aggregate, almost \$1 billion of the companies' stock this year.

Other home builders also dropped. D.R. Horton (DHI) fell 84 cents to \$34.36; KB Home (KBH) fell \$2.95 to \$67.46 and Toll Brothers (TOL) fell 92 cents to \$40.48.

Utility operator Entergy (ETR) fell \$2.21 to \$72.21 after it said the damage it suffered from Hurricane Rita will range from \$400 million to \$550 million, a bill that comes on top of damages that could hit \$1.1 billion from Hurricane Katrina. Entergy's New Orleans unit filed for bankruptcy protection after Katrina, citing \$325 million to \$475 million in damages to power and natural gas transmission systems and the loss of most of its customer base.

Wendy's International (WEN) rose 61 cents to \$47.33 even though it said third-quarter same-store sales — or sales at stores open at least one year — fell 5% at its flagship chain, as high gas prices curbed consumer spending and hurricanes shuttered restaurants. The hamburger chain operator also said the effects of the recent storms and higher beef prices will hurt third-quarter profits, but investors are excited by the planned initial public offering of its Tim Hortons chain.

Declining issues led advancers by more than 5 to 1 on the New York Stock Exchange, where preliminary consolidated volume came to 2.52 billion, up from 2.37 billion traded Tuesday.

Overseas, Japan's Nikkei stock average fell 0.4%. Britain's FTSE 100 fell 1.2%, Germany's DAX index dropped 1.3%, and France's CAC-40 fell 1.2%.

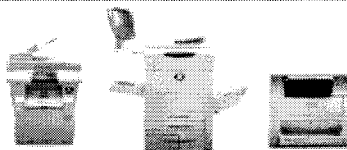
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MAY 1, 2006

TREASURY MARKET WATCH

Treasury Prices Fall After Inflation News

U.S. prices are rising faster than expected

MARKETSCOPE : Treasury bond prices fell on Monday after economic indicators fanned concerns about inflation.

Bond prices deepened losses late in the day after comments from CNBC that Fed Chairman Bernanke feels the financial markets have incorrectly interpreted his stance on monetary policy and inflation as dovish.

The benchmark 10-year note tumbled 20/32 to 95-04/32 for a yield of 5.14% as of 3:40 pm Eastern Daylight Time. The 30-year bond sank 28/32 to 89-05/32 for a yield of 5.22%.

News hit that the core PCE deflator, the Federal Open Market Committee's favorite inflation gauge, was up a bit higher than the expected 0.3% on the month after a 0.1% gain in February. It is up 2.0% on a yearly basis, from 1.8%.

The ISM index climbed to 57.3 in April from 55.2 in March, its 35th month of expansion. U.S. construction spending rose 0.9% in March after gaining a revised 1.0% in February. U.S. Personal Income rose 0.8% in March from February's 0.3%. Personal Consumption Expenditures rose 0.6% after gaining a revised 0.2% in February.

"A jump in core inflation readings brings the annual rate of inflation to the upper bound of the Fed's target zone," says Drew Matus, of Lehman Brothers. He thinks the Fed will move the Fed funds rate to 5.5% by the end of the third quarter.

But pundits see some hope.

"Globalization is holding down inflation; the most recent report on US labor costs is especially encouraging" says Stephen S. Roach, of Morgan Stanley in New York. "Major central banks only need to normalize policy settings; authorities in Japan and China are the latest to join the ranks in doing so."

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Stock Prices Fall on Inflation Fears

NEW YORK, Aug. 1, 2006

(AP) Heightened fears of inflation prompted investors to sell off stocks Tuesday as a key price index climbed to an 11-year high and an improving manufacturing sector raised the likelihood of another interest rate hike by the Federal Reserve. In midmorning trading, the Dow Jones industrial average fell 75.48, or 0.67 percent, to 11,110.20.

Broader stock indicators also fell. The Standard & Poor's 500 index lost 10.43, or 0.82 percent, to 1,266.23, and the Nasdaq composite index dropped 30.65, or 1.47 percent, to 2,060.82.

While inflation-adjusted consumer spending rose a sluggish 0.2 percent in June, the Commerce Department also reported that consumer prices are up 2.4 percent year over year, the highest rate of inflation since April 1995.

A strong rise in the Institute for Supply Management's manufacturing index deepened investors' interest rate worries, as a strong economy would make it easier for the Fed to raise rates without cutting off growth. The index rose to 54.7 in July, far better than the 53 reading economists had expected.

The Fed meets next Tuesday to gauge whether more interest rate hikes are needed to clamp down on inflation. The Commerce and ISM reports could push policy makers toward another quarter percentage point increase, which would put the benchmark rate at 5.5 percent. That would make capital more expensive for corporations _ and hurt corporate earnings and share prices.

Bonds slumped alongside stocks, with the yield on the benchmark 10-year Treasury note rising to 5.01 percent from 4.98 percent late Monday. The dollar was mixed against other major currencies, while gold prices rose.

Rising crude oil and natural gas futures added to Wall Street's worries, since the Fed has signaled that high energy prices could further feed inflation. Crude prices rose 40 cents to \$74.80 per barrel due to multiple crises in the Middle East, while natural gas futures built on Monday's 14 percent surge based on higher U.S. electrical demand in a nationwide heat wave.

The chronic concerns over inflation caused investors to again overlook corporate earnings, which have been strong overall. Verizon Communications Inc. fell 79 cents to \$33.03 after reporting a 24 percent drop in second-quarter earnings that nonetheless beat Wall Street expectations by 2 cents per share. Investors were disappointed, however, with the company's full-year forecast.

Qwest Communications International Inc. posted a profit after a year-ago loss, helped by improved profit margins on flat revenues. Qwest gained 39 cents to \$8.18.

The higher energy prices that has the stock market in flux helped Marathon Oil to double its second-quarter profits from a year ago. Marathon nonetheless lost 34 cents to \$90.30 after reporting earnings that beat analysts' forecasts by 59 cents per share.

Agricultural processor Archer Daniels Midland also benefited from the energy markets as demand for corn-based ethanol fuels helped the company double its quarterly earnings. ADM added 2 cents to \$44.02.

Eastman Kodak Inc. slid \$2.17, or 9.8 percent, to \$20.08 after it posted its seventh consecutive quarterly loss. The one-time leader in cameras and film is undergoing a difficult transition to digital photography.

Declining issues outnumbered advancers by nearly 3 to 1 on the New York Stock Exchange, where volume came to 183.2 million shares, compared with 179.31 million traded at the same point Monday.

The Russell 2000 index of smaller companies fell 12.36, or 1.76 percent, to 688.20.

Overseas, Japan's Nikkei stock average fell 0.1 percent. In afternoon trading, Britain's FTSE 100 was down 0.18 percent, Germany's DAX index fell 0.6 percent, and France's CAC-40 lost 0.65 percent.

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Stock Prices Fall for 2nd Straight Day

Stock Prices Fall for 2nd Straight Day After Disappointing Earnings From Intel

The Associated Press

NEW YORK

The Dow Jones industrial average has dropped 52.10 to 12,546.08 in the opening minutes of trading today, after falling 277.04 yesterday. The losses follow Intel Corp. announcing disappointing earnings and a dim outlook.

The Nasdaq Composite fell 26.46 to 2,391.13 and the Standard & Poor's 500 index is off 4.89 to 1,376.06.

On the inflation front, higher costs for energy and food last year pushed the inflation rate up by the largest amount in 17 years, even though prices generally remained tame outside of those two areas. Consumer prices rose by 4.1 percent for all of 2007, up sharply from a 2.5 percent increase in 2006.

The Labor Department reported that consumer prices in December showed an increase of 0.3 percent for the headline figure and a 0.2 percent advance for the core rate, which strips out food and energy prices.

Investor patience already is sorely tested by economists' predictions that a recession is at hand and by unsteadiness in the financial sector, where many banks are struggling to restore badly damaged balance sheets.

Intel's failure to meet earnings and revenue forecasts for the fourth quarter and new first-quarter revenue guidance that is at the low end of analysts' forecasts should weary investors further. Earlier this week there was market speculation that the technology sector, which sometimes benefits from a weak dollar and overseas strength, might be able to withstand the weakness sweeping other parts of the economy.

Intel stock fell as much as 15 percent in after hours trade and contributed to heavy selloffs in Asia on Tuesday. The share off \$2.86, or 12.6 percent, at \$19.85 before the opening.

Yet the technology sector saw some cheer Wednesday, thanks Oracle Corp.'s new deal to buy BEA Systems Inc. for about \$7.85 billion. Last year BEA rejected a less expensive bid from Oracle, which raised its offer but not to the level sought by BEA.

Treasury prices rose on the expected declines for stocks as oil futures came under pressure.

The dollar was back in the spotlight Wednesday. It hit sharp lows overnight in Asian trade on recession fears, but later recovered some strength. The improvement pushed gold futures below the closely watched \$900 an ounce level for the first time this week as the two markets often trade in opposite directions.

JPMorgan Chase & Co. Wednesday offered a first-quarter earnings report that revealed relatively light exposure to the subprime lending crisis as it took a writedown of \$1.3 billion, which was smaller than the massive losses of peers like Citigroup Inc. The company had a quarterly profit that fell below analysts' expectations.

On a worrisome note, the bank warned of difficult conditions ahead in 2008 and said profit was reduced by problems with home equity loans that underscore the mounting pressures in consumer lending. The company's stock fell 17 cents, or 0.43 percent, to \$39, before the opening.

Wells Fargo & Co. revealed its first decline in profit in more than six years and also cited rising losses on home equity loans.

The Federal Reserve, in setting monetary policy, is known to pay closer attention to the core rate and the report should not rattle markets much. At this point investors are far more worried about the prospect of slower growth than that of higher inflation.

In addition, Fed Chairman Ben Bernanke already has sent strong signals that another rate cut is on the way this month. The Fed's next monetary policy meeting is Jan. 29-30, and some investors are hoping for a rate cut before then.

In overseas trade, Japan's Nikkei gave up 3.35 percent. In Europe, London's FTSE 100 fell 0.82 percent, Frankfurt's DAX fell 0.98 percent and Paris' CAC forfeited 0.34 percent.

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Stocks decline following inflation reading

By TIM PARADIS AP Business Writer

Article Last Updated: 08/04/2008 09:31:32 AM MDT

NEW YORK—Stocks declined Monday after the government issued an inflation report that deepened Wall Street's overall malaise. The Dow Jones industrial average lost about 100 points.

The Commerce Department said an inflation gauge tied to consumer spending rose by a sharp 0.8 percent in June, reflecting the impact of higher gasoline prices. That was the biggest jump in the indicator since a 1 percent rise in February 1981.

The data came in the department's report on consumer spending, which fell 0.2 percent in June after removing the effects of higher prices. The increase in inflation offset some of the billions in dollars in checks sent to taxpayers as part of the government's economic stimulus plan.

The report raised investors' growing concerns about the impact of rising prices on consumers, whose spending is the lifeblood of the economy.

Richard E. Cripps, chief market strategist for Stifel Nicolaus, said the economic readings arriving Monday are reinforcing the negative sentiment in the markets globally. While the Federal Reserve will hold a regularly scheduled policy meeting on Tuesday,

he contends investors aren't expecting much from the session; Wall Street is more immediately concerned with energy prices and prospects for the housing market.

"I don't think that the Fed can really pull any of its levers to create a short-term fix," he said. "I think a \$5 drop in oil would be more significant."

In late morning trading, the Dow declined 99.41, or 0.88 percent, to 11,226.91. The Dow logged several triple digit, back-and-forth swings last week, and ended the week down 0.39 percent.

Broader stock indicators also fell. The Standard & Poor's 500 index declined 11.64, or 0.92 percent, to 1,248.67, and the Nasdaq composite index declined 27.63, or 1.20 percent, to 2,283.33.

Many on Wall Street will likely trade cautiously ahead of the Fed's meeting. The Fed is expected to keep interest rates steady at 2 percent, given the recent underwhelming readings on the economy. Inflation rose sharply for businesses in June as they paid higher prices for commodities, but it appears to have eased in July as the price of oil retreated in the second half of the month. That might take pressure off the Fed to raise rates as a means of containing inflation.

Bond prices declined. The yield on the benchmark 10-year Treasury note, which moves opposite its price, fell to 3.93 percent from 3.94 percent late Friday. The dollar was mixed against other major currencies, while gold prices fell.

Light, sweet crude fell 72 cents to \$124.38 a barrel on the New York Mercantile Exchange.

Investors seemed unmoved by a Commerce Department report that orders to U.S. factory jumped at the fastest pace in six months in June. The report

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reflected increases in petroleum prices and heavy demand for military equipment. Orders rose by 1.7 percent in June, more than double what had been expected. It was the biggest gain since December.

Meanwhile, U.S. corporate earnings reports for the second quarter were still arriving, but Monday's flow was lighter. Cisco Systems Inc., News Corp. and Procter & Gamble Co. all report earnings Tuesday.

Declining issues outnumbered advancers by about 3 to 1 on the New York Stock Exchange, where volume came to 294.4 million shares.

The Russell 2000 index of smaller companies fell 14.47, or 2.02 percent, to 701.69.

Overseas, Japan's Nikkei stock average fell 161.41, or 1.23 percent to 12,933.1. In afternoon trading, Britain's FTSE 100 rose 0.13 percent. Germany's DAX index fell 0.60 percent, and France's CAC-40 fell 0.75 percent.

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Stocks fall on inflation data, financial worries

By MADLEN READ AP Business Writer

Article Last Updated: 08/19/2008 09:27:24 AM MDT

NEW YORK—Stocks fell sharply Tuesday after a hefty jump in wholesale inflation and a drop in new home construction gave investors more reasons to believe the economy won't rebound anytime soon. The Dow Jones industrial average dropped by more than 100 points.

The Labor Department said its Producer Price Index rose by 1.2 percent in July, more than double the expected rate. The increase means prices have risen in the past 12 months at the fastest pace in 27 years.

The data also showed that core wholesale inflation, which excludes food and energy prices, rose 0.7 percent—the biggest increase since November 2006 and more than triple the 0.2 percent rise in core prices that had been expected.

"Maybe investors were hoping to shrug off the challenges of high commodity prices and inflation," said Jack A. Ablin, chief investment officer at Harris Private Bank. "But now we find out that perhaps the inflation situation is worse than we thought."

A weak report on new home construction did little to quell investors' worries. The Commerce Department said July housing starts fell to an annual

rate of 965,000 units—higher than analysts predicted, but the lowest level in more than 17 years nonetheless.

Tuesday's pair of economic reports indicated not only that the financial sector is struggling to right itself after billions of dollars in credit losses, but also that the rest of the economy is still showing significant signs of stress.

The weakness in housing has not only imperiled home builders and suppliers, but has left financial companies reeling over how to cope with soured mortgage debt. Lehman Brothers Holdings Inc., for one, came under pressure Tuesday after a JPMorgan Chase & Co. analyst estimated that Lehman will have to write down its investments during the third quarter by \$4 billion.

In late morning trading, the Dow Jones industrial average fell 119.69, or 1.04 percent, to 11,359.70.

Broader stock indicators also dropped. The Standard & Poor's 500 index fell 11.56, or 0.90 percent, to 1,267.04, and the Nasdaq composite index fell 22.87, or 0.95 percent, to 2,394.11.

Bond prices slipped. While investors often seek the shelter of government debt when bad news arrives, inflation is unwelcome for bonds because it devalues their fixed returns. The yield on the benchmark 10-year Treasury note, which moves opposite its price, rose to 3.83 percent from 3.82 percent late Monday.

The dollar was mixed against other major currencies, while gold prices fell.

One of the few bright spots for Wall Street has been the price of oil. Crude has fallen substantially from its July record above \$147 a barrel, and fell 32 cents to \$112.55 a barrel Tuesday on the New York

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Mercantile Exchange.

Lehman fell \$1.26, or 8.3 percent, to \$13.77. There have been reports swirling that the investment bank might have to sell one of its businesses to raise cash.

Retailers reported mixed quarterly results, adding to investors' uncertainty about the economy.

Home Depot Inc. reported a 24 percent decline in its second-quarter earnings but topped Wall Street's expectations. The nation's largest home improvement retailer reiterated its forecast for the year. Shares dipped 50 cents to \$26.46.

Target Corp. said its second-quarter earnings fell 7.5 percent but beat forecasts despite anemic sales. Shares fell 22 cents to \$49.83.

And Saks Inc. reported a wider-than-expected loss in the second quarter as its affluent shoppers cut back on apparel. The luxury goods retailer also issued a downbeat forecast for the year. Shares dropped \$1.42, or 13 percent, to \$9.80.

The Russell 2000 index of smaller companies fell 9.45, or 1.27 percent, to 732.52.

Declining issues outnumbered advancers by about 3 to 1 on the New York Stock Exchange, where volume came to 270.8 million shares.

Overseas, Japan's Nikkei stock average fell 2.28 percent. In afternoon trading, Britain's FTSE 100 fell 2.10 percent, Germany's DAX index lost 2.08 percent, and France's CAC-40 fell 2.27 percent.

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CHAPARRAL CITY WATER COMPANY, INC
DOCKET NO. W-02113A-07-0551

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OCRB WEIGHTED COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITALIZATION PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED CAPITALIZATION	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	SHORT-TERM DEBT	\$ 1,400,000	\$ -	\$ 1,400,000	4.10%	3.13%	0.13%
2	LONG-TERM DEBT	6,865,000	-	6,865,000	20.20%	5.34%	1.08%
3	COMMON EQUITY	27,002,476	(1,280,000)	25,722,476	75.70%	8.83%	6.69%
4	TOTAL CAPITALIZATION	\$ 35,267,476	\$ (1,280,000)	\$ 33,987,476	100.00%		
5	OCRB WEIGHTED COST OF CAPITAL						7.89%

FVRB WEIGHTED COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITALIZATION PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED CAPITALIZATION	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	SHORT-TERM DEBT	\$ 1,400,000	\$ -	\$ 1,400,000	4.10%	3.13%	0.13%
2	LONG-TERM DEBT	6,865,000	-	6,865,000	20.20%	5.34%	1.08%
3	COMMON EQUITY	27,002,476	(1,280,000)	25,722,476	75.70%	6.83%	5.17%
4	TOTAL CAPITALIZATION	\$ 35,267,476	\$ (1,280,000)	\$ 33,987,476	100.00%		
5	FVRB WEIGHTED COST OF CAPITAL						6.38%

REFERENCES:

COLUMN (A): COMPANY SCHEDULE D-1
COLUMN (B): TESTIMONY, WAR
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): COLUMN (C) + COLUMN (C), LINE 4
COLUMN (E): SCHEDULE WAR-1, PAGES 2 THROUGH 5 - TESTIMONY, WAR
COLUMN (F): COLUMN (D) x COLUMN (E)

CHAPARRAL CITY WATER COMPANY, INC
TEST YEAR ENDED DECEMBER 31, 2006
COST OF CAPITAL SUMMARY

DOCKET NO. W-02113A-07-0551
SCHEDULE WAR - 1, PAGE 2 OF 5

COST OF SHORT-TERM DEBT

1 ONE YEAR LONDON INTERBANK OFFERED RATE (LIBOR)

3.13%

REFERENCE:

ONE YEAR LIBOR RATE PUBLISHED IN THE SEPTEMBER 12, 2008 EDITION OF THE WALL STREET JOURNAL

CHAPARRAL CITY WATER COMPANY, INC
TEST YEAR ENDED DECEMBER 31, 2006
COST OF CAPITAL SUMMARY

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SCHEDULE WAR - 1, PAGE 3 OF 5

WEIGHTED COST OF LONG-TERM DEBT

LINE NO.	(A) DESCRIPTION	(B) AMOUNT OUTSTANDING	(C) ANNUAL INTEREST	(D) INTEREST RATE	(E) BALANCE RATIOS	(F) WEIGHTED COST OF DEBT
1	SERIES 1997A SERIAL BONDS, DUE 1998 TO 1997 (4.00% TO 4.85%)	\$ -	\$ -	-	-	-
2	SERIES 1997A TERM BONDS, DUE 2011 (5.20%)	960,000	49,920	5.200%	14.58%	0.8%
3	SERIES 1997A TERM BONDS, DUE 2011 (5.20%)	4,610,000	248,940	5.400%	70.01%	3.8%
4	SERIES 1997A TERM BONDS, DUE 2011 (5.20%)	1,015,000	52,780	5.200%	15.41%	0.8%
5						
6	TOTALS	\$ 6,585,000	\$ 351,640		100.00%	
7						
8	WEIGHTED COST OF DEBT					5.34%

REFERENCES:

COLUMN (A) LINES 1 THRU 4: COMPANY SCHEDULE D-2, PAGE 1
COLUMN (B) LINES 1 THRU 4: COMPANY SCHEDULE D-1, PAGE 1
COLUMN (C) LINES 1 THRU 4: COMPANY SCHEDULE D-2, PAGE 1
COLUMN (D) LINES 1 THRU 4: COLUMN (C) ÷ COLUMN (B)
COLUMN (E): COLUMN (A) LINES 2 THRU 4 + LINE 6
COLUMN (F): COLUMN (D) x COLUMN (E)

COST OF COMMON EQUITY CALCULATION

LINE NO.			
1	<u>DCF METHODOLOGY</u>		
2	DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.00%	SCHEDULE WAR-2, COLUMN (C), LINE 5
3	DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.79%	SCHEDULE WAR-2, COLUMN (C), LINE 13
4	AVERAGE OF CAPM ESTIMATES	9.40%	(LINE 2 + LINE 3) + 2
5	<u>CAPM METHODOLOGY</u>		
6	CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE	8.10%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5
7	CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE	6.94%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13
8	CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE	9.78%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5
9	CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE	8.25%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13
10	AVERAGE OF CAPM ESTIMATES	8.27%	(SUM OF LINES 6 THRU 9) + 4
11	<u>AVERAGE OF DCF AND CAPM ESTIMATES</u>	8.83%	(LINE 4 + LINE 10) + 2
12	INFLATION ADJUSTMENT	2.00%	SCHEDULE WAR 1, PAGE 5 OF 5
13	FVRB COST OF COMMON EQUITY ESTIMATE	6.83%	LINE 11 - LINE 12

CHAPARRAL CITY WATER COMPANY, INC
DOCKET NO. W-02113A-07-0551
COST OF CAPITAL SUMMARY

DOCKET NO. W-02113A-07-0551
SCHEDULE WAR-5 OF 5

FVRB INFLATION ADJUSTMENT TO COMMON EQUITY

LINE NO.	(A) YEAR	(B) VALUE TIPS	(C) VALUE BONDS	(D) DIFFERENCE
1	2001	3.31%	5.02%	1.70%
2	2002	2.85%	4.61%	1.77%
3	2003	1.81%	4.01%	2.20%
4	2004	1.37%	4.27%	2.90%
5	2005	1.53%	4.29%	2.76%
6	2006	2.25%	4.80%	2.54%
7	2007	2.10%	4.63%	2.54%
8	2008	0.13%	3.79%	3.66%
9	AVERAGE	1.92%	4.43%	2.51%
10	RECOMMENDED FVRB INFLATION ADJUSTMENT TO COMMON EQUITY (a)			2.00%

(a) BASED ON THE LOW END - ROUNDED

REFERENCES

COLUMNS (A), (B) AND (C): FEDERAL RESERVE BANK OF ST. LOUIS WEBSITE
COLUMNS (D): COLUMN (C) - COLUMN (B)

CHAPARRAL CITY WATER COMPANY, INC
TEST YEAR ENDED DECEMBER 31, 2006
DCF COST OF EQUITY CAPITAL

DOCKET NO. W-02113A-07-0551
SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	AWR	AMERICAN STATES WATER CO.	2.62%	+	7.93%	=	10.56%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.08%	+	6.50%	=	9.58%
3	SWWC	SOUTHWEST WATER COMPANY	2.15%	+	5.18%	=	7.34%
4	WTR	AQUA AMERICA, INC.	2.94%	+	5.60%	=	8.54%
5		WATER COMPANY AVERAGE					9.00%
6	ATG	AGL RESOURCES, INC.	5.08%	+	5.75%	=	10.83%
7	ATO	ATMOS ENERGY CORP.	4.87%	+	4.32%	=	9.19%
8	LG	LACLEDE GROUP, INC.	3.41%	+	6.12%	=	9.53%
9	NJR	NEW JERSEY RESOURCES CORPORATION	3.21%	+	6.88%	=	10.09%
10	GAS	NICOR, INC.	4.30%	+	6.29%	=	10.59%
11	NWN	NORTHWEST NATURAL GAS CO.	3.19%	+	5.24%	=	8.43%
12	PNY	PIEDMONT NATURAL GAS COMPANY	3.73%	+	4.76%	=	8.49%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	3.03%	+	10.48%	=	13.51%
14	SWX	SOUTHWEST GAS CORPORATION	3.07%	+	5.78%	=	8.86%
15	WGL	WGL HOLDINGS, INC.	4.36%	+	4.06%	=	8.42%
16		NATURAL GAS LDC AVERAGE					9.79%

REFERENCES:

COLUMN (A): SCHEDULE WAR - 3, COLUMN C
COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

CHAPARRAL CITY WATER COMPANY, INC
TEST YEAR ENDED DECEMBER 31, 2006
DIVIDEND YIELD CALCULATION

DOCKET NO. W-02113A-07-0551
SCHEDULE WAR - 3

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE)	(B) AVERAGE STOCK PRICE (PER SHARE)	(C) DIVIDEND YIELD
1	AWR	AMERICAN STATES WATER CO.	\$1.00	\$38.12	= 2.62%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.17	38.07	= 3.08%
3	SWWC	SOUTHWEST WATER COMPANY	0.24	11.15	= 2.15%
4	WTR	AQUA AMERICA, INC.	0.50	17.01	= 2.94%
5		WATER COMPANY AVERAGE			2.70%
6	ATG	AGL RESOURCES, INC.	\$1.68	\$33.06	= 5.08%
7	ATO	ATMOS ENERGY CORP.	1.30	26.69	= 4.87%
8	LG	LACLEDE GROUP, INC.	1.50	44.02	= 3.41%
9	NUR	NEW JERSEY RESOURCES CORPORATION	1.12	34.90	= 3.21%
10	GAS	NICOR, INC.	1.86	43.27	= 4.30%
11	NWN	NORTHWEST NATURAL GAS CO.	1.50	47.01	= 3.19%
12	PNY	PIEDMONT NATURAL GAS COMPANY	1.04	27.86	= 3.73%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	1.08	35.62	= 3.03%
14	SWX	SOUTHWEST GAS CORPORATION	0.90	29.30	= 3.07%
15	WGL	WGL HOLDINGS, INC.	1.44	33.01	= 4.36%
16		NATURAL GAS LDC AVERAGE			3.83%

REFERENCES:

COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 07/25/2008 (WATER COMPANIES) AND 09/12/2008 (NATURAL GAS LDC's).
COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 07/21/2008 TO 09/12/2008
COLUMN (C): STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).

CHAPARRAL CITY WATER COMPANY, INC
TEST YEAR ENDED DECEMBER 31, 2006
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-02113A-07-0551
SCHEDULE WAR - 4, PAGE 1 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	AWR	AMERICAN STATES WATER CO.	6.50%	+	1.43%	=	7.93%
2	CWT	CALIFORNIA WATER SERVICE GROUP	4.75%	+	1.75%	=	6.50%
3	SWWC	SOUTHWEST WATER COMPANY	4.00%	+	1.18%	=	5.18%
4	WTR	AQUA AMERICA, INC.	5.00%	+	0.60%	=	5.60%
5		WATER COMPANY AVERAGE					6.30%
6	ATG	AGL RESOURCES, INC.	5.50%	+	0.25%	=	5.75%
7	ATO	ATMOS ENERGY CORP.	4.00%	+	0.32%	=	4.32%
8	LG	LACLEDE GROUP, INC.	4.75%	+	1.37%	=	6.12%
9	NJR	NEW JERSEY RESOURCES CORPORATION	6.25%	+	0.63%	=	6.88%
10	GAS	NICOR, INC.	6.25%	+	0.04%	=	6.29%
11	NWN	NORTHWEST NATURAL GAS CO.	4.75%	+	0.49%	=	5.24%
12	PNY	PIEDMONT NATURAL GAS COMPANY	4.75%	+	0.01%	=	4.76%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	9.25%	+	1.23%	=	10.48%
14	SWX	SOUTHWEST GAS CORPORATION	5.50%	+	0.28%	=	5.78%
15	WGL	WGL HOLDINGS, INC.	4.00%	+	0.06%	=	4.06%
16		NATURAL GAS LDC AVERAGE					5.97%

REFERENCES:

COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

CHAPARRAL CITY WATER COMPANY, INC
TEST YEAR ENDED DECEMBER 31, 2006
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-02113A-07-0551
SCHEDULE WAR -4, PAGE 2 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	(B) $x \{ [((M + B) + 1) + 2] - 1 \}$	(C) EXTERNAL GROWTH (sv)
1	AWR	AMERICAN STATES WATER CO.	2.50%	$x \{ [((2.15) + 1) + 2] - 1 \}$	= 1.43%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.50%	$x \{ [((2.00) + 1) + 2] - 1 \}$	= 1.75%
3	SWWC	SOUTHWEST WATER COMPANY	3.50%	$x \{ [((1.68) + 1) + 2] - 1 \}$	= 1.18%
4	WTR	AQUA AMERICA, INC.	1.00%	$x \{ [((2.21) + 1) + 2] - 1 \}$	= 0.60%
5	WATER COMPANY AVERAGE				<div>1.24%</div>
6	ATG	AGL RESOURCES, INC.	1.00%	$x \{ [((1.50) + 1) + 2] - 1 \}$	= 0.25%
7	ATO	ATMOS ENERGY CORP.	5.00%	$x \{ [((1.13) + 1) + 2] - 1 \}$	= 0.32%
8	LG	LACLEDE GROUP, INC.	3.00%	$x \{ [((1.91) + 1) + 2] - 1 \}$	= 1.37%
9	NJR	NEW JERSEY RESOURCES CORPORATION	1.00%	$x \{ [((2.26) + 1) + 2] - 1 \}$	= 0.63%
10	GAS	NICOR, INC.	0.07%	$x \{ [((2.07) + 1) + 2] - 1 \}$	= 0.04%
11	NWN	NORTHWEST NATURAL GAS CO.	1.00%	$x \{ [((1.99) + 1) + 2] - 1 \}$	= 0.49%
12	PNY	PIEDMONT NATURAL GAS COMPANY	0.01%	$x \{ [((2.24) + 1) + 2] - 1 \}$	= 0.01%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	2.00%	$x \{ [((2.23) + 1) + 2] - 1 \}$	= 1.23%
14	SWX	SOUTHWEST GAS CORPORATION	2.50%	$x \{ [((1.23) + 1) + 2] - 1 \}$	= 0.28%
15	WGL	WGL HOLDINGS, INC.	0.20%	$x \{ [((1.56) + 1) + 2] - 1 \}$	= 0.06%
16	NATURAL GAS LDC AVERAGE				<div>0.47%</div>

REFERENCES:

COLUMN (A): TESTIMONY, WAR

COLUMN (B): VALUE LINE INVESTMENT SURVEY

- RATINGS & REPORTS DATED 07/25/2008 (WATER COMPANIES) AND 09/12/2008 (NATURAL GAS LDC's)

COLUMN (C): COLUMN (A) x COLUMN (B)

LINE NO.	STOCK SYMBOL	WATER COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (r)	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AWR	AMERICAN STATES WATER CO.	2003	-0.1282	5.60%	NMF	13.97	15.21	
2			2004	0.1524	6.60%	1.01%	15.01	16.75	
3			2005	0.3182	8.50%	2.70%	15.72	16.80	
4			2006	0.3158	8.10%	2.56%	16.64	17.05	
5			2007	0.4074	9.30%	3.79%	17.53	17.23	
6			GROWTH 2003 - 2007			2.51%	4.50%		3.17%
7			2008	0.3939	9.50%	3.74%		17.75	3.02%
8			2009	0.4162	11.00%	4.58%		18.00	2.21%
9			2011-13	0.5200	13.50%	7.02%	3.00%	19.00	1.97%
10									
11	CWT	CALIFORNIA WATER SERVICE GROUP	2003	0.0744	7.90%	0.59%	14.44	16.93	
12			2004	0.2260	9.00%	2.03%	15.66	18.37	
13			2005	0.2245	9.30%	2.09%	15.79	18.39	
14			2006	0.1418	6.80%	0.96%	18.15	20.66	
15			2007	0.2267	8.10%	1.84%	18.50	20.67	
16			GROWTH 2003 - 2007			1.50%	6.00%		5.12%
17			2008	0.2688	8.50%	2.28%		21.25	2.81%
18			2009	0.3622	9.50%	3.44%		21.75	2.58%
19			2011-13	0.4851	11.00%	5.34%	4.00%	25.00	3.88%
20									
21	SWWC	SOUTHWEST WATER COMPANY	2003	0.6364	9.10%	5.79%	4.90	16.17	
22			2004	0.2174	3.60%	0.78%	6.17	20.36	
23			2005	0.4118	5.00%	2.06%	6.49	22.33	
24			2006	0.4750	5.60%	2.66%	6.98	23.80	
25			2007	0.2581	3.50%	0.90%	5.98	24.27	
26			GROWTH 2003 - 2007			2.44%	11.50%		5.12%
27			2008	0.2000	4.50%	0.90%		25.00	3.01%
28			2009	0.3500	6.00%	2.10%		26.00	3.50%
29			2011-13	0.5714	9.00%	5.14%	3.00%	28.00	2.90%
30									
31	WTR	AQUA AMERICA, INC.	2003	0.3860	10.20%	3.94%	5.34	123.45	
32			2004	0.4219	10.70%	4.51%	5.89	127.18	
33			2005	0.4366	11.20%	4.89%	6.30	128.97	
34			2006	0.3714	10.00%	3.71%	6.96	132.33	
35			2007	0.3239	9.70%	3.14%	7.32	133.40	
36			GROWTH 2003 - 2007			4.04%	10.50%		5.12%
37			2008	0.4118	11.00%	4.53%		134.50	0.82%
38			2009	0.4105	11.50%	4.72%		135.50	0.78%
39			2011-13	0.4333	12.00%	5.20%	6.50%	139.00	0.83%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY

- RATINGS & REPORTS DATED 07/25/2008

COLUMN (C): COLUMN (A) x COLUMN (B)

COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2003 - 2007

COLUMN (D): VALUE LINE INVESTMENT SURVEY

COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE

COLUMN (E): VALUE LINE INVESTMENT SURVEY

COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (f) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	ATG	AGL RESOURCES, INC.	2003	0.4663	14.00%	6.53%	14.66	64.50	
2			2004	0.4956	11.00%	5.45%	18.06	76.70	
3			2005	0.4756	6.14%	6.14%	19.29	77.70	
4			2006	0.4559	13.20%	6.02%	20.71	77.70	
5			2007	0.3971	12.70%	5.04%	21.74	76.40	
6			GROWTH 2003 - 2007			5.84%	10.50%		4.32%
7			2008	0.3891	12.50%	4.86%		77.00	0.79%
8			2009	0.3965	12.50%	4.96%		78.00	1.04%
9			2011-13	0.4159	14.00%	5.82%	1.50%	80.00	0.93%
10									
11	ATO	ATMOS ENERGY CORP.	2003	0.2982	9.30%	2.77%	16.66	51.48	
12			2004	0.2278	7.60%	1.73%	18.05	62.80	
13			2005	0.2791	8.50%	2.37%	19.90	80.54	
14			2006	0.3700	9.80%	3.63%	20.16	81.74	
15			2007	0.3402	8.70%	2.96%	22.01	89.33	
16			GROWTH 2003 - 2007			2.69%	9.00%		14.77%
17			2008	0.3434	8.50%	2.92%		91.00	1.87%
18			2009	0.3714	8.50%	3.16%		95.00	3.12%
19			2011-13	0.4286	9.50%	4.07%	3.50%	115.00	5.18%
20									
21	LG	LACLEDE GROUP, INC.	2003	0.2637	11.60%	3.06%	15.65	19.11	
22			2004	0.2582	10.10%	2.61%	16.96	20.98	
23			2005	0.2789	10.90%	3.04%	17.31	21.17	
24			2006	0.4093	12.50%	5.12%	18.85	21.36	
25			2007	0.3723	11.60%	4.32%	19.79	21.65	
26			GROWTH 2003 - 2007			3.63%	4.50%		3.17%
27			2008	0.4582	12.00%	5.50%		22.00	1.62%
28			2009	0.3880	11.00%	4.27%		22.50	1.94%
29			2011-13	0.4211	11.50%	4.84%	5.50%	25.50	3.33%
30									
31	NJR	NEW JERSEY RESOURCES CORPORATION	2003	0.4780	15.60%	7.46%	10.26	40.85	
32			2004	0.4882	15.30%	7.47%	11.25	41.61	
33			2005	0.4856	17.00%	8.26%	10.60	41.32	
34			2006	0.4866	12.60%	6.13%	15.00	41.44	
35			2007	0.3484	10.10%	3.52%	15.50	41.61	
36			GROWTH 2003 - 2007			6.57%	10.00%		0.46%
37			2008	-0.0091	7.00%	NMIF		42.00	0.94%
38			2009	0.4558	12.50%	5.70%		42.50	1.06%
39			2011-13	0.5143	12.50%	6.43%	9.00%	44.00	1.12%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 09/12/2008
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (D): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2003 - 2007

