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BEFORE THE ARIZONA CORPORATION COMMISSION
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IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS AGUA FRIA
WATER DISTRICT, ANTHEM WATER
DISTRICT, HAVASU WATER DISTRICT,
MOHAVE WATER DISTRICT, PARADISE
VALLEY WATER DISTRICT, SUN CITY
WEST WATER DISTRICT AND TUBAC
WATER DISTRICT.

Docket No. W-01303A-08-0227

Arizona Corporation Commission

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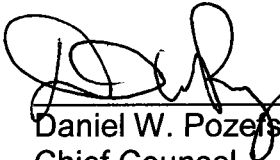
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DETERMINATION OF THE CURRENT FAIR
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RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS AGUA FRIA
WASTEWATER DISTRICT, ANTHEM
WASTEWATER DISTRICT AND MOHAVE
WASTEWATER DISTRICT.

Docket No. SW-01303A-08-0227

NOTICE OF FILING

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

4 RESPECTFULLY SUBMITTED this 9th day of January, 2009.

5
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7 
8 Daniel W. Pozersky
Chief Counsel

9 AN ORIGINAL AND FIFTEEN COPIES
10 of the foregoing filed this 9th day
of January, 2009 with:

11 Docket Control
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14 COPIES of the foregoing hand delivered/
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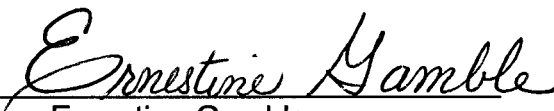
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ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-08-0227

DOCKET NO. SW-01303A-08-0227

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 9, 2009

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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 utility regulation and your educational background.

A. I have been involved with utility 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. Appendix 1, 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.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present RUCO's policy positions in this case and to provide recommendations that are based on my analysis of Arizona-American Water Company Inc.'s ("Arizona-American" or "the

1 Company") revised application for a permanent rate increase
2 ("Application") for seven of the Company's water and wastewater districts.
3

4 Q. Which water and wastewater districts are included in Arizona-American's
5 Application?

6 A. Arizona-American is seeking permanent rate increases for the Company's
7 Agua Fria, Havasu, Mohave, Paradise Valley, Sun City West, and Tubac
8 Water Districts, and the Company's Mohave Wastewater District. Arizona-
9 American filed the Application with the ACC on June 20, 2008. The
10 Company has chosen the calendar year ended December 31, 2007 for the
11 test year in this proceeding.
12

13 Q. Briefly describe Arizona-American.

14 A. Arizona-American operates eleven water and wastewater systems in
15 Arizona. The Company is a subsidiary of American Water, a publicly
16 traded entity on the New York Stock Exchange, which is based in
17 Voorhees, New Jersey. According to information contained on American
18 Water's website¹ American Water provides water and wastewater service
19 to customers in nineteen other states (including California, Hawaii and
20 New Mexico in the western U.S.) and three Canadian provinces.
21

¹ <http://www.amwater.com>

1 Q. Is this your first case involving Arizona-American?

2 A. No. I have also testified, as a witness for RUCO, on cost of capital issues
3 in prior rate case proceedings for Arizona-American's Sun City and Sun
4 City West Wastewater Districts². I also appeared as a witness in rate case
5 proceedings that involved the Company's Anthem/Agua Fria Water and
6 Wastewater Districts³, as well as Arizona-American's Mohave⁴ and
7 Paradise Valley Districts⁵. I also recommended, as a Senior Rate Analyst
8 on the ACC Staff, that the Commission reauthorize a revolving line of
9 credit for the Paradise Valley Water District⁶. In addition to the rate
10 increase and financing proceedings cited above, I have also prepared
11 testimony in cases that involved a request for an arsenic cost recovery
12 surcharge for Arizona-American's Paradise Valley District. I further
13 testified on Arizona-American's request for an increase in hook-up fees to
14 fund the construction of the Company's White Tanks surface water
15 treatment facility ("White Tanks Plant"), for the Company's Agua Fria
16 District⁷ which is one of the issues in this proceeding.

17
18

² Docket No. WS-01303A-06-0491

³ Docket No. WS-01303A-06-0403

⁴ Docket No. W-01303A-06-0014

⁵ Docket No. W-01303A-05-0405 et al.

⁶ Docket No. W-01335A-00-0327

⁷ Docket No. W-01303A-05-0718

1 Q. Please explain your role in RUCO's analysis of Arizona-American's
2 Application.

3 A. I reviewed the testimony of Company witness Thomas M. Broderick and
4 other witnesses that provided testimony in this proceeding in order to
5 understand the impact that the Company's requests will have on
6 residential customers.

7
8 Q. Were you responsible for conducting an analysis on the rate base,
9 required revenue and rate design issues associated with Arizona-
10 American's Application?

11 A. Only from a policy standpoint. The specific accounting adjustments which
12 support RUCO's rate base and revenue level recommendations will be
13 presented in the direct testimony of RUCO witnesses Timothy J. Coley
14 and Rodney L. Moore. During the evidentiary hearing, Mr. Coley will
15 testify on the rate base issues associated with the case and Mr. Moore will
16 testify on the required revenue issues. Mr. Moore will sponsor RUCO's
17 recommended rate design in his direct testimony to be filed later in this
18 proceeding and will also address the issue of rate consolidation.

19
20 Q. Is RUCO presenting cost of capital testimony in this proceeding?

21 A. Yes. I have also filed, under separate cover, RUCO's recommendations
22 on the cost of capital issues associated with Arizona-American's
23 Application.

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Briefly summarize how your direct testimony is organized.

A. My direct testimony is organized into three sections. First, the introduction I have just presented and second, the summary of my testimony that I am about to give. Third, I will present the rationale and policy considerations behind RUCO's recommendations on each of the issues that are summarized below.

Q. Please summarize the recommendations on the issues that you will address in your testimony.

A. Based on the results of RUCO's analysis of Arizona-American, I am making the following recommendations:

Imputed AIAC – I am recommending that the Commission adopt the Company-proposed treatment of imputed advances-in-aid-of-construction ("AIAC").

White Tanks Plant CWIP – I am recommending that the Commission deny Arizona-American's request for rate base treatment of \$25 million of construction work in progress ("CWIP") associated with the Company's White Tanks Plant.

1 White Tanks Plant O&M Deferral Mechanism – Consistent with RUCO's
2 recommendation to deny rate base treatment of CWIP associated with the
3 White Tanks Plant, I am also recommending that the Commission deny
4 the Company's request for an operations and maintenance ("O&M") cost
5 deferral mechanism, which would be similar to the arsenic cost recovery
6 mechanism ("ACRM") that the Commission has approved in prior cases.

7
8 White Tanks Plant Hook-up Fees – RUCO recommends that the
9 Company-proposed changes to the WHU-1 hook-up fees, that are funding
10 the White Tanks Plant, be rejected.

11
12 Tubac ACRM – I am recommending that the Commission approve
13 Arizona-American's request for an actual ACRM that will allow the
14 Company to recover the costs associated with the removal of arsenic from
15 water being provided to customers in Arizona-American's Tubac Water
16 District.

17
18 Existing ACRM Surcharges – I am recommending that the Commission
19 approve Arizona-American's request to eliminate the existing ACRM
20 surcharges for the Company's Agua Fria, Havasu, Paradise Valley, and
21 Sun City West Water Districts upon the conclusion of this case and the
22 implementation of permanent rates.

1 Paradise Valley Public Safety Surcharge – Based on the results of
2 RUCO's analysis, I am recommending that a public safety surcharge be
3 implemented to allow the Company to recover the financing costs
4 associated with fire flow prevention improvements that were approved by
5 the Commission in the prior proceeding on Arizona-American's Paradise
6 Valley Water District.

7
8 Paradise Valley System Benefits Surcharge – I am recommending that the
9 Commission adopt the Company-proposed System Benefits Surcharge
10 which will contribute to water conservation efforts in the Paradise Valley
11 community.

12
13 Paradise Valley CAP Surcharge Modifications – RUCO has reviewed the
14 Company's testimony on this issue and is not making any recommended
15 changes to the existing Central Arizona Project ("CAP") surcharge at this
16 time.

17
18 Wishing Well Wastewater Treatment Facility – Based on RUCO's
19 analysis, I am recommending that the Commission allow rate base
20 treatment of fifty percent of the costs associated with the facility. RUCO is
21 also recommending that the Company be permitted to defer any remaining
22 costs for consideration in a future rate case proceeding.

1 Tank Maintenance – I am recommending that the Commission adopt the
2 Company-proposed tank maintenance program which will establish a
3 reserve for the purpose of inspecting and maintaining water tanks
4 covering a ten-year cycle.

5
6 Fuel and Power Supply Adjustment Mechanism – I am recommending that
7 the Commission deny Arizona-American's request for a fuel and power
8 supply adjustment mechanism.

9
10 **IMPUTED AIAC**

11 Q. Please provide a brief background on this issue.

12 A. This issue dates back to the transfer of Citizens Communications
13 Company's ("Citizens") water and wastewater assets to Arizona-American
14 during the 2000-2001 time frame. Originally, the transfer of assets
15 between the two utilities was structured in such a way that Arizona-
16 American would not be acquiring the AIAC and contributions-in-aid-of-
17 construction ("CIAC") balances that Citizens had on its books and records.
18 Those balances, which were treated on Citizens' books as deductions
19 from rate base, totaled over \$85 million in aggregate. The approval of the
20 transfer of assets as originally structured between Citizens and Arizona-
21 American would have resulted in immediate increases in the rate bases of
22 the transferred systems and in higher rates to existing customers.
23 Because of the large detrimental effect of the transaction on ratepayers

1 and the potential for significant rate increases as a result of the transfer of
2 assets, RUCO did not believe the transaction was in the public interest.
3 Subsequently, the Commission approved a settlement agreement, which
4 was reached between ACC Staff and Arizona-American, that required the
5 Company to impute both the AIAC and CIAC balances that existed at the
6 time the assets were transferred. Pursuant to Decision No. 63584, dated
7 April 24, 2001, the imputed AIAC was to be amortized over a six-and-a-
8 half year period and the imputed CIAC was to be amortized over a ten
9 year period. In this manner, ratepayers were to be held harmless for the
10 loss of these funds in the transaction. The amortization of both the
11 imputed AIAC and CIAC began on January 15, 2002. The imputed AIAC
12 was fully amortized on July 14, 2008, approximately six-and-a-half months
13 after the 2007 test year ended in this proceeding.

14
15 Q. What is Arizona-American seeking in regard to the imputed AIAC in this
16 proceeding?

17 A. Arizona-American is seeking Commission approval to recognize the full
18 amortization of the imputed AIAC given the fact that rates approved in this
19 proceeding will not go into effect until the later part of 2009. If the
20 Commission does not grant the Company's request, the remaining portion
21 of imputed AIAC, which was fully amortized outside of the 2007 test year,
22 will remain in the Company's new rates until Arizona-American files for
23 rates in a future proceeding.

1 Q. What is RUCO's recommendation on this issue?

2 A. RUCO believes that the amortization of the imputed AIAC is a known and
3 measureable post-test year event and is in agreement with the Company
4 on this issue. Given the fact that the imputed AIAC has been fully
5 amortized since July 14, of 2008, RUCO believes that the Commission
6 should approve the Company's request
7

8 **WHITE TANKS PLANT CWIP**

9 Q. Please describe the White Tanks Plant that is an issue in this proceeding.

10 A. The White Tanks Plant is a surface water treatment facility located along
11 the Beardsley Canal in the northwest portion of the Salt River Valley. It
12 was originally planned to provide treated CAP water to future customers in
13 the Agua Fria Water District. In Decision No. 69914, dated September 27,
14 2007, the Commission approved, among other requests, an increase in
15 the Company's existing hook-up fees (which will be treated as CIAC when
16 the facility goes into service) to fund the construction of the White Tanks
17 Plant. The Commission also approved accounting treatments for certain
18 costs associated with the construction of the facility. Arizona-American
19 was also permitted to seek an adjustment of the aforementioned hook-up
20 fees in the instant case.
21

22 ...
23

1 Q. Did RUCO support the Company's requests that were approved in
2 Decision No. 69914?

3 A. Yes. RUCO supported the Company's requests in that particular
4 proceeding. At that time RUCO believed that Arizona-American's
5 requests were in line with the concept that future growth should pay for
6 itself and that existing ratepayers should be held harmless from the
7 demands that future development places on their water and wastewater
8 systems. Since the collected hook up-fees will be treated as CIAC, which
9 is a deduction from rate base when the facility is placed into service,
10 existing customers will not have to pay for the costs to construct the White
11 Tanks Plant in their rates.

12
13 Q. What is Arizona-American requesting in this case in regard to the White
14 Tanks Plant?

15 A. Arizona-American is requesting three things in regard to the White Tanks
16 Plant. First, the Company is seeking rate base treatment for \$25 million in
17 CWIP associated with the White Tanks Plant. Second, Arizona-American
18 is requesting approval of an ACRM-like surcharge that will allow the
19 Company to recover twelve months of deferred O&M expenses associated
20 with the White Tanks Plant which can also serve to recover capital costs
21 once the facility is completed. Third and last, Arizona-American is
22 proposing certain accounting treatments for fees associated with the
23 White Tanks Plant. In conjunction with this proposal, the Company is

1 seeking certain accounting treatments associated with allowance for funds
2 used during construction ("AFUDC"). I will address the last two items
3 separately from the Company's request to include CWIP in rate base.
4

5 Q. Why is Arizona-American requesting that \$25 million in CWIP associated
6 with the White Tanks Plant be given rate base treatment?

7 A. Arizona-American witness, Paul G. Townsley stated in his direct testimony
8 that the Company is not collecting enough funds through the Commission-
9 approved hook up fee as a result of the decline in new housing
10 construction that Arizona and other parts of the country are experiencing.
11 Mr. Townsley has stated that the Commission should approve the
12 Company's request based on groundwater conservation concerns. Mr.
13 Townsley is also advocating that existing ratepayers not only pay for
14 White Tanks Plant CWIP in rate base, but that they also pay for the costs
15 that exceed hook-up fee collections in future rates after the facility is
16 completed and booked as plant in service. Mr. Townsley is further asking
17 that the existing hook-up fee, which is scheduled to expire in 2015, be
18 extended to 2020.
19

20 Q. What is RUCO's position on Arizona-American's request to include \$25
21 million in White Tanks Plant CWIP in rate base?

22 A. RUCO is opposed to Arizona-American's request and recommends that
23 the Commission deny it.

1 Q. Why is RUCO opposed to the Company's request to include \$25 million in
2 White Tanks Plant CWIP in Rate Base?

3 A. RUCO has consistently taken the position that CWIP fails the used and
4 useful standard which is the basis for allowing recovery of utility plant in
5 rates. RUCO does not believe that ratepayers should have to pay for
6 plant that is not fully functional and may possibly never be placed into
7 service. As I explained earlier, RUCO's past support for the White Tanks
8 Plant has been conditioned on the fact that existing ratepayers were not
9 going to have to pay for plant that was clearly intended for future
10 customers.

11
12 Q. Has the Commission taken a similar position on CWIP in the past?

13 A. Yes. With the exception of the Palo Verde Nuclear Generating Station
14 that was being built by Arizona Public Service Company in the late 1970's
15 and early 1980's, the Commission has to the best of my knowledge,
16 typically denied the inclusion of CWIP in rate base.

17
18 Q. Does RUCO believe that the White Tanks Plant should be given the type
19 of rate base treatment that Mr. Townsley has advocated after the plant is
20 completed?

21 A. That is a matter to be addressed in a future proceeding. However RUCO
22 believes that if the final costs for the White Tanks Plant are not covered by
23 the hook-up fees that are to be treated as CIAC when the facility is booked

1 in the Company's plant-in-service account, a good argument could be
2 made that the uncovered portion of the costs should not be included in
3 rate base.

4
5 Q. Does RUCO support the Company's request to extend the collection
6 period for the hook-up fees through 2020?

7 A. Yes. RUCO supports the Company's request and is not opposed to an
8 extension of the existing fees.

9
10 **WHITE TANKS PLANT O&M DEFERRAL MECHANISM**

11 Q. Please explain the Company's request for a mechanism to recover
12 deferred O&M costs.

13 A. According to the direct testimony of Mr. Thomas M. Broderick, the
14 Company is seeking an ACRM-like mechanism that will allow it to recover
15 both capital costs and twelve months of deferred O&M costs associated
16 with the White Tanks Plant when it goes into service after rates are
17 established in the instant case.

18
19 Q. What is RUCO's position on the Company's request?

20 A. Consistent with RUCO's recommendation to deny rate base treatment of
21 CWIP associated with the White Tanks Plant, RUCO believes that the
22 Commission should deny the Company's request for an O&M cost deferral
23 mechanism.

1 Q. Why is RUCO opposed to the Company's request?

2 A. There are several reasons why RUCO has consistently opposed the use
3 of ACRM-like mechanisms. Adjustor mechanisms are extraordinary rate
4 recovery devices that are permitted for certain narrow circumstances. The
5 ACRM is a type of adjustor mechanism that was specifically designed to
6 address a one-time event that impacted dozens of Arizona water
7 companies simultaneously. The Company's costs for the White Tanks
8 Plant are not the type of costs for which an adjustor mechanism is
9 generally permitted, nor are they similar to the costs recovered through
10 the ACRM.

11
12 Q. What was the original intent for the ACRM?

13 A. The original ACRM was approved by the Commission to give water
14 providers in Arizona the ability to recover the costs associated with
15 meeting the U.S. Environmental Protection Agency's ("EPA") revised
16 drinking water arsenic standard of 10 parts per billion. The EPA's
17 requirement that water providers comply with the more stringent standard
18 was in effect an unfunded mandate from the federal government. Multiple
19 Arizona water providers had no choice but to either comply with the EPA's
20 rule or face the consequences of being in violation of it. This being the
21 case, representatives from the state's investor owned water companies,
22 ACC Staff, and RUCO developed the present ACRM which allows water
23 utilities to comply with the new EPA standard through a surcharge that

1 was established within the context of a rate case proceeding where a
2 constitutional finding of a utility's fair value has been established. The key
3 point here is that the EPA's revised arsenic standard represented an
4 extraordinary circumstance that neither Arizona's government, which
5 includes the Commission, or the state's water companies, either investor
6 owned or municipal, had any control over, and that would be impacting a
7 number of water utilities simultaneously.

8
9 Q. Are there any similar mandates in regard to the construction of the White
10 Tanks Plant?

11 A. No. There is no federal, or for that matter any other, mandates requiring
12 that Arizona-American be required to construct a surface water treatment
13 facility. Nor are there any other extraordinary circumstances that would
14 warrant the approval of an ACRM-like mechanism in this case. The
15 Commission has already gone to extraordinary lengths in allowing
16 Arizona-American to collect hook-up fees to fund construction, to delay the
17 recognition of CIAC until the facility is placed into service and to grant the
18 Company's requests for certain accounting treatments for the deferral of
19 costs. Under normal ratemaking procedures these types of costs would
20 not even be considered for recovery until the plant is placed into service
21 and is providing a benefit to ratepayers. For these reasons and the
22 reasons stated above, RUCO believes that the Company's request be
23 denied.

WHITE TANKS PLANT HOOK-UP FEES

Q. What Is RUCO's position on the proposals that Mr. Broderick makes regarding the WHU-1 hook-up fees that are funding the White Tanks Plant?

A. Consistent with RUCO's two previous recommendations regarding the White Tanks Plant, I am recommending that none of Mr. Broderick's recommendations regarding the WHU-1 hook-up fee be adopted by the Commission. RUCO further recommends that the Company continue to adhere to the provisions of Decision No. 69914 in regard to matters pertaining to the White Tanks Plant.

TUBAC ACRM

Q. Does RUCO support Arizona-American's request for approval for an ACRM for the Company's Tubac Water District?

A. Yes. RUCO would expect Arizona-American to file the same types of Step-one and Step-two ACRM applications that it has for its other systems in the past after the arsenic removal plant is placed into service and the costs can be identified.

...

1 Q. Will RUCO take part in the review of the Company's ACRM filing for the
2 Tubac Water District?

3 A. Yes. RUCO has reviewed all of the prior ACRM filings that resulted from
4 rate cases that RUCO has intervened in. The Tubac system will not be an
5 exception.
6

7 **EXISTING ACRM SURCHARGES**

8 Q. Does RUCO support Arizona-American's request to eliminate existing
9 ACRM surcharges in several of the Company's water systems?

10 A. Yes. The ACRM was intended to allow utilities in Arizona to recover their
11 arsenic treatment costs through a temporary surcharge until new
12 permanent rates are established in a future rate case proceeding such as
13 this one.
14

15 Q. Please explain how the plant assets needed to remove arsenic and the
16 O&M expenses associated with the plant will be treated going forward?

17 A. In short, the costs associated with the arsenic plant will be recovered
18 through new permanent rates as opposed to being recovered through a
19 separate existing surcharge (i.e. the ACRM). The capital costs of arsenic
20 plant that is providing useful service to ratepayers will be included in rate
21 base and the Company will be able to earn a rate of return on them just as
22 they would with any other rate base item. The Company will also recover

1 the O&M expenses on a dollar for dollar basis in rates just as it would with
2 any other prudently incurred operating expense.

3
4 Q. Has RUCO made the necessary adjustments to rate base and operating
5 expenses to insure that the Company will recover arsenic recover costs in
6 rates going forward?

7 A. Yes. Both Mr. Coley and Mr. Moore have made the necessary
8 adjustments and the costs of arsenic removal for the affected systems will
9 be reflected in RUCO's recommended level of revenue.

10
11 **PARADISE VALLEY PUBLIC SAFETY SURCHARGE**

12 Q. Please provide a brief background on this issue.

13 A. In a prior rate case proceeding during the 2005 – 2006 period, both
14 Arizona-American and the Town of Paradise Valley sought a public safety
15 surcharge for the purpose of funding upgraded fire flow improvements for
16 the Company's Paradise Valley Water District. During the proceeding,
17 RUCO opposed the Company's request on the grounds that the Company
18 was already meeting the Commission's minimum requirements for fire
19 protection and that the Company's request represented a discretionary
20 expenditure that should be rejected. RUCO argued at the time that the
21 project could be funded by lower cost sources of capital provided by the
22 Town of Paradise Valley that could be booked as CIAC.

1 The Commission subsequently rejected RUCO's arguments and adopted
2 an ACC Staff modified version of Arizona-American's proposed rate
3 design which included a public safety surcharge and a high block usage
4 surcharge in Decision No. 68858, dated July 28, 2006.

5 Not long after the passage of Decision No. 68858, which also established
6 the present rates for the Paradise Valley Water District and the
7 aforementioned surcharges, both the ACC and RUCO began receiving
8 complaints from Paradise Valley customers who were experiencing rate
9 shock as a result of the high block usage surcharge which was used to
10 fund fire flow improvements (the public safety surcharge did not go into
11 effect until October 2007). After a number of filings which requested the
12 Commission to reconsider Decision No. 68858⁸, the Commission voted to
13 reconsider the Decision for the limited purpose of reviewing the Rate
14 Design Agreement at a noticed ACC Staff meeting held on February 27,
15 2008.

16 On January 15, 2008, a rate design Agreement reached by Arizona-
17 American and signed by the Town of Paradise Valley and several resorts
18 and homeowners associations was filed with the Commission (neither
19 Arizona-American nor RUCO were signatories to the rate design
20 agreement).

21 During the proceeding on the rate design agreement, RUCO expressed a
22 number of concerns about the rate design agreement and eventually

⁸ RUCO did not join in the request to reconsider the Decision.

1 supported ACC Staff's recommendation to reduce the existing high block
2 usage surcharge from the original \$2.15 per 1,000 gallons to the present
3 \$1.00 per 1,000 gallons.

4 RUCO also recommended that the Commission adopt ACC Staff's
5 recommendation to eliminate the existing public safety surcharge until the
6 Commission has the opportunity to examine the fire flow issue in the
7 Company's next rate case proceeding. The Commission adopted ACC
8 Staff's recommendations in Decision No. 70488, dated September 3,
9 2008.

10 At that time RUCO believed, as did ACC Staff, that a future rate case is
11 the better forum to make changes to the Company's existing rate design
12 for recovery of the fire flow costs. Furthermore, a rate case would provide
13 all of the concerned parties with the opportunity to examine this issue with
14 all of the other ratemaking elements that determine what just and
15 reasonable rates should be for the Paradise Valley ratepayers.

16
17 Q. Is RUCO still opposed to the fire flow improvement project?

18 A. RUCO still stands by its original argument that the fire flow improvement
19 project is discretionary in nature and that there are lower cost lower cost
20 methods than the one proffered by the Company and the Town of
21 Paradise Valley in the case. However that argument is behind us since
22 the Commission has approved the project. RUCO's role in this case is to

1 recommend a mechanism that provides funding for the project that also
2 results in just and reasonable rates.

3
4 Q. What is RUCO recommending?

5 A. RUCO is recommending that a monthly public safety surcharge be
6 implemented to fund the remaining portions of the fire flow improvement
7 project. The details on the surcharge will be presented in the rate design
8 testimony of RUCO witness Rodney Moore.

9
10 Q. Briefly describe the public safety surcharge that RUCO is recommending.

11 A. RUCO is recommending that the monthly public safety surcharge be
12 comprised of a monthly minimum charge and a commodity charge in order
13 to insure that the Company receives a minimum level of revenue for the
14 project on a regular monthly basis regardless of consumption patterns.

15
16 Q. What classes of customers would be subject to the public safety
17 surcharge?

18 A. RUCO is recommending that all classes of customers be subject to the
19 monthly public safety surcharge.

1 Q. Isn't it true that RUCO was opposed to low usage customers being subject
2 to a fire flow surcharge during the rate design agreement proceeding?

3 A. Yes, however, as I noted earlier, the instant proceeding has provided
4 RUCO with the time to be able to analyze this issue more fully and while
5 RUCO certainly would have preferred not to apply any surcharge at all,
6 the Commission's prior decision and our analysis has unfortunately
7 eliminated that scenario as a viable option.

8
9 Q. How will the public safety surcharge fund the remainder of the fire flow
10 project?

11 A. Based on information obtained from Mr. Broderick in telephone
12 conversations with RUCO witness Rodney Moore, Arizona-American
13 could finance the project with a bond issuance that could be repaid by the
14 recommended surcharge.

15
16 Q. Would the public safety surcharge be treated as revenue?

17 A. Yes. RUCO's recommended public safety surcharge could also be
18 adjusted to insure that the Company recovers both the principal and
19 interest components of the bond issuance. By financing the fire flow
20 improvements in this manner the ratepayers would not have to fund the
21 project with higher cost equity capital. The Company could earn a return
22 on the fire flow improvement assets as they are rate based in future
23 proceedings, however, RUCO would recommend that the bond used to

1 finance the fire flow improvements not be included in the Company's
2 capital structure. Furthermore, RUCO would also recommend that any
3 funds already collected through existing or suspended surcharges
4 continue to be treated as CIAC.

5
6 Q. How long would the public safety surcharge be in place?

7 A. RUCO recommends that the surcharge be eliminated after the bond
8 matures. Under this scenario, both existing and future customers will pay
9 for fire flow improvements that will provide service to them.

10
11 Q. Would RUCO's recommended public safety surcharge replace the existing
12 high block usage surcharge that is currently providing funding for the fire
13 flow improvements?

14 A. Yes. RUCO is recommending that the existing high block usage
15 surcharge be eliminated.

16
17 **PARADISE VALLEY SYSTEM BENEFITS SURCHARGE**

18 Q. What is the purpose of the Company-proposed Paradise Valley System
19 Benefits Surcharge?

20 A. The purpose of the system benefit surcharge is to fund conservation-
21 oriented programs subject to Commission approval. According to the
22 Company, the surcharge would apply to high-end water users (i.e.
23 consumption exceeding 125,001 gallons per month) and would be

1 accounted for as revenue and would be trued-up in a future rate case for
2 any accumulated under- or over-spending.

3
4 Q. Does RUCO support the Company-proposed Paradise Valley System
5 Benefits Surcharge?

6 A. Yes. RUCO is aware of landscape conversion programs and other types
7 of public awareness programs that could be funded by the Company-
8 proposed surcharge and believes that both the Company and ratepayers
9 can derive benefits from these types of programs. For this reason RUCO
10 recommends that the Commission should adopt the requested Paradise
11 Valley System Benefits Surcharge.

12
13 **PARADISE VALLEY CAP SURCHARGE MODIFICATIONS**

14 Q. Have you reviewed the testimony on the Company's Paradise Valley CAP
15 Surcharge?

16 A. Yes. I have reviewed the testimony of Company witness John C.
17 Lenderking. Mr. Lenderking explains in his testimony that Arizona-
18 American is no longer exchanging the Company's CAP water for Salt
19 River Project ("SRP") water to blend contaminated groundwater in the
20 Paradise Water District. This was a result of the Company's decision to
21 shut down the PCX-1 well which was the source of the contaminated
22 groundwater.

1 Q. How is Arizona-American currently utilizing the Company's CAP allocation
2 for the Paradise Valley District?

3 A. Mr. Lenderking stated in his testimony that since there is no need for the
4 SRP water in Paradise Valley, the Company is now storing its CAP water
5 with the Central Arizona Water Conservation District's ("CAWCD")
6 Tonopah Desert Recharge Project. Mr. Lenderking went on to state that
7 the cost for storing CAP water at a CAWCD facility is a lower \$8.00 per
8 acre foot while the cost to exchange water with SRP is a higher \$22.62
9 per acre foot. The present Paradise Valley CAP Surcharge recovers both
10 the SRP and CAP costs.
11

12 Q. Is RUCO recommending any changes to the existing Paradise Valley CAP
13 Surcharge?

14 A. Not at this time. However RUCO is in the process of conducting further
15 discovery on this matter and reserves the right to change its position
16 based on the results of its discovery efforts.
17

18 **WISHING WELL WASTEWATER TREATMENT FACILITY**

19 Q. What is the Wishing Well Wastewater Treatment Facility?

20 A. The Wishing Well Wastewater Treatment Facility is a wastewater
21 treatment plant that was built to provide service to customers in Arizona-
22 American's Mohave Wastewater District. Additional discussion on the

1 facility is being presented in the direct testimony of RUCO witness
2 Timothy J. Coley.

3
4 Q. Is Arizona-American seeking rate base treatment for the Wishing Well
5 Wastewater Treatment Facility?

6 A. Yes.

7
8 Q. What is RUCO's position on including the Wishing Well Wastewater
9 Treatment Facility in rate base?

10 A. Based on its analysis of the facility and on data responses to the ACC
11 Staff engineer assigned to the case, RUCO is recommending that only fifty
12 percent of the costs associated with Wishing Well Wastewater Treatment
13 Facility should be given rate base treatment.

14
15 Q. Why is RUCO recommending that only fifty percent of the costs
16 associated with Wishing Well Wastewater Treatment Facility should be
17 given rate base treatment?

18 A. Based on the aforementioned data response to ACC Staff, it appears that
19 the facility is overbuilt and that fifty percent of it is excess capacity.
20 Because of this, RUCO believes that the Company should be permitted to
21 recover only half of the costs through rates from existing customers.

1 Q. Will the Company be able to recover the remaining fifty percent in a future
2 rate case proceeding?

3 A. Yes, assuming that the plant is being fully utilized and is serving additional
4 customers in the Mohave Wastewater District.

5
6 Q. Is RUCO recommending an accounting treatment to defer unrecovered
7 costs associated with the unused portion of the facility?

8 A. Yes. RUCO is recommending that Arizona-American be permitted to book
9 any unrecovered costs, such as depreciation expense, in a deferral
10 account that would allow the Company to recover the costs in a future rate
11 case proceeding when the Wishing Well Wastewater Treatment Facility is
12 being fully utilized to provide service.

13
14 **TANK MAINTENANCE**

15 Q. Briefly explain what Arizona-American is seeking in regards to tank
16 maintenance.

17 A. Arizona-American is seeking to establish a reserve that will provide the
18 Company with funds to inspect and maintain its water tanks over a ten-
19 year cycle. The Company has obtained proposals through a request for
20 proposals ("RFP") process to estimate what the costs will be to provide the
21 required maintenance and have levelized the estimates over a ten-year
22 period.

1 Q. Has the Company contracted with any of the firms that provided estimates
2 through the RFP process?

3 A. No. Based on data responses from the Company, none of the proposals
4 were accepted. However, any future imprudent or unreasonable
5 expenditure incurred by the Company in connection with the program
6 could certainly be addressed in a future rate case proceeding in order to
7 insure that ratepayers are not being overcharged for work that is not
8 needed.

9
10 Q. Does RUCO support the Company's request for a tank maintenance
11 reserve?

12 A. Yes. At this point in time RUCO believes that the cost estimates obtained
13 from the RFP process are reasonable. RUCO also believes that
14 ratepayers will benefit from regular preventive maintenance and upkeep
15 on large plant assets such as water tanks. RUCO has supported similar
16 programs in the past such as one that Arizona Water Company has in
17 place.

FUEL AND POWER SUPPLY ADJUSTMENT MECHANISM

Q. Does RUCO support the Company's request for a fuel and power supply adjustment mechanism?

A. No. Water providers have requested such mechanisms in the past and the Commission has consistently rejected them. RUCO believes that the Company's request in this case should be rejected also.

Q. Does Arizona-American have such a mechanism in place for any of the Company's systems?

A. No. Currently the Company does not have a fuel and power supply adjustment mechanism.

Q. What is the Company's rationale for a fuel and power supply adjustment mechanism?

A. Company witness Sheryl L. Hubbard argues that such a mechanism would shield the Company from electric and natural gas rate increases and eliminate earnings erosion.

Q. What criteria must a utility meet to warrant the authorization of an automatic adjustor mechanism?

A. The Arizona Court of Appeals addressed the eligibility requirements of automatic adjustment mechanisms in Scates v. Arizona Corporation Commission. The court indicated that such mechanisms are restricted to

1 fluctuations in certain narrowly defined operating expenses. The Arizona
2 Corporation Commission also defined automatic adjustor mechanisms as
3 applying to expenses that routinely or widely fluctuate. The ACC stated
4 the following regarding automatic adjustor mechanisms:

5 The principal justification for a fuel adjustor is volatility in fuel
6 prices. A fuel adjustor allows the Commission to approve
7 changes in rates for a utility in response to volatile changes
8 in fuel or purchased power prices without having to conduct
9 a rate case. (Arizona Public Service Company, Decision No.
10 56450, at page 6, dated April 13, 1989)
11

12 Q. Do you believe that the electric or natural gas rate increases that Ms.
13 Hubbard has cited meet the criteria stated above?

14 A. No. Electric and natural gas increases are not extraordinary and virtually
15 all business and residential customers have to make allowances for them
16 in their budgets. The approval of such a mechanism in this case would
17 also provide a disincentive for the Company to control costs since it could
18 simply pass utility rate increases through to its captive customers.
19

20 Q. Does your silence on any of the issues, matters or findings addressed in
21 the testimony of any of the witnesses for Arizona-American constitute your
22 acceptance of their positions on such issues, matters or findings?

23 A. No, it does not.
24

25 Q. Does this conclude your testimony on Arizona-American?

26 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
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona Public Service Company	E-01345A-08-0172	Rate Increase

ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-08-0227

DOCKET NO. SW-01303A-08-0227

DIRECT TESTIMONY

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 9, 2009

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1 **INTRODUCTION**

2 Q. Please state your name, position, employer and address.

3 A. Timothy J. Coley, Public Utilities Analyst V

4 Residential Utility Consumer Office

5 1110 West Washington Street, Suite 220

6 Phoenix, Arizona 85007.

7
8 Q. Please state your educational background and qualifications in the utility
9 regulation field.

10 A. Appendix 1, which is attached to this testimony, describes my educational
11 background and includes a list of the rate case and regulatory matters in
12 which I have participated.

13
14 Q. Please state the purpose of your testimony.

15 A. The purpose of my testimony is to present RUCO's recommendations
16 regarding Arizona-American Water Company's ("Company" or "Arizona-
17 American") application for a determination of the current fair value of its
18 utility plant and property and for increases in its rates and charges based
19 thereon for utility service. The test year utilized by the Company in
20 connection with the preparation of this application is the 12-month period
21 that ended December 31, 2007.

1 **BACKGROUND**

2 Q. Please describe your work effort on this project.

3 A. I obtained and reviewed data and performed analytical procedures
4 necessary to understand the Company's filing as it relates to operating
5 income, rate base, the Company's overall revenue requirement. My
6 recommendations are based on these analyses. Procedures performed
7 include the in-house formulation and analysis of several sets of data
8 requests, the review and analysis of the Company's responses to
9 Commission Staff data requests, and review of prior ACC dockets related
10 to Arizona-American.

11
12 The Company's filing consists of an application for increases in rates and
13 charges for the following seven Districts: Agua Fria Water District,
14 Havasu Water District, Mohave Water, Mohave Wastewater District,
15 Paradise Valley Water District, Sun City West District, and Tubac Water
16 District.

17
18 RUCO's participation in this proceeding is the cumulative effort of three
19 RUCO witnesses; myself (Timothy J. Coley), Rodney L. Moore, and
20 William A. Rigsby. For the review and analysis procedures, specific
21 Districts were assigned to Mr. Moore and myself. I was assigned Havasu
22 Water District, Mohave Water District and Mohave Wastewater District.
23 Mr. Moore was assigned Paradise Valley Water District ("PV"), Sun City

1 West Water District ("SCWW"), Tubac Water District ("Tubac"), and Agua
2 Fria Water District ("Agua Fria"). However, to avoid confusion and
3 duplication, the testimony filed by RUCO in support of its analysis was
4 allocated among the analysts by ratemaking elements.

5
6 Q. Please explain how these ratemaking elements were allocated?

7 A. I will address issues related to the rate base. Mr. Moore will address
8 issues related to operating income. Mr. Rigsby will provide an analysis of
9 the cost of capital, Paradise Valley Water District's public safety and
10 system-benefit surcharges, Tubac Water District's arsenic cost recovery
11 mechanism ("ACRM"), and the Company wide fuel and power supply
12 adjustor, and the pro forma tank maintenance expense. Moreover, each
13 witness will address the appropriate revenue requirement for the Districts
14 analyzed.

15
16 Also, Mr. Moore will address rate design in his testimony to be filed
17 January 18, 2009.

18
19 Q. Please identify the exhibits you are sponsoring.

20 A. I am sponsoring schedules for Havasu, Mohave Water and Wastewater
21 Districts numbered RLM-1 through RLM-14.

1 **SUMMARY OF ADJUSTMENTS**

2 Q. Please summarize the adjustments to the rate base in your testimony.

3 A. My testimony addresses the following issues:

4
5 **Rate Base**

6 RUCO is in substantial agreement with several of the Company's pro-
7 forma adjustments. Nevertheless, RUCO reserves the right to alter its
8 position if additional evidence is produced in this case, which warrants
9 RUCO to reconsider its position. RUCO did not make any direct
10 adjustments to the Company's pro-forma rate base adjustments identified
11 as:

12 LJG-1 – Adjust for Errors in Accumulated Depreciation

13 LJG-2 – Adjust fro Staff Removals in Decision No. 69440

14 LJG-3 – Spread Dec. '07 Corporate JE to Districts

15 LJG-4 – Allocate Corporate to Districts

16 LJG-5 – Spread Dec. '07 Corporate JE to Districts

17 TMB-7 – Imputed Advances in Aid of Construction ("AIAC")

18 TMB-8 – Imputed Contributions in Aid of Construction ("CIAC")

19 TMB-9 – Remove Acquisition Adjustment

20 LJG-10 – Post Test-Year Plant Additions (Except Mohave
21 Wastewater)

1 However, through the analytic process, RUCO did make prudent revisions
2 to the Company's filing. The RUCO rate base adjustments are identified
3 as:

4 Accumulated Depreciation – This adjustment is primarily based on
5 RUCO's mid-month depreciation convention rather than the Company's
6 full-month depreciation convention for plant additions, adjustments, and
7 retirements. RUCO also determined the Company did not use the
8 authorized depreciation rates in a few plant accounts primarily in Accounts
9 340100 through 346300. In some instances, the Company had new
10 accounts for which no depreciation rate had been authorized in previous
11 Commission decisions.

12 Restore the AIAC and CIAC Balances Associated with Construction Work
13 in Process ("CWIP") – This adjustment reverses and restates the
14 Company's adjustment that decreases the AIAC and CIAC balances
15 associated with CWIP.

16 Remove 50 percent of the Post Test-year Wishing Well Treatment Plant –
17 This adjustment is unique to only Mohave Wastewater. It removes 50
18 percent of the Company's post test-year Wishing Well Treatment Plant
19 adjustment from plant in service as not used and useful for the current
20 level of customers for which it was designed.

21 Deferred Debits – This is a conforming adjustment to reflect the
22 Company's updated calculation correction identified in its response to
23 Staff data request GWB 17.1.

Working Capital – This adjustment reduces the cash working capital element of the working capital allowance requested by the Company.

REVENUE REQUIREMENTS

Q. Please summarize the results of RUCO's analysis of the Company's filing and state RUCO's recommended revenue requirement.

A. As outlined in Schedules RLM-1, RUCO is recommending that the increase in the Company's revenue requirement not exceed:

<u>Havasu Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 815,803	\$ 660,219	(\$ 155,584)
<u>Mohave Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 1,655,410	\$ 706,615	(\$ 945,601)
<u>Mohave Wastewater</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 642,148	\$ 165,546	(\$ 476,602)

My recommended revenue requirement percentage increase versus the Company's proposal is as follows:

<u>Havasu Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	79.47%	64.31%	(15.16%)
<u>Mohave Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	32.37%	13.82%	(18.49%)

<u>Mohave Wastewater</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	80.66%	20.79%	(59.87%)

RUCO's recommended Fair Value Rate Base ("FVRB") based on the Original Cost Rate Base ("OCRB") is summarized on Schedules RLM-1 as follows:

<u>Havasus Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 4,221,474	\$ 4,012,421	(\$ 209,053)

<u>Mohave Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 12,041,310	\$ 9,841,553	(\$ 2,172,389)

<u>Mohave Wastewater</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 4,740,149	\$ 2,713,527	(\$ 2,026,622)

RUCO's recommended required operating income is shown on Schedules RLM-1 as follows:

<u>Havasus Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 354,604	\$ 280,715	(\$ 73,889)

<u>Mohave Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 1,011,470	\$ 688,531	(\$ 321,024)

<u>Mohave Wastewater</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 398,173	\$ 189,843	(\$ 208,330)

RATE BASE

Rate Base Summary

Q. Is RUCO recommending any changes to the Company's proposed rate base?

A. Yes. RUCO witnesses analyzed the Company's rate base adjustments to its historical test-year elements of rate base and made adjustments to the rate base as filed by the Company. The cumulative review, analysis and adjustments completed by each RUCO witness are explained below.

RUCO Rate Base Adjustment #1 - Accumulated Depreciation

Q. Please explain RUCO's adjustment to the Company's accumulated depreciation balances.

A. This adjustment is common for all districts, excluding PV, filed in this case. I will address the uniqueness of the PV adjustment at the end of this particular discussion.

RUCO employs a mid-month depreciation convention and applies the last authorized depreciation rate to the appropriate accounts in calculating the levels of accumulated depreciation for each district.

1 Q. How is RUCO's methodology for determining the accumulated
2 depreciation for each district different than the Company's methodology
3 employed in calculating the test year end accumulated depreciation
4 balances?

5 A. The Company utilizes a full-month depreciation method for all plant
6 additions, adjustments, and retirements. It also uses depreciation rates, in
7 some instances, which are not the same as authorized in the prior cases.
8 In a few instances, the Company has a completely new account for which
9 no depreciation rate has been authorized in a prior case.

10
11 Q. Why does RUCO believe that a mid-month depreciation convention is
12 superior to a full-month depreciation convention?

13 A. RUCO's opinion regarding Generally Accepted Accounting Principles
14 ("GAAP") does not recognize a full-month depreciation methodology as
15 being an accepted depreciation convention method. The typical
16 convention methods recognized by GAAP are half-year and mid-month.
17 The mid-month convention assumes all additions, adjustments, and
18 retirements are made on the 15th day of the month. This mid-month
19 assumption eliminates excessive tracking and depreciating an asset from
20 the day it was actually booked.

1 Q. What adjustment is necessary to employ the mid-month depreciation
2 convention and correct certain depreciation rates used by the Company
3 for each district?

4 A. It is necessary to increase (decrease) accumulated depreciation by the
5 following amounts for each district:

6	Agua Fria	(\$718,594)	Havasui	(\$4,659)
7	Mohave Water	(\$175,741)	Mohave WW	(\$62,797)
8	Sun City West	\$11,065	Tubac	(\$1,550)

9
10 Q. Please discuss RUCO rate base adjustment #1 pertaining to the PV
11 district.

12 A. This adjustment conforms with the Company's revised level of test-year
13 depreciation rates as explained in Arizona-American's response to RUCO
14 data request RLM 1.31 that increases accumulated depreciation by
15 \$100,554.

16
17 RUCO Rate Base Adjustment #2 – AIAC & CIAC Associated with CWIP

18 Q. Did the Company make an adjustment to remove AIAC and CIAC from
19 rate base that the Company claims is associated with CWIP?

20 A. Yes. This adjustment is common to all seven districts filed in this case.
21
22
23

Q. Does RUCO agree with the Company's adjustment to remove the AIAC and CIAC that it claims is CWIP related?

A. No. Arizona has historically excluded CWIP in rate base and historically included CIAC in rate base. Thus, under RUCO's recommendations, Arizona-American is being afforded the same rate base treatment for these two items that every other utility in Arizona is afforded.

Q. What adjustment is necessary to support RUCO's recommendation to include test-year end AIAC and CIAC balances?

A. It is necessary to reverse the Company's requested adjustments to AIAC and CIAC. The Company claims that AIAC and CIAC supports CWIP. The adjustment will increase the AIAC and CIAC balances and thus, reduce rate base as follows:

	<u>AIAC</u>	<u>CIAC</u>
Agua Fria		\$ 3,432,286
Havasu		10,645
Mohave Water	\$ 291,910	94,453
Mohave WW		65,395
Paradise Valley		322,588
Sun City West		17,318
Tubac	20,266	

RUCO Rate Base Adjustment #3 – Various Adjustments Pertaining to Different Districts

Q. Please explain RUCO rate base adjustment #3 as it pertains to Agua Fria and Mohave Water Districts.

A. This is a specific adjustment for Agua Fria and Mohave Water Districts to conform with the Company's response to Staff data request GTM 18.7, 2nd Supplement. The Company stated, "An error was made to Mohave Water by reducing CIAC for a disbursement which belonged in the Agua Fria Water district." The CIAC was correctly transferred but no corresponding adjustment had been made to correct the accumulated amortization balance for the two districts. This adjustment decreases Agua Fria's CIAC balance by \$28,016 and increases Mohave Water CIAC by \$27,517.

Q. Please discuss RUCO rate base adjustment #3 to Paradise Valley.

A. This is a specific adjustment for the PV Water District to conform with the Company's response to RUCO data request 1.34. It relates to the removal of post-test-year plant adjustment, Well #12, which the Company later removed from this rate case. The Company had never received the proper permits to begin construction. It reduces post test-year plant by \$2,109,032.

1 Q. Please discuss RUCO rate base adjustment #3 to Sun City West Water
2 District.

3 A. This is a specific adjustment for the Sun City West Water District to
4 conform with the Company's response to Staff data request DH 4.3. The
5 Company's response stated the following:

6 However, while investigating these retirements, we found that
7 \$70,000 was for an estimate of tanks in Paradise Valley.
8 Therefore, the \$70,000 retirement should be reversed in Sun City
9 West.

10
11 The actual amount of \$68,702.47 should be retired from PV –
12 tanks.

13
14 Also, 2 of the 6 retirement work orders totaling \$6,672 are actually
15 Sun City electric pump retirements rather than Sun City West
16 electric pump retirements, and should be reversed in Sun City West
17 and corrected on the books of Sun City.

18
19 The Company recommends Staff makes [sic] these changes in its
20 direct case.
21

22 Q. What adjustment did RUCO make to correct the erroneous booked plant
23 items?

24 A. RUCO witness, Mr. Moore, increased plant in service by the amount of
25 \$76,672 and increased accumulated depreciation by \$76,531 for a net
26 adjustment of \$141.

RUCO Rate Base Adjustment #4 – Various Adjustments Pertaining to Different Districts

Q. Please explain RUCO's rate base adjustment #4 for Agua Fria and Sun City West Water Districts.

A. This particular adjustment for the two districts is a derivative from Staff data request GB 9.4. The data request asked the Company to provide support for certain plant additions for years 2003 through 2007 for several accounts. The Company's response identified two plant items in Account 311200 – Electric Pumping Equipment - that were booked to the wrong water district in 2005.

Arizona-American had originally booked the two plant items to Sun City West rather than the proper district of Agua Fria. This adjustment properly transfers the plant items to the Agua Fria District from the Sun City West District.

Q. What adjustment was necessary to properly transfer the two plant items to the appropriate district?

A. RUCO witness, Mr. Moore, removed \$18,581 for the two plant items from Sun City West and transferred the same amount to the Agua Fria District. An accommodating adjustment was also necessary to remove the accumulated depreciation from the Sun City West District of \$860 and add \$2,375 of accumulated depreciation to the Agua Fria District.

1 Q. Please explain RUCO's rate base adjustment #4 to the Mohave
2 Wastewater District.

3 A. RUCO's rate base adjustment #4 to Mohave Wastewater removes 50
4 percent of the Company's post test-year Wishing Well Treatment Plant
5 expansion adjustment from plant in service. Additional discussion on the
6 facility is being presented in the direct testimony of RUCO witness William
7 A. Rigsby.

8
9 Q. What rationale did RUCO use in making the adjustment to remove 50
10 percent of the Company's post test-year adjustment for the Wishing Well
11 Treatment Plant expansion?

12 A. RUCO used the rationale to remove 50 percent of the plant that is based
13 on the accepted ratemaking concept of "not currently used and useful."
14

15 Q. What evidence did RUCO collect in its analysis that led it to conclude the
16 plant is not currently used and useful in providing service to the existing
17 customers?

18 A. Test-year end level of customers was approximately 1,235. The original
19 plant, excluding the expansion, served that level of customers adequately.
20 In Staff data request DH 16.2, Staff Engineer, Ms. Dorothy Hains, stated
21 "based on the projected next five year growth rate and 2007 wastewater
22 flow data, this project is more than 50% overbuilt." The Company
23 responded to the same data request saying that the economy slowed

1 during construction of the plant but still has the signed commitments from
2 the developers.

3
4 Q. What is RUCO's position regarding Staff's proposed five year study that
5 the plant is overbuilt by 50 percent?

6 A. RUCO position is that 50 percent of the plant expansion be currently
7 excluded from rate base until it is deemed used and useful. We also
8 understand that development has slowed tremendously as the economy is
9 in a downturn. There is no indication that the economy has begun to level
10 off. Most economists predict that it has not bottomed out yet. There is no
11 clear sign when the economy will fully recover. RUCO does not believe
12 the current ratepayers should be strapped with the excess capacity until
13 the developments are built out.

14
15 Q. Please explain the RUCO's Paradise Valley rate base adjustment #4.

16 A. This is the same adjustment as explained in RUCO rate base adjustment
17 #1. The primary reasons leading to the adjustment is the mid-month
18 depreciation convention utilized by RUCO and different depreciation rates
19 in a few instances.

1 Q. What adjustment did RUCO make to account for the differences
2 mentioned above?

3 A. Mr. Moore made an adjustment to decrease accumulated depreciation by
4 \$456,414.

5
6 RUCO Rate Base Adjustment #5 – Deferred Debits with the Exception of
7 Paradise Valley

8 Q. Please discuss RUCO's rate base adjustment #5 to deferred debits.

9 A. This adjustment is common to six of the seven districts excluding PV. I
10 will discuss the PV adjustment later in this section.

11
12 RUCO's rate base adjustment #5 conforms with the Company's response
13 to Staff's data request GWB 17.1. The Company concluded upon further
14 investigation of the details that the amount for deferred debits as filed in its
15 rate application was incorrect. The Company provided a spreadsheet
16 updating the new calculations for deferred debits in each district.

17
18 Q. What adjustments were necessary to properly reflect the new amounts for
19 the deferred debits?

20 A. The following adjustments were necessary to increase (decrease) rate
21 base in the amounts below:

22	Agua Fria	(\$ 3,321,116)	Havasu	(\$ 145,701)
23	Mohave Water	(\$ 1,649,972)	Mohave WW	\$ 7,701

1 Sun City West \$ 892,284 Tubac (\$51,122)

2

3 Q. Please discuss RUCO's PV rate base adjustment #5.

4 A. This is the corresponding adjustment that Mr. Moore made and was
5 discussed in the Sun City West rate base adjustment #3. I will reiterate
6 what I provided in that response here.

7

8 This specific adjustment for the PV Water District conforms to the
9 Company's response to Staff data request DH 4.3. The Company's
10 response stated the following:

11 However, while investigating these retirements, we found that
12 \$70,000 was for an estimate of tanks in Paradise Valley.
13 Therefore, the \$70,000 retirement should be reversed in Sun City
14 West.

15 The actual amount of \$68,702.47 should be retired from PV –
16 tanks.

17
18 Also, 2 of the 6 retirement work orders totaling \$6,672 are actually
19 Sun City electric pump retirements rather than Sun City West
20 electric pump retirements, and should be reversed in Sun City West
21 and corrected on the books of Sun City.

22
23 The Company recommends Staff makes [sic] these changes in its
24 direct case.
25
26

27

28

29

30

Q. What adjustment did RUCO make to correct the erroneous booked plant items?

A. RUCO witness, Mr. Moore, decreased plant in service by the amount of \$68,702 and decreased accumulated depreciation by \$90 for a net adjustment of \$68,612.

RUCO Rate Base Adjustment #6 – Working Capital with the Exception of Paradise Valley

Q. What amount of working capital is the Company requesting?

A. The Company is requesting a total of \$3,736,152 for working capital, inclusive of all seven districts. The amount for each individual district is shown below, excluding PV:

Agua Fria	\$ 1,816,928	Havasu	\$ 111,462
Mohave Water	\$ 434,422	Mohave WW	\$ 62,360
Sun City West	\$ 561,556	Tubac	\$ 43,709

PV was excluded from the list above because it will be included in RUCO rate base adjustment #7.

1 Q. How did the Company determine the requested amount of working
2 capital?

3 A. The Company determined its working capital request utilizing a lead/lag
4 study.

5
6 Q. Please explain the concept of working capital?

7 A. A company's working capital requirement represents the amount of cash
8 the company must have on hand to cover any differences in the time
9 period between when revenues are received and expenses must be paid.
10 The most accurate way to measure the working capital requirement is via
11 a lead/lag study. The lead/lag study measures the actual lead and lag
12 days attributable to the individual revenues and expenses.

13
14 Q. Are you proposing any adjustment to the Company-proposed working
15 capital?

16 A. Yes. An adjustment is necessary to restate the working capital
17 requirement based on 1) my recommended level of operating expenses,
18 2) corrections to certain lead/lag days, 3) inclusion of interest expense,
19 and 4) exclusion of non-cash expenditures. These adjustments are shown
20 on the Schedules RLM-5, page 1 and 2 for each district and decrease the
21 amount of working capital accordingly.