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (f)	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	GAS	NICOR, INC.	2003	0.1185	12.30%	1.46%	17.13	44.04	
2			2004	0.1622	13.10%	2.12%	16.99	44.10	
3			2005	0.1806	12.50%	2.26%	12.50	44.18	
4			2006	0.3519	14.70%	5.17%	19.43	44.90	
5			2007	0.3779	14.30%	5.40%	20.58	45.90	
6			GROWTH 2003 - 2007			3.28%	4.00%		1.04%
7			2008	0.2250	11.50%	2.59%		45.00	-1.96%
8			2009	0.2846	12.00%	3.42%		45.00	-0.99%
9			2011-13	0.4904	14.00%	6.87%	5.00%	45.00	-0.40%
10									
11	NWN	NORTHWEST NATURAL GAS CO.	2003	0.2784	9.00%	2.51%	19.52	25.94	
12			2004	0.3011	8.90%	2.68%	20.64	27.55	
13			2005	0.3744	9.90%	3.71%	21.28	27.58	
14			2006	0.4085	10.90%	4.45%	22.01	27.24	
15			2007	0.4783	12.50%	5.98%	22.52	26.41	
16			GROWTH 2003 - 2007			3.86%	3.50%		0.45%
17			2008	0.4154	11.50%	4.78%		26.50	0.34%
18			2009	0.4286	11.50%	4.93%		26.50	0.17%
19			2011-13	0.4388	11.00%	4.83%	3.50%	28.00	1.18%
20									
21	PNY	PIEDMONT NATURAL GAS COMPANY	2003	0.2613	11.80%	3.08%	9.36	67.31	
22			2004	0.3307	11.10%	3.67%	11.15	76.67	
23			2005	0.3106	11.50%	3.57%	11.53	76.70	
24			2006	0.2520	11.00%	2.77%	11.83	74.61	
25			2007	0.2929	11.90%	3.49%	11.99	73.23	
26			GROWTH 2003 - 2007			3.32%	6.50%		2.13%
27			2008	0.3355	12.50%	4.19%		73.00	-0.31%
28			2009	0.3313	12.50%	4.14%		72.75	-0.33%
29			2011-13	0.3897	13.00%	5.07%	4.00%	72.00	-0.34%
30									
31	SJI	SOUTH JERSEY INDUSTRIES, INC.	2003	0.4307	11.60%	5.00%	11.26	26.46	
32			2004	0.4810	12.50%	6.01%	12.41	27.76	
33			2005	0.4971	12.40%	6.16%	13.50	28.98	
34			2006	0.6260	16.30%	10.20%	15.11	29.33	
35			2007	0.5167	12.80%	6.61%	16.25	29.61	
36			GROWTH 2003 - 2007			6.80%	12.50%		2.85%
37			2008	0.5217	14.50%	7.57%		30.00	1.32%
38			2009	0.5360	15.00%	8.04%		31.00	2.32%
39			2011-13	0.5733	16.50%	9.46%	3.50%	33.00	2.19%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 09/12/2008
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (D): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2003 - 2007

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 09/12/2008
COLUMNS (C): COLUMN (A) x COLUMN (B)
COLUMNS (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2003 - 2007

CHAPARRAL CITY WATER COMPANY, INC
TEST YEAR ENDED DECEMBER 31, 2006
GROWTH RATE COMPARISON

DOCKET NO. W-02113A-07-0551
SCHEDULE WAR - 6

WATER COMPANY SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED DPS	BVPS	EPS	(D) VALUE LINE HISTORIC DPS	BVPS	(E) VALUE LINE & ZACKS AVGS.	EPS	(F) 5 - YEAR COMPOUND HISTORY DPS	BVPS
1	AWR	7.93%	10.00%	5.00%	3.00%	1.50%	1.50%	4.50%	5.07%	20.05%	2.20%	5.84%
2	CWT	6.50%	9.30%	1.00%	3.50%	4.50%	0.50%	6.00%	4.22%	5.52%	0.88%	6.39%
3	SWWC	5.18%	8.50%	6.00%	3.00%	-19.50%	9.00%	11.50%	4.36%	-8.38%	9.50%	5.11%
4	WTR	5.60%	8.80%	7.50%	6.50%	7.00%	7.50%	10.50%	8.11%	5.84%	8.22%	8.20%
5				4.88%	4.00%	-1.63%	4.63%	8.13%		5.71%	5.20%	6.38%
6	AVERAGES	6.30%	9.15%	5.94%			3.71%		5.44%		5.76%	

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED DPS	BVPS	EPS	(D) VALUE LINE HISTORIC DPS	BVPS	(E) VALUE LINE & ZACKS AVGS.	EPS	(F) 5 - YEAR COMPOUND HISTORY DPS	BVPS
1	ATG	5.75%	4.80%	4.00%	1.50%	15.00%	4.00%	10.50%	6.11%	6.94%	10.25%	10.35%
2	ATO	4.32%	5.40%	2.00%	3.50%	7.50%	1.50%	9.00%	4.77%	3.21%	1.63%	7.21%
3	LG	6.12%	10.00%	2.50%	5.50%	9.50%	1.00%	4.50%	5.36%	6.14%	1.96%	6.04%
4	NJR	6.88%	8.00%	6.00%	9.00%	6.00%	4.00%	10.00%	7.36%	-0.63%	5.03%	10.87%
5	GAS	6.28%	5.80%	5.00%	5.00%	-1.50%	1.00%	4.00%	3.22%	9.11%	0.00%	4.89%
6	NWN	5.24%	6.50%	5.50%	3.50%	6.50%	2.00%	3.50%	4.93%	11.90%	3.19%	3.64%
7	PNY	4.76%	5.60%	4.00%	4.00%	6.00%	4.50%	6.50%	5.37%	5.97%	4.82%	6.39%
8	SJI	10.48%	7.80%	5.50%	3.50%	12.50%	4.50%	12.50%	7.47%	11.14%	6.67%	9.80%
9	SWX	5.78%	8.00%	4.00%	4.00%	6.00%	-	3.50%	5.50%	14.61%	1.20%	5.69%
10	WGL	4.06%	7.50%	2.50%	5.00%	5.00%	1.50%	3.50%	4.07%	-2.25%	1.71%	5.10%
11				4.00%	4.45%	7.25%	2.67%	6.75%		6.61%	3.65%	6.96%
12	AVERAGES	5.97%	6.94%	4.70%			5.56%		5.42%		5.74%	

REFERENCES:

COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 07/25/2008 (WATER COMPANIES) AND 09/12/2008 (NATURAL GAS LDC's)
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 07/25/2008 (WATER COMPANIES) AND 09/12/2008 (NATURAL GAS LDC's)
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1, 3, 5 AND 7
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 07/25/2008 (WATER COMPANIES) AND 09/12/2008 (NATURAL GAS LDC's)

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	(A)					(B)
		k	=	r _f	+	[β x (r _m - r _f)]	EXPECTED RETURN
1	AWR	k	=	2.95%	+	[1.05 x (10.40% - 5.50%)]	= 8.10%
2	CWT	k	=	2.95%	+	[1.15 x (10.40% - 5.50%)]	= 8.59%
3	SWWC	k	=	2.95%	+	[1.05 x (10.40% - 5.50%)]	= 8.10%
4	WTR	k	=	2.95%	+	[0.95 x (10.40% - 5.50%)]	= 7.61%
5	WATER COMPANY AVERAGE					<u>1.05</u>	<u>8.10%</u>
6	ATG	k	=	2.95%	+	[0.85 x (10.40% - 5.50%)]	= 7.12%
7	ATO	k	=	2.95%	+	[0.80 x (10.40% - 5.50%)]	= 6.87%
8	LG	k	=	2.95%	+	[0.80 x (10.40% - 5.50%)]	= 6.87%
9	NJR	k	=	2.95%	+	[0.80 x (10.40% - 5.50%)]	= 6.87%
10	GAS	k	=	2.95%	+	[0.90 x (10.40% - 5.50%)]	= 7.36%
11	NWN	k	=	2.95%	+	[0.75 x (10.40% - 5.50%)]	= 6.63%
12	PNY	k	=	2.95%	+	[0.80 x (10.40% - 5.50%)]	= 6.87%
13	SJI	k	=	2.95%	+	[0.80 x (10.40% - 5.50%)]	= 6.87%
14	SWX	k	=	2.95%	+	[0.80 x (10.40% - 5.50%)]	= 6.87%
15	WGL	k	=	2.95%	+	[0.85 x (10.40% - 5.50%)]	= 7.12%
16	NATURAL GAS LDC AVERAGE					<u>0.82</u>	<u>6.94%</u>

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
β = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) THE 5-YEAR U.S. TREASURY CONSTANT MATURITY RATE THAT APPEARED IN VALUE LINE INVESTMENT SURVEY "SELECTION & OPINIONS" PUBLICATION DATED 09/12/2008 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE MARKET RATE PROXY USED WAS THE GEOMETRIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2007 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2008 YEARBOOK.

CHAPARRAL CITY WATER COMPANY, INC
TEST YEAR ENDED DECEMBER 31, 2006
CAPM COST OF EQUITY CAPITAL

DOCKET NO. W-02113A07-0551
SCHEDULE WAR - 7, PAGE 2 OF 2

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	(A)					(B) EXPECTED RETURN
		k	=	r _f	+	[β x (r _m - r _f)]	=
1	AWR	k	=	2.95%	+	[1.05 x (12.30% - 5.80%)]	= 9.78%
2	CWT	k	=	2.95%	+	[1.15 x (12.30% - 5.80%)]	= 10.43%
3	SWWC	k	=	2.95%	+	[1.05 x (12.30% - 5.80%)]	= 9.78%
4	WTR	k	=	2.95%	+	[0.95 x (12.30% - 5.80%)]	= 9.13%
5	WATER COMPANY AVERAGE					1.05	9.78%
6	ATG	k	=	2.95%	+	[0.85 x (12.30% - 5.80%)]	= 8.48%
7	ATO	k	=	2.95%	+	[0.80 x (12.30% - 5.80%)]	= 8.15%
8	LG	k	=	2.95%	+	[0.80 x (12.30% - 5.80%)]	= 8.15%
9	NJR	k	=	2.95%	+	[0.80 x (12.30% - 5.80%)]	= 8.15%
10	GAS	k	=	2.95%	+	[0.90 x (12.30% - 5.80%)]	= 8.80%
11	NWN	k	=	2.95%	+	[0.75 x (12.30% - 5.80%)]	= 7.83%
12	PNY	k	=	2.95%	+	[0.80 x (12.30% - 5.80%)]	= 8.15%
13	SJI	k	=	2.95%	+	[0.80 x (12.30% - 5.80%)]	= 8.15%
14	SWX	k	=	2.95%	+	[0.80 x (12.30% - 5.80%)]	= 8.15%
15	WGL	k	=	2.95%	+	[0.85 x (12.30% - 5.80%)]	= 8.48%
16	NATURAL GAS LDC AVERAGE					0.82	8.25%

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
β = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) THE 5-YEAR U.S. TREASURY CONSTANT MATURITY RATE THAT APPEARED IN VALUE LINE INVESTMENT SURVEY "SELECTION & OPINIONS" PUBLICATION DATED 09/12/2008 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2007 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION, 2008 YEARBOOK.

CHAPARRAL CITY WATER COMPANY, INC
TEST YEAR ENDED DECEMBER 31, 2006
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. W-02113A-07-0551
SCHEDULE WAR - 8

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1996 \$)	(C) PRIME RATE	(D) FED. DISC. RATE	(E) FED. FUNDS RATE	(F) 91-DAY T-BILLS	(G) 30-YR T-BONDS	(H) A-RATED UTIL. BOND YIELD	(I) Baa-RATED UTIL. BOND YIELD
1	1990	5.40%	1.90%	10.01%	6.98%	8.10%	7.50%	7.49%	9.86%	10.08%
2	1991	4.21%	-0.20%	8.46%	5.45%	5.69%	5.38%	5.38%	9.36%	9.55%
3	1992	3.01%	3.30%	6.25%	3.25%	3.52%	3.43%	3.43%	8.69%	8.86%
4	1993	2.99%	2.70%	6.00%	3.00%	3.02%	3.00%	3.00%	7.59%	7.91%
5	1994	2.56%	4.00%	7.14%	3.60%	4.21%	4.25%	4.25%	8.31%	8.63%
6	1995	2.83%	2.50%	8.83%	5.21%	5.83%	5.49%	5.49%	7.89%	8.29%
7	1996	2.95%	3.70%	8.27%	5.02%	5.30%	5.01%	5.01%	7.75%	8.17%
8	1997	1.70%	4.50%	8.44%	5.00%	5.46%	5.06%	5.06%	7.60%	8.12%
9	1998	1.60%	4.20%	8.35%	4.92%	5.35%	4.78%	4.78%	7.04%	7.27%
10	1999	2.70%	4.50%	7.99%	4.62%	4.97%	4.64%	4.64%	7.62%	7.88%
11	2000	3.40%	3.70%	9.23%	5.73%	6.24%	5.82%	5.82%	8.24%	8.36%
12	2001	1.60%	0.80%	6.92%	3.41%	3.88%	3.40%	3.40%	7.59%	8.02%
13	2002	2.40%	1.60%	4.67%	1.17%	1.67%	1.61%	1.61%	7.41%	7.98%
14	2003	1.90%	2.50%	4.12%	2.03%	1.13%	1.01%	1.01%	6.18%	6.64%
15	2004	3.30%	3.60%	4.34%	2.34%	1.35%	1.37%	1.37%	5.77%	6.20%
16	2005	3.40%	2.90%	6.16%	4.19%	3.22%	3.15%	4.57%	5.38%	5.78%
17	2006	2.50%	2.80%	7.97%	5.96%	4.97%	4.73%	4.91%	5.94%	6.30%
18	2007	4.10%	2.00%	8.05%	5.86%	5.02%	4.36%	4.84%	6.07%	6.24%
19	CURRENT	0.80%	1.90%	5.00%	2.25%	2.00%	1.68%	4.32%	6.13%	6.54%

REFERENCES:

COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (G) THROUGH (F): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 09/12/2008
COLUMN (G) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 09/12/2008
COLUMN (H) THROUGH (J): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORTS
COLUMN (H) THROUGH (I): 2001, MERGENT 2002 PUBLIC UTILITY MANUAL
COLUMN (H) THROUGH (I): 2003 MERGENT NEWS REPORTS

CHAPARRAL CITY WATER COMPANY, INC
TEST YEAR ENDED DECEMBER 31, 2006
CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. W-02113A-07-0551
SCHEDULE WAR - 9

AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES

LINE NO.		AWR	PCT.	CWT	PCT.	SWWC	PCT.	WTR	PCT.	WATER COMPANY AVERAGE	PCT.
1	DEBT	\$ 267.2	46.9%	\$ 289.2	42.6%	\$ 66.8	29.6%	\$ 1,215.0	55.4%	\$ 459.6	50.2%
2	PREFERRED STOCK	0.0	0.0%	3.5	0.5%	0.5	0.2%	0.0	0.0%	1.0	0.1%
3	COMMON EQUITY	302.1	53.1%	385.7	56.9%	158.7	70.2%	976.3	44.6%	455.7	49.7%
4	TOTALS	\$ 569.3	100%	\$ 678.4	100%	\$ 226.0	100%	\$ 2,191.3	100%	\$ 916.2	100%

AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES

LINE NO.		ATG	PCT.	ATO	PCT.	LG	PCT.	NJR	PCT.	GAS	PCT.
1	DEBT	\$ 1,674.0	50.2%	\$ 1,602.4	42.3%	\$ 355.5	45.3%	\$ 383.1	37.3%	\$ 502.2	34.7%
2	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.6	0.1%	0.0	0.0%	0.6	0.0%
3	COMMON EQUITY	1,661.0	49.8%	2,183.1	57.7%	428.4	54.6%	644.8	62.7%	945.2	65.3%
4	TOTALS	\$ 3,335.0	100%	\$ 3,785.5	100%	\$ 784.5	100%	\$ 1,027.9	100%	\$ 1,448.0	100%
5		NWN	PCT.	PNY	PCT.	SJI	PCT.	SWX	PCT.	WGL	PCT.
6	DEBT	\$ 517.0	46.5%	\$ 1,020.4	53.7%	\$ 358.0	42.7%	\$ 1,275.1	54.1%	\$ 637.3	38.7%
7	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.0	0.0%	100.0	4.2%	28.2	1.7%
8	COMMON EQUITY	594.8	53.5%	878.4	46.3%	481.0	57.3%	983.7	41.7%	980.8	59.6%
9	TOTALS	\$ 1,111.8	100%	\$ 1,898.8	100%	\$ 839.0	100%	\$ 2,358.8	100%	\$ 1,646.3	100%

	NATURAL GAS LDC AVERAGE	PCT.	WATER & LDC AVERAGE	PCT.
DEBT	\$ 832.5	45.7%	\$ 646.0	47.2%
PREFERRED STOCK	12.9	0.7%	6.5	0.5%
COMMON EQUITY	978.1	53.6%	716.9	52.4%
TOTALS	\$ 1,823.6	100%	\$ 1,369.4	100%

REFERENCE:
MOST RECENT SEC 10-K FILINGS OR ANNUAL REPORTS

CHAPARRAL CITY WATER COMPANY, INC.

DOCKET NO. W-02113A-07-0551

**DIRECT TESTIMONY
ON REQUIRED REVENUE AND RATE DESIGN
OF
TIMOTHY J. COLEY**

**ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE**

SEPTEMBER 30, 2008

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33

1 INTRODUCTION

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

4 A. My name is Timothy J. Coley. My business address is 1110 W. Washington,
5 Suite 220, Phoenix, Arizona 85007.

6
7 Q. In what capacity and by who are you employed?

8 A. I am a Public Utilities Analyst V employed by the Residential Utility Consumer
9 Office ("RUCO").

10
11 Q. Please state your educational background and qualifications in utility regulation.

12 A. Appendix 1, which is attached to this testimony, describes my educational
13 background and includes a list of the rate case and regulatory matters in which I
14 have participated.

15
16 Q. Have you previously testified in rate proceedings before the Arizona Corporation
17 Commission?

18 A. Yes. I have previously presented testimony regarding revenue requirements in
19 rate case proceedings before the Arizona Corporation Commission (hereafter
20 referred to as "ACC" or "Commission").

21
22 Q. Please state the purpose of your testimony.

23 A. The purpose of my testimony is to present findings and recommendations
24 resulting from my analysis and review of the Chaparral City Water Company, Inc.

1 (hereafter referred to as "Chaparral", or "Company") Rate Application for a
2 permanent rate increase. Chaparral is engaged in providing water service to an
3 area in eastern Maricopa County, Arizona, including the Town of Fountain Hills.
4 During the test-year ended December 31, 2006, Chaparral served approximately
5 13,500 customers.

6
7 Q. What aspects of the Company's rate request will you address in your testimony?

8 A. I will sponsor RUCO's recommended original cost rate base ("OCRB") items,
9 reconstruction cost new less depreciation ("RCND" or "RCN") rate base items,
10 operating income and expenses, and rate design. RUCO witness William A.
11 Rigsby is sponsoring RUCO's recommended cost of capital and capital structure
12 issues. Mr. Rigsby will also sponsor testimony on Chaparral's request to recover
13 legal expenses associated with the Company's appeal of Decision No. 68176.

14
15 Q. Please describe your participation and work effort on this project.

16 A. I performed the following procedures to determine whether sufficient, relevant,
17 and reliable evidence exists to support the financial data and claims in the
18 Company's application: reviewed and analyzed the Company's application and
19 supporting work papers, reviewed all other intervenors' data requests, prepared
20 written data requests and evaluated the Company's responses, contacted
21 Company witness, Mr. Thomas Bourassa, for other information, reviewed annual
22 reports and prior Commission decisions regarding Chaparral.

1 Q. Please identify the exhibits and schedules that you are sponsoring.

2 A. My testimony is composed of rate base and operating income schedules for
3 Chaparral. The schedules are labeled TJC-1 through TJC-45.

4
5 Q. Does your silence on any issues or matters pertaining to the Company's
6 application constitute RUCO's acceptance of the Company's position?

7 A. No.

8

9 **THE TEST YEAR**

10 Q. What historical test-year did the Company utilize in its rate application?

11 A. The Company chose a test year ending December 31, 2006 ("Test Year").

12

13 Q. Does RUCO agree with the Company's chosen historical Test Year?

14 A. Yes.

15

16 **REVENUE REQUIREMENTS**

17 Q. Please summarize the results of your analyses for Chaparral City Water and your
18 recommended revenue requirement.

19 A. Chaparral's revenue should be increased by no more than \$1,062,786. This
20 recommendation is summarized on Schedule TJC-1. My recommended original
21 cost rate base ("OCRB") is \$21,328,051. My recommended RCND rate base is
22 \$33,674,604. The average OCRB and RCND rate base equals the fair value rate
23 base ("FVRB") in the amount of \$27,501,327 for Chaparral. This information is

1 shown on Schedule TJC-2. The detail supporting the OCRB is presented on
2 Schedules TJC-3 while the detail supporting the RCND rate base is shown on
3 Schedule TJC-13. The Company has requested that its FVRB be used for
4 setting its rates in this application. My adjusted test year operating income of
5 \$1,101,299 is detailed and presented on Schedule TJC-31. My recommended
6 adjusted operating income of \$1,753,854 is shown on Schedule TJC-30.

7
8 **SUMMARY**

9 Q. Please summarize the recommendations and adjustments you cite in your
10 testimony.

11 A. The following recommended adjustments summarize my testimony:

12
13 **Original Cost Rate Base ("OCRB") Adjustments:**

14 Adj. #1 – Intentionally Left Blank

15
16 Adj. #2 – Intentionally Left Blank

17
18 Adj. #3 – Remove Wells 8 & 9 – This adjustment removes well numbers 8 & 9
19 from Gross Utility Plant in Service ("GUPIS") and reduces plant by \$103,468. A
20 corresponding adjustment of \$103,468 to accumulated depreciation is necessary
21 to eliminate the related accumulated depreciation. These two wells are no longer
22 in service.

1 Adj. #4 – Intentionally Left Blank

2
3 Adj. #5 – Remove Shea Treatment Plant #1 - This adjustment removes Shea
4 Treatment Plant #1 from GUPIS and reduces plant by \$2,010,923. A
5 corresponding adjustment to accumulated depreciation is necessary in the
6 amount of \$2,010,923 to eliminate the related accumulated depreciation. This
7 plant has not been in service since 2003.

8
9 Adj. #6 – Capitalize Expensed Plant Items – This adjustment increases GUPIS
10 by \$43,217. The Company expensed some plant items that are more
11 appropriately capitalized because they have an estimated useful life of 12 – 15
12 years. A corresponding adjustment to decrease the appropriate expense will be
13 discussed later in the operating income section.

14
15 Adj. #7 – Intentionally Left Blank

16
17 Adj. #8 – Intentionally Left Blank

18
19 Adj. #9 - Accumulated Depreciation – This adjustment decreases accumulated
20 depreciation by \$76. It reflects RUCO's recommended accumulated depreciation
21 balance since the Company's last rate case. The adjustment is the result of my
22 analysis, which used the Commission - approved level of plant in the Company's
23 prior rate case as a starting point, and then reconstructed all subsequent plant

1 additions, retirements, adjustments, and transfers using the ACC approved
2 depreciation rates.

3
4 Adj. #10 – General Office Plant and Accumulated Depreciation – This adjustment
5 reduces General Office plant by \$95,944 and accumulated depreciation by
6 \$51,498. The adjustment corrects the Company's 4-Factor General Office
7 allocation factor from 3.21 percent to 2.8 percent.

8
9 Adj. #11 – Remove Post-Test-Year General Office Plant – This adjustment
10 removes post-test-year plant and reduces General Office plant by \$15,434.

11
12 Adj. #12 – Intentionally Left Blank

13
14 Adj. #13 – Intentionally Left Blank

15
16 Adj. #14 – Contributions in Aid of Construction ("CIAC") – This adjustment
17 increases CIAC and OCRB by \$1,523. The Company used an amortization rate
18 that was different than authorized in Commission Decision No. 68176.

19
20 Adj. #15 – Additional Central Arizona Project ("CAP") Allocation – This
21 adjustment removes the additional CAP allocation as not used and useful. It
22 reduces OCRB by \$1,280,000.

1 Adj. #16 – Working Capital – This adjustment reduces working capital in the
2 amount of \$111,606 by including a cash working capital calculation that the
3 Company failed to provide in its rate application.

4
5 **Reconstruction Cost New less Depreciation (“RCND” or “RCN”) Rate Base**

6 **Adjustments:**

7 Adj. #1 – Reconstruction Cost New (“RCN”) Factor Rounding – The adjustment
8 decreases RCN direct plant by \$118 and corrects the Company’s truncating of
9 the RCN factor when trending the plant up to reconstruction cost new values.

10
11 Adj. #2 – Correct Plant Account 304 RCN Index Factors on Three Line Items –
12 This adjustment reduces both GUPIS and accumulated depreciation by \$17,807
13 and \$4,411 respectively. It corrects the RCN Index Factors for three direct plant
14 line items in account 304.

15
16 Adj. #3 – Remove Wells 8 & 9 – This adjustment removes well numbers 8 & 9
17 from RCN GUPIS. It reduces both plant and accumulated depreciation by
18 \$435,284. These two wells are no longer in service.

19
20 Adj. #4 – Remove RCN Double Count of Plant Transfers Authorized in
21 Commission Decision No. 68176 – This adjustment removes a double count from
22 the RCN UPIS that was previously authorized in Commission Decision No.
23 68176.

1 Adj. #5 – Remove Shea Treatment Plant #1 - This adjustment removes Shea
2 Treatment Plant #1 from RCN GUPIS and reduces plant and accumulated
3 depreciation by \$3,262,891. This plant has not been in service since 2003.

4
5 Adj. #6 – Capitalize Expensed Plant Items – This adjustment increases GUPIS
6 by \$43,217. The Company expensed some plant items that are more
7 appropriately capitalized because they have an estimated useful life of 12 – 15
8 years. A corresponding adjustment to decrease the appropriate expense will be
9 discussed later in the operating income section.

10
11 Adj. #7 – RCN Direct GUPIS Reconciliation Rounding Adjustment – This
12 adjustment is necessary to reconcile to RUCO's level of RCN GUPIS. It
13 increases GUPIS by \$35.

14
15 Adj. #8 – RCN Direct Plant Accumulated Depreciation Adjustment – This
16 adjustment decreases RCN direct plant accumulated depreciation by \$370,826 to
17 reconcile with RUCO's level of RCN accumulated depreciation.

18
19 Adj. #9 – Intentionally Left Blank

20
21 Adj. #10 – General Office RCN Plant and Accumulated Depreciation – This
22 adjustment decreases both plant and accumulated depreciation by \$126,720 and

1 \$67,617 respectively. It corrects the Company's 4-Factor General Office
2 allocation factor from 3.21 percent to 2.8 percent.

3
4 Adj. #11 – Remove Post-Test-Year General Office Plant – This adjustment
5 removes post-test-year plant, reduces General Office plant by \$15,434, and
6 increases accumulated depreciation by \$1,404.

7
8 Adj. #12 – Intentionally Left Blank

9
10 Adj. #13 – Advances in Aid of Construction ("AIAC") – This adjustment reduces
11 AIAC and RCN GUPIS by \$58,999 because any adjustment to GUPIS will cause
12 a change to the AIAC RCN Factor. This will be discussed later in my testimony.

13
14 Adj. #14 – Contributions in Aid of Construction ("CIAC") – This adjustment
15 increases CIAC and RCN GUPIS by \$2,363. The Company used an
16 amortization rate that was different than authorized in Commission Decision No.
17 68176.

18
19 Adj. #15 – Additional Central Arizona Project ("CAP") Allocation – This
20 adjustment removes the additional CAP allocation as not being used and useful
21 and reduces RCN rate base by \$1,280,000.
22

1 Adj. #16 – Working Capital – This adjustment reduces working capital in the
2 amount of \$111,606 by including a cash working capital calculation that the
3 Company failed to provide in its rate application.

4
5 **Operating Income Adjustments:**

6 Adj. #1 – Depreciation & Amortization Expense – This adjustment determines the
7 level of depreciation and amortization expense that should be allowed on a going
8 forward basis. Chaparral requires an adjustment that reduced the level of
9 depreciation and amortization expense by \$91,690.

10
11 Adj. #2 – Property Tax Expense – This adjustment reduces property tax expense
12 by adjusting two factors: 1) the three years of revenue used in the Arizona
13 Department of Revenue (“ADOR”) tax valuation formula and 2) the net book
14 value of the vehicles. The adjustment reduced property tax expense by \$39,883.

15
16 Adj. #3 – Miscellaneous Expense – This adjustment decreases expenses by
17 \$123,366 to reflect an average three-year normalized amount for the account.

18
19 Adj. #4 – Rate Case Expense – This adjustment reduces the Company’s level of
20 rate case expense requested by \$51,538. The adjustment removes unamortized
21 rate case expense related to the Company’s previous rate case. RUCO witness,
22 Mr. Rigsby, will address the issue of additional rate case expense requested by
23 the Company associated with the prior rate case appeal.

1 Adj. #5 – Purchased Water – This adjustment reduces purchased water expense
2 by \$30,001. The adjustment is driven by RUCO's disallowance of the additional
3 CAP allocation and the actual gallons in the revenue annualization calculation.

4
5 Adj. #6 – Outside Services Expense – This adjustment decreases outside
6 services expense by \$71,000 because of a non-recurring expense on a going
7 forward basis.

8
9 Adj. #7 – Water Revenues – This adjustment increases water revenues by
10 \$61,949 due to actual gallons being used rather than estimates in the Company's
11 revenue annualization.

12
13 Adj. #8 – Remove Expensed Plant Items and Capitalize – This adjustment
14 decreases Repairs & Maintenance Expenses by \$43,217. The Company
15 expensed some plant items that are more appropriately capitalized in plant
16 Account 339 – Other Plant and Equipment - because they have an estimated
17 useful life of 12 – 15 years.

18
19 Adj. #9 – Intentionally Left Blank

20
21 Adj. #10 – Purchased Power Expense – This adjustment increases purchased
22 power expense by \$12,149 to pump additional gallons of water derived from the
23 revenue annualization calculation.

1 Adj. #11 – Amortization of Additional CAP Allocation – This adjustment
2 decreases amortization expense by \$64,000 as a result of RUCO's disallowance
3 of an additional Company proposed CAP allocation, which fails to meet the used
4 and useful standard.

5
6 Adj. #12 – Income Tax Expense – This adjustment increases income tax
7 expense by \$260,215 to reflect RUCO's taxable income.

8
9 **Rate Design:**

10 Q. Please describe the Company's present and proposed rate design for Chaparral
11 City Water.

12 A. The Company is proposing the same rate design approved by the Commission in
13 the prior rate case (Decision No. 68176) with one exception. For the irrigation
14 and construction classes, the Company has proposed that the commodity charge
15 be the same as other similar classes (i.e. standpipe and fire sprinkler). Other
16 than that one exception, the rate design appears to be the same.

17
18 Q. What was the Company's rationale to set the irrigation and construction classes'
19 commodity charge to the same level with the standpipe and fire sprinkler
20 customer class?

21 A. Company witness, Mr. Thomas Bourassa, pointed out that the irrigation and
22 construction customer class had the lowest commodity charge regardless of how
23 much was consumed. He stated that the irrigation and construction classes'

1 commodity rate charge was "lower than the first tier of the 3/4 inch metered
2 residential customers."

3
4 Q. Does RUCO agree with Mr. Bourassa's description of his rate design and
5 decision to raise the commodity charge of the irrigation and construction class
6 customers to similar customer classes' commodity charge.

7 A. Yes. We will propose the same rate design using RUCO's recommended
8 amount of increase in rates later in this testimony.

9
10 **ORIGINAL COST RATE BASE ("OCRB"):**

11 **OCRB Adjustment #1 – Intentionally Left Blank**

12
13 **OCRB Adjustment #2 – Intentionally Left Blank**

14
15 **OCRB Adjustment #3 – Remove Wells 8 & 9 – Not in Service**

16 Q. Please explain RUCO's OCRB adjustment to remove Wells 8 & 9.

17 A. RUCO removed Wells 8 & 9 based on the Company's response to Staff data
18 request MEM 7.3, which stated that Wells 8 & 9 are both capped and are out of
19 service. The Company agreed to remove the wells from plant-in-service, stating
20 that the "impact on rate base will be zero."

1 Q. Does RUCO agree with the Company that the impact on rate base will be zero if
2 Wells 8 & 9 were to be removed from OCRB?

3 A. RUCO fully agrees with the Company that the impact on OCRB would be zero if
4 those two wells were to be removed from rate base. If the two wells were
5 removed from rate base corresponding adjustments would also be made to
6 accumulated depreciation, which has a zero effect on rate base.

7
8 Q. Why is the adjustment to remove Wells 8 & 9 necessary if the impact to rate base
9 is zero?

10 A. There are several important reasons to remove the two wells from rate base.
11 First, these wells have not been in service for several years. Second, the
12 Company might continue to record depreciation expense on the wells if they
13 were not removed from rate base. Finally, it is simply not good accounting to
14 allow the wells to remain on the Company's books and records.

15
16 Q. What adjustment does RUCO recommend to remove the inactive wells from rate
17 base so that the Company does not collect depreciation expense from
18 ratepayers?

19 A. RUCO recommends decreasing wells and accumulated depreciation by
20 \$103,468 resulting in a decrease to GUPIS as shown on TJC-7. This adjustment
21 would also be reflected on the depreciation expense Schedule TJC-32.

22
23 **OCRB Adjustment #4 – Intentionally Left Blank**

OCRB Adjustment #5 – Remove Shea Water Treatment Plant 1

Q. Please explain RUCO's reason to remove the Shea Water Treatment Plant 1 from plant in service.

A. In response to Staff data request MSJ 17-3, the Company stated "Shea WTP #1 was taken out of service in 2003." For all the same reasons I stated in RUCO OCRB Adjustment #3, this plant should also be removed from rate base as not being used and useful during the last five years.

Q. What recommendation is RUCO making for the Shea Treatment Plant 1?

A. RUCO recommends decreasing the Water Treatment Equipment account and accumulated depreciation by \$2,010,923 resulting in a decrease to GUPIS as shown on Schedule TJC-8. This adjustment is also reflected in the depreciation expense Schedule TJC-32.

OCRB Adjustment #6 – Capitalize Expensed Plant Items

Q. Would you please explain RUCO's adjustment to capitalize plant items that were originally expensed?

A. Yes. When I reviewed the Company's response to Staff data requests MEM 15.5 and MEM 16.2, the plant items, air release vault boxes, have an estimated useful life of 12 – 15 years as stated by the Company. The Company expensed these items. RUCO believes these items are more appropriately capitalized rather than expensed.

1 Q. What adjustment is necessary to more appropriately capitalize these plant items?

2 A. The adjustment to capitalize the expensed plant items is two-fold. First, it is
3 necessary to reduce Repairs & Maintenance expense by \$43,217, which is
4 shown on Schedule TJC-31 – Adjustment #8. Next, an additional \$43,217
5 should be added to plant account 339 – Other Plant and Equipment, which is
6 reflected on Schedule TJC-32. This results in a decrease to expenses and an
7 increase to plant in service as shown on Schedule TJC-9.

8
9 **OCRB Adjustment #7 – Intentionally Left Blank**

10
11 **OCRB Adjustment #8 – Intentionally Left Blank**

12
13 **OCRB Adjustment #9 – Direct Plant Accumulated Depreciation**

14 Q. Please explain RUCO's adjustment to Direct Plant accumulated depreciation.

15 A. I recomputed the direct plant and accumulated depreciation from the
16 Commission authorized level of the Company's last rate case on Schedule TJC-
17 6, pages 1-3. All plant additions and retirements since the test-year in that case
18 were added to and deducted from the Commission authorized level of plant and
19 accumulated depreciation. My recompilation of plant determined that RUCO and
20 the Company are in agreement on the test-year end plant balances. However,
21 my Schedule TJC-6, page 3 shows that the Company calculated \$76 more of
22 accumulated depreciation than RUCO's Schedule TJC-6.

1 Q. Have you been able to determine the cause in the two different test-year end
2 accumulated depreciation balances for RUCO and the Company?

3 A. I can reconcile the two different balances of RUCO and the Company to within
4 \$54. The Company agreed in response to RUCO data request 1.19 that it did
5 not book Staff Adjustment #5 from the last rate case decision. The Company
6 stated in the same data response that it would correct that in its rebuttal filing.
7

8 Q. Would RUCO accept the Company's rebuttal adjustment as suitable?

9 A. Yes.
10

11 **OCRB Adjustment #10 – Correct General Office 4-Factor Plant & Accumulated**
12 **Depreciation Allocator**
13

14 Q. Please explain RUCO's adjustment to correct the general office 4-Factor
15 Allocator.

16 A. The Company had used 3.21 percent as an allocation factor to allocate the
17 general office to Chaparral. As the case proceeded, some confusion arose as to
18 the proper allocation factor to use between all parties involved. Company
19 witness, Mr. Bourassa, told me via telephone conversation that at the present
20 time 2.8 percent was the correct allocation for general office plant.
21

22 Q. What recommendation is RUCO making?

23 A. General office plant in service should be decreased by \$95,944 and accumulated
24 depreciation should be decreased by \$51,498 based on the 2.8 percent

1 allocation factor mentioned above as shown on Schedule TJC-10, pages 1 and

2 2.

3
4 **OCRB Adjustment #11 – Remove Post-Test-Year General Office Plant**

5 Q. Please explain RUCO's adjustment that removes post-test-year general office
6 plant.

7 A. The Company included two items of post-test-year plant in the general office in
8 Accounts 303 and 340. I removed those two post-test-year general office plant
9 items.

10
11 Q. What recommendation is RUCO making?

12 A. RUCO recommends reducing general office plant in service by \$15,434 as
13 shown on Schedule TJC-11.

14
15 **OCRB Adjustment #12 – Intentionally Left Blank**

16
17 **OCRB Adjustment #13 – Intentionally Left Blank**

18
19 **OCRB Adjustment #14 – Contributions in Aid of Construction ("CIAC")**

20 Q. Would you please explain RUCO's adjustment to CIAC?

21 A. Yes. Commission Decision No. 68176 authorized a CIAC amortization rate of
22 3.3588 percent. The Company utilized a composite rate of all the Company's

1 accounts. I do not believe that is the correct method to determine an
2 amortization rate.

3
4 Q. Why do you believe that a total Company composite rate is improper?

5 A. CIAC consists primarily of mains, services, and meters with 2-3 percent
6 depreciation rates - not higher depreciable plant like transportation equipment at
7 a 20 percent rate and communication equipment at a 10 percent rate. I believe
8 the Commission establishes the CIAC amortization rate in rate case decisions,
9 and that rate will remain constant going forward until the next rate case decision.
10 If the Commission disagrees with that understanding, a more proper way to
11 derive a composite amortization rate for CIAC would be to use only the accounts
12 in which CIAC resides rather than a composite rate for all plant accounts.

13
14 Q. Did you do an analysis using just the accounts that CIAC exists in?

15 A. Yes.

16
17 Q. What composite rate did you derive when using only accounts in which CIAC
18 exists?

19 A. I derived at a 2.96 percent composite CIAC amortization rate.

20
21 Q. If the Commission decides it does set CIAC amortization rates in rate decisions,
22 what adjustment is RUCO recommending?

23 A. RUCO recommends increasing CIAC by \$1,523 as shown on Schedule TJC-12.

OCRB Adjustment #15 – Remove the Deferred Asset - Additional CAP Allocation

Q. Please explain RUCO's adjustment to remove the Company proposed deferred regulatory asset from rate base that is related to the additional CAP allocation.

A. RUCO removed the Company proposed deferred regulatory asset related to the additional purchase of CAP water as not currently used and useful.

Q. How did RUCO come to the conclusion that the additional purchase of CAP water that the Company booked as a regulatory asset is not used and useful?

A. The Company's Schedule H-2, page 3.1, shows that 2,084,339 (in thousands) gallons of water was sold in the test-year. Company witness, Mr. Bourassa, made a pro forma adjustment to test-year revenues to account for a significant reduction in water use by three of four golf courses that the Company serves. That adjustment reduced gallons sold on a going forward basis by 257,090 (in thousands). The table below shows the gallons sold and the Company's pro forma adjustment based in acre feet:

	<u>Acre Feet</u>
Gallons Sold in 2006 = 2,084,339	6,397
Company Adjustment (Gallons in 1,000's = 257,090)	(789)

Total Acre Feet of Water Sold Adjusted	5,608

RUCO agrees with the Company's gallons and acre-feet sold calculation but does not agree with the pro forma adjustment. The Company's pro forma

1 adjustment is based on post-test-year 2007 when Chaparral experienced
2 significant reduction in water being purchased by the golf courses. The
3 Company's adjustment was based on five months (August – December) of
4 estimated water use by the golf courses rather than actual use because the
5 Company did not have the actual data when it filed its rate application. RUCO
6 obtained the actual water sold via data request. The actual gallons and acre-feet
7 sold proved to be more than the Company's estimates as shown in the table
8 below:

	<u>Acre Feet</u>
9	
10 Gallons Sold in 2006 = 2,084,339 (Gallons in 1,000's)	6,397
11 Company Adj. to Actuals (Gallons in 1,000's = 192,426)	(591)
12	-----
13 Total Acre Feet of Water Sold Adjusted to Actuals	5,806

14
15 The Company's original CAP allocation is for 6,978 acre-feet. The additional
16 purchase of CAP allocation is not needed to serve the current level of test-year
17 customers.

18
19 Q. Isn't the Company allowed a 10 percent variance from what is sold and pumped
20 but in this case delivered?

21 A. Yes. If 10 percent is added to the amount sold, the Company still has excess
22 CAP capacity of 591 acre-feet, which is 193 million gallons of water. The
23 Company also owns two operating wells from which it can pump water too. The

1 additional CAP allocation of 1,931 acre-feet is not currently needed to serve its
2 customers.

3
4 Q. What recommendation is RUCO making for the additional CAP allocation?

5 A. RUCO recommends that the Company's OCRB be reduced by \$1,280,000 by
6 removing the deferred regulatory asset as not used and useful to serve
7 Chaparral's water customers as shown on Schedule TJC-28.

8
9 **OCRB Adjustment #16 – Working Capital**

10 Q. Please explain the concept of working capital?

11 A. A company's working capital requirement represents the amount of cash the
12 company must have on hand to cover any differences in the time period between
13 when revenues are received and expenses must be paid. The most accurate
14 way to measure the working capital requirement is via a lead/lag study. The
15 lead/lag study measures the actual lead and lag days attributable to the
16 individual revenues and expenses.

17
18 Q. Did the Company request working capital?

19 A. Yes and no.

20
21 Q. Please explain yourself?

22 A. The Company stated we are "not requesting a working capital allowance in this
23 case ... In order to simplify this filing and to reduce issues that might be in

1 dispute.”¹ On the other hand, the Company requests recovery for materials &
2 supplies and prepayments which are two of the three components of working
3 capital but did not provide a lead/lag study to determine the third component,
4 cash working capital, of working capital.

5
6 Q. Is a lead/lag study analysis overly burdensome for a Company to perform in
7 determining cash working capital requirements?

8 A. No. I have known when the Commission has ordered Class A utilities to file a
9 lead/lag study in its next rate application if it had failed to do so in its current
10 case. In most cases, a lead/lag study will cause a negative effect on the
11 company’s working capital allowance. That is my opinion on why Class A
12 companies avoid performing a lead/lag analysis. Arizona American Water
13 Company has failed to perform numerous lead/lag studies but has done so in its
14 most recent rate application filed with the Commission.

15
16 Q. Did RUCO perform a lead/lag study to determine the third component, cash
17 working capital, for a working capital allowance?

18 A. Yes.

¹ Docket No. W-02113A-07-0551, Direct Testimony – Thomas J. Bourassa, pages 6-7, lines 26-3.

1 Q. Briefly explain how you developed the lead/lag study to determine cash working
2 capital.

3 A. I requested customer bills to determine the revenue lead/lag days. Samples of
4 invoices were obtained for all the expense accounts related to the lead/lag study.
5 RUCO's recommended expense levels were used to determine the dollar days.

6
7 Q. What recommendation is RUCO making for a working capital allowance?

8 A. RUCO makes either one of two recommendations to the working capital
9 allowance adjustment. First, RUCO recommends an adjustment to account for
10 cash working capital, attributable to RUCO's performance of a lead/lag study that
11 reduces rate base by \$111,606 as shown on Schedule TJC-29, pages 1 thru 15.
12 Should the Commission reject RUCO's first recommendation, RUCO's second
13 recommendation would be to disallow the Company the opportunity to recover
14 materials & supplies and prepayments for which it seeks recovery, since those
15 two items are components of a working capital allowance adjustment.

16 ...

17 ...

18 ...

RECONSTRUCTION COST NEW LESS DEPRECIATION RATE BASE ("RCND" or "RCN"):

RCND Adjustment #1 – RCN Factor Rounding

Q. Would you please explain RUCO's RCN Factor rounding adjustment?

A. Yes. The Company's Schedule B-4, pages 1-7, truncates the RCN Factor. To correct this problem, I inserted a mathematical formula into the RCN Factor cells to carry out the proper multiplication.

Q. What recommendation is RUCO making to eliminate the Company's truncating?

A. RUCO recommends reducing the RCN plant in service by \$118 and increasing accumulated depreciation by \$1 as shown on Schedule TJC-16.

RCND Adjustment #2 – Correct Account 304 Index Factors

Q. Please explain RUCO's adjustment to correct Account 304 Index Factors.

A. The Company used a Handy Whitman Index Factor of 276 rather than the correct factor of 376 on three plant line items with the vintage year of 2004.

Q. What recommendation is RUCO making to correct the RCN Index Factor for those three plant items?

A. RUCO recommends reducing plant in service by \$17,807 and reducing accumulated depreciation by \$4,411 as shown on Schedule TJC-17.

RCND Adjustment #3 – Remove Wells 8 & 9 – Not in Service

Q. Please explain RUCO's adjustment to remove wells 8 and 9 from plant in service.

A. RUCO's explanation is provided in OCRB adjustment #3. Many of the RCN rate base adjustments were explained in the OCRB adjustment section of my testimony. When that is the case, the only difference between the OCRB and RCN rate base adjustments is that the RCN adjustment is trended up to "new" cost.

Q. What recommendation is RUCO making to trend the removal of wells 8 and 9 to new cost?

A. RUCO recommends reducing RCN plant in service by \$435,284 and reducing accumulated depreciation by the same amount of \$435,284 as shown on Schedule TJC-18.

RCND Adjustment #4 – Remove Double Count of RCN Plant Transfers from ACC

Decision 68176

Q. Please explain RUCO's adjustment to remove the double count of plant transfers from RCN rate base that was approved in Decision No. 68176.

A. This adjustment was not necessary in the OCRB adjustment section of my testimony. On the Company's Schedule B-4, page 7, Chaparral shows a grand total for OCRB of \$51,053,252. That total includes a double count of Staff adjustment JRM-2 from the last rate case - Decision No. 68176 – for OCRB in the amount of \$32,536 that was approved by the Commission.

1 Q. Can RUCO illustrate why it believes that the \$32,536 Staff adjustment in the last
2 rate case is a double count?

3 A. Yes. I will illustrate in the table below why it is a double count for RCN rate base
4 and explain why an adjustment for OCRB was not necessary.

6	Company Schedule B-4, page 7, Grand Total	\$51,053,252
7	Company Schedule B-2, page 1, GUPIS	51,020,714
8		-----
9		\$ 32,538 ²

10
11 RUCO and the Company are in agreement with test-year end OCRB being the
12 amount of \$51,020,714. The Company used that amount in its Schedule B-2.
13 My recomputation of GUPIS shown on Schedule TJC-6, page 3 of 3, also
14 resulted in the same amount. When the Company trends the plant up to a RCN
15 amount, Chaparral uses \$51,053,252 plant in service rather than the correct
16 amount of \$51,020,714 as shown on the Company's Schedule B-2.

17
18 Q. What recommendation is RUCO making to remove the double count for the
19 trended RCN plant?

20 A. RUCO recommends reducing RCN plant in service by \$36,773, which accounts
21 for the RCN trending, and increase accumulated depreciation by \$13,320 as
22 shown on Schedule TJC-19.

² The two-dollar difference between \$32,536 and \$32,538 is due to rounding.

1 Q. Isn't it unconventional to remove plant and have accumulated depreciation
2 increase?

3 A. Yes.
4

5 Q. Can you explain what phenomenon is occurring to cause that in this adjustment?

6 A. Yes. I have included Exhibit RUCO 1 that shows the account in which the
7 adjustment was made to assist me in my explanation. The irregularity is
8 predominately a product of how the Company set up its RCN schedules. In
9 essence, the RCN accumulated depreciation factor is derived by dividing the
10 RCN plant account total by the OCRB plant account total, which equals the RCN
11 accumulated depreciation factor that determines the RCN accumulated
12 depreciation by account. The numerator, RCN plant balance, increases at a
13 faster rate than the denominator, the OCRB plant balance. Thus, the RCN
14 accumulated depreciation factor increases. The original cost accumulated
15 depreciation account balance is multiplied by that factor in deriving at the RCN
16 accumulated depreciation account balance. As can be seen in the exhibit, after
17 making the adjustment, the ratio of RCN plant to original cost plant increased
18 causing the RCN accumulated depreciation to also increase.
19

20 ...

21 ...

22 ...

RCND Adjustment #5 – Remove Shea Water Treatment Plant 1

Q. Please explain RUCO's adjustment to remove Shea Water Treatment Plant 1 from plant in service.

A. RUCO's explanation is provided in OCRB adjustment #5. This is another adjustment common to both OCRB and RCN rate base adjustments. The only difference between the OCRB and RCN rate base adjustments is that the RCN adjustment is trended up to "new" cost.

Q. What recommendation is RUCO making to remove the Shea Water Treatment Plant from plant in service?

A. RUCO recommends reducing plant in service by \$3,262,891 and reducing accumulated depreciation by the same amount as shown on Schedule TJC-20.

RCND Adjustment #6 – Capitalize Expensed Plant Items

Q. Would you please explain RUCO's adjustment to capitalize plant items that were originally expensed?

A. RUCO's explanation is provided in OCRB adjustment #6. This is another adjustment common to both OCRB and RCN rate base adjustments. Since this is a test-year adjustment, there is no trending to RCN value.

1 Q. What recommendation is RUCO making in order to capitalize plant that was
2 previously expensed by the Company?

3 A. RUCO recommends reducing Repairs & Maintenance expense by \$43,217 and
4 increasing plant account 339 – Other Plant and Equipment – an additional
5 \$43,217, which is reflected on Schedule TJC-32. This results in a decrease to
6 expenses and an increase to plant in service as shown on Schedule TJC-21.
7

8 **RCND Adjustment #7 – Direct Plant Rounding Reconciliation**

9 Q. Would you please explain RUCO's adjustment of reconciling the direct plant?

10 A. This adjustment reconciles RUCO's recommended level of RCN direct plant from
11 the Company's RCN direct plant balance. It starts with the Company's requested
12 RCN direct plant balance of \$79,791,440 and subtracts RUCO's RCN direct plant
13 adjustments 1 thru 6. That leaves a balance of RCN direct plant of \$76,081,783.
14 RUCO's recommended level of RCN direct plant is \$76,081,819. A reconciliation
15 adjustment is necessary to reconcile the two amounts.
16

17 Q. What recommendation is RUCO making to reconcile the two amounts of RCN
18 direct plant?

19 A. An adjustment is necessary to increase RCN direct plant by \$35 to reconcile to
20 RUCO's RCN direct plant recommended balance of \$76,081,819. This is shown
21 on RUCO's Schedule TJC-22.
22
23

RCND Adjustment #8 – RCN Trended Direct Plant Accumulated Depreciation

Q. Would you please explain RUCO's adjustment to the RCN trended direct plant accumulated depreciation?

A. Yes. I started with the Company's RCN trended direct plant accumulated depreciation balance of \$25,365,293 and netted my direct plant adjustments numbers one thru five from that figure, which derived an accumulated depreciation amount of \$21,676,028. My RCN direct plant work paper schedule recomputed the accumulated depreciation balance to be \$21,305,201. The adjustment to decrease the accumulated depreciation balance by \$370,826 is shown on Schedule TJC-23 and below:

Company Filed Direct Plant Accumulated Depreciation	\$25,365,293
Less: RUCO Adjustment #'s 1 thru 5	3,689,265
RUCO RCND Adjustment #8	<u>370,826</u>
Reconciles to RUCO's Accumulated Depreciation Balance	\$21,305,201

RCND Adjustment #9 – Intentionally Left Blank

RCND Adjustment #10 - Correct General Office 4-Factor Plant & Accumulated Depreciation Allocator

Q. Please explain RUCO's adjustment to correct the general office 4-Factor Allocator.

A. This adjustment was explained earlier in the OCRB adjustment #10.

1 Q. What recommendation is RUCO making to correct the general office 4-Factor
2 Allocator?

3 A. RUCO recommends reducing the RCN general office plant by \$126,720 and
4 decreasing the accumulated depreciation by \$67,617 to correct the allocation
5 amount as shown on Schedule TJC-24, pages 1 and 2.
6

7 **RCND Adjustment #11 - Remove Post-Test-Year General Office Plant**

8 Q. Please explain RUCO's adjustment that removes post-test-year general office
9 plant.

10 A. This adjustment was explained earlier in OCRB adjustment #11, but the
11 Company included two items of post-test-year plant in the general office in
12 Accounts 303 and 340. I removed those two post-test-year general office plant
13 items. This adjustment is simply trended up for reconstruction cost new.
14

15 Q. What recommendation is RUCO making to remove the post-test-year general
16 office plant?

17 A. RUCO recommends reducing general office plant in service by \$15,434 and
18 increasing accumulated depreciation by \$1,404. Schedule TJC-25 shows
19 RUCO's calculation for this adjustment.
20

21 **RCND Adjustment #12 – Intentionally Left Blank**
22
23

RCND Adjustment #13 – Advances in Aid of Construction (“AIAC”) Adjustment

Q. Please explain RUCO’s adjustment to AIAC?

A. Any adjustment to plant in service will cause the AIAC factor to change because the AIAC factor is the ratio of the RCN plant in service to the original cost plant in service. All of RUCO’s adjustments to either RCN or OCRB plant in service caused a minor modification to the AIAC factor. Thus, RUCO’s AIAC factor is slightly larger than the Company’s factor.

Q. What recommendation is RUCO making to AIAC to account for the slight change to the AIAC RCN factor?

A. RUCO recommends decreasing the RCN AIAC by \$58,999 to account for the change to the AIAC factor. This adjustment is shown on RUCO’s Schedule TJC-26.

RCND Adjustment #14 - Contributions in Aid of Construction (“CIAC”)

Q. Please explain RUCO’s adjustment to RCN CIAC.

A. This adjustment was explained in the OCRB section in adjustment #14. The reason is the same in this adjustment. The only difference between the two adjustments is this adjustment trends the OCRB adjustment amount up to a RCN value.

1 Q. What adjustment is RUCO recommending in this case?

2 A. RUCO recommends increasing the RCN CIAC in the amount of \$2,363. This
3 adjustment is shown on Schedule TJC-27.
4

5 **RCND Adjustment #15 - Remove the Deferred Asset - Additional CAP Allocation**

6 Q. Please explain RUCO's RCND adjustment #15 that removes the deferred asset
7 related to the Company's additional purchase of a CAP water allocation.

8 A. This adjustment was explained in detail in the OCRB section of my testimony in
9 OCRB adjustment #15 as not being used and useful. It is the same identical
10 adjustment for RCND as was in OCRB adjustment.
11

12 Q. What adjustment is necessary to remove the deferred regulatory asset from RCN
13 rate base as not being used and useful?

14 A. It is necessary to reduce \$1,280,000 from the RCN rate base to remove the non
15 used and useful deferred regulatory asset related to the additional purchase of
16 CAP water allocation as shown on Schedule TJC-28.
17

18 **RCND Adjustment #16 – Working Capital**

19 Q. Would you please explain RUCO's RCND rate base adjustment #16 to working
20 capital?

21 A. Again, this adjustment was explained in the OCRB section of my testimony and
22 is the identical adjustment here in the RCN section of my testimony.
23

1 Q. What adjustment was necessary to account for a cash working capital
2 calculation?

3 A. The cash working capital lead/lag study calculation reduced the working capital
4 by \$111,606 as shown on Schedule TJC-29, pages 1 thru 15.
5

6 **OPERATING INCOME & EXPENSES:**

7 **Operating Adjustment #1 – Depreciation & Amortization Expense**

8 Q. Please explain your adjustment to the depreciation expense.

9 A. My adjustment to depreciation and amortization expense reflects the
10 Commission's approved depreciation rates applied to RUCO's recommended
11 plant balances due to various RUCO OCRB adjustments and one operating
12 expense adjustment shown on Schedule TJC-4, pages 1 and 2, and TJC-31.
13 Those adjustments are reflected and shown on the depreciation and amortization
14 Schedule TJC-32. I also used the CIAC amortization rate authorized in the last
15 Commission Decision No. 68176.
16

17 Q. What adjustment did RUCO make to depreciation and amortization expense?

18 A. RUCO's adjustment reduced Company's test year depreciation and amortization
19 expense by \$91,690 for Chaparral Water as shown on Schedule TJC-32.
20
21
22
23

Operating Adjustment #2 – Property Tax Expense

Q. What recommendation does RUCO make to property tax expense?

A. RUCO recommends either of two recommendations. One, either decrease the Company's requested property tax expense by \$39,883 or two, utilize the last known and measurable year³ of property tax expense in the amount of \$187,214 with an adjustment for RUCO's proposed level of revenue.

Q. Please explain RUCO's first recommendation and the methodology that RUCO used in determining the property tax expense in this case.

A. Previously, RUCO's property tax methodology utilized the Arizona Department of Revenue ("ADOR") methodology. Since 2001, there have been several debates in water and sewer utility rate cases before the Commission. RUCO has persistently maintained that using two historical gross years of revenue and the test-year gross revenue, as the formula states in ADOR's memo of January 3, 2001, is the correct methodology. However, the Commission has regularly rejected RUCO's arguments on this issue, and pursuant to this, RUCO is offering a compromise alternative methodology in this case.

Q. How does the Company's methodology vary from the ADOR formula?

A. The Company has disregarded the use of any historical years of gross revenue. Chaparral utilized two years of adjusted revenues plus one year of proposed revenues, which will undoubtedly cause an over-collection of property taxes into

³ This 2008 property tax expense amount was obtained from ADOR because the Company objected to providing the information in two of RUCO's data requests.

1 the future. The property tax formula, as prescribed in ADOR's memo of January
2 3, 2001, determines the Full Cash Value ("FCV") of water utilities, for property tax
3 purposes, by multiplying the average of the three previous years of reported
4 gross revenues of the Company by a factor of two (2) and more accurately
5 estimates projected property tax expense.

6
7 Using the Company's property tax calculation, it would over-collect the property
8 tax expense for quite a few years before the actual assessment would catch up
9 to the Company's 2006 proposed revenue. In the meantime, the Company will
10 be over-recovering its property tax expense.

11
12 Q. Does RUCO have any empirical evidence in this case that supports its assertion
13 that ADOR's prescribed property tax formula, which requires historical years of
14 gross revenues, more accurately estimates future property tax expense.

15 A. Yes.

16
17 Q. Please provide RUCO's empirical evidence that supports its assertion.

18 A. In Commission Docket W-02113A-04-0616 in 2005, RUCO's revenue
19 requirement witness, Mr. Rodney Moore, filed direct testimony and schedules in
20 that case. Mr. Moore recommended in that case a level of property tax expense
21 in the amount of \$280,835, as supported here in RUCO Exhibit 2, page 1 of 3.
22 The Company's current rate application Schedule E-2, also provided in RUCO

Exhibit 2, page 3, and ADOR property tax information plainly shows the Company's actual property tax expense for years 2004 thru 2008 as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Property Tax Expense	\$ 280,537	\$ 279,529	\$ 241,774	\$ 207,162	\$ 187,214

The Company has over-collected on its property tax expense by more than \$300,000 since 2004. That is clear evidence that Mr. Moore's property tax calculation of \$280,835 utilizing ADOR's prescribed methodology is more accurate when compared to actual property tax paid by the Company in those years.

Q. What amount of property tax expense was Chaparral allowed in that docket?

A. Decision No. 68176 made an allowance in the amount of \$299,495 or approximately \$19,000 more than Mr. Moore's ADOR calculation recommendation. The Company has never paid more property tax expense in any year listed above than what Mr. Moore recommended. This is clear evidence to which method is more accurate in estimating the property tax expense for a water/wastewater company.

Q. What is the alternative methodology that RUCO is offering in this case?

A. Rather than the three-years of historical revenues for inputs that RUCO has consistently recommended, RUCO's alternative methodology uses two years of

historical revenues and one year of RUCO proposed level of revenue. The supporting detail of RUCO's alternative property tax expense methodology is shown on Schedule TJC-33.

Q. Does RUCO recommend any more adjustments to the Company's property tax expense calculation?

A. Yes. When the Company determined the net book value ("NBV") of its vehicles to remove from full cash value, it took the total gross plant value of vehicles in the amount of \$535,315. RUCO agrees with that portion of the calculation for net book value for vehicles. The Company then subtracts the 2006 depreciation expense rather than the accumulated depreciation balance for vehicles found on the next page, Company Schedule B-2, page 3d, of the Company's direct plant schedules as shown below:

<u>Company's Method of NBV for Vehicles</u>		<u>RUCO's Method of NBV for Vehicles</u>	
Total Gross Value	\$ 535,315	Total Gross Value	\$ 535,315
Less: Depreciation Expense	107,006	Less: Accum. Depre.	60,636
	<hr/>		<hr/>
NBV of Vehicles	\$ 428,309		\$ 474,679

The proper amount of NBV of vehicles is \$474,679 rather than the Company's calculation of \$428,309.

1 Q. Isn't it a peculiar outcome that depreciation expense of \$107,006, shown above,
2 is more than the accumulated depreciation account of \$60,636 also shown
3 above?

4 A. Yes. The reason for that peculiarity is because the prior rate case Decision No.
5 68176 authorized a negative accumulated depreciation balance for a starting
6 point for December 31, 2003. The combined retirements for years 2004 and
7 2005 were more than the combined depreciation expense for the same period
8 making the accumulated depreciation more negative until year 2006. That is
9 sometimes the result of accumulated depreciation when class depreciation is
10 used. It eventually turns around to a normal account balance.
11

12 Q. What adjustment does RUCO recommend to account for the proper NBV for
13 vehicles in the property tax formula?

14 A. RUCO does not recommend a separate adjustment to account for the proper
15 NBV for vehicles in the property tax formula. However, it does reduce the
16 expense by \$831, which is part of RUCO's overall property tax expense
17 adjustment.
18

19 Q. Please explain RUCO's second alternative property tax expense
20 recommendation.

21 A. As an alternative recommendation, RUCO recommends utilizing the last known
22 and measurable year of property tax expense, 2008, in the amount of \$187,214
23 with an additional adjustment to account for RUCO's proposed level of revenue.

1 Q. What adjustment is necessary to account for RUCO's proposed level of revenue?

2 A. It is necessary to increase the last known and measurable year of property tax
3 expense by \$9,743 to account for RUCO's proposed level of revenue. This
4 adjustment allows the Company its last known and measurable year of property
5 tax expense of \$187,214 plus the \$9,743 to account for RUCO's proposed level
6 of revenue for a total property tax expense allowance of \$196,957. This requires
7 an adjustment to decrease the Company's requested level of property tax
8 expense in the amount of \$98,856 as shown on Schedule TJC-33(a).

9
10 **Operating Adjustment #3 – Normalization of Miscellaneous Expense**

11 Q. Please explain RUCO's adjustment to normalize miscellaneous expense.

12 A. RUCO's adjustment reduces miscellaneous expense by \$123,366 from
13 \$1,259,948 to \$1,136,582 as shown on Schedule TJC-34. RUCO believes it is
14 appropriate to take a three-year average of miscellaneous expense. An analysis
15 that was performed determined that this expense has increased by 57 percent
16 since 2003. A three-year average would smooth any circumstances that have
17 caused this significant increase in miscellaneous expense. A similar adjustment
18 was approved in Decision No. 68176.

19
20 **Operating Adjustment #4 – Rate Case Expense**

21 Q. Please explain RUCO's adjustment to rate case expense.

22 A. The adjustment removes the remaining unamortized rate case expense from the
23 prior rate case decision. RUCO has long held the position that rates are set on a

1 particular level of allowed expenses. The unamortized rate case expense from
2 the last case should have no bearing whatsoever on the new rates established in
3 this proceeding.

4
5 Staff addressed this same issue regarding prior decision's unamortized rate case
6 expense in the Sun City Water District Docket No. W-01303A-07-0209. Staff
7 witness, Mr. Alexander Igwe, in his Executive Summary Testimony stated the
8 following:

9 However, Staff would note its objection to the Company's
10 suggestion that it could seek recovery of unamortized rate
11 case expense should it fill [sic] for a rate increase prior to
12 2012. The Company's contention is inconsistent with sound
13 rate making principles.
14

15 Q. What adjustment does RUCO recommend to remove the amortized rate case
16 expense from the prior rate case that is inconsistent with sound rate making
17 principles?

18 A. RUCO recommends reducing the Company's requested level of rate case
19 expense by \$51,538, which is related to the prior rate case as shown in Schedule
20 TJC-35. The unamortized portion of the Company's last rate case should have
21 no impact on the new rates established in this proceeding.

22
23 ...

24 ...

25 ...

1 Q. Are you going to address the Company's request for additional rate case
2 expense associated with the Company's appeal of Decision No. 68176?

3 A. No. RUCO witness William A. Rigsby will sponsor that testimony regarding
4 Chaparral's request to recover legal expenses associated with the Company's
5 appeal of Decision No. 68176.
6

7 **Operating Adjustment #5 – Purchased Water**

8 Q. Please explain RUCO's adjustment to purchased water expense?

9 A. This adjustment has two elements that make up RUCO's total adjustment. The
10 Company purchases CAP water on an annual basis. RUCO's adjustment
11 removes the capital cost charge related to the additional CAP allocation
12 purchase that was disallowed for failing to meet the used and useful standard as
13 discussed earlier in the OCRB and RCND section of my testimony. The second
14 part of the adjustment is a result of the Company's estimated revenue
15 annualization test-year adjustment.
16

17 The Company's test-year adjusted revenue annualization adjustment was based
18 on post-test-year 2007-estimated loss of water sales from three golf courses.⁴
19 Those customers switched to a lower-cost treated effluent source of water from
20 the Fountain Hills Sanitary District ("FHSD"). Chaparral still serves these golf
21 courses potable water but sales did decrease significantly by approximately 200
22 million gallons. When the Company filed its application in late 2007, the actual

⁴ The golf courses were 4 and 6-inch Irrigation classification customers.

1 amount of lost water sales was unknown. August through December were
2 estimates for those months. After RUCO obtained the actual water sales for
3 those months, it was determined that the Company had under-estimated its
4 water sales by 114 acre-feet. The adjustment was made to account for the
5 actual water sales.

6
7 Q. What adjustment does RUCO recommend to account for the actual lost water
8 sales?

9 A. RUCO recommends reducing purchased water expense by \$30,001. This
10 adjustment is primarily driven by the disallowance of the additional 1,931 acre-
11 feet of CAP water capital cost because the second component of the adjustment
12 increases the expense by \$10,550 resulting from the Company's under
13 estimation of actual water sales in its revenue annualization adjustment
14 explained earlier.

15
16 **Operating Adjustment #6 – Outside Services**

17 Q. Please explain RUCO's adjustment to outside services expense.

18 A. RUCO's audit of outside service invoices determined that the Company
19 eliminated an outside service person that provided water supply superintendent
20 services for the Company on May 22 of the test year. The Company replaced
21 these services with an employee. The charges in the test year for the outside
22 service person are a nonrecurring expense on a going forward basis. All
23 associated charges for those outside services should be removed from adjusted

1 test-year outside services account. This information is provided in Company
2 work paper titled "CCWC Employees – 06." The charge for the services was
3 \$3,500 per week.
4

5 Q. What adjustment does RUCO recommend to remove the outside services that
6 are nonrecurring on a going forward basis?

7 A. RUCO recommends reducing the outside service expense account by \$71,000 to
8 remove the nonrecurring expense as shown on Schedule TJC-37.
9

10 **Operating Adjustment #7 – Water Revenues**

11 Q. Would you please explain RUCO's adjustment to water revenues?

12 A. Yes. This adjustment is a result of RUCO using the actual gallons sold as
13 opposed to the Company's use of estimated gallons sold in its revenue
14 annualization adjustment. The three golf courses mentioned in RUCO's
15 operating adjustment #5 purchased over 35 million more gallons than the
16 Company estimated in its revenue annualization adjustment. This adjustment is
17 necessary to account for the actual additional revenue that the Company under
18 estimated.
19

20 ...

21 ...

1 Q. What adjustment is necessary to account for the actual additional revenue from
2 water sales that the Company under estimated in its revenue annualization
3 adjustment?

4 A. It is necessary to increase the Company's test-year adjusted revenues by
5 \$61,949 to account for the actual gallons sold as opposed to the Company's
6 estimated gallons sold. This adjustment is shown in Schedule TJC-38, page 1 of
7 31.

8
9 **Operating Adjustment #8 – Repairs and Maintenance**

10 Q. Please explain RUCO's adjustment to the repairs and maintenance expense
11 account.

12 A. This adjustment was explained in detail in RUCO's OCRB adjustment #6. In
13 brief, the adjustment capitalizes plant items that were previously expensed by the
14 Company. The adjustment removes the expensed plant items from the repairs
15 and maintenance account. The OCRB and RCND adjustment #6 capitalizes the
16 same amount to plant in service account #339 – Other Plant and Equipment.

17
18 Q. What recommendation is RUCO making to more appropriately capitalize the
19 plant items that were previously expensed by the Company?

20 A. RUCO recommends reducing the repairs and maintenance expense account by
21 \$43,217 as shown on Schedule TJC-39, and capitalize the same amount to plant
22 account #339, which RUCO's OCRB and RCND adjustment #6 did earlier.

Operating Adjustment #9 – Intentionally Left Blank

Operating Adjustment #10 – Purchased Power

Q. Please explain RUCO's adjustment to purchased power expense.

A. This adjustment results from the Company's estimated revenue annualization adjustment that decreased purchased power expense by \$74,714 from loss of water sales to the three golf courses mentioned in RUCO operating adjustment #5. In that adjustment, the Company over estimated its lost water sales. Therefore, the Company's adjustment to account for the reduced pumping cost is also over estimated. This adjustment increases the purchased power expense to account for the cost of actual additional gallons to be pumped.