1 Other Working Capital Adjustments

2 Q. Please explain the purpose of the adjustments RUCO recommends to
3 working capital proposed by the Company.

4 A. The first part of the adjustment is related to corrections RUCO
5 recommends to various revenue and expense lead/lag days as proposed
6 by the Company's lead/lag study. The second element to the working
7 capital adjustment is the inclusion of interest expense in determining cash
8 working capital. The final component eliminates all non-cash operating
9 expenses that the Company included in its cash working capital lead/lag
10 study calculations.

11
12 RUCO Adjustments to Lag Days

13 Q. Please explain RUCO's adjustments to the Company's lead/lag days in its
14 Lead/Lag Day study for all Arizona-American Districts in this case.

15 A. After analyzing the Company's lead/lag study, RUCO made necessary
16 adjustments to three areas of the Company's study shown in the
17 Company's work papers titled "Lead-Lag". Specifically, RUCO adjusted
18 the Company's lead/lag days; 1) to recalculate the revenue lead/lag days
19 using individual bills from each district and to compare then with the
20 Company's previous lead/lag studies from prior rate cases, 2) to include
21 an expense lag for interest expense, 3) to correct property tax expense lag
22 days, 4) to adjust for fuel/power expense lag days in some districts, and 5)
23 to adjust the income tax lag days from 30.13 days to 28.75. These

1 adjustments result in a change to the Company's proposed net lag days
2 as shown on the respective RUCO Schedules RLM-5, page 2. Finally, I
3 excluded the non-cash operating expense of depreciation/ amortization
4 and rate case expense as was approved by the Commission in the
5 Company's previous two Paradise Valley decisions and the last Mohave
6 Water and Wastewater decision.

7
8 All revenue lead/lag studies are in RUCO's individual districts work papers
9 and all generic adjustments to any expense lag days can be found in the
10 Havasu District work papers.

11
12 Inclusion of Interest Expense to Lead/Lag Study

13 Q. Discuss RUCO's first adjustment to interest expense lag that affects
14 working capital.

15 A. The Company simply did not include the interest expense in its calculation
16 for the lead/lag study. It is appropriate to include interest expense in the
17 lead/lag calculations since ratepayers compensate the Company for
18 interest expense via cost of capital. RUCO had obtained the terms,
19 payment dates, and payment amounts on the debt instruments in the most
20 recent Mohave Water and Wastewater rate case (Decision No. 69440,
21 dated May 1, 2007). That information provided RUCO with the elements
22 necessary to construct a lead/lag study for interest expense.

1 As shown on Schedule RLM-5, page 2 and RUCO Havasu work papers,
2 the interest expense lag days equated to 106.52 days.

3
4 Q. Referring to Schedule RLM-5, page 2, line 17, titled "Interest," please
5 explain the figures and calculations pertaining to line 17.

6 A. Referring to the above referenced schedule, the first number on line 18
7 Column (B) is the synchronized interest amount found on the respective
8 Schedules RLM-1, page 2. The second figure is the same amount found
9 in the respective Column (C) Schedule, line 17 because the Company
10 failed to include any interest expense in its lead/lag calculation study.
11 Column (E), line 18, the "Dollar Days," is the respective amount of the
12 synchronized interest multiplied by 106.52 lag days calculated on RLM-5,
13 page 2 and in RUCO's Havasu work papers.

14
15 Revenue Lead/Lag Days Correction

16 Q. Please discuss RUCO's adjustment to the Company's revenue lag days.

17 A. The Company calculated a range of 46.25 to 50.13 lag days associated
18 with the amount of time between the mid-point of the service period and
19 when the Company receives payment for the water service. However,
20 RUCO performed a revenue lead/lag analysis for each district and
21 determined an adjustment was necessary to restate the Company's
22 revenue lag as shown in RUCO's respective districts work papers.

1 Q. What method and/or analysis did RUCO perform in determining its
2 recommended revenue lag days for each district?

3 A. In RUCO data request 8.01, RUCO requested fifteen copies of actual bills
4 in each district in this case for various customer classifications
5 (proportionately by classifications by number of customers served in that
6 class). By utilizing this sample of bills, RUCO was able to ascertain the
7 service period, therefore the mid-point service period was established, and
8 the bill date, which establishes the billing lag days. The pay lag is
9 determined by adding the number of days from the bill date to the due
10 date. The total revenue lag days are the sum of the 1) mid-point service
11 period, 2) billing lag days, and 3) pay lag days. These calculations are
12 shown in RUCO's work papers. This accurately reflects the districts' cash
13 working capital needs.

14
15 Q. Did RUCO compare its revenue lead/lag days with previous Arizona-
16 American lead/lag revenue days when the Company provided a lead/lag
17 study to determine the reasonableness of the Company's proposed total
18 revenue lag days as filed?

19 A. Yes. RUCO's analysis determined that the Company's pay lag days were
20 excessive by approximately eight to ten days for each district. Previous
21 Arizona-American lead/lag studies for the revenue lag days are nearly
22 identical to RUCO's in this case (See RUCO Exhibit 1).

1 Q. Did RUCO compare other Arizona utilities to determine the
2 reasonableness of the Company's proposed total revenue lag days as
3 filed?

4 A. Yes. I reviewed several other privately held and investor owned utility
5 companies in Arizona. The Arizona Water Company - Western Group
6 lead/lag study (Commission Decision No. 68302), a recent Southwest Gas
7 rate filing, and an Arizona Public Service Company ("APS") previous rate
8 application to make comparisons with what Arizona-American filed in this
9 case. Arizona Water Company's Western Group consisted of five
10 separate water systems. Each system was calculated independently with
11 revenue lags ranging from 27.56 to 29.24 for an overall average of 27.80
12 revenue lag days (Commission Decision No. 68302 approved these lag
13 days). Southwest Gas and APS's lead/lag studies resulted in revenue
14 lags of 40.62 and 41.81 days respectively.

15
16 RUCO's comprehensive analysis determined that the revenue lead/lag
17 days as computed by the Company are excessive.

18
19 Property Tax Lead/Lag Days Correction

20 Q. Please explain the adjustment RUCO made to the Company's property tax
21 expense lead/lag days.

22 A. This adjustment was necessary to correct the lead/lag days the Company
23 calculated for property tax expense as authorized in Decision No. 69440

1 to 212.50 days. The Company used a payment date three-weeks earlier
2 than the taxes were due. That one correction results in approximately the
3 same lag days as RUCO calculates.

4
5 RUCO takes issue with one other aspect of the Company's method used
6 to calculate property taxes. AZ-AM is using the date it actually made
7 payment as opposed to the date before the taxes become delinquent.
8 The Company's use of calculating from the midpoint of the service period
9 to the payment date reduces the lag days and thereby artificially increases
10 the need for cash working capital. The Commission should reject this.
11 Allowance of such a method would discourage effective cash
12 management because a regulated/monopoly utility would be assured that
13 ratepayers through cash working capital allowances would compensate
14 such inefficiencies in cash management. Every Arizona company, public
15 or private, and individual is required to pay Arizona property tax on the
16 same basis and dates. There are no deviations between any for-profit
17 company and/or individual.

1 Q. What adjustment is necessary to correct the lag days associated with the
2 Company's property tax lag day calculation?

3 A. RUCO recommends the use of 212.50 lag days¹ rather than the
4 Company's 201 days. In Commission Decision No. 68302, Arizona Water
5 Company utilized 212 lag days for property tax expense. Southwest Gas
6 and APS used 211 lag days and 213 respectively in recent filed rate cases
7 with the Commission.

8
9 Q. What was RUCO's total adjustment to working capital?

10 A. RUCO's total working capital adjustments reduce the seven rate bases by
11 a total of \$2,881,577 as shown on the respective Schedule RLM-5, page 1
12 of 2. Excluding PV, the adjustment for each district is shown below:

13	Agua Fria	\$ 1,318,023	Havasu	\$ 57,366
14	Mohave Water	\$ 311,647	Mohave WW	\$ 65,685
15	Sun City West	\$ 486,364	Tubac	\$ 24,455

16
17 Q. Please explain RUCO's PV rate base adjustment #6 for deferred assets.

18 A. RUCO's adjustment #6 for PV is the equivalent of all the other districts
19 rate base adjustment #5 as was discussed earlier. I will repeat the reason
20 for this adjustment for the sake of simplicity.

21

¹ This number will vary insignificantly depending on the midpoint utilized (i.e., June 30th or July 1st) and due dates employed (i.e., April 30th or May 1st). The range should be 211 – 213.5.

1 RUCO's rate base adjustment #6 for PV conforms with the Company's
2 response to Staff's data request GWB 17.1. The Company concluded
3 upon further investigation of the details that the amount for deferred debits
4 as filed in its rate application was incorrect. The Company provided a
5 spreadsheet updating the new calculations for deferred debits in each
6 district.

7
8 Q. What adjustment was necessary to properly reflect the new amount of the
9 deferred debits for PV?

10 A. The following adjustment was necessary to decrease Paradise Valley's
11 rate base by \$1,083,637.

12
13 RUCO Rate Base Adjustment #7 – Agua Fria Water District – White Tanks CWIP
14 and Paradise Valley – Working Capital

15 Q. Please discuss the Agua Fria White Tanks CWIP rate base adjustment.

16 A. RUCO witness, William A. Rigsby, addresses this adjustment in his
17 testimony.

18
19 Q. Since RUCO fully explained its working capital adjustment in rate base
20 adjustment #6, what adjustment was necessary for PV to reflect RUCO's
21 recommended level of working capital?

22 A. RUCO recommends reducing the working capital for PV by \$618,037.

- 1 Q. Does this conclude your direct testimony?
- 2 A. Yes, it does.

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

Chaparral City Water Company – Docket No. W-02113A-07-0551

Georgia Public Service Commission For Years 1985 – 1991

Atlanta Gas Light Company

Georgia Power Company

Atlanta Gas Light Company (Management Audit)

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

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY WATER DISTRICT
 TEST YEAR ENDED DECEMBER 31, 2007
 RATE BASE ADJ. #7 - WORKING CAPITAL
 REVENUE LAG ANALYSIS

DOCKET NOS. SW & W-01303A-08-0227

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
	SERVICE PERIOD								
LINE NO.	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	BILL DATE	BILLING LAG	DUE DATE	PAY LAG	REVENUE LAG DAYS	AMOUNT OF BILL
1	1/24/2007	2/23/2007	15.00	2/28/2007	5.00	3/20/2007	20.00	40.00	\$1,891.35
2	6/12/2007	7/12/2007	15.00	7/17/2007	5.00	8/6/2007	20.00	40.00	299.85
3	4/2/2007	5/1/2007	14.50	5/4/2007	3.00	5/24/2007	20.00	37.50	342.41
4	2/12/2007	3/8/2007	12.00	3/13/2007	5.00	4/2/2007	20.00	37.00	45.95
5	4/20/2007	5/18/2007	14.00	5/23/2007	5.00	6/12/2007	20.00	39.00	114.94
6	9/11/2007	10/9/2007	14.00	10/12/2007	3.00	11/1/2007	20.00	37.00	1,116.28
7	11/19/2007	12/20/2007	15.50	12/26/2007	6.00	1/15/2008	20.00	41.50	39.63
8	3/13/2007	4/12/2007	15.00	4/18/2007	6.00	5/8/2007	20.00	41.00	447.98
9	10/11/2007	11/12/2007	16.00	11/15/2007	3.00	12/5/2007	20.00	39.00	576.57
10	9/10/2007	10/8/2007	14.00	10/11/2007	3.00	10/31/2007	20.00	37.00	510.92
11	4/16/2007	5/14/2007	14.00	5/17/2007	3.00	6/6/2007	20.00	37.00	25.43
12	8/6/2007	9/4/2007	14.50	9/7/2007	3.00	9/27/2007	20.00	37.50	1,545.76
13	12/20/2006	1/18/2007	14.50	1/24/2007	6.00	2/13/2007	20.00	40.50	14.56
14	9/7/2007	10/5/2007	14.00	10/10/2007	5.00	10/30/2007	20.00	39.00	66.31
15	11/12/2007	12/13/2007	15.50	12/18/2007	5.00	1/7/2008	20.00	40.50	83.05
16									
17									
18									
19									
20									
AVERAGES			14.50		4.40		20.00 =	<u><u>38.90</u></u>	

REFERENCES:

ARIZONA AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
RATE BASE ADJUSTMENT #4 - WORKING CAPITAL
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) EXPENSE PER COMPANY	(B) EXPENSE PER APPLIC.	(C) RUCO ADJUSTMENTS	(D) RUCO ADJUSTED	(E) (LEAD)/LAG DAYS	(F) DOLLAR DAYS
1	PURCHASED WATER	\$ 38,660	-	-	-	-	\$ -
2	PURCHASED POWER	616,955	812,312	-	812,312	38.1	30,961,085
3	COMPANY LABOR	605,247	551,393	7,822	559,215	12.0	6,710,575
4	GOODS AND SERVICES	1,575,773	1,451,276	22,202	1,473,478	30.0	44,204,336
5	MATERIALS ISSUED FROM STORES	-	-	-	-	-	-
6	PBOP	25,384	87,862	-	87,862	-	-
7	GROUP LIFE INSURANCE	131,484	111,869	-	111,869	(6.5)	(727,149)
8	INJURIES DAMAGES & OTHER INS. PROVISIONS	-	-	-	-	-	-
9	PROVISIONS FOR UNCOLLECTIBLES	-	-	-	-	-	-
10	FRANCHISE REQUIREMENTS	-	-	-	-	-	-
11	FEDERAL INCOME TAX	260,000	322,999	(71,319)	251,680	37.0	9,312,172
12	FICA	49,370	42,168	(9,114)	33,054	12.0	396,845
13	FUTA	608	4,410	(2,664)	1,746	73.5	128,346
14	STATE CORPORATION FRANCHISE TAX	-	-	-	-	-	-
15	STATE UNEMPLOYMENT INSURANCE TAX	775	7,993	(4,828)	3,165	76.0	240,540
16	STATE AUTOMOBILE LICENSE FEES	-	-	-	-	-	-
17	CAL-AM INVOICES	-	-	-	-	-	-
18	PROPERTY TAXES	213,000	213,241	-	213,241	213.5	45,526,954
19	SERVICE COMPANY	-	-	-	-	(15.0)	-
20	RENT	66,063	43,943	13,408	57,351	(8.5)	(487,484)
21	OTHER	28,467	28,467	-	28,467	30.0	854,010
22	PENSION	35,783	33,772	674	34,446	-	-
23	INTEREST	-	-	374,178	374,178	107.2	40,113,522
24	TOTAL OPERATING EXPENSES	\$ 3,847,569	\$ 3,711,705	\$ 330,359	\$ 4,042,064	-	\$ 177,233,553
25	EXPENSE LAG					43.8	
26	REVENUE LAG					38.30	
27	NET LAG					(5.5)	
28	CASH WORKING CAPITAL						

REFERENCES:

Col. A, Line 28 = (Col. C, Line 24/365) X Col. D, Line 27
Col. B: RLM-2
Col. C = Col. A + Col. B
Col. D, Line 25 = Col. E, Line 24 / Col. C, Line 24
Col. D, Line 26 - See RUCO Schedule TJC-5, Page 5 of 5 - Revenue Lag Calculation
Col. D, Line 27 = Col. D, Line 26 - Col. D, Line 25

EXHIBIT JMR-RB4

Corrected Lead/Lag Study

PARADISE VALLEY

Line No.		Test Year Adjusted Results	Revenue Lag Days ¹	Expense Lag Days	Net Lag Days	Lead/ Lag Factor	Cash Working Capital Required
1	OPERATING EXPENSES						
2	/ Labor	\$ 527,708	38.3000	12.0000 ✓	26.3000	0.0721	\$ 38,024
3	/ Fuel & Power	827,908	38.3000	38.1148 ✓	0.1852	0.0005	420
4	/ Chemicals	16,499	38.3000	30.0000 ✓	8.3000	0.0227	375
5	/ Management Fees	554,302	38.3000	(3.8800) /	42.1800	0.1156	64,056
6	/ Group Insurance	117,720	38.3000	(4.6445) /	42.9445	0.1177	13,850
7	/ Pensions	26,625	38.3000	45.0000 /	(6.7000)	(0.0184)	(489)
8	/ Insurance Other Than Group	48,923	38.3000	45.0000 /	(6.7000)	(0.0184)	(898)
10	/ Rents	64,878	38.3000	(10.6818)	48.9818	0.1342	8,706
11	/ Depreciation & Amortization	799,234	38.3000	-	38.3000	0.1049	83,865
12	/ Other Operating Expenses ¹	655,707	38.3000	30.0000 /	8.3000	0.0227	14,911
13	TAXES						
14	/ Taxes Other than Income	42,405	38.3000	26.3188	11.9812	0.0328	1,392
15	Property Taxes	216,214	38.3000	177.5000	(139.2000)	(0.3814)	(82,458)
16	Income Tax ²	420,233	38.3000	37.0000	1.3000	0.0036	1,497
17	RETURN						
18	Interest on Debt ⁴	520,071	38.3000	107.2300	(68.9300)	(0.1888)	(98,215)
19	/ Return on Equity	668,485	38.3000	-	38.3000	0.1049	70,145
20							
21							
22							
23							
24	WORKING CASH REQUIREMENT						<u>\$ 115,182</u>

¹All other Operating Expenses are assumed to be paid by the 15th of the month following the receipt of goods and services.

²At proposed rates.

³Per direct testimony of RUCO witness Colley.

⁴Expense lag days per direct testimony of RUCO witness Colley.

ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-08-0227

DOCKET NO. SW-01303A-08-0227

DIRECT TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 9, 2009

TABLE OF CONTENTS

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INTRODUCTION

Q. Please state your name, position, employer and address.

A. Rodney L. Moore, Public Utilities Analyst V

Residential Utility Consumer Office

1110 West Washington Street, Suite 220

Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Appendix 1, which is attached to this testimony, describes my educational background and includes a list of the rate case and regulatory matters in which I have participated.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's recommendations regarding Arizona-American Water Company ("Company" or "AZ-AM") application for a determination of the current fair value of its utility plant and property and for increases in its rates and charges based thereon for utility service. The test year utilized by the Company in connection with the preparation of this application is the 12-month period that ended December 31, 2007.

1 **BACKGROUND**

2 Q. Please describe your work effort on this project.

3 A. I obtained and reviewed data and performed analytical procedures
4 necessary to understand the Company's filing as it relates to operating
5 income, rate base, the Company's overall revenue requirement and rate
6 design. My recommendations are based on these analyses. Procedures
7 performed include the in-house formulation and analysis of several sets of
8 data requests, the review and analysis of Company responses to
9 Commission Staff data requests, conversations with Company personnel
10 and the review of prior ACC dockets related to AZ-AM.

11
12 The Company's filing consists of an application for increases in rates and
13 charges for seven Districts: Agua Fria Water District, Havasu Water
14 District, Mohave Water and Mohave Wastewater Districts, Paradise Valley
15 Water District, Sun City West District and Tubac Water District.

16
17 RUCO's participation in this proceeding is the cumulative effort of three
18 RUCO witnesses; myself (Rodney L. Moore), Timothy J. Coley and
19 William A. Rigsby. For the review and analysis procedures, specific
20 Districts were assigned to Mr. Coley and myself. I was assigned Paradise
21 Valley Water District ("PV"), Sun City West Water District ("SCWW"),
22 Tubac Water District ("Tubac") and Agua Fria Water District ("Agua Fria").
23 Mr. Coley was assigned Havasu Water District, Mohave Water District and

1 Mohave Wastewater District. However, to avoid confusion and duplication
2 the testimony filed by RUCO in support of its analysis was allocated
3 among the analysts by ratemaking elements.
4

5 Q. Please explain how these ratemaking elements were allocated?

6 A. I will address issues related to operating income. Mr. Coley will address
7 issues related to the rate base. Mr. Rigsby will provide an analysis of cost
8 of capital, Paradise Valley Water District's public safety and system-
9 benefit surcharges, Tubac Water District's arsenic cost recovery
10 mechanism ("ACRM"), the Company wide fuel and power supply adjustor,
11 and the pro forma tank maintenance expense. Moreover, each witness
12 will address the appropriate revenue requirement for the Districts
13 analyzed.
14

15 Also, I will address rate design in my testimony to be filed January 18,
16 2009.
17

18 Q. Please identify the exhibits you are sponsoring.

19 A. I am sponsoring Schedules for PV, SCWW, Tubac and Agua Fria
20 numbered RLM-1 through RLM-14.
21
22
23

SUMMARY OF ADJUSTMENTS

Q. Please summarize the adjustments to the operating income in your testimony.

A. My testimony addresses the following issues:

Operating Income

RUCO is in substantial agreement with several of the Company's pro-forma adjustments. Nevertheless, RUCO reserves the right to alter its position if additional evidence is produced in this case, which warrants RUCO to reconsider its position. RUCO did not make any adjustments to Company's pro-forma adjustments identified as:

- Unbilled revenue;
- Eliminate Surcharges;
- Miscellaneous Revenue Adjustments;
- Annualize Arsenic Cost Recovery Mechanism ("ACRM") Surcharge;
- Annualize Year-End Customers;
- Annualize Payroll Expense;
- Annualize Power Expense;
- Annualize Purchased Water Expense;
- Annualize Management Fees Expense;
- Annualize Pensions Expense;
- Annualize Insurance Expense;
- Annualize 401(k) Expense;
- Remove Central Arizona Project ("CAP") Revenue and Expense;
- Interest Synchronization;
- Annualize Postage Increase;
- One-Time Service Company Charges;
- Adjust Conservation Expense;

1 Adjustment To Remove Prior Period Labor Adjustment; and
2 Remove Groundwater Savings Revenue and Expenses In SCWW.

3 However, through the analytic process, RUCO did make prudent revisions
4 to the Company's filing. The RUCO operating income adjustments are
5 identified as:

6 Annualize Chemicals Expense – This is a conforming adjustment to reflect
7 a Company correction identified in its response to RUCO data request
8 1.37.

9 Amortize Rate Case Expense - This adjustment is based on RUCO's
10 determination of the fair and reasonable cost to AZ-AM ratepayers for this
11 application process.

12 Waste Disposal Expense - This is a conforming adjustment to reflect a
13 Company correction identified in its response to Staff data request GTM
14 8.7.

15 Annualize Depreciation Expense and CIAC Amortization - This adjustment
16 reflects depreciation and amortization expenses calculated on RUCO's
17 recommended gross plant in service.

18 Annual Incentive Pay - This adjustment reflects a reasonable sharing of
19 costs between shareholders and ratepayers.

20 Labor Expense – This is a conforming adjustment to reflect a Company
21 correction identified in its response to Staff data request GTM 8.2.

22 Line 21 Clean-Up - RUCO expanded the scope of the Company's
23 proposed adjustment to miscellaneous expense adjustments and removed

1 inappropriate expenditures not necessary in the provisioning of utility
2 service.

3 Federal and State Income Taxes Expense - This adjustment reflects
4 income tax expenses calculated on RUCO's recommended revenues and
5 expenses.

6
7 **Rate Design**

8 Q. Please explain your contribution to RUCO's recommended rate designs.

9 A. I was responsible for producing an accurate set of bill determinants for the
10 Districts analyzed (i.e. test-year customer bill counts and water
11 consumed). After reviewing the Company's workpapers, RUCO accepted
12 AZ-AM's bill determinants adjusted for weather normalization and
13 customer annualization. I will be filing Rate Design Schedules for all
14 Districts on January 18, 2009 as part of RUCO's rate design
15 recommendations. A discussion of RUCO's proposed rate design will be
16 contained in my testimony, also to be filed on January 18, 2009.

REVENUE REQUIREMENTS

Q. Please summarize the results of RUCO's analysis of the Company's filing and state RUCO's recommended revenue requirement.

A. As outlined in Schedule RLM-1, RUCO is recommending that the increase in the Company's revenue requirement not exceed:

<u>PV</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$3,101,550	\$1,636,188	(\$1,465,362)

<u>SCW</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$4,276,305	\$3,375,778	(\$900,527)

<u>Tubac</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$278,214	\$210,004	(\$68,210)

<u>Agua Fria</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$9,192,203	\$3,582,770	(\$5,609,433)

My recommended revenue requirement percentage increase versus the Company's proposal is as follows:

<u>PV</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	39.52%	20.85%	(18.67%)

<u>SCW</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	75.00%	59.21%	(15.79%)

<u>Tubac</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	65.17%	49.19%	(15.98%)

<u>Agua Fria</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	48.85%	19.04%	(29.81%)

RUCO's recommended increase in Fair Value Rate Base ("FVRB") based on the Original Cost Rate Base ("OCRB") is summarized on Schedule RLM-1:

<u>PV</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$40,864,986	\$37,018,940	(\$3,836,046)
<u>SCW</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$37,901,085	\$38,261,042	\$359,957
<u>Tubac</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$1,527,454	\$1,433,161	(\$94,293)
<u>Agua Fria</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$96,976,396	\$64,667,787	(\$32,308,609)

RUCO's recommended required operating income is shown on Schedule RLM-1 as:

<u>PV</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$3,432,659	\$2,591,326	(\$841,333)
<u>SCW</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$3,183,691	\$2,678,273	(\$505,418)
<u>Tubac</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$128,306	\$100,321	(\$27,985)
<u>Agua Fria</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$8,146,017	\$4,526,745	(\$3,619,272)

1 **OPERATING INCOME**

2 Operating Income Summary

3 Q. Is RUCO recommending any changes to the Company's proposed
4 operating expenses?

5 A. Yes. RUCO witnesses analyzed the Company's twenty-five adjustments
6 to its historical test-year operating income and made several adjustments
7 to the operating income as filed by the Company. The cumulative review,
8 analysis and adjustments completed by each RUCO witness are
9 explained below.

10
11 AZ-AM Operating Income Adjustment SLH-4 – Annualize Chemicals
12 Expense

13 Q. Please explain RUCO's adjustment to chemical expenses.

14 A. This is a specific adjustment for PV to conform with the Company's
15 revised level of arsenic-related chemical costs as explained in AZ-AM's
16 response to RUCO data request 1.37

17
18 AZ-AM Operating Income Adjustment SLH-8 - Amortize Rate Case
19 Expenses

20 Q. Please explain your adjustment rate case expense.

21 A. This adjustment considers several elements. RUCO's analysis
22 determined that even though the Company requested \$612,000 in its
23 direct testimony, the Company made an error in its calculation and the

1 actual amount the Company is requesting is \$424,265. Moreover, the
2 Company made other computation errors when calculating the test-year
3 rate case expense level for several of the Districts.

4
5 RUCO believes the \$424,265 actually computed by the Company is a fair
6 and reasonable financial burden to the ratepayers to prepare and process
7 this rate application, amortized over three years.

8
9 As shown on Schedule RLM-10, RUCO calculates each District's
10 amortized level of test-year rate case expense. RUCO's recommended
11 rate case expense level would mirror the Company's requested amount if
12 not for computation errors, such as:

- 13 1. SCWW - The Company failed to make an adjustment for the
14 rate case expenses associated with the prior rate case.
- 15 2. Tubac - The Company used the incorrect 4-factor allocation value
16 in determining the District's level of rate case expense associated
17 with the instant case.
- 18 3. Mohave Water - The Company failed to make an adjustment for the
19 rate case expenses associated with the prior rate case.
- 20 4. Mohave Wastewater - The Company failed to make an adjustment
21 for the rate case expenses associated with the prior rate case.

1 RUCO Operating Income Adjustment RLM-4 – Waste Disposal Expense

2 Q. Please explain RUCO's adjustment to labor expenses.

3 A. This adjustment conforms with the Company's revised level of test-year
4 waste disposal as explained in AZ-AM's response to Staff data request
5 GTM 8.7.

6
7 AZ-AM Operating Income Adjustment SLH-11 – Annualize Depreciation
8 Expense and Amortization of CIAC

9 Q. Please explain your adjustment to annualize depreciation and amortization
10 of CIAC expense.

11 A. This adjustment reflects RUCO's level of test-year gross plant in service
12 multiplied by the depreciation rates provided by the Company in response
13 to RUCO data requests 1.07 and 1.08.

14
15 AZ-AM Operating Income Adjustment SLH-12 – Annualize Property Taxes
16 Expense

17 RUCO has not made an adjustment to the methodology used by AZ-AM in
18 calculating the property tax expenses as filed by the Company in the
19 instant rate application. However, RUCO still remains adamant that the
20 use of proposed revenues to determine an appropriate level of property
21 tax expense to be recovered through rates distorts the methodology
22 employed by the Arizona Department of Revenue and overstates the
23 expense level.

1 RUCO is in the process of gathering information to produce a clear and
2 concise report, which will provide overwhelming evidence in the hope of
3 eventually overturning the Commission's repeated approval for the use of
4 proposed revenues to determine an appropriate level of property tax to be
5 recovered from rates.

6
7 However, RUCO has made adjustments to the property tax expense
8 based on its calculation of adjusted and proposed operating revenues.

9
10 Specific adjustments are shown on Schedules RLM-7, column (B) and
11 supporting Schedule RLM-8.

12
13 RUCO Operating Income Adjustment RLM-5 – Annual Incentive Pay
14 Expense

15 Q. Please describe RUCO's adjustment to Annual Incentive Pay ("AIP").

16 A. This adjustment to AIP reflects the authorized adjustment accepted in the
17 Company's Paradise Valley Water District rate case in Decision No. 68858
18 (July 28, 2006). The Commission decision stated the following:

19 RUCO recommends disallowing 30 percent, or \$5,555 of the
20 \$18,517 in Arizona Corporate allocated management fees
21 related to the Company's Annual Incentive Plan expenses,
22 because 30 percent of the AIP is directly related to Company
23 financial performance measures and 70 percent to
24 operational and individual performance measures (RUCO

1 Br. at 18). RUCO argues that the 30 percent portion of AIP
2 expenses based on financial performance measures benefit
3 only shareholders....

4
5 We agree with RUCO that shareholders are the primary
6 beneficiaries of additional profit the Company achieves as
7 the result of the Company meeting its financial targets, and
8 therefore find RUCO's proposal to disallow the 30 percent of
9 the AIP that is based on the Company's financial
10 performance measures to be reasonable and appropriate.
11

12 Q. Has the Commission relied on RUCO's recommendation in Decision No.
13 68858 to make a similar adjustment to any other AZ-AM District?

14 A. Yes. The Commission's recent Decision No. 70351 (May 16, 2008)
15 authorized a similar RUCO adjustment for the Sun City Water District.
16 Therefore, RUCO recommends the Commission again authorize a thirty
17 percent decrease in the AIP expense.
18

19 RUCO Operating Income Adjustment RLM-6 – Labor Expense

20 Q. Please explain RUCO's adjustment to labor expenses.

21 A. This is a specific adjustment for Agua Fria Water, Mohave Water and Sun
22 City West Water Districts to conform with the Company's revised level of
23 test-year labor costs as explained in AZ-AM's response to Staff data
24 request GTM 8.2.
25

AZ-AM Operating Income Adjustment SLH-16 – Line 21 Clean-Up

Q. Please explain your analysis of the miscellaneous operating expense account that resulted in your removal of inappropriate or unnecessary costs for the provisioning of water and wastewater service.

A. After review of the Company's work papers associated with AZ-AM adjustment SLH-16 – Line 21 Miscellaneous Expense Clean Up, I determined there were numerous expenditures that were questionable, inappropriate and/or unnecessary.

Therefore, as summarized on Schedule RLM-12, I have made an adjustment to remove test-year expenses related to payments for memberships, gifts, awards, and for various meals and refreshments, which are not necessary in the provisioning of water and wastewater service.

As shown on Schedule RLM-7, column (H) and supporting Schedule RLM-12, this adjustment consists of two elements. The first element decreased Corporate Office miscellaneous expenses allocated in total to the seven Districts in this filing by \$13,608.

The second element removed miscellaneous expenses recorded directly by each individual District. The total of these miscellaneous expenses for all seven Districts was \$3,173.

1 Therefore, this adjustment removes \$16,781 in test-year miscellaneous
2 expenses from this filing.

3
4 AZ-AM Operating Income Adjustment SLH-19 – Income Tax Expense

5 Q. Please explain RUCO's adjustment to the income tax expenses.

6 A. This adjustment reflects income tax expenses calculated on RUCO's
7 recommended revenues and expenses.

8
9 Specific adjustments are shown on Schedules RLM-78, column (IQ) and
10 supporting Schedule RLM-13.

11
12 Q. Does this conclude your direct testimony?

13 A. Yes, it does.

APPENDIX 1

Qualifications of Rodney Lane Moore

EDUCATION: Athabasca University
Bachelor's Degree in Business Administration - 1993

EXPERIENCE: Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona 85007
May 2001 - Present

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

Auditor
Arizona Corporation Commission
Phoenix, Arizona 85007
October 1999 - May 2001

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>
Rio Verde Utilities, Inc	WS-02156A-00-0321
Black Mountain Gas Company	G-03703A-01-0283
Green Valley Water Company	W-02025A-01-0559
New River Utility Company	W-01737A-01-0662

Utility Company**Docket No.**

Dragoon Water Company	W-01917A-01-0851
Roosevelt Lake Resort, Inc.	W-01958A-02-0283
Southwest Gas Company	G-01551A-02-0425
Arizona-American Water Company	W-01303A-02-0867 et al.
Rio Rico Utilities, Inc.	WS-02676A-03-0434
Qwest Corporation	T-01051B-03-0454
Chaparral City Water Company	W-02113A-04-0616
Southwest Gas Company	G-01551A-04-0876
Arizona-American Water Company	W-01303A-05-0405
Far West Water and Sewer Company	WS-03478A-05-0801
Gold Canyon Sewer Company	SW-02519A-06-0015
Arizona-American Water Company	WS-01303A-06-0403
UNS Gas, Inc.	G-04204A-06-0463 et al.
UNS Electric, Inc.	E-04204A-06-0783
Tucson Electric Power Company	E-01933A-07-0402
Southwest Gas Company	G-01551A-07-0504

AGUA FRIA WATER DISTRICT

TABLE OF CONTENTS TO RLM SCHEDULES

SCH. NO.	PAGE NO.	TITLE
RLM-1	1 & 2	REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR
RLM-2A	1	RATE BASE
RLM-2	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
RLM-3	1 TO 7	RATE BASE ADJUSTMENT NO. 1 - ADJUSTMENT FOR ACCUMULATED DEPRECIATION
TESTIMONY		RATE BASE ADJUSTMENT NO. 2 - REINSTATE CIAC ASSOCIATED WITH CWIP
TESTIMONY		RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED AMORTIZATION OF CIAC
RLM-3	1 TO 7	RATE BASE ADJUSTMENT NO. 4 - ONLY AGUA FRIA, PARADISE VALLEY AND SUN CITY WEST CONFORMING ADJUSTMENT TO COMPANY REVISIONS TO UPIS AND ACC. DEI
TESTIMONY		RATE BASE ADJUSTMENT NO. 5 - DEFERRED DEBITS
RLM-5	1 & 2	RATE BASE ADJUSTMENT NO. 6 - ALLOWANCE FOR WORKING CAPITAL
TESTIMONY WAR		RATE BASE ADJUSTMENT NO. 7 - REMOVE CWIP ASSOCIATED WITH THE WHITE TANKS PROJECT
RLM-6	1	OPERATING INCOME
RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - PROPERTY TAX COMPUTATION
RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - TEST YEAR DEPRECIATION EXPENSE
RLM-10	1	OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE EXPENSE
TESTIMONY	1	OPERATING INCOME ADJUSTMENT NO. 4 - WASTE DISPOSAL EXPENSE
RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 5 - ANNUAL INCENTIVE PAY EXPENSE
TESTIMONY	1	OPERATING INCOME ADJUSTMENT NO. 6 - ONLY AGUA FRIA, MOHAVE WATER AND SUN CITY WEST CONFORMING ADJUSTMENT TO COMPANY REVISIONS LABOR
RLM-12		OPERATING INCOME ADJUSTMENT NO. 7 - REMOVE INAPPROPRIATE/UNNECESSARY MISC. EXPENSES
RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 96,976,396	\$ 64,667,787
2	Adjusted Operating Income (Loss)	\$ 2,601,288	\$ 2,326,884
3	Current Rate Of Return (L2 / L1)	2.68%	3.60%
4	Required Operating Income (L5 X L1)	\$ 8,146,017	\$ 4,526,745
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 5,544,729	\$ 2,199,861
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6578	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 9,192,203	\$ 3,582,770
9	Adjusted Test Year Revenue	\$ 18,818,613	\$ 18,818,614
10	Proposed Annual Revenue (L8 + L9)	\$ 28,010,816	\$ 22,401,384
11	Required Percentage Increase In Revenue (L8 / L9)	48.85%	19.04%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
	CALCULATION OF EFFECTIVE TAX RATE:				
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 4,526,745			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	2,326,884			
13	Required Increase In Operating Income (L11 - L12)		\$ 2,199,861		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 1,617,966			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	235,057			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 1,382,909		
17	Total Required Increase In Revenue (L13 + L16)		\$ 3,582,770		
	CALCULATION OF INCOME TAX:				
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			RUCO Recommended	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			\$ 22,401,384	
20	Synchronized Interest (Col. (C), L37)			16,256,672	
21	Arizona Taxable Income (L18 - L19 - L20)			1,952,967	
22	Arizona State Income Tax Rate			\$ 4,191,744	
23	Arizona Income Tax (L21 X L22)			6.9680%	
24	Fed. Taxable Income (L21 - L23)			\$ 3,899,664	\$ 292,081
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			1,211,986	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 1,325,886
31	Combined Federal And State Income Tax (L23 + L30)				\$ 1,617,966
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ 235,057
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 1,382,909
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
	CALCULATION OF INTEREST SYNCHRONIZATION:				
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 64,667,787	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 1,952,967	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'ED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 211,145,154	\$ 18,581	\$ 211,163,735
2	CWIP - White Tanks	25,000,000	(25,000,000)	\$ -
3	Accumulated Depreciation	(20,033,433)	716,219	(19,317,214)
4	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 216,111,721</u>	<u>\$ (24,265,200)</u>	<u>\$ 191,846,521</u>
5	Advances In Aid Of Const.	\$ (98,233,813)	\$ -	\$ (98,233,813)
6	Contribution In Aid Of Const.	\$ (29,706,549)	\$ (3,432,286)	\$ (33,138,835)
7	Accumulated Amortization Of CIAC	1,435,287	28,016	1,463,303
8	NET CIAC (L6 + L7)	<u>\$ (28,271,263)</u>	<u>\$ (3,404,270)</u>	<u>\$ (31,675,532)</u>
9	Imputed Regulatory Advances	\$ -	\$ -	\$ -
10	Imputed Regulatory Contributions	\$ (796,965)	\$ -	\$ (796,965)
11	Customer Meter Deposits	\$ (19,040)	\$ -	\$ (19,040)
12	Deferred Income Taxes And Credits	\$ 2,839,311	\$ -	\$ 2,839,311
13	Investment Tax Credits	\$ -	\$ -	\$ -
14	Deferred Debits	\$ 3,529,517	\$ (3,321,116)	\$ 208,401
15	Allowance For Working Capital	\$ 1,816,928	\$ (1,318,023)	\$ 498,905
16	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
17	Rounding	\$ (1)	\$ -	\$ (1)
18	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 96,976,396</u>	<u>\$ (32,308,609)</u>	<u>\$ 64,667,787</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 ACCUMUL'D DEPRECT'N	(C) ADJMT NO. 2 CIAC FOR CWIP	(D) ADJMT NO. 3 ACC AMORT PER GB 18.7	(E) ADJMT NO. 4 UPIS PER GB 9.4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) ADJMT NO. 7 WHITE TANKS CWIP	(I) RUCO ADJTD OCRB/FV/RB
1	Gross Utility Plant In Service	\$ 211,145,154	\$ -	\$ -	\$ -	\$ 18,581	\$ -	\$ -	\$ -	\$ 211,163,735
2	CWIP - White Tanks	25,000,000	-	-	-	-	-	-	(25,000,000)	\$ -
3	Accumulated Depreciation	(20,033,433)	718,594	-	-	(2,375)	-	-	-	(19,317,214)
4	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 216,111,721</u>	<u>\$ 718,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,206</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (25,000,000)</u>	<u>\$ 191,846,521</u>
5	Advances In Aid Of Const.	\$ (98,233,813)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (98,233,813)
6	Contribution In Aid Of Const.	\$ (29,706,549)	\$ -	\$ (3,432,286)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (33,138,835)
7	Accumulated Amortization Of CIAC	1,435,287	-	-	28,016	-	-	-	-	1,463,303
8	NET CIAC (L6 + L7)	<u>\$ (28,271,263)</u>	<u>\$ -</u>	<u>\$ (3,432,286)</u>	<u>\$ 28,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (31,675,532)</u>
9	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Imputed Regulatory Contributions	\$ (796,965)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (796,965)
11	Customer Meter Deposits	\$ (19,040)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (19,040)
12	Deferred Income Taxes And Credits	\$ 2,839,311	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,839,311
13	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Deferred Debits	\$ 3,529,517	\$ -	\$ -	\$ -	\$ -	\$ (3,321,116)	\$ -	\$ -	\$ 208,401
15	Allowance For Working Capital	\$ 1,816,928	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,318,023)	\$ -	\$ 498,905
16	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	Rounding	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>
18	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 96,976,396</u>	<u>\$ 718,594</u>	<u>\$ (3,432,286)</u>	<u>\$ 28,016</u>	<u>\$ 16,206</u>	<u>\$ (3,321,116)</u>	<u>\$ (1,318,023)</u>	<u>\$ (25,000,000)</u>	<u>\$ 64,667,787</u>

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
- Column (C): Adjustment No. 2 - Reinstate Company's Adjustment To Remove CIAC Associated With CWIP
- Column (D): Adjustment No. 3 - Conforming Adjustment Per Company Response To Staff DR GB 18.7
- Column (E): Adjustment No. 4 - Conforming Adjustment Per Company Response To Staff DR GB 9.4
- Column (F): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1
- Column (G): Adjustment No. 7 - Allowance For Working Capital
- Column (H): Adjustment No. 6 - Remove Company's Adjustment To Include CWIP Associated With The White Tanks Project
- Column (I): Sum Of Columns (A), (B), (C), (D), (E), (F), (G) & (H)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED DECEMBER 31, 2001

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)	(G)
			PRIOR DECISION NO. 67093 - ADJUSTED	GROSS PLANT	ACCUMULATED DEPRECIATION	PLANT ADJUSTMENT	RUCO ADJUSTED PRIOR TEST YEAR	GROSS PLANT	ACCUMULATED DEPRECIATION
			DEP. RATE				ACC. DEP. ADJUSTMENT		
1	301000	Organization	0.00%	\$ 1,229	\$ -	\$ -	\$ -	\$ 1,229	\$ -
2	302000	Franchises	0.00%	78,887	-	-	-	78,887	-
3	303200	Land & Land Rights SS	0.00%	217,682	-	-	-	217,682	-
4	303300	Land & Land Rights P	0.00%	47,681	-	-	-	47,681	-
5	303400	Land & Land Rights TD	0.00%	225	-	-	-	225	-
6	303600	Land & Land Rights AG	0.00%	-	-	-	-	-	-
7	304100	Struct & Imp SS	2.50%	1,137,673	(43,705)	-	-	1,137,673	(43,705)
8	304200	Struct & Imp P	1.67%	1,246,735	(43,890)	-	-	1,246,735	(43,890)
9	304300	Struct & Imp WT	1.67%	39,917	(3,097)	-	-	39,917	(3,097)
10	304400	Struct & Imp TD	1.67%	-	-	-	-	-	-
11	304600	Struct & Imp Offices	2.03%	98,201	(7,979)	-	-	98,201	(7,979)
12	304800	Struct & Imp Misc	0.00%	-	-	-	-	-	-
13	305000	Collect & Impounding	0.00%	-	-	-	-	-	-
14	307000	Wells & Springs	2.52%	4,041,995	(284,050)	-	-	4,041,995	(284,050)
15	310100	Power Generation Equip Other	0.00%	-	-	-	-	-	-
16	311200	Pump Equip Electric	4.42%	14,538,912	(1,681,972)	-	-	14,538,912	(1,681,972)
17	311300	Pump Equip Diesel	4.42%	25,799	(18,816)	-	-	25,799	(18,816)
18	311500	Pump Equip Other	4.42%	697	(292)	-	-	697	(292)
19	320100	WT Equip Non-Media	4.00%	377,497	(40,880)	-	-	377,497	(40,880)
20	330000	Dist Reservoirs & Standpipe	1.67%	2,861,627	3,199	-	-	2,861,627	3,199
21	331001	TD Mains Not Classified By Size	1.53%	21,390,029	-	-	-	21,390,029	-
22	331100	TD Mains 4in & Less	1.53%	-	(1,577,034)	-	-	-	(1,577,034)
23	331200	TD Mains 6in to 8in	1.53%	-	-	-	-	-	-
24	331300	TD Mains 10in to 16in	1.53%	-	-	-	-	-	-
25	331400	TD Mains 18in And Greater	2.34%	-	-	-	-	-	-
26	332000	Fire Mains	1.53%	-	-	-	-	-	-
27	333000	Services	2.48%	2,694,166	(258,328)	-	-	2,694,166	(258,328)
28	334100	Meters	2.51%	1,744,305	(126,715)	-	-	1,744,305	(126,715)
29	334200	Meter Installations	2.51%	-	-	-	-	-	-
30	335000	Hydrants	2.00%	2,799,956	(213,717)	-	-	2,799,956	(213,717)
31	339100	Other P/E Intangible	0.00%	115,264	-	-	-	115,264	-
32	339500	Other P/E TD	0.00%	-	-	-	-	-	-
33	340100	Office Furniture & Equip	4.04%	85,784	(11,659)	-	-	85,784	(11,659)
34	340200	Comp & Periph Equip	4.04%	61,885	(5,294)	-	-	61,885	(5,294)
35	341100	Trans Equip Lt Duty Trks	25.00%	289,554	(199,890)	-	-	289,554	(199,890)
36	341200	Trans Equip Hvy Duty Trks	25.00%	-	-	-	-	-	-
37	342000	Stores Equipment	3.92%	-	-	-	-	-	-
38	343000	Tools,Shop,Garage Equip	4.02%	3,677	(743)	-	-	3,677	(743)
39	344000	Laboratory Equipment	3.71%	-	-	-	-	-	-
40	345000	Power Operated Equipment	5.20%	-	-	-	-	-	-
41	346100	Comm Equip Non-Telephone	10.30%	3,801	(3,867)	-	-	3,801	(3,867)
42	346300	Comm Equip Other	4.93%	58,572	(20,517)	-	-	58,572	(20,517)
42	TOTAL			\$ 53,961,750	\$ (4,539,246)	\$ -	\$ -	\$ 53,961,750	\$ (4,539,246)
43	Company As Filed			\$ 53,961,750	\$ (4,539,246)	\$ -	\$ -	\$ 53,961,750	\$ (4,539,246)
44	Difference			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

References:

Columns (A) (B) (C): Company Schedule B-2
Columns (D) (E): See Testimony, RLM
Column (F): Column (B) + Column (D)
Column (G): Column (C) + Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2002

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	-	\$ 1,229	\$ -	\$ 1,229
2	302000	Franchises	-	-	-	78,887	-	78,887
3	303200	Land & Land Rights SS	-	-	-	217,682	-	217,682
4	303300	Land & Land Rights P	(9,000)	-	-	38,681	-	38,681
5	303400	Land & Land Rights TD	-	-	-	225	-	225
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	117,718	-	(28,564)	1,255,391	(72,269)	1,183,122
8	304200	Struct & Imp P	356,369	-	(21,068)	1,603,104	(64,958)	1,538,146
9	304300	Struct & Imp WT	43,696	-	(697)	83,613	(3,794)	79,819
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(1,993)	98,201	(9,972)	88,229
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	77,613	-	(102,027)	4,119,608	(386,077)	3,733,531
15	310100	Power Generation Equip Other	-	-	-	-	-	-
16	311200	Pump Equip Electric	(631,038)	(31,482)	(645,553)	13,876,392	(2,296,043)	11,580,349
17	311300	Pump Equip Diesel	-	-	(1,140)	25,799	(19,956)	5,843
18	311500	Pump Equip Other	-	-	(31)	697	(323)	374
19	320100	WT Equip Non-Media	(49,000)	(764)	(15,009)	327,733	(55,125)	272,608
20	330000	Dist Reservoirs & Standpipe	(721,898)	-	(47,287)	2,139,729	(44,088)	2,095,641
21	331001	TD Mains Not Classified By Size	(17,597,764)	-	(2,418)	3,792,265	(2,418)	3,789,847
22	331100	TD Mains 4in & Less	21,396,217	(639)	(327,289)	21,395,578	(1,903,684)	19,491,894
23	331200	TD Mains 6in to 8in	1,900,958	-	(1,233)	1,900,958	(1,233)	1,899,725
24	331300	TD Mains 10in to 16in	1,364,853	-	(870)	1,364,853	(870)	1,363,983
25	331400	TD Mains 18in And Greater	-	-	-	-	-	-
26	332000	Fire Mains	-	-	-	-	-	-
27	333000	Services	938,357	(7,828)	(68,207)	3,624,695	(318,707)	3,305,988
28	334100	Meters	468,514	-	(44,826)	2,212,819	(171,541)	2,041,278
29	334200	Meter Installations	83,516	-	(196)	83,516	(196)	83,320
30	335000	Hydrants	1,323,434	-	(57,103)	4,123,390	(270,820)	3,852,570
31	339100	Other P/E Intangible	-	-	-	115,264	-	115,264
32	339500	Other P/E TD	-	-	-	-	-	-
33	340100	Office Furniture & Equip	-	-	(3,466)	85,784	(15,125)	70,659
34	340200	Comp & Periph Equip	-	-	(2,500)	61,885	(7,794)	54,091
35	341100	Trans Equip Lt Duty Trks	19,897	-	(72,596)	309,451	(272,486)	36,965
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	-	-	-	-
38	343000	Tools, Shop, Garage Equip	-	-	(148)	3,677	(891)	2,786
39	344000	Laboratory Equipment	-	-	-	-	-	-
40	345000	Power Operated Equipment	-	-	-	-	-	-
41	346100	Comm Equip Non-Telephone	-	-	(392)	3,801	(4,259)	(458)
42	346300	Comm Equip Other	9,804	-	(3,190)	68,376	(23,707)	44,669
42	TOTAL		\$ 9,092,246	\$ (40,713)	\$ (1,447,803)	\$ 63,013,283	\$ (5,946,336)	\$ 57,066,947
43	Company As Filed		9,092,246	(40,713)	(1,413,268)	63,013,283	(5,952,514)	57,060,769
44	Difference		\$ -	\$ -	\$ (34,536)	\$ -	\$ 6,177	\$ 6,177

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2003

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	-	\$ 1,229	\$ -	\$ 1,229
2	302000	Franchises	28,684	-	-	107,571	-	107,571
3	303200	Land & Land Rights SS	-	-	-	217,682	-	217,682
4	303300	Land & Land Rights P	-	-	-	38,681	-	38,681
5	303400	Land & Land Rights TD	-	-	-	225	-	225
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	404,406	-	(31,811)	1,659,797	(104,080)	1,555,717
8	304200	Struct & Imp P	1,573,447	-	(27,538)	3,176,551	(92,496)	3,084,055
9	304300	Struct & Imp WT	(31,000)	-	(943)	52,613	(4,737)	47,876
10	304400	Struct & Imp TD	1,566,697	-	(1,090)	1,566,697	(1,090)	1,565,607
11	304600	Struct & Imp Offices	-	(3,391)	1,398	94,810	(5,183)	89,627
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	2,424,191	-	(106,900)	6,543,799	(492,977)	6,050,822
15	310100	Power Generation Equip Other	451,929	-	-	451,929	-	451,929
16	311200	Pump Equip Electric	2,614,619	(4,376)	(623,950)	16,486,635	(2,915,617)	13,571,018
17	311300	Pump Equip Diesel	-	-	(1,140)	25,799	(21,097)	4,702
18	311500	Pump Equip Other	354,596	-	(684)	355,293	(1,007)	354,286
19	320100	WT Equip Non-Media	360,054	(4,194)	(13,605)	683,593	(64,536)	619,057
20	330000	Dist Reservoirs & Standpipe	5,635,509	-	(39,669)	7,775,238	(83,757)	7,691,481
21	331001	TD Mains Not Classified By Size	1,814,857	-	(64,722)	5,607,122	(67,140)	5,539,982
22	331100	TD Mains 4in & Less	3,773	-	(327,401)	21,399,351	(2,231,085)	19,168,266
23	331200	TD Mains 6in to 8in	4,944,680	-	(41,028)	6,845,638	(42,261)	6,803,377
24	331300	TD Mains 10in to 16in	5,945,556	-	(26,914)	7,310,409	(27,784)	7,282,625
25	331400	TD Mains 18in And Greater	211,113	-	(412)	211,113	(412)	210,701
26	332000	Fire Mains	-	-	-	-	-	-
27	333000	Services	1,377,337	-	(97,230)	5,002,032	(415,937)	4,586,095
28	334100	Meters	441,500	-	(58,104)	2,654,319	(229,645)	2,424,674
29	334200	Meter Installations	185,520	-	(2,717)	269,036	(2,913)	266,123
30	335000	Hydrants	1,724,481	-	(89,205)	5,847,871	(360,026)	5,487,845
31	339100	Other P/E Intangible	-	-	-	115,264	-	115,264
32	339500	Other P/E TD	-	-	-	-	-	-
33	340100	Office Furniture & Equip	-	(74,201)	70,735	11,583	129,811	141,394
34	340200	Comp & Periph Equip	-	-	(2,500)	61,885	(10,294)	51,591
35	341100	Trans Equip Lt Duty Trks	-	-	(77,363)	309,451	(349,849)	(40,398)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	-	-	-	-
38	343000	Tools, Shop, Garage Equip	-	-	(148)	3,677	(1,039)	2,638
39	344000	Laboratory Equipment	-	-	-	-	-	-
40	345000	Power Operated Equipment	-	-	-	-	-	-
41	346100	Comm Equip Non-Telephone	233,939	-	(2,400)	237,740	(6,658)	231,082
42	346300	Comm Equip Other	-	-	(3,371)	65,376	(27,078)	41,298
42	TOTAL		\$ 32,265,888	\$ (86,162)	\$ (1,568,711)	\$ 95,193,009	\$ (7,428,886)	\$ 87,764,123
43	Company As Filed		32,265,888	(86,162)	(1,583,417)	95,193,009	(7,992,273)	87,200,736
44	Difference		\$ -	\$ -	\$ 14,706	\$ -	\$ 563,387	\$ 563,387

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 2, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 2, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2004

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADD'TS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	-	\$ 1,229	\$ -	\$ 1,229
2	302000	Franchises	-	-	-	107,571	-	107,571
3	303200	Land & Land Rights SS	270,268	-	-	487,950	-	487,950
4	303300	Land & Land Rights P	14,185	-	-	52,866	-	52,866
5	303400	Land & Land Rights TD	624,427	-	-	624,652	-	624,652
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	2,401,260	-	(53,131)	4,061,057	(157,211)	3,903,846
8	304200	Struct & Imp P	918,822	-	(56,853)	4,095,373	(149,349)	3,946,024
9	304300	Struct & Imp VT	7,106	-	(904)	59,719	(5,641)	54,078
10	304400	Struct & Imp TD	1,620,595	-	(26,577)	3,187,292	(27,667)	3,159,625
11	304600	Struct & Imp Offices	-	-	(1,925)	94,810	(7,108)	87,702
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	(1,117,894)	-	(167,074)	5,425,905	(660,051)	4,765,854
15	310100	Power Generation Equip Other	(234,432)	-	-	217,497	-	217,497
16	311200	Pump Equip Electric	2,378,595	(13,429)	(762,311)	18,851,801	(3,664,500)	15,187,301
17	311300	Pump Equip Diesel	3,773	-	(1,161)	29,572	(22,258)	7,314
18	311500	Pump Equip Other	1,059,028	-	(26,156)	1,414,321	(27,162)	1,387,159
19	320100	WT Equip Non-Media	(78,547)	(2,784)	(27,920)	602,262	(89,672)	512,590
20	330000	Dist Reservoirs & Standpipe	(2,933,181)	-	(120,191)	4,842,057	(203,947)	4,638,110
21	331001	TD Mains Not Classified By Size	129,616	-	(85,395)	5,736,738	(152,534)	5,584,204
22	331100	TD Mains 4in & Less	10,472	-	(327,451)	21,409,823	(2,558,536)	18,851,287
23	331200	TD Mains 6in to 8in	4,265,931	-	(117,085)	11,111,569	(159,346)	10,952,223
24	331300	TD Mains 10in to 16in	503,257	-	(119,935)	7,813,666	(147,720)	7,665,946
25	331400	TD Mains 18in And Greater	1,444,883	-	(6,417)	1,655,996	(6,829)	1,649,167
26	332000	Fire Mains	-	-	-	-	-	-
27	333000	Services	1,097,719	-	(128,309)	6,099,751	(544,246)	5,555,505
28	334100	Meters	421,063	(1,155)	(69,953)	3,074,227	(298,443)	2,775,784
29	334200	Meter Installations	522,194	(1,296)	(8,987)	789,934	(10,604)	779,330
30	335000	Hydrants	1,619,435	-	(121,630)	7,467,306	(481,656)	6,985,650
31	339100	Other P/E Intangible	-	-	-	115,264	-	115,264
32	339500	Other P/E TD	-	-	-	-	-	-
33	340100	Office Furniture & Equip	-	-	(468)	11,583	129,343	140,926
34	340200	Comp & Periph Equip	9,398	-	(2,623)	71,283	(12,917)	58,366
35	341100	Trans Equip Lt Duty Trks	(20,677)	-	(75,424)	288,774	(425,273)	(136,499)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	-	-	-	-
38	343000	Tools Shop, Garage Equip	-	-	(148)	3,677	(1,186)	2,491
39	344000	Laboratory Equipment	-	-	-	-	-	-
40	345000	Power Operated Equipment	-	-	-	-	-	-
41	346100	Comm Equip Non-Telephone	102,570	-	(28,529)	340,310	(35,187)	305,123
42	346300	Comm Equip Other	289,563	-	(5,703)	357,939	(32,780)	325,159
42	TOTAL		\$ 15,329,429	\$ (18,664)	\$ (2,342,258)	\$ 110,503,774	\$ (9,752,480)	\$ 100,751,294
43	Company As Filed		15,329,429	(18,664)	(2,339,762)	110,503,774	(10,332,035)	100,171,739
44	Difference		\$ -	\$ -	\$ (2,496)	\$ -	\$ 579,555	\$ 579,555

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 3, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 3, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJ.MTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	-	\$ 1,229	\$ -	\$ 1,229
2	302000	Franchises	252,348	-	-	359,919	-	359,919
3	303200	Land & Land Rights SS	600,128	-	-	1,088,078	-	1,088,078
4	303300	Land & Land Rights P	-	-	-	52,866	-	52,866
5	303400	Land & Land Rights TD	-	-	-	624,652	-	624,652
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	1,314,655	-	(105,138)	5,375,712	(262,350)	5,113,362
8	304200	Struct & Imp P	143,784	-	(68,697)	4,239,157	(218,046)	4,021,111
9	304300	Struct & Imp VWT	-	-	(997)	59,719	(6,638)	53,081
10	304400	Struct & Imp TD	118,143	-	(53,474)	3,305,435	(81,140)	3,224,295
11	304600	Struct & Imp Offices	-	-	(1,925)	94,810	(9,033)	85,777
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	3,389,362	-	(145,052)	8,815,267	(805,103)	8,010,164
15	310100	Power Generation Equip Other	698,433	-	-	915,930	-	915,930
16	311200	Pump Equip Electric	1,238,792	(33,473)	(844,155)	20,057,120	(4,475,182)	15,581,938
17	311300	Pump Equip Diesel	-	-	(1,307)	29,572	(23,565)	6,007
18	311500	Pump Equip Other	295,397	-	(65,233)	1,709,718	(92,395)	1,617,323
19	320100	WT Equip Non-Media	263,614	-	(25,199)	865,876	(114,870)	751,006
20	330000	Dist Reservoirs & Standpipe	2,008,430	-	(87,855)	6,850,487	(291,803)	6,558,684
21	331001	TD Mains Not Classified By Size	(75,805)	-	(87,460)	5,660,933	(239,994)	5,420,939
22	331100	TD Mains 4in & Less	35,773	-	(327,621)	21,445,596	(2,886,157)	18,559,439
23	331200	TD Mains 6in to 8in	5,673,615	-	(187,152)	16,785,184	(346,498)	16,438,686
24	331300	TD Mains 10in to 16in	7,306,854	-	(137,753)	15,120,520	(285,473)	14,835,047
25	331400	TD Mains 18in And Greater	1,328,938	-	(44,714)	2,984,934	(51,543)	2,933,391
26	332000	Fire Mains	-	-	-	-	-	-
27	333000	Services	1,963,422	-	(158,884)	8,063,173	(703,129)	7,360,044
28	334100	Meters	388,125	(91)	(80,563)	3,462,261	(378,915)	3,083,346
29	334200	Meter Installations	384,323	(1,840)	(22,059)	1,172,417	(30,824)	1,141,593
30	335000	Hydrants	1,816,394	-	(155,618)	9,283,700	(637,273)	8,646,427
31	339100	Other P/E Intangible	-	-	-	115,264	-	115,264
32	339500	Other P/E TD	-	-	-	-	-	-
33	340100	Office Furniture & Equip	14,988	-	(493)	26,571	128,850	155,421
34	340200	Comp & Periph Equip	26,946	(20,780)	(2,883)	77,449	4,980	82,429
35	341100	Trans Equip Lt Duty Trks	2,185	-	(72,216)	290,959	(497,490)	(206,531)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	-	-	-	-
38	343000	Tools, Shop, Garage Equip	-	-	(148)	3,677	(1,334)	2,343
39	344000	Laboratory Equipment	-	-	-	-	-	-
40	345000	Power Operated Equipment	-	-	-	-	-	-
41	346100	Comm Equip Non-Telephone	943,224	-	(46,816)	1,283,534	(82,003)	1,201,531
42	346300	Comm Equip Other	-	-	(17,646)	357,939	(50,427)	307,512
42	TOTAL		\$ 30,132,068	\$ (56,184)	\$ (2,741,058)	\$ 140,579,658	\$ (12,437,354)	\$ 128,142,304
43	Company As Filed		30,113,487	(56,184)	(2,712,039)	140,561,077	(13,044,074)	127,517,003
44	Difference		\$ 18,581	\$ -	\$ (29,019)	\$ 18,581	\$ 606,720	\$ 625,301

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 4, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 4, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	-	\$ 1,229	\$ -	\$ 1,229
2	302000	Franchises	-	-	-	359,919	-	359,919
3	303200	Land & Land Rights SS	73,103	(8,455)	-	1,152,726	8,455	1,161,181
4	303300	Land & Land Rights P	178	(668)	-	52,376	668	53,044
5	303400	Land & Land Rights TD	-	-	-	624,652	-	624,652
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	1,302,214	(20,074)	(148,769)	6,657,852	(391,045)	6,266,807
8	304200	Struct & Imp P	334,261	(43,865)	(73,352)	4,529,553	(247,532)	4,282,021
9	304300	Struct & Imp WT	-	(39,917)	(970)	19,802	32,309	52,111
10	304400	Struct & Imp TD	243,003	-	(57,660)	3,548,438	(138,801)	3,409,637
11	304600	Struct & Imp Offices	-	-	(1,925)	94,810	(10,957)	83,853
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	762,038	(13,682)	(229,214)	9,563,623	(1,020,634)	8,542,989
15	310100	Power Generation Equip Other	64,932	(156,700)	-	824,162	156,700	980,862
16	311200	Pump Equip Electric	50,132	(1,147,936)	(882,391)	18,959,316	(4,209,636)	14,749,680
17	311300	Pump Equip Diesel	-	(17,748)	(1,274)	11,824	(7,092)	4,732
18	311500	Pump Equip Other	(457,841)	-	(62,496)	1,251,877	(154,892)	1,096,985
19	320100	WT Equip Non-Media	4,471,675	(70,010)	(129,924)	5,267,541	(174,784)	5,092,757
20	330000	Dist Reservoirs & Standpipe	10,085	(88,573)	(114,405)	6,771,999	(317,634)	6,454,365
21	331001	TD Mains Not Classified By Size	51,598	-	(86,900)	5,712,531	(326,894)	5,385,637
22	331100	TD Mains 4in & Less	9,848	(93,320)	(328,137)	21,362,124	(3,120,974)	18,241,150
23	331200	TD Mains 6in to 8in	6,816,687	-	(299,664)	23,601,871	(646,162)	22,955,709
24	331300	TD Mains 10in to 16in	5,327,755	-	(252,811)	20,448,275	(538,283)	19,909,992
25	331400	TD Mains 18in And Greater	8,924,321	-	(178,012)	11,909,255	(229,565)	11,679,700
26	332000	Fire Mains	-	-	-	-	-	-
27	333000	Services	913,989	-	(211,499)	8,977,162	(914,628)	8,062,534
28	334100	Meters	754,076	(100,544)	(96,325)	4,115,793	(374,696)	3,741,097
29	334200	Meter Installations	313,720	(1,327)	(33,469)	1,484,810	(62,966)	1,421,844
30	335000	Hydrants	977,157	-	(194,874)	10,260,857	(832,147)	9,428,710
31	339100	Other P/E Intangible	(115,264)	-	-	-	-	-
32	339500	Other P/E TD	-	-	-	-	-	-
33	340100	Office Furniture & Equip	66,750	-	(1,371)	93,321	127,479	220,800
34	340200	Comp & Periph Equip	-	-	(3,129)	77,449	1,851	79,300
35	341100	Trans Equip Lt Duty Trks	7,334	(95,652)	(59,710)	202,641	(461,547)	(258,906)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	-	-	-	-
38	343000	Tools, Shop, Garage Equip	5,040	(120)	(274)	8,597	(1,488)	7,109
39	344000	Laboratory Equipment	-	-	-	-	-	-
40	345000	Power Operated Equipment	30,758	-	(96)	30,758	(96)	30,662
41	346100	Comm Equip Non-Telephone	156,062	-	(138,077)	1,439,596	(220,079)	1,219,517
42	346300	Comm Equip Other	83,696	-	(19,831)	441,635	(70,258)	371,377
42	TOTAL		\$ 31,177,307	\$ (1,898,591)	\$ (3,606,556)	\$ 169,858,374	\$ (14,145,319)	\$ 155,713,055
43	Company As Filed		31,177,307	(1,898,591)	(1,740,264)	169,839,793	(9,120,772)	160,719,021
44	Difference		\$ -	\$ -	\$ (1,866,292)	\$ 18,581	\$ (5,024,547)	\$ (5,005,966)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 5, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 5, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2007

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJ.MTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	-	\$ 1,229	\$ -	\$ 1,229
2	302000	Franchises	(37,922)	-	-	321,997	-	321,997
3	303200	Land & Land Rights SS	280,910	-	-	1,433,636	8,455	1,442,091
4	303300	Land & Land Rights P	(80,838)	-	-	(28,462)	668	(27,794)
5	303400	Land & Land Rights TD	-	-	-	624,652	-	624,652
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	2,362,307	-	(170,153)	9,020,159	(561,198)	8,458,961
8	304200	Struct & Imp P	310,343	(3,042)	(77,036)	4,836,854	(321,527)	4,515,328
9	304300	Struct & Imp WVT	1,142,208	-	(7,002)	1,162,010	25,307	1,187,317
10	304400	Struct & Imp TD	2,513	-	(59,268)	3,550,951	(198,069)	3,352,882
11	304600	Struct & Imp Offices	78,475	-	(3,094)	173,285	(14,051)	159,234
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	2,310,727	-	(257,486)	11,874,350	(1,278,120)	10,596,230
15	310100	Power Generation Equip Other	4,763	(279)	-	828,646	156,979	985,625
16	311200	Pump Equip Electric	2,427,873	(187,316)	(874,157)	21,199,873	(4,896,477)	16,303,396
17	311300	Pump Equip Diesel	48	-	(523)	11,872	(7,614)	4,257
18	311500	Pump Equip Other	19,674	-	(55,439)	1,271,551	(210,331)	1,061,220
19	320100	WT Equip Non-Media	4,238,808	(2,974)	(251,008)	9,503,375	(422,818)	9,080,557
20	330000	Dist Reservoirs & Standpipe	2,975,586	-	(151,322)	9,747,585	(468,956)	9,278,628
21	331001	TD Mains Not Classified By Size	5,393	-	(87,477)	5,717,924	(414,371)	5,303,553
22	331100	TD Mains 4in & Less	10,543	(1,514)	(326,905)	21,371,153	(3,446,365)	17,924,788
23	331200	TD Mains 6in to 8in	7,727,608	-	(415,264)	31,329,479	(1,061,426)	30,268,053
24	331300	TD Mains 10in to 16in	6,836,139	-	(366,902)	27,284,414	(905,185)	26,379,229
25	331400	TD Mains 18in And Greater	1,865,145	-	(283,135)	13,774,400	(512,690)	13,261,711
26	332000	Fire Mains	89,876	-	-	89,876	-	89,876
27	333000	Services	2,298,266	(2,396)	(246,477)	11,273,032	(1,158,710)	10,114,323
28	334100	Meters	555,923	(4,886)	(109,768)	4,666,830	(479,578)	4,187,252
29	334200	Meter Installations	98,467	-	(39,714)	1,583,277	(102,679)	1,480,597
30	335000	Hydrants	1,532,553	-	(222,058)	11,793,410	(1,054,205)	10,739,205
31	339100	Other P/E Intangible	-	-	-	-	-	-
32	339500	Other P/E TD	-	-	-	-	-	-
33	340100	Office Furniture & Equip	1,845	(2,302)	(3,895)	92,864	125,886	218,750
34	340200	Comp & Periph Equip	1,215	(3,989)	(3,124)	74,675	2,716	77,390
35	341100	Trans Equip Lt Duty Trks	15	-	(50,664)	202,656	(512,211)	(309,555)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	-	-	-	-
38	343000	Tools, Shop, Garage Equip	10	-	(346)	8,607	(1,834)	6,773
39	344000	Laboratory Equipment	-	-	-	-	-	-
40	345000	Power Operated Equipment	(199)	-	(1,590)	30,559	(1,686)	28,873
41	346100	Comm Equip Non-Telephone	\$ 23,104	-	(146,881)	1,462,700	(366,960)	1,095,740
42	346300	Comm Equip Other	4,962	(56,011)	(21,675)	390,586	(35,922)	354,664
42	TOTAL		\$ 37,086,338	\$ (264,709)	\$ (4,232,362)	\$ 206,680,003	\$ (18,112,972)	\$ 188,567,031
43	Company As Filed		37,086,338	(264,709)	(4,044,853)	206,661,422	(18,829,191)	187,832,231
44	Difference		\$ -	\$ -	\$ (187,509)	\$ 18,581	\$ 716,219	\$ 734,800
						RUCO TY As Calculated	\$ 206,680,003	\$ (18,112,972)
						RUCO Adjustments	(18,581)	(716,219)
						Co. TY Adjustments To Book	4,483,732	(743,625)
						Co. Variance To GL	-	277,120
						Co. Variance To Sch. E	-	(737,737)
						Total	\$ 211,145,154	\$ (20,033,433)
						Co. As Filed	211,145,154	(20,033,433)
						Difference	\$ -	\$ -
						Adj. #1 - Difference In Computing	\$ -	\$ 718,594
						Adj. #3 - Conforming To Str DH 4.3	-	-
						Adj. #4 - Conforming To Str GB 9.4	18,581	(2,375)
						Total RUCO Adjustments	\$ 18,581	\$ 716,219
						RUCO As Adjusted	\$ 211,163,735	\$ (19,317,214)
						RUCO Adjustments	(18,581)	(716,219)
						Co. As Filed	\$ 211,145,154	\$ (20,033,433)
						Co. Adjustments	4,483,732	(1,204,242)
						Co. Computed	\$ 206,661,422	\$ (18,829,191)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 6, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 6, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 192,139	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	192,139	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 214,929	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	214,929	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 1,409,860	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	91,837	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (1,318,023)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (1,318,023)</u>	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 1,440,677	\$ (71,074)	\$ 1,369,603	12.00	\$ 16,435,242
2	Purchased Water	901,467	-	901,467	(30.88)	(27,837,301)
3	Fuel & Power	1,954,815	-	1,954,815	32.42	63,377,644
4	Chemicals	1,121,555	-	1,121,555	18.06	20,249,676
5	Management Fees	2,775,604	-	2,775,604	10.40	28,866,282
6	Group Insurance	396,645	-	396,645	(14.08)	(5,585,515)
7	Pensions	240,413	-	240,413	45.00	10,818,585
8	Insurance Other Than Group	158,153	-	158,153	(68.27)	(10,797,216)
9	Customer Accounting	370,806	-	370,806	19.76	7,326,317
10	Rents	63,217	-	63,217	(10.50)	(663,779)
11	Depreciation & Amortization	4,397,190	(4,397,190)	-	-	-
12	Other Operating Expenses	1,603,545	(68,591)	1,534,953	30.00	46,048,599
	Taxes:					
13	Taxes Other Than Income	128,923	-	128,923	15.07	1,943,464
14	Property Taxes	803,071	22,785	825,856	212.50	175,494,414
15	Income Tax	3,352,198	(1,734,232)	1,617,966	28.75	46,516,532
16	Interest Expense	-	1,952,967	1,952,967	106.52	208,030,062
17	Total Appropriate Operating Expenses	<u>\$ 19,708,280</u>	<u>\$ (4,295,335)</u>	<u>\$ 15,412,944</u>		<u>\$ 580,223,005</u>
18	Expense Lag	Line 17, Col. (E) / (C)	37.65			
19	Revenue Lag	Company Response To RUCO DR 8	39.82			
20	Net Lag	Line 18 - Line 17	2.17			
21	RUCO Adjusted Expenses	Col. (C), Line 16	<u>\$ 15,412,944</u>			
22	Cash Working Capital	Line 19 X Line 20 / 365 Days	<u>91,837</u>			
23	Company As Filed	Co. Schedule B-6, Page 1	1,409,860			
24	Difference	Line 21 - Line 22	<u>\$ (1,318,023)</u>			
25	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 23	<u>\$ (1,318,023)</u>			

Referer Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 17,913,497	\$ -	\$ 17,913,497	\$ 3,582,770	\$ 21,496,267
2	Unmetered Water Revenues	905,117	-	905,117	-	905,117
3	Other Water Revenues	-	-	-	-	-
4	TOTAL OPERATING REVENUE	<u>\$ 18,818,614</u>	<u>\$ -</u>	<u>\$ 18,818,614</u>	<u>\$ 3,582,770</u>	<u>\$ 22,401,384</u>
	Operating Expenses:					
5	Labor	\$ 1,440,677	\$ (71,074)	\$ 1,369,603	\$ -	\$ 1,369,603
6	Purchased Water	901,467	-	901,467	-	901,467
7	Fuel & Power	1,954,815	-	1,954,815	-	1,954,815
8	Chemicals	1,121,555	-	1,121,555	-	1,121,555
9	Waste Disposal	(870)	870	-	-	-
10	Management Fees	2,775,604	-	2,775,604	-	2,775,604
11	Group Insurance	396,645	-	396,645	-	396,645
12	Pensions	240,413	-	240,413	-	240,413
13	Regulatory Expense	64,012	-	64,012	-	64,012
14	Insurance Other Than Group	158,153	-	158,153	-	158,153
15	Customer Accounting	370,806	-	370,806	-	370,806
16	Rents	63,217	-	63,217	-	63,217
17	General Office Expense	161,107	-	161,107	-	161,107
18	Miscellaneous	787,967	(5,450)	782,517	-	782,517
19	Maintenance Expense	591,329	-	591,329	-	591,329
20	Depreciation & Amortization	4,397,190	(46,541)	4,350,649	-	4,350,649
21	General Taxes - Property Taxes	803,071	22,785	825,856	-	825,856
22	General Taxes - Other	128,923	-	128,923	-	128,923
23	Income Tax	(138,756)	373,813	235,057	1,382,909	1,617,966
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 16,217,325</u>	<u>\$ 274,405</u>	<u>\$ 16,491,730</u>	<u>\$ 1,382,909</u>	<u>\$ 17,874,639</u>
26	OPERATING INCOME (LOSS)	<u>\$ 2,601,289</u>	<u>\$ (274,405)</u>	<u>\$ 2,326,884</u>	<u>\$ 2,199,861</u>	<u>\$ 4,526,745</u>

References:

- Column (A): Company Schedule C-1
- Column (B): RLM-7, Columns (B) Thru (H)
- Column (C): Column (A) + Column (B)
- Column (D): RLM-1, Pages 1 & 2
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 PROPERTY TAX	(C) ADJMT NO. 2 DEPRECIATN & AMORTIZN	(D) ADJMT NO. 3 RATE CASE EXPENSE	(E) ADJMT NO. 4 WASTE DISPOSAL	(F) ADJMT NO. 5 AIP EXPENSE	(G) ADJMT NO. 6 LABOR EXPENSE	(H) ADJMT NO. 7 MISC. EXPENSE	(K) ADJMT NO. 8 INCOME TAX	(I) RUCO AS ADJTD
1	Revenues:										
2	Metered Water Revenues	\$ 17,913,497	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,913,497
3	Unmetered Water Revenues	905,117	-	-	-	-	-	-	-	-	905,117
4	Other Water Revenues										
	TOTAL OPERATING REV.	<u>\$ 18,818,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,818,614</u>
5	Operating Expenses:										
6	Labor	\$ 1,440,677	\$ -	\$ -	\$ -	\$ -	\$ (33,409)	\$ (37,665)	\$ -	\$ -	\$ 1,369,603
7	Purchased Water	901,467	-	-	-	-	-	-	-	-	901,467
8	Fuel & Power	1,954,815	-	-	-	-	-	-	-	-	1,954,815
9	Chemicals	1,121,555	-	-	-	-	-	-	-	-	1,121,555
10	Waste Disposal	(870)	-	-	-	870	-	-	-	-	-
11	Management Fees	2,775,604	-	-	-	-	-	-	-	-	2,775,604
12	Group Insurance	396,645	-	-	-	-	-	-	-	-	396,645
13	Pensions	240,413	-	-	-	-	-	-	-	-	240,413
14	Regulatory Expense	64,012	-	-	-	-	-	-	-	-	64,012
15	Insurance Other Than Group	158,153	-	-	-	-	-	-	-	-	158,153
16	Customer Accounting	370,806	-	-	-	-	-	-	-	-	370,806
17	Rents	63,217	-	-	-	-	-	-	-	-	63,217
18	General Office Expense	161,107	-	-	-	-	-	-	-	-	161,107
19	Miscellaneous	787,967	-	-	-	-	-	-	(5,450)	-	782,517
20	Maintenance Expense	591,329	-	-	-	-	-	-	-	-	591,329
21	Depreciation & Amortization	4,397,190	-	-	-	-	-	-	-	-	4,350,649
22	General Taxes - Property Taxes	803,071	22,785	(46,541)	-	-	-	-	-	-	825,856
23	General Taxes - Other	128,923	-	-	-	-	-	-	-	-	128,923
24	Income Tax	(138,756)	-	-	-	-	-	-	-	373,813	(138,756)
25	Rounding										
	TOTAL OPERATING EXP.	<u>\$ 16,217,325</u>	<u>\$ 22,785</u>	<u>\$ (46,541)</u>	<u>\$ -</u>	<u>\$ 870</u>	<u>\$ (33,409)</u>	<u>\$ (37,665)</u>	<u>\$ (5,450)</u>	<u>\$ 373,813</u>	<u>\$ 16,117,916</u>
26	OPERATING INC. (LOSS)	<u>\$ 2,601,289</u>									<u>\$ 2,700,698</u>

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Rate Case Expense
- 4 Waste Disposal Expense
- 5 Annual Incentive Pay Program Expense
- 6 Labor Expense
- 7 Miscellaneous Expenses
- 8 Income Tax

REFERENCE:

- Testimony, RLM And Schedule RLM-8
- Testimony, RLM And Schedule RLM-9
- Testimony, RLM And Schedule RLM-10
- Testimony, RLM
- Testimony, RLM And Schedule RLM-11
- Testimony, RLM
- Testimony, RLM And Schedule RLM-12
- Testimony, RLM And Schedule RLM-13

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 18,818,614	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	18,818,614	
3	Proposed Revenues	Sch. RLM-6, Col (D), Ln 4	22,401,384	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 60,038,612	
5	Average Annual Operating Revenues	Line 4 / 3	20,012,871	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 40,025,741
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 1,422,630	
8	10% Of CWIP	Line 7 X 10%		\$ 142,263
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 40,168,004
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 9,238,641	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	8.93915%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	8.93915%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 825,856
19	Test Year Adjusted Property Tax Expense As Filing	Co. Sch. C-1		803,071
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 22,785
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 22,785

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 1,229	0.00%	\$ -
2	302000	Franchises	321,997	0.00%	-
3	303200	Land & Land Rights SS	1,433,636	0.00%	-
4	303300	Land & Land Rights P	(28,462)	0.00%	-
5	303400	Land & Land Rights TD	624,652	0.00%	-
6	303600	Land & Land Rights AG	-	0.00%	-
7	304100	Struct & Imp SS	9,020,159	2.50%	225,504
8	304200	Struct & Imp P	4,836,854	1.67%	80,775
9	304300	Struct & Imp WT	1,162,010	1.67%	19,406
10	304400	Struct & Imp TD	3,550,951	1.67%	59,301
11	304600	Struct & Imp Offices	173,285	2.03%	3,518
12	304800	Struct & Imp Misc	-	0.00%	-
13	305000	Collect & Impounding	-	0.00%	-
14	307000	Wells & Springs	11,874,350	2.52%	299,234
15	310100	Power Generation Equip Other	828,646	0.00%	-
16	311200	Pump Equip Electric	21,199,873	4.42%	937,034
17	311300	Pump Equip Diesel	11,872	4.42%	525
18	311500	Pump Equip Other	1,271,551	4.42%	56,203
19	320100	WT Equip Non-Media	9,503,375	4.00%	380,135
20	330000	Dist Reservoirs & Standpipe	9,747,585	1.67%	162,785
21	331001	TD Mains Not Classified By Size	5,717,924	1.53%	87,484
22	331100	TD Mains 4in & Less	21,371,153	1.53%	326,979
23	331200	TD Mains 6in to 8in	31,329,479	1.53%	479,341
24	331300	TD Mains 10in to 16in	27,284,414	1.53%	417,452
25	331400	TD Mains 18in And Greater	13,774,400	2.34%	322,321
26	332000	Fire Mains	89,876	1.53%	1,375
27	333000	Services	11,273,032	2.48%	279,571
28	334100	Meters	4,666,830	2.51%	117,137
29	334200	Meter Installations	1,583,277	2.51%	39,740
30	335000	Hydrants	11,793,410	2.00%	235,868
31	339100	Other P/E Intangible	-	0.00%	-
32	339500	Other P/E TD	-	0.00%	-
33	340100	Office Furniture & Equip	92,864	4.04%	3,752
34	340200	Comp & Periph Equip	74,675	4.04%	3,017
35	341100	Trans Equip Lt Duty Trks	202,656	25.00%	50,664
36	341200	Trans Equip Hvy Duty Trks	-	25.00%	-
37	342000	Stores Equipment	-	3.92%	-
38	343000	Tools,Shop,Garage Equip	8,607	4.02%	346
39	344000	Laboratory Equipment	-	3.71%	-
40	345000	Power Operated Equipment	30,559	5.20%	1,589
41	346100	Comm Equip Non-Telephone	1,462,700	10.30%	150,658
42	346300	Comm Equip Other	390,586	4.93%	19,256
43	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 206,680,003		\$ 4,760,969
44	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE			186,438
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			4,947,406
45		POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			55,722
46		DEPRECIATION ON ACQUISITION ADJUSTMENT			230,973
47		AMORTIZATION OF REGULATORY ASSETS			2,918
48		AMORTIZATION OF CONTRIBUTIONS			(689,025)
49		AMORTIZATION OF REGULATORY CIAC			(197,344)
50		Rounding			(1)
51	TOTAL DEPRECIATION EXPENSE				\$ 4,350,649
52	Company As Filed				4,397,190
53	Difference				\$ (46,541)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (46,541)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	\$ 612,000	\$ (187,735)	\$ 424,265
2	Allocation Factor (See NOTE Below)	31.3783%		45.2631%
3	Agua Fria Water District (Line 1 X Line 2)	\$ 192,035	\$ -	\$ 192,035
4	Amortization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 3 Years)			\$ 64,012
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			\$ 64,012
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			\$ -
8	RUCO Adjustment (Line 7) (See RLM-7, Column (D))			\$ -

NOTE

	4-Factor Allocation		Company As Filed		RUCO As Adjusted
	Districts Included In This Filing				
9	Sun City West Water District	11.7965%	\$ 72,195	17.0164%	\$ 72,195
10	Paradise Valley Water District	10.4331%	63,851	15.0497%	63,851
11	Tubac Water District	0.9990%	6,114	1.4411%	6,114
12	Agua Fria Water District	31.3783%	192,035	45.2631%	192,035
13	Havasui Water District	1.8822%	11,519	2.7151%	11,519
14	Mohave Water District	11.3740%	69,609	16.4069%	69,609
15	Mohave Wastewater District	1.4612%	8,943	2.1078%	8,943
16	Total	69.3243%	\$ 424,265	100.0000%	\$ 424,265
	Districts NOT Included In This Filing				
17	Agua Fria Wastewater District	8.2232%	\$ 50,326		
18	Distco/Treatco Sewer	9.8095%	60,034		
19	Distco/Treatco Water	12.6430%	77,375		
20		100.0000%	\$ 612,000		

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
ANNUAL INCENTIVE PLAN EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJUSTED
1	AZ-AM Annual Incentive Plan ("AIP") Expense Total	Co. Response To RUCO DR 3.01.e	\$ 482,198
2	Allocation Factor	Co. Workpapers Per SLH-6	23.0946%
3	Agua Fria Water District	Lines 1 X 2	<u>\$ 111,362</u>
4	Portion Deemed Shareholder Benefit Only	RLM Testimony	30.00%
5	RUCO Test-Year Disallowance Of AIP Expense	Lines 3 X 4	<u>\$ (33,409)</u>
6	RUCO Adjustment (See RLM-7, Column (D))	Line 5	<u><u>\$ (33,409)</u></u>

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		ALLOCABLE TOTAL	ALLOC'N 4-FACTOR	DISTRICT TOTAL	RUCO AS ADJUSTED
1	Agua Fria Water Direct Miscellaneous Account (RLM-12, Pg, Ln 118)	\$ (2,307.02)	100.00%	\$ (2,307)	
2	Corporate Office Allocable Miscellaneous Account (RLM-12, Pg 4, Ln 98)	\$ (13,607.91)	23.0946%	\$ (3,143)	
3	TOTAL				<u>\$ (5,450)</u>
4	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (See RLM-7, Column (H))				<u>\$ (5,450)</u>

NOTE

4-Factor Allocation

5	Sun City West Water District	8.3198%
6	Paradise Valley Water District	7.6863%
7	Tubac Water District	0.7254%
8	Agua Fria Water District	23.0946%
9	Havasui Water District	1.3850%
10	Mohave Water District	7.8288%
11	Mohave Wastewater District	1.0290%

References:

Column (A): RLM-12, Pages 2 Thru 5 Derived From Company's Line 21 Workpapers
Column (B): See NOTE
Column (C): Column (A) X Column (B)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 -CONT'D
INAPPROPRIATE MISCELLANEOUS EXPENSES

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
	CORPORATED OFFICE MISCELLANEOUS EXPENSES				
1	Misc Oper WT	\$ 55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
2	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
3	PCard Undistributed	33.00	ALVES FLOWERS & GIFTS	NANCY J HUCKEY	Land
4	Employee Awards AG	2,400.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
5	Employee Awards AG	2,500.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
6	PCard Undistributed	27.29	BASHAS'	ARTHUR W FAIELLO	External training/seminars
7	Training AG	8.49	BASHAS'	KURTIS L STRAUDEL	External training/seminars
8	Training AG	13.24	BASHAS'	KURTIS L STRAUDEL	External training/seminars
9	Training AG	33.69	BASHAS'	KURTIS L STRAUDEL	In-house training/seminars
10	PCard Undistributed	25.64	BURGER KING #5915 Q	ANGEL STEVENS	NON-Catered Food & Beverages
11	PCard Undistributed	26.00	CHARLEY'S GRILLED SQ	ANGEL STEVENS	NON-Catered Food & Beverages
12	PCard Undistributed	1.89	CHEVRON	JAMES ISHMAEL	NON-Catered Food & Beverages
13	PCard Undistributed	1.59	CHEVRON	WILLIAM L WALLSTEAD	NON-Catered Food & Beverages
14	Misc Oper AG	59.57	CHILI'S GRI	BERT L REYNOLDS	NON-Catered Food & Beverages
15	PCard Undistributed	40.00	CHINA BUFFET	BRIAN BIESEMEYER	NON-Catered Food & Beverages
16	PCard Undistributed	23.49	CHIPOTLE #0898 Q	ANGEL STEVENS	NON-Catered Food & Beverages
17	PCard Undistributed	5.48	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
18	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
19	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
20	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
21	PCard Undistributed	7.18	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
22	Training AG	28.05	COLDSTN CREAM #30 Q	KURTIS L STRAUDEL	In-house training/seminars
23	PCard Undistributed	273.61	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
24	PCard Undistributed	7.36	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
25	PCard Undistributed	17.16	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
26	PCard Undistributed	220.69	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
27	Co Dues/Membership Deduct	281.06	Costco Wholesale Membership-RE	Membership Dues	Financial Costs
28	Misc Oper AG	55.89	Costco-REMIT	7003-7300-0000-6704	NON-Catered Food & Beverages
29	Training AG	48.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
30	Training AG	54.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	In-house training/seminars
31	PCard Undistributed	34.99	CRAZY CARLOS INC	GARRY T BURTON	NON-Catered Food & Beverages
32	PCard Undistributed	30.00	CUCINA TAGLIANI	JEREMIAH MECHAM	NON-Catered Food & Beverages
33	PCard Undistributed	18.52	DENNY'S INC	ANGEL STEVENS	NON-Catered Food & Beverages
34	PCard Undistributed	53.91	DILLONS GRAND	DALE E KENNOW	NON-Catered Food & Beverages
35	PCard Undistributed	14.21	DILLONS GRAND	PAUL D TAYLOR	NON-Catered Food & Beverages
36	PCard Undistributed	71.37	DILLONS THUNDERBIRD	FLOYD K MCKINNEY	NON-Catered Food & Beverages
37	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	External training/seminars

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
38	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	In-house training/seminars
39	PCard Undistributed	27.14	EINSTEIN BROS	PAULA A CHRISTIAN	NON-Catered Food & Beverages
40	Trans Oper AG	66.39	EL PASO BARBQUE	ERNEST G SANTA CRUZ	NON-Catered Food & Beverages
41	PCard Undistributed	30.84	EL TORITO	TODD R FARRELL	NON-Catered Food & Beverages
42	PCard Undistributed	19.22	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
43	PCard Undistributed	29.76	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
44	PCard Undistributed	28.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
45	PCard Undistributed	25.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
46	PCard Undistributed	33.28	FRYS-FOOD-DRG #006 SXN	ROY PEREZ JR	NON-Catered Food & Beverages
47	PCard Undistributed	13.76	FRYS-FOOD-DRG #122 SXN	NEIL J MEYER	NON-Catered Food & Beverages
48	Training AG	25.59	HMSHOST-PHX-AIR	Christmas Decorations	Office Decorations
49	Misc Oper AG	125.00	Huckeby, Nancy J -Petty Cash	Christmas Party Security	Security & Monitoring
50	Misc Oper AG	200.00	Huckeby, Nancy J -Petty Cash	JON C BEHRENDT	NON-Catered Food & Beverages
51	PCard Undistributed	9.96	HUNGRY HOWIE'S PIZZA	274560	NON-Catered Food & Beverages
52	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	ICE	Kitchen/Cleaning/Toiletries
53	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
54	Misc Oper AG	143.61	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
55	Misc Oper AG	81.18	Ice Wagon The-PO/REMIT	ANGEL STEVENS	NON-Catered Food & Beverages
56	PCard Undistributed	40.53	IHOP	ANGEL STEVENS	NON-Catered Food & Beverages
57	PCard Undistributed	27.58	KFC #1303016	ANGEL STEVENS	NON-Catered Food & Beverages
58	Trans Oper AG Lease Cost	60.91	LAS CAZUELA'S	ANGEL STEVENS	NON-Catered Food & Beverages
59	PCard Undistributed	67.37	MADELYN'S	PAUL M LI	NON-Catered Food & Beverages
60	PCard Undistributed	3.98	MCDONALD'S F	KURTIS L STRAUDEL	NON-Catered Food & Beverages
61	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	Catering/works catering
62	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	External training/seminars
63	PCard Undistributed	6.96	PILOT	JAMES ISHMAEL	In-house training/seminars
64	PCard Undistributed	6.34	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
65	PCard Undistributed	71.98	PIZZA HUT	ANGEL STEVENS	NON-Catered Food & Beverages
66	Other Welf Oper AG	41.25	Professional Plants & Inc-POIR	SERVICES	Landscaping
67	PCard Undistributed	10.02	QUIZNOS	ANDREW C MARTINEZ	NON-Catered Food & Beverages
68	PCard Undistributed	54.55	RIO MIRAGE CAFE	JENNIFER L HALLIDAY	NON-Catered Food & Beverages
69	PCard Undistributed	16.77	ROMENS GYROS	RANDY J ZIOLKOWSKI	Pathwaynet Default
70	PCard Undistributed	69.87	ROSATI'S PIZZA - PEORI	ANGEL STEVENS	NON-Catered Food & Beverages
71	Training AG	61.53	ROSATI'S PIZZA UNION H	KURTIS L STRAUDEL	External training/seminars
72	PCard Undistributed	4.99	SAFEMAY STORE	CHRISTOPHER M WILLIAMS	NON-Catered Food & Beverages
73	PCard Undistributed	20.95	SAFEMAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
74	PCard Undistributed	39.37	SAFEMAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
75	PCard Undistributed	21.13	SAFEMAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
76	PCard Undistributed	14.53	SAFEMAY STORE	ROY PEREZ JR	Catering/works catering
77	PCard Undistributed	15.64	SUBWAY 25139	JEFFREY S BORN	NON-Catered Food & Beverages
78	Misc Oper AG	25.00	Supreme Court of Pennsylvania	Certificate	Event organization services
79	Employee Awards AG	107.84	Tharpe Company Inc-REMIT	8549	Service Awards and Premiums
80	Employee Awards AG	722.07	Tharpe Company Inc-REMIT	98415RI	Service Awards and Premiums
81	Employee Awards AG	829.39	Tharpe Company Inc-REMIT	CUST #16248	Service Awards and Premiums
82	Employee Awards AG	882.92	Tharpe Company Inc-REMIT	CUST # 16248	Service Awards and Premiums
83	Employee Awards AG	90.27	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
84	Employee Awards AG	176.84	Tharpe Company Inc-REMIT	cust# 8549	Service Awards and Premiums
85	Employee Awards AG	120.50	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
86	Employee Awards AG	110.61	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
87	Employee Awards AG	79.64	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
88	Employee Awards AG	88.41	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
89	Employee Awards AG	78.57	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
90	Employee Awards AG	204.49	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
91	Employee Awards AG	135.65	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
92	Employee Awards AG	79.93	Tharpe Company Inc-REMIT	inv 454294ri	Service Awards and Premiums
93	Misc Oper AG	67.04	Tharpe Company Inc-REMIT	NANCY J HUCKEY	Land
94	Overnight Shipping AG	35.93	TLC CACTUS FLOWER FLOR	SHIPPER# 6R29A2	Mail/parcel delivery
95	Overnight Shipping AG	(35.93)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
96	Community Relations	1,000.00	Water for People-REMIT	Water For People Sponsor	Sponsoring
97	Training AG	17.32	WONDER BREAD/HOSTESS	KURTIS L STRAUDEL	External training/seminars
98		\$ 13,607.91			

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
DISTRICT DIRECTLY ALLOCATED MISCELLANEOUS EXPENSES					
SUN CITY WEST WATER DISTRICT MISCELLANEOUS EXPENSES					
99	M & S Oper TD	\$ 18.94	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
100	M & S Oper SS	59.03	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
101	Misc Oper PP	57.63	RED ROBIN NO	PAUL D TAYLOR	NON-Catered Food & Beverages
102	Misc Oper PP	30.93	SAFEWAY STORE	ROBERT L CRON	NON-Catered Food & Beverages
103	Total	\$ 166.53			
PARADISE VALLEY WATER DISTRICT MISCELLANEOUS EXPENSES					
104	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
105	Training AG	5.39	LONG JOHN SILV	NEIL J MEYER	NON-Catered Food & Beverages
106	Safety Incentive	132.00	Peavey Performance Systems	1004289	Service Awards and Premiums
107	Training AG	6.26	SUBWAY #10469	NEIL J MEYER	NON-Catered Food & Beverages
108	Misc Oper TD	33.98	THE HOME DEPOT	LEE F HUDDLESTON	Event organization services
109	Total	\$ 313.29			
TUBAC WATER DISTRICT MISCELLANEOUS EXPENSES					
110	Contract Svc-Eng Oper AG	\$ 17.12	KFC 1303012	ROBERT L CRON	NON-Catered Food & Beverages
111	Overnight Shipping AG	20.82	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
112	Overnight Shipping AG	(20.82)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
113	Total	\$ 17.12			
AGUA FRIA WATER DISTRICT MISCELLANEOUS EXPENSES					
114	Brochures and Handouts	\$ 1,788.00	AZ University	Project WET Sponsorship	Sponsoring
115	Misc Oper SS	157.41	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
116	Water Res Conservation	317.39	CSI CRESTLINE CO INC	SALLY L CECCARELLI WOLF	Service Awards and Premiums
117	M & S Oper TD	44.22	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
118	Total	\$ 2,307.02			
HAVASU WATER DISTRICT MISCELLANEOUS EXPENSES					
119	No Adjustment	\$ -			
MOHAVE WATER DISTRICT MISCELLANEOUS EXPENSES					
120	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
121	M & S Oper TD	22.80	DENNY'S INC	CHAD E GEBOW	NON-Catered Food & Beverages
122	M & S Oper TD	133.56	Ferguson Enterprises Inc #675	7202007	NON-Catered Food & Beverages
123	M & S Oper TD	50.00	Ferguson Enterprises Inc-#602-	CUST# 605937	NON-Catered Food & Beverages
124	Total	\$ 342.02			
MOHAVE WASTEWATER DISTRICT MISCELLANEOUS EXPENSES					
125	M & S Oper WT	\$ 26.92	WAL-MART	WILLIAM L WALLSTEAD	Animal feed
126	Total	\$ 26.92			

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. MDC-6, Column (C), L26 + L23	\$ 2,561,942
	LESS:		
2	Arizona State Tax	Line 11	42,433
3	Interest Expense	Note (A) Line 20	1,952,967
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 566,541
5	Federal Tax Rate	Sch. MDC-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 192,624
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 2,561,942
	LESS:		
8	Interest Expense	Note (A) Line 20	1,952,967
9	State Taxable Income	Line 7 - Line 8	\$ 608,975
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 42,433
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 192,624
13	State Income Tax Expense	Line 11	42,433
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 235,057
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(138,756)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 373,813
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	\$ 373,813

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 64,667,787
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 1,952,967

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST RATE
1	DEBT	55.20%	5.46%	3.02%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL			<u><u>7.00%</u></u>

References:

Columns (A) Thru (F): Testimony, WAR

HAVASU WATER DISTRICT

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RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 4,221,474	\$ 4,012,421
2	Adjusted Operating Income (Loss)	\$ (131,419)	\$ (140,194)
3	Current Rate Of Return (L2 / L1)	-3.11%	-3.49%
4	Required Operating Income (L5 X L1)	\$ 354,604	\$ 280,715
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 486,023	\$ 420,910
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6785	1.5686
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 815,803	\$ 660,219
9	Adjusted Test Year Revenue	\$ 1,026,587	\$ 1,026,587
10	Proposed Annual Revenue (L8 + L9)	\$ 1,842,390	\$ 1,686,806
11	Required Percentage Increase In Revenue (L8 / L9)	79.47%	64.31%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-14

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3625			
3	Subtotal (L1 - L2)	0.6375			
4	Revenue Conversion Factor (L1 / L3)	1.5686			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	31.4720%			
9	Effective Federal Income Tax Rate (L7 X L8)	29.2790%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	36.2470%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 280,715			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	(140,194)			
13	Required Increase In Operating Income (L11 - L12)		\$ 420,910		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 86,691			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(159,839)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 246,530		
17	Total Required Increase In Revenue (L13 + L16)		\$ 667,439		
				RUCO	
				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 1,686,806	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			1,326,620	
20	Synchronized Interest (Col. (C), L37)			121,020	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 239,166	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 16,665
24	Fed. Taxable Income (L21 - L23)			\$ 222,501	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			47,775	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 70,025
31	Combined Federal And State Income Tax (L23 + L30)				\$ 86,691
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ (159,839)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 246,530
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				31.47%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 4,012,421	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 121,020	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB	
1	Gross Utility Plant In Service	\$ 9,837,304	\$ -	\$ 9,837,304	
2	Accumulated Depreciation	\$ (1,327,687)	4,659	\$ (1,323,028)	
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 8,509,617</u>	<u>\$ 4,659</u>	<u>\$ 8,514,276</u>	
4	Advances In Aid Of Const.	\$ (3,217,334)	\$ -	\$ (3,217,334)	
5	Contribution In Aid Of Const.	\$ (1,355,090)	\$ (10,645)	\$ (1,365,735)	
6	Accumulated Amortization Of CIAC	\$ -	\$ -	\$ -	
7	NET CIAC (L6 + L7)	<u>\$ (1,355,090)</u>	<u>\$ (10,645)</u>	<u>\$ (1,365,735)</u>	
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	
9	Imputed Regulatory Contributions	\$ (113,427)	\$ -	\$ (113,427)	
10	Customer Meter Deposits	\$ (512)	\$ -	\$ (512)	\$ -
11	Deferred Income Taxes And Credits	\$ 131,385	\$ -	\$ 131,385	
12	Investment Tax Credits	\$ -	\$ -	\$ -	
13	Deferred Debits	\$ 155,374	\$ (145,701)	\$ 9,673	
14	Allowance For Working Capital	\$ 111,462	\$ (57,366)	\$ 54,096	
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	
16	Rounding	\$ (1)	\$ -	\$ (1)	
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 4,221,474</u>	<u>\$ (209,053)</u>	<u>\$ 4,012,421</u>	\$ (209,053)

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMUL'D DEPRECT'N	(C) ADJMT NO. 2 CIAC FOR CWIP	(D) ADJMT NO. 3	(E) ADJMT NO. 4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJTD OCRB/FVRB
1	Gross Utility Plant In Service	\$ 9,837,304	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,837,304
2	Accumulated Depreciation	(1,327,687)	4,659	-	-	-	-	-	(1,323,028)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 8,509,617	\$ 4,659	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,514,276
4	Advances In Aid Of Const.	\$ (3,217,334)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,217,334)
5	Contribution In Aid Of Const.	\$ (1,355,090)	\$ -	\$ (10,645)	\$ -	\$ -	\$ -	\$ -	\$ (1,365,735)
6	Accumulated Amortization Of CIAC	-	-	-	-	-	-	-	-
7	NET CIAC (L5 + L6)	\$ (1,355,090)	\$ -	\$ (10,645)	\$ -	\$ -	\$ -	\$ -	\$ (1,365,735)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (113,427)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (113,427)
10	Customer Meter Deposits	\$ (512)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (512)
11	Deferred Income Taxes And Credits	\$ 131,385	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131,385
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 155,374	\$ -	\$ -	\$ -	\$ -	\$ (145,701)	\$ -	\$ 9,673
14	Allowance For Working Capital	\$ 111,462	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (57,366)	\$ 54,096
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	(1)	-	-	-	-	-	-	(1)
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 4,221,474	\$ 4,659	\$ (10,645)	\$ -	\$ -	\$ (145,701)	\$ (57,366)	\$ 4,012,421

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
- Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
- Column (D): Adjustment No. 3 - Intentionally Left Blank
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - Recalculate Deferred Regulatory Assets
- Column (G): Adjustment No. 6 - Allowance For Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED DECEMBER 31, 2001

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)	(G)
			PRIOR DECISION NO. 67093 - ADJUSTED	RUCO ADJUSTED PRIOR TEST YEAR					
			DEP. RATE	GROSS PLANT	ACCUMULATED DEPRECIATION	PLANT ADJUSTMENT	ACC. DEP. ADJUSTMENT	GROSS PLANT	ACCUMULATED DEPRECIATION
1	301000	Organization	0.00%	\$ 10,144	\$ -	\$ -	\$ -	\$ 10,144	\$ -
2	302000	Franchises	0.00%	-	-	-	-	-	-
3	303200	Land & Land Rights SS	0.00%	10,545	-	-	-	10,545	-
4	303300	Land & Land Rights P	0.00%	-	-	-	-	-	-
5	303500	Land & Land Rights TD	0.00%	-	-	-	-	-	-
6	303600	Land & Land Rights AG	0.00%	-	-	-	-	-	-
7	304100	Struct & Imp SS	2.79%	25,577	(8,782)	-	-	25,577	(8,782)
8	304200	Struct & Imp P	0.00%	-	-	-	-	-	-
9	304300	Struct & Imp WT	0.00%	-	-	-	-	-	-
10	304400	Struct & Imp TD	0.00%	-	-	-	-	-	-
11	304600	Struct & Imp Offices	2.03%	19	(1)	-	-	19	(1)
12	304800	Struct & Imp Misc	0.00%	-	-	-	-	-	-
13	305000	Collect & Impounding	2.54%	148,253	(19,259)	-	-	148,253	(19,259)
14	306000	Lakes, Rivers, Other Intakes	0.00%	-	-	-	-	-	-
15	307000	Wells & Springs	2.54%	107,017	(75,605)	-	-	107,017	(75,605)
16	310100	Power Generation Equip Other	5.12%	22,738	(10,719)	-	-	22,738	(10,719)
17	311200	Pump Equip Electric	3.71%	254,974	(45,084)	-	-	254,974	(45,084)
18	311300	Pump Equip Diesel	0.00%	-	-	-	-	-	-
19	311500	Pump Equip Other	0.00%	-	-	-	-	-	-
20	320100	WT Equip Non-Media	12.00%	25,315	(24,643)	-	-	25,315	(24,643)
21	330000	Dist Reservoirs & Standpipe	2.33%	151,085	(55,856)	-	-	151,085	(55,856)
22	331001	TD Mains Not Classified by Size	2.13%	-	-	-	-	-	-
23	331100	TD Mains 4in & Less	2.13%	721,812	(171,902)	-	-	721,812	(171,902)
24	331200	TD Mains 6in to 8in	2.13%	-	-	-	-	-	-
25	331300	TD Mains 10in to 16in	2.13%	-	-	-	-	-	-
26	333000	Services	2.89%	182,275	(27,743)	-	-	182,275	(27,743)
27	334100	Meters	3.52%	176,386	(42,384)	-	-	176,386	(42,384)
28	334200	Meter Installations	3.52%	-	-	-	-	-	-
29	335000	Hydrants	0.00%	-	-	-	-	-	-
30	339100	Other P/E Intangible	0.00%	-	-	-	-	-	-
31	3392500	Other P/E SS	0.00%	-	-	-	-	-	-
32	340100	Office Furniture & Equip	4.10%	3,254	(201)	-	-	3,254	(201)
33	340200	Comp & Periph Equip	4.10%	10,967	(1,654)	-	-	10,967	(1,654)
34	341100	Trans Equip Lt Duty Trks	25.00%	84,886	(15,908)	-	-	84,886	(15,908)
35	341200	Trans Equip Hvy Duty Trks	25.00%	-	-	-	-	-	-
36	342000	Stores Equipment	3.93%	-	-	-	-	-	-
37	343000	Tools, Shop, Garage Equip	7.55%	11,841	(5,717)	-	-	11,841	(5,717)
38	344000	Laboratory Equipment	3.06%	-	-	-	-	-	-
39	345000	Power Operated Equipment	9.23%	33,093	(6,238)	-	-	33,093	(6,238)
40	346100	Comm Equip Non-Telephone	4.10%	9,217	(3,988)	-	-	9,217	(3,988)
41	346300	Comm Equip Other	6.19%	580	75	-	-	580	75
42	TOTAL			\$ 1,989,978	\$ (515,609)	\$ -	\$ -	\$ 1,989,978	\$ (515,609)
43	Per Company Work Papers			\$ 1,989,979	\$ (515,609)	\$ -	\$ -	\$ 1,989,978	\$ (515,609)
44	RUCO Increase (Decrease) to GUPIS & Accum. Depre.			\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -

References:

Columns (A) (B) (C): Company Schedule B-2
Columns (D) (E): See Testimony, RLM
Column (F): Column (B) + Column (D)
Column (G): Column (C) + Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2002