Q. What adjustment does RUCO recommend to account for the additional gallons of water actually sold?

A. The adjustment increases purchased power expense by \$12,149. This accounts for the actual additional 37 million gallons of water to be pumped.

Operating Adjustment #11 – Amortization of the Additional CAP Allocation

Q. Would you please explain RUCO's adjustment to the amortization for the additional CAP allocation?

A. Yes. The Company seeks recovery from ratepayers of the additional CAP allocation by amortizing it over 20 years. RUCO recommends disallowing any earnings and recovery on the additional CAP allocation because it does not meet

1 the used and useful standard as discussed in RUCO's OCRB adjustment #15.
2 Therefore, the amortization expense should also be removed from operating
3 expenses.

4
5 Q. What recommendation is RUCO making?

6 A. RUCO recommends removal of the Company's amortization expense adjustment
7 for the additional CAP allocation and reducing the depreciation and amortization
8 expense by \$64,000.

9
10 **Operating Adjustment #12 – Income Taxes**

11 Q. Please explain RUCO's adjustment to the Company's Income Tax Expense.

12 A. This adjustment results from RUCO's recommended level of operating income.
13

14 **OTHER RATE BASE AND OPERATING INCOME ISSUES:**

15 Q. Are there other issues pertaining to rate base and operating income that RUCO
16 would like to address?

17 A. Yes. RUCO asked a late data request that sought information from the Company
18 pertaining to hookup fees. We would like to reserve the opportunity to review the
19 data responses and address it appropriately in surrebuttal testimony.

20
21 Q. Are there any other issues other than that that RUCO would like to respond?

22 A. Yes. It is my understanding that the Company has decided to include a low-
23 income program for Chaparral that takes current economic conditions into

1 account. RUCO suggests that the Company file a low-income program proposal
2 in its rebuttal testimony for other intervenors to consider at that time.
3

4 **RATE DESIGN:**

5 Q. Is RUCO recommending any change to the Company's proposed rate design?

6 A. Not at this time other than using RUCO's recommended revenue increase to
7 design rates.
8

9 Q. What do you mean by stating "not at this time?"

10 A. I mentioned earlier that RUCO sent a late data request to the Company. I doubt
11 RUCO will receive a response before direct testimony is to be docketed in this
12 case. If a response is received before testimony is to be docketed, RUCO does
13 not believe adequate time would be available to address the issue(s) here in its
14 direct testimony. That is why I would like to reserve the opportunity to review the
15 data responses and address it appropriately in my surrebuttal testimony.
16

17 Q. Did the Company propose a change to their rate design that is different than
18 what was approved in the prior decision?

19 A. It appears that the Company utilized the same rate design the Commission
20 approved in the prior decision with the exception of the irrigation and construction
21 classes.
22

1 Q. What changes did the Company make for the irrigation and construction classes'
2 rate design?

3 A. For the irrigation and construction classes, the commodity rate was set at the
4 same level as the standpipe and fire sprinkler commodity charges. The
5 Company stated, "under present rates, the irrigation and construction class had
6 the lowest commodity charge – in fact, lower than the first tier of the 3/4 inch
7 metered residential customers. There is no good reason for the disparity and I
8 have eliminated it."

9
10 Q. Does RUCO agree with the Company's decision to set commodity rates for
11 irrigation and construction classes at the same rate as standpipe and fire
12 sprinkler commodity charges?

13 A. Yes.

14
15 Q. What is the impact of RUCO's recommended rates on an average bill for a
16 residential customer?

17 A. I will provide the impact of RUCO's recommended rates on an average bill for a
18 3/4 and 1-inch residential customer. Those two customer classes constitute the
19 majority of Chaparral customers. The present monthly bill for a 3/4-inch
20 residential customer using an average 8,450 gallons is \$32.38. RUCO's
21 recommended monthly bill for a 3/4-inch residential customer using an average
22 of 8,450 gallons is \$34.99, an increase of \$2.61 or 8.06 percent over the present
23 rates.

1 The present monthly bill for a 1-inch residential customer using an average
2 10,095 gallons is \$48.14. RUCO's recommended monthly bill for a 1-inch
3 residential customer using an average of 10,095 gallons is \$51.75, an increase of
4 \$3.61 or 7.5 percent over the present rates.

5
6 All customer classifications rates are shown on Schedule TJC-45.

7
8 Q. Does that conclude your direct testimony?

9 A. Yes.

APPENDIX 1

Qualifications of Timothy J. Coley

WORK HISTORY

July 2000 – Present: **RESIDENTIAL UTILITY CONSUMER OFFICE**, Phoenix, Arizona
Public Utilities Analyst V. The Residential Utility Consumer Office (RUCO) is a consumer advocate group providing residential consumers a voice in utility regulation and backed by a professional staff with legal and financial expertise. Responsibilities include: audited, reviewed and analyzed public utility companies various filings; prepared written testimony, schedules, financial statements, and spreadsheet models and analyses. Testified and stand cross-examination before the Arizona Corporation Commission.

January 2000 - April 2000: **JACKSON HEWITT TAX SERVICE**, Phoenix, Arizona
Tax Preparer. Interviewed clients, determined tax situation, and explained how the tax laws benefited them in their specific situation. Ensured that each customer received every deduction that they were entitled. Prepared individual and business income tax returns, which best utilized each specific situation that minimized their tax obligations.

May 1998 - November 1999: **BENEFITS CONSULTING**, Cypress, Texas
Consultant Assistant. The consulting firm specialized in alleged medical claim charges brought against the government of Harris County in Houston, Texas. Assisted in the review, examination, and analysis of the attested charges. Determined if the purported medical claim charges were prudent, customary, and reasonable for the alleged sustained injuries. The firm analyzed cases for both the County's Risk Department and Attorneys Office.

January 1992 - April 1998: **PHOENIX SERVICES**, Villa Rica, Georgia
Owner. Provided landscaping services primarily in a high growth gated community where the Property Owners' Association approved mandated ordinances to be strictly adhered and abided by. Coordinated and supervised all aspects of projects from inception to completion, from master planning to site design to installation.

May 1989 - October 1991: **GEORGIA PUBLIC SERVICE COMMISSION**, Atlanta, GA
Senior Auditor. The Public Service Commission (PSC) was responsible for regulating many intrastate telecommunications, electric, and gas utility industries operating in Georgia. It was the PSC's job to ensure that consumers received adequate and reliable service at reasonable rates. It must also assure the utility companies and investors an opportunity to earn a fair rate of return on prudent investments. The Commission participated significantly in Georgia's economic health and growth. I was promoted to the PSC's Electric/Gas Division where I examined, verified, and analyzed various financial documents, accounting records, reports, ledgers, and statements. In addition, I was assigned to automate the PSC's Electric Division where I utilized a computer application process that I had developed earlier while with the (PSC) Telecommunication Division. I was later ascribed to work in conjunction with the Engineering Department and established a procedure to track and compare costs of operation and maintenance (O&M) expenses of nuclear electric generating plants. This effort determined a comparative price per kilowatt-hour produced that influenced the awareness for the company to control the O&M costs, which benefited the consumer through lower prices.

- Developed computer application system that streamlined audit procedures by 30 – 40%.
- Various other schedules were implemented to track, maintain, and control costs.

GEORGIA PUBLIC SERVICE COMMISSION (continued)

November 1986 - April 1989: **Georgia Public Service Commission**, Atlanta, Georgia
Auditor. Regulated telecommunications and also oversaw the deregulation process that was currently under way in that industry. Examined and analyzed accounting records to determine financial status of companies and prepared financial reports concerning audit findings. Reviewed data including payroll, time sheets, purchase vouchers, cash receipt ledgers, financial reports, and disbursements. Verified statewide telephone company transaction classifications and documentation.

- Developed computer application utilizing Lotus to completely automate and streamline the entire telecommunication audit process. The results saved 25% in field audit time and produced a product of professional appearance.
- Created, coordinated, and implemented "Operational Project Training" automated procedure-training program. Trained and supervised staff of five auditors.
- Computerized "Desk Audit Analysis" program that identified 11 independent telephone companies in the state of over-earning and resulted in \$4.1M annual savings to the Georgia ratepayers affected.

October 1985 - October 1986: **Georgia Public Service Commission**, Atlanta, Georgia
Junior Auditor. Assisted in planning and performing telecommunication audit engagements. Examined financial records, internal management control, correspondence, bills, and records of services delivered in order to verify or recommend compliance with company specifications contained in contracts, agreements, regulations, and/or laws.

- As a special project, I was assigned to analyze the results of a survey designed to evaluate "Interest in Organizing a Multi-State Nuclear Management Review Group" by the Director of Utilities. Wrote the draft and findings for the speech that was presented to all participatory commissions.

PROFESSIONAL MEMBERSHIPS

- Elected Member of the National Honor Society for Public Affairs and Administration.
- Active Member of Delta Sigma Pi - Professional Business Fraternity.

SPECIAL TRAINING AND CERTIFICATES

- The Graduate School of Business Administration - Michigan State University; completed the Annual Regulatory Studies Program of the National Association of Regulatory Utility Commissioners.
- Completed Graduate Exit Paper on "Deregulation of the Electric Industry".
- Attended Eastern Utility Rate School in 2000 and 2005.

EDUCATION

- Currently enrolled at Arizona State University - West in the Post Baccalaureate Graduate Certificate Program in Accountancy with two courses remaining.
- Master of Public Administration, State University of West Georgia, 1997, GPA 3.5.
- BS Business Management & Administration, Minor in Economics, Sorrel School of Business, Troy State University, 1985.
- AA Business Administration, Miles Community College, 1981.

RESUME OF PUBLIC UTILITY RATE CASES & AUDITS PARTICIPATION

Residential Utility Consumer Office For Years 2000 To Present

Arizona-American Water Company – Docket No. WS-01303A-05-0405

Arizona Public Service Co. – Docket No. E-01345A-03-0437

Tucson Electric Power Company – Docket No. E-01933A-04-0408

UniSource Merger – Docket No. E-04230A-03-0933

Arizona-American Water Company – Docket No. WS-01303A-02-0867

Arizona Water Company (Eastern Group) – Docket No. W01445A-02-0619

Litchfield Park Service Company – Docket Nos. W-01427A-01-0487 &
SW-01428A-01-0487

Arizona Water Company (Northern Group) – Docket No. W-01445A-00-0962

Rio Verde Utilities, Inc. – Docket Nos. W-02156A-00-0321 &
SW-02156A-00-0323

Arizona-American Water Company (Paradise Valley) –
Docket Nos. W-01303A-05-0405 &
W-01303A-05-0910

Arizona-American Water Company (Mohave District) –
Docket No. WS-01303A-06-0014

Arizona-American Water Company (Sun City & Sun Cit West Wastewater) –
Docket No. WS-01303A-06-0491

Arizona-American Water Company - Docket No. W-01303A-07-0209

Georgia Public Service Commission For Years 1985 – 1991

Atlanta Gas Light Company

Georgia Power Company

Atlanta Gas Light Company (Management Audit)

Georgia Public Service Commission For Years 1985 – 1991 (continued)

Georgia Power Company

Trenton Telephone Company

Fairmount Telephone Company

Ellijay Telephone Company

GTE, Inc.

ALL-TEL Telephone Company

Citizens Utilities Co.

Ball Ground Telephone Company

Lanett Telephone Company

Brantley Telephone Company

Blue Ridge Telephone Company

Waverly Hall Telephone Company

St. Marys Telephone Company

Darien Telephone Company

Statesboro Telephone Company

Statesboro Telephone Co-op

Wilkes Telephone Company

RUCO EXHIBIT 1

Chaparral City Water Company
Trended Reconstruction Cost Plant
Test Year Ended December 31, 2006

Exhibit
Schedule B-4
Witness: Bourassa

NARUC	NARUC Description	Vin. Yr.	Month	Month	Original Cost	Source	HW155	Base	Index	Factor	RCN Cost	Ratio RCN to Orig. Cost	(1)	(2)	(1)X(2) Trended Accumulated Depreciation
311	Electric Pumping Equipment	1972	01	12	9,897	HW155	311	619	619	96	6,4479	63,815			
311	Electric Pumping Equipment	1973	01	12	48,255	HW155	311	619	100	6.19	298,698				
311	Electric Pumping Equipment	1974	01	12	74,696	HW155	311	619	122	5.0738	378,993				
311	Electric Pumping Equipment	1975	01	12	16,868	HW155	311	619	155	3.9935	67,362				
311	Electric Pumping Equipment	1978	01	12	15,276	HW155	311	619	192	3.224	49,250				
311	Electric Pumping Equipment	1979	01	12	48,180	HW155	311	619	205	3.0195	145,480				
311	Electric Pumping Equipment	1980	01	12	3,955	HW155	311	619	222	2.7883	11,028				
311	Electric Pumping Equipment	1981	01	12	30,920	HW155	311	619	245	2.5265	78,119				
311	Electric Pumping Equipment	1982	01	12	2,717	HW155	311	619	260	2.3808	6,469				
311	Electric Pumping Equipment	1985	01	12	34,865	HW155	311	619	282	2.195	76,529				
311	Electric Pumping Equipment	1986	01	12	104,906	HW155	311	619	284	2.1796	228,653				
311	Electric Pumping Equipment	1987	01	12	496,107	HW155	311	619	299	2.0702	1,027,041				
311	Electric Pumping Equipment	1989	01	12	18,061	HW155	311	619	330	1.8758	33,879				
311	Electric Pumping Equipment	1993	01	12	4,845	HW155	311	619	386	1.6036	7,770				
311	Electric Pumping Equipment	1996	01	12	11,862	HW155	311	619	450	1.3756	16,317				
311	Electric Pumping Equipment	1998	07	12	226,168	HW155	311	619	486	1.2737	288,071				
311	Electric Pumping Equipment	1999	07	12	1,218	HW155	311	619	499	1.2405	1,510				
311	Electric Pumping Equipment	2000	01	06	13,555	HW155	311	619	523	1.1836	16,044				
311	Electric Pumping Equipment	2002	07	12	1,094	HW155	311	619	533	1.1614	1,270				
311	Electric Pumping Equipment	2003	07	12	82,771	HW155	311	619	546	1.1337	93,838				
311	Electric Pumping Equipment	2003	07	12	23,294	HW155	311	619	546	1.1337	26,408				
311	Electric Pumping Equipment	2004	01	06	11,447	HW155	311	619	547	1.1316	12,954				
311	Electric Pumping Equipment	2004	07	12	40,174	HW155	311	619	569	1.0879	43,705				
311	Electric Pumping Equipment	2005	01	06	42,698	HW155	311	619	604	1.0248	43,757				
311	Electric Pumping Equipment	2005	07	12	65,967	HW155	311	619	611	1.0131	66,831				
311	Electric Pumping Equipment	2006	07	12	77,112	HW155	311	619	619	1	77,112				
311 Total	Electric Pumping Equipment				1,506,908						3,160,902		2.0976	834,457	1,750,363

Chaparral City Water Company
Trended Reconstruction Cost Plant
Test Year Ended December 31, 2006

Exhibit
Schedule B-4
Witness: Bourassa

Test Year Ended December 31, 2006																
NARUC	NARUC Description	Vin. Yr.	Month	Month	Original Cost	Source	HW155	Base	Index	Factor	RCN Cost	Ratio		Trended		
												RCN to	Accumulated			
												Orig. Cost	Depreciation	Accumulated Depreciation		
311	Electric Pumping Equipment	1972	01	12	9,897	HW155	311	619	96	6.4479	63,815					
311	Electric Pumping Equipment	1973	01	12	48,255	HW155	311	619	100	6.19	298,698					
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311	Electric Pumping Equipment	1980	01	12	3,955	HW155	311	619	222	2.7883	11,028					
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311	Electric Pumping Equipment	1985	01	12	34,865	HW155	311	619	282	2.195	76,529					
311	Electric Pumping Equipment	1986	01	12	104,906	HW155	311	619	284	2.1796	228,653					
311	Electric Pumping Equipment	1987	01	12	496,107	HW155	311	619	299	2.0702	1,027,041					
311	Electric Pumping Equipment	1989	01	12	18,061	HW155	311	619	330	1.8758	33,879					
311	Electric Pumping Equipment	1993	01	12	4,845	HW155	311	619	386	1.6036	7,770					
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311	Electric Pumping Equipment	1999	07	12	1,218	HW155	311	619	499	1.2405	1,510					
311	Electric Pumping Equipment	2000	01	06	13,555	HW155	311	619	523	1.1836	16,044					
311	Electric Pumping Equipment	2002	07	12	1,094	HW155	311	619	533	1.1614	1,270					
311	Electric Pumping Equipment	2003	07	12	82,771	HW155	311	619	546	1.1337	93,838					
311	Electric Pumping Equipment	2003	07	12	0	HW155	311	619	546	1.1337	0					
311	Electric Pumping Equipment	2004	01	06	11,447	HW155	311	619	547	1.1316	12,954					
311	Electric Pumping Equipment	2004	07	12	40,174	HW155	311	619	569	1.0879	43,705					
311	Electric Pumping Equipment	2005	01	06	42,698	HW155	311	619	604	1.0248	43,757					
311	Electric Pumping Equipment	2005	07	12	65,967	HW155	311	619	611	1.0131	66,831					
311	Electric Pumping Equipment	2006	07	12	77,112	HW155	311	619	619	1	77,112					
311	Electric Pumping Equipment				1,483,614						3,134,494					
311	Total											2.1127	834,457	1,762,992		

RUCO EXHIBIT 2

RUCO EXHIBIT 2

Chaparral City Water Company, Inc
Docket No. W-02113A-04-0616
Test Year Ended December 31, 2003

Schedule RLM-11
Page 1 of 2

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2 PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	(A)	(B)
	Calculation Of The Company's Full Cash Value:		
	Annual Operating Revenues:		
1	Year 2001 (Company Schedule E-2)	\$ 6,269,724	
2	Year 2002 (Company Schedule E-2)	6,157,058	
3	Year 2003 (Company Schedule E-2)	6,221,082	
4	Total Three Year Operating Revenues (L1 + L2 + L3)	\$ 18,647,864	
5	Average Annual Operating Revenues (L4 / 3)	6,215,955	
6	Two Times Three Year Average Operating Revenues (L5 X 2)		\$ 12,431,909
	ADD: Ten Percent Of Construction Work In Progress ("CWIP"):		
7	Test Year CWIP	\$ 3,968,300	
8	10% Of CWIP (L7 X 10%)		\$ 396,830
	SUBTRACT: Transportation At Book Value:		
9	Original Cost Of Transportation Equipment (RLM-5, Pg 17, Col (E), L 21)	\$ 448,606	
10	Acc. Dep. Of Transportation Equipment (RLM-5, Pg 17, Col (F), L 21)	\$ 28,114	
11	Book Value Of Transportation Equipment (L9 - L10)		\$ 420,492
12	COMPANY'S FULL CASH VALUE (L6 + L8 + L11)		\$ 12,408,247
	Calculation Of The Company's Tax Liability:		
	MULTIPLY: Company Full Cash Value By Valuation Assessment Ratio And Then By Property Tax Rates:		
13	Assessment Ratio (ADOR Directive)	25%	
14	Assessed Value (L12 X L13)	\$ 3,102,062	
	Property Tax Rates:		
15	2004 Composite Tax Rate (Line 24)	9.05%	
16	Secondary Tax Rate	0.00%	
17	Estimated Tax Rate Liability (L14 + L15)	9.05%	
18	COMPANY'S TAX LIABILITY - Based On Full Cash Value (L14 X L17)		\$ 280,835
19	Test Year Adjusted Property Tax Expense Per Company's Filing (Schedule C-1)	\$ 310,331	
20	Increase (Decrease) In Property Tax Expense (L18 - L19)	\$ (29,496)	
21	Adjustment To Test Year Property Tax Expense (See RLM-7 Col. (B), L21)		\$ (29,496)
	2004 Property Tax Rate Calculation (Per RUCO Data Request 1.14)		
22	2004 Assessed Property Value	\$ 3,098,772	
23	2004 Tax Assessment	\$ 280,537	
24	Composite Tax Rate (Line 24 / Line 23)	9.05%	

CHAPARRAL CITY WATER COMPANY, INC.
DOCKET NO. W-02113A-07-0551
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CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 REVENUE REQUIREMENTS

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-1
 PAGE 1 OF 2
 DIRECT TESTIMONY

REVENUE REQUIREMENTS

LINE NO.	DESCRIPTION	(A) COMPANY REQUESTED	(B) RUCO RECOMMENDED
1	ADJUSTED FAIR VALUE RATE BASE (FVRB)	\$ 28,736,406	\$ 27,501,327
2	ADJUSTED OPERATING INCOME	797,271	1,101,299
3	CURRENT RATE OF RETURN (L2 / L1)	2.77%	4.00%
4	REQUIRED RATE OF RETURN ON FVRB	9.32%	6.38%
5	REQUIRED OPERATING INCOME (L4 * L1)	2,678,233	1,753,848
6	OPERATING INCOME DEFICIENCY (L5 - L2)	1,880,962	652,548
7	GROSS REVENUE CONVERSION FACTOR	1.6286	1.6287
8	GROSS REVENUE INCREASE	\$ 3,063,335	\$ 1,062,786
9	CURRENT REVENUES T/Y ADJUSTED	7,446,700	7,508,649
10	PROPOSED ANNUAL REVENUE (L8 + L9)	10,510,035	8,571,434
11	PERCENTAGE AVERAGE INCREASE	41.14%	14.15%

REFERENCES:

COLUMN (A): COMPANY SCHEDULE A-1

COLUMN (B): SCHEDULE TJC-1, PG. 2, TJC-2, TJC-3, TJC-30 AND TJC-43

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
GROSS REVENUE CONVERSION FACTOR

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-1
PAGE 2 OF 2
DIRECT TESTIMONY

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>REFERENCE</u>
1	REVENUE	1.0000	
2	UNCOLLECTIBLES	<u>0.00000</u>	COMPANY SCH. C-3
3	SUB-TOTAL	1.0000	LINE 1 - LINE 2
4	LESS: TAX RATE	<u>38.60%</u>	NOTE (a)
5	TOTAL	0.6140	LINE 3 - LINE 4
6	REVENUE CONVERSION FACTOR	<u>1.62867</u>	LINE 1/LINE 5

NOTE (a):
CALCULATION OF EFFECTIVE TAX RATE

OPERATING INCOME BEFORE TAXES	100.00%
LESS: ARIZONA STATE TAX	<u>6.97%</u>
TAXABLE INCOME FEDERAL	93.03%
TIMES: FEDERAL INCOME TAX RATE	<u>34.00%</u>
SUBTOTAL	31.63%
ADD STATE TAX RATE	38.60%
LINE 3 ABOVE	<u>100.00%</u>
EFFECTIVE TAX RATE	38.60%

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
SUMMARY OF RATE BASE

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-2
DIRECT TESTIMONY

Line No.		RUCO Original Cost <u>Rate base</u>	RUCO RCND <u>Rate base</u>	RUCO Fair Value <u>Rate Base (50/50)</u>
1				
2	Gross Utility Plant in Service	\$ 49,589,334	\$ 76,931,792	\$ 63,260,563
3	Less: Accumulated Depreciation	<u>(13,711,057)</u>	<u>(21,768,381)</u>	<u>(17,739,719)</u>
4				
5	Net Utility Plant in Service	\$ 35,878,277	\$ 55,163,411	\$ 45,520,844
6				
7	<u>Less:</u>			
8	Advances in Aid of			
9	Construction	(6,557,243)	(10,172,761)	(8,365,002)
10	Contributions in Aid of			
11	Construction - Net of amortization	(6,120,652)	(9,443,715)	(7,782,184)
12	Customer Meter Deposits	(819,845)	(819,845)	(819,845)
13	Deferred Income Taxes & Credits	(925,896)	(925,896)	(925,896)
14	Investment tax Credits	-	-	-
15	Shared Gain on Well	(646,000)	(646,000)	(646,000)
16				
17	<u>Plus:</u>			
18	Unamortized Debt Issuance			
19	Costs	424,010	424,010	424,010
20	Working Capital	95,400	95,400	95,400
21	Deferred Regulatory Assets	-	-	-
22				
23				
24				
25				
26	Total Rate Base	<u>\$ 21,328,051</u>	<u>\$ 33,674,604</u>	<u>\$ 27,501,327</u>
27				
28				
29				
30	<u>SUPPORTING SCHEDULES:</u>		<u>RECAP SCHEDULES:</u>	
31	Schedules TJC-4, pages 1 and 2		Schedule TJC-1	
32	Schedules TJC-5			
33	Schedules TJC-6, pages 1, 2, and 3			
34	Schedules TJC-14, pages 1 and 2			
35	Schedule TJC-15			

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE - ORIGINAL COST

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-3
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	PLANT IN SERVICE	\$ 51,771,885	\$ (2,182,551)	\$ 49,589,334
2	ACCUMULATED DEPRECIATION	(15,877,022)	2,165,965	(13,711,057)
3	NET PLANT IN SERVICE	\$ 35,894,863	\$ (16,586)	\$ 35,878,277
4	CONSTRUCTION WORK IN PROGRESS (CWIP)	-	-	-
5	TOTAL NET PLANT	\$ 35,894,863	\$ (16,586)	\$ 35,878,277
Less:				
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(6,557,243)	-	(6,557,243)
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET	(6,119,129)	(1,523)	(6,120,652)
8	CUSTOMER METER DEPOSITS	(819,845)	-	(819,845)
9	DEFERRED INCOME TAXES	(925,896)	-	(925,896)
10	INVESTMENT TAX CREDITS	-	-	-
11	SHARED GAIN ON WELL	(646,000)	-	(646,000)
Plus:				
12	UNAMORTIZED DEBT ISSUANCE COSTS	424,010	-	424,010
13	WORKING CAPITAL	207,006	(111,606)	95,400
14	DEFERRED REGULATORY ASSETS	1,280,000	(1,280,000)	-
15	TOTAL RATE BASE	<u>\$ 22,737,766</u>	<u>\$ (1,409,715)</u>	<u>\$ 21,328,051</u>

REFERENCES:

COLUMN (A): COMPANY SCHEDULE B-1
COLUMN (B): SCHEDULE TJC-4, PAGES 1 and 2
COLUMN (C): COLUMN (A) + COLUMN (B)

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-4
 DIRECT TESTIMONY
 PAGE 1 of 2

LINE
 NO. DESCRIPTION

	(A) COMPANY PROPOSED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) ADJ #7	(I) ADJ #8
1 PLANT IN SERVICE	\$51,771,885			\$ (103,468)		\$ (2,010,923)	\$ 43,217	\$	
2 ACCUMULATED DEPRECIATION	(15,877,022)			103,468		2,010,923	0		
3 NET PLANT IN SERVICE	\$35,894,863	\$ -	\$ -	\$ -	\$ -	\$ 0	\$ 43,217	\$ -	\$ -
4 CONSTRUCTION WORK IN PROGRESS (CWIP)									
5 TOTAL NET PLANT	\$35,894,863	\$ -	\$ -	\$ -	\$ -	\$ 0	\$ 43,217	\$ -	\$ -
Less:									
6 ADVANCES IN AID OF CONSTRUCTION (AIAC)	(6,557,243)								
7 CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET	(6,119,129)								
8 CUSTOMER METER DEPOSITS	(819,845)								
9 DEFERRED INCOME TAXES	(925,896)								
10 INVESTMENT TAX CREDITS									
11 SHARED GAIN ON WELL	(646,000)								
Plus:									
12 UNAMORTIZED DEBT ISSUANCE COSTS	424,010								
13 WORKING CAPITAL	207,006								
14 DEFERRED REGULATORY ASSETS	1,280,000								
15 TOTAL RATE BASE	\$22,737,766	\$ -	\$ -	\$ -	\$ -	\$ 0	\$ 43,217	\$ -	\$ -

ADJUSTMENT #

- Intentionally Left Blank
- Intentionally Left Blank
- Remove Wells 8 & 9 - Out of Service
- Intentionally Left Blank
- Remove Shea Water Treatment Plant 1 - Taken Out of Service
- Remove Expensed Plant Items and Capitalize
- Intentionally Left Blank
- Intentionally Left Blank

REFERENCE

SCHEDULE TJC-7
 SCHEDULE TJC-8
 SCHEDULE TJC-9

LINE NO.	DESCRIPTION	(J) ADJ #9	(K) ADJ #10	(L) ADJ #11	(M) ADJ #12	(N) ADJ #13	(O) ADJ #14	(P) ADJ #15	(Q) ADJ #16	(R) RUCO ADJUSTED
1	PLANT IN SERVICE		\$ (95,944)	\$ (15,434)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,589,334
2	ACCUMULATED DEPRECIATION	76	\$ 51,498	-	-	-	-	-	-	(13,711,057)
3	NET PLANT IN SERVICE	76	\$ (44,446)	\$ (15,434)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,878,277
4	CONSTRUCTION WORK IN PROGRESS (CWIP)									-
5	TOTAL NET PLANT	76	\$ (44,446)	\$ (15,434)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,878,277
Less:										
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)									(6,557,243)
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET						(1,523)	-	-	(6,120,652)
8	CUSTOMER METER DEPOSITS	-	-	-	-	-	-	-	-	(819,845)
9	DEFERRED INCOME TAXES	-	-	-	-	-	-	-	-	(925,896)
10	INVESTMENT TAX CREDITS									-
11	SHARED GAIN ON WELL									(646,000)
Plus:										
12	UNAMORTIZED DEBT ISSUANCE COSTS									424,010
13	WORKING CAPITAL								(111,606)	95,400
14	DEFERRED REGULATORY ASSETS							(1,280,000)		-
15	TOTAL RATE BASE	76	\$ (44,446)	\$ (15,434)	\$ -	\$ -	\$ (1,523)	\$ (1,280,000)	\$ (111,606)	\$ 21,328,051

ADJUSTMENT #	REFERENCE
9. To Adjust OCRB Direct Plant Accumulated Depreciation	SCHEDULE TJC-6
10. Correct 4-Factor General Office Plant & Accumulated Depreciation Allocation Factor	SCHEDULE TJC-10, PAGES 1 and 2
11. Remove Post Test Year GO Plant in Account 303 & 340	SCHEDULE TJC-11
12. Intentionally Left Blank	
13. Intentionally Left Blank	
14. To correct CIAC amortization rate authorized in Decision No. 68176 per Bourassa Rebuttal Schedule C-2, page 2.	SCHEDULE TJC-12
15. To Remove Deferred Regulatory Asset - Additional CAP Allocation	SCHEDULE TJC-28
16. Working Capital	SCHEDULE TJC-29, PAGES 1 thru 15

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RE-COMPUTATION OF TOTAL UTILITY PLANT IN SERVICE (UPIS)
AND ACCUMULATED DEPRECIATION FROM DECISION NO. 68176

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-5
DIRECT TESTIMONY

Total Chaparral City Water UPIS:

Line No.	Description	Amount
1	Chaparral City Water Direct Plant Per Company	\$51,020,714
2	Chaparral City Water Direct Plant Per RUCO	51,020,714
3	RUCO's Direct Plant Adjustment	<u>\$ 0</u>
4	Chaparral City Water General Office Plant Allocation Per Company	\$ 751,171
5	Chaparral City Water General Office Plant Allocation Per RUCO	639,794
6	RUCO's General Office Plant Allocation Adjustment	<u>\$ (111,377)</u>
7	Total Chaparral City Water Gross UPIS Per Company	\$51,771,885
8	Total Chaparral City Water Gross UPIS Per RUCO	51,660,508
9	Total RUCO Gross UPIS Adjustment	<u>\$ (111,377)</u>

Total Chaparral City Water Accumulated Depreciation:

10	Chaparral City Water Direct Plant Accumulated Depreciation Per Company	\$15,473,834
11	Chaparral City Water Direct Plant Accumulated Depreciation Per RUCO	15,473,758
12	RUCO's Direct Plant Accumulated Depreciation Adjustment	<u>(76)</u>
13	Chaparral City Water General Office Allocation of Accumulated Depreciation Per Company	403,188
14	Chaparral City Water General Office Allocation of Accumulated Depreciation Per RUCO	351,690
15	RUCO's General Office Allocation of Accumulated Depreciation Adjustment	<u>(51,498)</u>
16	Total Chaparral City Water Accumulated Depreciation Per Company	15,877,022
17	Total Chaparral City Water Accumulated Depreciation Per RUCO	15,825,448
18	Total RUCO Accumulated Depreciation Adjustment	<u>\$ (51,574)</u>

Supporting Schedules:
\\TJC-4(a)\Schedules\Pages1-5\DirectPlant\AZ-CorpPlant\CentralDivisionPlant\
Regarding RUCO's Eastern Div. treatment see Company response to RUCO DR 2.06

December 31, 2004

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) DEP. RATE Thru Sep-05	(B) DEP. RATE After Sep-05	(C) 12/31/2003 PLANT BALANCE Per DECISION 68176	(D) 12/31/2003 ACCUM. DEPREC. Per DECISION 68176	(E) 2004 PLANT ADITNS	(F) 2004 PLANT RETIRMTS	(G) 2004 PLANT ADJUSTMT	(H) TOTAL PLANT VALUE 12/31/2004	(I) 2004 DEPREC'N EXPENSE	(J) ENDING ACCUM. DEPREC. 12/31/2004	(K) NET PLANT VALUE 12/31/2004
1	301	Organization Cost	0.00%	0.00%	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost and Other Intangible Plant	0.00%	0.00%	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	0.00%	-	-	-	-	-	-	-	-	-
4	304	Structures and Improvements	2.50%	3.33%	271,857	260,483	331,000	-	-	271,857	20,498	280,981	271,857
5	305	Collecting and Impounding Res.	2.50%	2.50%	6,548	82	-	-	-	985,407	164	246	704,426
6	306	Lake River and Other Intakes	2.50%	2.50%	-	-	-	-	-	6,548	-	-	6,303
7	307	Wells and Springs	2.50%	3.33%	332,065	154,900	-	-	-	332,065	8,302	163,202	168,863
8	308	Infiltration Galleries and Tunnels	2.50%	6.67%	-	-	-	-	-	-	-	-	-
9	309	Supply Mains	2.50%	2.00%	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	2.50%	5.00%	-	-	-	-	-	-	-	-	-
11	311	Electric Pumping Equipment	2.50%	12.50%	1,291,399	615,457	53,925	-	(23,294)	1,322,030	32,668	648,125	673,905
12	320	Water Treatment Equipment	2.50%	3.33%	5,680,573	1,871,920	1,961,651	-	(13,666)	7,616,738	165,866	1,837,686	5,779,052
13	330	Distribution Reservoirs & Standpipe	2.50%	2.22%	6,022,014	1,487,474	-	-	(1,296)	6,020,718	150,334	1,149,033	4,871,710
14	331	Transmission and Distribution Mains	2.50%	2.00%	15,991,782	6,020,309	348,845	-	-	16,340,526	404,135	6,424,684	9,916,182
15	333	Services	2.50%	3.33%	4,979,133	501,319	1,423,193	-	-	5,402,326	144,128	643,487	5,758,738
16	334	Meters	2.50%	8.33%	2,163,197	610,611	231,973	-	-	2,411,833	57,188	697,706	1,714,127
17	335	Hydrants	2.50%	2.00%	523,178	163,366	64,716	-	-	607,893	14,138	197,504	410,389
18	336	Backflow Prevention Devices	2.50%	6.67%	-	-	-	-	-	-	-	-	-
19	339	Other Plant and Miscellaneous Equipment	2.50%	6.67%	-	-	-	-	-	-	-	-	-
20	340	Office Furniture and Fixtures	2.50%	20.00%	182,811	19,182	43,730	-	-	226,540	5,117	24,309	202,232
21	341	Transportation Equipment	2.50%	4.00%	406,775	(1,732)	95,984	(65,224)	-	437,535	10,554	(58,402)	489,938
22	342	Stores Equipment	2.50%	5.00%	88,004	21,899	4,936	-	-	82,940	2,262	23,871	69,069
23	343	Tools and Work Equipment	2.50%	10.00%	-	25	-	-	-	-	-	25	(25)
24	344	Laboratory Equipment	2.50%	5.00%	-	-	-	-	-	-	-	-	-
25	345	Power Operated Equipment	2.50%	10.00%	39,105	(5,716)	-	-	-	39,105	378	(4,738)	43,843
26	346	Communications Equipment	2.50%	10.00%	67,303	16,832	16,445	-	-	83,748	1,888	18,720	65,028
27	347	Miscellaneous Equipment	2.50%	10.00%	-	-	34,063	-	-	34,063	426	426	33,638
28	348	Plant Held for Future Use	0.00%	0.00%	-	-	-	-	-	-	-	-	-
29													
30													
31		Total Gross Water Plant in Service & Accumulated Depreciation			\$ 38,680,149	\$ 11,565,130	\$ 4,650,659	\$ (65,224)	\$ (33,432)	\$ 43,231,752	\$ 1,017,102	\$ 12,518,008	\$ 30,713,744

YEAR 2005										
LINE NO.	ACCT. NO.	ACCOUNT NAME	BEGINNING PLANT BALANCES ON JAN. 1, 2005	(A) 2005 ADDITNS	(B) 2005 RETIRMTS	(C) 2005 PLANT ADJUSTMNT	(D) TOTAL PLANT VALUE 12/31/2005	(E) DEPREC'N EXPENSE	(F) ENDING ACCUM. DEPREC. 12/31/2005	(G) NET PLANT VALUE 12/31/2005
1	301	Organization Cost	-	-	-	-	-	-	-	-
2	302	Franchise Cost and Other Intangible Plant	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	271,857	-	-	-	271,857	-	-	271,857
4	304	Structures and Improvements	985,407	488,546	-	-	1,453,952	33,023	314,003	1,139,949
5	305	Collecting and Impounding Res.	6,548	-	-	-	6,548	164	409	6,139
6	306	Lake River and Other Intakes	-	-	-	-	-	-	-	-
7	307	Weils and Springs	332,065	-	-	-	332,065	8,991	172,193	159,873
8	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
9	309	Supply Mains	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	-	-	-	-	-	-	-	-
11	311	Electric Pumping Equipment	1,322,030	106,361	(21,889)	-	1,406,502	88,213	694,449	712,053
12	320	Water Treatment Equipment	7,616,738	130,344	-	-	7,747,081	204,874	2,045,874	5,701,207
13	330	Distribution Reservoirs & Standpipe	6,020,718	2,031,545	(3,000)	-	8,049,263	170,950	1,815,968	6,233,305
14	331	Transmission and Distribution Mains	16,340,626	191,647	-	-	16,532,274	390,366	8,814,830	9,717,444
15	333	Services	6,402,326	536,187	-	-	6,938,513	180,602	824,189	6,114,324
16	334	Meters	2,411,613	215,171	-	-	2,626,785	99,697	767,493	1,859,291
17	335	Hydrants	607,893	263,983	-	-	871,877	17,572	215,077	656,800
18	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-
19	339	Other Plant and Miscellaneous Equipment	(0)	1,610,687	-	-	1,610,687	28,529	28,529	1,582,157
20	340	Office Furniture and Fixtures	226,540	24,735	(4,006)	-	247,269	8,382	28,685	218,574
21	341	Transportation Equipment	437,535	120,595	(23,389)	-	534,742	33,422	(46,369)	581,111
22	342	Stores Equipment	-	-	-	-	-	-	-	-
23	343	Tools and Work Equipment	92,940	52,874	-	-	145,814	3,731	27,601	118,213
24	344	Laboratory Equipment	-	-	-	-	-	-	25	(25)
25	345	Power Operated Equipment	-	-	-	-	-	-	-	-
26	346	Communications Equipment	39,105	-	-	-	39,105	1,711	(3,027)	42,132
27	347	Miscellaneous Equipment	83,748	-	-	-	83,748	3,684	22,384	61,364
28	348	Other Tangible Plant	34,063	-	-	-	34,063	1,490	1,916	32,147
29		Plant Held for Future Use	-	-	-	-	-	-	-	-
30		Total Gross Water Plant in Service & Accumulated Depreciation	43,231,752	\$ 5,762,677	\$ (62,284)	\$ -	\$ 48,932,145	\$ 1,268,505	\$ 13,724,228	\$ 35,207,916

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJUSTMENT #2 - DIRECT PLANT & ACCUM. DEPRE.