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 10,144	\$ -	\$ 10,144
2	302000	Franchises	-	-	-	-	-	-
3	303200	Land & Land Rights SS	-	-	-	10,545	-	10,545
4	303300	Land & Land Rights P	-	-	-	-	-	-
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	-	-	(714)	25,577	(9,496)	16,081
8	304200	Struct & Imp P	-	-	-	-	-	-
9	304300	Struct & Imp WT	-	-	-	-	-	-
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(0)	19	(1)	18
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	(3,766)	148,253	(23,025)	125,228
14	306000	Lakes, Rivers, Other Intakes	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(2,718)	107,017	(78,323)	28,694
16	310100	Power Generation Equip Other	-	-	(1,164)	22,738	(11,883)	10,855
17	311200	Pump Equip Electric	6,101	(1,444)	(9,467)	259,631	(53,107)	206,524
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	-	-	-	-	-	-
20	320100	WT Equip Non-Media	-	-	(3,038)	25,315	(27,681)	(2,366)
21	330000	Dist Reservoirs & Standpipe	74,786	-	(3,593)	225,871	(59,449)	166,422
22	331001	TD Mains Not Classified by Size	(11,995)	-	163	(11,995)	163	(11,832)
23	331100	TD Mains 4in & Less	45,748	-	(15,415)	767,560	(187,317)	580,243
24	331200	TD Mains 6in to 8in	356,449	-	(316)	356,449	(316)	356,133
25	331300	TD Mains 10in to 16in	169,080	-	(150)	169,080	(150)	168,930
26	333000	Services	1,548	-	(5,270)	183,823	(33,013)	150,810
27	334100	Meters	1,308	-	(6,211)	177,694	(48,595)	129,099
28	334200	Meter Installations	5,547	-	(12)	5,547	(12)	5,535
29	335000	Hydrants	-	-	-	-	-	-
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(133)	3,254	(334)	2,920
33	340200	Comp & Periph Equip	5,898	-	(460)	16,865	(2,114)	14,752
34	341100	Trans Equip Lt Duty Trks	-	-	(21,222)	84,886	(37,130)	47,756
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	-	-	-	-
37	343000	Tools, Shop, Garage Equip	-	-	(894)	11,841	(6,611)	5,230
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	(3,054)	33,093	(9,292)	23,801
40	346100	Comm Equip Non-Telephone	2,565	-	(382)	11,782	(4,370)	7,411
41	346300	Comm Equip Other	-	-	(36)	580	39	619
42	TOTAL		\$ 657,035	\$ (1,444)	\$ (77,851)	\$ 2,645,569	\$ (592,016)	\$ 2,053,553
43	Per Company Work Papers		657,035	(1,444)	(74,609)	2,645,570	(590,218)	2,055,352
44	RUCO Increase (Decrease) to GUPIS & Accum. Depr.		\$ (0)	\$ 0	\$ 3,242	\$ (1)	\$ 1,798	\$ (1,799)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2003

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 10,144	\$ -	\$ 10,144
2	302000	Franchises	-	-	-	-	-	-
3	303200	Land & Land Rights SS	36,798	-	-	47,343	-	47,343
4	303300	Land & Land Rights P	-	-	-	-	-	-
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	-	-	(714)	25,577	(10,209)	15,368
8	304200	Struct & Imp P	-	-	-	-	-	-
9	304300	Struct & Imp WT	-	-	-	-	-	-
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(0)	19	(2)	17
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	(3,766)	148,253	(26,790)	121,463
14	306000	Lakes, Rivers, Other Intakes	82,582	-	-	82,582	-	82,582
15	307000	Wells & Springs	367,197	-	(9,320)	474,214	(87,643)	386,571
16	310100	Power Generation Equip Other	50,355	-	(2,990)	73,093	(14,874)	58,219
17	311200	Pump Equip Electric	66,826	-	(11,082)	326,457	(64,189)	262,268
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	-	-	-	-	-	-
20	320100	WT Equip Non-Media	-	-	(3,038)	25,315	(30,719)	(5,404)
21	330000	Dist Reservoirs & Standpipe	356,772	-	(10,724)	582,643	(70,173)	512,470
22	331001	TD Mains Not Classified by Size	-	-	256	(11,995)	419	(11,576)
23	331100	TD Mains 4in & Less	182,727	-	(16,511)	950,287	(203,828)	746,459
24	331200	TD Mains 6in to 8in	212,869	-	(10,282)	569,318	(10,599)	558,719
25	331300	TD Mains 10in to 16in	-	-	(3,601)	169,080	(3,751)	165,329
26	333000	Services	3,400	-	(5,321)	187,222	(38,334)	148,888
27	334100	Meters	677	-	(6,257)	178,371	(54,852)	123,519
28	334200	Meter Installations	3,636	-	(226)	9,183	(238)	8,944
29	335000	Hydrants	-	-	-	-	-	-
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(133)	3,254	(468)	2,786
33	340200	Comp & Periph Equip	3,247	-	(771)	20,112	(2,885)	17,227
34	341100	Trans Equip Lt Duty Trks	-	-	(21,222)	84,886	(58,351)	26,535
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	-	-	-	-
37	343000	Tools Shop, Garage Equip	-	-	(894)	11,841	(7,505)	4,336
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	(3,054)	33,093	(12,347)	20,746
40	346100	Comm Equip Non-Telephone	-	-	(483)	11,782	(4,853)	6,928
41	346300	Comm Equip Other	-	-	(36)	580	3	583
42	TOTAL		\$ 1,367,085	\$ -	\$ (110,172)	\$ 4,012,655	\$ (702,188)	\$ 3,310,466
43	Per Company Work Papers		1,367,085	-	(108,892)	4,012,655	(699,110)	3,313,545
44	RUCO Increase (Decrease) to GUPIS & Accum. Depr.		(0)	-	1,280	0	3,078	(3,078)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 2, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 2, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2004

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 10,144	\$ -	\$ 10,144
2	302000	Franchises	-	-	-	-	-	-
3	303200	Land & Land Rights SS	-	-	-	47,343	-	47,343
4	303300	Land & Land Rights P	-	-	-	-	-	-
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	60,441	-	(787)	86,018	(10,996)	75,022
8	304200	Struct & Imp P	-	-	-	-	-	-
9	304300	Struct & Imp WT	-	-	-	-	-	-
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(0)	19	(2)	17
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	(3,766)	148,253	(30,556)	117,697
14	306000	Lakes, Rivers, Other Intakes	(41,330)	-	-	41,252	-	41,252
15	307000	Wells & Springs	142,131	-	(12,204)	616,345	(99,847)	516,499
16	310100	Power Generation Equip Other	(24,279)	-	(3,691)	48,814	(18,564)	30,250
17	311200	Pump Equip Electric	279,394	-	(12,623)	605,852	(76,812)	529,040
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	-	-	-	-	-	-
20	320100	WT Equip Non-Media	-	-	(3,038)	25,315	(33,756)	(8,441)
21	330000	Dist Reservoirs & Standpipe	158,873	-	(13,730)	741,517	(83,903)	657,614
22	331001	TD Mains Not Classified by Size	8,324	-	159	(3,671)	578	(3,093)
23	331100	TD Mains 4in & Less	196,249	-	(20,620)	1,146,536	(224,449)	922,087
24	331200	TD Mains 6in to 8in	(85,158)	(8,324)	(12,085)	475,836	(14,359)	461,476
25	331300	TD Mains 10in to 16in	51,771	-	(3,902)	220,851	(7,653)	213,198
26	333000	Services	(13,824)	-	(5,391)	173,398	(43,725)	129,673
27	334100	Meters	832	(326)	(6,272)	178,877	(60,798)	118,079
28	334200	Meter Installations	1,822	-	(340)	11,004	(579)	10,426
29	335000	Hydrants	-	-	-	-	-	-
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(133)	3,254	(601)	2,653
33	340200	Comp & Periph Equip	-	-	(825)	20,112	(3,709)	16,403
34	341100	Trans Equip Lt Duty Trks	-	-	(21,222)	84,886	(79,573)	5,313
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	-	-	-	-
37	343000	Tools, Shop, Garage Equip	-	-	(894)	11,841	(8,399)	3,442
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	(3,054)	33,093	(15,401)	17,692
40	346100	Comm Equip Non-Telephone	-	-	(483)	11,782	(5,336)	6,445
41	346300	Comm Equip Other	-	-	(36)	580	(33)	547
42	TOTAL		\$ 735,246	\$ (8,650)	\$ (124,936)	\$ 4,739,251	\$ (816,474)	\$ 3,920,777
43	Per Company Work Papers		735,246	(8,650)	(123,568)	4,739,252	(822,678)	3,916,574
44	RUCO Increase (Decrease) to GUPIS & Accum. Depre.		\$ (0)	\$ (0)	\$ 1,368	\$ 1	\$ (4,204)	\$ 4,203

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCIW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 3, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 3, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 10,144	\$ -	\$ 10,144
2	302000	Franchises	-	-	-	-	-	-
3	303200	Land & Land Rights SS	-	-	-	47,343	-	47,343
4	303300	Land & Land Rights P	-	-	-	-	-	-
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	-	-	(2,400)	86,018	(13,396)	72,622
8	304200	Struct & Imp P	-	-	-	-	-	-
9	304300	Struct & Imp WT	-	-	-	-	-	-
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(0)	19	(3)	16
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	(3,766)	148,253	(34,322)	113,931
14	306000	Lakes, Rivers, Other Intakes	-	-	-	41,252	-	41,252
15	307000	Wells & Springs	-	-	(15,655)	616,345	(115,502)	500,843
16	310100	Power Generation Equip Other	-	-	(2,499)	48,814	(21,063)	27,750
17	311200	Pump Equip Electric	(10,589)	-	(22,330)	595,262	(99,142)	496,121
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	-	-	-	-	-	-
20	320100	WT Equip Non-Media	(86,183)	-	4,287	(60,868)	(29,469)	(90,337)
21	330000	Dist Reservoirs & Standpipe	10,589	-	(17,370)	752,106	(101,273)	650,833
22	331001	TD Mains Not Classified by Size	(8,720)	-	117	(12,391)	695	(11,696)
23	331100	TD Mains 4in & Less	7,606	-	(24,428)	1,154,142	(248,877)	905,265
24	331200	TD Mains 6in to 8in	70,533	-	(10,568)	546,369	(24,927)	521,441
25	331300	TD Mains 10in to 16in	336,154	-	(5,002)	557,006	(12,656)	544,350
26	333000	Services	2,416	-	(5,046)	175,814	(48,771)	127,043
27	334100	Meters	2,126	(2,964)	(6,261)	178,039	(64,095)	113,944
28	334200	Meter Installations	5,573	-	(431)	16,577	(1,010)	15,568
29	335000	Hydrants	-	-	-	-	-	-
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(133)	3,254	(735)	2,519
33	340200	Comp & Periph Equip	-	(8,376)	(724)	11,736	3,943	15,678
34	341100	Trans Equip Lt Duty Trks	-	-	(21,222)	84,886	(100,794)	(15,908)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	-	-	-	-
37	343000	Tools, Shop, Garage Equip	460	-	(895)	12,301	(9,294)	3,007
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	(3,054)	33,093	(18,456)	14,637
40	346100	Comm Equip Non-Telephone	-	-	(483)	11,782	(5,819)	5,962
41	346300	Comm Equip Other	-	-	(36)	580	(69)	511
42	TOTAL		\$ 329,965	\$ (11,341)	\$ (137,901)	\$ 5,057,875	\$ (945,034)	\$ 4,112,841
43	Per Company Work Papers		329,965	(11,340)	(125,686)	5,057,876	(948,364)	4,109,512
44	RUCO Increase (Decrease) to GUPIS & Accum. Depre.		\$ -	\$ 1	\$ 12,215	\$ 1	\$ (3,329)	\$ 3,329

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 4, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 4, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 10,144	\$ -	\$ 10,144
2	302000	Franchises	-	-	-	-	-	-
3	303200	Land & Land Rights SS	-	-	-	47,343	-	47,343
4	303300	Land & Land Rights P	-	-	-	-	-	-
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	3,410,895	-	(29,002)	3,496,913	(42,398)	3,454,515
8	304200	Struct & Imp P	-	-	-	-	-	-
9	304300	Struct & Imp WT	-	-	-	-	-	-
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	20,637	-	(18)	20,656	(20)	20,636
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	(3,766)	148,253	(38,087)	110,166
14	306000	Lakes, Rivers, Other Intakes	3,768	-	-	45,020	-	45,020
15	307000	Wells & Springs	27,773	-	(15,920)	644,119	(131,422)	512,697
16	310100	Power Generation Equip Other	2,117	-	(2,540)	50,931	(23,603)	27,327
17	311200	Pump Equip Electric	111,965	-	(23,652)	707,228	(122,794)	584,434
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	-	-	-	-	-	-
20	320100	WT Equip Non-Media	8,720	-	6,476	(52,148)	(22,993)	(75,142)
21	330000	Dist Reservoirs & Standpipe	110,799	-	(18,492)	862,905	(119,765)	743,139
22	331001	TD Mains Not Classified by Size	49,123	-	(129)	36,732	567	37,299
23	331100	TD Mains 4in & Less	-	-	(24,583)	1,154,142	(273,460)	880,682
24	331200	TD Mains 6in to 8in	24,904	-	(11,837)	571,273	(36,764)	534,509
25	331300	TD Mains 10in to 16in	-	-	(11,864)	557,006	(24,520)	532,486
26	333000	Services	1,783	-	(5,106)	177,597	(53,877)	123,720
27	334100	Meters	-	(1,606)	(6,232)	176,433	(68,721)	107,712
28	334200	Meter Installations	(267)	(706)	(563)	15,604	(867)	14,737
29	335000	Hydrants	-	-	-	-	-	-
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(133)	3,254	(868)	2,386
33	340200	Comp & Periph Equip	-	-	(481)	11,736	3,461	15,197
34	341100	Trans Equip Lt Duty Trks	-	-	(21,222)	84,886	(122,016)	(37,130)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	-	-	-	-
37	343000	Tools, Shop, Garage Equip	-	-	(929)	12,301	(10,223)	2,078
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	(3,054)	33,093	(21,510)	11,583
40	346100	Comm Equip Non-Telephone	-	-	(483)	11,782	(6,302)	5,479
41	346300	Comm Equip Other	63,001	-	(1,149)	63,581	(1,217)	62,363
42	TOTAL		\$ 3,835,219	\$ (2,312)	\$ (174,660)	\$ 8,890,783	\$ (1,117,402)	\$ 7,773,380
43	Per Company Work Papers		3,835,219	(2,312)	(174,261)	8,890,783	(1,122,625)	7,768,158
44	RUCO Increase (Decrease) to GUPIS & Accum. Depre.		\$ 0	\$ (0)	\$ 418	\$ 0	\$ (5,223)	\$ 5,222

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 5, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 5, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2007

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDDTS/ADJ.MTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 10,144	\$ -	\$ 10,144
2	302000	Franchises	-	-	-	-	-	-
3	303200	Land & Land Rights SS	-	-	-	47,343	-	47,343
4	303300	Land & Land Rights P	-	-	-	-	-	-
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	(1,399,617)	-	(53,761)	2,097,296	(96,159)	2,001,137
8	304200	Struct & Imp P	99,968	-	-	99,968	-	99,968
9	304300	Struct & Imp WT	-	-	-	-	-	-
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	42	-	(420)	20,697	(441)	20,257
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	(3,766)	148,253	(41,853)	106,400
14	306000	Lakes, Rivers, Other Intakes	71,025	-	-	116,045	-	116,045
15	307000	Wells & Springs	54	-	(16,362)	644,172	(147,784)	496,389
16	310100	Power Generation Equip Other	4	-	(2,608)	50,935	(26,211)	24,724
17	311200	Pump Equip Electric	645,971	-	(29,231)	1,353,198	(152,025)	1,201,173
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	4,202	-	-	4,202	-	4,202
20	320100	WT Equip Non-Media	311,090	-	1,553	258,942	(21,441)	237,501
21	330000	Dist Reservoirs & Standpipe	493,107	-	(21,542)	1,356,012	(141,308)	1,214,704
22	331001	TD Mains Not Classified by Size	9	-	(783)	36,742	(216)	36,526
23	331100	TD Mains 4in & Less	10,445	-	(24,704)	1,164,587	(298,164)	866,423
24	331200	TD Mains 6in to 8in	387,791	-	(13,212)	959,064	(49,976)	909,087
25	331300	TD Mains 10in to 16in	173,660	-	(12,327)	730,665	(36,847)	693,819
26	333000	Services	101,319	-	(5,566)	278,916	(59,443)	219,472
27	334100	Meters	1,407	(2,254)	(6,206)	175,586	(72,673)	102,913
28	334200	Meter Installations	1,649	-	(600)	17,253	(1,467)	15,786
29	335000	Hydrants	-	-	-	-	-	-
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	563	(563)	(155)	3,254	(460)	2,794
33	340200	Comp & Periph Equip	-	(2,591)	(477)	9,145	5,576	14,720
34	341100	Trans Equip Lt Duty Trks	-	-	(21,222)	84,886	(143,237)	(58,351)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	-	-	-	-
37	343000	Tools, Shop, Garage Equip	5,980	-	(1,023)	18,281	(11,246)	7,035
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	(3,054)	33,093	(24,565)	8,528
40	346100	Comm Equip Non-Telephone	4,550	(4,629)	(654)	11,702	(2,327)	9,375
41	346300	Comm Equip Other	(19,167)	-	(2,137)	44,414	(3,355)	41,059
42	TOTAL		\$ 894,050	\$ (10,037)	\$ (218,257)	\$ 9,774,795	\$ (1,325,622)	\$ 8,449,174
43	Per Company Work Papers		894,050	(10,037)	(207,656)	9,774,796	(1,330,281)	8,444,515
44	RUCO Increase (Decrease) to GUPIS & Accum. Depr.		-	-	10,601	1	(4,659)	4,658
						RUCO TY As Calculated	9,774,795	(1,325,622)
						Company TY As Calculated	9,774,796	(1,330,281)
						RUCO Adjustments to Increase (Decrease) GUPIS & Accum. Depr.	-	(4,659)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 6, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 6, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 4,486	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	4,486	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 4,556	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	4,556	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 102,420	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	45,054	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (57,366)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (57,366)</u>	Sum Lines 3, 6 & 9

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY**

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 204,741	\$ -	\$ 204,741	12.00	\$ 2,456,892
2	Purchased Water	-	-	-	494.00	-
3	Fuel & Power	111,139	-	111,139	32.42	3,603,271
4	Chemicals	88,249	-	88,249	18.06	1,593,336
5	Waste Disposal	-	52	52	-	-
6	Management Fees	166,461	(2,004)	164,457	10.40	1,710,358
7	Group Insurance	63,729	-	63,729	(14.08)	(897,425)
8	Pensions	35,586	-	35,586	45.00	1,601,370
9	Insurance Other Than Group	8,974	-	8,974	(68.27)	(612,661)
10	Customer Accounting	22,062	-	22,062	19.76	435,897
11	Rents	5,059	-	5,059	(10.50)	(53,120)
12	Depreciation & Amortization	291,351	1,504	292,855	-	-
13	Other Operating Expenses	258,745	(3,976)	254,769	30.00	7,643,065
	Taxes:					
14	Taxes Other Than Income	17,638	-	17,638	15.07	265,886
15	Property Taxes	44,112	9,411	53,523	212.50	11,373,540
16	Income Tax	147,572	(60,881)	86,691	28.75	2,492,354
17	Interest Expense	-	121,020	121,020	106.52	12,890,778
18	Total Appropriate Operating Expenses	<u>\$ 1,465,418</u>	<u>\$ 65,125</u>	<u>\$ 1,530,543</u>		<u>\$ 44,503,541</u>
19	Expense Lag	Line 18, Col. (E) / (C)	29.08			
20	Revenue Lag		<u>39.82</u>			
21	Net Lag	Line 20 - Line 19	10.74			
22	RUCO Adjusted Expenses	Col. (C), Line 18	<u>\$ 1,530,543</u>			
23	Cash Working Capital	Line 21 X Line 22 / 365 Days	<u>45,054</u>			
24	Company As Filed	Co. Schedule B-6, Page 1	102,420			
25	Difference	Line 23 - Line 24	<u>\$ (57,366)</u>			
26	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 25	<u>\$ (57,366)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 1,003,476	\$ -	\$ 1,003,476	\$ 660,219	\$ 1,663,696
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	23,110	-	23,110	-	23,110
4	TOTAL OPERATING REVENUE	<u>\$ 1,026,587</u>	<u>\$ -</u>	<u>\$ 1,026,587</u>	<u>\$ 660,219</u>	<u>\$ 1,686,806</u>
	Operating Expenses:					
5	Labor	\$ 204,741	\$ -	\$ 204,741	\$ -	\$ 204,741
6	Purchased Water	-	-	-	-	-
7	Fuel & Power	111,139	-	111,139	-	111,139
8	Chemicals	88,249	-	88,249	-	88,249
9	Waste Disposal	(52)	52	-	-	-
10	Management Fees	166,461	(2,004)	164,457	-	164,457
11	Group Insurance	63,729	-	63,729	-	63,729
12	Pensions	35,586	-	35,586	-	35,586
13	Regulatory Expense	3,840	(0)	3,840	-	3,840
14	Insurance Other Than Group	8,974	-	8,974	-	8,974
15	Customer Accounting	22,062	-	22,062	-	22,062
16	Rents	5,059	-	5,059	-	5,059
17	General Office Expense	13,616	-	13,616	-	13,616
18	Miscellaneous	42,644	(188)	42,456	-	42,456
19	Maintenance Expense	198,697	-	198,697	-	198,697
20	Depreciation & Amortization	291,351	1,504	292,855	-	292,855
21	General Taxes - Property Taxes	44,112	9,411	53,523	-	53,523
22	General Taxes - Other	17,638	-	17,638	-	17,638
23	Income Tax	(159,839)	-	(159,839)	246,530	86,691
24	Rounding	(2)	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 1,158,005</u>	<u>\$ 8,774</u>	<u>\$ 1,166,781</u>	<u>\$ 246,530</u>	<u>\$ 1,413,310</u>
26	OPERATING INCOME (LOSS)	<u>\$ (131,419)</u>	<u>\$ (8,774)</u>	<u>\$ (140,194)</u>	<u>\$ 413,690</u>	<u>\$ 273,496</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS

TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 PROPERTY TAX	(C) ADJMT NO. 2 DEPRECIATN & AMORTIZN	(D) ADJMT NO. 3 RATE CASE EXPENSE	(E) ADJMT NO. 4 WASTE DISPOSAL	(F) ADJMT NO. 5 AIP EXPENSE	(G) ADJMT NO. 6 LABOR EXPENSE	(H) ADJMT NO. 7 MISC. EXPENSES	(I) ADJMT NO. 8 INCOME TAX	(J) RUCO AS ADJTD
1	Revenues:										
2	Metered Water Revenues	\$ 1,003,476	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,003,476
3	Unmetered Water Revenues	23,110	-	-	-	-	-	-	-	-	23,110
4	Other Water Revenues	\$ 1,026,587	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,026,587
5	TOTAL OPERATING REV.										
6	Operating Expenses:										
7	Labor	\$ 204,741	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 204,741
8	Purchased Water	-	-	-	-	-	-	-	-	-	-
9	Fuel & Power	111,139	-	-	-	-	-	-	-	-	111,139
10	Chemicals	88,249	-	-	-	-	-	-	-	-	88,249
11	Waste Disposal	(52)	-	-	-	52	-	-	-	-	-
12	Management Fees	166,461	-	-	-	-	-	-	-	-	166,461
13	Group Insurance	63,729	-	-	-	-	-	-	-	-	63,729
14	Pensions	35,586	-	-	-	-	-	-	-	-	35,586
15	Regulatory Expense	3,840	-	-	(0)	-	-	-	-	-	3,840
16	Insurance Other Than Group	8,974	-	-	-	-	-	-	-	-	8,974
17	Customer Accounting	22,062	-	-	-	-	-	-	-	-	22,062
18	Rents	5,059	-	-	-	-	-	-	-	-	5,059
19	General Office Expense	13,616	-	-	-	-	-	-	-	-	13,616
20	Miscellaneous	42,644	-	-	-	-	-	-	(188)	-	42,456
21	Maintenance Expense	198,697	-	-	-	-	-	-	-	-	198,697
22	Depreciation & Amortization	291,351	-	-	-	-	-	-	-	-	292,855
23	General Taxes - Property Taxes	44,112	9,411	1,504	-	-	-	-	-	-	53,523
24	General Taxes - Other	17,638	-	-	-	-	-	-	-	-	17,638
25	Income Tax	(159,839)	-	-	-	-	-	-	-	7,220	(159,839)
26	Rounding	(2)	-	-	-	-	-	-	-	-	-
	TOTAL OPERATING EXP.	\$ 1,158,005	\$ 9,411	\$ 1,504	\$ (0)	\$ 52	\$ (2,004)	\$ -	\$ (188)	\$ 7,220	\$ 1,166,781
	OPERATING INC. (LOSS)	\$ (131,419)									\$ (140,194)

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Rate Case Expense
- 4 Intentionally Left Blank
- 5 Annual Incentive Pay Program Expense
- 6 Intentionally Left Blank
- 7 Miscellaneous Expense
- 8 Income Tax

REFERENCE:

- 1 Testimony, RLM And Schedule RLM-8
- 2 Testimony, RLM And Schedule RLM-9
- 3 Testimony, RLM And Schedule RLM-10
- 4 Paradise Valley Adjustment To Chemical Expense
- 5 Testimony, RLM And Schedule RLM-11
- 6 Agua Fria, Mohave & Sun City West Adjustment To Labor Expense
- 7 Testimony, RLM And Schedule RLM-12, Pages 1 - 5
- 8 Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
	Annual Operating Revenues:			
1	Adjusted Test Year Revenue	Schedule RLM-7	\$ 1,026,587	
2	Adjusted Test Year Revenue	Schedule RLM-7	1,026,587	
3	RUCO Proposed Revenue	Schedule RLM-6	1,686,806	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 3,739,979	
5	Average Annual Operating Revenues	Line 4 / 3	<u>1,246,660</u>	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 2,493,319
ADD:				
	10% Of Construction Work In Progress ("CWIP"):			
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 100,797	
8	10% Of CWIP	Line 7 X 10%		\$ 10,080
SUBTRACT:				
	Transportation At Book Value:			
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		<u>\$ 2,503,399</u>
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
	FCV X Valuation Assessment Ratio X Property Tax Rates:			
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 575,782	
	Property Tax Rates:			
15	Primary Tax Rate	Company Workpapers	9.30%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	<u>9.30%</u>	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		<u>\$ 53,523</u>
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		<u>44,112</u>
20	Increase (Decrease) In Property Tax Expense	Line 18 - Line 19		\$ 9,411
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		<u><u>\$ 9,411</u></u>

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 10,144	0.00%	\$ -
2	302000	Franchises	-	0.00%	-
3	303200	Land & Land Rights SS	47,343	0.00%	-
4	303300	Land & Land Rights P	-	0.00%	-
5	303500	Land & Land Rights TD	-	0.00%	-
6	303600	Land & Land Rights AG	-	0.00%	-
7	304100	Struct & Imp SS	2,097,296	2.79%	58,515
8	304200	Struct & Imp P	99,968	0.00%	-
9	304300	Struct & Imp WT	-	0.00%	-
10	304400	Struct & Imp TD	-	0.00%	-
11	304600	Struct & Imp Offices	20,697	2.03%	420
12	304800	Struct & Imp Misc	-	0.00%	-
13	305000	Collect & Impounding	148,253	2.54%	3,766
14	306000	Lakes, Rivers, Other Intakes	116,045	0.00%	-
15	307000	Wells & Springs	644,172	2.54%	16,362
16	310100	Power Generation Equip Other	50,935	5.12%	2,608
17	311200	Pump Equip Electric	1,353,198	3.71%	50,204
18	311300	Pump Equip Diesel	-	0.00%	-
19	311500	Pump Equip Other	4,202	0.00%	-
20	320100	WT Equip Non-Media	258,942	12.00%	31,073
21	330000	Dist Reservoirs & Standpipe	1,356,012	2.33%	31,595
22	331001	TD Mains Not Classified by Size	36,742	2.13%	783
23	331100	TD Mains 4in & Less	1,164,587	2.13%	24,806
24	331200	TD Mains 6in to 8in	959,064	2.13%	20,428
25	331300	TD Mains 10in to 16in	730,665	2.13%	15,563
26	333000	Services	278,916	2.89%	8,061
27	334100	Meters	175,586	3.52%	6,181
28	334200	Meter Installations	17,253	3.52%	607
29	335000	Hydrants	-	0.00%	-
30	339100	Othber P/E Intangible	-	0.00%	-
31	3392500	Other P/E SS	-	0.00%	-
32	340100	Office Furniture & Equip	3,254	4.10%	133
33	340200	Comp & Periph Equip	9,145	4.10%	375
34	341100	Trans Equip Lt Duty Trks	84,886	25.00%	21,222
35	341200	Trans Equip Hvy Duty Trks	-	25.00%	-
36	342000	Stores Equipment	-	3.93%	-
37	343000	Tools,Shop,Garage Equip	18,281	7.55%	1,380
38	344000	Laboratory Equipment	-	3.06%	-
39	345000	Power Operated Equipment	33,093	9.23%	3,054
40	346100	Comm Equip Non-Telephone	11,702	4.10%	480
41	346300	Comm Equip Other	44,414	6.19%	2,749
42	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 9,774,795		\$ 300,364
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE			25,755
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			-
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 326,119
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORTIZATION OF REGULATORY ASSETS			834
48		AMORTIZATION OF CONTRIBUTIONS			(6,011)
49		AMORTIZATION OF REGULATORY CIAC			(28,087)
50		Rounding			-
51	TOTAL DEPRECIATION EXPENSE				\$ 292,855
52	Company As Filed				291,351
53	Difference				\$ 1,504
54	RUCO Adjustment (See RLM-7, Column (C))				\$ 1,504

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	\$ 612,000	\$ (187,735)	\$ 424,265
2	Allocation Factor (See NOTE Below)	1.8822%		2.7151%
3	Havasu Water District (Line 1 X Line 2)	\$ 11,519	\$ -	\$ 11,519
4	Amortization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 3 Years)			\$ 3,840
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			\$ 3,840
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			\$ (0)
8	RUCO Adjustment (Line 7) (See RLM-7, Column (D))			\$ (0)

NOTE

	4-Factor Allocation	Company As Filed		RUCO As Adjusted	
	Districts Included In This Filing				
9	Sun City West Water District	11.7965%	\$ 72,195	17.0164%	\$ 72,195
10	Paradise Valley Water District	10.4331%	63,851	15.0497%	63,851
11	Tubac Water District	0.9990%	6,114	1.4411%	6,114
12	Agua Fria Water District	31.3783%	192,035	45.2631%	192,035
13	Havasu Water District	1.8822%	11,519	2.7151%	11,519
14	Mohave Water District	11.3740%	69,609	16.4069%	69,609
15	Mohave Wastewater District	1.4612%	8,943	2.1078%	8,943
16	Total	69.3243%	\$ 424,265	100.0000%	\$ 424,265
	Districts NOT Included In This Filing				
17	Agua Fria Wastewater District	8.2232%	\$ 50,326		
18	Distco/Treatco Sewer	9.8095%	60,034		
19	Distco/Treatco Water	12.6430%	77,375		
20		100.0000%	\$ 612,000		

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
ANNUAL INCENTIVE PLAN EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJUSTED
1	AZ-AM Annual Incentive Plan ("AIP") Expense Total	Co. Response To RUCO DR 2	\$ 482,198
2	Allocation Factor	Co. Workpapers Per SLH-6	1.3850%
3	Havasu Water District	Lines 1 X 2	<u>\$ 6,678</u>
4	Portion Deemed Shareholder Benefit Only	RLM Testimony	30.00%
5	RUCO Test-Year Disallowance Of AIP Expense	Lines 3 X 4	<u>\$ (2,004)</u>
6	RUCO Adjustment (See RLM-7, Column (D))	Line 5	<u><u>\$ (2,004)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		ALLOCABLE TOTAL	ALLOCA'N 4-FACTOR	DISTRICT TOTAL	RUCO AS ADJUSTED
1	Havasu Water Direct Miscellaneous Account (RLM-12, Pg, Ln 119)	\$ -	100.00%	\$ -	
2	Corporate Office Allocable Miscellaneous Account (RLM-12, Pg 4, Ln 98)	\$ (13,607.91)	1.3850%	\$ (188)	
3	TOTAL				<u>\$ (188)</u>
4	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (See RLM-7, Column (H))				<u>\$ (188)</u>

NOTE

4-Factor Allocation

5	Sun City West Water District	8.3198%
6	Paradise Valley Water District	7.6863%
7	Tubac Water District	0.7254%
8	Agua Fria Water District	23.0946%
9	Havasu Water District	1.3850%
10	Mohave Water District	7.8288%
11	Mohave Wastewater District	1.0290%

References:

Column (A): RLM-12, Pages 2 Thru 5 Derived From Company's Line 21 Workpapers
Column (B): See NOTE
Column (C): Column (A) X Column (B)
Column (D): Sums Of Column (C)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 -CONT'D
INAPPROPRIATE MISCELLANEOUS EXPENSES

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
CORPORATED OFFICE MISCELLANEOUS EXPENSES					
1	Misc Oper WT	\$ 55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
2	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
3	PCard Undistributed	33.00	ALVES FLOWERS & GIFTS	NANCY J HUCKEY	Land
4	Employee Awards AG	2,400.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
5	Employee Awards AG	2,500.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
6	PCard Undistributed	27.29	BASHAS'	ARTHUR W FAIELLO	External training/seminars
7	Training AG	8.49	BASHAS'	KURTIS L STRAUDEL	External training/seminars
8	Training AG	13.24	BASHAS'	KURTIS L STRAUDEL	External training/seminars
9	Training AG	33.69	BASHAS'	KURTIS L STRAUDEL	In-house training/seminars
10	PCard Undistributed	25.64	BURGER KING #5915 Q	ANGEL STEVENS	NON-Catered Food & Beverages
11	PCard Undistributed	26.00	CHARLEY'S GRILLED SQ	ANGEL STEVENS	NON-Catered Food & Beverages
12	PCard Undistributed	1.89	CHEVRON	JAMES ISHMAEL	NON-Catered Food & Beverages
13	PCard Undistributed	1.59	CHEVRON	WILLIAM L WALLSTEAD	NON-Catered Food & Beverages
14	Misc Oper AG	59.57	CHILI'S GRI	BERT L REYNOLDS	NON-Catered Food & Beverages
15	PCard Undistributed	40.00	CHINA BUFFET	BRIAN BIESEMEYER	NON-Catered Food & Beverages
16	PCard Undistributed	23.49	CHIPOTLE #0898 Q	ANGEL STEVENS	NON-Catered Food & Beverages
17	PCard Undistributed	5.48	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
18	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
19	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
20	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
21	PCard Undistributed	7.18	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
22	Training AG	28.05	COLDSTN CREAM #30 Q	KURTIS L STRAUDEL	In-house training/seminars
23	PCard Undistributed	273.61	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
24	PCard Undistributed	7.36	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
25	PCard Undistributed	17.16	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
26	PCard Undistributed	220.69	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
27	Co Dues/Membership Deduct	281.06	Costco Wholesale Membership-RE	Membership Dues	Financial Costs
28	Misc Oper AG	55.89	Costco-REMIT	7003-7300-0000-6704	NON-Catered Food & Beverages
29	Training AG	48.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
30	Training AG	54.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	In-house training/seminars
31	PCard Undistributed	34.99	CRAZY CARLOS INC	GARRY T BURTON	NON-Catered Food & Beverages
32	PCard Undistributed	30.00	CUCINA TAGLIANI	JEREMIAH MECHAM	NON-Catered Food & Beverages
33	PCard Undistributed	18.52	DENNY'S INC	ANGEL STEVENS	NON-Catered Food & Beverages
34	PCard Undistributed	53.91	DILLONS GRAND	DALE E KENNOW	NON-Catered Food & Beverages
35	PCard Undistributed	14.21	DILLONS GRAND	PAUL D TAYLOR	NON-Catered Food & Beverages
36	PCard Undistributed	71.37	DILLONS THUNDERBIRD	FLOYD K MCKINNEY	NON-Catered Food & Beverages

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
37	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	External training/seminars
38	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	In-house training/seminars
39	PCard Undistributed	27.14	EINSTEIN BROS	PAULA A CHRISTIAN	NON-Catered Food & Beverages
40	Trans Oper AG	66.39	EL PASO BARBQUE	ERNEST G SANTA CRUZ	NON-Catered Food & Beverages
41	PCard Undistributed	30.84	EL TORITO	TODD R FARRELL	NON-Catered Food & Beverages
42	PCard Undistributed	19.22	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
43	PCard Undistributed	28.76	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
44	PCard Undistributed	28.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
45	PCard Undistributed	25.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
46	PCard Undistributed	33.28	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
47	PCard Undistributed	13.76	FRYS-FOOD-DRG #122 SXN	ROY PEREZ JR	NON-Catered Food & Beverages
48	Training AG	25.59	HMSHOST-PHX-AIR	NEIL J MEYER	NON-Catered Food & Beverages
49	Misc Oper AG	125.00	Huckeby, Nancy J - Petty Cash	Christmas Decorations	Office Decorations
50	Misc Oper AG	200.00	Huckeby, Nancy J - Petty Cash	Christmas Party Security	Security & Monitoring
51	PCard Undistributed	9.96	HUNGRY HOWIE'S PIZZA	JON C BEHRENDT	NON-Catered Food & Beverages
52	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	274560	NON-Catered Food & Beverages
53	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	ICE	NON-Catered Food & Beverages
54	Misc Oper AG	143.61	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
55	Misc Oper AG	81.18	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
56	PCard Undistributed	40.53	IHOP	ANGEL STEVENS	NON-Catered Food & Beverages
57	PCard Undistributed	27.58	KFC #1303016	ANGEL STEVENS	NON-Catered Food & Beverages
58	Trans Oper AG Lease Cost	60.91	LAS CAZUELA'S	ANGEL STEVENS	NON-Catered Food & Beverages
59	PCard Undistributed	67.37	MADLYN'S	PAUL M LI	NON-Catered Food & Beverages
60	PCard Undistributed	3.98	MCDONALD'S F	KURTIS L STRAUDEL	NON-Catered Food & Beverages
61	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	Catering/works catering
62	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	External training/seminars
63	PCard Undistributed	6.96	PILOT	JAMES ISHMAEL	In-house training/seminars
64	PCard Undistributed	6.34	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
65	PCard Undistributed	71.98	PIZZA HUT	ANGEL STEVENS	NON-Catered Food & Beverages
66	Other Welf Oper AG	41.25	Professional Plants & Inc-PO/R	SERVICES	Landscaping
67	PCard Undistributed	10.02	QUIZNOS	ANDREW C MARTINEZ	NON-Catered Food & Beverages
68	PCard Undistributed	54.55	RIO MIRAGE CAFE	JENNIFER L HALLIDAY	NON-Catered Food & Beverages
69	PCard Undistributed	16.77	ROMENS GYROS	RANDY J ZIOLKOWSKI	Pathwaynet Default
70	PCard Undistributed	69.87	ROSATI'S PIZZA - PEORI	ANGEL STEVENS	NON-Catered Food & Beverages
71	Training AG	61.53	ROSATI'S PIZZA UNION H	KURTIS L STRAUDEL	External training/seminars
72	PCard Undistributed	4.99	SAFEWAY STORE	CHRISTOPHER M WILLIAMS	NON-Catered Food & Beverages
73	PCard Undistributed	20.95	SAFEWAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
74	PCard Undistributed	39.37	SAFEWAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
75	PCard Undistributed	21.13	SAFEWAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
76	PCard Undistributed	14.53	SAFEWAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
77	PCard Undistributed	15.64	SUBWAY 25139	JEFFREY S BORN	Catering/works catering
78	Misc Oper AG	25.00	Supreme Court of Pennsylvania	Certificate	NON-Catered Food & Beverages
79	Employee Awards AG	107.84	Tharpe Company Inc-REMIT	8549	Event organization services
80	Employee Awards AG	722.07	Tharpe Company Inc-REMIT	98415RI	Service Awards and Premiums
81	Employee Awards AG	829.39	Tharpe Company Inc-REMIT	CUST #16248	Service Awards and Premiums

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
82	Employee Awards AG	882.92	Tharpe Company Inc-REMIT	CUST# 16248	Service Awards and Premiums
83	Employee Awards AG	90.27	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
84	Employee Awards AG	176.84	Tharpe Company Inc-REMIT	cust# 8549	Service Awards and Premiums
85	Employee Awards AG	120.50	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
86	Employee Awards AG	110.61	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
87	Employee Awards AG	79.64	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
88	Employee Awards AG	88.41	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
89	Employee Awards AG	78.57	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
90	Employee Awards AG	204.49	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
91	Employee Awards AG	135.65	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
92	Employee Awards AG	79.93	Tharpe Company Inc-REMIT	inv 454294n	Service Awards and Premiums
93	Misc Oper AG	67.04	TLF CACTUS FLOWER FLOR	NANCY J HUCKEY	Land
94	Overnight Shipping AG	35.93	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
95	Overnight Shipping AG	(35.93)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
96	Community Relations	1,000.00	Water for People-REMIT	Water For People Sponsor	Sponsoring
97	Training AG	17.32	WONDER BREAD/HOSTESS	KURTIS L STRAUDEL	External training/seminars
98		<u>\$ 13,607.91</u>			

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
DISTRICT DIRECTLY ALLOCATED MISCELLANEOUS EXPENSES					
SUN CITY WEST WATER DISTRICT MISCELLANEOUS EXPENSES					
99	M & S Oper TD	18.94	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
100	M & S Oper SS	59.03	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
101	Misc Oper PP	57.63	RED ROBIN NO	PAUL D TAYLOR	NON-Catered Food & Beverages
102	Misc Oper PP	30.93	SAFEWAY STORE	ROBERT L CRON	NON-Catered Food & Beverages
103	Total	\$ 166.53			
PARADISE VALLEY WATER DISTRICT MISCELLANEOUS EXPENSES					
104	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
105	Training AG	5.39	LONG JOHN SILV	NEIL J MEYER	NON-Catered Food & Beverages
106	Safety Incentive	132.00	Peavey Performance Systems	1004289	Service Awards and Premiums
107	Training AG	6.26	SUBWAY #10469	NEIL J MEYER	NON-Catered Food & Beverages
108	Misc Oper TD	33.98	THE HOME DEPOT	LEE F HUDDLESTON	Event organization services
109	Total	\$ 313.29			
TUBAC WATER DISTRICT MISCELLANEOUS EXPENSES					
110	Contract Svc-Eng Oper AG	17.12	KFC 1303012	ROBERT L CRON	NON-Catered Food & Beverages
111	Overnight Shipping AG	20.82	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
112	Overnight Shipping AG	(20.82)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
113	Total	\$ 17.12			
AGUA FRIA WATER DISTRICT MISCELLANEOUS EXPENSES					
114	Brochures and Handouts	\$ 1,788.00	AZ University	Project WET Sponsorship	Sponsoring
115	Misc Oper SS	157.41	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
116	Water Res Conservation	317.39	CSI CRESTLINE CO INC	SALLY L CECARELLI WOLF	Service Awards and Premiums
117	M & S Oper TD	44.22	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
118	Total	\$ 2,307.02			
HAVASU WATER DISTRICT MISCELLANEOUS EXPENSES					
119	No Adjustment	\$ -			
MOHAVE WATER DISTRICT MISCELLANEOUS EXPENSES					
120	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
121	M & S Oper TD	22.80	DENNY'S INC	CHAD E GEBOW	NON-Catered Food & Beverages
122	M & S Oper TD	133.56	Ferguson Enterprises Inc #675	7202007	NON-Catered Food & Beverages
123	M & S Oper TD	50.00	Ferguson Enterprises Inc-#602-	CUST# 605937	NON-Catered Food & Beverages
124	Total	\$ 342.02			
MOHAVE WASTEWATER DISTRICT MISCELLANEOUS EXPENSES					
125	M & S Oper WT	\$ 26.92	WAL-MART	WILLIAM L WALLSTEAD	Animal feed
126	Total	\$ 26.92			

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ (300,033)
	LESS:		
2	Arizona State Tax	Line 11	(29,339)
3	Interest Expense	Note (A) Line 20	121,020
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (391,714)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	31.47%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (123,280)
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ (300,033)
	LESS:		
8	Interest Expense	Note (A) Line 20	121,020
9	State Taxable Income	Line 7 - Line 8	\$ (421,053)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (29,339)
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (123,280)
13	State Income Tax Expense	Line 11	(29,339)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (152,619)
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(159,839)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 7,220
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	\$ 7,220

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 4,012,421
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 121,020

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST RATE
1	DEBT	55.20%	5.46%	3.02%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL			<u><u>7.00%</u></u>

References:

Columns (A) Thru (C): See Testimony - William A. Rigsby

MOHAVE WATER DISTRICT

TABLE OF CONTENTS TO RLM SCHEDULES

SCH. NO.	PAGE NO.	TITLE
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RLM-2		RATE BASE ADJUSTMENT NO. 1 - ADJUSTMENT TO ACCUMULATED DEPRECIATION
RLM-2		RATE BASE ADJUSTMENT NO. 2 - REINSTATE CIAC ASSOCIATED WITH CWIP
RLM-2		RATE BASE ADJUSTMENT NO. 3 - INTENTIONALLY LEFT BLANK
RLM-2		RATE BASE ADJUSTMENT NO. 4 - INTENTIONALLY LEFT BLANK
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RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 12,041,310	\$ 9,841,553
2	Adjusted Operating Income (Loss)	\$ 37,140	\$ 254,661
3	Current Rate Of Return (L2 / L1)	0.31%	2.59%
4	Required Operating Income (L5 X L1)	\$ 1,011,470	\$ 688,531
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 974,330	\$ 433,870
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6990	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 1,655,410	\$ 706,615
9	Adjusted Test Year Revenue	\$ 5,113,631	\$ 5,113,631
10	Proposed Annual Revenue (L8 + L9)	\$ 6,769,041	\$ 5,820,246
11	Required Percentage Increase In Revenue (L8 / L9)	32.37%	13.82%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:				
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
	CALCULATION OF EFFECTIVE TAX RATE:				
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 688,531			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	254,661			
13	Required Increase In Operating Income (L11 - L12)		\$ 433,870		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 180,456			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(196,927)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 377,383		
17	Total Required Increase In Revenue (L13 + L16)		\$ 811,253		
	CALCULATION OF INCOME TAX:				
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			RUCO Recommended	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			\$ 5,820,246	
20	Synchronized Interest (Col. (C), L37)			5,055,897	
21	Arizona Taxable Income (L18 - L19 - L20)			296,834	
22	Arizona State Income Tax Rate			\$ 467,516	
23	Arizona Income Tax (L21 X L22)			6.9680%	
24	Fed. Taxable Income (L21 - L23)			\$ 434,939	\$ 32,576
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			33,979	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)			\$ 147,879	
31	Combined Federal And State Income Tax (L23 + L30)			\$ 180,456	
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)			\$ (196,927)	
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)			\$ 377,383	
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
	CALCULATION OF INTEREST SYNCHRONIZATION:				
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 9,841,553	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 296,834	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'ED OCRB/FVRB	
1	Gross Utility Plant In Service	\$ 28,800,225	\$ -	\$ 28,800,225	
2	Accumulated Depreciation	\$ (13,084,198)	175,741	\$ (12,908,457)	
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 15,716,027</u>	<u>\$ 175,741</u>	<u>\$ 15,891,768</u>	
4	Advances In Aid Of Const.	\$ (5,947,009)	\$ (291,910)	\$ (6,238,919)	
5	Contribution In Aid Of Const.	\$ (107,545)	\$ (94,453)	\$ (201,998)	
6	Accumulated Amortization Of CIAC	\$ -	(27,517)	\$ (27,517)	
7	NET CIAC (L6 + L7)	<u>\$ (107,545)</u>	<u>\$ (121,969)</u>	<u>\$ (229,514)</u>	
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	
9	Imputed Regulatory Contributions	\$ (1,157,044)	\$ -	\$ (1,157,044)	
10	Customer Meter Deposits	\$ (7,800)	\$ -	\$ (7,800)	\$ -
11	Deferred Income Taxes And Credits	\$ 1,360,455	\$ -	\$ 1,360,455	
12	Investment Tax Credits	\$ -	\$ -	\$ -	
13	Deferred Debits	\$ 1,749,805	\$ (1,649,972)	\$ 99,833	
14	Allowance For Working Capital	\$ 434,422	\$ (311,647)	\$ 122,775	
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	
16	Rounding	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ (1)</u>	
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 12,041,310</u>	<u>\$ (2,199,757)</u>	<u>\$ 9,841,553</u>	\$ (2,199,757)

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMULT'D DEPRECT'N	(C) ADJMT NO. 2 CIAC FOR CWIP	(D) ADJMT NO. 3 ACC AMORT PER GB 18.7	(E) ADJMT NO. 4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 28,800,225	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,800,225
2	Accumulated Depreciation	(13,084,198)	175,741	-	-	-	-	-	(12,908,457)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 15,716,027</u>	<u>\$ 175,741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,891,768</u>
4	Advances In Aid Of Const.	\$ (5,947,009)	\$ -	\$ (291,910)	\$ -	\$ -	\$ -	\$ -	\$ (6,238,919)
5	Contribution In Aid Of Const.	\$ (107,545)	\$ -	\$ (94,453)	\$ -	\$ -	\$ -	\$ -	\$ (201,998)
6	Accumulated Amortization Of CIAC	-	-	-	(27,517)	-	-	-	(27,517)
7	NET CIAC (L5 + L6)	<u>\$ (107,545)</u>	<u>\$ -</u>	<u>\$ (94,453)</u>	<u>\$ (27,517)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (229,514)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (1,157,044)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,157,044)
10	Customer Meter Deposits	\$ (7,800)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (7,800)
11	Deferred Income Taxes And Credits	\$ 1,360,455	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,360,455
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,749,805	\$ -	\$ -	\$ -	\$ -	\$ (1,649,972)	\$ -	\$ 99,833
14	Allowance For Working Capital	\$ 434,422	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (311,647)	\$ 122,775
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	<u>\$ 12,041,310</u>	<u>\$ 175,741</u>	<u>\$ (386,362)</u>	<u>\$ (27,517)</u>	<u>\$ -</u>	<u>\$ (1,649,972)</u>	<u>\$ (311,647)</u>	<u>\$ 9,841,553</u>

References:

- Column (A): Company Schedule B-2
Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
Column (D): Adjustment No. 3 - Intentionally Left Blank
Column (E): Adjustment No. 4 - Intentionally Left Blank
Column (F): Adjustment No. 5 - To Correct Deferred Debit Balance per Company's Response to Staff DR GWB 17.1
Column (G): Adjustment No. 6 - Allowance For Working Capital
Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED DECEMBER 9, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)	(G)
			PRIOR DECISION NO. 69440 -	ADJUSTED			RUCO ADJUSTED PRIOR TEST YEAR		
			DEP. RATE	GROSS PLANT	ACCUMULATED DEPRECIATION	PLANT ADJUSTMENT	ACC. DEP. ADJUSTMENT	GROSS PLANT	ACCUMULATED DEPRECIATION
1	301000	Organization	0.0000%	\$ 34,004	\$ -	\$ -	\$ -	\$ 34,004	\$ -
2	302000	Franchises	0.0000%	37,061	-	-	-	37,061	-
3	303200	Land & Land Rights SS	0.0000%	245,942	-	-	-	245,942	-
4	303300	Land & Land Rights P	0.0000%	2,361	-	-	-	2,361	-
5	303500	Land & Land Rights TD	0.0000%	9,609	-	-	-	9,609	-
6	303600	Land & Land Rights AG	0.0000%	330	-	-	-	330	-
7	304100	Struct & Imp SS	2.8300%	387,473	(126,063)	-	-	387,473	(126,063)
8	304200	Struct & Imp P	2.3900%	1,687	2,504	-	-	1,687	2,504
9	304300	Struct & Imp WT	2.5000%	47,846	(10,419)	-	-	47,846	(10,419)
10	304400	Struct & Imp TD	1.8100%	4,583	(2,289)	-	-	4,583	(2,289)
11	304600	Struct & Imp Offices	2.0300%	453,659	(69,489)	-	-	453,659	(69,489)
12	304700	Struct & Imp - Stores	2.0300%	29,223	(3,382)	-	-	29,223	(3,382)
13	305000	Collect & Impounding	2.5400%	663,944	(135,632)	-	-	663,944	(135,632)
14	306000	Lakes, Rivers, Other Intakes	0.0000%	-	-	-	-	-	-
15	307000	Wells & Springs	2.7000%	791,320	(355,381)	-	-	791,320	(355,381)
16	310100	Power Generation Equip Other	0.0000%	-	-	-	-	-	-
17	311200	Pump Equip Electric	5.1200%	2,001,791	(1,245,328)	-	-	2,001,791	(1,245,328)
18	311300	Pump Equip Diesel	0.0000%	-	-	-	-	-	-
19	311500	Pump Equip Other	5.1200%	-	-	-	-	-	-
20	320100	WT Equip Non-Media	12.0000%	50,870	(65,161)	-	-	50,870	(65,161)
21	330000	Dist Reservoirs & Standpipe	1.8100%	1,584,352	(335,665)	-	-	1,584,352	(335,665)
22	331001	TD Mains Not Classified by Size	2.6100%	49,469	(3,471)	-	-	49,469	(3,471)
23	331100	TD Mains 4in & Less	2.6100%	11,674,017	(4,537,588)	-	-	11,674,017	(4,537,588)
24	331200	TD Mains 6in to 8in	2.6100%	531,949	(27,309)	-	-	531,949	(27,309)
25	331300	TD Mains 10in to 16in	2.6100%	26,108	(140)	-	-	26,108	(140)
26	333000	Services	5.4100%	3,028,461	(1,895,297)	-	-	3,028,461	(1,895,297)
27	334100	Meters	6.5300%	1,764,594	(838,696)	-	-	1,764,594	(838,696)
28	334200	Meter Installations	6.5300%	146,773	(11,077)	-	-	146,773	(11,077)
29	335000	Hydrants	0.0000%	941	(2)	-	-	941	(2)
30	339100	Other P/E Intangible	0.0000%	-	-	-	-	-	-
31	3392500	Other P/E SS	0.0000%	-	-	-	-	-	-
32	340100	Office Furniture & Equip	4.1000%	179,568	(33,872)	-	-	179,568	(33,872)
33	340200	Comp & Periph Equip	4.1000%	340,017	51,232	-	-	340,017	51,232
34	340300	Computer Software	4.1000%	-	(68)	-	-	-	(68)
35	341100	Trans Equip Lt Duty Trks	25.0000%	528,511	(763,169)	-	-	528,511	(763,169)
36	341200	Trans Equip Hvy Duty Trks	25.0000%	-	-	-	-	-	-
37	342000	Stores Equipment	3.9300%	3,232	(2,583)	-	-	3,232	(2,583)
38	343000	Tools, Shop, Garage Equip	7.5500%	89,873	(113,587)	-	-	89,873	(113,587)
39	344000	Laboratory Equipment	3.0600%	7,623	(6,693)	-	-	7,623	(6,693)
40	345000	Power Operated Equipment	9.2300%	47,338	(70,775)	-	-	47,338	(70,775)
41	346100	Communication Equipment	4.1000%	141,519	(28,785)	-	-	141,519	(28,785)
42	346200	Communication Equipment Telephone	4.1000%	-	(2,424)	-	-	-	(2,424)
43	346300	Miscellaneous Equipment	6.1900%	11,948	(12,708)	-	-	11,948	(12,708)
44	TOTAL			\$ 24,917,996	\$ (10,643,317)	\$ -	\$ -	\$ 24,917,996	\$ (10,643,317)
45	Per Company Work Papers			\$ 24,917,996	\$ (10,643,317)	\$ -	\$ -	\$ 24,917,996	\$ (10,643,317)
46	RUCO Increase (Decrease) to GUPIS & Accum. Depr.			\$ 0	\$ -	\$ -	\$ -	\$ 0	\$ -

References:

Columns (A) (B) (C): Company Schedule B-2
Columns (D) (E): See Testimony, RLM
Column (F): Column (B) + Column (D)
Column (G): Column (C) + Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 9, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 34,004	\$ -	\$ 34,004
2	302000	Franchises	-	-	-	37,061	-	37,061
3	303200	Land & Land Rights SS	38,104	-	-	284,045	-	284,045
4	303300	Land & Land Rights P	-	-	-	2,361	-	2,361
5	303500	Land & Land Rights TD	-	-	-	9,609	-	9,609
6	303600	Land & Land Rights AG	-	-	-	330	-	330
7	304100	Struct & Imp SS	1,793	-	(5,485)	389,266	(131,548)	257,718
8	304200	Struct & Imp P	-	-	(20)	1,687	2,484	4,171
9	304300	Struct & Imp WT	-	-	(598)	47,846	(11,017)	36,829
10	304400	Struct & Imp TD	-	-	(41)	4,583	(2,330)	2,253
11	304600	Struct & Imp Offices	3,481	-	(4,608)	457,140	(74,097)	383,043
12	304700	Struct & Imp - Stores	-	-	(677)	29,223	(4,059)	25,165
13	305000	Collect & Impounding	-	-	(8,432)	663,944	(144,064)	519,880
14	306000	Lakes, Rivers, Other Intakes	-	-	-	-	-	-
15	307000	Wells & Springs	18,329	-	(10,826)	809,649	(366,207)	443,441
16	310100	Power Generation Equip Other	-	-	-	-	-	-
17	311200	Pump Equip Electric	92,398	-	(51,694)	2,094,189	(1,297,022)	797,167
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	-	-	-	-	-	-
20	320100	WT Equip Non-Media	-	-	(3,052)	50,870	(68,213)	(17,343)
21	330000	Dist Reservoirs & Standpipe	-	-	(14,338)	1,584,352	(350,003)	1,234,348
22	331001	TD Mains Not Classified by Size	-	-	(646)	49,469	(4,117)	45,353
23	331100	TD Mains 4in & Less	30,737	-	(152,401)	11,704,754	(4,689,989)	7,014,764
24	331200	TD Mains 6in to 8in	1,226,551	-	(8,276)	1,758,500	(35,585)	1,722,915
25	331300	TD Mains 10in to 16in	1,019	-	(340)	27,126	(480)	26,646
26	333000	Services	85,864	-	(82,599)	3,114,325	(1,977,896)	1,136,429
27	334100	Meters	14,572	(744)	(57,760)	1,778,423	(895,712)	882,711
28	334200	Meter Installations	35,625	(10,991)	(5,070)	171,407	(5,156)	166,251
29	335000	Hydrants	35,446	-	-	36,387	(2)	36,385
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	(4,046)	(3,619)	175,522	(33,445)	142,077
33	340200	Comp & Periph Equip	-	(81,744)	(5,714)	258,273	127,262	385,535
34	340300	Computer Software	-	-	-	-	(68)	(68)
35	341100	Trans Equip Lt Duty Trks	-	(34,838)	(65,701)	493,673	(794,032)	(300,359)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	(64)	3,232	(2,647)	585
38	343000	Tools, Shop, Garage Equip	45,767	-	(3,537)	135,840	(117,124)	18,516
39	344000	Laboratory Equipment	-	-	(117)	7,623	(6,810)	813
40	345000	Power Operated Equipment	49,848	-	(3,915)	97,186	(74,690)	22,495
41	346100	Communication Equipment	641	-	(2,901)	142,160	(31,686)	110,474
42	346200	Communication Equipment Telephone	-	-	-	-	(2,424)	(2,424)
43	346300	Miscellaneous Equipment	-	-	(370)	11,948	(13,078)	(1,129)
44	TOTAL	0	\$ 1,680,173	\$ (132,362)	\$ (492,800)	\$ 26,465,807	\$ (11,003,755)	\$ 15,462,052
45	Per Company Work Papers		1,680,173	(132,362)	(365,887)	26,465,808	(11,009,204)	15,456,604
46	RUCO Increase (Decrease) to GUPIS & Accum. Depre.		(0)	0	126,913	(1)	(5,449)	5,448

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 29, 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 34,004	\$ -	\$ 34,004
2	302000	Franchises	-	-	-	37,061	-	37,061
3	303200	Land & Land Rights SS	6,732	-	-	290,777	-	290,777
4	303300	Land & Land Rights P	-	(10)	-	2,351	10	2,361
5	303500	Land & Land Rights TD	-	-	-	9,609	-	9,609
6	303600	Land & Land Rights AG	-	-	-	330	-	330
7	304100	Struct & Imp SS	-	-	(11,016)	389,266	(142,564)	246,702
8	304200	Struct & Imp P	-	-	(40)	1,687	2,444	4,131
9	304300	Struct & Imp WT	-	-	(1,196)	47,846	(12,213)	35,633
10	304400	Struct & Imp TD	-	-	(83)	4,583	(2,413)	2,170
11	304600	Struct & Imp Offices	-	-	(9,280)	457,140	(83,377)	373,763
12	304700	Struct & Imp - Stores	-	-	(1,353)	29,223	(5,412)	23,812
13	305000	Collect & Impounding	-	-	(16,864)	663,944	(160,928)	503,016
14	306000	Lakes, Rivers, Other Intakes	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(21,861)	809,649	(388,068)	421,581
16	310100	Power Generation Equip Other	-	-	-	-	-	-
17	311200	Pump Equip Electric	57,840	-	(108,207)	2,152,029	(1,405,229)	746,800
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	-	-	-	-	-	-
20	320100	WT Equip Non-Media	-	-	(6,104)	50,870	(74,318)	(23,447)
21	330000	Dist Reservoirs & Standpipe	-	-	(28,677)	1,584,352	(378,680)	1,205,672
22	331001	TD Mains Not Classified by Size	-	-	(1,291)	49,469	(5,408)	44,062
23	331100	TD Mains 4in & Less	9,620	-	(305,597)	11,714,374	(4,995,586)	6,718,788
24	331200	TD Mains 6in to 8in	534,983	-	(50,145)	2,293,483	(85,730)	2,207,753
25	331300	TD Mains 10in to 16in	668	-	(710)	27,794	(1,190)	26,605
26	333000	Services	205,401	-	(173,199)	3,319,725	(2,151,094)	1,168,631
27	334100	Meters	15,472	(1,065)	(116,284)	1,792,829	(1,010,930)	781,899
28	334200	Meter Installations	66,567	(13,053)	(4,498)	224,921	3,399	228,320
29	335000	Hydrants	453	-	-	36,840	(2)	36,838
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(7,196)	175,522	(40,641)	134,881
33	340200	Comp & Periph Equip	-	-	(10,589)	258,273	116,673	374,946
34	340300	Computer Software	-	-	-	-	(68)	(68)
35	341100	Trans Equip Lt Duty Trks	17,533	(168,094)	46,581	343,112	(579,357)	(236,246)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	(127)	3,232	(2,774)	458
38	343000	Tools, Shop, Garage Equip	-	(31)	(10,209)	135,609	(127,302)	8,307
39	344000	Laboratory Equipment	-	-	(233)	7,623	(7,043)	580
40	345000	Power Operated Equipment	-	-	(8,970)	97,186	(83,661)	13,525
41	346100	Communication Equipment	27,499	-	(6,842)	169,659	(38,526)	131,131
42	346200	Communication Equipment Telephone	-	-	-	-	(2,424)	(2,424)
43	346300	Miscellaneous Equipment	4,902	-	(5,642)	16,850	(18,719)	(1,869)
44	TOTAL	0	\$ 947,669	\$ (182,254)	\$ (859,632)	\$ 27,231,222	\$ (11,681,134)	\$ 15,550,089
45	Per Company Work Papers		947,669	(182,254)	(836,298)	27,231,223	(11,845,502)	15,385,721
46	RUCO Increase (Decrease) to GUPIS & Accum. Depr.		(0)	(0)	23,334	1	(164,368)	164,368

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 2, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 2, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2007

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADD'TS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 34,004	\$ -	\$ 34,004
2	302000	Franchises	-	-	-	37,061	-	37,061
3	303200	Land & Land Rights SS	14	-	-	290,791	-	290,791
4	303300	Land & Land Rights P	-	-	-	2,351	10	2,361
5	303500	Land & Land Rights TD	-	-	-	9,609	-	9,609
6	303600	Land & Land Rights AG	30,722	-	-	31,052	-	31,052
7	304100	Struct & Imp SS	-	-	(11,016)	389,266	(153,580)	235,686
8	304200	Struct & Imp P	-	-	(40)	1,687	2,403	4,090
9	304300	Struct & Imp WT	-	-	(1,196)	47,546	(13,409)	34,437
10	304400	Struct & Imp TD	-	-	(83)	4,583	(2,496)	2,087
11	304600	Struct & Imp Offices	7	-	(9,280)	457,147	(92,657)	364,490
12	304700	Struct & Imp - Stores	-	-	(1,353)	29,223	(6,765)	22,459
13	305000	Collect & Impounding	-	-	(16,864)	663,944	(177,792)	486,152
14	306000	Lakes, Rivers, Other Intakes	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(21,861)	809,649	(409,929)	399,720
16	310100	Power Generation Equip Other	137,874	-	-	137,874	-	137,874
17	311200	Pump Equip Electric	117,239	(2,138)	(111,856)	2,267,130	(1,514,947)	752,183
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	1,009	-	(6)	1,009	(6)	1,002
20	320100	WT Equip Non-Media	-	-	(6,104)	50,870	(80,422)	(29,552)
21	330000	Dist Reservoirs & Standpipe	-	(222)	(28,677)	1,584,130	(407,135)	1,176,995
22	331001	TD Mains Not Classified by Size	-	-	(1,291)	49,469	(6,699)	42,771
23	331100	TD Mains 4in & Less	4,300	(27)	(305,794)	11,718,647	(5,301,353)	6,417,294
24	331200	TD Mains 6in to 8in	73,801	-	(61,746)	2,367,284	(147,476)	2,219,809
25	331300	TD Mains 10in to 16in	188,956	-	(2,363)	216,750	(3,553)	213,197
26	333000	Services	133,959	(5,852)	(183,522)	3,447,832	(2,328,764)	1,119,067
27	334100	Meters	20,661	(54,614)	(117,093)	1,758,875	(1,073,408)	685,467
28	334200	Meter Installations	23,541	-	(15,655)	248,462	(12,257)	236,205
29	335000	Hydrants	(366)	-	-	36,474	(2)	36,472
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	(563)	(37,314)	(7,111)	137,645	(10,438)	127,207
33	340200	Comp & Periph Equip	-	(191,431)	(10,262)	66,842	297,842	364,684
34	340300	Computer Software	833	-	(301)	833	(369)	464
35	341100	Trans Equip Lt Duty Trks	35	-	(85,786)	343,147	(665,144)	(321,997)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	(832)	(126)	2,400	(2,067)	333
38	343000	Tools, Shop, Garage Equip	(1,472)	-	(10,113)	134,137	(137,415)	(3,278)
39	344000	Laboratory Equipment	-	-	(233)	7,623	(7,276)	347
40	345000	Power Operated Equipment	75,343	-	(11,578)	172,529	(95,239)	77,290
41	346100	Communication Equipment	14,226	(3,351)	(7,503)	180,534	(42,680)	137,854
42	346200	Communication Equipment Telephone	49,678	-	(4,647)	49,678	(7,071)	42,607
43	346300	Miscellaneous Equipment	7,985	(19,725)	(1,466)	5,110	(460)	4,650
44	TOTAL	0	\$ 877,780	\$ (315,507)	\$ (1,034,927)	\$ 27,793,496	\$ (12,400,553)	\$ 15,392,943
45	Per Company Work Papers		877,780	(315,507)	(731,556)	27,793,496	(12,576,294)	15,217,202
46	RUCO Increase (Decrease) to GUPIS & Accum. Depr.		\$ (0)	\$ (0)	\$ 303,371	\$ 0	\$ (175,741)	\$ 175,741
47	RUCO Adjustment to GUPIS & Accumulated Depreciation				RUCO TY As Calculated Company TY As Calculated	27,793,496 27,793,496	(12,400,553) (12,576,294)	
					RUCO Adjustments to Increase (Decrease) GUPIS & Accum. Depr.	(0)	(175,741)	

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 3, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 3, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 8,897	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	8,897	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 57,963	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	57,963	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 367,562	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	55,915	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (311,647)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (311,647)</u>	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 899,973	\$ (12,768)	\$ 887,205	12.0000	\$ 10,646,460
2	Purchased Water	44,384	-	44,384	186.9031	8,295,507
3	Fuel & Power	501,877	-	501,877	31.8430	15,981,269
4	Chemicals	7,846	-	7,846	18.5000	145,151
5	Waste Disposal	(295)	295	-	-	-
6	Management Fees	940,899	(11,325)	929,574	10.4000	9,667,569
7	Group Insurance	209,312	-	209,312	(14.0819)	(2,947,511)
8	Pensions	127,879	-	127,879	45.0000	5,754,555
9	Insurance Other Than Group	51,991	-	51,991	(68.2707)	(3,549,462)
10	Customer Accounting	132,002	-	132,002	20.9690	2,767,950
11	Rents	15,559	-	15,559	5.0391	78,403
12	Depreciation & Amortization	883,235	(883,235)	-	-	-
13	Other Operating Expenses	1,160,857	(97,212)	1,063,645	30.0000	31,909,338
	Taxes:					
14	Taxes Other Than Income	75,809	-	75,809	15.6698	1,187,912
15	Property Taxes	221,795	10,190	231,985	212.5000	49,296,775
16	Income Tax	422,238	(241,782)	180,456	28.7500	5,188,103
17	Interest Expense	-	296,834	296,834	106.5180	31,618,134
18	Total Appropriate Operating Expenses	<u>\$ 5,695,361</u>	<u>\$ (939,004)</u>	<u>\$ 4,756,357</u>		<u>\$ 166,040,154</u>
19	Expense Lag	Line 18, Col. (E) / (C)	34.91			
20	Revenue Lag	RUCO Workpapers	39.20			
21	Net Lag	Line 20 - Line 19	4.29			
22	RUCO Adjusted Expenses	Col. (C), Line 18	<u>\$ 4,756,357</u>			
23	Cash Working Capital	Line 21 X Line 22 / 365 Days	<u>55,915</u>			
24	Company As Filed	Co. Schedule B-6, Page 1	367,562			
25	Difference	Line 23 - Line 24	<u>\$ (311,647)</u>			
26	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 25	<u>\$ (311,647)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 4,932,608	\$ -	\$ 4,932,608	\$ 706,615	\$ 5,639,223
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	181,023	-	181,023	-	181,023
4	TOTAL OPERATING REVENUE	<u>\$ 5,113,631</u>	<u>\$ -</u>	<u>\$ 5,113,631</u>	<u>\$ 706,615</u>	<u>\$ 5,820,246</u>
	Operating Expenses:					
5	Labor	\$ 899,973	\$ (12,768)	\$ 887,205	\$ -	\$ 887,205
6	Purchased Water	44,384	-	44,384	-	44,384
7	Fuel & Power	501,877	-	501,877	-	501,877
8	Chemicals	7,846	-	7,846	-	7,846
9	Waste Disposal	(295)	295	-	-	-
10	Management Fees	940,899	(11,325)	929,574	-	929,574
11	Group Insurance	209,312	-	209,312	-	209,312
12	Pensions	127,879	-	127,879	-	127,879
13	Regulatory Expense	119,303	(96,100)	23,203	-	23,203
14	Insurance Other Than Group	51,991	-	51,991	-	51,991
15	Customer Accounting	132,002	-	132,002	-	132,002
16	Rents	15,559	-	15,559	-	15,559
17	General Office Expense	103,944	-	103,944	-	103,944
18	Miscellaneous	354,017	(1,407)	352,610	-	352,610
19	Maintenance Expense	583,888	-	583,888	-	583,888
20	Depreciation & Amortization	883,235	(106,405)	776,830	-	776,830
21	General Taxes - Property Taxes	221,795	10,190	231,985	-	231,985
22	General Taxes - Other	75,809	-	75,809	-	75,809
23	Income Tax	(196,927)	-	(196,927)	377,383	180,456
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 5,076,491</u>	<u>\$ (217,521)</u>	<u>\$ 4,858,970</u>	<u>\$ 377,383</u>	<u>\$ 5,236,353</u>
26	OPERATING INCOME (LOSS)	<u>\$ 37,140</u>	<u>\$ 217,521</u>	<u>\$ 254,661</u>	<u>\$ 329,233</u>	<u>\$ 583,894</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS

TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 PROPERTY TAX	(C) ADJMT NO. 2 DEPRECIATN & AMORTIZN	(D) ADJMT NO. 3 RATE CASE EXPENSE	(E) ADJMT NO. 4 WASTE DISPOSAL	(F) ADJMT NO. 5 AIP EXPENSE	(G) ADJMT NO. 6 LABOR EXPENSE	(H) ADJMT NO. 7 MISC. EXPENSES	(I) ADJMT NO. 8 INCOME TAX	(J) RUCO AS ADJTD
1	Revenues:										
2	Metered Water Revenues	\$ 4,932,608	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,932,608
3	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-	-
4	Other Water Revenues	181,023	-	-	-	-	-	-	-	-	181,023
	TOTAL OPERATING REV.	\$ 5,113,631	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,113,631
5	Operating Expenses:										
6	Labor	\$ 899,973	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (12,768)	\$ -	\$ -	\$ 887,205
7	Purchased Water	44,384	-	-	-	-	-	-	-	-	44,384
8	Fuel & Power	501,877	-	-	-	-	-	-	-	-	501,877
9	Chemicals	7,846	-	-	-	-	-	-	-	-	7,846
10	Waste Disposal	(295)	-	-	-	295	-	-	-	-	-
11	Management Fees	940,899	-	-	-	-	-	-	-	-	929,574
12	Group Insurance	209,312	-	-	-	-	-	-	-	-	209,312
13	Pensions	127,879	-	-	-	-	-	-	-	-	127,879
14	Regulatory Expense	119,303	-	-	-	-	-	-	-	-	23,203
15	Insurance Other Than Group	51,991	-	-	(96,100)	-	-	-	-	-	51,991
16	Customer Accounting	132,002	-	-	-	-	-	-	-	-	132,002
17	Rents	15,559	-	-	-	-	-	-	-	-	15,559
18	General Office Expense	103,944	-	-	-	-	-	-	-	-	103,944
19	Miscellaneous	354,017	-	-	-	-	-	-	(1,407)	-	352,610
20	Maintenance Expense	583,888	-	-	-	-	-	-	-	-	583,888
21	Depreciation & Amortization	883,235	-	(106,405)	-	-	-	-	-	-	776,830
22	General Taxes - Property Taxes	221,795	10,190	-	-	-	-	-	-	-	231,985
23	General Taxes - Other	75,809	-	-	-	-	-	-	-	-	75,809
24	Income Tax	(196,927)	-	-	-	-	-	-	-	104,637	(196,927)
25	TOTAL OPERATING EXP.	\$ 5,076,491	\$ 10,190	\$ (106,405)	\$ (96,100)	\$ 295	\$ (11,325)	\$ (12,768)	\$ (1,407)	\$ 104,637	\$ 4,858,970
26	OPERATING INC. (LOSS)	\$ 37,140									\$ 254,661

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Rate Case Expense
- 4 Waste Disposal Expense
- 5 Annual Incentive Pay Program Expense
- 6 To Correct Test Year Labor Expense
- 7 Miscellaneous Expense
- 8 Income Tax

REFERENCE:

- 1 Testimony, RLM And Schedule RLM-8
- 2 Testimony, RLM And Schedule RLM-9
- 3 Testimony, RLM And Schedule RLM-10
- 4 Per Company Response to DR GTM 8.7
- 5 Testimony, RLM And Schedule RLM-11
- 6 Agua Fria, Mohave & Sun City West Adjustment To Labor Expense
- 7 Testimony, RLM And Schedule RLM-12, pages 1 - 5
- 8 Testimony, RLM And Schedule RLM-13

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
	Annual Operating Revenues:			
1	Adjusted Test Year Revenue	Schedule RLM-7	\$ 5,113,631	
2	Adjusted Test Year Revenue	Schedule RLM-7	5,113,631	
3	RUCO Proposed Revenue	Schedule RLM-6	5,820,246	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 16,047,508	
5	Average Annual Operating Revenues	Line 4 / 3	5,349,169	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 10,698,339
	ADD:			
	10% Of Construction Work In Progress ("CWIP"):			
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 498,471	
8	10% Of CWIP	Line 7 X 10%		\$ 49,847
	SUBTRACT:			
	Transportation At Book Value:			
9	Original Cost Of Transportation Equipment	RUCO Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	RUCO Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 10,748,186
Calculation Of The Company's Tax Liability:				
	MULTIPLY:			
	FCV X Valuation Assessment Ratio X Property Tax Rates:			
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 2,472,083	
	Property Tax Rates:			
15	Primary Tax Rate	Company Workpapers	9.38%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	9.38%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 231,985
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		221,795
20	Increase (Decrease) In Property Tax Expense	Line 18 - Line 19		\$ 10,190
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 10,190

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 34,004	0.00%	\$ -
2	302000	Franchises	37,061	0.00%	-
3	303200	Land & Land Rights SS	290,791	0.00%	-
4	303300	Land & Land Rights P	2,351	0.00%	-
5	303500	Land & Land Rights TD	9,609	0.00%	-
6	303600	Land & Land Rights AG	31,052	0.00%	-
7	304100	Struct & Imp SS	389,266	2.83%	11,016
8	304200	Struct & Imp P	1,687	2.39%	40
9	304300	Struct & Imp WT	47,846	2.50%	1,196
10	304400	Struct & Imp TD	4,583	1.81%	83
11	304600	Struct & Imp Offices	457,147	2.03%	9,280
12	304700	Struct & Imp - Stores	29,223	2.03%	593
13	305000	Collect & Impounding	663,944	2.54%	16,864
14	306000	Lakes, Rivers, Other Intakes	-	0.00%	-
15	307000	Wells & Springs	809,649	2.70%	21,861
16	310100	Power Generation Equip Other	137,874	0.00%	-
17	311200	Pump Equip Electric	2,267,130	5.12%	116,077
18	311300	Pump Equip Diesel	-	0.00%	-
19	311500	Pump Equip Other	1,009	5.12%	52
20	320100	WT Equip Non-Media	50,870	12.00%	6,104
21	330000	Dist Reservoirs & Standpipe	1,584,130	1.81%	28,673
22	331001	TD Mains Not Classified by Size	49,469	2.61%	1,291
23	331100	TD Mains 4in & Less	11,718,647	2.61%	305,857
24	331200	TD Mains 6in to 8in	2,367,284	2.61%	61,786
25	331300	TD Mains 10in to 16in	216,750	2.61%	5,657
26	333000	Services	3,447,832	5.41%	186,528
27	334100	Meters	1,758,875	6.53%	114,855
28	334200	Meter Installations	248,462	6.53%	16,225
29	335000	Hydrants	36,474	0.00%	-
30	339100	Other P/E Intangible	-	0.00%	-
31	3392500	Other P/E SS	-	0.00%	-
32	340100	Office Furniture & Equip	137,645	4.10%	5,643
33	340200	Comp & Periph Equip	66,842	4.10%	2,741
34	340300	Computer Software	833	4.10%	34
35	341100	Trans Equip Lt Duty Trks	343,147	25.00%	85,787
36	341200	Trans Equip Hvy Duty Trks	-	25.00%	-
37	342000	Stores Equipment	2,400	3.93%	94
38	343000	Tools, Shop, Garage Equip	134,137	7.55%	10,127
39	344000	Laboratory Equipment	7,623	3.06%	233
40	345000	Power Operated Equipment	172,529	9.23%	15,924
41	346100	Communication Equipment	180,534	4.10%	7,402
42	346200	Communication Equipment Telephone	49,678	4.10%	2,037
43	346300	Miscellaneous Equipment	5,110	6.19%	316
44	TOTAL	0	\$ 27,793,496		\$ 1,034,377
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			12,014
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 1,046,391
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORTIZATION OF REGULATORY ASSETS			9,384
48		AMORTIZATION OF CONTRIBUTIONS			7,561
49		AMORTIZATION OF REGULATORY CIAC			(286,506)
50		Rounding			-
51	TOTAL DEPRECIATION EXPENSE				\$ 776,830
52	Company As Filed				883,235
53	Difference				\$ (106,405)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (106,405)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	\$ 612,000	\$ (187,735)	\$ 424,265
2	Allocation Factor (See NOTE Below)	11.3740%		16.4069%
3	Mohave Water District (Line 1 X Line 2)	\$ 69,609	\$ -	\$ 69,609
4	Amortization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 3 Years)			\$ 23,203
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			\$ 119,303
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			\$ (96,100)
8	RUCO Adjustment (Line 7) (See RLM-7, Column (D))			\$ (96,100)

NOTE

	4-Factor Allocation		Company As Filed		RUCO As Adjusted
	Districts Included In This Filing				
9	Sun City West Water District	11.7965%	\$ 72,195	17.0164%	\$ 72,195
10	Paradise Valley Water District	10.4331%	63,851	15.0497%	63,851
11	Tubac Water District	0.9990%	6,114	1.4411%	6,114
12	Agua Fria Water District	31.3783%	192,035	45.2631%	192,035
13	Havasau Water District	1.8822%	11,519	2.7151%	11,519
14	Mohave Water District	11.3740%	69,609	16.4069%	69,609
15	Mohave Wastewater District	1.4612%	8,943	2.1078%	8,943
16	Total	69.3243%	\$ 424,265	100.0000%	\$ 424,265
	Districts NOT Included In This Filing				
17	Agua Fria Wastewater District	8.2232%	\$ 50,326		
18	Distco/Treatco Sewer	9.8095%	60,034		
19	Distco/Treatco Water	12.6430%	77,375		
20		100.0000%	\$ 612,000		

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
ANNUAL INCENTIVE PLAN EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJUSTED
1	AZ-AM Annual Incentive Plan ("AIP") Expense Total	Co. Response To RUCO DR 2	\$ 482,198
2	Allocation Factor	Co. Workpapers Per SLH-6	7.8288%
3	Mohave Water District	Lines 1 X 2	<u>\$ 37,750</u>
4	Portion Deemed Shareholder Benefit Only	RLM Testimony	30.00%
5	RUCO Test-Year Disallowance Of AIP Expense	Lines 3 X 4	<u>\$ (11,325)</u>
6	RUCO Adjustment (See RLM-7, Column (D))	Line 5	<u><u>\$ (11,325)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		ALLOCABLE TOTAL	ALLOC'N 4-FACTOR	DISTRICT TOTAL	RUCO AS ADJUSTED
1	Mohave Water Direct Miscellaneous Account (RLM-12, Pg 4, Ln 148)	\$ (342.02)	100.00%	\$ (342)	
2	Corporate Office Allocable Miscellaneous Account (RLM-12, Pg 4, Ln 98)	\$ (13,607.91)	7.8288%	\$ (1,065)	
3	TOTAL				<u>\$ (1,407)</u>
4	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (See RLM-7, Column (H))				<u>\$ (1,407)</u>

NOTE

4-Factor Allocation

5	Sun City West Water District	8.3198%
6	Paradise Valley Water District	7.6863%
7	Tubac Water District	0.7254%
8	Agua Fria Water District	23.0946%
9	Havasupai Water District	1.3850%
10	Mohave Water District	7.8288%
11	Mohave Wastewater District	1.0290%

References:

Column (A): RLM-12, Pages 2 Thru 5 Derived From Company's Line 21 Workpapers
Column (B): See NOTE
Column (C): Column (A) X Column (B)
Column (D): Sums Of Column (C)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 -CONT'D
INAPPROPRIATE MISCELLANEOUS EXPENSES

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
CORPORATED OFFICE MISCELLANEOUS EXPENSES					
1	Misc Oper WT	\$ 55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
2	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
3	PCard Undistributed	33.00	ALVES FLOWERS & GIFTS	NANCY J HUCKEY	Land
4	Employee Awards AG	2,400.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
5	Employee Awards AG	2,500.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
6	PCard Undistributed	27.29	BASHAS'	ARTHUR W FAIELLO	External training/seminars
7	Training AG	8.49	BASHAS'	KURTIS L STRAUDEL	External training/seminars
8	Training AG	13.24	BASHAS'	KURTIS L STRAUDEL	External training/seminars
9	Training AG	33.69	BASHAS'	KURTIS L STRAUDEL	In-house training/seminars
10	PCard Undistributed	25.64	BURGER KING #5915 Q	ANGEL STEVENS	NON-Catered Food & Beverages
11	PCard Undistributed	26.00	CHARLEY'S GRILLED SQ	ANGEL STEVENS	NON-Catered Food & Beverages
12	PCard Undistributed	1.89	CHEVRON	JAMES ISHMAEL	NON-Catered Food & Beverages
13	PCard Undistributed	1.59	CHEVRON	WILLIAM L WALLSTEAD	NON-Catered Food & Beverages
14	Misc Oper AG	59.57	CHIL'S GRI	BERT L REYNOLDS	NON-Catered Food & Beverages
15	PCard Undistributed	40.00	CHINA BUFFET	BRIAN BIESEMEYER	NON-Catered Food & Beverages
16	PCard Undistributed	23.49	CHIPOTLE #0898 Q	ANGEL STEVENS	NON-Catered Food & Beverages
17	PCard Undistributed	5.48	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
18	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
19	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
20	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
21	PCard Undistributed	7.18	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
22	Training AG	28.05	COLDSTN CREAM #30 Q	KURTIS L STRAUDEL	NON-Catered Food & Beverages
23	PCard Undistributed	273.61	COLORADO RIVER TEES	TERRI E BAYSINGER	In-house training/seminars
24	PCard Undistributed	7.36	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
25	PCard Undistributed	17.16	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
26	PCard Undistributed	220.69	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
27	Co Dues/Membership Deduct	281.06	Costco Wholesale Membership-RE	Membership Dues	Financial Costs
28	Misc Oper AG	55.89	Costco-REMIT	7003-7300-0000-6704	NON-Catered Food & Beverages
29	Training AG	48.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
30	Training AG	54.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	In-house training/seminars
31	PCard Undistributed	34.99	CRAZY CARLOS INC	GARRY T BURTON	NON-Catered Food & Beverages
32	PCard Undistributed	30.00	CUCINA TAGLIANI	JEREMIAH MECHAM	NON-Catered Food & Beverages
33	PCard Undistributed	18.52	DENNY'S INC	ANGEL STEVENS	NON-Catered Food & Beverages
34	PCard Undistributed	53.91	DILLONS GRAND	DALE E KENNOW	NON-Catered Food & Beverages
35	PCard Undistributed	14.21	DILLONS GRAND	PAUL D TAYLOR	NON-Catered Food & Beverages
36	PCard Undistributed	71.37	DILLONS THUNDERBIRD	FLOYD K MCKINNEY	NON-Catered Food & Beverages

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
37	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	External training/seminars
38	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	In-house training/seminars
39	PCard Undistributed	27.14	EINSTEIN BROS	PAULA A CHRISTIAN	NON-Catered Food & Beverages
40	Trans Oper AG	66.39	EL PASO BARBQUE	ERNEST G SANTA CRUZ	NON-Catered Food & Beverages
41	PCard Undistributed	30.84	EL TORITO	TODD R FARRELL	NON-Catered Food & Beverages
42	PCard Undistributed	19.22	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
43	PCard Undistributed	29.76	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
44	PCard Undistributed	28.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
45	PCard Undistributed	25.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
46	PCard Undistributed	33.28	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
47	PCard Undistributed	13.76	FRYS-FOOD-DRG #122 SXN	ROY PEREZ JR	NON-Catered Food & Beverages
48	Training AG	25.59	HMSHOST-PHX-AIR	NEIL J MEYER	NON-Catered Food & Beverages
49	Misc Oper AG	125.00	Huckeby, Nancy J -Petty Cash	Christmas Decorations	Office Decorations
50	Misc Oper AG	200.00	Huckeby, Nancy J -Petty Cash	Christmas Party Security	Security & Monitoring
51	PCard Undistributed	9.96	HUNGRY HOWIE'S PIZZA	JON C BEHRENDT	NON-Catered Food & Beverages
52	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	274560	NON-Catered Food & Beverages
53	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	ICE	NON-Catered Food & Beverages
54	Misc Oper AG	143.61	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
55	Misc Oper AG	81.18	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
56	PCard Undistributed	40.53	IHOP	ANGEL STEVENS	NON-Catered Food & Beverages
57	PCard Undistributed	27.58	KFC #1303016	ANGEL STEVENS	NON-Catered Food & Beverages
58	Trans Oper AG Lease Cost	60.91	LAS CAZUELA'S	ANGEL STEVENS	NON-Catered Food & Beverages
59	PCard Undistributed	67.37	MADELYN'S	PAUL M LI	NON-Catered Food & Beverages
60	PCard Undistributed	3.98	MCDONALD'S F	KURTIS L STRAUDEL	NON-Catered Food & Beverages
61	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	Catering/works catering
62	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	External training/seminars
63	PCard Undistributed	6.96	PILOT	JAMES ISHMAEL	In-house training/seminars
64	PCard Undistributed	6.34	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
65	PCard Undistributed	71.98	PIZZA HUT	JAMES ISHMAEL	NON-Catered Food & Beverages
66	Other Welf Oper AG	41.25	Professional Plants & Inc-POIR	ANGEL STEVENS	NON-Catered Food & Beverages
67	PCard Undistributed	10.02	QUIZNOS	SERVICES	Landscaping
68	PCard Undistributed	54.55	RIO MIRAGE CAFE	ANDREW C MARTINEZ	NON-Catered Food & Beverages
69	PCard Undistributed	16.77	ROMENS GYROS	JENNIFER L HALLIDAY	NON-Catered Food & Beverages
70	PCard Undistributed	69.87	ROSATI'S PIZZA - PEORI	RANDY J ZIOLKOWSKI	Pathwaynet Default
71	Training AG	61.53	ROSATI'S PIZZA UNION H	ANGEL STEVENS	NON-Catered Food & Beverages
72	PCard Undistributed	4.99	SAFEMAY STORE	KURTIS L STRAUDEL	External training/seminars
73	PCard Undistributed	20.95	SAFEMAY STORE	CHRISTOPHER M WILLIAMS	NON-Catered Food & Beverages
74	PCard Undistributed	39.37	SAFEMAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
75	PCard Undistributed	21.13	SAFEMAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
76	PCard Undistributed	14.53	SAFEMAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
77	PCard Undistributed	15.64	SUBWAY 25139	ROY PEREZ JR	Catering/works catering
78	Misc Oper AG	25.00	Supreme Court of Pennsylvania	JEFFREY S BORN	NON-Catered Food & Beverages
79	Employee Awards AG	107.84	Tharpe Company Inc-REMIT	Certificate	Event organization services
80	Employee Awards AG	722.07	Tharpe Company Inc-REMIT	8549	Service Awards and Premiums
81	Employee Awards AG	829.39	Tharpe Company Inc-REMIT	98415RI	Service Awards and Premiums
				CUST #16248	Service Awards and Premiums

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
82	Employee Awards AG	882.92	Tharpe Company Inc-REMIT	CUST# 16248	Service Awards and Premiums
83	Employee Awards AG	90.27	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
84	Employee Awards AG	176.84	Tharpe Company Inc-REMIT	cust# 8549	Service Awards and Premiums
85	Employee Awards AG	120.50	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
86	Employee Awards AG	110.61	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
87	Employee Awards AG	79.64	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
88	Employee Awards AG	88.41	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
89	Employee Awards AG	78.57	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
90	Employee Awards AG	204.49	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
91	Employee Awards AG	135.65	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
92	Employee Awards AG	79.93	Tharpe Company Inc-REMIT	inv 454294ri	Service Awards and Premiums
93	Misc Oper AG	67.04	TLF CACTUS FLOWER FLOR	NANCY J HUCKEY	Land
94	Overnight Shipping AG	35.93	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
95	Overnight Shipping AG	(35.93)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
96	Community Relations	1,000.00	Water for People-REMIT	Water For People Sponsor	Sponsoring
97	Training AG	17.32	WONDER BREAD/HOSTESS	KURTIS L STRAUDEL	External training/seminars
98		\$ 13,607.91			

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
DISTRICT DIRECTLY ALLOCATED MISCELLANEOUS EXPENSES					
SUN CITY WEST WATER DISTRICT MISCELLANEOUS EXPENSES					
99	M & S Oper TD	\$ 18.94	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
100	M & S Oper SS	59.03	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
101	Misc Oper PP	57.63	RED ROBIN NO	PAUL D TAYLOR	NON-Catered Food & Beverages
102	Misc Oper PP	30.93	SAFEWAY STORE	ROBERT L CRON	NON-Catered Food & Beverages
103	Total	\$ 166.53			
PARADISE VALLEY WATER DISTRICT MISCELLANEOUS EXPENSES					
104	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
105	Training AG	5.39	LONG JOHN SILV	NEIL J MEYER	NON-Catered Food & Beverages
106	Safety Incentive	132.00	Peavey Performance Systems	1004289	Service Awards and Premiums
107	Training AG	6.26	SUBWAY #10469	NEIL J MEYER	NON-Catered Food & Beverages
108	Misc Oper TD	33.98	THE HOME DEPOT	LEE F HUDDLESTON	Event organization services
109	Total	\$ 313.29			
TUBAC WATER DISTRICT MISCELLANEOUS EXPENSES					
110	Contract Svc-Eng Oper AG	\$ 17.12	KFC 1303012	ROBERT L CRON	NON-Catered Food & Beverages
111	Overnight Shipping AG	20.82	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
112	Overnight Shipping AG	(20.82)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
113	Total	\$ 17.12			
AGUA FRIA WATER DISTRICT MISCELLANEOUS EXPENSES					
114	Brochures and Handouts	\$ 1,788.00	AZ University	Project WET Sponsorship	Sponsoring
115	Misc Oper SS	157.41	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
116	Water Res Conservation	317.39	CSI CRESTLINE CO INC	SALLY L CECCARELLI WOLF	Service Awards and Premiums
117	M & S Oper TD	44.22	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
118	Total	\$ 2,307.02			
HAVASU WATER DISTRICT MISCELLANEOUS EXPENSES					
119	No Adjustment	\$ -			
MOHAVE WATER DISTRICT MISCELLANEOUS EXPENSES					
120	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
121	M & S Oper TD	22.80	DENNY'S INC	CHAD E GEBOW	NON-Catered Food & Beverages
122	M & S Oper TD	133.56	Ferguson Enterprises Inc #675	7202007	NON-Catered Food & Beverages
123	M & S Oper TD	50.00	Ferguson Enterprises Inc-#602-	CUST# 605937	NON-Catered Food & Beverages
124	Total	\$ 342.02			
MOHAVE WASTEWATER DISTRICT MISCELLANEOUS EXPENSES					
125	M & S Oper WT	\$ 26.92	WAL-MART	WILLIAM L WALLSTEAD	Animal feed
126	Total	\$ 26.92			

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 57,734
	LESS:		
2	Arizona State Tax	Line 11	(16,660)
3	Interest Expense	Note (A) Line 20	296,834
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (222,439)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (75,629)
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 57,734
	LESS:		
8	Interest Expense	Note (A) Line 20	296,834
9	State Taxable Income	Line 7 - Line 8	\$ (239,100)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (16,660)
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (75,629)
13	State Income Tax Expense	Line 11	(16,660)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (92,290)
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(196,927)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 104,637
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	\$ 104,637

NOTE (A):

Interest Synchronization:			
18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$	9,841,553
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)		3.02%
20	Interest Expense (L18 X L19)	\$	296,834

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST RATE
1	DEBT	55.20%	5.46%	3.02%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL			<u>7.00%</u>

References:

Columns (A) Thru (C): See Testimony - William A. Rigsby

MOHAVE WASTEWATER DISTRICT

TABLE OF CONTENTS TO RLM SCHEDULES

SCH. NO.	PAGE NO.	TITLE
RLM-1	1 & 2	REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR
RLM-2A	1	RATE BASE
RLM-2	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
RLM-3	1 TO 4	RATE BASE ADJUSTMENT NO. 1 - ADJUSTMENT TO ACCUMULATED DEPRECIATION
TESTIMONY		RATE BASE ADJUSTMENT NO. 2 - REINSTATE AIAC ASSOCIATED WITH CWIP
RLM-2	1	RATE BASE ADJUSTMENT NO. 3 - INTENTIONALLY LEFT BLANK
RLM-4	1	RATE BASE ADJUSTMENT NO. 4 - REMOVE 50% OF WISHING WELL TREATMENT PLANT AS NOT-USED & USEFUL
RLM-2		RATE BASE ADJUSTMENT NO. 5 DEFERRED DEBITS
RLM-5	1 & 2	RATE BASE ADJUSTMENT NO. 6- ALLOWANCE FOR WORKING CAPITAL
RLM-6	1	OPERATING INCOME
RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - PROPERTY TAX COMPUTATION
RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - TEST YEAR DEPRECIATION EXPENSE
RLM-10	1	OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE EXPENSE
	1	OPERATING INCOME ADJUSTMENT NO. 4 - INTENTIONALLY LEFT BLANK
RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 5 - ANNUAL INCENTIVE PAY EXPENSE
RLM-12	1	OPERATING INCOME ADJUSTMENT NO. 6 - REMOVE INAPPROPRIATE/UNNECESSARY MISC. EXPENSES
RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 4,740,149	\$ 2,713,527
2	Adjusted Operating Income (Loss)	\$ 15,619	\$ 78,651
3	Current Rate Of Return (L2 / L1)	0.33%	2.90%
4	Required Operating Income (L5 X L1)	\$ 398,173	\$ 189,843
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 382,554	\$ 111,191
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6786	1.4888
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 642,148	\$ 165,546
9	Adjusted Test Year Revenue	\$ 796,161	\$ 796,161
10	Proposed Annual Revenue (L8 + L9)	\$ 1,438,309	\$ 961,707
11	Required Percentage Increase In Revenue (L8 / L9)	80.66%	20.79%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3283			
3	Subtotal (L1 - L2)	0.6717			
4	Revenue Conversion Factor (L1 / L3)	1.4888			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	27.8026%			
9	Effective Federal Income Tax Rate (L7 X L8)	25.8654%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	32.8334%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 189,843			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	78,651			
13	Required Increase In Operating Income (L11 - L12)		\$ 111,191		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 52,794			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(1,560)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 54,354		
17	Total Required Increase In Revenue (L13 + L16)		\$ 165,546		
				RUCO	
CALCULATION OF INCOME TAX:				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 961,707	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			719,070	
20	Synchronized Interest (Col. (C), L37)			81,843	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 160,793	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 11,204
24	Fed. Taxable Income (L21 - L23)			\$ 149,589	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			19,340	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 41,590
31	Combined Federal And State Income Tax (L23 + L30)				\$ 52,794
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ (1,560)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 54,354
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				27.80%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 2,713,527	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 81,843	

Arizona-Americian Water Company
Docket Nos. SW & W-01303A-08-0227
Test Year Ended December 31, 2007

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 7,154,300
2	Accumulated Depreciation	\$ (367,213)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 6,787,087</u>
4	Advances In Aid Of Const.	\$ (1,414,706) 0
5	Contribution In Aid Of Const.	\$ (668,945)
6	Accumulated Amortization Of CIAC	\$ -
7	NET CIAC (L6 + L7)	<u>\$ (668,945)</u>
8	Imputed Regulatory Advances	\$ -
9	Imputed Regulatory Contributions	\$ (131,237)
10	Customer Meter Deposits	\$ -
11	Deferred Income Taxes And Credits	\$ 105,590
12	Investment Tax Credits	\$ -
13	Deferred Debits	\$ -
14	Allowance For Working Capital	\$ 62,360
15	Utility Plant Acquisition Adjustment	\$ -
16	Rounding	\$ -
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u><u>\$ 4,740,149</u></u>

References:

Column (A): Company Schedule B-1

Column (B): Schedule RLM-2

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

Mohave Wastewater District
Schedule RLM-2A
Page 1 of 1

(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB	
\$ (1,966,040)	\$ 5,188,260	
62,797	\$ (304,416)	
<u>\$ (1,903,243)</u>	<u>\$ 4,883,844</u>	
\$ -	\$ (1,414,706)	
\$ (65,395)	\$ (734,340)	
<u>\$ (65,395)</u>	<u>\$ (734,340)</u>	
\$ -	\$ -	
\$ -	\$ (131,237)	
\$ -	\$ -	
\$ -	\$ 105,590	
\$ -	\$ -	
\$ 7,701	\$ 7,701	
\$ (65,685)	\$ (3,325)	
\$ -	\$ -	
<u>\$ (2,026,622)</u>	<u>\$ 2,713,527</u>	\$ (2,026,622)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMULT'D DEPRECT'N	(C) ADJMT NO. 2 CIAC FOR CWIP	(D) ADJMT NO. 3	(E) ADJMT NO. 4 WISHING WELL	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJTD OCRB/FVRB
1	Gross Utility Plant In Service	\$ 7,154,300	\$ -	\$ -	\$ -	\$ (1,966,040)	\$ -	\$ -	\$ 5,188,260
2	Accumulated Depreciation	(367,213)	62,797	-	-	-	-	-	(304,416)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 6,787,087	\$ 62,797	\$ -	\$ -	\$ (1,966,040)	\$ -	\$ -	\$ 4,883,844
4	Advances In Aid Of Const.	\$ (1,414,706)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,414,706)
5	Contribution In Aid Of Const. - Net	\$ (668,945)	\$ -	\$ (65,395)	\$ -	\$ -	\$ -	\$ -	\$ (734,340)
6	Accumulated Amortization Of CIAC	-	-	-	-	-	-	-	-
7	NET CIAC (L5 + L6)	\$ (668,945)	\$ -	\$ (65,395)	\$ -	\$ -	\$ -	\$ -	\$ (734,340)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (131,237)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (131,237)
10	Customer Meter Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11	Deferred Income Taxes And Credits	\$ 105,590	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 105,590
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,701	\$ -	\$ 7,701
14	Allowance For Working Capital	\$ 62,360	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (65,685)	\$ (3,325)
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 4,740,149	\$ 62,797	\$ (65,395)	\$ -	\$ (1,966,040)	\$ 7,701	\$ (65,685)	\$ 2,713,527

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, TJC)
- Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
- Column (D): Adjustment No. 3 - Intentionally Left Blank
- Column (E): Adjustment No. 4 - To Remove 50% of Post Test Year Treatment Plant Expansion as Not-Used & Useful
- Column (F): Adjustment No. 5 - Adjust Deferred Debits Per Company Responses To Staff Data Request GWPB 17.1
- Column (G): Adjustment No. 6 - Allowance For Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED JUNE 24, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)	(G)
			PRIOR DECISION NO. 67093 - ADJUSTED	RUCO ADJUSTED PRIOR TEST YEAR		RUCO ADJUSTED PRIOR TEST YEAR		RUCO ADJUSTED PRIOR TEST YEAR	
			DEP. RATE	GROSS PLANT	ACCUMULATED DEPRECIATION	PLANT ADJUSTMENT	ACC. DEP. ADJUSTMENT	GROSS PLANT	ACCUMULATED DEPRECIATION
1	301000	Organization	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352000	Franchises	0.00%	364	-	-	-	364	-
3	354200	Structures and Improvements	2.80%	201,579	(36,083)	-	-	201,579	(36,083)
4	360000	Sewer Lines	2.00%	5,382	(670)	-	-	5,382	(670)
5	361100	WW Collecting Mains	2.00%	1,222,426	(98,162)	-	-	1,222,426	(98,162)
6	362000	WW Special Collecting Struct.	2.00%	74,760	(17,095)	-	-	74,760	(17,095)
7	363000	WW Services Sewer	2.04%	300,003	(36,615)	-	-	300,003	(36,615)
8	364000	WW Flow Measuring Devices	5.42%	7,984	(2,099)	-	-	7,984	(2,099)
9	371100	WW Pumping Equipment Elect.	5.42%	16,371	(3,122)	-	-	16,371	(3,122)
10	380100	WW Equipment Sed Tanks/Acc	3.60%	745,415	(110,163)	-	-	745,415	(110,163)
11	380300	WW TD Equipment Sldge Dry/Filt	5.00%	8,807	(1,932)	-	-	8,807	(1,932)
12	380500	WW TD Equipment Chem Trmt Plant	5.00%	5,284	(1,120)	-	-	5,284	(1,120)
13	380600	WW TD Equipment Other Disposal	5.00%	39,898	(6,806)	-	-	39,898	(6,806)
14	393000	WW Tool Shop & Garage Equipment	4.47%	39,599	(21,814)	-	-	39,599	(21,814)
15	394000	WW Laboratory Equipment	3.71%	587	(107)	-	-	587	(107)
16	396000	Communication Equipment	4.24%	-	-	-	-	-	-
17	398000	Other Plant	0.00%	-	-	-	-	-	-
18	TOTAL			\$ 2,668,459	\$ (335,788)	\$ -	\$ -	\$ 2,668,459	\$ (335,788)
19									
20	Per Company Work Papers			\$ 2,668,459	\$ (335,788)	\$ -	\$ -	\$ 2,668,459	\$ (335,788)
21	Increase (Decrease) GUPIS & Accumulated Depre.			\$ 0	\$ -	\$ -	\$ -	\$ 0	\$ -

References:

Columns (A) (B) (C): Company Schedule B-2
Columns (D) (E): See Testimony, RLM
Column (F): Column (B) + Column (D)
Column (G): Column (C) + Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 9, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352000	Franchises	-	-	-	364	-	364
3	354200	Structures and Improvements	-	-	(2,822)	201,579	(38,905)	162,674
4	360000	Sewer Lines	-	-	(54)	5,382	(724)	4,658
5	361100	WW Collecting Mains	225,046	-	(12,412)	1,447,472	(110,574)	1,336,898
6	362000	WW Special Collecting Struct.	-	-	(748)	74,760	(17,843)	56,918
7	363000	WW Services Sewer	-	-	(3,060)	300,003	(39,675)	260,328
8	364000	WW Flow Measuring Devices	15,129	-	(251)	23,113	(2,350)	20,764
9	371100	WW Pumping Equipment Elect.	-	-	(444)	16,371	(3,566)	12,805
10	380100	WW Equipment Sed Tanks/Acc	12,397	-	(13,436)	757,812	(123,599)	634,212
11	380300	WW TD Equipment Sludge Dry/Filt	-	-	(220)	8,807	(2,152)	6,655
12	380500	WW TD Equipment Chem Trmt Plant	9,027	-	(151)	14,311	(1,271)	13,041
13	380600	WW TD Equipment Other Disposal	-	-	(997)	39,898	(7,803)	32,095
14	393000	WW Tool Shop & Garage Equipment	-	-	(885)	39,599	(22,699)	16,900
15	394000	WW Laboratory Equipment	-	-	(11)	587	(118)	469
16	396000	Communication Equipment	8,933	-	(23)	8,933	(23)	8,910
17	398000	Other Plant	-	-	-	-	-	-
18	TOTAL		\$ 270,532	\$ -	\$ (35,513)	\$ 2,938,991	\$ (371,301)	\$ 2,567,690
19								
20	Per Company Work Papers		270,532	-	(46,457)	2,938,991	(382,245)	2,556,746
21	Increase (Decrease) GUPIS & Accumulated Depr.		\$ 0	\$ -	\$ (10,944)	\$ 0	\$ (10,944)	\$ 10,944

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352000	Franchises	-	-	-	364	-	364
3	354200	Structures and Improvements	-	-	(5,644)	201,579	(44,549)	157,030
4	360000	Sewer Lines	-	-	(108)	5,382	(831)	4,551
5	361100	WW Collecting Mains	21,655	-	(28,967)	1,469,127	(139,541)	1,329,586
6	362000	WW Special Collecting Struct.	-	-	(1,495)	74,760	(19,338)	55,423
7	363000	WW Services Sewer	14,311	-	(6,132)	314,314	(45,807)	268,507
8	364000	WW Flow Measuring Devices	-	-	(1,253)	23,113	(3,602)	19,511
9	371100	WW Pumping Equipment Elect.	2,711	-	(893)	19,082	(4,459)	14,623
10	380100	WW Equipment Sed Tanks/Acc	45,887	-	(27,350)	803,699	(150,949)	652,750
11	380300	WW TD Equipment Sldge Dry/Filt	-	-	(440)	8,807	(2,593)	6,214
12	380500	WW TD Equipment Chem Trmt Plant	-	-	(716)	14,311	(1,986)	12,325
13	380600	WW TD Equipment Other Disposal	(B)	-	(1,995)	39,891	(9,798)	30,092
14	393000	WW Tool Shop & Garage Equipment	-	-	(1,770)	39,599	(24,469)	15,130
15	394000	WW Laboratory Equipment	-	-	(22)	587	(140)	447
16	396000	Communication Equipment	17,237	-	(597)	26,170	(620)	25,550
17	398000	Other Plant	-	-	-	-	-	-
18	TOTAL		\$ 101,795	\$ -	\$ (77,383)	\$ 3,040,786	\$ (448,684)	\$ 2,592,102
20	Per Company Work Papers		101,795	-	(103,112)	3,040,786	(485,357)	2,555,429
21	Increase (Decrease) GUPIS & Accumulated Depr.		\$ -	\$ -	\$ (25,729)	\$ 0	\$ (36,673)	\$ 36,673

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 2, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 2, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2007

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADD'TS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352000	Franchises	-	-	-	364	-	364
3	354200	Structures and Improvements	-	-	(5,644)	201,579	(50,194)	151,386
4	360000	Sewer Lines	-	-	(108)	5,382	(939)	4,443
5	361100	WW Collecting Mains	146,580	-	(29,505)	1,615,707	(169,046)	1,446,661
6	362000	WW Special Collecting Struct.	-	-	(1,495)	74,760	(20,833)	53,927
7	363000	WW Services Sewer	29	-	(6,412)	314,343	(52,219)	262,124
8	364000	WW Flow Measuring Devices	-	-	(1,253)	23,113	(4,855)	18,258
9	371100	WW Pumping Equipment Elect.	(147)	-	(1,034)	18,935	(5,493)	13,442
10	380100	WW Equipment Sed Tanks/Acc	89	-	(28,933)	803,788	(179,882)	623,905
11	380300	WW TD Equipment Sidge Dry/Filt	-	-	(440)	8,807	(3,033)	5,774
12	380500	WW TD Equipment Chem Trmt Plant	-	-	(716)	14,311	(2,702)	11,609
13	380600	WW TD Equipment Other Disposal	(872)	-	(1,993)	39,019	(11,791)	27,228
14	393000	WW Tool Shop & Garage Equipment	4,638	-	(1,779)	44,237	(26,248)	17,989
15	394000	WW Laboratory Equipment	-	-	(22)	587	(161)	426
16	396000	Communication Equipment	35	-	(1,620)	26,205	(2,240)	23,965
17	398000	Other Plant	-	-	-	-	-	-
18	TOTAL		\$ 150,353	\$ -	\$ (80,953)	\$ 3,191,139	\$ (529,637)	\$ 2,661,502
20	Per Company Work Papers		150,353	-	(107,077)	3,191,139	(592,434)	2,598,705
21	Increase (Decrease) GUPIS & Accumulated Depre.		\$ (0)	\$ -	\$ (26,124)	\$ (0)	\$ (62,797)	\$ 62,797