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-6
PAGE 3 OF 3
DIRECT TESTIMONY

YEAR 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	BEGINNING PLANT BALANCES ON JAN. 1, 2006	(A) 2006 PLANT ADDITNS	(B) 2006 PLANT RETIRMTS	(C) 2006 PLANT ADJUSTMT	(D) TOTAL PLANT VALUE 12/31/2006	(E) DEPREC'N EXPENSE	(F) ENDING ACCUM. DEPREC. 12/31/2006	(G) NET PLANT VALUE 12/31/2006
1	301	Organization Cost	-	-	-	-	-	-	-	-
2	302	Franchise Cost and Other Intangible Plant	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	271,857	-	-	-	271,857	-	-	271,857
4	304	Structures and Improvements	1,453,952	70,236	(5,540)	-	1,518,648	49,494	357,958	1,160,691
5	305	Collecting and Impounding Res.	6,548	-	-	-	6,548	164	573	5,975
6	306	Lake River and Other Intakes	-	-	-	-	-	-	-	-
7	307	Wells and Springs	332,065	-	-	-	332,065	11,058	183,250	148,815
8	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
9	309	Supply Mains	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	-	-	-	-	-	-	-	-
11	311	Electric Pumping Equipment	1,406,502	77,112	-	-	1,483,614	180,632	875,081	608,533
12	320	Water Treatment Equipment	7,747,081	10,733	-	-	7,757,814	258,157	2,304,030	5,453,784
13	330	Distribution Reservoirs & Standpipe	8,049,263	121,156	-	-	8,170,419	180,038	1,995,997	6,174,423
14	331	Transmission and Distribution Mains	16,532,274	918,360	-	-	17,450,634	339,829	7,154,659	10,295,975
15	333	Services	6,938,513	453,417	(2,000)	-	7,389,929	238,569	1,060,758	6,329,172
16	334	Meters	2,626,785	95,332	-	-	2,722,116	222,782	990,275	1,731,841
17	335	Hydrants	871,877	299,756	-	-	1,171,632	20,435	235,512	936,121
18	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-
19	339	Other Plant and Miscellaneous Equipment	1,610,687	-	-	-	1,610,687	107,433	135,962	1,474,725
20	340	Office Furniture and Fixtures	247,269	23,090	-	-	270,359	17,263	45,958	224,401
21	341	Transportation Equipment	534,742	573	-	-	535,315	107,006	60,636	474,679
22	342	Stores Equipment	-	-	-	-	-	-	-	-
23	343	Tools and Work Equipment	145,814	3,551	-	-	149,365	7,379	34,981	114,384
24	344	Laboratory Equipment	-	-	-	-	-	-	25	(25)
25	345	Power Operated Equipment	-	-	-	-	-	-	-	-
26	346	Communications Equipment	39,105	-	-	-	39,105	3,910	883	38,222
27	347	Miscellaneous Equipment	83,748	22,794	-	-	106,542	9,514	31,898	74,644
28	348	Other Tangible Plant	34,063	-	-	-	34,063	3,406	5,322	28,741
29		Plant Held for Future Use	-	-	-	-	-	-	-	-
30										
31		RUCO Total Gross Water Plant in Service & Accumulated Depreciation	48,932,145	2,096,109	(7,540)	-	51,020,714	1,757,069	15,473,758	35,546,957
32										
33		Company Gross Water Plant in Service & Accumulated Depreciation					51,020,714		15,473,834	
34										
35		RUCO Adjustment					(0)		(76)	

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 3

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-7
DIRECT TESTIMONY

Line
No.

1	<u>OCRB Direct Plant - Remove Wells 8 & 9 - Out of Service</u>	
2		
3	Company OCRB Direct Plant - Remove Wells 8 & 9 from Account 307	\$ 103,468
4	RUCO OCRB Direct Plant - Remove Wells 8 & 9 from Account 307	-
5	RUCO Adjustment	<u>(103,468)</u>
6		
7		
8	Increase (Decrease) to OCRB Direct Plant	<u>\$ (103,468)</u>
9		
10		
11	Company OCRB Direct Plant Accumulated Depreciation - A/C 307	\$ 54,932
12	RUCO OCRB Direct Plant Accumulated Depreciation - A/C 307	(48,536)
13	RUCO Adjustment	<u>(103,468)</u>
14		
15		
16	Increase (Decrease) to OCRB Accumulated Depreciation	<u>\$ (103,468)</u>
17		
18		
19	Net Adjustment	<u>\$ -</u>
20		
21		
22		
23		
24	<u>SUPPORTING SCHEDULE</u>	
25	rcn_plant_Remove Well 8_9.xls	

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 5

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-8
DIRECT TESTIMONY

Line
No.

1	<u>OCRB Direct Plant - Remove Shea Water Treatment Plant 1 - Out of Service</u>			
2				
3	Company OCRB Direct Plant - Account 320	\$ 7,763,500		
4	RUCO OCRB Direct Plant - Account 320	5,752,577		
5	RUCO Adjustment	<u>(2,010,923)</u>		
6				
7				
8	Increase (Decrease) to OCRB Direct Plant	<u>\$ (2,010,923)</u>		
9				
10				
11	Company OCRB Direct Plant Accumulated Depreciation - A/C 320	\$ 2,099,307		
12	RUCO OCRB Direct Plant Accumulated Depreciation - A/C 320	88,384		
13	RUCO Adjustment	<u>(2,010,923)</u>		
14				
15				
16	Increase (Decrease) to OCRB Accumulated Depreciation	<u>\$ (2,010,923)</u>		
17				
18				
19	Net Adjustment	<table border="1"><tr><td>\$</td><td>0</td></tr></table>	\$	0
\$	0			
20				
21				
22				
23				
24	<u>SUPPORTING SCHEDULE</u>			
25	rcn_plant_Remove Shea Water Treatment Plant 1.xls			
26	ocrb_plant_Remove Shea Water Treatment Plant 1.xls			

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 6

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-9
DIRECT TESTIMONY

Line
No.

1	<u>OCRB Direct Plant - Remove Expensed Items in Account 339 and Capitalize</u>	
2		
3	Company OCRB Direct Plant - Account 339	\$ 1,814,021
4	RUCO OCRB Direct Plant - Account 339	1,857,238
5	RUCO Adjustment	<u>43,217</u>
6		
7		
8	Increase (Decrease) to OCRB Direct Plant - Account 339	<u>\$ 43,217</u>
9		
10		
11	Company OCRB Direct Plant Accumulated Depreciation - A/C 339	\$ 277,127
12	RUCO OCRB Direct Plant Accumulated Depreciation - A/C 339	277,127
13	RUCO Adjustment	<u>0</u>
14		
15		
16	Increase (Decrease) to OCRB Accumulated Depreciation	<u>\$ 0</u>
17		
18		
19	Net Adjustment	<u>\$ 43,217</u>
20		
21		
22		
23		
24	<u>SUPPORTING SCHEDULE</u>	
25	rcn_plant_Remove Expensed Items & Capitalize.xls	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJUSTMENT #10 - GENERAL OFFICE ALLOCATED PLANT
ORIGINAL COST

December 31, 2006

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-10
PAGE 1 of 2
DIRECT TESTIMONY

Line	No.	General Office Plant Allocation - Plant-in-Service	Per Company Orig. Cost	4 Factor Allocation %	4 Factor Allocated Orig. Cost
1	301	Organization Cost	16,452	2.80%	461
2	302	Franchise Cost and Other Intangible Plant	1,089,237	2.80%	30,499
3	303	Land and Land Rights	-	2.80%	-
4	304	Structures and Improvements	5,802,813	2.80%	162,479
5	305	Collecting and Impounding Res.	-	2.80%	-
6	306	Lake River and Other Intakes	-	2.80%	-
7	307	Wells and Springs	-	2.80%	-
8	308	Infiltration Galleries and Tunnels	-	2.80%	-
9	309	Supply Mains	-	2.80%	-
10	310	Power Generation Equipment	-	2.80%	-
11	311	Electric Pumping Equipment	(916)	2.80%	(26)
12	320	Water Treatment Equipment	-	2.80%	-
13	330	Distribution Reservoirs & Standpipe	-	2.80%	-
14	331	Transmission and Distribution Mains	-	2.80%	-
15	333	Services	-	2.80%	-
16	334	Meters	-	2.80%	-
17	335	Hydrants	-	2.80%	-
18	336	Backflow Prevention Devices	-	2.80%	-
19	339	Other Plant and Miscellaneous Equipment	847,382	2.80%	23,727
20	340	Office Furniture and Fixtures	14,268,765	2.80%	399,525
21	341	Transportation Equipment	552,719	2.80%	15,476
22	342	Stores Equipment	-	2.80%	-
23	343	Tools and Work Equipment	405,643	2.80%	11,358
24	344	Laboratory Equipment	4,061	2.80%	114
25	345	Power Operated Equipment	249,261	2.80%	6,979
26	346	Communications Equipment	165,561	2.80%	4,636
27	347	Miscellaneous Equipment	-	2.80%	-
28	348	Other Tangible Plant	-	2.80%	-
29					
30		Company Requested Level of Total General Office Plant	\$ 23,400,978		<u>\$ 655,227</u>
31					
32		Less:			
33		RUCO OCRB Adjustment #11 - Remove Post Test Year Plant	<u>551,208</u>		
34					
35		RUCO Recommended Level of Total General Office Plant	\$ 22,849,770		
36		4 Factor Allocation Factor	<u>2.80%</u>		
37					
38		RUCO Recommended Level of Allocated General Office Plant - See TJC-5	<u>\$ 639,794</u>		
39					
40		Company Increase (Decrease) to General Office Plant-in-Service Allocation			\$ 751,171
41		RUCO Increase (Decrease) to General Office Plant-in-Service Allocation			\$ 655,227
42		RUCO Adjustment			<u>\$ (95,944)</u>

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJUSTMENT #10 - ACCUMULATED DEPRECIATION
ORIGINAL COST

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-10
PAGE 2 of 2
DIRECT TESTIMONY

Line No.	General Office Plant Allocation - Accumulated Depreciation	RUCO Accumulated Depreciation	4 Factor Allocation %	Allocated Accumulated Depreciation
1	301 Organization Cost	3,046	2.80%	85
2	302 Franchise Cost and Other Intangible Plant	211,596	2.80%	5,925
3	303 Land and Land Rights	-	2.80%	-
4	304 Structures and Improvements	2,354,430	2.80%	65,924
5	305 Collecting and Impounding Res.	-	2.80%	-
6	306 Lake River and Other Intakes	-	2.80%	-
7	307 Wells and Springs	-	2.80%	-
8	308 Infiltration Galleries and Tunnels	-	2.80%	-
9	309 Supply Mains	-	2.80%	-
10	310 Power Generation Equipment	-	2.80%	-
11	311 Electric Pumping Equipment	-	2.80%	-
12	320 Water Treatment Equipment	-	2.80%	-
13	330 Distribution Reservoirs & Standpipe	-	2.80%	-
14	331 Transmission and Distribution Mains	-	2.80%	-
15	333 Services	-	2.80%	-
16	334 Meters	-	2.80%	-
17	335 Hydrants	-	2.80%	-
18	336 Backflow Prevention Devices	-	2.80%	-
19	339 Other Plant and Miscellaneous Equipment	162,569	2.80%	4,552
20	340 Office Furniture and Fixtures	8,664,647	2.80%	242,610
21	341 Transportation Equipment	552,718	2.80%	15,476
22	342 Stores Equipment	-	2.80%	-
23	343 Tools and Work Equipment	192,488	2.80%	5,390
24	344 Laboratory Equipment	4,062	2.80%	114
25	345 Power Operated Equipment	249,257	2.80%	6,979
26	346 Communications Equipment	165,561	2.80%	4,636
27	347 Miscellaneous Equipment	-	2.80%	-
28	348 Other Tangible Plant	-	2.80%	-
29		<u>\$ 12,560,374</u>		<u>\$ 351,690</u>
30				
31	Company Increase (Decrease) to General Office Accumulated Depreciation			\$ 403,188
32	RUCO Increase (Decrease) to General Office Accumulated Depreciation			\$ 351,690
33	RUCO Adjustment to General Office Accumulated Depreciation			\$ (51,498)

Chaparral City Water Company
Test Year Ended December 31, 2006
OCRB Rate Base Proforma Adjustments
Adjustment 11

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-11
DIRECT TESTIMONY

Line
No.

1	<u>OCRB General Office Plant - Remove Post Test Year Plant</u>	
2		
3	Company OCRB 2007 Post Test Year Plant - Account 303	\$ 159,087
4	Company OCRB 2007 Post Test Year Plant - Account 340	<u>392,121</u>
5		
6	Total Company Post Test Year - General Office Plant	551,208
7		
8	Chaparral General Office Plant Allocator	<u>2.80%</u>
9		
10	Increase (Decrease) to OCRB General Office Plant	<u>\$ (15,434)</u>
11		
12		
13	Company OCRB GO Plant Accumulated Depreciation - A/C	\$ 12,560,374
14	RUCO OCRB Direct Plant Accumulated Depreciation	<u>12,560,374</u>
15	RUCO Adjustment	<u>-</u>
16		
17	Chaparral General Office Plant Allocator	2.80%
18		
19		
20	Increase (Decrease) to Accumulated Depreciation	<u>\$ -</u>
21		
22		
23	Net Adjustment	<u>\$ (15,434)</u>
24		
25		

SUPPORTING SCHEDULE
rcn_go_plant_Remove PTY Plant Adj.xls

Chaparral City Water Company
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 14

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-12
DIRECT TESTIMONY

Line
No.

1	<u>Computation of CIAC Balances</u>		
2			
3	Balance at 12/31/2003 per Decision	\$	273,476
4	Additions 2004		272,024
5	Balance at 12/31/2004		545,500
6	Additions 2005		405,152
7	Balance at 12/31/2005		950,652
8	Additions 2006		5,337,445
9	Balance at 12/31/2006	\$	6,288,097
10			
11	<u>Computation of Accumulated Amortization CIAC Balances (Half-year Convention)</u>		
12			
13	Balance at 12/31/2003 per Decision	\$	15,334
14	2004 Amortization at composite rate 2.500%		10,237
15	Balance at 12/31/2004		25,571
16	2005 Amortization at composite rate 2.500% (9 months)		14,026
17	2005 Amortization at composite rate 3.3588% (3 months)		6,282
18	Balance at 12/31/2005		45,879
19	2006 Amortization at composite rate 3.3588%		121,568
20	Balance at 12/31/2006	\$	167,447
21			
22	A.A. Balance per Computation	\$	167,447
23	Balance at End of Test Year		99,136
24	Adjustment to A.A. CIAC		68,311
25			
26			
27	Company Adjustment	\$	69,834
28	RUCO Adjustment		68,311
29			
30			
31			
32	Increase (Decrease) to Contributions-in-aid, Net	\$	1,523

Reference:

Line 17 and 19 utilizes amortization rate authorized in Decision No. 68176 per Bourassa Rebuttal Schedule C-2, page 2.

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE - RCND

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-13
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	PLANT IN SERVICE	\$80,783,568	\$ (3,851,776)	\$ 76,931,792
2	ACCUMULATED DEPRECIATION	(25,894,686)	4,126,305	(21,768,381)
3	NET PLANT IN SERVICE	\$54,888,882	\$ 274,529	\$ 55,163,411
4	CONSTRUCTION WORK IN PROGRESS (CWIP)	-	-	-
5	TOTAL NET PLANT	\$54,888,882	\$ 274,529	\$ 55,163,411
	Less:			
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(10,231,760)	58,999	(10,172,761)
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET	(9,441,352)	(2,363)	(9,443,715)
8	CUSTOMER METER DEPOSITS	(819,845)	-	(819,845)
9	DEFERRED INCOME TAXES	(925,896)	-	(925,896)
10	INVESTMENT TAX CREDITS	-	-	-
11	SHARED GAIN ON WELL	(646,000)	-	(646,000)
	Plus:			
12	UNAMORTIZED DEBT ISSUANCE COSTS	424,010	-	424,010
13	WORKING CAPITAL	207,006	(111,606)	95,400
14	DEFERRED REGULATORY ASSETS	1,280,000	(1,280,000)	-
15	TOTAL RATE BASE	<u>\$34,735,045</u>	<u>\$ (1,060,441)</u>	<u>\$ 33,674,604</u>

REFERENCES:

COLUMN (A): COMPANY SCHEDULE B-4 and B-4-A
COLUMN (B): SCHEDULE TJC-14, PAGES 1 and 2
COLUMN (C): COLUMN (A) + COLUMN (B)

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
SUMMARY OF RCND RATE BASE ADJUSTMENTS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-14
PAGE 1 of 2
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) ADJ #7	(I) ADJ #8
1	PLANT IN SERVICE	\$80,783,568	\$ (118) \$ (17,807)	\$ (435,284)	\$ (36,773)	\$ (3,262,891)	\$ 43,217	\$ 35		
2	ACCUMULATED DEPRECIATION	(25,894,686)	(1) 4,411	435,284	(13,320)	3,262,891	(0)			370,826
3	NET PLANT IN SERVICE	\$54,888,882	\$ (119) \$ (13,396)	\$ (0) \$ (50,093)	\$ 0 \$ 43,217	\$ 35 \$ 370,826				
4	CONSTRUCTION WORK IN PROGRESS (CWIP)	-								
5	TOTAL NET PLANT	\$54,888,882	\$ (119) \$ (13,396)	\$ (0) \$ (50,093)	\$ 0 \$ 43,217	\$ 35 \$ 370,826				
Less:										
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(10,231,760)								
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET	(9,441,352)								
8	CUSTOMER METER DEPOSITS	(819,845)	-	-						
9	DEFERRED INCOME TAXES	(925,896)	-	-						
10	INVESTMENT TAX CREDITS	-								
11	SHARED GAIN ON WELL	(846,000)								
Plus:										
12	UNAMORTIZED DEBT ISSUANCE COSTS	424,010								
13	WORKING CAPITAL	207,006								
14	DEFERRED REGULATORY ASSETS	1,280,000								
15	TOTAL RATE BASE	\$34,735,045	\$ (119) \$ (13,396)	\$ (0) \$ (50,093)	\$ 0 \$ 43,217	\$ 35 \$ 370,826				

ADJUSTMENT #:

Adjustment #1: RCN Factor Rounding Adjustment
Adjustment #2: Correct Account 304 Index Factors on 3 Line Items
Adjustment #3: Remove Wells 8 & 9 from Plant-in-Service and Accumulated Depreciation
Adjustment #4: Remove RCN Double Count of Plant Transfers from ACC Decision No. 68176
Adjustment #5: Remove Shea Water Treatment Plant - Out of Service
Adjustment #6: Remove Expensed Plant Items and Capitalize
Adjustment #7: Adjustment to Reconcile to RUCO's RCN Trended Direct Plant of \$76,081,819
Adjustment #8: RCN Trended Direct Plant Accumulated Depreciation

REFERENCE:

SCHEDULE TJC-16
SCHEDULE TJC-17
SCHEDULE TJC-18
SCHEDULE TJC-19
SCHEDULE TJC-20
SCHEDULE TJC-21
SCHEDULE TJC-22
SCHEDULE TJC-23

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
SUMMARY OF RCND RATE BASE ADJUSTMENTS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-14
PAGE 2 of 2
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(J) ADJ #9	(K) ADJ #10	(L) ADJ #11	(M) ADJ #12	(N) ADJ #13	(O) ADJ #14	(P) ADJ #15	(Q) ADJ #16	(R) RUCO ADJUSTED
1	PLANT IN SERVICE		\$ (126,720)	\$ (15,434)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 76,931,792
2	ACCUMULATED DEPRECIATION		67,617	(1,404)						(21,768,381)
3	NET PLANT IN SERVICE	\$ -	\$ (59,103)	\$ (16,837)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,163,411
4	CONSTRUCTION WORK IN PROGRESS (CWIP)									-
5	TOTAL NET PLANT	\$ -	\$ (59,103)	\$ (16,837)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,163,411
	Less:									
6	ADVANCES IN AID OF CONSTRUCTION (AIAC)					58,999				(10,172,761)
7	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) - NET						(2,363)			(9,443,715)
8	CUSTOMER METER DEPOSITS	-	-	-	-	-	-	-	-	(819,845)
9	DEFERRED INCOME TAXES	-	-	-	-	-	-	-	-	(925,896)
10	INVESTMENT TAX CREDITS									-
11	SHARED GAIN ON WELL									(646,000)
	Plus:									
12	UNAMORTIZED DEBT ISSUANCE COSTS									424,010
13	WORKING CAPITAL								(111,606)	95,400
14	DEFERRED REGULATORY ASSETS							(1,280,000)		-
15	TOTAL RATE BASE	\$ -	\$ (59,103)	\$ (16,837)	\$ -	\$ 58,999	\$ (2,363)	\$ (1,280,000)	\$ (111,606)	\$ 33,674,604

ADJUSTMENT #:

Adjustment #9: Intentionally Left Blank
Adjustment #10: Correct 4-Factor General Office Plant & Accumulated Depreciation Allocation Factor
Adjustment #11: Remove Post Test Year GO Plant in Account 303 & 340
Adjustment #12: Intentionally Left Blank
Adjustment #13: AIAC RCN Factor Adjustment
Adjustment #14: To correct CIAC amortization rate authorized in Decision No. 68176 per Bourassa Rebuttal Schedule C-2, page 2.
Adjustment #15: To Remove Deferred Regulatory Asset - Additional CAP Allocation

REFERENCE:

SCHEDULE TJC-24, PAGES 1 and 2
SCHEDULE TJC-25
SCHEDULE TJC-26
SCHEDULE TJC-27
SCHEDULE TJC-28

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #1 - TOTAL RCND UTILITY PLANT IN SERVICE (UPIS)
AND ACCUMULATED DEPRECIATION

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-15
DIRECT TESTIMONY

Total Chaparral City Water RCND UPIS:

Line No.	Description	Amount
1	Chaparral City Water Direct Plant Per Company	\$ 79,791,440
2	Chaparral City Water Direct Plant Per RUCO	76,081,819
3	RUCO's Direct Plant Adjustment	<u>\$ (3,709,621)</u>
4	Chaparral City Water General Office Plant Allocation Per Company	\$ 992,128
5	Chaparral City Water General Office Plant Allocation Per RUCO	849,978
6	RUCO's General Office Plant Allocation Adjustment	<u>\$ (142,150)</u>
7	Total Chaparral City Water Gross RCN UPIS Per Company	\$ 80,783,568
8	Total Chaparral City Water Gross UPIS Per RUCO	76,931,796
9	Total RUCO Gross UPIS Adjustment	<u>\$ (3,851,772)</u>

Total Chaparral City Water RCND Accumulated Depreciation:

10	Chaparral City Water Direct Plant Accumulated Depreciation Per Company	\$ 25,365,293
11	Chaparral City Water Direct Plant Accumulated Depreciation Per RUCO	21,305,201
12	RUCO's Direct Plant Accumulated Depreciation Adjustment	<u>(4,060,092)</u>
13	Chaparral City Water General Office Allocation of Accumulated Depreciation Per Company	529,393
14	Chaparral City Water General Office Allocation of Accumulated Depreciation Per RUCO	463,180
15	RUCO's General Office Allocation of Accumulated Depreciation Adjustment	<u>(66,213)</u>
16	Total Chaparral City Water Accumulated Depreciation Per Company	25,894,686
17	Total Chaparral City Water Accumulated Depreciation Per RUCO	21,768,381
18	Total RUCO Accumulated Depreciation Adjustment	<u>\$ (4,126,305)</u>
19	RUCO's Chaparral City Water Plant Adjustment - Net of Accumulated Depreciation	\$ 274,533

Supporting Schedules:
\\TJC-4(a)\Schedules\Pages1-5\DirectPlant\AZ-CorpPlant\CentralDivisionPlant\
Regarding RUCO's Eastern Div. treatment see Company response to RUCO DR 2.06

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 1

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-16
DIRECT TESTIMONY

Line
No.

1	<u>RCN Direct Plant - Rounding Adjustment</u>	
2		
3	Company RCN Trended Direct Plant	\$ 79,791,440
4	RUCO RCN Trended Direct Plant	79,791,322
5	RUCO Adjustment	<u>(118)</u>
6		
7		
8	Increase (Decrease) to RCN Direct Plant	<u>\$ (118)</u>
9		
10		
11	Company RCN Trended Direct Plant Accumulated Depreciation	\$ 24,502,143
12	RUCO RCN Trended Direct Plant Accumulated Depreciation	24,502,143
13	RUCO Adjustment	<u>1</u>
14		
15		
16	Increase (Decrease) to Accumulated Depreciation	<u>\$ 1</u>
17		
18		
19	Net Adjustment	<u>\$ (119)</u>
20		
21		
22		
23		
24	<u>SUPPORTING SCHEDULE</u>	
25	rcn_plant_correct_RCN Factor Rounding.xls	

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 2

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-17
DIRECT TESTIMONY

Line
No.

1	<u>RCN Direct Plant - Correct Account 304 Index Factor</u>	
2		
3	Company RCN Trended Direct Plant - Account 304	\$ 1,965,394
4	RUCO RCN Trended Direct Plant - Account 304	1,947,587
5	RUCO Adjustment	<u>(17,807)</u>
6		
7		
8	Increase (Decrease) to RCN Direct Plant	<u>\$ (17,807)</u>
9		
10		
11	Company RCN Trended Direct Plant Accumulated Depreciation - A/C 304	\$ 486,810
12	RUCO RCN Trended Direct Plant Accumulated Depreciation - A/C 304	482,399
13	RUCO Adjustment	<u>(4,411)</u>
14		
15		
16	Increase (Decrease) to Accumulated Depreciation	<u>\$ (4,411)</u>
17		
18		
19	Net Adjustment	<u>\$ (13,396)</u>
20		
21		
22		
23		
24	<u>SUPPORTING SCHEDULE</u>	
25	rcn_plant_correct_Acct 304_Index.xls	

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 3

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-18
DIRECT TESTIMONY

Line
No.

1	<u>RCN Direct Plant - Remove Wells 8 & 9 - Out of Service</u>	
2		
3	Company RCN Trended Direct Plant - Wells 8 & 9 from Account 307	\$ 435,284
4	RUCO RCN Trended Direct Plant - Wells 8 & 9 from Account 307	-
5	RUCO Adjustment	<u>(435,284)</u>
6		
7		
8	Increase (Decrease) to RCN Direct Plant	<u>\$ (435,284)</u>
9		
10		
11	Company RCN Trended Direct Plant Accumulated Depreciation - A/C 307	\$ 150,254
12	RUCO RCN Trended Direct Plant Accumulated Depreciation - A/C 307	<u>(285,030)</u>
13	RUCO Adjustment	<u>(435,284)</u>
14		
15		
16	Increase (Decrease) to Accumulated Depreciation	<u>\$ (435,284)</u>
17		
18		
19	Net Adjustment	<u>\$ (0)</u>
20		
21		
22		
23		
24	<u>SUPPORTING SCHEDULE</u>	
25	rcn_plant_Remove Well 8_9.xls	

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 4

**DOCKET NO. W-02113A-
SCHEDULE TJC-19
DIRECT TESTIMONY**

Line
No.

1	<u>RCN Direct Plant - Remove Decision 68176 Plant Transfers Adjustment</u>	
2		
3	Company RCN Trended Direct Plant - Account 311	\$ 3,160,902
4	Company RCN Trended Direct Plant - Account 320	9,969,130
5	Company RCN Trended Direct Plant - Account 334	3,981,833
6	Company RCN Trended Total Account 311, 320, & 334 Balances	<u>17,111,865</u>
7		
8		
9	RUCO RCN Trended Direct Plant - Account 311	3,134,494
10	RUCO RCN Trended Direct Plant - Account 320	9,962,912
11	RUCO RCN Trended Direct Plant - Account 334	3,977,686
12	RUCO RCN Trended Total Account 311, 320, & 334 Balances	<u>17,075,092</u>
13		
14	RUCO Total RCN Trended Plant Adjustment	<u>(36,773)</u>
15		
16		
17	Increase (Decrease) to RCN Direct Plant	<u>\$ (36,773)</u>
18		
19		
20		
21	Company RCN Trended Accum. Depre. - Account 311	\$ 1,750,363
22	Company RCN Trended Accum. Depre. - Account 320	2,695,725
23	Company RCN Trended Accum. Depre. - Account 334	1,507,882
24	Company RCN Trended Total A/D 311, 320, & 334 Balances	<u>5,953,970</u>
25		
26		
27	Company RCN Trended Direct Plant - Account 311	1,762,992
28	Company RCN Trended Direct Plant - Account 320	2,696,018
29	Company RCN Trended Direct Plant - Account 334	1,508,279
30	Company RCN Trended Total Account 311, 320, & 334 Balances	<u>5,967,290</u>
31		
32	RUCO Total RCN Trended Accum. Depre. Adjustment	<u>13,320</u>
33		
34		
35	Increase (Decrease) to RCN Accumulated Depreciation	<u>\$ 13,320</u>
36		
37		
38	Net Adjustment	<u>\$ (50,093)</u>

SUPPORTING SCHEDULE

rcn_plant_Remove Decision 68176 Adj.xls

Chaparral City Water Company
Test Year Ended December 31, 2006
RCN Rate Base Proforma Adjustments
Adjustment 5

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-20
DIRECT TESTIMONY

Line
No.

1	<u>RCND Direct Plant - Remove Shea Water Treatment Plant 1 - Out of Service</u>			
2				
3	Company RCN Direct Plant - Account 320	\$ 9,969,130		
4	RUCO RCN Direct Plant - Account 320	6,706,239		
5	RUCO Adjustment	<u>(3,262,891)</u>		
6				
7				
8	Increase (Decrease) to RCN Direct Plant	<u>\$ (3,262,891)</u>		
9				
10				
11	Company RCN Direct Plant Accumulated Depreciation - A/C 320	\$ 2,695,725		
12	RUCO RCN Direct Plant Accumulated Depreciation - A/C 320	(567,166)		
13	RUCO Adjustment	<u>(3,262,891)</u>		
14				
15				
16	Increase (Decrease) to Accumulated Depreciation	<u>\$ (3,262,891)</u>		
17				
18				
19	Net Adjustment	<table border="1"><tr><td>\$</td><td>0</td></tr></table>	\$	0
\$	0			
20				
21				
22				
23				
24	<u>SUPPORTING SCHEDULE</u>			
25	rcn_plant_Remove Shea Water Treatment Plant 1.xls			

Chaparral City Water Company
Test Year Ended December 31, 2006
RCN Rate Base Proforma Adjustments
Adjustment 6

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-21
DIRECT TESTIMONY

Line
No.

1	<u>RCND Direct Plant - Remove Expenses in Account 339 and Capitalize</u>		
2			
3	Company RCN Direct Plant - Account 339	\$	1,814,021
4	RUCO RCN Direct Plant - Account 339		1,857,238
5	RUCO Adjustment		<u>43,217</u>
6			
7			
8	Increase (Decrease) to RCN Direct Plant	\$	<u>43,217</u>
9			
10			
11	Company RCN Direct Plant Accumulated Depreciation - A/C 339	\$	277,127
12	RUCO RCN Direct Plant Accumulated Depreciation - A/C 339		<u>277,127</u>
13	RUCO Adjustment		<u>0</u>
14			
15			
16	Increase (Decrease) to Accumulated Depreciation	\$	<u>0</u>
17			
18			
19	Net Adjustment	\$	<u>43,217</u>
20			
21			
22			
23			
24	<u>SUPPORTING SCHEDULE</u>		
25	rcn_plant_Remove Expensed Items & Capitalize.xls		

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 7

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-22
DIRECT TESTIMONY

Line

No.