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 3, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 3, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

Arizona-American Water Company
Docket Nos. SW & W-01303A-08-0227
Test Year Ended December 31, 2007

**EXPLANATION OF RATE BASE ADJUSTME
MOHAVE WASTEWATER WISHING WELL TREA'**
(A)

LINE NO.	DESCRIPTION	AMOUNT
1	Wishing Well Treatment Plant Cost Per Company	\$ 3,932,080
2	Remove 50% as Not Used and Useful	50%
3		
4	RUCO Adjustment to Increase (Decrease) UPIS	<u>\$ (1,966,040)</u>
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		

Mohave Wastewater District
Schedule RLM-4

ENT NO. 6
TMENT PLANT
(B)

REFERENCE

Company Schedule B-2, page 10 - LJG-10
Staff DR DH 16.2

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 341	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	341	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 3,661	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	3,661	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 58,358	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	(7,327)	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (65,685)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (65,685)</u>	Sum Lines 3, 6 & 9

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY**

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 108,996	\$ -	\$ 108,996	12.0000	\$ 1,307,952
2	Purchased Water	-	-	-	-	-
3	Fuel & Power	73,650	-	73,650	30.1963	2,223,957
4	Chemicals	9,214	-	9,214	46.0409	424,221
5	Waste Disposal	126,228	39	126,267	42.1707	5,324,768
6	Management Fees	123,665	(1,489)	122,176	10.4000	1,270,635
7	Group Insurance	24,046	-	24,046	(14.0819)	(338,613)
8	Pensions	18,447	-	18,447	45.0000	830,115
9	Insurance Other Than Group	7,294	-	7,294	(68.2707)	(497,966)
10	Customer Accounting	16,497	-	16,497	19.7595	325,972
11	Rents	1,613	-	1,613	5.0391	8,128
12	Depreciation & Amorization	248,398	(248,398)	-	-	-
13	Other Operating Expenses	51,688	(22,307)	29,381	30.0000	881,432
	Taxes:					
14	Taxes Other Than Income	9,778	-	9,778	14.7188	143,920
15	Property Taxes	37,922	6,406	44,328	212.5000	9,419,673
16	Income Tax	9,778	43,016	52,794	28.7500	1,517,820
17	Interest Expense	-	81,843	81,843	106.5180	8,717,796
18	Total Appropriate Operating Expenses	<u>\$ 867,214</u>	<u>\$ (140,890)</u>	<u>\$ 726,325</u>		<u>\$ 31,559,809</u>
19	Expense Lag	Line 18, Col. (E) / (C)	43.45			
20	Revenue Lag	RUCO Workpapers	39.77			
21	Net Lag	Line 20 - Line 19	(3.68)			
22	RUCO Adjusted Expenses	Col. (C), Line 18	<u>\$ 726,325</u>			
23	Cash Working Capital	Line 21 X Line 22 / 365 Days	<u>(7,327)</u>			
24	Company As Filed	Co. Schedule B-6, Page 1	58,358			
25	Difference	Line 23 - Line 24	<u>\$ (65,685)</u>			
26	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 25	<u>\$ (65,685)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJM'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 791,279	\$ -	\$ 791,279	\$ 165,546	\$ 956,825
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Revenues	4,882	-	4,882	-	4,882
4	TOTAL OPERATING REVENUE	<u>\$ 796,161</u>	<u>\$ -</u>	<u>\$ 796,161</u>	<u>\$ 165,546</u>	<u>\$ 961,707</u>
	Operating Expenses:					
5	Labor	\$ 108,996	\$ -	\$ 108,996	\$ -	\$ 108,996
6	Purchased Water	-	-	-	-	-
7	Fuel & Power	73,650	-	73,650	-	73,650
8	Chemicals	9,214	-	9,214	-	9,214
9	Waste Disposal	126,228	39	126,267	-	126,267
10	Management Fees	123,665	(1,489)	122,176	-	122,176
11	Group Insurance	24,046	-	24,046	-	24,046
12	Pensions	18,447	-	18,447	-	18,447
13	Regulatory Expense	22,140	(19,159)	2,981	-	2,981
14	Insurance Other Than Group	7,294	-	7,294	-	7,294
15	Customer Accounting	16,497	-	16,497	-	16,497
16	Rents	1,613	-	1,613	-	1,613
17	General Office Expense	7,874	-	7,874	-	7,874
18	Miscellaneous	16,726	(167)	16,559	-	16,559
19	Maintenance Expense	4,948	-	4,948	-	4,948
20	Depreciation & Amortization	248,398	(123,996)	124,402	-	124,402
21	General Taxes - Property Taxes	37,922	6,406	44,328	-	44,328
22	General Taxes - Other	9,778	-	9,778	-	9,778
23	Income Tax	(76,894)	75,334	(1,560)	54,354	52,794
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 780,542</u>	<u>\$ (63,032)</u>	<u>\$ 717,510</u>	<u>\$ 54,354</u>	<u>\$ 771,864</u>
26	OPERATING INCOME (LOSS)	<u>\$ 15,619</u>	<u>\$ 63,032</u>	<u>\$ 78,651</u>	<u>\$ 111,191</u>	<u>\$ 189,843</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 PROPERTY TAX	(C) ADJMT NO. 2 DEPRECIATN & AMORTIZN	(D) ADJMT NO. 3 RATE CASE EXPENSE	(E) ADJMT NO. 4 WASTE DISPOSAL	(F) ADJMT NO. 5 AIP EXPENSE	(G) ADJMT NO. 6 MISC EXPENSES	(H) ADJMT NO. 7 INCOME TAX	(I) RUCO AS ADJTD
1	Revenues:									
2	Metered Water Revenues	\$ 791,279	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 791,279
3	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-
4	Other Revenues	4,882	-	-	-	-	-	-	-	4,882
	TOTAL OPERATING REV.	<u>\$ 796,161</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 796,161</u>
5	Operating Expenses:									
6	Labor	\$ 108,996	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 108,996
7	Purchased Water	-	-	-	-	-	-	-	-	-
8	Fuel & Power	73,650	-	-	-	-	-	-	-	73,650
9	Chemicals	9,214	-	-	-	-	-	-	-	9,214
10	Waste Disposal	126,228	-	-	-	39	-	-	-	126,267
11	Management Fees	123,665	-	-	-	-	(1,489)	-	-	122,176
12	Group Insurance	24,046	-	-	-	-	-	-	-	24,046
13	Pensions	18,447	-	-	-	-	-	-	-	18,447
14	Regulatory Expense	22,140	-	-	(19,159)	-	-	-	-	2,981
15	Insurance Other Than Group	7,294	-	-	-	-	-	-	-	7,294
16	Customer Accounting	16,497	-	-	-	-	-	-	-	16,497
17	Rents	1,613	-	-	-	-	-	-	-	1,613
18	General Office Expense	16,726	-	-	-	-	-	-	-	16,559
19	Miscellaneous	4,948	-	-	-	-	-	(167)	-	4,948
20	Maintenance Expense	248,398	-	(123,996)	-	-	-	-	-	124,402
21	Depreciation & Amortization	37,922	6,406	-	-	-	-	-	-	44,328
22	General Taxes - Property Taxes	9,778	-	-	-	-	-	-	-	9,778
23	General Taxes - Other	(76,894)	-	-	-	-	-	-	75,334	(1,560)
24	Income Tax	-	-	-	-	-	-	-	-	-
25	Rounding	-	-	-	-	-	-	-	-	-
	TOTAL OPERATING EXP.	<u>\$ 780,542</u>	<u>\$ 6,406</u>	<u>\$ (123,996)</u>	<u>\$ (19,159)</u>	<u>\$ 39</u>	<u>\$ (1,489)</u>	<u>\$ (167)</u>	<u>\$ 75,334</u>	<u>\$ 717,510</u>
26	OPERATING INC. (LOSS)	<u>\$ 15,619</u>								<u>\$ 78,651</u>

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Rate Case Expense
- 4 Waste Disposal Expense
- 5 Annual Incentive Pay Program Expense
- 6 Miscellaneous Expenses
- 7 Income Tax

REFERENCE:

- 1 Testimony, RLM And Schedule RLM-8
- 2 Testimony, RLM And Schedule RLM-9
- 3 Testimony, RLM And Schedule RLM-10
- 4 Remove Credit Amounts Per Company Response To Staff DR GTM 8.7
- 5 Testimony, RLM And Schedule RLM-11
- 6 Testimony, RLM And Schedule RLM-12
- 7 Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Test Year Revenue	Schedule RLM-7	\$ 796,161	
2	Adjusted Test Year Revenue	Schedule RLM-7	796,161	
3	RUCO Proposed Revenue	Schedule RLM-6	961,707	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 2,554,029	
5	Average Annual Operating Revenues	Line 4 / 3	851,343	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 1,702,686
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 1,689,307	
8	10% Of CWIP	Line 7 X 10%		\$ 168,931
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 1,871,616
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 430,472	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	10.30%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	10.30%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 44,328
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		37,922
20	Increase (Decrease) In Property Tax Expense	Line 18 - Line 19		\$ 6,406
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 6,406

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) RUCO DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ -	0.00%	\$ -
2	352000	Franchises	364	0.00%	-
3	354200	Structures and Improvements	584,532	2.80%	16,367
4	360000	Sewer Lines	5,382	2.00%	108
5	361100	WW Collecting Mains	1,615,707	2.00%	32,314
6	362000	WW Special Collecting Struct.	74,760	2.00%	1,495
7	363000	WW Services Sewer	314,343	2.04%	6,413
8	364000	WW Flow Measuring Devices	23,113	5.42%	1,253
9	371100	WW Pumping Equipment Elect.	425,726	5.42%	23,074
10	380100	WW Equipment Sed Tanks/Acc	803,788	3.60%	28,936
11	380300	WW TD Equipment Sldge Dry/Filt	8,807	5.00%	440
12	380500	WW TD Equipment Chem Trmt Plant	14,311	5.00%	716
13	380600	WW TD Equipment Other Disposal	1,215,316	5.00%	60,766
14	393000	WW Tool Shop & Garage Equipment	44,237	4.47%	1,977
15	394000	WW Laboratory Equipment	587	3.71%	22
16	396000	Communication Equipment	26,205	4.24%	1,111
17	398000	Other Plant	-	0.00%	-
18	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 5,157,179		\$ 174,992
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE			-
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			-
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 174,992
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORTIZATION OF REGULATORY ASSETS			-
48		AMORTIZATION OF CONTRIBUTIONS			(18,093)
49		AMORTIZATION OF REGULATORY CIAC			(32,497)
50		Rounding			-
51	TOTAL DEPRECIATION EXPENSE				\$ 124,402
52	Company As Filed				248,398
53	Difference				\$ (123,996)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (123,996)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)
Represents 50% of Post Test Year Treatment Plant

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	<u>\$ 612,000</u>	<u>\$ (187,735)</u>	<u>\$ 424,265</u>
2	Allocation Factor (See NOTE Below)	1.4612%		2.1078%
3	Mohave Wastewater District (Line 1 X Line 2)	<u>\$ 8,943</u>	<u>\$ -</u>	<u>\$ 8,943</u>
4	Amortization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 3 Years)			<u>\$ 2,981</u>
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			<u>\$ 22,140</u>
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			<u>\$ (19,159)</u>
8	RUCO Adjustment (Line 7) (See RLM-7, Column (D))			<u>\$ (19,159)</u>

NOTE

	4-Factor Allocation		Company As Filed		RUCO As Adjusted
	Districts Included In This Filing				
9	Sun City West Water District	11.7965%	\$ 72,195	17.0164%	\$ 72,195
10	Paradise Valley Water District	10.4331%	63,851	15.0497%	63,851
11	Tubac Water District	0.9990%	6,114	1.4411%	6,114
12	Agua Fria Water District	31.3783%	192,035	45.2631%	192,035
13	Havasui Water District	1.8822%	11,519	2.7151%	11,519
14	Mohave Water District	11.3740%	69,609	16.4069%	69,609
15	Mohave Wastewater District	1.4612%	8,943	2.1078%	8,943
16	Total	<u>69.3243%</u>	<u>\$ 424,265</u>	<u>100.0000%</u>	<u>\$ 424,265</u>
	Districts NOT Included In This Filing				
17	Agua Fria Wastewater District	8.2232%	\$ 50,326		
18	Distco/Treatco Sewer	9.8095%	60,034		
19	Distco/Treatco Water	12.6430%	77,375		
20		<u>100.0000%</u>	<u>\$ 612,000</u>		

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
ANNUAL INCENTIVE PLAN EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJUSTED
1	AZ-AM Annual Incentive Plan ("AIP") Expense Total	Co. Response To RUCO DR 3.01.e	\$ 482,198
2	Allocation Factor	Co. Workpapers Per SLH-6	1.0290%
3	Mohave Wastewater District	Lines 1 X 2	<u>\$ 4,962</u>
4	Portion Deemed Shareholder Benefit Only	RLM Testimony	30.00%
5	RUCO Test-Year Disallowance Of AIP Expense	Lines 3 X 4	<u>\$ (1,489)</u>
6	RUCO Adjustment (See RLM-7, Column (D))	Line 5	<u><u>\$ (1,489)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		RUCO ADJUSTMENTS			RUCO AS ADJUSTED
		ALLOCABLE TOTAL	ALLOC'N 4-FACTOR	DISTRICT TOTAL	
1	Mohave Wastewater Direct Miscellaneous Account (RLM-12, Pg, Ln 113)	\$ (26.92)	100.00%	\$ (27)	
2	Corporate Office Allocable Miscellaneous Account (RLM-12. Pg 4, Ln 98)	\$ (13,607.91)	1.0290%	\$ (140)	
3	TOTAL				<u>\$ (167)</u>

NOTE

4-Factor Allocation

4	Sun City West Water District	8.3198%
5	Paradise Valley Water District	7.6863%
6	Tubac Water District	0.7254%
7	Agua Fria Water District	23.0946%
8	Havasupai Water District	1.3850%
9	Mohave Water District	7.8288%
10	Mohave Wastewater District	1.0290%

References:

Column (A): RLM-12, Pages 2 Thru 5 Derived From Company's Line 21 Workpapers
Column (B): See NOTE
Column (C): Column (A) X Column (B)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 - CONT'D
INAPPROPRIATE MISCELLANEOUS EXPENSES

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
CORPORATED OFFICE MISCELLANEOUS EXPENSES					
1	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
2	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
3	PCard Undistributed	33.00	ALVES FLOWERS & GIFTS	NANCY J HUCKEY	Land
4	Employee Awards AG	2,400.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
5	Employee Awards AG	2,500.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
6	PCard Undistributed	27.29	BASHAS'	ARTHUR W FAIELLO	External training/seminars
7	Training AG	8.49	BASHAS'	KURTIS L STRAUDEL	External training/seminars
8	Training AG	13.24	BASHAS'	KURTIS L STRAUDEL	External training/seminars
9	Training AG	33.69	BASHAS'	KURTIS L STRAUDEL	In-house training/seminars
10	PCard Undistributed	25.64	BURGER KING #5915 Q	ANGEL STEVENS	NON-Catered Food & Beverages
11	PCard Undistributed	26.00	CHARLEY'S GRILLED SQ	ANGEL STEVENS	NON-Catered Food & Beverages
12	PCard Undistributed	1.89	CHEVRON	JAMES ISHMAEL	NON-Catered Food & Beverages
13	PCard Undistributed	1.59	CHEVRON	WILLIAM L WALLSTEAD	NON-Catered Food & Beverages
14	Misc Oper AG	59.57	CHILI'S GRI	BERT L REYNOLDS	NON-Catered Food & Beverages
15	PCard Undistributed	40.00	CHINA BUFFET	BRIAN BIESEMEYER	NON-Catered Food & Beverages
16	PCard Undistributed	23.49	CHIPOTLE #0898 Q	ANGEL STEVENS	NON-Catered Food & Beverages
17	PCard Undistributed	5.48	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
18	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
19	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
20	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
21	PCard Undistributed	7.18	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
22	Training AG	28.05	COLDSTN CREAM #30 Q	KURTIS L STRAUDEL	In-house training/seminars
23	PCard Undistributed	273.61	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
24	PCard Undistributed	7.36	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
25	PCard Undistributed	17.16	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
26	PCard Undistributed	220.69	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
27	Co Dues/Membership Deduct	281.06	Costco Wholesale Membership-RE	Membership Dues	Financial Costs
28	Misc Oper AG	55.89	Costco-REMIT	7003-7300-0000-6704	NON-Catered Food & Beverages
29	Training AG	48.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
30	Training AG	54.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	In-house training/seminars
31	PCard Undistributed	34.99	CRAZY CARLOS INC	GARRY T BURTON	NON-Catered Food & Beverages
32	PCard Undistributed	30.00	CUCINA TAGLIANI	JEREMIAH MECHAM	NON-Catered Food & Beverages
33	PCard Undistributed	18.52	DENNY'S INC	ANGEL STEVENS	NON-Catered Food & Beverages
34	PCard Undistributed	53.91	DILLONS GRAND	DALE E KENNOW	NON-Catered Food & Beverages
35	PCard Undistributed	14.21	DILLONS GRAND	PAUL D TAYLOR	NON-Catered Food & Beverages
36	PCard Undistributed	71.37	DILLONS THUNDERBIRD	FLOYD K MCKINNEY	NON-Catered Food & Beverages

LINE NO	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
37	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	External training/seminars
38	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	In-house training/seminars
39	PCard Undistributed	27.14	EINSTEIN BROS	PAULA A CHRISTIAN	NON-Catered Food & Beverages
40	Trans Oper AG	66.39	EL PASO BARBQUE	ERNEST G SANTA CRUZ	NON-Catered Food & Beverages
41	PCard Undistributed	30.84	EL TORITO	TODD R FARRELL	NON-Catered Food & Beverages
42	PCard Undistributed	19.22	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
43	PCard Undistributed	29.76	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
44	PCard Undistributed	28.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
45	PCard Undistributed	25.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
46	PCard Undistributed	33.28	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
47	PCard Undistributed	13.76	FRYS-FOOD-DRG #122 SXN	ROY PEREZ JR	NON-Catered Food & Beverages
48	Training AG	25.59	HMSHOST-PHX-AIR	NEIL J MEYER	NON-Catered Food & Beverages
49	Misc Oper AG	125.00	Huckeby, Nancy J -Petty Cash	Christmas Decorations	Office Decorations
50	Misc Oper AG	200.00	Huckeby, Nancy J -Petty Cash	Christmas Party Security	Security & Monitoring
51	PCard Undistributed	9.96	HUNGRY HOWIE'S PIZZA	JON C BEHRENDT	NON-Catered Food & Beverages
52	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	274560	NON-Catered Food & Beverages
53	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	ICE	NON-Catered Food & Beverages
54	Misc Oper AG	143.61	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
55	Misc Oper AG	81.18	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
56	PCard Undistributed	40.53	IHOP	ANGEL STEVENS	NON-Catered Food & Beverages
57	PCard Undistributed	27.58	KFC #1303016	ANGEL STEVENS	NON-Catered Food & Beverages
58	Trans Oper AG Lease Cost	60.91	LAS CAZUELAS	ANGEL STEVENS	NON-Catered Food & Beverages
59	PCard Undistributed	67.37	MADELYN'S	PAUL M LI	NON-Catered Food & Beverages
60	PCard Undistributed	3.98	MCDONALD'S F	KURTIS L STRAUDEL	NON-Catered Food & Beverages
61	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	Catering/works catering
62	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	External training/seminars
63	PCard Undistributed	6.96	PILOT	JAMES ISHMAEL	In-house training/seminars
64	PCard Undistributed	6.34	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
65	PCard Undistributed	71.98	PIZZA HUT	JAMES ISHMAEL	NON-Catered Food & Beverages
66	Other Welf Oper AG	41.25	Professional Plants & Inc-PO/R	ANGEL STEVENS	NON-Catered Food & Beverages
67	PCard Undistributed	10.02	QUIZNOS	SERVICES	Landscaping
68	PCard Undistributed	54.55	RIO MIRAGE CAFE	ANDREW C MARTINEZ	NON-Catered Food & Beverages
69	PCard Undistributed	16.77	ROMENS GYROS	JENNIFER L HALLIDAY	NON-Catered Food & Beverages
70	PCard Undistributed	69.87	ROSATI'S PIZZA - PEORI	RANDY J ZIOLKOWSKI	Pathwaynet Default
71	Training AG	61.53	ROSATI'S PIZZA UNION H	ANGEL STEVENS	NON-Catered Food & Beverages
72	PCard Undistributed	4.99	SAFEMAY STORE	KURTIS L STRAUDEL	External training/seminars
73	PCard Undistributed	20.95	SAFEMAY STORE	CHRISTOPHER M WILLIAMS	NON-Catered Food & Beverages
74	PCard Undistributed	39.37	SAFEMAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
75	PCard Undistributed	21.13	SAFEMAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
76	PCard Undistributed	14.53	SAFEMAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
77	PCard Undistributed	15.64	SUBWAY 25139	ROY PEREZ JR	Catering/works catering
78	Misc Oper AG	25.00	Supreme Court of Pennsylvania	JEFFREY S BORN	NON-Catered Food & Beverages
79	Employee Awards AG	107.84	Tharpe Company Inc-REMIT	Certificate	Event organization services
80	Employee Awards AG	722.07	Tharpe Company Inc-REMIT	8549	Service Awards and Premiums
81	Employee Awards AG	829.39	Tharpe Company Inc-REMIT	98415RI	Service Awards and Premiums
				CUST #16248	Service Awards and Premiums

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
82	Employee Awards AG	882.92	Tharpe Company Inc-REMIT	CUST# 16248	Service Awards and Premiums
83	Employee Awards AG	90.27	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
84	Employee Awards AG	176.84	Tharpe Company Inc-REMIT	cust# 8549	Service Awards and Premiums
85	Employee Awards AG	120.50	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
86	Employee Awards AG	110.61	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
87	Employee Awards AG	79.64	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
88	Employee Awards AG	88.41	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
89	Employee Awards AG	78.57	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
90	Employee Awards AG	204.49	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
91	Employee Awards AG	135.65	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
92	Employee Awards AG	79.93	Tharpe Company Inc-REMIT	Inv 454294ti	Service Awards and Premiums
93	Misc Oper AG	67.04	TLF CACTUS FLOWER FLOR	NANCY J HUCKEY	Land
94	Overnight Shipping AG	35.93	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
95	Overnight Shipping AG	(35.93)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
96	Community Relations	1,000.00	Water for People-REMIT	Water For People Sponsor	Sponsoring
97	Training AG	17.32	WONDER BREAD/HOSTESS	KURTIS L STRAUDEL	External training/seminars
98		<u>\$ 13,607.91</u>			

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
DISTRICT DIRECTLY ALLOCATED MISCELLANEOUS EXPENSES					
SUN CITY WEST WATER DISTRICT MISCELLANEOUS EXPENSES					
99	M & S Oper TD	18.94	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
100	M & S Oper SS	59.03	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
101	Misc Oper PP	57.63	RED ROBIN NO	PAUL D TAYLOR	NON-Catered Food & Beverages
102	Misc Oper PP	30.93	SAFEWAY STORE	ROBERT L CRON	NON-Catered Food & Beverages
103	Total	\$ 166.53			
PARADISE VALLEY WATER DISTRICT MISCELLANEOUS EXPENSES					
104	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
105	Training AG	5.39	LONG JOHN SILV	NEIL J MEYER	NON-Catered Food & Beverages
106	Safety Incentive	132.00	Peavey Performance Systems	1004289	Service Awards and Premiums
107	Training AG	6.26	SUBWAY #10469	NEIL J MEYER	NON-Catered Food & Beverages
108	Misc Oper TD	33.98	THE HOME DEPOT	LEE F HUDDLESTON	Event organization services
109	Total	\$ 313.29			
TUBAC WATER DISTRICT MISCELLANEOUS EXPENSES					
110	Contract Svc-Eng Oper AG	17.12	KFC 1303012	ROBERT L CRON	NON-Catered Food & Beverages
111	Overnight Shipping AG	20.82	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
112	Overnight Shipping AG	(20.82)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
113	Total	\$ 17.12			
AGUA FRIA WATER DISTRICT MISCELLANEOUS EXPENSES					
114	Brochures and Handouts	\$ 1,788.00	AZ University	Project WET Sponsorship	Sponsoring
115	Misc Oper SS	157.41	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
116	Water Res Conservation	317.39	CSI CRESTLINE CO INC	SALLY L CECCARELLI WOLF	Service Awards and Premiums
117	M & S Oper TD	44.22	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
118	Total	\$ 2,307.02			
HAVASU WATER DISTRICT MISCELLANEOUS EXPENSES					
119	No Adjustment	\$ -			
MOHAVE WATER DISTRICT MISCELLANEOUS EXPENSES					
120	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
121	M & S Oper TD	22.80	DENNY'S INC	CHAD E GEBOW	NON-Catered Food & Beverages
122	M & S Oper TD	133.56	Ferguson Enterprises Inc #675	7202007	NON-Catered Food & Beverages
123	M & S Oper TD	50.00	Ferguson Enterprises Inc-#602-	CUST# 605937	NON-Catered Food & Beverages
124	Total	\$ 342.02			
MOHAVE WASTEWATER DISTRICT MISCELLANEOUS EXPENSES					
125	M & S Oper WT	\$ 26.92	WAL-MART	WILLIAM L WALLSTEAD	Animal feed
126	Total	\$ 26.92			

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 77,091
	LESS:		
2	Arizona State Tax	Line 11	(331)
3	Interest Expense	Note (A) Line 20	81,843
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (4,421)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	27.80%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (1,229)
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 77,091
	LESS:		
8	Interest Expense	Note (A) Line 20	81,843
9	State Taxable Income	Line 7 - Line 8	\$ (4,753)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (331)
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (1,229)
13	State Income Tax Expense	Line 11	(331)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (1,560)
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(76,894)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 75,334
17	RUCO Adjustment (See Sch. RLM-7, Column (J))	Line 16	\$ 75,334

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 2,713,527
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 81,843

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST RATE
1	DEBT	55.20%	5.46%	3.02%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL			<u><u>7.00%</u></u>

References:

Columns (A) Thru (C): See Testimony - William A. Rigsby

PARADISE VALLEY WATER DISTRICT

TABLE OF CONTENTS TO RLM SCHEDULES

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RLM-13		OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 40,864,986	\$ 37,018,940
2	Adjusted Operating Income (Loss)	\$ 1,552,498	\$ 1,586,688
3	Current Rate Of Return (L2 / L1)	3.80%	4.29%
4	Required Operating Income (L5 X L1)	\$ 3,432,659	\$ 2,591,326
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 1,880,161	\$ 1,004,638
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6496	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 3,101,550	\$ 1,636,188
9	Adjusted Test Year Revenue	\$ 7,848,732	\$ 7,848,732
10	Proposed Annual Revenue (L8 + L9)	\$ 10,950,282	\$ 9,484,920
11	Required Percentage Increase In Revenue (L8 / L9)	39.52%	20.85%
12	Rate Of Return On Common Equity	11.91%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 2,591,326			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	1,586,688			
13	Required Increase In Operating Income (L11 - L12)		\$ 1,004,638		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 926,201			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	294,651			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 631,550		
17	Total Required Increase In Revenue (L13 + L16)		\$ 1,636,188		
				RUCO	
				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 9,484,920	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			5,967,392	
20	Synchronized Interest (Col. (C), L37)			1,117,972	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 2,399,555	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 167,201
24	Fed. Taxable Income (L21 - L23)			\$ 2,232,354	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			645,100	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 759,000
31	Combined Federal And State Income Tax (L23 + L30)				\$ 926,201
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ 294,651
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 631,550
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 37,018,940	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 1,117,972	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 61,588,447	\$ (2,177,734)	\$ 59,410,714
2	Accumulated Depreciation	(12,099,985)	355,950	(11,744,035)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 49,488,462</u>	<u>\$ (1,821,784)</u>	<u>\$ 47,666,678</u>
				0
4	Advances In Aid Of Const.	\$ (1,704,269)	\$ -	\$ (1,704,269)
5	Contribution In Aid Of Const.	\$ (12,789,338)	\$ (322,588)	\$ (13,111,926)
6	Accumulated Amortization Of CIAC	5,539,222	-	5,539,222
7	NET CIAC (L6 + L7)	<u>\$ (7,250,116)</u>	<u>\$ (322,588)</u>	<u>\$ (7,572,704)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ -	\$ -	\$ -
10	Customer Meter Deposits	\$ (12,600)	\$ -	\$ (12,600)
11	Deferred Income Taxes And Credits	\$ (1,600,604)	\$ -	\$ (1,600,604)
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,238,398	\$ (1,083,637)	\$ 154,761
14	Allowance For Working Capital	\$ 705,715	\$ (618,037)	\$ 87,678
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 40,864,986</u>	<u>\$ (3,846,046)</u>	<u>\$ 37,018,940</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMULT'D DEPRECTN	(C) ADJMT NO. 2 CIAC FOR CWIP	(D) ADJMT NO. 3 POST TY PLANT	(E) ADJMT NO. 4 ACCUMULT'D DEPRECTN	(F) ADJMT NO. 5 GROSS PLANT	(G) ADJMT NO. 6 DEFERRED DEBITS	(H) ADJMT NO. 7 WORKING CAPITAL	(I) RUCO ADJTD OCRB/FVRB
1	Gross Utility Plant In Service	\$ 61,588,447	\$ -	\$ -	\$ (2,109,032)	\$ -	\$ (68,702)	\$ -	\$ -	\$ 59,410,714
2	Accumulated Depreciation	(12,099,985)	(100,554)	-	-	456,414	90	-	-	(11,744,035)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 49,488,462	\$ (100,554)	\$ -	\$ (2,109,032)	\$ 456,414	\$ (68,612)	\$ -	\$ -	\$ 47,668,678
4	Advances In Aid Of Const.	\$ (1,704,269)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,704,269)
5	Contribution In Aid Of Const.	\$ (12,789,338)	\$ -	\$ (322,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (13,111,926)
6	Accumulated Amortization Of CIAC	5,539,222	-	-	-	-	-	-	-	5,539,222
7	NET CIAC (L5 + L6)	\$ (7,250,116)	\$ -	\$ (322,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (7,572,704)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Customer Meter Deposits	\$ (12,600)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (12,600)
11	Deferred Income Taxes And Credits	\$ (1,600,604)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,600,604)
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,238,398	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,083,637)	\$ -	\$ 154,761
14	Allowance For Working Capital	\$ 705,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (618,037)	\$ 87,678
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 40,864,986	\$ (100,554)	\$ (322,588)	\$ (2,109,032)	\$ 456,414	\$ (68,612)	\$ (1,083,637)	\$ (618,037)	\$ 37,018,940

References: Column (A): Company Schedule B-2

Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation Per Company Responses To RUCO Data Request 1.31

Column (C): Adjustment No. 2 - Reverse Company's Adjustment LUG-6 To Remove CIAC Associated With CWIP

Column (D): Adjustment No. 3 - Adjust Post Test-Year Plant Per Company Responses To RUCO Data Request 1.34

Column (E): Adjustment No. 4 - Adjust Test-Year Accumulated Depreciation First For Company Revised Dep. Rates Per Response To RUCO Data Request 1.07 & 1.08

And Second RUCO Computed Acc. Dep. Using A Mid-Month Convention.

Column (F): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request DH 4.3

Column (G): Adjustment No. 6 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1

Column (H): Adjustment No. 7 - Adjust Allowance For Working Capital To Reflect RUCO Operating Income Adjustments And the Disallowance Of Depreciation Expense In The Allowance.

Column (I): Sum Of Columns (A), (B), (C), (D), (E), (F), (G) & (H)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED DECEMBER 31, 2004

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)	(G)
			PRIOR DECISION NO. 68858 - ADJUSTED			RUCO ADJUSTED PRIOR TEST YEAR			
			DEP RATE	GROSS PLANT	ACCUMULATED DEPRECIATION	PLANT ADJUSTMENT	ACC. DEP. ADJUSTMENT	GROSS PLANT	ACCUMULATED DEPRECIATION
1	301000	Organization	0.00%	\$ 15,350	\$ 477,338	\$ -	\$ -	\$ 15,350	\$ 477,338
2	302000	Franchises	0.00%	-	-	-	-	-	-
3	339600	Miscellaneous Intangibles	0.00%	-	589,424	-	-	-	589,424
4	303200	Land & Land Rights SS	0.00%	-	-	-	-	-	-
5	303300	Land & Land Rights P	0.00%	-	-	-	-	-	-
6	303500	Land & Land Rights TD	0.00%	8,324	-	-	-	8,324	-
7	303600	Land & Land Rights AG	0.00%	-	-	-	-	-	-
8	304100	Struct & Imp SS	14.59%	7,953	(13,190)	-	-	7,953	(13,190)
9	304200	Struct & Imp P	3.99%	69,131	22,038	-	-	69,131	22,038
10	304300	Struct & Imp WT	2.00%	3,038,848	(454,776)	-	-	3,038,848	(454,776)
11	304400	Struct & Imp TD	1.50%	23,864	(806)	-	-	23,864	(806)
12	304500	Struct & Imp AG	4.63%	15,173	(3,295)	-	-	15,173	(3,295)
13	304600	Struct & Imp Offices	4.63%	-	-	-	-	-	-
14	304700	Struct & Imp Store, Shop, & Garage	4.63%	93,285	(63,784)	-	-	93,285	(63,784)
15	304800	Struct & Imp Misc	4.63%	149,284	(14,179)	-	-	149,284	(14,179)
16	305000	Collect & Impounding	0.00%	-	-	-	-	-	-
17	307000	Wells & Springs	2.48%	1,252,563	(526,585)	-	-	1,252,563	(526,585)
18	310100	Power Generation Equip Other	4.42%	-	-	-	-	-	-
19	311200	Pump Equip Electric	4.39%	3,337,081	(993,356)	-	-	3,337,081	(993,356)
20	311300	Pump Equip Diesel	4.39%	59,421	(18,735)	-	-	59,421	(18,735)
21	311500	Pump Equip Other	0.00%	-	-	-	-	-	-
22	320100	WT Equip Non-Media	7.06%	5,825,149	(2,867,630)	-	-	5,825,149	(2,867,630)
23	309000	Supply Mains	1.11%	-	-	-	-	-	-
24	330000	Dist Reservoirs & Standpipe	3.15%	912,619	(140,643)	-	-	912,619	(140,643)
25	331001	TD Mains Not Classified By Size	0.00%	-	-	-	-	-	-
26	331100	TD Mains 4in & Less	4.17%	706,252	(488,966)	-	-	706,252	(488,966)
27	331200	TD Mains 6in to 8in	2.52%	3,974,977	(2,012,781)	-	-	3,974,977	(2,012,781)
28	331300	TD Mains 10in to 16in	2.34%	5,485,424	(1,392,736)	-	-	5,485,424	(1,392,736)
29	332000	Fire Mains	1.53%	-	-	-	-	-	-
30	333000	Services	4.72%	2,178,857	(924,802)	-	-	2,178,857	(924,802)
31	334100	Meters	7.21%	328,579	(90,243)	-	-	328,579	(90,243)
32	334200	Meter Installations	1.51%	103,799	(7,074)	-	-	103,799	(7,074)
33	335000	Hydrants	2.10%	746,904	(362,444)	-	-	746,904	(362,444)
34	339100	Other P/E Intangible	0.00%	-	-	-	-	-	-
35	339500	Other P/E TD	0.00%	-	-	-	-	-	-
36	340100	Office Furniture & Equip	4.04%	43,931	(19,546)	-	-	43,931	(19,546)
37	340200	Comp & Periph Equip	15.89%	98,019	(114,016)	-	-	98,019	(114,016)
38	340300	Computer Software	37.71%	134,174	(171,171)	-	-	134,174	(171,171)
39	340500	Other Office Equipment	7.13%	25,224	(7,015)	-	-	25,224	(7,015)
40	341100	Trans Equip Lt Duty Trks	28.05%	2,882	(20,122)	-	-	2,882	(20,122)
41	341300	Trans Equip Autos	7.80%	19,307	(16,087)	-	-	19,307	(16,087)
42	341400	Trans Equip Other	0.93%	13,606	(1,857)	-	-	13,606	(1,857)
43	343000	Tools,Shop,Garage Equip	3.61%	83,291	(24,816)	-	-	83,291	(24,816)
44	344000	Laboratory Equipment	3.71%	-	-	-	-	-	-
45	345000	Power Operated Equipment	4.64%	147,066	(46,243)	-	-	147,066	(46,243)
46	346100	Comm Equip Non-Telephone	9.76%	284,556	(140,452)	-	-	284,556	(140,452)
47	346300	Comm Equip Other	7.91%	81,331	(35,285)	-	-	81,331	(35,285)
48	TOTAL			\$ 29,266,224	\$ (9,883,835)	\$ -	\$ -	\$ 29,266,224	\$ (9,883,835)
49	Company As Filed			\$ 29,266,224	\$ (9,883,835)	\$ -	\$ -	\$ 29,266,224	\$ (9,883,835)
50	Difference			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

References:
Columns (A) (B) (C): Company Schedule B-2
Columns (D) (E): See Testimony, RLM
Column (F): Column (B) + Column (D)
Column (G): Column (C) + Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 15,350	\$ 477,338	\$ 492,688
2	302000	Franchises	-	-	-	-	-	-
3	339600	Miscellaneous Intangibles	-	-	-	-	589,424	589,424
4	303200	Land & Land Rights SS	-	-	-	-	-	-
5	303300	Land & Land Rights P	-	-	-	-	-	-
6	303500	Land & Land Rights TD	-	-	-	8,324	-	8,324
7	303600	Land & Land Rights AG	-	-	-	-	-	-
8	304100	Struct & Imp SS	-	-	(1,160)	7,953	(14,350)	(6,397)
9	304200	Struct & Imp P	-	-	(2,800)	69,131	19,238	88,369
10	304300	Struct & Imp WT	-	-	(60,822)	3,038,848	(515,598)	2,523,250
11	304400	Struct & Imp TD	-	-	(358)	23,864	(1,164)	22,700
12	304500	Struct & Imp AG	-	-	(617)	15,173	(3,912)	11,261
13	304600	Struct & Imp Offices	-	-	-	-	-	-
14	304700	Struct & Imp Store, Shop, & Garage	-	-	(4,319)	93,285	(68,103)	25,182
15	304800	Struct & Imp Misc	-	-	(6,912)	149,284	(21,091)	128,193
16	305000	Collect & Impounding	-	-	-	-	-	-
17	307000	Wells & Springs	-	-	(31,249)	1,252,563	(557,834)	694,729
18	310100	Power Generation Equip Other	1,632	-	(2)	1,632	(2)	1,630
19	311200	Pump Equip Electric	147,829	-	(149,377)	3,484,910	(1,142,733)	2,342,177
20	311300	Pump Equip Diesel	-	-	(2,609)	59,421	(21,344)	38,077
21	311500	Pump Equip Other	-	-	-	-	-	-
22	320100	WT Equip Non-Media	-	-	(411,285)	5,825,149	(3,278,915)	2,546,234
23	309000	Supply Mains	-	-	-	-	-	-
24	330000	Dist Reservoirs & Standpipe	-	-	(28,747)	912,619	(169,390)	743,229
25	331001	TD Mains Not Classified By Size	2,886,702	-	-	2,886,702	-	2,886,702
26	331100	TD Mains 4in & Less	8,271	-	(29,619)	714,523	(518,585)	195,938
27	331200	TD Mains 6in to 8in	648,009	-	(104,038)	4,622,986	(2,116,819)	2,506,167
28	331300	TD Mains 10in to 16in	9,217	-	(128,475)	5,494,641	(1,521,211)	3,973,430
29	332000	Fire Mains	-	-	-	-	-	-
30	333000	Services	145,598	(271)	(105,444)	2,324,184	(1,029,975)	1,294,209
31	334100	Meters	17,430	(16,511)	(23,875)	329,498	(97,607)	231,891
32	334200	Meter Installations	6,866	-	(1,642)	110,665	(8,716)	101,949
33	335000	Hydrants	259,257	-	(16,802)	1,006,161	(379,246)	626,915
34	339100	Other P/E Intangible	-	-	-	-	-	-
35	339500	Other P/E TD	-	-	-	-	-	-
36	340100	Office Furniture & Equip	-	-	(1,775)	43,931	(21,321)	22,610
37	340200	Comp & Periph Equip	1,747	-	(15,713)	99,766	(129,729)	(29,963)
38	340300	Computer Software	13,862	-	(51,419)	148,036	(222,590)	(74,554)
39	340500	Other Office Equipment	-	-	(1,803)	25,224	(8,818)	16,406
40	341100	Trans Equip Lt Duty Trks	5,219	-	(1,173)	8,101	(21,295)	(13,194)
41	341300	Trans Equip Autos	-	(19,307)	(1,443)	-	1,777	1,777
42	341400	Trans Equip Other	-	-	(127)	13,606	(1,984)	11,622
43	343000	Tools, Shop, Garage Equip	1,319	-	(3,009)	84,610	(27,825)	56,785
44	344000	Laboratory Equipment	-	-	-	-	-	-
45	345000	Power Operated Equipment	-	-	(6,825)	147,066	(53,068)	93,998
46	346100	Comm Equip Non-Telephone	-	-	(27,773)	284,556	(168,225)	116,331
47	346300	Comm Equip Other	-	-	(6,433)	81,331	(41,718)	39,613
48	TOTAL		\$ 4,152,957	\$ (36,089)	\$ (1,227,645)	\$ 33,383,092	\$ (11,075,391)	\$ 22,307,701
49	Company As Filed		\$ 4,152,957	\$ (36,089)	\$ (1,191,951)	\$ 33,383,092	\$ (11,075,787)	\$ 22,307,305
50	Difference		\$ -	\$ -	\$ (35,694)	\$ -	\$ 396	\$ 396

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised PV ACC DEP", Sheet "2004-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 15,350	\$ 477,338	\$ 492,688
2	302000	Franchises	-	-	-	-	-	-
3	339600	Miscellaneous Intangibles	8,390	-	-	8,390	589,424	597,814
4	303200	Land & Land Rights SS	-	-	-	-	-	-
5	303300	Land & Land Rights P	-	-	-	-	-	-
6	303500	Land & Land Rights TD	-	-	-	8,324	-	8,324
7	303600	Land & Land Rights AG	-	-	-	-	-	-
8	304100	Struct & Imp SS	12,636,814	(6,984)	(219,654)	12,637,783	(227,020)	12,410,763
9	304200	Struct & Imp P	-	(69,131)	(2,643)	-	85,726	85,726
10	304300	Struct & Imp WT	-	(35,758)	(60,747)	3,003,090	(540,587)	2,462,503
11	304400	Struct & Imp TD	-	(100)	(358)	23,764	(1,422)	22,342
12	304500	Struct & Imp AG	-	(9,442)	(590)	5,731	4,940	10,671
13	304600	Struct & Imp Offices	-	-	-	-	-	-
14	304700	Struct & Imp Store, Shop, & Garage	-	(90,249)	(4,145)	3,036	18,001	21,037
15	304800	Struct & Imp Misc	-	(149,284)	(6,624)	-	121,569	121,569
16	305000	Collect & Impounding	-	-	-	-	-	-
17	307000	Wells & Springs	30,684	-	(31,349)	1,283,247	(589,183)	694,064
18	310100	Power Generation Equip Other	418,265	-	(1,795)	419,897	(1,797)	418,100
19	311200	Pump Equip Electric	605,536	(682,711)	(154,582)	3,407,735	(614,604)	2,793,131
20	311300	Pump Equip Diesel	26,435	(85,719)	(1,702)	137	62,673	62,810
21	311500	Pump Equip Other	-	-	-	-	-	-
22	320100	WT Equip Non-Media	2,791,581	(21,682)	(435,202)	8,595,048	(3,692,435)	4,902,613
23	309000	Supply Mains	-	-	-	-	-	-
24	330000	Dist Reservoirs & Standpipe	1,011,606	-	(37,206)	1,924,225	(206,596)	1,717,629
25	331001	TD Mains Not Classified By Size	(501,133)	-	-	2,385,569	-	2,385,569
26	331100	TD Mains 4in & Less	728	(610,233)	(28,747)	105,018	62,901	167,919
27	331200	TD Mains 6in to 8in	110,312	-	(117,015)	4,733,298	(2,233,834)	2,499,464
28	331300	TD Mains 10in to 16in	2,987,361	-	(162,886)	8,482,002	(1,684,097)	6,797,905
29	332000	Fire Mains	-	-	-	-	-	-
30	333000	Services	150,668	-	(113,312)	2,474,852	(1,143,287)	1,331,565
31	334100	Meters	7,014	(15,107)	(23,235)	321,405	(105,735)	215,670
32	334200	Meter Installations	29,223	(217)	(1,875)	139,671	(10,374)	129,297
33	335000	Hydrants	19,521	-	(21,307)	1,025,682	(400,553)	625,129
34	339100	Other P/E Intangible	-	-	-	-	-	-
35	339500	Other P/E TD	-	-	-	-	-	-
36	340100	Office Furniture & Equip	20,853	(1,821)	(1,876)	62,963	(21,376)	41,587
37	340200	Comp & Periph Equip	19,512	(93,975)	(12,723)	25,303	(48,477)	(23,174)
38	340300	Computer Software	846	(134,174)	(41,080)	14,708	(129,496)	(114,788)
39	340500	Other Office Equipment	(18,710)	(5,840)	(1,281)	674	(4,259)	(3,585)
40	341100	Trans Equip Lt Duty Trks	(5,219)	(2,882)	(1,568)	(0)	(19,981)	(19,981)
41	341300	Trans Equip Autos	-	(19,307)	1,318	(19,307)	22,402	3,095
42	341400	Trans Equip Other	5,575	(3,466)	(148)	15,715	1,334	17,049
43	343000	Tools, Shop, Garage Equip	14,703	(5,358)	(3,161)	93,955	(25,628)	68,327
44	344000	Laboratory Equipment	16,552	-	75	16,552	75	16,627
45	345000	Power Operated Equipment	-	(50,935)	(6,725)	96,131	(8,858)	87,273
46	346100	Comm Equip Non-Telephone	75,930	(7,655)	(28,597)	352,831	(189,167)	163,664
47	346300	Comm Equip Other	3,600	(26,090)	(6,454)	58,841	(22,082)	36,759
48	TOTAL		\$ 20,466,647	\$ (2,128,120)	\$ (1,527,194)	\$ 51,721,619	\$ (10,474,465)	\$ 41,247,154
49	Company As Filed		\$ 20,466,647	\$ (2,128,120)	\$ (511,467)	\$ 51,721,619	\$ (10,564,321)	\$ 41,157,298
50	Difference		\$ -	\$ -	\$ (1,015,727)	\$ -	\$ 89,856	\$ 89,856

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised PV ACC DEP", Sheet "2004-2007"
Column (D): Schedule RLM-3, Page 2, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 2, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2007

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 15,350	\$ 477,338	\$ 492,688
2	302000	Franchises	-	-	-	-	-	-
3	339600	Miscellaneous Intangibles	2,130	-	-	10,520	589,424	599,944
4	303200	Land & Land Rights SS	-	-	-	-	-	-
5	303300	Land & Land Rights P	-	-	-	-	-	-
6	303500	Land & Land Rights TD	-	-	-	8,324	-	8,324
7	303600	Land & Land Rights AG	-	-	-	-	-	-
8	304100	Struct & Imp SS	4,338,382	-	(1,856,059)	16,976,165	(2,083,079)	14,893,086
9	304200	Struct & Imp P	-	-	-	-	85,726	85,726
10	304300	Struct & Imp WT	-	-	(60,062)	3,003,090	(600,649)	2,402,441
11	304400	Struct & Imp TD	-	-	(356)	23,764	(1,778)	21,986
12	304500	Struct & Imp AG	-	-	(229)	5,731	4,711	10,442
13	304600	Struct & Imp Offices	-	-	-	-	-	-
14	304700	Struct & Imp Store, Shop, & Garage	-	-	(141)	3,036	17,860	20,896
15	304800	Struct & Imp Misc	-	(8,633)	17	(8,633)	130,219	121,586
16	305000	Collect & Impounding	-	-	-	-	-	-
17	307000	Wells & Springs	152,883	-	(31,982)	1,436,130	(621,165)	814,965
18	310100	Power Generation Equip Other	134,734	-	(14,174)	554,631	(15,971)	538,660
19	311200	Pump Equip Electric	192,479	(199)	(148,762)	3,600,015	(763,167)	2,836,848
20	311300	Pump Equip Diesel	53	-	(8)	190	62,665	62,855
21	311500	Pump Equip Other	-	-	-	-	-	-
22	320100	WT Equip Non-Media	1,231,901	(795)	(615,880)	9,826,154	(4,307,520)	5,518,634
23	309000	Supply Mains	-	-	-	-	-	-
24	330000	Dist Reservoirs & Standpipe	268,854	(77,144)	(60,921)	2,115,945	(190,373)	1,925,572
25	331001	TD Mains Not Classified By Size	9,722	-	-	2,395,291	-	2,395,291
26	331100	TD Mains 4in & Less	10,011	(70)	(4,450)	114,959	58,521	173,480
27	331200	TD Mains 6in to 8in	313,000	(1)	(120,796)	5,046,297	(2,354,629)	2,691,668
28	331300	TD Mains 10in to 16in	776,025	(125,608)	(199,099)	9,132,419	(1,757,588)	7,374,831
29	332000	Fire Mains	14,058	-	-	14,058	-	14,058
30	333000	Services	264,460	(14,553)	(121,331)	2,724,759	(1,250,065)	1,474,694
31	334100	Meters	40,132	(10,668)	(23,962)	350,869	(119,029)	231,840
32	334200	Meter Installations	10,309	(1,675)	(2,229)	148,305	(10,928)	137,377
33	335000	Hydrants	28,639	-	(21,649)	1,054,321	(422,202)	632,119
34	339100	Other P/E Intangible	-	-	-	-	-	-
35	339500	Other P/E TD	-	-	-	-	-	-
36	340100	Office Furniture & Equip	(106)	(4,045)	(2,533)	58,812	(19,864)	38,948
37	340200	Comp & Periph Equip	6,529	-	(4,064)	31,832	(52,541)	(20,709)
38	340300	Computer Software	2	-	(5,547)	14,710	(135,043)	(120,333)
39	340500	Other Office Equipment	-	-	(48)	674	(4,307)	(3,633)
40	341100	Trans Equip Lt Duty Trks	-	-	-	(0)	(19,981)	(19,981)
41	341300	Trans Equip Autos	22,848	-	1,432	3,541	23,834	27,375
42	341400	Trans Equip Other	12,190	-	(152)	27,905	1,182	29,087
43	343000	Tools, Shop, Garage Equip	13,419	-	(3,856)	107,374	(29,484)	77,890
44	344000	Laboratory Equipment	1,068	-	(652)	17,620	(577)	17,043
45	345000	Power Operated Equipment	-	-	(4,460)	96,131	(13,318)	82,813
46	346100	Comm Equip Non-Telephone	44,971	(10,913)	(37,472)	386,889	(215,726)	171,163
47	346300	Comm Equip Other	-	-	(4,654)	58,841	(26,736)	32,105
48	TOTAL		\$ 7,888,703	\$ (254,304)	\$ (3,344,079)	\$ 59,356,018	\$ (13,564,240)	\$ 45,791,778
49	Company As Filed		\$ 7,888,703	\$ (185,602)	\$ (3,195,807)	\$ 59,424,720	\$ (13,760,126)	\$ 45,664,594
50	Difference		\$ -	\$ (68,702)	\$ (148,272)	\$ (68,702)	\$ 195,886	\$ 127,184

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised PV ACC DEP", Sheet "2004-2007"
Column (D): Schedule RLM-3, Page 3, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 3, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
POST TEST YEAR PLANT