1	<u>RCN Direct Plant - Reconciliation Adjustment to RUCO Recomputed RCN Direct Plant Balance</u>	
2		
3	Company RCN Trended Direct Plant	\$79,791,440
4		
5	<u>Less RUCO RCN Direct Plant Adjustments:</u>	
6	Adjustment #1: RCN Factor Rounding Adjustment	(118)
7	Adjustment #2: Correct Account 304 Index Factors on 3 Line Items	(17,807)
8	Adjustment #3: Remove Wells 8 & 9 from Plant-in-Service and Accumulated Depreciation	(435,284)
9	Adjustment #4: Remove Double Count of Plant Transfers from ACC Decision No. 68176	(36,773)
10	Adjustment #5: Remove Shea Water Treatment Plant 1 - Out of Service	(3,262,891)
11	Adjustment #6: Capitalize Expensed Plant Items from Account #339	43,217
12		
13	Total RUCO RCN Direct Plant Balance	\$76,081,783
14		
15	RUCO's Recomputed RCN Direct Plant - Net Adjustments	76,081,819
16	Rounding Adjustment to Reconcile to RUCO's RCN Trended Direct Plant of \$76,081,819	\$ 35
17		
18	Increase (Decrease) to RCN Direct Plant	\$ 35
19		
20		
21		
22		
23		
24		
25		

SUPPORTING SCHEDULE

rcn_plant_correct_RCND Factor Rounding.xls
rcn_plant_correct_Acct 304_Index.xls
rcn_plant_Remove Well 8_9.xls
rcn_plant_Remove Decision 68176 Adj.xls
rcn_plant_Remove Shea Water Treatment Plant 1.xls
rcn_plant_Remove Expensed Items & Capitalize.xls
rcn_plant.xls

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 8

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-23
DIRECT TESTIMONY

Line

No.

1	<u>RCN Direct Plant Accumulated Depreciation Adjustment</u>		
2			
3	Company RCN Direct Plant - Accumulated Depreciation	\$	(25,365,293)
4			
5	<u>Less RUCO RCN Direct Plant Accumulated Depreciation Adjustments:</u>		
6	Adjustment #1: RCN Factor Rounding Adjustment		(1)
7	Adjustment #2: Correct Account 304 Index Factors on 3 Line Items		4,411
8	Adjustment #3: Remove Wells 8 & 9 from Plant-in-Service and Accumulated Depreciation		435,284
9	Adjustment #4: Remove Double Count of Plant Transfers from ACC Decision No. 68176		(13,320)
10	Adjustment #5: Remove Shea Water Treatment Plant 1 - Out of Service		3,262,891
11			
12	Total RUCO RCN Direct Plant Accumulated Depreciation Balance - Net of Adjustments	\$	(21,676,028)
13			
14	RUCO's Recomputed RCN Direct Plant Accumulated Depreciation - Net Adjustments		(21,305,201)
15	Adjustment to Reconcile to RUCO's RCN Direct Plant A/D of \$21,305,201		(370,826)
16			
17	Increase (Decrease) to RCN Direct Plant - Accumulated Depreciation		(370,826)
18			
19			
20			

SUPPORTING SCHEDULE

rcn_plant_correct_RCN Factor Rounding.xls
rcn_plant_correct_Acct 304_Index.xls
rcn_plant_Remove Well 8_9.xls
rcn_plant_Remove Decision 68176 Adj.xls
rcn_plant_Remove Shea Water Treatment Plant 1.xls
rcn_plant.xls

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-24
PAGE 1 of 2
DIRECT TESTIMONY

SUPPORTING SCHEDULE
rcn_plant_correct RCN Factor Rounding.xls

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 10

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-24
PAGE 2 of 2
DIRECT TESTIMONY

Line
No.

General Office Plant Allocation - Accumulated Depreciation

		Company Trended RCN Value	4 Factor Allocation %	4 Factor Allocated Trended RCN
	NARUC	NARUC Description	Accum. Depr.	Accum. Depr.
1				
2				
3				
4				
5				
6	301	Organization Cost	3,046	85
7	302	Franchise Cost and Other Intangible Plant	211,596	5,925
8	303	Land and Land Rights	-	-
9	304	Structures and Improvements	3,805,726	106,560
10	305	Collecting and Impounding Res.	-	-
11	306	Lake River and Other Intakes	-	-
12	307	Wells and Springs	-	-
13	308	Infiltration Galleries and Tunnels	-	-
14	309	Supply Mains	-	-
15	310	Power Generation Equipment	-	-
16	311	Electric Pumping Equipment	-	-
17	320	Water Treatment Equipment	-	-
18	330	Distribution Reservoirs & Standpipe	-	-
19	331	Transmission and Distribution Mains	-	-
20	333	Services	-	-
21	334	Meters	-	-
22	335	Hydrants	-	-
23	336	Backflow Prevention Devices	-	-
24	339	Other Plant and Miscellaneous Equipment	202,477	5,669
25	340	Office Furniture and Fixtures	10,437,484	292,250
26	341	Transportation Equipment	606,574	16,984
27	342	Stores Equipment	-	-
28	343	Tools and Work Equipment	314,752	8,813
29	344	Laboratory Equipment	15,362	430
30	345	Power Operated Equipment	634,162	17,757
31	346	Communications Equipment	260,818	7,303
32	347	Miscellaneous Equipment	-	-
33	348	Other Tangible Plant	-	-
34				
35			<u>\$ 16,491,997</u>	<u>\$ 461,776</u>
36				
37		Company Computed General Office Accumulated Depreciation		\$ 529,393
38		RUCO Computed General Office Accumulated Depreciation		461,776
39				
40		Increase (Decrease) to Accumulated Depreciation		<u>\$ (67,617)</u>

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 11

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-25
DIRECT TESTIMONY

Line

No.

1	<u>RCN General Office Plant - Remove Post Test Year Plant</u>	
2		
3	Company RCN Trended 2007 Post Test Year Plant - Account 303	\$ 159,087
4	Company RCN Trended 2007 Post Test Year Plant - Account 340	392,121
5		
6	Total Company Post Test Year - General Office Plant	551,208
7		
8	4-Factor Allocator	2.80%
9		
10	Increase (Decrease) to RCN General Office Plant	\$ (15,434)
11		
12		
13	Company RCN Trended GO Plant Accumulated Depreciation	\$ 16,491,997
14	RUCO RCN Trended Direct Plant Accumulated Depreciation	16,542,128
15	RUCO Adjustment	50,131
16		
17	Chaparral General Office Plant Allocator	2.80%
18		
19		
20	Increase (Decrease) to Accumulated Depreciation	\$ 1,404
21		
22		
23	Net Adjustment	\$ (16,837)
24		
25		

SUPPORTING SCHEDULE

rcn_go_plant_Remove PTY Plant Adj.xls

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 13

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-26
DIRECT TESTIMONY

Line
No.

1	<u>RCN General Office Plant - Adjust AIAC RCN Factor Balance</u>	
2		
3	Company RCN Trended AIAC Balance	\$ (10,231,760)
4	RUCO RCN Trended AIAC Balance	<u>(10,172,761)</u>
5		
6	Difference in Accum. Depre. - Line 7 minus Line 4	(58,999)
7		
8		
9	Increase (Decrease) to RCN AIAC Balance	<u>\$ (58,999)</u>
10		
11		
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SUPPORTING SCHEDULE
SCHEDULE TJC-2

Chaparral City Water Company
Test Year Ended December 31, 2006
RCN Rate Base Proforma Adjustments
Adjustment 14

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-27
DIRECT TESTIMONY

Line
No.

1 RCN Computation of CIAC Balance

2			
3	Company CIAC Balance Per OCRB Schedule TJC-2	\$	(6,119,129)
4			
5	RUCO CIAC Balance Per OCRB Schedule TJC-2		<u>(6,120,652)</u>
6			
7	Increase (Decrease) to OCRB CIAC Balance	\$	1,523
8			
9	RUCO RCN CIAC Trended Factor		<u>1.5514</u>
10			
11	Increase (Decrease) to RCN CIAC Balance	\$	<u><u>2,363</u></u>

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29 Reference:

30 SCHEDULE TJC-2

31 Line 17 and 19 utilizes amortization rate authorized in Decision No. 68176
32 per Bourassa Rebuttal Schedule C-2, page 2.

Chaparral City Water Company
Test Year Ended December 31, 2006
RCND Rate Base Proforma Adjustments
Adjustment 15

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-28
DIRECT TESTIMONY

Line
No.

1	<u>Remove Deferred Regulatory Asset - Additional CAP Allocation</u>	
2		
3	Company Deferred Regulatory Asset	\$ 1,280,000
4		
5	RUCO Adjustment	<u>(1,280,000)</u>
6		
7	Increase (Decrease) to RCN Rate Base	<u><u>\$ (1,280,000)</u></u>

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL ADJUSTMENT
WORKING CAPITAL ADJUSTMENT SUMMARY

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
PAGE 1 OF 15
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	AMOUNT
1	Cash Working Capital per Company	\$ -
2	Cash Working Capital per RUCO	(111,606)
3	RUCO Adjustment	(111,606)
4	Materials & Supplies Inventories per Company	\$ 14,521
5	Materials & Supplies Inventories per RUCO	14,521
6	RUCO Adjustment	-
7	Prepayments per Company	\$ 192,485
8	Prepayments per RUCO	192,485
9	RUCO Adjustment	-
10	Total Working Capital Adjustment	\$ (111,606)

REFERENCES:

Lines 1, 4, and 7: Company Schedule B-1, Page 1

Line 2: See RUCO Schedule TJC-29, Page 2 of 14

Line 10: Line 3 + Line 6 + Line 9

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL ADJUSTMENT
LEAD/LAG CALCULATION

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
PAGE 2 OF 15
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) EXPENSES PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED EXPENSES	(D) RUCO (LEAD)/LAG DAYS	(E) RUCO \$ DAYS
1	SALARIES and WAGES	\$ 969,244	\$ -	969,244 *	12.00	\$ 11,630,928
2	PURCHASED WATER	831,656	(30,001)	801,655 *	(36.88)	(29,564,875)
3	PURCHASED POWER	602,982	12,149	615,131 *	35.05	21,562,762
4	CHEMICALS	127,457	-	127,457 *	(50.91)	(6,488,529)
5	REPAIRS & MAINTENANCE	104,609	(43,217)	61,392 *	30.00	1,841,760
6	OFFICE SUPPLIES & EXPENSE	19,800	-	19,800 *	22.70	449,550
7	OUTSIDE SERVICES	266,544	(71,000)	195,544 *	29.09	5,688,667
8	WATER TESTING	43,458	-	43,458 *	15.72	683,033
9	TRANSPORTATION EXPENSES	70,430	-	70,430 *	30.00	2,112,900
10	INSURANCE - GENERAL LIABILITY	(1,294)	-	(1,294) *	30.00	(38,820)
11	RENTS	-	-	- *	0.00	-
12	MISCELLANEOUS EXPENSE	1,259,948	(123,366)	1,136,582 *	30.00	34,097,460
13	TAXES OTHER THAN INCOME	47,873	-	47,873 *	75.62	3,620,156
14	PROPERTY TAXES	295,813	(39,883)	255,930 *	212.50	54,385,028
15	STATE INCOME TAXES	48,745	121,096	169,841 *	62.65	10,640,540
16	FEDERAL INCOME TAXES	221,275	549,606	770,881	37.50	28,908,035
17	INTEREST	367,737	(110,305)	257,432 *	90.00	23,168,853
18	TOTAL OPERATING EXPENSES	<u>\$ 5,276,277</u>	<u>\$ 265,079</u>	<u>\$ 5,541,356</u>		<u>\$ 162,697,449</u>
19	EXPENSE LAG				29.36	
20	REVENUE LAG				22.01	
21	NET LAG				(7.35)	
22	CASH WORKING CAPITAL		<u>\$ (111,606)</u>			

NOTE

* RUCO RECOMMENDED LEVEL OF CASH WORKING CAPITAL EXPENSES

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
REVENUE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
PAGE 3 OF 15
DIRECT TESTIMONY

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
	SERVICE PERIOD									
LINE NO.	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	BILL DATE	BILLING LAG	DUE DATE	PAY LAG	REVENUE LAG DAYS	AMOUNT OF BILL	RUCO \$ DAYS
1	3/1/2006	3/31/2006	15.00	3/14/2006	-17.00	4/4/2006	21.00	19.00	\$ 34.07	\$ 647
2	3/1/2006	3/31/2006	15.00	3/21/2006	-10.00	4/11/2006	21.00	26.00	28.57	743
3	3/1/2006	3/31/2006	15.00	3/14/2006	-17.00	4/4/2006	21.00	19.00	25.82	491
4	3/1/2006	3/31/2006	15.00	3/22/2006	-9.00	4/12/2006	21.00	27.00	25.82	697
5	3/1/2006	3/31/2006	15.00	3/22/2006	-9.00	4/12/2006	21.00	27.00	25.82	697
6	3/1/2006	3/31/2006	15.00	3/20/2006	-11.00	4/10/2006	21.00	25.00	31.33	783
7	3/1/2006	3/31/2006	15.00	3/13/2006	-18.00	4/3/2006	21.00	18.00	52.24	940
8	3/1/2006	3/31/2006	15.00	3/13/2006	-18.00	4/3/2006	21.00	18.00	82.49	1,485
9	3/1/2006	3/31/2006	15.00	3/6/2006	-25.00	3/27/2006	21.00	11.00	52.24	575
10	3/1/2006	3/31/2006	15.00	3/14/2006	-17.00	4/4/2006	21.00	19.00	57.74	1,097
11	3/1/2006	3/31/2006	15.00	3/21/2006	-10.00	4/11/2006	21.00	26.00	41.22	1,072
12	3/1/2006	3/31/2006	15.00	3/3/2006	-28.00	3/24/2006	21.00	8.00	63.23	506
13	3/1/2006	3/31/2006	15.00	3/7/2006	-24.00	3/28/2006	21.00	12.00	41.22	495
14	3/1/2006	3/31/2006	15.00	3/15/2006	-16.00	4/5/2006	21.00	20.00	301.83	6,037
15	3/1/2006	3/31/2006	15.00	3/22/2006	-9.00	4/12/2006	21.00	27.00	549.86	14,846
16										
17									\$ 1,414	\$ 31,110
18										
19										
20	RUCO REVENUE LAG DAYS							22.01		

REFERENCES:

15 Chaparral City Water Bills

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
INTEREST EXPENSE (LEAD)/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
PAGE 4 OF 15
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) SERVICE PERIOD		(C)	(D)	(E)	(F)	(G)
		BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR DAYS
1	Bond due 2007	1/1/2006	12/31/2006	7/2/2006	6/30/2006 12/31/2006	(2.00) 182.00	1.75% 1.75%	\$ (0) 3
2	Bond due 2011	1/1/2006	12/31/2006	7/2/2006	6/30/2006 12/31/2006	(2.00) 182.00	7.28% 7.28%	(0) 13
3	Bond due 2022	1/1/2006	12/31/2006	7/2/2006	6/30/2006 12/31/2006	(2.00) 182.00	33.58% 33.58%	(1) 61
4	Bond due 2022	1/1/2006	12/31/2006	7/2/2006	6/30/2006 12/31/2006	(2.00) 182.00	7.39% 7.39%	(0) 13
5	TOTAL PAYMENTS & DOLLAR DAYS						100.00%	\$ 90
6	INTEREST EXPENSE LAG DAYS							90.00

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
PROPERTY TAX LAG DAYS ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
PAGE 5 OF 15
DIRECT TESTIMONY

LINE NO.	(A) (B) SERVICE PERIOD		(C)	(D)	(E)
	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	DUE DATE	EXPENSE LAG DAYS
1	1/1/2005	12/31/2005	7/1/2005	10/31/2005	61.00
2				4/30/2006	151.50
3	TOTAL PROPERTY TAX LAG DAYS				212.50

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
CALCULATION OF FEDERAL INCOME TAX LAG

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
PAGE 6 OF 15
DIRECT TESTIMONY

LINE NO.	(A) PAYMENT DATE	-	(B) SERVICE PERIOD MIDPOINT	=	(C) (LEAD)/LAG DAYS	X	(D) PAYMENT AMOUNT	=	(E) DOLLAR DAYS
1	04/15/05		07/01/05		(77.00)		25.00%		(19.25)
2	06/15/05		07/01/05		(16.00)		25.00%		(4.00)
3	09/15/05		07/01/05		76.00		25.00%		19.00
4	12/15/05		07/01/05		167.00		25.00%		41.75
5	TOTALS						100.00%		37.50
6	INCOME TAX LAG								

37.50

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 RATE BASE ADJ. #16 - WORKING CAPITAL
 CALCULATION OF STATE INCOME TAX LAG

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-29
 PAGE 7 OF 15
 DIRECT TESTIMONY

LINE NO.	(A) PAYMENT DATE	-	(B) SERVICE PERIOD MIDPOINT	=	(C) (LEAD)/LAG DAYS	X	(D) PAYMENT AMOUNT	=	(E) DOLLAR DAYS
1	04/15/99		07/01/99		(77.00)		22.50%	\$	(17)
2	06/15/99		07/01/99		(16.00)		22.50%		(4)
3	09/15/99		07/01/99		76.00		22.50%		17
4	12/15/99		07/01/99		167.00		22.50%		38
5	04/15/00		07/01/99		289.00		10.00%		29
6	TOTALS						1.00		62.65
7	INCOME TAX LAG				62.65				

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
OUTSIDE SERVICES EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
PAGE 8 OF 15
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) (B) SERVICE PERIOD		(C) MID-POINT SERVICE PERIOD	(D) PAYMENT DATE	(E) PAYMENT (LEAD)/LAG	(F) PAYMENT AMOUNT	(G) DOLLAR DAYS
		BEGINNING	ENDING					
1	TNT Technology Co.	12/18/2006	12/24/2006	12/21/2006	1/25/2007	35.00	\$ 1,060	\$ 37,100
2	NYE Tru Landscape	11/1/2005	11/30/2005	11/15/2005	12/30/2005	44.50	22,875	1,017,938
3	Quadna	2/6/2006	2/10/2006	2/8/2006	2/23/2006	15.00	35,433	531,495
4	TMV	5/1/2006	5/31/2006	5/16/2006	6/15/2006	30.00	500	15,000
5	Workplace Safety	9/23/2005	9/30/2005	9/26/2005	9/29/2005	2.50	244	610
6	Fennemore Craig	7/1/2006	7/31/2006	7/16/2006	8/21/2006	36.00	21,221	763,956
7	Total						\$ 81,333	\$ 2,366,099
8	Lead/Lag Days						29.09	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
PURCHASED POWER EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
PAGE 9 OF 15
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) SERVICE PERIOD		(B)	(C)	(D)	(E)	(F)	(G)
		BEGINNING	ENDING	MID-POINT SERVICE PERIOD	PAYMENT DATE	PAYMENT (LEAD)/LAG	PAYMENT AMOUNT	DOLLAR DAYS	
APS:									
1	Jan-08	12/11/2007	1/9/2008	12/25/2007	1/31/2008		36.50	\$ 17,136.95	\$ 625,499
2	Dec-07	11/8/2007	12/11/2007	11/24/2007	12/31/2007		36.50	22,160.38	808,854
3	Nov-07	10/10/2007	11/8/2007	10/24/2007	11/30/2007		36.50	29,886.99	1,090,875
4	Oct-07	9/11/2007	10/10/2007	9/25/2007	10/29/2007		33.50	30,158.30	1,010,303
5	Total							99,342.62	3,535,530.73
6	Lead/Lag Days							35.59	
SRP:									
7	Dec-07			15.5	23.5		39.00	\$ 18,238.75	\$ 711,311
8	Oct-07			15	21		36.00	13,647.95	491,326
9	Sep-07			16.5	16.5		33.00	13,996.67	461,890
10	Aug-07			15	13		28.00	12,379.76	346,633
11	Total							\$ 58,263.13	\$ 2,011,161
12	Lead/Lag Days							34.52	
13	Average Lead/Lag Days							35.05	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
CALCULATION OF STATE INCOME TAX LAG

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
PAGE 10 OF 15
DIRECT TESTIMONY

<u>LINE NO.</u>	(A) <u>SERVICE PERIOD</u>	(B) <u>SERVICE PERIOD MIDPOINT</u>	(C) <u>PAY DATE</u>	(D) <u>LAG DAYS</u>
1	14 Days	7 Days	5	12 Days

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
TAXES OTHER THAN INCOME

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
PAGE 11 OF 15
DIRECT TESTIMONY

<u>LINE NO.</u>	(A) <u>SERVICE PERIOD</u>	(B) <u>SERVICE PERIOD MIDPOINT</u>	(C) <u>PAY DATE</u>	(D) <u>LAG DAYS</u>
1	91.25 Days	45.62 Days	30	75.62

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
OFFICE SUPPLIES EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
PAGE 12 OF 15
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) (B) SERVICE PERIOD		(C) MID-POINT SERVICE PERIOD	(D) PAYMENT DATE	(E) PAYMENT (LEAD)/LAG	(F) PAYMENT AMOUNT	(G) DOLLAR DAYS
		BEGINNING	ENDING					
1	Ikon	11/8/2005	2/8/2006	12/24/2005	2/18/2006	56.00	\$ 350.98	\$ 19,655
2	Ikon	5/8/2006	8/8/2006	6/23/2006	8/18/2006	56.00	336.79	18,860
3	Ikon	8/8/2006	11/8/2006	9/23/2006	11/18/2006	56.00	382.83	21,438
4	Robertson Consulting	7/6/2006	7/24/2006	7/15/2006	7/24/2006	9.00	300.00	2,700
5	Robertson Consulting	8/25/2006	9/22/2006	9/8/2006	9/22/2006	14.00	725.89	10,162
6	Laser Pros	1/23/2006	1/26/2006	1/24/2006	1/26/2006	1.50	160.85	241
7	OPACS	1/9/2006	2/8/2006	1/24/2006	2/8/2006	15.00	395.01	5,925
8	Laser Pros	9/19/2006	9/20/2006	9/19/2006	9/20/2006	0.50	139.26	70
9	OPACS	1/20/2006	2/19/2006	2/4/2006	2/19/2006	15.00	460.07	6,901
10	OPACS	5/12/2006	6/11/2006	5/27/2006	6/11/2006	15.00	178.54	2,678
11	OPACS	7/28/2006	8/27/2006	8/12/2006	8/27/2006	15.00	309.78	4,647
12	OPACS	8/7/2006	9/6/2006	8/22/2006	9/6/2006	15.00	338.59	5,079
13	Pitney Bowes	8/24/2006	8/30/2006	8/27/2006	8/30/2006	3.00	189.99	570
14	OPACS	9/22/2006	10/22/2006	10/7/2006	10/22/2006	15.00	175.70	2,636
15	Network Supply Resource	9/12/2006	10/23/2006	10/2/2006	10/23/2006	20.50	298.00	6,109
5	Total						4,742.28	107,671.29
6	Lead/Lag Days						22.70	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
WATER TESTING EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
PAGE 13 OF 15
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) (B) SERVICE PERIOD		(C) MID-POINT SERVICE PERIOD	(D) PAYMENT DATE	(E) PAYMENT (LEAD)/LAG	(F) PAYMENT AMOUNT	(G) DOLLAR DAYS
		BEGINNING	ENDING					
1	Del Mar Analytical	6/15/2006	7/17/2006	7/1/2006	7/17/2006	16.00	\$ 1,800.00	\$ 28,800
2	Del Mar Analytical	2/28/2006	3/30/2006	3/15/2006	3/30/2006	15.00	1,800.00	27,000
3	Test America	8/14/2006	9/13/2006	8/29/2006	9/13/2006	15.00	4,450.56	66,758
4	Water Trax	1/17/2006	2/18/2006	2/2/2006	2/18/2006	16.00	4,205.62	67,290
5	MWH Laboratories	1/24/2006	3/1/2006	2/11/2006	3/1/2006	18.00	1,865.00	33,570
6	MWH Laboratories	1/24/2006	2/13/2006	2/3/2006	2/13/2006	10.00	130.00	1,300
7	Test America	8/14/2006	9/13/2006	8/29/2006	9/13/2006	15.00	1,020.00	15,300
5	Total						15,271.18	240,018.33
6	Lead/Lag Days						15.72	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
CHEMICAL EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
PAGE 14 OF 15
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) (B) SERVICE PERIOD		(C) MID-POINT SERVICE PERIOD	(D) PAYMENT DATE	(E) PAYMENT (LEAD)/LAG	(F) PAYMENT AMOUNT	(G) DOLLAR DAYS
		BEGINNING	ENDING					
1	Hill Brothers	12/8/2005	1/9/2006	12/24/2005	1/7/2006	14.00	\$ 1,513.00	\$ 21,182
2	Hill Brothers	1/9/2006	1/19/2006	1/14/2006	2/8/2006	25.00	1,406.00	35,150
3	Hill Brothers	1/19/2006	2/2/2006	1/26/2006	2/18/2006	23.00	1,406.00	32,338
4	Hill Brothers	2/2/2006	2/13/2006	2/7/2006	3/1/2006	21.50	1,406.00	30,229
5	Hill Brothers	2/13/2006	2/24/2006	2/18/2006	3/12/2006	21.50	1,620.00	34,830
6	Hill Brothers	2/24/2006	3/8/2006	3/2/2006	3/23/2006	21.00	1,406.00	29,526
7	Hill Brothers	3/8/2006	3/24/2006	3/16/2006	4/7/2006	22.00	1,406.00	30,932
8	Hill Brothers	3/24/2006	4/6/2006	3/30/2006	4/23/2006	23.50	1,406.00	33,041
9	Hill Brothers	4/6/2006	4/17/2006	4/11/2006	5/5/2006	23.50	1,620.00	38,070
10	Hill Brothers	4/17/2006	5/3/2006	4/25/2006	5/16/2006	21.00	1,620.00	34,020
11	Hill Brothers	5/3/2006	5/10/2006	5/6/2006	6/2/2006	26.50	1,299.00	34,424
12	Hill Brothers	5/10/2006	5/17/2006	5/13/2006	6/9/2006	26.50	1,620.00	42,930
13	Hill Brothers	5/17/2006	5/31/2006	5/24/2006	6/16/2006	23.00	1,620.00	37,260
14	Hill Brothers	5/31/2006	6/6/2006	6/3/2006	6/30/2006	27.00	2,155.00	58,185
15	Hill Brothers	6/6/2006	6/14/2006	6/10/2006	7/5/2006	25.00	2,155.00	53,875
16	Hill Brothers	6/14/2006	6/23/2006	6/18/2006	7/13/2006	24.50	2,155.00	52,798
17	Hill Brothers	6/23/2006	6/30/2006	6/26/2006	7/22/2006	25.50	2,155.00	54,953
18	NTU Technologies	2/23/2006	8/3/2006	5/14/2006	3/22/2006	(53.50)	14,229.60	(761,284)
19	NTU Technologies	8/3/2006	12/14/2006	10/8/2006	9/2/2006	(36.50)	13,261.60	(484,048)
20	Thatcher	1/1/2006	12/31/2006	7/2/2006	1/31/2006	(152.00)	21,066.97	(3,202,179)
21	Engineered Sales	1/1/2006	12/31/2006	7/2/2006	1/31/2006	(152.00)	1,008.91	(153,354)
22	Total						77,535.08	(3,947,124.26)
23	Lead/Lag Days						(50.91)	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
RATE BASE ADJ. #16 - WORKING CAPITAL
PURCHASED WATER EXPENSE LEAD/LAG ANALYSIS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-29
PAGE 15 OF 15
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) SERVICE PERIOD BEGINNING	(B) SERVICE PERIOD ENDING	(C) MID-POINT SERVICE PERIOD	(D) PAYMENT DATE	(E) PAYMENT (LEAD)/LAG	(F) PAYMENT AMOUNT	(G) DOLLAR DAYS
1	CAP - Capital Charge #1	1/1/2008	6/30/2008	3/31/2008	11/20/2007	(132.50)	\$ 73,269.00	\$ (9,708,143)
2	CAP - M&I	1/1/2008	1/31/2008	1/16/2008	12/20/2007	(27.00)	54,061.58	(1,459,663)
3	CAP - M&I	2/1/2008	2/29/2008	2/15/2008	1/20/2008	(26.00)	54,061.58	(1,405,601)
4	CAP - M&I	3/1/2008	3/31/2008	3/16/2008	2/20/2008	(25.00)	54,061.58	(1,351,540)
5	CAP - M&I	4/1/2008	4/30/2008	4/15/2008	3/20/2008	(26.50)	27,286.58	(723,094)
6	CAP - Capital Charge #2	7/1/2008	12/31/2008	9/30/2008	5/20/2008	(133.50)	93,544.50	(12,488,191)
7	CAP - M&I	5/1/2008	5/31/2008	5/16/2008	4/20/2008	(26.00)	54,061.58	(1,405,601)
8	CAP - M&I	6/1/2008	6/30/2008	6/15/2008	5/20/2008	(26.50)	54,061.58	(1,432,632)
9	CAP - M&I	7/1/2008	7/31/2008	7/16/2008	6/20/2008	(26.00)	54,061.58	(1,405,601)
10	CAP - M&I	8/1/2008	8/31/2008	8/16/2008	7/20/2008	(27.00)	54,061.58	(1,459,663)
11	CAP - M&I	9/1/2008	9/30/2008	9/15/2008	8/20/2008	(26.50)	54,061.58	(1,432,632)
12	CAP - M&I	10/1/2008	10/31/2008	10/16/2008	9/20/2008	(26.00)	54,061.58	(1,405,601)
13	CAP - M&I	11/1/2008	11/30/2008	11/15/2008	10/20/2008	(26.50)	54,061.58	(1,432,632)
14	CAP - M&I	12/1/2008	12/31/2008	12/16/2008	11/20/2008	(26.00)	54,061.58	(1,405,601)
15	CAP - CAGRD	1/1/2007	12/31/2007	7/2/2007	10/15/2008	471.00	18,560.00	8,741,760
16	Total						807,337.46	(29,774,433.45)
17	Lead/Lag Days						(36.88)	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING INCOME - TEST YEAR AND RUCO PROPOSED

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-30
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY TEST YEAR AS FILED	(B) RUCO TEST YEAR ADJUSTMENTS	(C) RUCO TEST YEAR AS ADJUSTED	(D) RUCO PROPOSED CHANGES	(E) RUCO RECOMMENDED
<u>REVENUES - WATER:</u>						
1	WATER REVENUES	\$ 7,364,411	\$ 61,949	\$ 7,426,360	\$ 1,062,786	\$ 8,489,145
2	UNMETERED WATER REVENUES	-	-	-	-	-
3	OTHER WATER REVENUES	82,289	-	82,289	-	82,289
4	TOTAL REVENUES	<u>\$ 7,446,700</u>	<u>\$ 61,949</u>	<u>\$ 7,508,649</u>	<u>\$ 1,062,786</u>	<u>\$ 8,571,434</u>
<u>OPERATING EXPENSES:</u>						
5	SALARIES AND WAGES	\$ 969,244	\$ -	\$ 969,244	\$ -	\$ 969,244
6	PURCHASED WATER	831,656	(30,001)	801,655	-	801,655
7	PURCHASED POWER	602,982	12,149	615,131	-	615,131
8	CHEMICALS	127,457	-	127,457	-	127,457
9	REPAIRS AND MAINTENANCE	104,609	(43,217)	61,392	-	61,392
10	OFFICE SUPPLIES AND EXPENSE	19,800	-	19,800	-	19,800
11	OUTSIDE SERVICES	266,544	(71,000)	195,544	-	195,544
12	WATER TESTING	43,458	-	43,458	-	43,458
13	RENTS	-	-	-	-	-
14	TRANSPORTATION EXPENSES	70,430	-	70,430	-	70,430
15	INSURANCE - GENERAL LIABILITY	(1,294)	-	(1,294)	-	(1,294)
16	INSURANCE - HEALTH AND LIFE	-	-	-	-	-
17	REG. COMMISSION EXP. - RATE CA:	144,871	(51,538)	93,333	-	93,333
18	MISCELLANEOUS EXPENSE	1,259,948	(123,366)	1,136,582	-	1,136,582
19	DEPRECIATION & AMORTIZATION E	1,608,019	(91,690)	1,516,329	-	1,516,329
20	AMORT. OF GAIN ON WELL	(76,000)	-	(76,000)	-	(76,000)
21	AMORT. OF CAP	64,000	(64,000)	-	-	-
22	TAXES OTHER THAN INCOME	47,873	-	47,873	-	47,873
23	PROPERTY TAXES	295,813	(39,883)	255,930	-	255,930
24	INCOME TAXES	270,020	260,465	530,485	410,237	940,722
25	TOTAL OPERATING EXPENSES	<u>\$ 6,649,430</u>	<u>\$ (242,081)</u>	<u>\$ 6,407,349</u>	<u>\$ 410,237</u>	<u>\$ 6,817,587</u>
26	UTILITY OPERATING INCOME	<u>\$ 797,270</u>	<u>\$ 304,029</u>	<u>\$ 1,101,299</u>	<u>\$ 652,548</u>	<u>\$ 1,753,848</u>

REFERENCES:

COLUMN (A): CO. SCH. C-1
COLUMN (B): SCH. TJC-31
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): SCH. TJC-1, PAGE 1 OF 2
COLUMN (E): COLUMN (C) + COLUMN (D)

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
SUMMARY OF OPERATING ADJUSTMENTS

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-31
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ. #1	(C) ADJ. #2	(D) ADJ. #3	(E) ADJ. #4	(F) ADJ. #5	(G) ADJ. #6	(H) ADJ. #7	(I) ADJ. #8	(J) ADJ. #9	(K) ADJ. #10	(L) ADJ. #11	(M) ADJ. #12	(N) RUCO ADJUSTED
REVENUES - WATER:															
1	WATER REVENUES	\$ 7,364,411	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61,949	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,426,360
2	UNMETERED WATER REVENUES	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	OTHER WATER REVENUES	82,289	-	-	-	-	-	-	-	-	-	-	-	-	82,289
4	TOTAL REVENUES	<u>\$ 7,446,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,508,649</u>
OPERATING EXPENSES:															
5	SALARIES AND WAGES	\$ 969,244	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	969,244
6	PURCHASED WATER	831,656	-	-	-	-	(30,001)	-	-	-	-	-	-	-	801,655
7	PURCHASED POWER	602,982	-	-	-	-	-	-	-	-	-	12,149	-	-	615,131
8	CHEMICALS	127,457	-	-	-	-	-	-	-	-	-	-	-	-	127,457
9	REPAIRS AND MAINTENANCE	104,609	-	-	-	-	-	-	-	(43,217)	-	-	-	-	61,392
10	OFFICE SUPPLIES AND EXPENSE	19,800	-	-	-	-	-	-	-	-	-	-	-	-	19,800
11	OUTSIDE SERVICES	266,544	-	-	-	-	-	(71,000)	-	-	-	-	-	-	195,544
12	WATER TESTING	43,458	-	-	-	-	-	-	-	-	-	-	-	-	43,458
13	RENTS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	TRANSPORTATION EXPENSES	70,430	-	-	-	-	-	-	-	-	-	-	-	-	70,430
15	INSURANCE - GENERAL LIABILITY	(1,294)	-	-	-	-	-	-	-	-	-	-	-	-	(1,294)
16	INSURANCE - HEALTH AND LIFE	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	REG. COMMISSION EXP. - RATE CA	144,871	-	-	-	-	(51,538)	-	-	-	-	-	-	-	93,333
18	MISCELLANEOUS EXPENSE	1,259,948	-	-	(123,366)	-	-	-	-	-	-	-	-	-	1,136,582
19	DEPRECIATION & AMORTIZATION E	1,608,019	(91,890)	-	-	-	-	-	-	-	-	-	-	-	1,516,329
20	AMORT. OF GAIN ON WELL	(76,000)	-	-	-	-	-	-	-	-	-	-	-	-	(76,000)
21	AMORT. OF CAP	64,000	-	-	-	-	-	-	-	-	-	-	(64,000)	-	-
22	TAXES OTHER THAN INCOME	47,873	-	-	-	-	-	-	-	-	-	-	-	-	47,873
23	PROPERTY TAXES	295,813	-	(39,863)	-	-	-	-	-	-	-	-	-	-	255,950
24	INCOME TAXES	270,020	-	-	-	-	-	-	-	-	-	-	-	280,465	530,485
25	TOTAL OPERATING EXPENSES	<u>\$ 6,649,430</u>	<u>\$ (91,890)</u>	<u>\$ (39,863)</u>	<u>\$ (123,366)</u>	<u>\$ (51,538)</u>	<u>\$ (30,001)</u>	<u>\$ (71,000)</u>	<u>\$ -</u>	<u>\$ (43,217)</u>	<u>\$ -</u>	<u>\$ 12,149</u>	<u>\$ (64,000)</u>	<u>\$ 280,465</u>	<u>\$ 6,407,349</u>
26	UTILITY OPERATING INCOME	<u>\$ 797,270</u>	<u>\$ 91,890</u>	<u>\$ 39,863</u>	<u>\$ 123,366</u>	<u>\$ 51,538</u>	<u>\$ 30,001</u>	<u>\$ 71,000</u>	<u>\$ 61,949</u>	<u>\$ 43,217</u>	<u>\$ -</u>	<u>\$ (12,149)</u>	<u>\$ 64,000</u>	<u>\$ (280,465)</u>	<u>\$ 1,101,299</u>