			(A)	(B)	(C)	(D)	(E)	(F)	
LINE NO.	ACCT. NO.	ACCOUNT NAME	PLANT ADDITIONS	PLANT RETIREMENTS	REVISED ACCUMULATED DEPRECIATION	TOTAL PLANT VALUE	ACCUMULATED DEPRECIATION	NET PLANT VALUE	
1	301000	Organization	\$ -	\$ -	\$ -	\$ 15,350	\$ 477,338	\$ 492,688	
2	302000	Franchises	-	-	-	-	-	-	
3	339600	Miscellaneous Intangibles	-	-	-	10,520	589,424	599,944	
4	303200	Land & Land Rights SS	-	-	-	-	-	-	
5	303300	Land & Land Rights P	-	-	-	-	-	-	
6	303500	Land & Land Rights TD	-	-	-	8,324	-	8,324	
7	303600	Land & Land Rights AG	-	-	-	-	-	-	
8	304100	Struct & Imp SS	(17,465,790)	-	2,183,315	(489,625)	100,236	(389,389)	
9	304200	Struct & Imp P	-	-	-	-	85,726	85,726	
10	304300	Struct & Imp WT	17,465,790	-	(299,330)	20,468,880	(899,979)	19,568,901	
11	304400	Struct & Imp TD	-	-	-	23,764	(1,778)	21,986	
12	304500	Struct & Imp AG	-	-	-	5,731	4,711	10,442	
13	304600	Struct & Imp Offices	-	-	-	-	-	-	
14	304700	Struct & Imp Store, Shop, & Garage	-	-	-	3,036	17,860	20,896	
15	304800	Struct & Imp Misc	-	-	-	(8,633)	130,219	121,586	
16	305000	Collect & Impounding	-	-	-	-	-	-	
17	307000	Wells & Springs	(1,851,214)	(159,973)	-	(575,057)	(461,192)	(1,036,249)	
18	310100	Power Generation Equip Other	-	-	-	554,631	(15,971)	538,660	
19	311200	Pump Equip Electric	-	-	-	3,600,015	(763,167)	2,836,848	
20	311300	Pump Equip Diesel	-	-	-	190	62,665	62,855	
21	311500	Pump Equip Other	-	-	-	-	-	-	
22	320100	WT Equip Non-Media	-	-	-	9,826,154	(4,307,520)	5,518,634	
23	309000	Supply Mains	-	-	-	-	-	-	
24	330000	Dist Reservoirs & Standpipe	-	-	-	2,115,945	(190,373)	1,925,572	
25	331001	TD Mains Not Classified By Size	-	-	-	2,395,291	-	2,395,291	
26	331100	TD Mains 4in & Less	-	-	-	114,959	58,521	173,480	
27	331200	TD Mains 6in to 8in	-	-	-	5,046,297	(2,354,629)	2,691,668	
28	331300	TD Mains 10in to 16in	-	-	-	9,132,419	(1,757,588)	7,374,831	
29	332000	Fire Mains	-	-	-	14,058	-	14,058	
30	333000	Services	-	-	-	2,724,759	(1,250,065)	1,474,694	
31	334100	Meters	-	-	-	350,869	(119,029)	231,840	
32	334200	Meter Installations	-	-	-	148,305	(10,928)	137,377	
33	335000	Hydrants	-	-	-	1,054,321	(422,202)	632,119	
34	339100	Other P/E Intangible	-	-	-	-	-	-	
35	339500	Other P/E TD	-	-	-	-	-	-	
36	340100	Office Furniture & Equip	-	-	-	58,812	(19,864)	38,948	
37	340200	Comp & Periph Equip	6,459	-	-	38,291	(52,541)	(14,250)	
38	340300	Computer Software	-	-	-	14,710	(135,043)	(120,333)	
39	340500	Other Office Equipment	-	-	-	674	(4,307)	(3,633)	
40	341100	Trans Equip Lt Duty Trks	-	-	-	(0)	(19,981)	(19,981)	
41	341300	Trans Equip Autos	-	-	-	3,541	23,834	27,375	
42	341400	Trans Equip Other	-	-	-	27,905	1,182	29,087	
43	343000	Tools, Shop, Garage Equip	3,742	-	-	111,116	(29,484)	81,632	
44	344000	Laboratory Equipment	-	-	-	17,620	(577)	17,043	
45	345000	Power Operated Equipment	-	-	-	96,131	(13,318)	82,813	
46	346100	Comm Equip Non-Telephone	-	-	-	386,889	(215,726)	171,163	
47	346300	Comm Equip Other	-	-	-	58,841	(26,736)	32,105	
48	TOTAL		\$ (1,841,013)	\$ (159,973)	\$ 1,883,984	\$ 57,355,032	\$ (11,520,283)	\$ 45,834,750	
49	Company As Filed		93,988	-	1,883,984	59,532,766	\$ (11,876,142)		
50	Difference		\$ (1,935,001)	\$ (159,973)	\$ -	\$ (2,177,734)	\$ 355,860	\$ 45,834,750	
						RUCO TY As Calculated	\$ 57,355,032	\$ (11,520,283)	
						RUCO Adjustments	2,177,734	(355,950)	(90)
						Co. TY Adjustments To Book	2,113,479	1,717,180	
						Co. Variance To GL	(93,985)	(1,883,985)	
						Co. Variance To GL	34,409	(107,315)	
						Co. Variance To GL	1,778	50,277	
						Total	\$ 61,588,447	\$ (12,100,075)	
						Co. As Filed	61,588,447	(12,099,985)	
						Difference	\$ (0)	\$ (90)	
						Adj. #1 - ConformingTo RUCO 1.31	\$ -	\$ (100,554)	
						Adj. #3 - ConformingTo RUCO 1.34	(2,109,032)	-	
						Adj. #4 - Difference In Computing Acc. Dep.	-	456,414	
						Adj. #5 - ConformingTo Std DH 4.3	(68,702)	-	
						Total RUCO Adjustments	\$ (2,177,734)	\$ 355,860	
						RUCO As Adjusted	59,410,714	(11,744,035)	
						RUCO Adjustments	(2,177,734)	355,860	
						Co. As Filed	61,588,447	(12,099,985)	
						Co. Adjustments	2,055,681	(223,843)	
						Co. Computed	59,532,766	(11,876,142)	

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised PV ACC DEP", Sheet "2004-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

Arizona-Amercian Water Company
Docket Nos. SW & W-01303A-08-0227
Test Year Ended December 31, 2007

Paradise Valley Water District
Schedule RLM-5
Page 1 of 2

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 38,726	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	38,726	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 117,955	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	117,955	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	549,034	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	(69,003)	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (618,037)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	\$ (618,037)	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTMT'S	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 715,859	\$ -	\$ 715,859	12.00	\$ 8,590,308
2	Purchased Water	-	-	-	-	-
3	Fuel & Power	693,068	-	693,068	32.42	22,470,166
4	Chemicals	236,982	(51,945)	185,037	18.06	3,340,843
5	Management Fees	923,778	(11,119)	912,659	10.40	
6	Group Insurance	184,827	-	184,827	(14.08)	(2,602,715)
7	Pensions	130,911	-	130,911	45.00	5,890,995
8	Insurance Other Than Group	45,435	-	45,435	(68.27)	(3,101,879)
9	Customer Accounting	123,742	-	123,742	19.76	2,444,872
10	Rents	21,467	-	21,467	(10.50)	(225,404)
11	Depreciation & Amortization	1,615,824	(1,615,824)	-	-	-
12	Other Operating Expenses	1,038,973	(24,796)	1,014,177	30.00	30,425,322
	Taxes:					
13	Taxes Other Than Income	67,972	-	67,972	15.07	1,024,651
14	Property Taxes	268,996	19,219	288,214	212.50	61,245,577
15	Income Tax	1,410,936	(484,735)	926,201	28.75	26,628,292
16	Interest Expense	-	1,117,972	1,117,972	106.52	119,086,377
17	Total Appropriate Operating Expenses	<u>\$ 7,478,770</u>	<u>\$ (1,051,228)</u>	<u>\$ 6,427,542</u>		<u>\$ 275,217,405</u>
18	Expense Lag	Line 17, Col. (E) / (C)	42.82			
19	Revenue Lag	Company Response To RUCO DR 8	<u>38.90</u>			
20	Net Lag	Line 20 - Line 19	(3.92)			
21	RUCO Adjusted Expenses	Col. (C), Line 18	<u>\$ 6,427,542</u>			
22	Cash Working Capital	Line 21 X Line 22 / 365 Days	<u>(69,003)</u>			
23	Company As Filed	Co. Schedule B-6, Page 1	549,034			
24	Difference	Line 23 - Line 24	<u>\$ (618,037)</u>			
25	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 25	<u>\$ (618,037)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 7,832,113	\$ -	\$ 7,832,113	\$ 1,636,188	\$ 9,468,301
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	16,619	-	16,619	-	16,619
4	TOTAL OPERATING REVENUE	\$ 7,848,732	\$ -	\$ 7,848,732	\$ 1,636,188	\$ 9,484,920
	Operating Expenses:					
5	Labor	\$ 715,859	\$ -	\$ 715,859	\$ -	\$ 715,859
6	Purchased Water	-	-	-	-	-
7	Fuel & Power	693,068	-	693,068	-	693,068
8	Chemicals	236,982	(51,945)	185,037	-	185,037
9	Waste Disposal	(290)	290	-	-	-
10	Management Fees	923,778	(11,119)	912,659	-	912,659
11	Group Insurance	184,827	-	184,827	-	184,827
12	Pensions	130,911	-	130,911	-	130,911
13	Regulatory Expense	21,283	-	21,283	-	21,283
14	Insurance Other Than Group	45,435	-	45,435	-	45,435
15	Customer Accounting	123,742	-	123,742	-	123,742
16	Rents	21,467	-	21,467	-	21,467
17	General Office Expense	87,860	-	87,860	-	87,860
18	Miscellaneous	351,828	(3,803)	348,025	-	348,025
19	Maintenance Expense	578,292	-	578,292	-	578,292
20	Depreciation & Amortization	1,615,824	(53,083)	1,562,741	-	1,562,741
21	General Taxes - Property Taxes	268,996	19,218	288,214	-	288,214
22	General Taxes - Other	67,972	-	67,972	-	67,972
23	Income Tax	228,400	66,251	294,651	631,550	926,201
24	Rounding	1	-	-	-	-
25	TOTAL OPERATING EXPENSES	\$ 6,296,235	\$ (34,190)	\$ 6,262,044	\$ 631,550	\$ 6,893,594
26	OPERATING INCOME (LOSS)	\$ 1,552,497	\$ 34,190	\$ 1,586,688	\$ 1,004,638	\$ 2,591,326

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 PROPERTY TAX	(C) ADJMT NO. 2 DEPRECIATION & AMORTIZATION	(D) ADJMT NO. 3 WASTE DISPOSAL	(E) ADJMT NO. 4 CHEMICAL EXPENSE	(F) ADJMT NO. 5 AIP EXPENSE	(G) ADJMT NO. 6 MISC EXPENSES	(H) ADJMT NO. 7 INCOME TAX	(I) RUCO AS ADJTD
1	Revenues:									
2	Metered Water Revenues	\$ 7,832,113	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,832,113
3	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-
4	Other Water Revenues	16,619	-	-	-	-	-	-	-	16,619
	TOTAL OPERATING REV.	<u>\$ 7,848,732</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,848,732</u>
5	Operating Expenses:									
6	Labor	\$ 715,859	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 715,859
7	Purchased Water	-	-	-	-	-	-	-	-	-
8	Fuel & Power	693,068	-	-	-	-	-	-	-	693,068
9	Chemicals	236,982	-	-	-	(51,945)	-	-	-	185,037
10	Waste Disposal	(290)	-	-	290	-	-	-	-	-
11	Management Fees	923,778	-	-	-	-	(11,119)	-	-	912,659
12	Group Insurance	184,827	-	-	-	-	-	-	-	184,827
13	Pensions	130,911	-	-	-	-	-	-	-	130,911
14	Regulatory Expense	21,283	-	-	-	-	-	-	-	21,283
15	Insurance Other Than Group	45,435	-	-	-	-	-	-	-	45,435
16	Customer Accounting	123,742	-	-	-	-	-	-	-	123,742
17	Rents	21,467	-	-	-	-	-	-	-	21,467
18	General Office Expense	87,860	-	-	-	-	-	-	-	87,860
19	Miscellaneous	351,828	-	-	-	-	-	(3,803)	-	348,025
20	Maintenance Expense	578,292	-	-	-	-	-	-	-	578,292
21	Depreciation & Amortization	1,615,824	-	(53,083)	-	-	-	-	-	1,562,741
22	General Taxes - Property Taxes	268,996	19,218	-	-	-	-	-	-	288,214
23	General Taxes - Other	67,972	-	-	-	-	-	-	-	67,972
24	Income Tax	228,400	-	-	-	-	-	-	66,251	294,651
25	TOTAL OPERATING EXP.	<u>\$ 6,296,235</u>	<u>\$ 19,218</u>	<u>\$ (53,083)</u>	<u>\$ 290</u>	<u>\$ (51,945)</u>	<u>\$ (11,119)</u>	<u>\$ (3,803)</u>	<u>\$ 66,251</u>	<u>\$ 6,262,044</u>
26	OPERATING INC. (LOSS)	<u>\$ 1,552,497</u>								<u>\$ 1,586,688</u>

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Waste Disposal Expense
- 4 Chemical Expense
- 5 Annual Incentive Pay Program Expense
- 6 Labor Expense
- 7 Miscellaneous Expenses
- 8 Income Tax

REFERENCE:

- Testimony, RLM And Schedule RLM-8
- Testimony, RLM And Schedule RLM-9
- Testimony, RLM
- Testimony, RLM
- Testimony, RLM And Schedule RLM-11
- Testimony, RLM
- Testimony, RLM And Schedule RLM-12
- Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
	Annual Operating Revenues:			
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 7,848,732	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	7,848,732	
3	Proposed Revenues	Sch. RLM-6, Col (D), Ln 4	9,484,920	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 25,182,384	
5	Average Annual Operating Revenues	Line 4 / 3	8,394,128	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 16,788,256
ADD:				
	10% Of Construction Work In Progress ("CWIP"):			
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 1,438,015	
8	10% Of CWIP	Line 7 X 10%		\$ 143,802
SUBTRACT:				
	Transportation At Book Value:			
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 16,932,057
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
	FCV X Valuation Assessment Ratio X Property Tax Rates:			
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 3,894,373	
	Property Tax Rates:			
15	Primary Tax Rate	Company Workpapers	7.40%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	7.40%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 288,214
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		268,996
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 19,218
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 19,218

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 15,350	0.00%	\$ -
2	302000	Franchises	-	0.00%	-
3	339600	Miscellaneous Intangibles	10,520	0.00%	-
4	303200	Land & Land Rights SS	-	0.00%	-
5	303300	Land & Land Rights P	-	0.00%	-
6	303500	Land & Land Rights TD	8,324	0.00%	-
7	303600	Land & Land Rights AG	-	0.00%	-
8	304100	Struct & Imp SS	(489,625)	14.59%	(71,436)
9	304200	Struct & Imp P	-	3.99%	-
10	304300	Struct & Imp WT	20,468,880	2.00%	409,378
11	304400	Struct & Imp TD	23,764	1.50%	356
12	304500	Struct & Imp AG	5,731	4.63%	265
13	304600	Struct & Imp Offices	-	4.63%	-
14	304700	Struct & Imp Store, Shop, & Garage	3,036	4.63%	141
15	304800	Struct & Imp Misc	(8,633)	4.63%	(400)
16	305000	Collect & Impounding	-	0.00%	-
17	307000	Wells & Springs	(575,057)	2.48%	(14,261)
18	310100	Power Generation Equip Other	554,631	4.42%	24,515
19	311200	Pump Equip Electric	3,600,015	4.39%	158,041
20	311300	Pump Equip Diesel	190	4.39%	8
21	311500	Pump Equip Other	-	0.00%	-
22	320100	WT Equip Non-Media	9,826,154	7.06%	693,726
23	309000	Supply Mains	-	1.11%	-
24	330000	Dist Reservoirs & Standpipe	2,115,945	3.15%	66,652
25	331001	TD Mains Not Classified By Size	2,395,291	0.00%	-
26	331100	TD Mains 4in & Less	114,959	4.17%	4,794
27	331200	TD Mains 6in to 8in	5,046,297	2.52%	127,167
28	331300	TD Mains 10in to 16in	9,132,419	2.34%	213,699
29	332000	Fire Mains	14,058	1.53%	215
30	333000	Services	2,724,759	4.72%	128,609
31	334100	Meters	350,869	7.21%	25,298
32	334200	Meter Installations	148,305	1.51%	2,239
33	335000	Hydrants	1,054,321	2.10%	22,141
34	339100	Other P/E Intangible	-	0.00%	-
35	339500	Other P/E TD	-	0.00%	-
36	340100	Office Furniture & Equip	58,812	4.04%	2,376
37	340200	Comp & Periph Equip	38,291	15.89%	6,084
38	340300	Computer Software	14,710	37.71%	5,547
39	340500	Other Office Equipment	674	7.13%	48
40	341100	Trans Equip Lt Duty Trks	(0)	28.05%	(0)
41	341300	Trans Equip Autos	3,541	7.80%	276
42	341400	Trans Equip Other	27,905	0.93%	260
43	343000	Tools, Shop, Garage Equip	111,116	3.61%	4,011
44	344000	Laboratory Equipment	17,620	3.71%	654
45	345000	Power Operated Equipment	96,131	4.64%	4,460
46	346100	Comm Equip Non-Telephone	386,889	9.76%	37,760
47	346300	Comm Equip Other	58,841	7.91%	4,654
48	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 57,355,032		\$ 1,857,277
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE	120,225		26,819
	TOTAL	DEPRECIATION EXPENSE ON UPIS			1,884,096
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS	1,899,267		61,324
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORTIZATION OF REGULATORY ASSETS			72
48		AMORTIZATION OF CONTRIBUTIONS			(382,752)
49		AMORTIZATION OF REGULATORY CIAC			-
50		Rounding			1
51	TOTAL DEPRECIATION EXPENSE				\$ 1,562,741
52	Company As Filed				1,615,824
53	Difference				\$ (53,083)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (53,083)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	\$ 612,000	\$ (187,735)	\$ 424,265
2	Allocation Factor (See NOTE Below)	10.4331%		15.0497%
3	Paradise Valley Water District (Line 1 X Line 2)	\$ 63,851	\$ -	\$ 63,851
4	Amortization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 3 Years)			\$ 21,284
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			\$ 21,284
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			\$ -
8	RUCO Adjustment (Line 7) (See RLM-7, Column (D))			\$ -

NOTE

	4-Factor Allocation		Company As Filed		RUCO As Adjusted
	Districts Included In This Filing				
9	Sun City West Water District	11.7965%	\$ 72,195	17.0164%	\$ 72,195
10	Paradise Valley Water District	10.4331%	63,851	15.0497%	63,851
11	Tubac Water District	0.9990%	6,114	1.4411%	6,114
12	Agua Fria Water District	31.3783%	192,035	45.2631%	192,035
13	Havasui Water District	1.8822%	11,519	2.7151%	11,519
14	Mohave Water District	11.3740%	69,609	16.4069%	69,609
15	Mohave Wastewater District	1.4612%	8,943	2.1078%	8,943
16	Total	69.3243%	\$ 424,265	100.0000%	\$ 424,265
	Districts NOT Included In This Filing				
17	Agua Fria Wastewater District	8.2232%	\$ 50,326		
18	Distco/Treatco Sewer	9.8095%	60,034		
19	Distco/Treatco Water	12.6430%	77,375		
20		100.0000%	\$ 612,000		

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
ANNUAL INCENTIVE PLAN EXPENSE

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJUSTED
1	AZ-AM Annual Incentive Plan ("AIP") Expense Total	Co. Response To RUCO DR 3.01.e	\$ 482,198
2	Allocation Factor	Co. Workpapers Per SLH-6	7.6863%
3	Paradise Valley Water District	Lines 1 X 2	<u>\$ 37,063</u>
4	Portion Deemed Shareholder Benefit Only	RLM Testimony	30.00%
5	RUCO Test-Year Disallowance Of AIP Expense	Lines 3 X 4	<u>\$ (11,119)</u>
6	RUCO Adjustment (See RLM-7, Column (D))	Line 5	<u><u>\$ (11,119)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		ALLOCABLE TOTAL	RUCO ADJUSTMENTS ALLOC'N 4-FACTOR	DISTRICT TOTAL	RUCO AS ADJUSTED
1	Paradise Valley Water Direct Miscellaneous Account (RLM-12, Pg, Ln 109)	\$ (166.53)	100.00%	\$ (167)	
2	Corporate Office Allocable Miscellaneous Account (RLM-12, Pg 4, Ln 98)	\$ (13,607.91)	7.6863%	\$ (1,046)	
3	SUB-TOTAL				<u>\$ (1,212)</u>

NOTE

4-Factor Allocation

4	Sun City West Water District	8.3198%
5	Paradise Valley Water District	7.6863%
6	Tubac Water District	0.7254%
7	Agua Fria Water District	23.0946%
8	Havasupai Water District	1.3850%
9	Mohave Water District	7.8288%
10	Mohave Wastewater District	1.0290%

ADDITIONAL ADJUSTMENT FOR PARADISE VALLEY WATER DISTRICT

The Company Incorrectly Calculated "Corporate Office" Expense As A Positive Value Instead Of A Negative Value

Adjustment SLH-16 As Filed By Company

11	Paradise Valley Water Direct Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ (1,524)	100.00%	\$ (1,524)	
12	Corporate Office Allocable Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ 16,849	7.6863%	\$ 1,295	
13	SUB-TOTAL				<u>\$ (229)</u>

Company's Adjustment As Revised By RUCO

14	Paradise Valley Water Direct Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ (1,524)	100.00%	\$ (1,524)	
15	Corporate Office Misc. Account (Recorded As a Negative Amount)	\$ (16,849)	7.6863%	\$ (1,295)	
16	SUB-TOTAL				<u>(2,819)</u>
17	DIFFERENCE (Column D, Line 16 - Line 13)				<u>(2,590)</u>
18	TOTAL (Column D, Sum Of Line 3 + Line 17)				<u>\$ (3,803)</u>
19	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (Line 18) (See RLM-7, Column (G))				<u>(3,803)</u>

References:

Column (A): RLM-12, Pages 2 Thru 5 Derived From Company's Line 21 Workpapers
Column (B): See NOTE
Column (C): Column (A) X Column (B)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 -CONT'D
INAPPROPRIATE MISCELLANEOUS EXPENSES

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
CORPORATED OFFICE MISCELLANEOUS EXPENSES					
1	Misc Oper WT	\$ 55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
2	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
3	PCard Undistributed	33.00	ALVES FLOWERS & GIFTS	NANCY J HUCKEY	Land
4	Employee Awards AG	2,400.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
5	Employee Awards AG	2,500.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
6	PCard Undistributed	27.29	BASHAS'	ARTHUR W FAIELLO	External training/seminars
7	Training AG	8.49	BASHAS'	KURTIS L STRAUDEL	External training/seminars
8	Training AG	13.24	BASHAS'	KURTIS L STRAUDEL	External training/seminars
9	Training AG	33.69	BASHAS'	KURTIS L STRAUDEL	In-house training/seminars
10	PCard Undistributed	25.64	BURGER KING #5915 Q	ANGEL STEVENS	NON-Catered Food & Beverages
11	PCard Undistributed	26.00	CHARLEY'S GRILLED SQ	ANGEL STEVENS	NON-Catered Food & Beverages
12	PCard Undistributed	1.89	CHEVRON	JAMES ISHMAEL	NON-Catered Food & Beverages
13	PCard Undistributed	1.59	CHEVRON	WILLIAM L WALLSTEAD	NON-Catered Food & Beverages
14	Misc Oper AG	59.57	CHILI'S GRI	BERT L REYNOLDS	NON-Catered Food & Beverages
15	PCard Undistributed	40.00	CHINA BUFFET	BRIAN BIESEMEYER	NON-Catered Food & Beverages
16	PCard Undistributed	23.49	CHIPOTLE #0898 Q	ANGEL STEVENS	NON-Catered Food & Beverages
17	PCard Undistributed	5.48	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
18	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
19	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
20	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
21	PCard Undistributed	7.18	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
22	Training AG	28.05	COLDSTN CREAM #30 Q	KURTIS L STRAUDEL	In-house training/seminars
23	PCard Undistributed	273.61	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
24	PCard Undistributed	7.36	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
25	PCard Undistributed	17.16	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
26	PCard Undistributed	220.69	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
27	Co Dues/Membership Deduct	281.06	Costco Wholesale Membership-RE	Membership Dues	Financial Costs
28	Misc Oper AG	55.89	Costco-REMIT	7003-7300-0000-6704	NON-Catered Food & Beverages
29	Training AG	48.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
30	Training AG	54.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	In-house training/seminars
31	PCard Undistributed	34.99	CRAZY CARLOS INC	GARRY T BURTON	NON-Catered Food & Beverages
32	PCard Undistributed	30.00	CUCINA TAGLIANI	JEREMIAH MECHAM	NON-Catered Food & Beverages
33	PCard Undistributed	18.52	DENNY'S INC	ANGEL STEVENS	NON-Catered Food & Beverages
34	PCard Undistributed	53.91	DILLONS GRAND	DALE E KENNOW	NON-Catered Food & Beverages
35	PCard Undistributed	14.21	DILLONS GRAND	PAUL D TAYLOR	NON-Catered Food & Beverages
36	PCard Undistributed	71.37	DILLONS THUNDERBIRD	FLOYD K MCKINNEY	NON-Catered Food & Beverages

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
37	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	External training/seminars
38	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	In-house training/seminars
39	PCard Undistributed	27.14	EINSTEIN BROS	PAULA A CHRISTIAN	NON-Catered Food & Beverages
40	Trans Oper AG	66.39	EL PASO BARBQUE	ERNEST G SANTA CRUZ	NON-Catered Food & Beverages
41	PCard Undistributed	30.84	EL TORITO	TODD R FARRELL	NON-Catered Food & Beverages
42	PCard Undistributed	19.22	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
43	PCard Undistributed	29.76	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
44	PCard Undistributed	28.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
45	PCard Undistributed	25.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
46	PCard Undistributed	33.28	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
47	PCard Undistributed	13.76	FRYS-FOOD-DRG #122 SXN	ROY PEREZ JR	NON-Catered Food & Beverages
48	Training AG	25.59	HMSHOST-PHX-AIR	NEIL J MEYER	NON-Catered Food & Beverages
49	Misc Oper AG	125.00	Huckeby, Nancy J -Petty Cash	Christmas Decorations	Office Decorations
50	Misc Oper AG	200.00	Huckeby, Nancy J -Petty Cash	Christmas Party Security	Security & Monitoring
51	PCard Undistributed	9.96	HUNGRY HOWIE'S PIZZA	JON C BEHRENDT	NON-Catered Food & Beverages
52	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	274560	NON-Catered Food & Beverages
53	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	ICE	NON-Catered Food & Beverages
54	Misc Oper AG	143.61	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
55	Misc Oper AG	81.18	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
56	PCard Undistributed	40.53	IHOP	ANGEL STEVENS	NON-Catered Food & Beverages
57	PCard Undistributed	27.58	KFC #1303016	ANGEL STEVENS	NON-Catered Food & Beverages
58	Trans Oper AG Lease Cost	60.91	LAS CAZUELA'S	ANGEL STEVENS	NON-Catered Food & Beverages
59	PCard Undistributed	67.37	MADELYN'S	PAUL M LI	NON-Catered Food & Beverages
60	PCard Undistributed	3.98	MCDONALD'S F	KURTIS L STRAUDEL	Catering/works catering
61	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	External training/seminars
62	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	In-house training/seminars
63	PCard Undistributed	6.96	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
64	PCard Undistributed	6.34	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
65	PCard Undistributed	71.98	PIZZA HUT	ANGEL STEVENS	NON-Catered Food & Beverages
66	Other Welf Oper AG	41.25	Professional Plants & Inc-PO/R	SERVICES	Landscaping
67	PCard Undistributed	10.02	QUIZNOS	ANDREW C MARTINEZ	NON-Catered Food & Beverages
68	PCard Undistributed	54.55	RIO MIRAGE CAFE	JENNIFER L HALLIDAY	NON-Catered Food & Beverages
69	PCard Undistributed	16.77	ROMENS GYROS	RANDY J ZIOLKOWSKI	Pathwaynet Default
70	PCard Undistributed	69.87	ROSATI'S PIZZA - PEORI	ANGEL STEVENS	NON-Catered Food & Beverages
71	Training AG	61.53	ROSATI'S PIZZA UNION H	KURTIS L STRAUDEL	External training/seminars
72	PCard Undistributed	4.99	SAFEMAY STORE	CHRISTOPHER M WILLIAMS	NON-Catered Food & Beverages
73	PCard Undistributed	20.95	SAFEMAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
74	PCard Undistributed	39.37	SAFEMAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
75	PCard Undistributed	21.13	SAFEMAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
76	PCard Undistributed	14.53	SAFEMAY STORE	ROY PEREZ JR	Catering/works catering
77	PCard Undistributed	15.64	SUBWAY 25139	JEFFREY S BORN	NON-Catered Food & Beverages
78	Misc Oper AG	25.00	Supreme Court of Pennsylvania	Certificate	Event organization services
79	Employee Awards AG	107.84	Tharpe Company Inc-REMIT	8549	Service Awards and Premiums
80	Employee Awards AG	722.07	Tharpe Company Inc-REMIT	98415RI	Service Awards and Premiums
81	Employee Awards AG	829.39	Tharpe Company Inc-REMIT	CUST #16248	Service Awards and Premiums

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
82	Employee Awards AG	882.92	Tharpe Company Inc-REMIT	CUST# 16248	Service Awards and Premiums
83	Employee Awards AG	90.27	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
84	Employee Awards AG	176.84	Tharpe Company Inc-REMIT	cust# 8549	Service Awards and Premiums
85	Employee Awards AG	120.50	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
86	Employee Awards AG	110.61	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
87	Employee Awards AG	79.64	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
88	Employee Awards AG	88.41	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
89	Employee Awards AG	78.57	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
90	Employee Awards AG	204.49	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
91	Employee Awards AG	135.65	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
92	Employee Awards AG	79.93	Tharpe Company Inc-REMIT	inv 454294ri	Service Awards and Premiums
93	Misc Oper AG	67.04	TLF CACTUS FLOWER FLOR	NANCY J HUCKEBY	Land
94	Overnight Shipping AG	35.93	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
95	Overnight Shipping AG	(35.93)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
96	Community Relations	1,000.00	Water for People-REMIT	Water For People Sponsor	Sponsoring
97	Training AG	17.32	WONDER BREAD/HOSTESS	KURTIS L STRAUDEL	External training/seminars
98		\$ 13,607.91			

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
DISTRICT DIRECTLY ALLOCATED MISCELLANEOUS EXPENSES					
SUN CITY WEST WATER DISTRICT MISCELLANEOUS EXPENSES					
99	M & S Oper TD	18.94	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
100	M & S Oper SS	59.03	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
101	Misc Oper PP	57.63	RED ROBIN NO	PAUL D TAYLOR	NON-Catered Food & Beverages
102	Misc Oper PP	30.93	SAFEWAY STORE	ROBERT L CRON	NON-Catered Food & Beverages
103	Total	166.53			
PARADISE VALLEY WATER DISTRICT MISCELLANEOUS EXPENSES					
104	Safety Incentive	135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
105	Training AG	5.39	LONG JOHN SILV	NEIL J MEYER	NON-Catered Food & Beverages
106	Safety Incentive	132.00	Peavey Performance Systems	1004289	Service Awards and Premiums
107	Training AG	6.26	SUBWAY #10469	NEIL J MEYER	NON-Catered Food & Beverages
108	Misc Oper TD	33.98	THE HOME DEPOT	LEE F HUDDLESTON	Event organization services
109	Total	313.29			
TUBAC WATER DISTRICT MISCELLANEOUS EXPENSES					
110	Contract Svc-Eng Oper AG	17.12	KFC 1303012	ROBERT L CRON	NON-Catered Food & Beverages
111	Overnight Shipping AG	20.82	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
112	Overnight Shipping AG	(20.82)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
113	Total	17.12			
AGUA FRIA WATER DISTRICT MISCELLANEOUS EXPENSES					
114	Brochures and Handouts	1,788.00	AZ University	Project WET Sponsorship	Sponsoring
115	Misc Oper SS	157.41	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
116	Water Res Conservation	317.39	CSI CRESTLINE CO INC	SALLY L CECCARELLI WOLF	Service Awards and Premiums
117	M & S Oper TD	44.22	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
118	Total	2,307.02			
HAVASU WATER DISTRICT MISCELLANEOUS EXPENSES					
119	No Adjustment	\$ -			
MOHAVE WATER DISTRICT MISCELLANEOUS EXPENSES					
120	Safety Incentive	135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
121	M & S Oper TD	22.80	DENNY'S INC	CHAD E GEBOW	NON-Catered Food & Beverages
122	M & S Oper TD	133.56	Ferguson Enterprises Inc #675	7202007	NON-Catered Food & Beverages
123	M & S Oper TD	50.00	Ferguson Enterprises Inc-#602-	CUST# 605937	NON-Catered Food & Beverages
124	Total	342.02			
MOHAVE WASTEWATER DISTRICT MISCELLANEOUS EXPENSES					
125	M & S Oper WT	26.92	WAL-MART	WILLIAM L WALLSTEAD	Animal feed
126	Total	26.92			

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 1,881,340
	LESS:		
2	Arizona State Tax	Line 11	53,191
3	Interest Expense	Note (A) Line 20	1,117,972
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 710,176
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 241,460
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 1,881,340
	LESS:		
8	Interest Expense	Note (A) Line 20	1,117,972
9	State Taxable Income	Line 7 - Line 8	\$ 763,368
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 53,191
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 241,460
13	State Income Tax Expense	Line 11	53,191
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 294,651
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		228,400
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 66,251
17	RUCO Adjustment (See Sch. RLM-7, Column (J))	Line 16	\$ 66,251

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 37,018,940
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 1,117,972

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST RATE
1	DEBT	55.20%	5.46%	3.02%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL			<u>7.00%</u>

References:

Columns (A) Thru (F): Testimony, WAR

SUN CITY WEST WATER DISTRICT

TABLE OF CONTENTS TO RLM SCHEDULES

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RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 37,901,085	\$ 38,261,042
2	Adjusted Operating Income (Loss)	\$ 587,425	\$ 605,507
3	Current Rate Of Return (L2 / L1)	1.55%	1.58%
4	Required Operating Income (L5 X L1)	\$ 3,183,691	\$ 2,678,273
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 2,596,266	\$ 2,072,765
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6471	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 4,276,305	\$ 3,375,778
9	Adjusted Test Year Revenue	\$ 5,701,431	\$ 5,701,431
10	Proposed Annual Revenue (L8 + L9)	\$ 9,977,736	\$ 9,077,209
11	Required Percentage Increase In Revenue (L8 / L9)	75.00%	59.21%
12	Rate Of Return On Common Equity	11.91%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 2,678,273			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	605,507			
13	Required Increase In Operating Income (L11 - L12)		\$ 2,072,765		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 957,278			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(345,734)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 1,303,012		
17	Total Required Increase In Revenue (L13 + L16)		\$ 3,375,778		
				RUCO	
CALCULATION OF INCOME TAX				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 9,077,209	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			5,441,658	
20	Synchronized Interest (Col. (C), L37)			1,155,483	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 2,480,068	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 172,811
24	Fed. Taxable Income (L21 - L23)			\$ 2,307,257	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			670,567	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 784,467
31	Combined Federal And State Income Tax (L23 + L30)				\$ 957,278
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ (345,734)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 1,303,012
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 38,261,042	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 1,155,483	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 48,893,385	\$ 58,091	\$ 48,951,476
2	Accumulated Depreciation	(10,514,488)	(86,736)	(10,601,224)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 38,378,897</u>	<u>\$ (28,645)</u>	<u>\$ 38,350,252</u>
4	Advances In Aid Of Const.	\$ (1,175,373)	\$ -	\$ (1,175,373)
5	Contribution In Aid Of Const.	\$ (20,548)	\$ (17,318)	\$ (37,866)
6	Accumulated Amortization Of CIAC	1,057	-	1,057
7	NET CIAC (L6 + L7)	<u>\$ (19,491)</u>	<u>\$ (17,318)</u>	<u>\$ (36,809)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (392,368)	\$ -	\$ (392,368)
10	Customer Meter Deposits	\$ (1,225)	\$ -	\$ (1,225)
11	Deferred Income Taxes And Credits	\$ 1,326,577	\$ -	\$ 1,326,577
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ (777,486)	\$ 892,284	\$ 114,798
14	Allowance For Working Capital	\$ 561,556	\$ (486,364)	\$ 75,192
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	<u>\$ (2)</u>	<u>\$ -</u>	<u>\$ (2)</u>
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u><u>\$ 37,901,085</u></u>	<u><u>\$ 359,957</u></u>	<u><u>\$ 38,261,042</u></u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMULT'D DEPRECT'N	(C) ADJMT NO. 2 CIAC FOR CWIP	(D) ADJMT NO. 3 UPIS/ACC DEP PER DR DH 4.3	(E) ADJMT NO. 4 UPIS/ACC DEP PER DR GB 9.4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJ'ED OCRB/IFRB
1	Gross Utility Plant In Service	\$ 48,893,385	\$ -	\$ -	\$ 76,672	\$ (18,581)	\$ -	\$ -	\$ 48,951,476
2	Accumulated Depreciation	(10,514,488)	(11,065)	-	(76,531)	860	-	-	(10,601,224)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 38,378,897	\$ 11,065	\$ -	\$ 141	\$ (17,721)	\$ -	\$ -	\$ 38,350,252
4	Advances In Aid Of Const.	\$ (1,175,373)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,175,373)
5	Contribution In Aid Of Const.	\$ (20,548)	\$ -	\$ (17,318)	\$ -	\$ -	\$ -	\$ -	\$ (37,866)
6	Accumulated Amortization Of CIAC	1,057	-	-	-	-	-	-	1,057
7	NET CIAC (L5 + L6)	\$ (19,491)	\$ -	\$ (17,318)	\$ -	\$ -	\$ -	\$ -	\$ (36,809)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (392,368)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (392,368)
10	Customer Meter Deposits	\$ (1,225)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,225)
11	Deferred Income Taxes And Credits	\$ 1,326,577	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,326,577
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ (777,486)	\$ -	\$ -	\$ -	\$ -	\$ 892,284	\$ -	\$ 114,798
14	Allowance For Working Capital	\$ 561,556	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (486,364)	\$ 75,192
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ (2)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 37,901,085	\$ 11,065	\$ (17,318)	\$ 141	\$ (17,721)	\$ 892,284	\$ (486,364)	\$ 38,261,042

References:

- Column (A): Company Schedule B-2
Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
Column (D): Adjustment No. 3 - Conforming Adjustment Per Company Response to Staff DR DH 4.3
Column (E): Adjustment No. 4 - Conforming Adjustment Per Company Response to Staff DR GB 9.4
Column (F): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1
Column (G): Adjustment No. 6 - Allowance For Working Capital
Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED DECEMBER 31, 2001

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)	(G)
			PRIOR DECISION NO. 67093 - ADJUSTED	GROSS PLANT	ACCUMULATED DEPRECIATION	PLANT ADJUSTMENT	RUCO ADJUSTED PRIOR TEST YEAR	GROSS PLANT	ACCUMULATED DEPRECIATION
1	301000	Organization	0.00%	\$ 20,086	\$ -	\$ -	\$ -	\$ 20,086	\$ -
2	302000	Franchises	0.00%	1,588	-	-	-	1,588	-
3	303200	Land & Land Rights SS	0.00%	11,651	-	-	-	11,651	-
4	303300	Land & Land Rights P	0.00%	44,957	-	-	-	44,957	-
5	303500	Land & Land Rights TD	0.00%	-	-	-	-	-	-
6	303600	Land & Land Rights AG	0.00%	-	-	-	-	-	-
7	304100	Struct & Imp SS	2.50%	342,925	(94,969)	-	-	342,925	(94,969)
8	304200	Struct & Imp P	1.67%	231,439	(67,808)	-	-	231,439	(67,808)
9	304300	Struct & Imp WT	1.67%	38,357	(6,136)	-	-	38,357	(6,136)
10	304400	Struct & Imp TD	1.67%	-	-	-	-	-	-
11	304600	Struct & Imp Offices	1.67%	17,269	(5,876)	-	-	17,269	(5,876)
12	304800	Struct & Imp Misc	2.50%	-	-	-	-	-	-
13	305000	Collect & Impounding	0.00%	-	-	-	-	-	-
14	307000	Wells & Springs	2.52%	1,307,051	(295,642)	-	-	1,307,051	(295,642)
15	310100	Power Generation Equip Other	4.42%	-	-	-	-	-	-
16	311200	Pump Equip Electric	4.42%	4,860,858	(2,012,533)	-	-	4,860,858	(2,012,533)
17	311300	Pump Equip Diesel	4.42%	4,505	(1,428)	-	-	4,505	(1,428)
18	311500	Pump Equip Other	4.42%	1,764	(512)	-	-	1,764	(512)
19	320100	WT Equip Non-Media	4.00%	149,687	9,141	-	-	149,687	9,141
20	330000	Dist Reservoirs & Standpipe	1.67%	624,143	(151,245)	-	-	624,143	(151,245)
21	331001	TD Mains Not Classified By Size	1.53%	11,747,852	(2,527,298)	-	-	11,747,852	(2,527,298)
22	331100	TD Mains 4in & Less	1.53%	-	-	-	-	-	-
23	331200	TD Mains 6in to 8in	1.53%	-	-	-	-	-	-
24	331300	TD Mains 10in to 16in	1.53%	-	-	-	-	-	-
25	332000	Fire Mains	1.53%	169	(21)	-	-	169	(21)
26	333000	Services	2.48%	6,622,166	351,558	-	-	6,622,166	351,558
27	334100	Meters	2.51%	1,678,135	(332,448)	-	-	1,678,135	(332,448)
28	334200	Meter Installations	2.51%	-	-	-	-	-	-
29	335000	Hydrants	2.00%	1,682,898	(442,355)	-	-	1,682,898	(442,355)
30	339100	Other P/E Intangible	0.00%	-	-	-	-	-	-
31	339500	Other P/E TD	0.00%	-	-	-	-	-	-
32	340100	Office Furniture & Equip	4.59%	28,137	(28,245)	-	-	28,137	(28,245)
33	340200	Comp & Periph Equip	4.59%	74,599	3,663	-	-	74,599	3,663
34	341100	Trans Equip Lt Duty Trks	25.00%	337,524	(207,158)	-	-	337,524	(207,158)
35	341200	Trans Equip Hvy Duty Trks	25.00%	-	-	-	-	-	-
36	342000	Stores Equipment	3.91%	487	(375)	-	-	487	(375)
37	343000	Tools, Shop, Garage Equip	4.02%	19,641	(5,525)	-	-	19,641	(5,525)
38	344000	Laboratory Equipment	3.71%	3,767	(1,395)	-	-	3,767	(1,395)
39	345000	Power Operated Equipment	5.02%	24,298	(10,823)	-	-	24,298	(10,823)
40	346100	Comm Equip Non-Telephone	10.30%	30,965	(31,231)	-	-	30,965	(31,231)
41	346300	Comm Equip Other	4.93%	43,870	(15,811)	-	-	43,870	(15,811)
42	SUB-TOTAL			\$ 29,950,788	\$ (5,874,472)	\$ -	\$ -	\$ 29,950,788	\$ (5,874,472)
43	Company As Filed			\$ 29,950,788	\$ (5,874,472)	\$ -	\$ -	\$ 29,950,788	\$ (5,874,472)
44	Difference			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

References:
Columns (A) (B) (C): Company Schedule B-2
Columns (D) (E): See Testimony, RLM
Column (F): Column (B) + Column (D)
Column (G): Column (C) + Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2002

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJ.MTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 20,086	\$ -	\$ 20,086
2	302000	Franchises	-	-	-	1,588	-	1,588
3	303200	Land & Land Rights SS	-	-	-	11,651	-	11,651
4	303300	Land & Land Rights P	-	-	-	44,957	-	44,957
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	-	-	(8,573)	342,925	(103,542)	239,383
8	304200	Struct & Imp P	-	-	(3,865)	231,439	(71,673)	159,766
9	304300	Struct & Imp WT	-	-	(641)	38,357	(6,777)	31,580
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(288)	17,269	(6,164)	11,105
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	-	-	(32,938)	1,307,051	(328,580)	978,471
15	310100	Power Generation Equip Other	-	-	-	-	-	-
16	311200	Pump Equip Electric	167,104	-	(216,773)	5,027,962	(2,229,306)	2,798,656
17	311300	Pump Equip Diesel	-	-	(199)	4,505	(1,627)	2,878
18	311500	Pump Equip Other	-	-	(78)	1,764	(590)	1,174
19	320100	WT Equip Non-Media	(2,173)	-	(5,958)	147,514	3,183	150,697
20	330000	Dist Reservoirs & Standpipe	145,791	-	(10,525)	769,934	(161,770)	608,164
21	331001	TD Mains Not Classified By Size	86,047	-	(55)	11,833,899	(2,527,353)	9,306,546
22	331100	TD Mains 4in & Less	(302)	-	(179,742)	(302)	(179,742)	(180,044)
23	331200	TD Mains 6in to 8in	86,511	-	(80)	86,511	(80)	86,431
24	331300	TD Mains 10in to 16in	-	-	-	-	-	-
25	332000	Fire Mains	-	-	(3)	169	(24)	145
26	333000	Services	37,635	-	(164,646)	6,659,801	186,912	6,846,713
27	334100	Meters	32,841	-	(42,405)	1,710,976	(374,853)	1,336,123
28	334200	Meter Installations	4,596	-	(29)	4,596	(29)	4,567
29	335000	Hydrants	26,750	-	(33,680)	1,709,648	(476,035)	1,233,613
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(1,292)	28,137	(29,537)	(1,400)
33	340200	Comp & Periph Equip	-	-	(3,424)	74,599	239	74,838
34	341100	Trans Equip Lt Duty Trks	36,484	-	(84,761)	374,008	(291,919)	82,089
35	341200	Trans Equip Hvy Duty Trks	21,027	-	(219)	21,027	(219)	20,808
36	342000	Stores Equipment	-	-	(19)	487	(394)	93
37	343000	Tools, Shop, Garage Equip	-	-	(790)	19,641	(6,315)	13,326
38	344000	Laboratory Equipment	-	-	(140)	3,767	(1,535)	2,232
39	345000	Power Operated Equipment	-	-	(1,220)	24,298	(12,043)	12,255
40	346100	Comm Equip Non-Telephone	-	-	(3,189)	30,965	(34,420)	(3,455)
41	346300	Comm Equip Other	-	-	(2,163)	43,870	(17,974)	25,896
42	SUB-TOTAL		\$ 642,311	\$ -	\$ (797,693)	\$ 30,593,099	\$ (6,672,165)	\$ 23,920,934
43	Company As Filed		642,311	-	(701,675)	30,593,099	(6,614,029)	23,979,070
44	Difference		\$ -	\$ -	\$ (96,018)	\$ -	\$ (58,136)	\$ (58,136)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2003

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 20,086	\$ -	\$ 20,086
2	302000	Franchises	-	-	-	1,588	-	1,588
3	303200	Land & Land Rights SS	-	-	-	11,651	-	11,651
4	303300	Land & Land Rights P	-	-	-	44,957	-	44,957
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	-	-	(8,573)	342,925	(112,115)	230,810
8	304200	Struct & Imp P	-	-	(3,865)	231,439	(75,538)	155,901
9	304300	Struct & Imp WT	-	-	(641)	38,357	(7,417)	30,940
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(288)	17,269	(6,452)	10,817
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	-	-	(32,938)	1,307,051	(361,517)	945,534
15	310100	Power Generation Equip Other	-	-	-	-	-	-
16	311200	Pump Equip Electric	121,276	(64,444)	(222,100)	5,084,794	(2,386,962)	2,697,832
17	311300	Pump Equip Diesel	-	-	(199)	4,505	(1,826)	2,679
18	311500	Pump Equip Other	-	-	(78)	1,764	(668)	1,096
19	320100	WT Equip Non-Media	-	(2,201)	(5,831)	145,313	(447)	144,866
20	330000	Dist Reservoirs & Standpipe	(157)	-	(12,860)	769,777	(174,630)	595,147
21	331001	TD Mains Not Classified By Size	(30,090)	-	(1,297)	11,803,809	(2,528,650)	9,275,159
22	331100	TD Mains 4in & Less	5,020	-	(179,744)	4,718	(359,486)	(354,768)
23	331200	TD Mains 6in to 8in	51,556	-	(1,440)	138,067	(1,520)	136,547
24	331300	TD Mains 10in to 16in	59,875	-	(76)	59,875	(76)	59,799
25	332000	Fire Mains	-	-	(3)	169	(26)	143
26	333000	Services	146,809	-	(165,895)	6,806,610	21,017	6,827,627
27	334100	Meters	1,492	-	(42,958)	1,712,468	(417,811)	1,294,657
28	334200	Meter Installations	70,436	-	(1,634)	75,032	(1,663)	73,369
29	335000	Hydrants	25,747	-	(34,350)	1,735,395	(510,385)	1,225,010
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(1,292)	28,137	(30,828)	(2,691)
33	340200	Comp & Periph Equip	-	-	(3,424)	74,599	(3,185)	71,414
34	341100	Trans Equip Lt Duty Trks	5,449	(90,051)	(3,164)	289,406	(205,032)	84,374
35	341200	Trans Equip Hvy Duty Trks	-	-	(5,257)	21,027	(5,476)	15,551
36	342000	Stores Equipment	-	-	(19)	487	(413)	74
37	343000	Tools, Shop, Garage Equip	-	-	(790)	19,641	(7,104)	12,537
38	344000	Laboratory Equipment	-	-	(140)	3,767	(1,674)	2,093
39	345000	Power Operated Equipment	-	-	(1,220)	24,298	(13,263)	11,035
40	346100	Comm Equip Non-Telephone	-	-	(3,189)	30,965	(37,610)	(6,645)
41	346300	Comm Equip Other	-	-	(2,163)	43,870	(20,137)	23,733
42	SUB-TOTAL		\$ 457,413	\$ (156,696)	\$ (735,426)	\$ 30,893,816	\$ (7,250,895)	\$ 23,642,921
43	Company As Filed		457,413	(156,696)	(669,405)	30,893,816	(7,283,434)	23,610,382
44	Difference		\$ -	\$ -	\$ (66,021)	\$ -	\$ 32,539	\$ 32,539

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 2, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 2, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2004

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 20,086	\$ -	\$ 20,086
2	302000	Franchises	-	-	-	1,588	-	1,588
3	303200	Land & Land Rights SS	-	-	-	11,651	-	11,651
4	303300	Land & Land Rights P	-	-	-	44,957	-	44,957
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	-	-	(8,573)	342,925	(120,688)	222,237
8	304200	Struct & Imp P	-	-	(3,865)	231,439	(79,403)	152,036
9	304300	Struct & Imp WT	-	-	(641)	38,357	(8,058)	30,299
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(288)	17,269	(6,740)	10,529
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	-	-	(32,938)	1,307,051	(394,455)	912,596
15	310100	Power Generation Equip Other	-	-	-	-	-	-
16	311200	Pump Equip Electric	127,898	(42,589)	(224,746)	5,170,103	(2,569,119)	2,600,984
17	311300	Pump Equip Diesel	-	-	(199)	4,505	(2,025)	2,480
18	311500	Pump Equip Other	-	-	(78)	1,764	(746)	1,018
19	320100	WT Equip Non-Media	-	-	(5,813)	145,313	(6,260)	139,053
20	330000	Dist Reservoirs & Standpipe	-	-	(12,855)	769,777	(187,485)	582,292
21	331001	TD Mains Not Classified By Size	-	-	(856)	11,803,809	(2,529,506)	9,274,303
22	331100	TD Mains 4in & Less	2,359	-	(179,805)	7,077	(539,291)	(532,214)
23	331200	TD Mains 6in to 8in	6,410	-	(2,176)	144,477	(3,696)	140,781
24	331300	TD Mains 10in to 16in	24,830	-	(1,057)	84,705	(1,134)	83,571
25	332000	Fire Mains	-	-	(3)	169	(29)	140
26	333000	Services	149,589	-	(169,946)	6,956,199	(148,929)	6,807,270
27	334100	Meters	8,349	(622)	(43,066)	1,720,195	(460,255)	1,259,940
28	334200	Meter Installations	6,977	(443)	(1,903)	81,566	(3,124)	78,442
29	335000	Hydrants	9,164	-	(34,753)	1,744,559	(545,138)	1,199,421
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(1,292)	28,137	(32,120)	(3,983)
33	340200	Comp & Periph Equip	-	-	(3,424)	74,599	(6,609)	67,990
34	341100	Trans Equip Lt Duty Trks	-	(23,457)	(67,417)	265,949	(248,992)	16,957
35	341200	Trans Equip Hvy Duty Trks	-	-	(5,257)	21,027	(10,733)	10,294
36	342000	Stores Equipment	-	-	(19)	487	(432)	55
37	343000	Tools, Shop, Garage Equip	-	-	(790)	19,641	(7,894)	11,747
38	344000	Laboratory Equipment	-	-	(140)	3,767	(1,814)	1,953
39	345000	Power Operated Equipment	-	-	(1,220)	24,298	(14,482)	9,816
40	346100	Comm Equip Non-Telephone	5,943	(78)	(3,521)	36,830	(41,052)	(4,222)
41	346300	Comm Equip Other	-	-	(2,163)	43,870	(22,299)	21,571
42	SUB-TOTAL		\$ 341,519	\$ (67,189)	\$ (808,802)	\$ 31,168,146	\$ (7,992,508)	\$ 23,175,638
43	Company As Filed		341,519	(67,189)	(742,476)	31,168,146	(8,025,910)	23,142,236
44	Difference		\$ -	\$ -	\$ (66,326)	\$ -	\$ 33,402	\$ 33,402

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 3, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 3, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 20,086	\$ -	\$ 20,086
2	302000	Franchises	-	-	-	1,588	-	1,588
3	303200	Land & Land Rights SS	-	-	-	11,651	-	11,651
4	303300	Land & Land Rights P	-	-	-	44,957	-	44,957
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	-	-	(8,573)	342,925	(129,262)	213,663
8	304200	Struct & Imp P	-	-	(3,865)	231,439	(83,268)	148,171
9	304300	Struct & Imp WT	-	-	(641)	38,357	(8,698)	29,659
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(284)	17,269	(7,024)	10,245
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	1,313,894	-	(36,754)	2,620,945	(431,209)	2,189,736
15	310100	Power Generation Equip Other	-	-	-	-	-	-
16	311200	Pump Equip Electric	370,944	(7,240)	(234,880)	5,533,807	(2,796,758)	2,737,049
17	311300	Pump Equip Diesel	-	-	(199)	4,505	(2,224)	2,281
18	311500	Pump Equip Other	-	-	(78)	1,764	(824)	940
19	320100	WT Equip Non-Media	-	-	(5,813)	145,313	(12,073)	133,240
20	330000	Dist Reservoirs & Standpipe	-	-	(12,855)	769,777	(200,340)	569,437
21	331001	TD Mains Not Classified By Size	-	-	(856)	11,803,809	(2,530,362)	9,273,447
22	331100	TD Mains 4in & Less	417	-	(179,852)	7,494	(719,143)	(711,649)
23	331200	TD Mains 6in to 8in	56,014	-	(2,301)	200,491	(5,997)	194,494
24	331300	TD Mains 10in to 16in	40,281	-	(1,429)	124,986	(2,562)	122,424
25	332000	Fire Mains	-	-	(3)	169	(31)	138
26	333000	Services	112,428	-	(173,285)	7,068,627	(322,214)	6,746,413
27	334100	Meters	13,095	(336)	(43,344)	1,732,954	(503,263)	1,229,691
28	334200	Meter Installations	42,539	(19,823)	(2,107)	104,282	14,593	118,875
29	335000	Hydrants	31,818	-	(35,032)	1,776,377	(580,170)	1,196,207
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(1,292)	28,137	(33,411)	(5,274)
33	340200	Comp & Periph Equip	9,818	(48,958)	(2,868)	35,459	39,481	74,940
34	341100	Trans Equip Lt Duty Trks	-	-	(66,487)	265,949	(315,479)	(49,530)
35	341200	Trans Equip Hvy Duty Trks	-	-	(5,257)	21,027	(15,990)	5,037
36	342000	Stores Equipment	-	-	(19)	487	(451)	36
37	343000	Tools, Shop, Garage Equip	-	-	(790)	19,641	(8,683)	10,958
38	344000	Laboratory Equipment	-	-	(140)	3,767	(1,954)	1,813
39	345000	Power Operated Equipment	-	-	(1,220)	24,298	(15,702)	8,596
40	346100	Comm Equip Non-Telephone	-	-	(3,793)	36,830	(44,846)	(8,016)
41	346300	Comm Equip Other	-	-	(2,163)	43,870	(24,462)	19,408
42	SUB-TOTAL		\$ 1,991,248	\$ (76,357)	\$ (826,178)	\$ 33,083,037	\$ (8,742,329)	\$ 24,340,708
43	Company As Filed		2,009,829	(76,357)	(752,409)	33,101,618	(8,778,319)	24,323,299
44	Difference		\$ (18,581)	\$ -	\$ (73,769)	\$ (18,581)	\$ 35,990	\$ 17,409