10.71%

ADJUSTMENT #:
1. Depreciation & Amortization Expense
2. Property Tax Expense
3. Miscellaneous Expense
4. Rate Case Expense
5. Purchased Water
6. Outside Services

REFERENCE:
Schedule TJC-32
Schedule TJC-33
Schedule TJC-34
Schedule TJC-35
Schedule TJC-36
Schedule TJC-37

ADJUSTMENT #:
7. Revenue Amortization
8. Remove Expensed Plant Items and Capitalize
9. Intentionally Left Blank
10. Purchased Power
11. Remove CAP Amortization
12. Income Taxes

REFERENCE:
Schedule TJC-38, pages 1 thru 31
Schedule TJC-39
Schedule TJC-41
Testimony of TJC
Schedule TJC-43

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #1 - DEPRECIATION AND AMORTIZATION EXPENSE

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-32
DIRECT TESTIMONY

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	(A) ADJUSTED TEST YEAR BALANCE PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED BALANCE	(D) COMPONENT DEPRECIATION RATES	(E) RUCO RECOMMENDED DEPRECIATION EXPENSE
1	301	Organization Cost	-	\$ -	\$ -	0.00%	\$ -
2	302	Franchise Cost and Other Intangible Plant	-	-	-	0.00%	-
3	303	Land and Land Rights	305,920	(34,063)	271,857	0.00%	-
4	304	Structures and Improvements	1,518,648	0	1,518,648	3.33%	50,571
5	305	Collecting and Impounding Res.	6,548	0	6,548	2.50%	164
6	306	Lake River and Other Intakes	-	-	-	2.50%	-
7	307	Wells and Springs	332,065	(103,468)	228,597	3.33%	7,612
8	308	Infiltration Galleries and Tunnels	-	-	-	6.67%	-
9	309	Supply Mains	-	-	-	2.00%	-
10	310	Power Generation Equipment	-	-	-	5.00%	-
11	311	Electric Pumping Equipment	1,506,908	(23,294)	1,483,614	12.50%	185,452
12	320	Water Treatment Equipment	7,763,500	(2,016,609)	5,746,891	3.33%	191,371
13	330	Distribution Reservoirs & Standpipe	8,170,420	(1)	8,170,419	2.22%	181,383
14	331	Transmission and Distribution Mains	17,450,634	0	17,450,634	2.00%	349,013
15	333	Services	7,389,930	(0)	7,389,930	3.33%	246,085
16	334	Meters	2,725,673	(3,556)	2,722,117	8.33%	226,752
17	335	Hydrants	1,171,633	(1)	1,171,633	2.00%	23,433
18	336	Backflow Prevention Devices	-	-	-	6.67%	-
19	339	Other Plant and Miscellaneous Equipment	1,610,687	43,218	1,653,905	6.67%	110,315
20	340	Office Furniture and Fixtures	270,359	(1)	270,358	6.67%	18,033
21	341	Transportation Equipment	535,315	0	535,315	20.00%	107,063
22	342	Stores Equipment	-	-	-	4.00%	-
23	343	Tools and Work Equipment	149,365	0	149,365	5.00%	7,468
24	344	Laboratory Equipment	-	-	-	10.00%	-
25	345	Power Operated Equipment	-	-	-	5.00%	-
26	346	Communications Equipment	39,105	(0)	39,105	10.00%	3,910
27	347	Miscellaneous Equipment	106,542	0	106,542	10.00%	10,654
28	348	Other Tangible Plant	-	34,063	34,063	0.00%	-
29							
30		TOTAL DIRECT PLANT IN SERVICE	\$ 51,053,253	\$ (2,103,710)	\$ 48,949,543		\$ 1,719,280
31							
32							
33							
34		General Office Plant Allocated	Per Company	Correct for 4 Factor Alloc.	RUCO Adjusted		
35	301	Organization Cost	528	(67)	461	0.00%	-
36	302	Other Intangible Plant	-	26,044	26,044	0.00%	-
37	304	Structures and Improvements	186,270	(23,791)	162,479	3.33%	5,411
38	311	Electric Pumping Equipment	-	(26)	(26)	12.50%	(3)
39	339	Other Plant and Miscellaneous Equipment	27,201	(3,474)	23,727	3.33%	790
40	340	Office Furniture and Fixtures	458,027	(69,481)	388,546	6.67%	25,916
41	341	Transportation Equipment	17,742	(2,266)	15,476	20.00%	- Fully Depreciated
42	343	Tools and Work Equipment	13,021	(1,663)	11,358	5.00%	568
43	344	Laboratory Equipment	130	(17)	114	10.00%	11
44	345	Power Operated Equipment	8,001	(1,022)	6,979	5.00%	- Fully Depreciated
45	346	Communications Equipment	5,315	(679)	4,636	10.00%	- Fully Depreciated
46							
47		TOTAL GENERAL OFFICE PLANT ALLOCATION	716,236		639,794		\$ 32,693
48							
49		Less: Amortization of Contributions - Year End Bal.	\$ 6,288,097			3.3588% 1	\$ (211,205)
50							
51		Total Depreciation Expense					\$ 1,540,768
52							
53		Test Year Depreciation Expense					\$ 1,632,458
54							
55		Increase (Decrease) in Depreciation Expense					\$ (91,690)
56							
57		Adjustment to Revenues and/or Expenses					\$ (91,690)

Note: Column B, line 36 and 40 adjusts for both the 4 Factor Allocator (2.8%) and Removal of \$159,087 and \$392,121 of Post Test Year Plant in Account 303 and 340 respectively.
Amortization Rate approved in Commission Decision No. 68176.

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #2 - PROPERTY TAX EXPENSE

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-33
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUES - 2004	\$ 6,544,219	COMPANY SCHEDULE E-1
2	REVENUES - 2005	7,019,051	COMPANY SCHEDULE E-1
3	RUCO PROPOSED REVENUES	<u>8,571,434</u>	SCHEDULE TJC-30
4	TOTAL	\$ 22,134,704	SUM LINES 1, 2, & 3
5	3 YEAR AVERAGE	\$ 7,378,235	LINE 4/3 YEARS
6	MULTIPLIER FOR REVENUES (2 X LAST 3 YRS. AVERAGE REVENUE)	<u>x 2</u>	ADOR VALUATION FACTOR
7	REVENUES FOR FULL CASH VALUE	\$ 14,756,470	LINE 5 X 2 (MULTIPLIER FOR REVENUES)
8	ADD: 10% OF CWIP BALANCE	\$ -	COMPANY TRIAL BALANCE
9	LESS: NET BOOK VALUE OF VEHICLES	<u>474,679</u>	SCHEDULE TJC-6, PAGE 3 OF 3
10	FULL CASH VALUE	\$ 14,281,791	LINE 7 + LINE 8 MINUS LINE 9
11	ASSESSMENT RATIO	<u>23.0%</u>	PER HOUSE BILL 2779
12	ASSESSED VALUE	\$ 3,284,812	LINE 10 X LINE 11
13	PROPERTY TAX RATE	<u>7.7913%</u>	PER TAX BILLS
14	PROPERTY TAXES PAYABLE PER RUCO	\$ 255,930	LINE 12 X LINE 13
15	PROPERTY TAXES PER COMPANY	<u>295,813</u>	PER COMPANY
16	RUCO ADJUSTMENT	<u>\$ (39,883)</u>	LINE 14 MINUS LINE 15

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #2 - PROPERTY TAX EXPENSE

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-33(a)
DIRECT TESTIMONY
PAGE 1 OF 2

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUES - 2004	\$ 6,544,219	COMPANY SCHEDULE E-1
2	REVENUES - 2005	7,019,051	COMPANY SCHEDULE E-1
3	RUCO PROPOSED REVENUES	<u>8,571,434</u>	SCHEDULE TJC-30
4	TOTAL	\$ 22,134,704	SUM LINES 1, 2, & 3
5	3 YEAR AVERAGE	\$ 7,378,235	LINE 4/3 YEARS
6	MULTIPLIER FOR REVENUES (2 X LAST 3 YRS. AVERAGE REVENUE)	<u>x 2</u>	ADOR VALUATION FACTOR
7	REVENUES FOR FULL CASH VALUE	\$ 14,756,470	LINE 5 X 2 (MULTIPLIER FOR REVENUES)
8	ADD: 10% OF CWIP BALANCE	\$ -	COMPANY TRIAL BALANCE
9	LESS: NET BOOK VALUE OF VEHICLES	<u>474,679</u>	SCHEDULE TJC-6, PAGE 3 OF 3
10	FULL CASH VALUE	\$ 14,281,791	LINE 7 + LINE 8 MINUS LINE 9
11	ASSESSMENT RATIO	<u>23.0%</u>	PER HOUSE BILL 2779
12	ASSESSED VALUE	\$ 3,284,812	LINE 10 X LINE 11
13	PROPERTY TAX RATE	<u>7.7913%</u>	PER TAX BILLS
14	PROPERTY TAXES PAYABLE PER RUCO	\$ 255,930	LINE 12 X LINE 13
15	PROPERTY TAXES PER COMPANY	<u>295,813</u>	PER COMPANY
16	RUCO ADJUSTMENT	\$ (39,883)	LINE 14 MINUS LINE 15

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-33(a)
DIRECT TESTIMONY
PAGE 2 OF 2

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
17	REVENUES - 2004	\$ 6,544,219	COMPANY SCHEDULE E-1
18	REVENUES - 2005	7,019,051	COMPANY SCHEDULE E-1
19	REVENUES - 2006	<u>7,755,907</u>	COMPANY SCHEDULE E-1
20	TOTAL	\$ 21,319,177	SUM LINES 1, 2, & 3
21	3 YEAR AVERAGE	\$ 7,106,392	LINE 4/3 YEARS
22	MULTIPLIER FOR REVENUES (2 X LAST 3 YRS. AVERAGE REVENUE)	<u>x 2</u>	ADOR VALUATION FACTOR
23	REVENUES FOR FULL CASH VALUE	\$ 14,212,785	LINE 5 X 2 (MULTIPLIER FOR REVENUES)
24	ADD: 10% OF CWIP BALANCE	\$ -	COMPANY TRIAL BALANCE
25	LESS: NET BOOK VALUE OF VEHICLES	<u>474,679</u>	SCHEDULE TJC-6, PAGE 3 OF 3
26	FULL CASH VALUE	\$ 13,738,106	LINE 7 + LINE 8 MINUS LINE 9
27	ASSESSMENT RATIO	<u>23.0%</u>	PER HOUSE BILL 2779
28	ASSESSED VALUE	\$ 3,159,764	LINE 10 X LINE 11
29	PROPERTY TAX RATE	<u>7.7913%</u>	PER TAX BILLS
30	PROPERTY TAXES PAYABLE PER RUCO	\$ 246,187	LINE 12 X LINE 13
31	PROPERTY TAXES PER COMPANY	<u>295,813</u>	PER COMPANY
32	RUCO ADJUSTMENT	\$ (49,626)	LINE 14 MINUS LINE 15
33	2008 PROPERTY TAX EXPENSE	\$ 187,214	
34	PLUS: DIFFERENCE BETWEEN PROPOSED LEVEL OF REVENUE	<u>9,743</u>	
35	LINE 33 PLUS 34	\$ 196,957	
36	PROPERTY TAX PER COMPANY	295,813	
37	RUCO ALTERNATIVE PROPERTY TAX EXPENSE ADJUSTMENT	<u>\$ (98,856)</u>	

Chaparral City Water Company
TEST YEAR ENDED DECEMBER 31, 2006
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 3

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-34
DIRECT TESTIMONY

Line
No.

1	<u>To Normalize Miscellaneous Expense</u>	
2		
3	Company Miscellaneous Expense - 2004	\$ 989,392
4	Company Miscellaneous Expense - 2005	1,160,406
5	Company Miscellaneous Expense Test Year Adjusted - 2006	<u>1,259,948</u>
6		
7	Three-Year Average	\$ 1,136,582
8		
9	Company Test Year Adjusted Expense	1,259,948
10		
11	Increase(decrease) Miscellaneous Expense	<u>\$ (123,366)</u>
12		
13	Adjustment to Revenue and/or Expense	<u>\$ (123,366)</u>

Chaparral City Water Company
TEST YEAR ENDED DECEMBER 31, 2006
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 4

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-35
DIRECT TESTIMONY

Line
No.

1	<u>Rate Case Expense</u>	
2		
3	Estimated Rate Case Expense	\$ 280,000
4	Unrecovered Rate Case Expense (Prior Case) ¹	\$ -
5	Rate Case Expense	<u>\$ 280,000</u>
6		
7	Estimated Amortization Period (in Years)	3.0
8		
9	Annual Rate Case Expense	<u>\$ 93,333</u>
10		
11	Test Year Adjusted Rate Case Expense	\$ 144,871
12		
13	Increase(decrease) Rate Case Expense	<u>\$ (51,538)</u>
14		
15	Adjustment to Revenue and/or Expense	<u>\$ (51,538)</u>
16		
17		
18	¹ Computation of Unrecovered Rate Case Amount	
19	Rate Case Expense	\$ 285,000 [1]
20	Amortization Period (yrs)	4 [2]
21	Annual Amortization amount	\$ 71,250 [3] = [1] divided by [2]
22	Amortization (years)	1.83 [4]
23	Total Amortization	\$ 130,388 [5] = [4] times [3]
24	Remaining Unrecovered Rate Case Expense	\$ 154,613 [6] = [1] minus [5]

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 5

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-36
DIRECT TESTIMONY

Line No.			
1	<u>Purchased Water</u>		
2			
3	Central Arizona Project water allocation 2006 (acre feet)	6,978	
4	Additional CAP allocation (acre feet)	<u> </u>	
5	Central Arizona Project water allocation 2006 (acre feet)	6,978	
6	2008 capital cost per acre foot (take or pay)	\$ 21	
7	Total Capital Cost		\$ 146,538
8			
9	Central Arizona Project water delivered 2006 (acre feet)	6,978	
10	Excess CAP water delivered 2006 (acre feet)	260	
11	Additional gallons from annualization in acre feet	<u>(591)</u>	
12	Total CAP water (acre feet)	6,647	
13	2008 delivery cost per acre foot	\$ 92	
14	Total M&I Cost		<u>\$ 611,567</u>
15			
16	Total CAP purchased water		\$ 758,105
17			
18	Ground Water pumped 2006 in acre feet	260	
19	Excess Capacity percentage	<u>67%</u>	
20	Total projected gallons pumped		174
21	Central Arizona Ground Water Replenishment District Assessment Fee per acre foot	\$ 250	
22			<u>43,550</u>
23			
24	RUCO Total Purchased Water Cost		\$ 801,655
25	Company Total Purchased Water Cost		<u>831,656</u>
26	Increase (decrease)		<u>\$ (30,001)</u>
27			
28			
29	Adjustment to Revenue and/or Expense		<u>\$ (30,001)</u>
30			

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 6

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-37
Page 1 of 31

Outside Services Expense

1 Weekly Charge	\$ 3,500
2 January 1, 2006 thru May 22, 2006	<u>20.28571</u> Number of Weeks
3	
4 Increase(decrease) Miscellaneous Expense	\$(71,000)
5	
6 Adjustment to Revenue and/or Expense	\$(71,000)
7	
8	
9	

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 7

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-38
Page 1 of 31

Line No.		Additional Dollars	Additional Gallons to Be Pumped (In 1000's)	Additional Customers
1	<u>RUCO Revenue Annualization</u>			
2				
3	Residential:			
4	3/4 Inch	\$ 2,317	639	61
5	1 Inch	65,260	13,151	1,415
6	1.5 Inch	860	215	7
7	2 Inch	253	72	1
8	3 Inch	1,790	421	5
9				
10				
11	Commercial:			
12	3/4 Inch	(50)	(14)	(1)
13	1 Inch	2,647	704	38
14	1.5 Inch	1,934	551	12
15	2 Inch	(778)	(222)	(3)
16	3 Inch	(206)	(24)	(1)
17	4 Inch	-	-	-
18				
19				
20	Industrial:			
21	3/4 Inch	-	-	-
22	1 Inch	-	-	-
23	1.5 Inch	-	-	-
24				
25				
26	Irrigation:			
27	3/4 Inch	792	324	21
28	1 Inch	6,585	3,086	78
29	1.5 Inch	1,901	869	12
30	2 Inch	(160)	(56)	(1)
31	4(a) Inch	(33,206)	(21,286)	(2)
32	4(b) Inch	(68,063)	(43,630)	-
33	6(a) Inch	(6,229)	(3,993)	-
34	6(b) Inch	(226,077)	(144,921)	-
35				
36				
37	Fire Hydrant (Standpipe):			
38	3 Inch	182	14	1
39	4 Inch	-	-	-
40				
41				
42	Construction:			
43	3/4 Inch	-	-	-
44	1 Inch	(329)	(80)	(9)
45	2 Inch	-	-	-
46	3 Inch	3,319	1,753	4
47	4 Inch	-	-	-
48				
49				
50	Fire Sprinkler:			
51	3/4 Inch	-	-	-
52	1 Inch	-	-	-
53	1.5 Inch	-	-	-
54				
55				
56			(192,426)	1,638
57	RUCO Revenue Annualization	(247,258)		
58				
59	Company Revenue Annualization	(309,207)		
60				
61	RUCO Revenue Annualization Adjustment	<u>\$ 61,949</u>		

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
3/4 INCH RESIDENTIAL

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	8,373	8,373	8,373	8,373	8,373	8,373	8,373	8,373	8,373	8,373	8,373	8,373	
2	Actual Customers	8,380	8,370	8,383	8,390	8,380	8,364	8,353	8,362	8,350	8,355	8,355	8,373	
3	Increase in Number of Customers	(7)	3	(10)	(17)	(7)	9	20	11	23	18	18	0	61
4	Average Revenue for the Month	\$ 31.10	\$ 29.04	\$ 28.44	\$ 30.82	\$ 30.58	\$ 37.09	\$ 39.14	\$ 33.41	\$ 35.99	\$ 31.66	\$ 32.67	\$ 30.44	
5	Increase in Revenues	\$ (218)	\$ 87	\$ (284)	\$ (524)	\$ (214)	\$ 334	\$ 783	\$ 367	\$ 828	\$ 570	\$ 588	\$ 0	\$ 2,317
6	Total Increase in Revenue per RUCCO	2,317												
7	Increase in Revenue per Company	2,317												
8	Total Revenue Adjustment	(0)												
9	Gallons Sold per Average Customer	7,943	7,128	6,887	7,834	7,739	10,099	10,774	8,861	9,737	8,168	8,566	7,684	
10	Increase in Customers	(7)	3	(10)	(17)	(7)	9	20	11	23	18	18	0	
11	Increase in Gallons	(55,604)	21,385	(68,870)	(133,173)	(54,174)	90,894	215,479	97,466	223,956	147,029	154,188	0	638,575

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7, 1 thru 7, 15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
 TEST YEAR ENDED DECEMBER 31, 2006
 OPERATING ADJ. #7 - REVENUE ANNUALIZATION
 CUSTOMERS TO YEAR END LEVELS
 1 INCH RESIDENTIAL

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	4,118	4,118	4,118	4,118	4,118	4,118	4,118	4,118	4,118	4,118	4,118	4,118	4,118
2	Actual Customers	3,841	3,860	3,910	3,895	3,940	4,028	4,057	4,064	4,080	4,117	4,091	4,118	4,118
3	Increase in Number of Customers	277	258	208	223	178	90	61	54	38	1	27	0	1,415
4	Average Revenue for the Month	\$ 45.93	\$ 43.43	\$ 42.61	\$ 45.87	\$ 45.80	\$ 52.16	\$ 54.23	\$ 49.86	\$ 53.76	\$ 48.12	\$ 48.22	\$ 46.99	
5	Increase in Revenues	\$ 12,723	\$ 11,205	\$ 8,864	\$ 10,229	\$ 8,152	\$ 4,694	\$ 3,308	\$ 2,692	\$ 2,043	\$ 48	\$ 1,302	0	\$ 65,260
6	Total Increase in Revenue per RUCCO	65,260												
7	Increase in Revenue per Company	65,260												
8	Total Revenue Adjustment	(0)												
9	Gallons Sold per Average Customer	9,219	8,226	7,903	9,194	9,165	11,690	12,514	10,777	12,327	10,089	10,125	9,639	
10	Increase in Customers	277	258	208	223	178	90	61	54	38	1	27	0	
11	Increase in Gallons	2,553,562	2,122,337	1,643,722	2,050,272	1,631,380	1,052,111	763,324	581,972	488,413	10,089	273,365	0	13,150,567

REFERENCES:
 Company Schedules C-2, page 7 and Schedules C-2, page 7, 1 thru 7, 15b
 Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	22	22	22	22	22	22	22	22	22	22	22	22	22
2	Actual Customers	20	20	21	21	21	21	22	23	22	22	22	22	22
3	Increase in Number of Customers	2	2	1	1	1	1	-	(1)	-	-	-	0	7
4	Average Revenue for the Month	\$ 137.51	\$ 114.83	\$ 120.58	\$ 125.86	\$ 119.32	\$ 112.48	\$ 129.19	\$ 122.81	\$ 132.63	\$ 112.98	\$ 111.38	\$ 107.77	
5	Increase in Revenues	\$ 275	\$ 230	\$ 121	\$ 126	\$ 119	\$ 112	\$ -	\$ (123)	\$ -	\$ -	\$ -	\$ 0	\$ 860
6	Total Increase in Revenue per RUCCO	860												
7	Increase in Revenue per Company	860												
8	Total Revenue Adjustment	0												
9	Gallons Sold per Average Customer	36,550	27,550	29,834	31,929	29,334	26,620	33,250	30,718	34,614	26,819	26,182	24,750	
10	Increase in Customers	2	2	1	1	1	1	-	(1)	-	-	-	0	
11	Increase in Gallons	73,101	55,101	29,834	31,929	29,334	26,620	-	(30,718)	-	-	-	0	215,200

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
2 INCH RESIDENTIAL

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	39	39	39	39	39	39	39	39	39	39	39	39	39
2	Actual Customers	38	39	39	39	39	39	39	39	39	39	39	39	39
3	Increase in Number of Customers	1	-	-	-	-	-	-	-	-	-	-	-	0
4	Average Revenue for the Month	\$ 253.25	\$ 216.80	\$ 216.25	\$ 240.19	\$ 251.05	\$ 289.04	\$ 320.32	\$ 291.92	\$ 282.84	\$ 187.47	\$ 297.89	\$ 234.12	
5	Increase in Revenues	\$ 253	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0
6	Total Increase in Revenue per RUCO	253												253
7	Increase in Revenue per Company	253												
8	Total Revenue Adjustment	<div style="border: 1px solid black; padding: 2px;">0</div>												
9	Gallons Sold per Average Customer	71,527	57,065	56,847	66,347	70,654	85,731	98,141	86,872	83,270	45,424	89,244	63,936	
10	Increase in Customers	1	-	-	-	-	-	-	-	-	-	-	-	0
11	Increase in Gallons	71,527	-	-	-	-	-	-	-	-	-	-	-	71,527

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
3 INCH RESIDENTIAL

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-38
PAGE 8 of 31

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	3	3	3	3	3	3	3	3	3	3	3	3	3
2	Actual Customers	3	2	2	2	2	3	2	3	3	3	3	3	3
3	Increase in Number of Customers	-	1	1	1	1	-	1	-	-	-	-	-	0
4	Average Revenue for the Month	\$ 269.90	\$ 307.28	\$ 336.26	\$ 365.24	\$ 363.98	\$ 334.16	\$ 417.53	\$ 289.22	\$ 332.48	\$ 304.76	\$ 335.84	\$ 277.46	
5	Increase in Revenues	\$ -	\$ 307	\$ 336	\$ 365	\$ 364	\$ -	\$ 418	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,790
6	Total Increase in Revenue per RUCO	1,790												
7	Increase In Revenue per Company	1,790												
8	Total Revenue Adjustment	<div style="border: 1px solid black; padding: 2px;">0</div>												
9	Gallons Sold per Average Customer	49,167	64,001	75,501	87,001	86,501	74,667	107,750	56,834	74,000	63,000	75,333	52,167	
10	Increase In Customers	-	1	1	1	1	-	1	-	-	-	-	0	
11	Increase In Gallons	-	64,001	75,501	87,001	86,501	-	107,750	-	-	-	-	0	420,752

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	115	115	115	115	115	115	115	115	115	115	115	115	115
2	Actual Customers	116	116	114	115	113	114	115	115	115	116	117	115	115
3	Increase in Number of Customers	(1)	(1)	1	-	2	1	-	-	-	(1)	(2)	0	(1)
4	Average Revenue for the Month	\$ 48.41	\$ 42.45	\$ 42.53	\$ 45.71	\$ 44.38	\$ 52.16	\$ 57.72	\$ 49.68	\$ 52.52	\$ 44.52	\$ 49.13	\$ 34.73	
5	Increase in Revenues	\$ (48)	\$ (42)	\$ 43	\$ -	\$ 89	\$ 52	\$ -	\$ -	\$ -	\$ (45)	\$ (98)	\$ 0	\$ (50)
6	Total Decrease in Revenue per RUCCO	(50)												
7	Decrease in Revenue per Company	(50)												
8	Total Revenue Adjustment	(0)												
9	Gallons Sold per Average Customer	13,005	11,035	11,062	12,113	11,673	14,242	16,074	13,422	14,361	11,720	13,240	8,383	
10	Increase in Customers	(1)	(1)	1	-	2	1	-	-	-	(1)	(2)	0	
11	Increase in Gallons	(13,005)	(11,035)	11,062	-	23,346	14,242	-	-	-	(11,720)	(26,479)	0	(13,590)

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
1 INCH COMMERCIAL

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-38
PAGE 8 of 31

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	117	117	117	117	117	117	117	117	117	117	117	117	117
2	Actual Customers	112	113	112	112	112	113	114	113	117	114	117	117	117
3	Increase in Number of Customers	5	4	5	5	5	4	3	4	-	3	-	0	38
4	Average Revenue for the Month	\$ 58.36	\$ 66.23	\$ 63.61	\$ 69.71	\$ 68.26	\$ 91.36	\$ 92.10	\$ 66.40	\$ 70.17	\$ 58.27	\$ 59.66	\$ 53.16	
5	Increase in Revenues	\$ 292	\$ 265	\$ 318	\$ 349	\$ 341	\$ 365	\$ 276	\$ 266	\$ -	\$ 175	\$ -	\$ 0	\$ 2,647
6	Total Increase in Revenue per RUCCO	2,647												
7	Increase in Revenue per Company	2,647												
8	Total Revenue Adjustment	(0)												
9	Gallons Sold per Average Customer	14,152	17,275	16,233	18,657	18,081	26,700	26,943	17,341	18,838	14,114	14,667	12,086	
10	Increase in Customers	5	4	5	5	5	4	3	4	-	3	-	0	
11	Increase in Gallons	70,761	69,099	81,163	93,283	90,404	106,798	80,830	69,365	-	42,343	-	0	704,047

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
1.5 INCH COMMERCIAL

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-38
PAGE 9 of 31

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	67	67	67	67	67	67	67	67	67	67	67	67	67
2	Actual Customers	65	65	65	66	66	65	66	66	67	67	67	67	67
3	Increase in Number of Customers	2	2	2	1	1	2	1	1	-	-	-	0	12
4	Average Revenue for the Month	\$ 154.90	\$ 150.64	\$ 136.31	\$ 147.52	\$ 147.67	\$ 185.11	\$ 198.12	\$ 187.15	\$ 183.29	\$ 163.48	\$ 161.57	\$ 172.02	
5	Increase in Revenues	\$ 310	\$ 301	\$ 273	\$ 148	\$ 148	\$ 370	\$ 198	\$ 187	\$ -	\$ -	\$ -	\$ 0	\$ 1,934
6	Total Increase in Revenue per RUCO	1,934												
7	Increase in Revenue per Company	1,934												
8	Total Revenue Adjustment	0												
9	Gallons Sold per Average Customer	43,454	41,762	36,077	40,523	40,584	55,439	60,500	56,250	54,717	46,859	46,097	50,247	
10	Increase in Customers	2	2	2	1	1	2	1	1	-	-	-	0	
11	Increase in Gallons	86,909	83,524	72,155	40,523	40,584	110,878	60,500	56,250	-	-	-	0	551,322

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
2 INCH COMMERCIAL

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-38
PAGE 10 of 31

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	71	71	71	71	71	71	71	71	71	71	71	71	71
2	Actual Customers	71	71	71	71	71	71	72	72	72	71	71	71	71
3	Increase in Number of Customers	-	-	-	-	-	-	(1)	(1)	(1)	-	-	0	(3)
4	Average Revenue for the Month	\$ 223.05	\$ 218.06	\$ 217.63	\$ 236.71	\$ 251.14	\$ 294.48	\$ 267.22	\$ 244.62	\$ 266.60	\$ 247.87	\$ 225.66	\$ 250.45	
5	Increase in Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (267)	\$ (245)	\$ (267)	\$ -	\$ -	\$ 0	\$ (778)
6	Total Decrease in Revenue per RUCCO	(778)												
7	Decrease in Revenue per Company	(778)												
8	Total Revenue Adjustment	(0)												
9	Gallons Sold per Average Customer	59,543	57,564	57,395	64,965	70,690	87,888	77,070	68,105	76,827	69,395	60,578	70,416	
10	Increase in Customers	-	-	-	-	-	-	(1)	(1)	(1)	-	-	0	
11	Increase in Gallons	-	-	-	-	-	-	(77,070)	(68,105)	(76,827)	-	-	0	(222,001)

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #1 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
3 INCH COMMERCIAL

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	5	5	5	5	5	5	5	5	5	5	5	5	5
2	Actual Customers	5	5	6	5	5	5	5	5	5	5	5	5	5
3	Increase in Number of Customers	-	-	(1)	-	-	-	-	-	-	-	-	-	(1)
4	Average Revenue for the Month	\$ 203.21	\$ 240.50	\$ 206.06	\$ 239.75	\$ 243.27	\$ 217.32	\$ 245.79	\$ 281.58	\$ 280.82	\$ 219.84	\$ 211.52	\$ 212.53	
5	Increase in Revenues	\$ -	\$ -	\$ (206)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (206)
6	Total Increase in Revenue per RUCO	(206)												
7	Increase In Revenue per Company	(206)												
8	Total Revenue Adjustment	(0)												
9	Gallons Sold per Average Customer	22,701	37,501	23,834	37,200	38,600	28,300	39,600	53,800	53,500	29,300	26,000	26,400	
10	Increase In Customers	-	-	(1)	-	-	-	-	-	-	-	-	-	0
11	Increase In Gallons	-	-	(23,834)	-	-	-	-	-	-	-	-	-	(23,834)

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
4 INCH COMMERCIAL

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	4	4	4	4	4	4	4	4	4	4	4	4	4
2	Actual Customers	4	4	4	4	4	4	4	4	4	4	4	4	4
3	Increase in Number of Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
4	Average Revenue for the Month	\$ 598.39	\$ 642.49	\$ 679.66	\$ 683.44	\$ 794.63	\$ 830.86	\$ 824.87	\$ 880.63	\$ 411.91	\$ 787.39	\$ 626.42	\$ 592.40	
5	Increase in Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0 \$
6	Total Increase in Revenue per RUCO	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Increase In Revenue per Company	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Total Revenue Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Gallons Sold per Average Customer	147,375	164,875	179,625	181,125	225,250	239,625	237,250	259,375	73,375	222,375	158,500	145,000	
10	Increase In Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
11	Increase In Gallons	-	-	-	-	-	-	-	-	-	-	-	-	0

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
3/4 INCH INDUSTRIAL

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	1	1	1	1	1	1	1	1	1	1	1	1	1
2	Actual Customers	1	1	1	1	1	1	1	1	1	1	1	1	1
3	Increase in Number of Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
4	Average Revenue for the Month	\$ 27.46	\$ 19.90	\$ 19.90	\$ 32.50	\$ 19.90	\$ 59.52	\$ 32.50	\$ 19.90	\$ 16.12	\$ 17.80	\$ 24.94	\$ 13.60	
5	Increase in Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0 \$
6	Total Increase in Revenue per RUCCO	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Increase In Revenue per Company	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Total Revenue Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Gallons Sold per Average Customer	6,501	3,501	3,501	8,501	3,501	17,501	8,501	3,501	1,501	2,501	5,501	-	
10	Increase In Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
11	Increase In Gallons	-	-	-	-	-	-	-	-	-	-	-	-	0

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
1 INCH INDUSTRIAL

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-38
PAGE 14 of 31

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	1	1	1	1	1	1	1	1	1	1	1	1	1
2	Actual Customers	1	1	1	1	1	1	1	1	1	1	1	1	1
3	Increase in Number of Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
4	Average Revenue for the Month	\$ 22.70	\$ 22.70	\$ 22.70	\$ 22.70	\$ 22.70	\$ 22.70	\$ 22.70	\$ 22.70	\$ 22.70	\$ 22.70	\$ 22.70	\$ 22.70	\$ 22.70
5	Increase in Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0 \$
6	Total Increase in Revenue per RUCO	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Increase in Revenue per Company	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Total Revenue Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Gallons Sold per Average Customer	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Increase in Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
11	Increase in Gallons	-	-	-	-	-	-	-	-	-	-	-	-	0

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
1.5 INCH INDUSTRIAL

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-38
PAGE 15 of 31

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	1	1	1	1	1	1	1	1	1	1	1	1	1
2	Actual Customers	-	-	-	-	-	-	-	1	1	1	1	1	1
3	Increase in Number of Customers	1	1	1	1	1	1	1	-	-	-	-	0	7
4	Average Revenue for the Month	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	\$ 45.40	\$ 144.94	\$ 46.66	\$ 45.40	\$ 45.40	
5	Increase in Revenues	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	\$ -	\$ -	\$ -	\$ -	0	#DIV/0!
6	Total Increase in Revenue per RUCCO	#DIV/0!												
7	Increase in Revenue per Company	-												
8	Total Revenue Adjustment	#DIV/0!												
9	Gallons Sold per Average Customer	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	-	39,501	501	-	-	
10	Increase in Customers	1	1	1	1	1	1	1	-	-	-	-	0	
11	Increase in Gallons	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	-	-	-	-	0	#DIV/0!

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
3/4 INCH IRRIGATION

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	147	147	147	147	147	147	147	147	147	147	147	147	
2	Actual Customers	144	144	144	144	144	145	145	146	146	147	147	147	
3	Increase in Number of Customers	3	3	3	3	3	2	2	1	1	-	-	0	21
4	Average Revenue for the Month	\$ 37.16	\$ 33.93	\$ 32.14	\$ 33.03	\$ 34.04	\$ 40.61	\$ 52.33	\$ 45.61	\$ 49.16	\$ 42.35	\$ 40.33	\$ 35.44	
5	Increase in Revenues	\$ 111	\$ 102	\$ 96	\$ 99	\$ 102	\$ 81	\$ 105	\$ 46	\$ 49	\$ -	\$ -	\$ 0	\$ 792
6	Total Increase in Revenue per RUCCO	792												
7	Increase in Revenue per Company	792												
8	Total Revenue Adjustment	(0)												
9	Gallons Sold per Average Customer	15,101	13,032	11,882	12,455	13,105	17,314	24,828	20,521	22,795	18,429	17,136	14,000	
10	Increase In Customers	3	3	3	3	3	2	2	1	1	-	-	0	
11	Increase In Gallons	45,303	39,095	35,647	37,366	39,314	34,628	49,656	20,521	22,795	-	-	0	324,325

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	176	176	176	176	176	176	176	176	176	176	176	176	176
2	Actual Customers	166	166	169	167	167	167	167	169	171	173	176	176	176
3	Increase in Number of Customers	10	10	7	9	9	9	9	7	5	3	-	0	78
4	Average Revenue for the Month	\$ 81.05	\$ 68.21	\$ 65.06	\$ 66.65	\$ 69.18	\$ 88.27	\$ 110.81	\$ 118.29	\$ 102.80	\$ 93.47	\$ 98.40	\$ 90.81	
5	Increase in Revenues	\$ 811	\$ 682	\$ 455	\$ 600	\$ 623	\$ 794	\$ 997	\$ 828	\$ 514	\$ 280	\$ -	\$ 0	\$ 6,585
6	Total Increase in Revenue per RUCCO	6,585												
7	Increase in Revenue per Company	6,585												
8	Total Revenue Adjustment	(0)												
9	Gallons Sold per Average Customer	37,404	29,175	27,151	28,171	29,797	42,033	56,479	61,278	51,348	45,365	48,529	43,659	
10	Increase in Customers	10	10	7	9	9	9	9	7	5	3	-	0	
11	Increase in Gallons	374,040	291,751	190,059	253,539	268,171	378,300	508,315	428,949	256,742	136,094	-	0	3,085,959

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
1.5 INCH IRRIGATION

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	69	69	69	69	69	69	69	69	69	69	69	69	69
2	Actual Customers	66	66	71	67	67	67	68	68	69	69	69	69	69
3	Increase in Number of Customers	3	3	(2)	2	2	2	1	1	-	-	-	0	12
4	Average Revenue for the Month	\$ 143.74	\$ 116.52	\$ 130.08	\$ 159.46	\$ 145.59	\$ 143.38	\$ 308.96	\$ 174.49	\$ 165.27	\$ 148.26	\$ 206.95	\$ 127.05	
5	Increase in Revenues	\$ 431	\$ 350	\$ (260)	\$ 319	\$ 291	\$ 287	\$ 309	\$ 174	\$ -	\$ -	\$ -	\$ 0	\$ 1,901
6	Total Increase in Revenue per RUCCO	1,901												
7	Increase in Revenue per Company	1,901												
8	Total Revenue Adjustment	(0)												
9	Gallons Sold per Average Customer	63,038	45,591	54,282	73,112	64,224	62,806	168,949	82,750	76,841	65,935	103,558	52,341	
10	Increase in Customers	3	3	(2)	2	2	2	1	1	-	-	-	0	
11	Increase in Gallons	189,115	136,774	(108,564)	146,225	128,448	125,613	168,949	82,750	-	-	-	0	869,309

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
2 INCH IRRIGATION

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-38
PAGE 19 of 31

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	52	52	52	52	52	52	52	52	52	52	52	52	52
2	Actual Customers	51	52	54	52	52	52	52	52	52	52	52	52	52
3	Increase in Number of Customers	1	-	(2)	-	-	-	-	-	-	-	-	-	(1)
4	Average Revenue for the Month	\$ 222.88	\$ 186.70	\$ 191.52	\$ 213.36	\$ 231.57	\$ 304.44	\$ 400.06	\$ 303.73	\$ 319.87	\$ 252.70	\$ 250.99	\$ 234.25	
5	Increase in Revenues	\$ 223	\$ -	\$ (383)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (160)
6	Total Increase in Revenue per RUCCO	(160)												
7	Increase in Revenue per Company	-												
8	Total Revenue Adjustment	(160)												
9	Gallons Sold per Average Customer	96,079	72,885	75,973	89,971	101,644	148,356	209,654	147,904	158,250	115,193	114,096	103,366	
10	Increase in Customers	1	-	(2)	-	-	-	-	-	-	-	-	-	0
11	Increase in Gallons	96,079	-	(151,945)	-	-	-	-	-	-	-	-	-	(55,866)

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
4 INCH IRRIGATION

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	4	4	4	4	4	4	4	4	4	4	4	4	4
2	Actual Customers	5	4	5	4	4	4	4	4	4	4	4	4	4
3	Increase in Number of Customers	(1)	-	(1)	-	-	-	-	-	-	-	-	-	(2)
4	Average Revenue for the Month	\$ 425.59	\$ 425.90	\$ 11,486.14	\$ 1,796.17	\$ 3,127.04	\$ 10,744.52	\$ 4,122.91	\$ 643.91	\$ 580.93	\$ 445.99	\$ 742.78	\$ 672.58	
5	Increase in Revenues	\$ (426)	\$ -	\$ (11,486)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0 \$ (11,912)
6	Total Increase in Revenue per RUCO	(11,912)												
7	Increase in Revenue per Company	(11,912)												
8	Total Revenue Adjustment	0												
9	Gallons Sold per Average Customer	127,300	127,500	7,217,400	1,005,875	1,859,000	6,742,000	2,497,375	267,250	226,875	140,375	330,625	285,625	
10	Increase in Customers	(1)	-	(1)	-	-	-	-	-	-	-	-	-	0
11	Increase in Gallons	(127,300)	-	(7,217,400)	-	-	-	-	-	-	-	-	-	0 (7,344,700)

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

Chaparral City Water Company
 Test Year Ended December 31, 2006
 Revenue Annualization
 4 Inch Irrigation Meters

Line No.	Description	2006		2006		2007	Projected		Projected
		Actual Usage	Amount Billed	Current Rates	Proposed Rates	Usage	Amount Billed	Current Rates	Amount Billed
1	Firerock Canyon Golf Course								
2	Account: 6018551-9								
3									
4									
5									
6	Month								
7	Jan.	-	227.00	\$	309.74	-	Actual	227.00	309.74
8	Feb.	174,000	498.44		907.95	-	Actual	227.00	309.74
9	Mar.	4,052,000	6,548.12		14,240.52	-	Actual	227.00	309.74
10	Apr.	1,000	228.56		313.18	-	Actual	227.00	309.74
11	May	1,955,000	3,276.80		7,031.03	-	Actual	227.00	309.74
12	Jun.	13,658,000	21,533.48		47,265.94	-	Actual	227.00	309.74
13	Jul.	3,388,000	5,512.28		11,957.68	-	Actual	227.00	309.74
14	Aug.	1,000	228.56		313.18	-	Actual	227.00	309.74
15	Sep.	-	227.00		309.74	-	Actual	227.00	309.74
16	Oct.	-	227.00		309.74	1,000	Actual	228.56	313.18
17	Nov.	-	227.00		309.74	2,371,000	Actual	3,925.76	8,461.24
18	Dec.	429,000	896.24		1,784.64	-	Actual	227.00	309.74
19									
20	Total	23,658,000	39,630.48	\$	85,053.08	2,372,000		\$ 6,424.32	\$ 11,871.82
21		[1]	[2]		[3]	[4]		[5]	[6]
22									
23	RUCO Annualization:								
24	Annualization at present rates [5] - [2]			\$	(33,206.16)				
25	Annualization at proposed rates [6] - [3]			\$	(73,181.27)				
26	Additional Gallons (in 1,000's) [4] - [1] / 1000				(21,286)				
27									
28									
29	Company Annualization:								
30	Annualization at present rates			\$	(36,906.48)				
31	Annualization at Company proposed rates			\$	(81,418.94)				
32	Additional Gallons (in 1,000's)				(23,658)				
33									
34									
35	RUCO's Adjustment at Present Rates for Actual Gallonage Usage				\$ 3,700.32				

REFERENCES:
 Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
 Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

Chaparral City Water Company
Test Year Ended December 31, 2006
Revenue Annualization
4 Inch Irrigation Meters

Line No.	Firerock Canyon Golf Course									
2	Account: 6018550-1									
3		2006		2006		2007		Projected		Projected
4		Amount		Amount		Usage		Amount		Amount
5		Billed		Billed				Billed		Billed
6	Month	Actual Usage	Current Rates	Proposed Rates				Current Rates	Proposed Rates	
7	Jan.	-	\$ 227.00	\$ 309.74	-	Actual		\$ 227.00	\$ 309.74	
8	Feb.	17,000	253.52	368.19	-	Actual		227.00	309.74	
9	Mar.	31,614,000	49,544.84	108,998.67	-	Actual		227.00	309.74	
10	Apr.	-	227.00	309.74	-	Actual		227.00	309.74	
11	May	4,671,000	7,513.76	16,368.64	430,000	Actual		897.80	1,788.08	
12	Jun.	11,344,000	17,923.64	39,310.41	1,372,000	Actual		2,367.32	5,026.68	
13	Jul.	4,536,000	7,303.16	15,904.51	2,440,000	Actual		4,033.40	8,698.46	
14	Aug.	-	227.00	309.74	-	Actual		227.00	309.74	
15	Sep.	-	227.00	309.74	-	Actual		227.00	309.74	
16	Oct.	-	227.00	309.74	-	Actual		227.00	309.74	
17	Nov.	597,000	1,158.32	2,362.23	5,288,000	Actual		8,476.28	18,489.88	
18	Dec.	381,000	821.36	1,619.62	-	Actual		227.00	1,619.62	
19										
20	Total	53,160,000	\$ 85,653.60	\$ 186,480.96	9,530,000			\$ 17,590.80	\$ 37,790.90	
21		[1]	[2]	[3]	[4]			[5]	[6]	
22										
23	RUCO Annualization:									
24	Annualization at present rates [5] - [2]			\$ (68,062.80)						
25	Annualization at proposed rates [6] - [3]			\$ (148,690.06)						
26	Additional Gallons (in 1,000's) [4] - [1]/1000			(43,630)						
27										
28										
29	Company Annualization:									
30	Annualization at present rates			\$ (74,786.40)						
31	Annualization at Company proposed rates			\$ (164,817.72)						
32	Additional Gallons (in 1,000's)			(46,122)						
33										
34										
35	RUCO's Adjustment at Present Rates for Actual Gallonage Usage				\$ 6,723.60					

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
6 INCH IRRIGATION

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-38
PAGE 21a of 31

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	3	3	3	3	3	3	3	3	3	3	3	3	3
2	Actual Customers	3	3	3	3	3	3	3	3	3	3	3	3	3
3	Increase in Number of Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
4	Average Revenue for the Month	\$7,665.36	\$8,113.60	\$6,164.12	\$12,568.96	\$15,654.12	\$18,128.28	\$13,252.76	\$6,027.36	\$1,556.66	\$2,558.44	\$13,511.20	\$2,290.64	
5	Increase in Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0 \$
6	Total Increase in Revenue per RUCCO	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Increase in Revenue per Company	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Total Revenue Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Gallons Sold per Average Customer	4,622,667	4,910,000	3,660,333	7,766,000	9,743,667	11,329,667	8,204,333	3,572,667	706,834	1,349,000	8,370,000	1,177,333	
10	Increase in Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
11	Increase in Gallons	-	-	-	-	-	-	-	-	-	-	-	-	0

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

Chaparral City Water Company
Test Year Ended December 31, 2006
Revenue Annualization
6 Inch Irrigation Meters

Line No.		2006 Actual Usage	2006 Amount Billed	2006 Current Rates	2006 Proposed Rates	2007 Usage	Projected Amount Billed	Projected Current Rates	Projected Proposed Rates
1	Sunridge Canyon G.C.								
2	Account: 6008478-7								
3									
4									
5									
6	Month								
7	Jan.	-	454.00	\$ 619.47	\$ 619.47	256,000	Actual	Actual	1,499.60
8	Feb.	505,000	1,241.80	2,355.66	2,355.66	-	Actual	454.00	619.47
9	Mar.	-	454.00	619.47	619.47	-	Actual	454.00	619.47
10	Apr.	1,312,000	2,500.72	5,130.13	5,130.13	-	Actual	454.00	619.47
11	May	3,612,000	6,088.72	13,037.53	13,037.53	1,000	Actual	455.56	622.91
12	Jun.	568,000	1,340.08	2,572.25	2,572.25	-	Actual	454.00	619.47
13	Jul.	1,173,000	2,283.88	4,652.24	4,652.24	-	Actual	454.00	619.47
14	Aug.	-	454.00	619.47	619.47	-	Actual	454.00	619.47
15	Sep.	-	454.00	619.47	619.47	-	Actual	454.00	619.47
16	Oct.	1,503,000	2,798.68	5,786.78	5,786.78	258,000	Actual	856.48	1,506.47
17	Nov.	1,249,000	2,402.44	4,913.53	4,913.53	5,414,000	Actual	8,899.84	19,232.80
18	Dec.	-	454.00	619.47	619.47	-	Actual	454.00	619.47
19									
20	Total	9,922,000	\$ 20,926.32	\$ 41,545.48	\$ 41,545.48	5,929,000		\$ 14,697.24	\$ 27,817.54
21		[1]	[2]	[3]	[3]	[4]		[5]	[6]
22									
23	RUCO Annualization:								
24	Revenue Annualization at present rates [5] - [2]			\$ (6,229.08)	\$ (6,229.08)				
25	Revenue Annualization at proposed rates [6] - [3]			\$ (13,727.93)	\$ (13,727.93)				
26	Additional Gallons (in 1,000's) [4] - [1] / 1000			(3,993)	(3,993)				
27									
28									
29	Company Annualization:								
30	Annualization at present rates			\$ (15,144.87)	\$ (15,144.87)				
31	Annualization at Company proposed rates			\$ (32,805.35)	\$ (32,805.35)				
32	Additional Gallons (in 1,000's)			(9,481.00)	(9,481.00)				
33									
34									
35	RUCO's Adjustment at Present Rates for Actual Gallonage Usage								\$ 8,915.79

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

Chaparral City Water Company
Test Year Ended December 31, 2006
Revenue Annualization
6 Inch Irrigation Meters

Line No.	Description	2006		2006		2007	2006		Projected Amount Billed	Projected Amount Billed
		Actual Usage	Current Rates	Amount Billed	Proposed Rates	Usage	Amount Billed	Proposed Rates		
1	Eagle Mountain G.C.	13,051,000	\$ 20,813.56	\$ 45,488.81		-	Actual		\$ 454.00	\$ 619.47
2	Account: 60015014-1	13,621,000	21,702.76	47,448.47		-	Actual		454.00	619.47
3		10,783,000	17,275.48	37,691.42		-	Actual		454.00	619.47
4		21,261,000	33,621.16	73,714.79		-	Actual		454.00	619.47
5		24,574,000	38,789.44	85,104.88		-	Actual		454.00	619.47
6		31,629,000	49,795.24	109,359.97		192,000	Actual		753.52	1,279.57
7	Jan.	21,573,000	34,107.88	74,787.44		344,000	Actual		990.64	1,802.14
8	Feb.	9,097,000	14,645.32	31,894.96		11,018,000	Actual		17,642.08	38,499.35
9	Mar.	84,000	585.04	908.26		10,315,000	Actual		16,545.40	36,082.44
10	Apr.	1,119,000	2,199.64	4,466.59		4,432,000	Actual		7,367.92	15,856.69
11	May	21,785,000	34,438.60	75,516.30		-	Actual		454.00	619.47
12	Jun.	2,645,000	4,580.20	9,712.98		-	Actual		454.00	619.47
13	Jul.									
14	Aug.									
15	Sep.									
16	Oct.									
17	Nov.									
18	Dec.									
19										
20	Total	171,222,000	\$ 272,554.32	\$ 596,094.88		26,301,000			\$ 46,477.56	\$ 97,856.48
21		[1]	[2]	[3]		[4]			[5]	[6]
22										
23	RUCO Annualization:									
24	Revenue Annualization at present rates [5] - [2]			\$ (226,076.76)						
25	Revenue Annualization at proposed rates [6] - [3]			\$ (498,238.40)						
26	Additional Gallons (in 1,000's) [4] - [1]/1000			(144,921)						
27										
28										
29	Company Annualization:									
30	Annualization at present rates			\$ (265,672.90)						
31	Annualization at Company proposed rates			\$ (585,502.21)						
32	Additional Gallons (in 1,000's)			(170,303.00)						
33										
34										
35	RUCO's Adjustment at Present Rates for Actual Gallonage Usage			\$ 39,596.14						

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
3 INCH FIRE HYDRANT (STANDPIPE)

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	26	26	26	26	26	26	26	26	26	26	26	26	26
2	Actual Customers	25	23	20	28	29	25	22	27	30	27	29	26	26
3	Increase in Number of Customers	1	3	6	(2)	(3)	1	4	(1)	(4)	(1)	(3)	0	1
4	Average Revenue for the Month	\$ 212.73	\$ 199.69	\$ 214.80	\$ 193.61	\$ 228.12	\$ 192.62	\$ 203.33	\$ 233.73	\$ 198.88	\$ 199.06	\$ 208.04	\$ 256.15	
5	Increase in Revenues	\$ 213	\$ 599	\$ 1,289	\$ (387)	\$ (684)	\$ 193	\$ 813	\$ (234)	\$ (796)	\$ (199)	\$ (624)	0	\$ 182
6	Total Increase in Revenue per RUCO	182												
7	Increase in Revenue per Company	-												
8	Total Revenue Adjustment	182												
9	Gallons Sold per Average Customer	26,480	21,305	27,300	18,893	32,587	18,500	22,750	34,815	20,984	21,056	24,621	43,712	
10	Increase in Customers	1	3	6	(2)	(3)	1	4	(1)	(4)	(1)	(3)	0	
11	Increase in Gallons	26,480	63,914	163,802	(37,786)	(97,760)	18,500	91,002	(34,815)	(83,935)	(21,056)	(73,863)	0	14,484

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
4 INCH FIRE HYDRANT (STANDPIPE)

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	1	1	1	1	1	1	1	1	1	1	1	1	1
2	Actual Customers	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Increase in Number of Customers	1	1	1	1	1	1	1	1	1	1	1	1	6
4	Average Revenue for the Month	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	\$ 238.34	\$ 1,902.80	\$ 1,975.88	\$ 1,623.08	\$ 1,660.88	\$ 1,776.80	
5	Increase in Revenues	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0 #DIV/0!
6	Total Increase in Revenue per RUCO	#DIV/0!												
7	Increase in Revenue per Company													
8	Total Revenue Adjustment	#DIV/0!												
9	Gallons Sold per Average Customer	-	-	-	-	-	-	4,501	665,000	694,000	554,000	569,000	615,000	
10	Increase in Customers	1	1	1	1	1	1	1	1	1	1	1	1	0
11	Increase in Gallons	-	-	-	-	-	-	-	-	-	-	-	-	0

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
3/4 INCH CONSTRUCTION

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	1	1	1	1	1	1	1	1	1	1	1	1	1
2	Actual Customers	1	1	1	1	1	1	1	1	1	1	1	1	1
3	Increase in Number of Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
4	Average Revenue for the Month	\$ 14.38	\$ 13.60	\$ 22.18	\$ 20.62	\$ 14.38	\$ 13.60	\$ 13.60	\$ 13.60	\$ 13.60	\$ 13.60	\$ 14.38	\$ 13.60	\$ 13.60
5	Increase in Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0
6	Total Increase in Revenue per RUCCO	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Increase in Revenue per Company	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Total Revenue Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Gallons Sold per Average Customer	501	-	5,501	4,501	501	-	-	-	-	-	501	-	-
10	Increase in Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
11	Increase in Gallons	-	-	-	-	-	-	-	-	-	-	-	-	0

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
1 INCH CONSTRUCTION

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-38
PAGE 25 of 31

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	2	2	2	2	2	2	2	2	2	2	2	2	2
2	Actual Customers	2	5	3	3	3	3	3	3	2	2	2	2	2
3	Increase in Number of Customers	-	(3)	(1)	(1)	(1)	(1)	(1)	(1)	-	-	-	0	(9)
4	Average Revenue for the Month	\$ 37.52	\$ 38.14	\$ 35.96	\$ 35.96	\$ 36.74	\$ 33.88	\$ 34.14	\$ 38.30	\$ 46.88	\$ 40.64	\$ 41.81	\$ 93.68	
5	Increase in Revenues	\$ -	\$ (114)	\$ (36)	\$ (36)	\$ (37)	\$ (34)	\$ (34)	\$ (38)	\$ -	\$ -	\$ -	\$ 0	\$ (329)
6	Total Increase in Revenue per RUCCO	(329)												
7	Increase In Revenue per Company	-												
8	Total Revenue Adjustment	(329)												
9	Gallons Sold per Average Customer	9,501	9,901	8,501	8,501	9,000	7,167	7,334	10,000	15,501	11,501	12,250	45,501	
10	Increase In Customers	-	(3)	(1)	(1)	(1)	(1)	(1)	(1)	-	-	-	0	
11	Increase In Gallons	-	(29,702)	(8,501)	(8,501)	(9,000)	(7,167)	(7,334)	(10,000)	-	-	-	0	(80,204)

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
2 INCH CONSTRUCTION

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-X
PAGE 26 of 31

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Actual Customers	-	1	1	1	1	1	-	-	-	-	-	-	-
3	Increase in Number of Customers	-	(1)	(1)	(1)	(1)	(1)	-	-	-	-	-	-	(5)
4	Average Revenue for the Month	\$ -	\$ 167.38	\$ 75.34	\$ 73.00	\$ 109.66	\$ 220.42	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Increase in Revenues	\$ -	\$ (167)	\$ (75)	\$ (73)	\$ (110)	\$ (220)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (646)
6	Total Increase in Revenue per RUCCO	(646)												
7	Increase In Revenue per Company	-												
8	Total Revenue Adjustment	(646)												
9	Gallons Sold per Average Customer	#DIV/0!	60,501	1,501	-	23,501	94,501	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
10	Increase In Customers	-	(1)	(1)	(1)	(1)	(1)	-	-	-	-	-	-	0
11	Increase In Gallons	#DIV/0!	(60,501)	(1,501)	-	(23,501)	(94,501)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
3 INCH CONSTRUCTION

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-38
PAGE 27 of 31

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	4	4	4	4	4	4	4	4	4	4	4	4	4
2	Actual Customers	4	4	2	2	3	4	4	5	4	4	4	4	4
3	Increase in Number of Customers	-	-	2	2	1	-	-	(1)	-	-	-	0	4
4	Average Revenue for the Month	\$ 272.56	\$ 742.31	\$ 782.09	\$ 626.87	\$ 723.46	\$ 449.81	\$ 661.78	\$ 221.97	\$ 284.65	\$ 232.19	\$ 295.37	\$ 243.31	
5	Increase in Revenues	\$ -	\$ -	\$ 1,564	\$ 1,254	\$ 723	\$ -	\$ -	\$ (222)	\$ -	\$ -	\$ -	\$ 0	\$ 3,319
6	Total Increase in Revenue per RUCO	3,319												
7	Increase in Revenue per Company	-												
8	Total Revenue Adjustment	3,319												
9	Gallons Sold per Average Customer	81,125	382,250	407,750	308,250	370,167	194,750	330,625	48,700	88,875	55,250	95,750	62,375	
10	Increase in Customers	-	-	2	2	1	-	-	(1)	-	-	-	0	
11	Increase in Gallons	-	-	815,501	616,501	370,167	-	-	(48,700)	-	-	-	0	1,753,468

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
4 INCH CONSTRUCTION

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Actual Customers	-	1	1	1	1	1	1	-	-	-	-	-	-
3	Increase in Number of Customers	-	(1)	(1)	(1)	(1)	(1)	(1)	-	-	-	-	-	(6)
4	Average Revenue for the Month	#DIV/0!	\$ 234.02	\$ 531.20	\$ 263.66	\$ 393.92	\$ 390.80	\$ 432.92	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
5	Increase in Revenues	#DIV/0!	\$ (234)	\$ (531)	\$ (264)	\$ (394)	\$ (391)	\$ (433)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
6	Total Increase in Revenue per RUO	#DIV/0!												
7	Increase In Revenue per Company	-												
8	Total Revenue Adjustment	#DIV/0!												
9	Gallons Sold per Average Customer	#DIV/0!	4,501	195,000	23,501	107,000	105,000	132,000	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
10	Increase In Customers	-	(1)	(1)	(1)	(1)	(1)	(1)	-	-	-	-	-	0
11	Increase In Gallons	#DIV/0!	(4,501)	(195,000)	(23,501)	(107,000)	(105,000)	(132,000)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
3/4 INCH FIRE SPRINKLER

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-38
PAGE 29 of 31

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	43	43	43	43	43	43	43	43	43	43	43	43	43
2	Actual Customers	43	43	43	43	43	43	43	43	43	43	43	43	43
3	Increase in Number of Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
4	Average Revenue for the Month	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.06	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.03
5	Increase in Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0
6	Total Increase in Revenue per RUCO	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Increase in Revenue per Company	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Total Revenue Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Gallons Sold per Average Customer	-	-	-	-	-	-	-	23	-	-	-	-	12
10	Increase in Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
11	Increase in Gallons	-	-	-	-	-	-	-	-	-	-	-	-	0

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	2	2	2	2	2	2	2	2	2	2	2	2	2
2	Actual Customers	2	2	2	2	2	2	2	2	2	2	2	2	2
3	Increase in Number of Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
4	Average Revenue for the Month	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.63	\$ 10.63	\$ 10.00	\$ 10.00	\$ 10.63	\$ 10.00	
5	Increase in Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0 \$
6	Total Increase in Revenue per RUCCO	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Increase in Revenue per Company	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Total Revenue Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Gallons Sold per Average Customer	-	-	-	-	-	-	250	250	-	-	250	-	-
10	Increase in Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
11	Increase in Gallons	-	-	-	-	-	-	-	-	-	-	-	-	0

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #7 - REVENUE ANNUALIZATION
CUSTOMERS TO YEAR END LEVELS
1.5 INCH FIRE SPRINKLER

LINE NO.	DESCRIPTION	January	February	March	April	May	June	July	August	September	October	November	December	Total Year
1	Year End Number of Customers	3	3	3	3	3	3	3	3	3	3	3	3	3
2	Actual Customers	3	3	3	3	3	3	3	3	3	3	3	3	3
3	Increase in Number of Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
4	Average Revenue for the Month	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.42	\$ 10.42	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	10.00
5	Increase in Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0
6	Total Increase in Revenue per RUCCO	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Increase In Revenue per Company	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Total Revenue Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Gallons Sold per Average Customer	-	-	-	-	-	-	167	167	-	-	-	-	-
10	Increase In Customers	-	-	-	-	-	-	-	-	-	-	-	-	0
11	Increase In Gallons	-	-	-	-	-	-	-	-	-	-	-	-	0

REFERENCES:
Company Schedules C-2, page 7 and Schedules C-2, page 7.1 thru 7.15b
Company's data response to Staff's data request MEM 6.1 - Actual amount of water billed for 4 & 6 inch irrigation in 2007

Chaparral City Water Company
Test Year Ended December 31, 2006
Operating Income & Expense Adjustments
Adjustment 8

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-39
DIRECT TESTIMONY

Line
No.

1	<u>Remove Expensed Items in Repairs & Maintenance Expense and Capitalize</u>		
2			
3	Per Company Repairs and Maintenance Expense	\$	104,609
4	Per RUCO Repairs and Maintenance Expense		61,392
5	RUCO Adjustment		<u>(43,217)</u>
6			
7			
8	Increase (Decrease) to Repairs and Maintenance Expense	\$	(43,217)
9			
10			
11	Adjustment to Revenue and/or Expense	\$	<u>(43,217)</u>
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24	<u>SUPPORTING SCHEDULE</u>		
25	rcn_plant_Remove Expensed Items & Capitalize.xls		

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJUSTMENT 9 - INTENTIONALLY LEFT BLANK

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-40
DIRECT TESTIMONY

Chaparral City Water Company
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 10

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-41
DIRECT TESTIMONY

Line
No.

1	<u>Annualize power cost for additonal gallons from annualization of revenues</u>	
2		
3	Test Year Power Costs Plus Adjustments for APS & SRP Rate Increases	\$ 677,696
4	Gallons sold in Test Year (1,000's)	2,084,339
5	Cost per 1,000 gallons	0.32514
6	Additonal gallons from annualization (in 1,000's) in adjustment 6	<u>(192,426)</u>
7		
8	RUCO Increase (Decrease) in Expense	\$ (62,565)
9	Company Increase (Decrease) in Expense	<u>(74,714)</u>
10		
11	Adjustment to Revenue and/or Expense	<u>\$ 12,149</u>
12		
13		
14		
15		
16		
17		
18		
19		
20		

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJUSTMENT 11 - REMOVE CAP AMORTIZATION

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-42
DIRECT TESTIMONY

See TJC Direct Testimony

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
OPERATING ADJ. #12 - INCOME TAXES

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-43
DIRECT TESTIMONY

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
	<u>FEDERAL INCOME TAXES:</u>		
1	OPERATING INCOME BEFORE INCOME TAXES	\$ 1,631,784	SCH. TJC-31
	LESS:		
2	ARIZONA STATE TAX	95,765	LINE 11
3	INTEREST EXPENSE	<u>257,432</u>	NOTE (a)
4	FEDERAL TAXABLE INCOME	\$ 1,278,587	LINE 1 - LINES 2 & 3
5	FEDERAL INCOME TAX RATE	<u>34.00%</u>	TAX RATE
6	FEDERAL INCOME TAX EXPENSE	\$ 434,720	LINE 4 X LINE 5
	<u>STATE INCOME TAXES:</u>		
7	OPERATING INCOME BEFORE INCOME TAXES	\$ 1,631,784	LINE 1
	LESS:		
8	INTEREST EXPENSE	<u>257,432</u>	NOTE (A)
9	STATE TAXABLE INCOME	\$ 1,374,352	LINE 7 - LINE 8
10	STATE TAX RATE	<u>6.968%</u>	TAX RATE
11	STATE INCOME TAX EXPENSE	\$ 95,765	LINE 9 X LINE 10
12	TOTAL INCOME TAX PER RUCO	530,485	LINE 6 + 11
13	INCOME TAXES PER COMPANY FILING	270,020	COMPANY SCHEDULE C-1
14	RUCO INCOME TAX ADJUSTMENT	<u>\$ 260,465</u>	
	<u>NOTE (a):</u>		
	INTEREST SYNCHRONIZATION		
	ADJUSTED RATE BASE	\$ 21,328,051	
	WEIGHTED COST OF DEBT	<u>1.21%</u>	
		<u>\$ 257,432</u>	

CHAPARRAL CITY WATER COMPANY, INC.
TEST YEAR ENDED DECEMBER 31, 2006
COST OF CAPITAL

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-44
DIRECT TESTIMONY

OCRB WEIGHTED COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) RUCO ADJUSTMENT	(C) ADJUSTED BALANCE	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	SHORT-TERM DEBT	\$ 1,400,000		\$ 1,400,000	4.10%	3.13%	0.13%
2	LONG-TERM DEBT	6,865,000		6,865,000	20.20%	5.34%	1.08%
3	COMMON EQUITY	27,002,476	(1,280,000)	25,722,476	75.70%	8.83%	6.68%
4	TOTAL CAPITALIZATION	\$ 35,267,476	\$ (1,280,000)	\$ 33,987,476	100.00%		
5	OCRB WEIGHTED COST OF CAPITAL						7.89%

FVRB WEIGHTED COST OF CAPITAL

DESCRIPTION	(A) AMOUNT	(B) RUCO ADJUSTMENT	(C) ADJUSTED BALANCE	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
6	SHORT-TERM DEBT	\$ 1,400,000		\$ 1,400,000	4.10%	3.13%
7	LONG-TERM DEBT	6,865,000		6,865,000	20.20%	5.34%
8	COMMON EQUITY	27,002,476	(1,280,000)	25,722,476	75.70%	6.83%
9	TOTAL CAPITALIZATION	\$ 35,267,476	\$ (1,280,000)	\$ 33,987,476	100.00%	
10	FVRB WEIGHTED COST OF CAPITAL					6.38%

REFERENCES:

COLUMN (A): COMPANY SCH. D - 1
COLUMN (B): TESTIMONY, WAR
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): COLUMN (C) + COLUMN (C), LINE 5
COLUMN (E): TESTIMONY, WAR
COLUMN (F): COLUMN (D) x COLUMN (E)

Chaparral City Water Company
 Test Year Ended December 31, 2006
 Present and Proposed Rates

DOCKET NO. W-02113A-07-0551
 SCHEDULE TJC-45
 PAGE 1 OF 2

Line No. **Monthly Usage Charge for:**
Meter Size (All Zones and Classes):

Company Present Rates	Company Proposed Rates	RUCO Proposed Rates	RUCO Dollar Change
\$ 13.60	\$ 18.56	\$ 15.00	\$ 1.40
22.70	30.97	25.00	2.30
45.40	61.95	50.50	5.10
73.00	99.61	81.25	8.25
146.00	199.21	164.25	18.25
227.00	309.74	252.50	25.50
454.00	619.47	500.00	46.00
730.00	996.07	810.00	80.00
1,043.00	1,423.15	1,150.00	107.00
1,980.00	2,701.67	2,220.00	240.00

Monthly Service Charge for Fire Sprinkler

\$ 10.00	\$ 10.00	\$ 10.00	\$ -
10.00	10.00	10.00	-
10.00	10.00	10.00	-
10.00	10.00	10.00	-
10.00	10.00	10.00	-

Gallons In Minimum (All Zones and Classes)

-	-	-	\$ -
---	---	---	------

Commodity Rates
(Residential, Commercial, Industrial)

Block	(Per 1,000 gallons)		RUCO
	Present Rate	Proposed Rate	Proposed Rate Dollar Change
0 gallons to 3,000 gallons	\$ 1.68	\$ 2.292	\$ 1.85
3,001 gallons to 9,000 gallons	2.52	3.438	2.65
over 9,000 gallons	3.03	4.134	3.5176

3/4 Inch Meter Residential

\$ 1.85	\$ 0.17
2.65	0.13
3.5176	0.49

Chaparral City Water Company
Test Year Ended December 31, 2006
Present and Proposed Rates

DOCKET NO. W-02113A-07-0551
SCHEDULE TJC-45
PAGE 2 OF 2

Line No.			(Per 1,000 gallons)			
			Company Present Rate	Company Proposed Rate	RUCO Proposed Rate	RUCO Dollar Change
1						
2	Commodity Rates					
3	<u>(Residential, Commercial, Industrial)</u>	<u>Block</u>				
4						
5	3/4 Inch Meter Commercial and Industrial	0 gallons to 9000 gallons	\$ 2.52	\$ 3.438	\$ 2.65	\$ 0.13
6		over 9,000 gallons	3.03	4.134	3.5176	0.49
7	1 Inch Meter	0 gallons to 24,000 gallons	2.52	3.438	2.65	0.13
8		over 24,000 gallons	3.03	4.134	3.5176	0.49
9	1.5 Inch Meter	0 gallons to 60,000 gallons	2.52	3.438	2.65	0.13
10		over 60,000 gallons	3.03	4.134	3.5176	0.49
11	2 Inch Meter	0 gallons to 100,000 gallons	2.52	3.438	2.65	0.13
12		over 100,000 gallons	3.03	4.134	3.5176	0.49
13	3 Inch Meter	0 gallons to 225,000 gallons	2.52	3.438	2.65	0.13
14		over 225,000 gallons	3.03	4.134	3.5176	0.49
15	4 Inch Meter	0 gallons to 350,000 gallons	2.52	3.438	2.65	0.13
16		over 350,000 gallons	3.03	4.134	3.5176	0.49
17	6 Inch Meter	0 gallons to 725,000 gallons	2.52	3.438	2.65	0.13
18		over 725,000 gallons	3.03	4.134	3.5176	0.49
19	8 Inch Meter	0 gallons to 1,125,000 gallons	2.52	3.438	2.65	0.13
20		over 1,125,000 gallons	3.03	4.134	3.5176	0.49
21	10 Inch Meter	0 gallons to 1,500,000 gallons	2.52	3.438	2.65	0.13
22		over 1,500,000 gallons	3.03	4.134	3.5176	0.49
23	12 Inch Meter	0 gallons to 2,250,000 gallons	2.52	3.438	2.65	0.13
24		over 2,250,000 gallons	3.03	4.134	3.5176	0.49
25						
26	Irrigation/Bulk	All gallons	\$ 1.56	\$ 3.438	\$ 2.65	\$ 1.09
27						
28	<u>Fire Hydrant Irrig./Construction</u>	All gallons	\$ 1.56	\$ 3.438	\$ 2.65	\$ 1.09
29						
30	<u>Standpipe (Fire Hydrants)</u>	All gallons	\$ 2.52	\$ 3.438	\$ 2.65	\$ 0.13
31						
32	<u>Fire Sprinklers</u>	All gallons	\$ 2.52	\$ 3.438	\$ 2.65	\$ 0.13