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 4, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 4, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDTS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 20,086	\$ -	\$ 20,086
2	302000	Franchises	-	(242)	-	1,346	242	1,588
3	303200	Land & Land Rights SS	-	-	-	11,651	-	11,651
4	303300	Land & Land Rights P	-	-	-	44,957	-	44,957
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	5,465,852	-	(56,990)	5,808,777	(186,252)	5,622,525
8	304200	Struct & Imp P	(6,085)	-	(3,810)	225,354	(87,078)	138,276
9	304300	Struct & Imp WT	-	-	(641)	38,357	(9,339)	29,018
10	304400	Struct & Imp TD	(441)	-	-	(441)	-	(441)
11	304600	Struct & Imp Offices	-	-	(284)	17,269	(7,308)	9,961
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	(65,098)	(4,125)	(64,853)	2,551,722	(491,937)	2,059,785
15	310100	Power Generation Equip Other	-	-	-	-	-	-
16	311200	Pump Equip Electric	91,110	(560,818)	(244,122)	5,064,099	(2,480,062)	2,584,037
17	311300	Pump Equip Diesel	-	-	(199)	4,505	(2,423)	2,082
18	311500	Pump Equip Other	-	-	(78)	1,764	(902)	862
19	320100	WT Equip Non-Media	4,867,781	-	(68,921)	5,013,094	(80,994)	4,932,100
20	330000	Dist Reservoirs & Standpipe	-	(9,481)	(12,849)	760,296	(203,708)	556,588
21	331001	TD Mains Not Classified By Size	1,031,492	-	(5,465)	12,835,301	(2,535,828)	10,299,473
22	331100	TD Mains 4in & Less	6,710	(6,925)	(179,854)	7,279	(892,072)	(884,793)
23	331200	TD Mains 6in to 8in	103,487	-	(3,586)	303,978	(9,583)	294,395
24	331300	TD Mains 10in to 16in	70,921	-	(2,233)	195,907	(4,795)	191,112
25	332000	Fire Mains	-	-	(3)	169	(34)	135
26	333000	Services	173,701	-	(177,626)	7,242,328	(499,840)	6,742,488
27	334100	Meters	8,717	(517)	(43,571)	1,741,154	(546,317)	1,194,837
28	334200	Meter Installations	31,113	(450)	(2,941)	134,945	12,102	147,047
29	335000	Hydrants	45,459	-	(35,908)	1,821,836	(616,078)	1,205,758
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(1,292)	28,137	(34,703)	(6,566)
33	340200	Comp & Periph Equip	-	-	(1,628)	35,459	37,854	73,313
34	341100	Trans Equip Lt Duty Trks	7,334	(48,120)	(60,114)	225,163	(327,473)	(102,310)
35	341200	Trans Equip Hvy Duty Trks	-	-	(5,257)	21,027	(21,246)	(219)
36	342000	Stores Equipment	-	-	(19)	487	(470)	17
37	343000	Tools, Shop, Garage Equip	-	-	(790)	19,641	(9,473)	10,168
38	344000	Laboratory Equipment	-	-	(140)	3,767	(2,094)	1,673
39	345000	Power Operated Equipment	137,370	-	(3,587)	161,668	(19,289)	142,379
40	346100	Comm Equip Non-Telephone	102,294	-	(6,864)	139,124	(51,710)	87,414
41	346300	Comm Equip Other	-	-	(2,163)	43,870	(26,625)	17,245
42	SUB-TOTAL		\$ 12,071,717	\$ (630,678)	\$ (985,785)	\$ 44,524,076	\$ (9,097,435)	\$ 35,426,641
43	Company As Filed		12,071,717	(630,678)	(342,453)	44,542,657	(9,120,772)	35,421,885
44	Difference		\$ -	\$ -	\$ (643,332)	\$ (18,581)	\$ 23,337	\$ 4,756

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 5, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 5, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2007

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJ.MTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 20,086	\$ -	\$ 20,086
2	302000	Franchises	-	-	-	1,346	242	1,588
3	303200	Land & Land Rights SS	-	-	-	11,651	-	11,651
4	303300	Land & Land Rights P	-	-	-	44,957	-	44,957
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	1,813,754	(1,551)	(150,028)	7,620,980	(334,729)	7,286,251
8	304200	Struct & Imp P	(533)	-	(3,755)	224,821	(90,833)	133,988
9	304300	Struct & Imp VWT	52,510	-	(751)	90,867	(10,090)	80,777
10	304400	Struct & Imp TD	-	-	-	(441)	-	(441)
11	304600	Struct & Imp Offices	-	-	(281)	17,269	(7,589)	9,680
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	35,479	-	(64,341)	2,587,201	(556,278)	2,030,923
15	310100	Power Generation Equip Other	36,044	-	(187)	36,044	(187)	35,857
16	311200	Pump Equip Electric	136,011	(42,766)	(221,295)	5,157,344	(2,658,590)	2,498,754
17	311300	Pump Equip Diesel	-	6,672	(199)	11,177	(9,295)	1,882
18	311500	Pump Equip Other	167,932	-	(1,007)	169,696	(1,908)	167,788
19	320100	WT Equip Non-Media	1,333,510	-	(199,601)	6,346,604	(280,595)	6,066,009
20	330000	Dist Reservoirs & Standpipe	-	(233)	(12,697)	760,063	(216,172)	543,891
21	331001	TD Mains Not Classified By Size	219,719	-	(16,792)	13,055,020	(2,552,620)	10,502,400
22	331100	TD Mains 4in & Less	1,222	(7,887)	(179,845)	614	(1,064,030)	(1,063,416)
23	331200	TD Mains 6in to 8in	105,412	-	(5,096)	409,390	(14,679)	394,711
24	331300	TD Mains 10in to 16in	56,790	-	(3,265)	252,697	(8,060)	244,637
25	332000	Fire Mains	-	-	(3)	169	(37)	132
26	333000	Services	107,600	(7,185)	(180,676)	7,342,743	(673,331)	6,669,412
27	334100	Meters	16,123	(1,194)	(43,850)	1,756,083	(588,973)	1,167,110
28	334200	Meter Installations	12,345	-	(3,649)	147,290	8,453	155,743
29	335000	Hydrants	13,843	-	(36,551)	1,835,679	(652,629)	1,183,050
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	(7,350)	(1,277)	20,787	(28,630)	(7,843)
33	340200	Comp & Periph Equip	5,978	-	(1,637)	41,437	36,217	77,654
34	341100	Trans Equip Lt Duty Trks	15	-	(56,294)	225,178	(383,768)	(158,590)
35	341200	Trans Equip Hvy Duty Trks	-	-	(5,257)	21,027	(26,503)	(5,476)
36	342000	Stores Equipment	-	(345)	(18)	142	(143)	(1)
37	343000	Tools, Shop, Garage Equip	-	-	(790)	19,641	(10,262)	9,379
38	344000	Laboratory Equipment	(2,026)	(134)	(130)	1,607	(2,090)	(483)
39	345000	Power Operated Equipment	218	-	(8,126)	161,886	(27,415)	134,471
40	346100	Comm Equip Non-Telephone	24,011	-	(14,415)	163,135	(66,125)	97,010
41	346300	Comm Equip Other	-	(42,532)	(2,075)	1,338	13,831	15,169
42	SUB-TOTAL		\$ 4,135,957	\$ (104,505)	\$ (1,213,888)	\$ 48,555,528	\$ (10,206,818)	\$ 38,348,710
43	Company As Filed		4,135,957	(181,177)	(1,037,192)	48,497,437	(10,120,082)	38,377,355
44	Difference		\$ -	\$ 76,672	\$ (176,696)	\$ 58,091	\$ (86,736)	\$ (28,645)
						RUCO TY As Calculated	\$ 48,555,528	\$ (10,206,818)
						RUCO Adjustments	(58,091)	86,736
						Co. TY Adjustments To Book	395,948	(349,166)
						Co. Variance To GL		(37,882)
						Co. Variance To GL		(7,358)
						Total	\$ 48,893,385	\$ (10,514,488)
						Co. As Filed	48,893,385	(10,514,488)
						Difference	-	\$ -
						Adj. #1 - Difference In Computing Acc. Dep.	\$ -	\$ (11,065)
						Adj. #3 - Conforming To Stf DH 4.3	76,672	(76,531)
						Adj. #4 - Conforming To Stf GB 9.3	(18,581)	860
						Total RUCO Adjustments	\$ 58,091	\$ (86,736)
						RUCO As Adjusted	\$ 48,951,476	\$ (10,601,224)
						RUCO Adjustments	58,091	(86,736)
						Co. As Filed	\$ 48,893,385	\$ (10,514,488)
						Co. Adjustments	395,948	(394,406)
						Co. Computed Acc. Dep.	\$ 48,497,437	\$ (10,120,082)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 5, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 5, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 56,510	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	56,510	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 24,906	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	24,906	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 480,140	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	(6,224)	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (486,364)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	\$ (486,364)	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTMTS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 703,217	\$ (13,569)	\$ 689,648	12.00	\$ 8,275,776
2	Purchased Water	(2,690)	-	(2,690)	(37.17)	99,987
3	Fuel & Power	830,074	-	830,074	32.42	26,912,078
4	Chemicals	227,889	-	227,889	18.06	4,114,536
5	Management Fees	999,903	(12,035)	987,868	10.40	10,273,824
6	Group Insurance	191,120	-	191,120	(14.08)	(2,691,333)
7	Pensions	137,699	-	137,699	45.00	6,196,455
8	Insurance Other Than Group	58,622	-	58,622	(68.27)	(4,002,165)
9	Customer Accounting	133,476	-	133,476	19.76	2,637,194
10	Rents	14,331	-	14,331	(10.50)	(150,476)
11	Depreciation & Amorization	1,323,541	(1,323,541)	-	-	-
12	Other Operating Expenses	575,155	(34,787)	540,367	30.00	16,211,020
	Taxes:					
13	Property Taxes	179,896	35,837	215,733	15.07	3,252,089
14	Taxes Other Than Income	65,832	-	65,832	212.50	13,989,300
15	Income Tax	1,308,459	(1,654,193)	(345,734)	28.75	(9,939,854)
16	Interest Expense	-	1,155,483	1,155,483	106.52	123,082,098
17	Total Appropriate Operating Expenses	<u>\$ 6,746,524</u>	<u>\$ (1,846,805)</u>	<u>\$ 4,899,718</u>		<u>\$ 198,260,530</u>
18	Expense Lag	Line 17, Col. (E) / (C)	40.46			
19	Revenue Lag	Company Response To RUCO DR 8	40.00			
20	Net Lag	Line 19 - Line 18	(0.46)			
21	RUCO Adjusted Expenses	Col. (C), Line 17	<u>\$ 4,899,718</u>			
22	Cash Working Capital	Line 20 X Line 21 / 365 Days	<u>(6,224)</u>			
23	Company As Filed	Co. Schedule B-6, Page 1	480,140			
24	Difference	Line 22 - Line 23	<u>\$ (486,364)</u>			
25	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 24	<u>\$ (486,364)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'M'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 5,661,030	\$ -	\$ 5,661,030	\$ 3,375,778	\$ 9,036,808
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	40,401	-	40,401	-	40,401
4	TOTAL OPERATING REVENUE	<u>\$ 5,701,431</u>	<u>\$ -</u>	<u>\$ 5,701,431</u>	<u>\$ 3,375,778</u>	<u>\$ 9,077,209</u>
	Operating Expenses:					
5	Labor	\$ 703,217	\$ (13,569)	\$ 689,648	\$ -	\$ 689,648
6	Purchased Water	(2,690)	-	(2,690)	-	(2,690)
7	Fuel & Power	830,074	-	830,074	-	830,074
8	Chemicals	227,889	-	227,889	-	227,889
9	Waste Disposal	4,391	313	4,704	-	4,704
10	Management Fees	999,903	(12,035)	987,868	-	987,868
11	Group Insurance	191,120	-	191,120	-	191,120
12	Pensions	137,699	-	137,699	-	137,699
13	Regulatory Expense	33,802	(9,737)	24,065	-	24,065
14	Insurance Other Than Group	58,622	-	58,622	-	58,622
15	Customer Accounting	133,476	-	133,476	-	133,476
16	Rents	14,331	-	14,331	-	14,331
17	General Office Expense	57,226	-	57,226	-	57,226
18	Miscellaneous	232,408	(1,299)	231,109	-	231,109
19	Maintenance Expense	247,328	-	247,328	-	247,328
20	Depreciation & Amortization	1,323,541	4,083	1,327,624	-	1,327,624
21	General Taxes - Property Taxes	179,896	35,837	215,733	-	215,733
22	General Taxes - Other	65,832	-	65,832	-	65,832
23	Income Tax	(324,059)	(21,675)	(345,734)	1,303,012	957,278
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 5,114,006</u>	<u>\$ (18,082)</u>	<u>\$ 5,095,924</u>	<u>\$ 1,303,012</u>	<u>\$ 6,398,936</u>
26	OPERATING INCOME (LOSS)	<u>\$ 587,425</u>	<u>\$ 18,082</u>	<u>\$ 605,507</u>	<u>\$ 2,072,765</u>	<u>\$ 2,678,273</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS

TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 PROPERTY TAX	(C) ADJMT NO. 2 DEPRECIATN & AMORTIZN	(D) ADJMT NO. 3 RATE CASE EXPENSE	(E) ADJMT NO. 4 WASTE DISPOSAL	(F) ADJMT NO. 5 AIP EXPENSE	(G) ADJMT NO. 6 LABOR EXPENSE	(H) ADJMT NO. 7 MISC. EXPENSE	(I) ADJMT NO. 8 INCOME TAX	(J) RUCO AS ADJTD
1	Revenues:										
2	1 Metered Water Revenues	\$ 5,661,030	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,661,030
3	2 Unmetered Water Revenues	-	-	-	-	-	-	-	-	-	-
4	3 Other Water Revenues	40,401	-	-	-	-	-	-	-	-	40,401
4	4 TOTAL OPERATING REV.	\$ 5,701,431	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,701,431
5	Operating Expenses:										
6	5 Labor	\$ 703,217	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (13,569)	\$ -	\$ -	\$ 689,648
7	6 Purchased Water	(2,690)	-	-	-	-	-	-	-	-	(2,690)
8	7 Fuel & Power	830,074	-	-	-	-	-	-	-	-	830,074
9	8 Chemicals	227,889	-	-	-	313	-	-	-	-	227,889
10	9 Waste Disposal	4,391	-	-	-	-	-	-	-	-	4,704
11	10 Management Fees	999,903	-	-	-	-	-	-	-	-	987,868
12	11 Group Insurance	191,120	-	-	-	-	-	-	-	-	191,120
13	12 Pensions	137,699	-	-	-	-	-	-	-	-	137,699
14	13 Regulatory Expense	33,802	-	-	-	-	-	-	-	-	24,065
15	14 Insurance Other Than Group	58,622	-	-	(9,737)	-	-	-	-	-	58,622
16	15 Customer Accounting	133,476	-	-	-	-	-	-	-	-	133,476
17	16 Rents	14,331	-	-	-	-	-	-	-	-	14,331
18	17 General Office Expense	57,226	-	-	-	-	-	-	-	-	57,226
19	18 Miscellaneous	232,408	-	-	-	-	-	-	(1,299)	-	231,109
20	19 Maintenance Expense	247,328	-	-	-	-	-	-	-	-	247,328
21	20 Depreciation & Amortization	1,323,541	-	4,083	-	-	-	-	-	-	1,327,624
22	21 General Taxes - Property Taxes	179,896	35,837	-	-	-	-	-	-	-	215,733
23	22 General Taxes - Other	65,832	-	-	-	-	-	-	-	-	65,832
24	23 Income Tax	(324,059)	-	-	-	-	-	-	-	(21,675)	(345,734)
24	24 Rounding	-	-	-	-	-	-	-	-	-	-
25	25 TOTAL OPERATING EXP.	\$ 5,114,006	\$ 35,837	\$ 4,083	\$ (9,737)	\$ 313	\$ (12,035)	\$ (13,569)	\$ (1,299)	\$ (21,675)	\$ 5,095,924
26	26 OPERATING INC. (LOSS)	\$ 587,425									\$ 605,507

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Rate Case Expense
- 4 Waste Disposal Expense
- 5 Annual Incentive Pay Program Expense
- 6 Labor Expense
- 7 Miscellaneous Expenses
- 8 Income Tax

REFERENCE:

- 1 Testimony, RLM And Schedule RLM-8
- 2 Testimony, RLM And Schedule RLM-9
- 3 Testimony, RLM And Schedule RLM-10
- 4 Testimony, RLM
- 5 Testimony, RLM And Schedule RLM-11
- 6 Testimony, RLM
- 7 Testimony, RLM And Schedule RLM-12
- 8 Testimony, RLM And Schedule RLM-13

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 5,701,431	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	5,701,431	
3	Proposed Revenues	Sch. RLM-6, Col (D), Ln 4	9,077,209	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 20,480,071	
5	Average Annual Operating Revenues	Line 4 / 3	6,826,690	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 13,653,381
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ (50,858)	
8	10% Of CWIP	Line 7 X 10%		\$ (5,086)
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 13,648,295
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 3,139,108	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	6.87%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	6.87%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 215,733
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		179,896
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 35,837
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 35,837

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 20,086	0.00%	\$ -
2	302000	Franchises	1,346	0.00%	-
3	303200	Land & Land Rights SS	11,651	0.00%	-
4	303300	Land & Land Rights P	44,957	0.00%	-
5	303500	Land & Land Rights TD	-	0.00%	-
6	303600	Land & Land Rights AG	-	0.00%	-
7	304100	Struct & Imp SS	7,620,980	2.50%	190,525
8	304200	Struct & Imp P	224,821	1.67%	3,755
9	304300	Struct & Imp WT	90,867	1.67%	1,517
10	304400	Struct & Imp TD	(441)	1.67%	(7)
11	304600	Struct & Imp Offices	17,269	1.67%	288
12	304800	Struct & Imp Misc	-	2.50%	-
13	305000	Collect & Impounding	-	0.00%	-
14	307000	Wells & Springs	2,587,201	2.52%	65,197
15	310100	Power Generation Equip Other	36,044	4.42%	1,593
16	311200	Pump Equip Electric	5,157,344	4.42%	227,955
17	311300	Pump Equip Diesel	11,177	4.42%	494
18	311500	Pump Equip Other	169,696	4.42%	7,501
19	320100	WT Equip Non-Media	6,346,604	4.00%	253,864
20	330000	Dist Reservoirs & Standpipe	760,063	1.67%	12,693
21	331001	TD Mains Not Classified By Size	13,055,020	1.53%	199,742
22	331100	TD Mains 4in & Less	614	1.53%	9
23	331200	TD Mains 6in to 8in	409,390	1.53%	6,264
24	331300	TD Mains 10in to 16in	252,697	1.53%	3,866
25	332000	Fire Mains	169	1.53%	3
26	333000	Services	7,342,743	2.48%	182,100
27	334100	Meters	1,756,083	2.51%	44,078
28	334200	Meter Installations	147,290	2.51%	3,697
29	335000	Hydrants	1,835,679	2.00%	36,714
30	339100	Other P/E Intangible	-	0.00%	-
31	339500	Other P/E TD	-	0.00%	-
32	340100	Office Furniture & Equip	20,787	4.59%	954
33	340200	Comp & Periph Equip	41,437	4.59%	1,902
34	341100	Trans Equip Lt Duty Trks	225,178	25.00%	56,295
35	341200	Trans Equip Hvy Duty Trks	21,027	25.00%	5,257
36	342000	Stores Equipment	142	3.91%	6
37	343000	Tools, Shop, Garage Equip	19,641	4.02%	790
38	344000	Laboratory Equipment	1,607	3.71%	60
39	345000	Power Operated Equipment	161,886	5.02%	8,127
40	346100	Comm Equip Non-Telephone	163,135	10.30%	16,803
41	346300	Comm Equip Other	1,338	4.93%	66
42	SUB-TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 48,555,528		\$ 1,332,104
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE	390,490		87,107
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS	5,456		247
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 1,419,458
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			5,841
47		AMORITZATION OF REGULATORY ASSETS			-
48		AMORTIZATION OF CONTRIBUTIONS			(515)
49		AMORTIZATION OF REGULATORY CIAC			(97,158)
50		Rounding			(2)
51	TOTAL DEPRECIATION EXPENSE				\$ 1,327,624
52	Company As Filed				1,323,541
53	Difference				\$ 4,083
54	RUCO Adjustment (See RLM-7, Column (C))				\$ 4,083

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	\$ 612,000	\$ (187,735)	\$ 424,265
2	Allocation Factor (See NOTE Below)	11.7965%		17.0164%
3	Sun City West Water District (Line 1 X Line 2)	\$ 72,195	\$ -	\$ 72,195
4	Amortization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 3 Years)			\$ 24,065
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			\$ 33,802
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			\$ (9,737)
8	RUCO Adjustment (Line 7) (See RLM-7, Column (D))			\$ (9,737)

NOTE

	4-Factor Allocation	Company As Filed	RUCO As Adjusted
	Districts Included In This Filing		
9	Sun City West Water District	11.7965% \$ 72,195	17.0164% \$ 72,195
10	Paradise Valley Water District	10.4331% 63,851	15.0497% 63,851
11	Tubac Water District	0.9990% 6,114	1.4411% 6,114
12	Agua Fria Water District	31.3783% 192,035	45.2631% 192,035
13	Havasui Water District	1.8822% 11,519	2.7151% 11,519
14	Mohave Water District	11.3740% 69,609	16.4069% 69,609
15	Mohave Wastewater District	1.4612% 8,943	2.1078% 8,943
16	Total	69.3243% \$ 424,265	100.0000% \$ 424,265
	Districts NOT Included In This Filing		
17	Agua Fria Wastewater District	8.2232% \$ 50,326	
18	Distco/Treatco Sewer	9.8095% 60,034	
19	Distco/Treatco Water	12.6430% 77,375	
20		100.0000% \$ 612,000	

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
ANNUAL INCENTIVE PLAN EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJUSTED
1	AZ-AM Annual Incentive Plan ("AIP") Expense Total	Co. Response To RUCO DR 3.01.e	\$ 482,198
2	Allocation Factor	Co. Workpapers Per SLH-6	8.3198%
3	Sun City West Water District	Lines 1 X 2	<u>\$ 40,118</u>
4	Portion Deemed Shareholder Benefit Only	RLM Testimony	30.00%
5	RUCO Test-Year Disallowance Of AIP Expense	Lines 3 X 4	<u>\$ (12,035)</u>
6	RUCO Adjustment (See RLM-7, Column (D))	Line 5	<u><u>\$ (12,035)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		ALLOCABLE TOTAL	RUCO ADJUSTMENTS ALLOC'N 4-FACTOR	DISTRICT TOTAL	RUCO AS ADJUSTED
1	Sun City West Water Direct Miscellaneous Account (RLM-12, Pg, Ln 103)	\$ (166.53)	100.00%	\$ (167)	
2	Corporate Office Allocable Miscellaneous Account (RLM-12, Pg 4, Ln 98)	\$ (13,607.91)	8.3198%	\$ (1,132)	
3	TOTAL				<u>\$ (1,299)</u>
4	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (See RLM-7, Column (H))				<u>\$ (1,299)</u>

NOTE

4-Factor Allocation

5	Sun City West Water District	8.3198%
6	Paradise Valley Water District	7.6863%
7	Tubac Water District	0.7254%
8	Agua Fria Water District	23.0946%
9	Havasupai Water District	1.3850%
10	Mohave Water District	7.8288%
11	Mohave Wastewater District	1.0290%

References:

Column (A): Workpapers Exhibit A (880) Pages 1 To 18, (921) Pages 1 To 14, (923) Page 1, And (930) Page 1
Column (B): Company Workpapers
Column (C): Column (A) X Column (B)
Column (D): Sums Of Column (C)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 -CONT'D
INAPPROPRIATE MISCELLANEOUS EXPENSES

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
CORPORATED OFFICE MISCELLANEOUS EXPENSES					
1	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
2	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
3	PCard Undistributed	33.00	ALVES FLOWERS & GIFTS	NANCY J HUCKEY	Land
4	Employee Awards AG	2,400.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
5	Employee Awards AG	2,500.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
6	PCard Undistributed	27.29	BASHAS'	ARTHUR W FAEILLO	External training/seminars
7	Training AG	8.49	BASHAS'	KURTIS L STRAUDEL	External training/seminars
8	Training AG	13.24	BASHAS'	KURTIS L STRAUDEL	External training/seminars
9	Training AG	33.69	BASHAS'	KURTIS L STRAUDEL	In-house training/seminars
10	PCard Undistributed	25.64	BURGER KING #5915 Q	ANGEL STEVENS	NON-Catered Food & Beverages
11	PCard Undistributed	26.00	CHARLEY'S GRILLED SQ	ANGEL STEVENS	NON-Catered Food & Beverages
12	PCard Undistributed	1.89	CHEVRON	JAMES ISHMAEL	NON-Catered Food & Beverages
13	PCard Undistributed	1.59	CHEVRON	WILLIAM L WALLSTEAD	NON-Catered Food & Beverages
14	Misc Oper AG	59.57	CHILI'S GRI	BERT L REYNOLDS	NON-Catered Food & Beverages
15	PCard Undistributed	40.00	CHINA BUFET	BRIAN BIESEMAYER	NON-Catered Food & Beverages
16	PCard Undistributed	23.49	CHIPOTLE #0898 Q	ANGEL STEVENS	NON-Catered Food & Beverages
17	PCard Undistributed	5.48	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
18	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
19	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
20	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
21	PCard Undistributed	7.18	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
22	Training AG	28.05	COLDSTN CREAM #30 Q	KURTIS L STRAUDEL	In-house training/seminars
23	PCard Undistributed	273.61	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
24	PCard Undistributed	7.36	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
25	PCard Undistributed	17.16	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
26	PCard Undistributed	220.69	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
27	Co Dues/Membership Deduct	281.06	Costco Wholesale Membership-RE	Membership Dues	Financial Costs
28	Misc Oper AG	55.89	Costco-REMIT	7003-7300-0000-6704	NON-Catered Food & Beverages
29	Training AG	48.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
30	Training AG	54.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	In-house training/seminars
31	PCard Undistributed	34.99	CRAZY CARLOS INC	GARRY T BURTON	NON-Catered Food & Beverages
32	PCard Undistributed	30.00	CUCINA TAGLIANI	JEREMIAH MECHAM	NON-Catered Food & Beverages
33	PCard Undistributed	18.52	DENNY'S INC	ANGEL STEVENS	NON-Catered Food & Beverages
34	PCard Undistributed	53.91	DILLONS GRAND	DALE E KENNOW	NON-Catered Food & Beverages
35	PCard Undistributed	14.21	DILLONS GRAND	PAUL D TAYLOR	NON-Catered Food & Beverages
36	PCard Undistributed	71.37	DILLONS THUNDERBIRD	FLOYD K MCKINNEY	NON-Catered Food & Beverages

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
37	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	External training/seminars
38	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	In-house training/seminars
39	PCard Undistributed	27.14	EINSTEIN BROS	PAULA A CHRISTIAN	NON-Catered Food & Beverages
40	Trans Oper AG	66.39	EL PASO BARBQUE	ERNEST G SANTA CRUZ	NON-Catered Food & Beverages
41	PCard Undistributed	30.84	EL TORITO	TODD R FARRELL	NON-Catered Food & Beverages
42	PCard Undistributed	19.22	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
43	PCard Undistributed	29.76	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
44	PCard Undistributed	28.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
45	PCard Undistributed	25.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
46	PCard Undistributed	33.28	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
47	PCard Undistributed	13.75	FRYS-FOOD-DRG #122 SXN	ROY PEREZ JR	NON-Catered Food & Beverages
48	Training AG	25.59	HMSHOST-PHX-AIR	NEIL J MEYER	NON-Catered Food & Beverages
49	Misc Oper AG	125.00	Huckeby, Nancy J -Petty Cash	Christmas Decorations	Office Decorations
50	Misc Oper AG	200.00	Huckeby, Nancy J -Petty Cash	Christmas Party Security	Security & Monitoring
51	PCard Undistributed	9.96	HUNGRY HOWIE'S PIZZA	JON C BEHRENDT	NON-Catered Food & Beverages
52	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	274560	NON-Catered Food & Beverages
53	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	ICE	NON-Catered Food & Beverages
54	Misc Oper AG	143.61	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
55	Misc Oper AG	81.18	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
56	PCard Undistributed	40.53	IHOP	ANGEL STEVENS	NON-Catered Food & Beverages
57	PCard Undistributed	27.58	KFC #1303016	ANGEL STEVENS	NON-Catered Food & Beverages
58	Trans Oper AG Lease Cost	60.91	LAS CAZUELA'S	ANGEL STEVENS	NON-Catered Food & Beverages
59	PCard Undistributed	67.37	MADELYN'S	PAUL M LI	NON-Catered Food & Beverages
60	PCard Undistributed	3.98	MCDONALD'S F	KURTIS L STRAUDEL	NON-Catered Food & Beverages
61	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	Catering/works catering
62	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	External training/seminars
63	PCard Undistributed	6.96	PILOT	JAMES ISHMAEL	In-house training/seminars
64	PCard Undistributed	6.34	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
65	PCard Undistributed	71.98	PIZZA HUT	JAMES ISHMAEL	NON-Catered Food & Beverages
66	Other Welf Oper AG	41.25	Professional Plants & Inc-POIR	ANGEL STEVENS	NON-Catered Food & Beverages
67	PCard Undistributed	10.02	QUIZNOS	SERVICES	Landscaping
68	PCard Undistributed	54.55	RIO MIRAGE CAFE	ANDREW C MARTINEZ	NON-Catered Food & Beverages
69	PCard Undistributed	16.77	ROMENS GYROS	JENNIFER L HALLIDAY	NON-Catered Food & Beverages
70	PCard Undistributed	69.87	ROSATI'S PIZZA - PEORI	RANDY J ZIOLKOWSKI	Pathwaynet Default
71	Training AG	61.53	ROSATI'S PIZZA UNION H	ANGEL STEVENS	NON-Catered Food & Beverages
72	PCard Undistributed	4.99	SAFEMAY STORE	KURTIS L STRAUDEL	External training/seminars
73	PCard Undistributed	20.95	SAFEMAY STORE	CHRISTOPHER M WILLIAMS	NON-Catered Food & Beverages
74	PCard Undistributed	39.37	SAFEMAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
75	PCard Undistributed	21.13	SAFEMAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
76	PCard Undistributed	14.53	SAFEMAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
77	PCard Undistributed	15.64	SUBWAY 25139	ROY PEREZ JR	Catering/works catering
78	Misc Oper AG	25.00	Supreme Court of Pennsylvania	JEFFREY S BORN	NON-Catered Food & Beverages
79	Employee Awards AG	107.84	Tharpe Company Inc-REMIT	Certificate	Event organization services
80	Employee Awards AG	722.07	Tharpe Company Inc-REMIT	8549	Service Awards and Premiums
81	Employee Awards AG	829.39	Tharpe Company Inc-REMIT	98415RI	Service Awards and Premiums
				CUST #16248	Service Awards and Premiums

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
82	Employee Awards AG	882.92	Tharpe Company Inc-REMIT	CUST# 16248	Service Awards and Premiums
83	Employee Awards AG	90.27	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
84	Employee Awards AG	176.84	Tharpe Company Inc-REMIT	cust# 8549	Service Awards and Premiums
85	Employee Awards AG	120.50	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
86	Employee Awards AG	110.61	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
87	Employee Awards AG	79.64	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
88	Employee Awards AG	88.41	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
89	Employee Awards AG	78.57	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
90	Employee Awards AG	204.49	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
91	Employee Awards AG	135.65	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
92	Employee Awards AG	79.93	Tharpe Company Inc-REMIT	inv 454294ri	Service Awards and Premiums
93	Misc Oper AG	67.04	TLF CACTUS FLOWER FLOR	NANCY J HUCKEBY	Land
94	Overnight Shipping AG	35.93	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
95	Overnight Shipping AG	(35.93)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
96	Community Relations	1,000.00	Water for People-REMIT	Water For People Sponsor	Sponsoring
97	Training AG	17.32	WONDER BREAD/HOSTESS	KURTIS L STRAUDEL	External training/seminars
98		<u>\$ 13,607.91</u>			

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
DISTRICT DIRECTLY ALLOCATED MISCELLANEOUS EXPENSES					
SUN CITY WEST WATER DISTRICT MISCELLANEOUS EXPENSES					
99	M & S Oper TD	\$ 18.94	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
100	M & S Oper SS	59.03	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
101	Misc Oper PP	57.63	RED ROBIN NO	PAUL D TAYLOR	NON-Catered Food & Beverages
102	Misc Oper PP	30.93	SAFeway STORE	ROBERT L CRON	NON-Catered Food & Beverages
103	Total	\$ 166.53			
PARADISE VALLEY WATER DISTRICT MISCELLANEOUS EXPENSES					
104	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
105	Training AG	5.39	LONG JOHN SILV	NEIL J MEYER	NON-Catered Food & Beverages
106	Safety Incentive	132.00	Peavey Performance Systems	1004289	Service Awards and Premiums
107	Training AG	6.26	SUBWAY #10469	NEIL J MEYER	NON-Catered Food & Beverages
108	Misc Oper TD	33.98	THE HOME DEPOT	LEE F HUDDLESTON	Event organization services
109	Total	\$ 313.29			
TUBAC WATER DISTRICT MISCELLANEOUS EXPENSES					
110	Contract Svc-Eng Oper AG	\$ 17.12	KFC 1303012	ROBERT L CRON	NON-Catered Food & Beverages
111	Overnight Shipping AG	20.82	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
112	Overnight Shipping AG	(20.82)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
113	Total	\$ 17.12			
AGUA FRIA WATER DISTRICT MISCELLANEOUS EXPENSES					
114	Brochures and Handouts	\$ 1,788.00	AZ University	Project WET Sponsorship	Sponsoring
115	Misc Oper SS	157.41	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
116	Water Res Conservation	317.39	CSI CRESTLINE CO INC	SALLY L CECCARELLI WOLF	Service Awards and Premiums
117	M & S Oper TD	44.22	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
118	Total	\$ 2,307.02			
HAVASU WATER DISTRICT MISCELLANEOUS EXPENSES					
119	No Adjustment	\$ -			
MOHAVE WATER DISTRICT MISCELLANEOUS EXPENSES					
120	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
121	M & S Oper TD	22.80	DENNY'S INC	CHAD E GEBOW	NON-Catered Food & Beverages
122	M & S Oper TD	133.56	Ferguson Enterprises Inc #675	7202007	NON-Catered Food & Beverages
123	M & S Oper TD	50.00	Ferguson Enterprises Inc-#602-	CUST# 605937	NON-Catered Food & Beverages
124	Total	\$ 342.02			
MOHAVE WASTEWATER DISTRICT MISCELLANEOUS EXPENSES					
125	M & S Oper WT	\$ 26.92	WAL-MART	WILLIAM L WALLSTEAD	Animal feed
126	Total	\$ 26.92			

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 259,773
	LESS:		
2	Arizona State Tax	Line 11	(62,413)
3	Interest Expense	Note (A) Line 20	1,155,483
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (833,297)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (283,321)
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 259,773
	LESS:		
8	Interest Expense	Note (A) Line 20	1,155,483
9	State Taxable Income	Line 7 - Line 8	\$ (895,710)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (62,413)
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (283,321)
13	State Income Tax Expense	Line 11	(62,413)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (345,734)
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(324,059)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ (21,675)
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	\$ (21,675)

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 38,261,042
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 1,155,483

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST RATE
1	DEBT	55.20%	5.46%	3.02%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL			<u><u>7.00%</u></u>

References:

Columns (A) Thru (F): Testimony, WAR

TUBAC WATER DISTRICT

TABLE OF CONTENTS TO RLM SCHEDULES

SCH. NO.	PAGE NO.	TITLE
RLM-1	1 & 2	REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR
RLM-2A	1	RATE BASE
RLM-2	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
RLM-3	1 TO 7	RATE BASE ADJUSTMENT NO. 1 - ADJUSTMENT TO ACCUMULATED DEPRECIATION
TESTIMONY		RATE BASE ADJUSTMENT NO. 2 - REINSTATE AIAC ASSOCIATED WITH CWIP
RLM-5	1 & 2	RATE BASE ADJUSTMENT NO. 6- ALLOWANCE FOR WORKING CAPITAL
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RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - PROPERTY TAX COMPUTATION
RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - TEST YEAR DEPRECIATION EXPENSE
RLM-10	1	OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE EXPENSE
TESTIMONY	1	OPERATING INCOME ADJUSTMENT NO. 4 - ONLY PARADISE VALLEY - CHEMICAL EXPENSE
RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 5 - ANNUAL INCENTIVE PAY EXPENSE
RLM-12	1	OPERATING INCOME ADJUSTMENT NO. 6 - REMOVE INAPPROPRIATE/UNNECESSARY MISC. EXPENSES
RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 1,527,454	\$ 1,433,161
2	Adjusted Operating Income (Loss)	\$ (38,553)	\$ (60,285)
3	Current Rate Of Return (L2 / L1)	-2.52%	-4.21%
4	Required Operating Income (L5 X L1)	\$ 128,306	\$ 100,321
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 166,859	\$ 160,607
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6674	1.3076
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 278,214	\$ 210,004
9	Adjusted Test Year Revenue	\$ 426,898	\$ 426,900
10	Proposed Annual Revenue (L8 + L9)	\$ 705,112	\$ 636,904
11	Required Percentage Increase In Revenue (L8 / L9)	65.17%	49.19%
12	Rate Of Return On Common Equity	11.91%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.2352			
3	Subtotal (L1 - L2)	0.7648			
4	Revenue Conversion Factor (L1 / L3)	1.3076			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	17.7940%			
9	Effective Federal Income Tax Rate (L7 X L8)	16.5541%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	23.5221%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 100,321			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	(60,285)			
13	Required Increase In Operating Income (L11 - L12)		\$ 160,607		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 17,544			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(31,854)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 49,397		
17	Total Required Increase In Revenue (L13 + L16)		\$ 210,004		
				RUCO	
CALCULATION OF INCOME TAX				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 636,904	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			519,039	
20	Synchronized Interest (Col. (C), L37)			43,281	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 74,583	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 5,197
24	Fed. Taxable Income (L21 - L23)			\$ 69,386	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			4,847	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			-	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			-	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 12,347
31	Combined Federal And State Income Tax (L23 + L30)				\$ 17,544
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ (31,854)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 49,397
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				17.79%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 1,433,161	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 43,281	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 3,423,384	\$ -	\$ 3,423,384
2	Accumulated Depreciation	(939,364)	1,550	(937,814)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 2,484,020</u>	<u>\$ 1,550</u>	<u>\$ 2,485,570</u>
4	Advances In Aid Of Const.	\$ (1,042,125)	\$ (20,266)	\$ (1,062,391)
5	Contribution In Aid Of Const.	\$ (195)	\$ -	\$ (195)
6	Accumulated Amortization Of CIAC	17	-	17
7	NET CIAC (L6 + L7)	<u>\$ (178)</u>	<u>\$ -</u>	<u>\$ (178)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (58,023)	\$ -	\$ (58,023)
10	Customer Meter Deposits	\$ (540)	\$ -	\$ (540)
11	Deferred Income Taxes And Credits	\$ 46,088	\$ -	\$ 46,088
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 54,503	\$ (51,122)	\$ 3,381
14	Allowance For Working Capital	\$ 43,709	\$ (24,455)	\$ 19,254
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 1,527,454</u>	<u>\$ (94,293)</u>	<u>\$ 1,433,161</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMUL'D DEPRECT'N	(C) ADJMT NO. 2 AIAC FOR CWIP	(D) ADJMT NO. 3	(E) ADJMT NO. 4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJUSTED OCRB/FVFB
1	Gross Utility Plant In Service	\$ 3,423,384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,423,384
2	Accumulated Depreciation	(939,364)	1,550	-	-	-	-	-	(937,814)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 2,484,020	\$ 1,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,485,570
4	Advances In Aid Of Const.	\$ (1,042,125)	\$ -	\$ (20,266)	\$ -	\$ -	\$ -	\$ -	\$ (1,062,391)
5	Contribution In Aid Of Const.	\$ (195)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (195)
6	Accumulated Amortization Of CIAC	17	-	-	-	-	-	-	17
7	NET CIAC (L5 + L6)	\$ (178)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (178)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (58,023)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (58,023)
10	Customer Meter Deposits	\$ (540)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (540)
11	Deferred Income Taxes And Credits	\$ 46,088	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,088
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 54,503	\$ -	\$ -	\$ -	\$ -	\$ (51,122)	\$ -	\$ 3,381
14	Allowance For Working Capital	\$ 43,709	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (24,455)	\$ 19,254
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 1,527,454	\$ 1,550	\$ (20,266)	\$ -	\$ -	\$ (51,122)	\$ (24,455)	\$ 1,433,161

References:

Column (A): Company Schedule B-2
Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
Column (D): Adjustment No. 3 - Intentionally Left Blank
Column (E): Adjustment No. 4 - Intentionally Left Blank
Column (F): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1
Column (G): Adjustment No. 6 - Allowance For Working Capital
Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED DECEMBER 31, 2001

LINE NO.	ACCT. NO.	ACCOUNT NAME	PRIOR DECISION NO. 67093 - ADJUSTED				RUCO ADJUSTED PRIOR TEST YEAR			
			(A) DEP. RATE	(B) GROSS PLANT	(C) ACCUMULATED DEPRECIATION	(D) PLANT ADJUSTMENT	(E) ACC. DEP. ADJUSTMENT	(F) GROSS PLANT	(G) ACCUMULATED DEPRECIATION	
1	301000	Organization	0.00%	\$ 567	\$ -	\$ -	\$ -	\$ 567	\$ -	
2	302000	Franchises	0.00%	2,030	-	-	-	2,030	-	
3	303200	Land & Land Rights SS	0.00%	20,414	-	-	-	20,414	-	
4	303300	Land & Land Rights P	0.00%	50	-	-	-	50	-	
5	303400	Land & Land Rights WT	0.00%	50	-	-	-	50	-	
6	303500	Land & Land Rights TD	0.00%	539	-	-	-	539	-	
7	303600	Land & Land Rights AG	0.00%	2,755	-	-	-	2,755	-	
8	304100	Struct & Imp SS	2.40%	19,992	(4,183)	-	-	19,992	(4,183)	
9	304200	Struct & Imp P	1.94%	14,608	(7,906)	-	-	14,608	(7,906)	
10	304300	Struct & Imp WT	0.00%	-	-	-	-	-	-	
11	304400	Struct & Imp TD	1.92%	156	(70)	-	-	156	(70)	
12	304600	Struct & Imp Offices	2.89%	498	(78)	-	-	498	(78)	
13	304800	Struct & Imp Misc	0.00%	-	-	-	-	-	-	
14	305000	Collect & Impounding	0.00%	-	-	-	-	-	-	
15	307000	Wells & Springs	3.08%	180,979	(76,797)	-	-	180,979	(76,797)	
16	310100	Power Generation Equip Other	4.24%	-	-	-	-	-	-	
17	311200	Pump Equip Electric	4.24%	241,749	(102,255)	-	-	241,749	(102,255)	
18	311300	Pump Equip Diesel	4.42%	879	(88)	-	-	879	(88)	
19	311500	Pump Equip Other	4.24%	42,994	(10,466)	-	-	42,994	(10,466)	
20	320100	WT Equip Non-Media	4.00%	505	(104)	-	-	505	(104)	
21	330000	Dist Reservoirs & Standpipe	1.62%	142,420	(28,084)	-	-	142,420	(28,084)	
22	331001	TD Mains Not Classified By Size	1.97%	-	-	-	-	-	-	
23	331100	TD Mains 4in & Less	1.97%	884,097	(236,291)	-	-	884,097	(236,291)	
24	331200	TD Mains 6in to 8in	1.97%	-	-	-	-	-	-	
25	331300	TD Mains 10in to 16in	2.34%	-	-	-	-	-	-	
26	333000	Services	2.45%	272,942	(55,162)	-	-	272,942	(55,162)	
27	334100	Meters	2.42%	87,950	(21,151)	-	-	87,950	(21,151)	
28	334200	Meter Installations	2.42%	-	-	-	-	-	-	
29	335000	Hydrants	1.97%	24,189	(1,366)	-	-	24,189	(1,366)	
30	339100	Other P/E Intangible	0.00%	-	-	-	-	-	-	
31	339500	Other P/E TD	0.00%	-	-	-	-	-	-	
32	340100	Office Furniture & Equip	3.28%	11,451	(2,029)	-	-	11,451	(2,029)	
33	340200	Comp & Periph Equip	20.00%	9,435	(6,583)	-	-	9,435	(6,583)	
34	341100	Trans Equip Lt Duty Trks	25.00%	17,166	(13,302)	-	-	17,166	(13,302)	
35	341200	Trans Equip Hvy Duty Trks	25.00%	-	-	-	-	-	-	
36	342000	Stores Equipment	4.00%	3,418	(1,044)	-	-	3,418	(1,044)	
37	343000	Tools, Shop, Garage Equip	3.42%	8,161	(1,162)	-	-	8,161	(1,162)	
38	344000	Laboratory Equipment	0.00%	-	-	-	-	-	-	
39	345000	Power Operated Equipment	4.64%	-	-	-	-	-	-	
40	346100	Comm Equip Non-Telephone	5.03%	2,461	(822)	-	-	2,461	(822)	
41	346300	Comm Equip Other	4.93%	659	(134)	-	-	659	(134)	
42	SUB-TOTAL			\$ 1,993,114	\$ (569,077)	\$ -	\$ -	\$ 1,993,114	\$ (569,077)	
43	Company As Filed			\$ 1,993,114	\$ (569,077)	\$ -	\$ -	\$ 1,993,114	\$ (569,077)	
44	Difference			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

References:
Columns (A) (B) (C): Company Schedule B-2
Columns (D) (E): See Testimony, RLM
Column (F): Column (B) + Column (D)
Column (G): Column (C) + Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2002

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 567	\$ -	\$ 567
2	302000	Franchises	-	-	-	2,030	-	2,030
3	303200	Land & Land Rights SS	-	-	-	20,414	-	20,414
4	303300	Land & Land Rights P	-	-	-	50	-	50
5	303400	Land & Land Rights WVT	-	-	-	50	-	50
6	303500	Land & Land Rights TD	-	-	-	539	-	539
7	303600	Land & Land Rights AG	-	-	-	2,755	-	2,755
8	304100	Struct & Imp SS	-	-	(480)	19,992	(4,663)	15,329
9	304200	Struct & Imp P	-	-	(283)	14,608	(8,189)	6,419
10	304300	Struct & Imp WVT	-	-	-	-	-	-
11	304400	Struct & Imp TD	-	-	(3)	156	(73)	83
12	304600	Struct & Imp Offices	-	-	(14)	498	(92)	406
13	304800	Struct & Imp Misc	-	-	-	-	-	-
14	305000	Collect & Impounding	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(5,574)	180,979	(82,371)	98,608
16	310100	Power Generation Equip Other	-	-	-	-	-	-
17	311200	Pump Equip Electric	28,825	-	(10,301)	270,574	(112,556)	158,018
18	311300	Pump Equip Diesel	-	-	(39)	879	(127)	752
19	311500	Pump Equip Other	-	-	(1,823)	42,994	(12,289)	30,705
20	320100	WT Equip Non-Media	-	-	(20)	505	(124)	381
21	330000	Dist Reservoirs & Standpipe	-	-	(2,307)	142,420	(30,391)	112,029
22	331001	TD Mains Not Classified By Size	75,438	-	(62)	75,438	(62)	75,376
23	331100	TD Mains 4in & Less	-	-	(17,417)	884,097	(253,708)	630,389
24	331200	TD Mains 6in to 8in	-	-	-	-	-	-
25	331300	TD Mains 10in to 16in	-	-	-	-	-	-
26	333000	Services	19,290	-	(6,816)	292,232	(61,978)	230,254
27	334100	Meters	270	-	(2,129)	88,220	(23,280)	64,940
28	334200	Meter installations	644	-	(1)	644	(1)	643
29	335000	Hydrants	2,330	-	(478)	26,519	(1,844)	24,675
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(376)	11,451	(2,405)	9,046
33	340200	Comp & Periph Equip	-	-	(1,887)	9,435	(8,470)	965
34	341100	Trans Equip Lt Duty Trks	-	-	(4,291)	17,166	(17,593)	(427)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	(137)	3,418	(1,181)	2,237
37	343000	Tools, Shop, Garage Equip	-	-	(279)	8,161	(1,441)	6,720
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	-	-	-	-
40	346100	Comm Equip Non-Telephone	-	-	(124)	2,461	(946)	1,515
41	346300	Comm Equip Other	-	-	(32)	659	(166)	493
42	SUB-TOTAL		\$ 126,797	\$ -	\$ (54,875)	\$ 2,119,911	\$ (623,952)	\$ 1,495,959
43	Company As Filed		126,797	-	(55,006)	2,119,911	(624,490)	1,495,421
44	Difference		\$ -	\$ -	\$ 131	\$ -	\$ 538	\$ 538

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2003

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 567	\$ -	\$ 567
2	302000	Franchises	-	-	-	2,030	-	2,030
3	303200	Land & Land Rights SS	-	-	-	20,414	-	20,414
4	303300	Land & Land Rights P	-	-	-	50	-	50
5	303400	Land & Land Rights WT	-	-	-	50	-	50
6	303500	Land & Land Rights TD	-	-	-	539	-	539
7	303600	Land & Land Rights AG	-	-	-	2,755	-	2,755
8	304100	Struct & Imp SS	-	-	(480)	19,992	(5,143)	14,849
9	304200	Struct & Imp P	-	-	(283)	14,608	(8,472)	6,136
10	304300	Struct & Imp WVT	-	-	-	-	-	-
11	304400	Struct & Imp TD	-	-	(3)	156	(77)	79
12	304600	Struct & Imp Offices	-	-	(14)	498	(106)	392
13	304800	Struct & Imp Misc	-	-	-	-	-	-
14	305000	Collect & Impounding	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(5,574)	180,979	(87,945)	93,034
16	310100	Power Generation Equip Other	-	-	-	-	-	-
17	311200	Pump Equip Electric	-	-	(11,472)	270,574	(124,028)	146,546
18	311300	Pump Equip Diesel	-	-	(37)	879	(164)	715
19	311500	Pump Equip Other	-	-	(1,823)	42,994	(14,112)	28,882
20	320100	WT Equip Non-Media	-	-	(20)	505	(144)	361
21	330000	Dist Reservoirs & Standpipe	-	-	(2,307)	142,420	(32,698)	109,722
22	331001	TD Mains Not Classified By Size	1,393	-	(1,508)	76,831	(1,570)	75,261
23	331100	TD Mains 4in & Less	-	-	(17,417)	884,097	(271,124)	612,973
24	331200	TD Mains 6in to 8in	892	-	(4)	892	(4)	888
25	331300	TD Mains 10in to 16in	-	-	-	-	-	-
26	333000	Services	2,510	-	(7,162)	294,742	(69,141)	225,601
27	334100	Meters	-	-	(2,135)	88,220	(25,415)	62,805
28	334200	Meter Installations	1,467	-	(45)	2,111	(46)	2,065
29	335000	Hydrants	-	-	(522)	26,519	(2,367)	24,152
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(376)	11,451	(2,781)	8,670
33	340200	Comp & Periph Equip	-	-	(1,887)	9,435	(10,357)	(922)
34	341100	Trans Equip Lt Duty Trks	-	-	(4,291)	17,166	(21,884)	(4,718)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	(137)	3,418	(1,318)	2,100
37	343000	Tools, Shop, Garage Equip	-	-	(279)	8,161	(1,720)	6,441
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	-	-	-	-
40	346100	Comm Equip Non-Telephone	-	-	(124)	2,461	(1,070)	1,391
41	346300	Comm Equip Other	-	-	(32)	659	(199)	460
42	SUB-TOTAL		\$ 6,262	\$ -	\$ (57,934)	\$ 2,126,173	\$ (681,885)	\$ 1,444,288
43	Company As Filed		6,262	-	(57,937)	2,126,173	(682,427)	1,443,746
44	Difference		\$ -	\$ -	\$ 3	\$ -	\$ 542	\$ 542

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 2, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 2, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2004

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 567	\$ -	\$ 567
2	302000	Franchises	-	-	-	2,030	-	2,030
3	303200	Land & Land Rights SS	-	-	-	20,414	-	20,414
4	303300	Land & Land Rights P	-	-	-	50	-	50
5	303400	Land & Land Rights WT	-	-	-	50	-	50
6	303500	Land & Land Rights TD	-	-	-	539	-	539
7	303600	Land & Land Rights AG	-	-	-	2,755	-	2,755
8	304100	Struct & Imp SS	5,300	-	(485)	25,292	(5,628)	19,664
9	304200	Struct & Imp P	-	-	(283)	14,608	(8,755)	5,853
10	304300	Struct & Imp WT	-	-	-	-	-	-
11	304400	Struct & Imp TD	-	-	(3)	156	(80)	76
12	304600	Struct & Imp Offices	-	-	(14)	498	(120)	378
13	304800	Struct & Imp Misc	-	-	-	-	-	-
14	305000	Collect & Impounding	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(5,574)	180,979	(93,519)	87,460
16	310100	Power Generation Equip Other	-	-	-	-	-	-
17	311200	Pump Equip Electric	-	(2,048)	(11,461)	268,526	(133,442)	135,084
18	311300	Pump Equip Diesel	-	-	(37)	879	(202)	677
19	311500	Pump Equip Other	-	-	(1,823)	42,994	(15,935)	27,059
20	320100	WT Equip Non-Media	53,390	-	(109)	53,895	(254)	53,641
21	330000	Dist Reservoirs & Standpipe	-	-	(2,307)	142,420	(35,006)	107,414
22	331001	TD Mains Not Classified By Size	211,428	-	(4,156)	288,259	(5,726)	282,533
23	331100	TD Mains 4in & Less	-	-	(17,417)	884,097	(288,541)	595,556
24	331200	TD Mains 6in to 8in	215,278	-	(1,191)	216,170	(1,195)	214,975
25	331300	TD Mains 10in to 16in	-	-	-	-	-	-
26	333000	Services	29,108	-	(7,481)	323,850	(76,621)	247,229
27	334100	Meters	5,903	-	(2,225)	94,123	(27,640)	66,483
28	334200	Meter Installations	4,601	(76)	(115)	6,636	(85)	6,551
29	335000	Hydrants	41,492	-	(840)	68,011	(3,207)	64,804
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(376)	11,451	(3,157)	8,294
33	340200	Comp & Periph Equip	-	-	(1,887)	9,435	(12,244)	(2,809)
34	341100	Trans Equip LT Duty Trks	-	-	(4,291)	17,166	(26,176)	(9,010)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	(137)	3,418	(1,455)	1,963
37	343000	Tools, Shop, Garage Equip	-	-	(279)	8,161	(1,999)	6,162
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	-	-	-	-
40	346100	Comm Equip Non-Telephone	-	-	(124)	2,461	(1,193)	1,268
41	346300	Comm Equip Other	-	-	(32)	659	(231)	428
42	SUB-TOTAL		\$ 566,500	\$ (2,124)	\$ (62,650)	\$ 2,690,549	\$ (742,411)	\$ 1,948,138
43	Company As Filed		566,500	(2,124)	(61,040)	2,690,549	(743,467)	1,947,082
44	Difference		\$ -	\$ -	\$ (1,610)	\$ -	\$ 1,056	\$ 1,056

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 3, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 3, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJ.MTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 567	\$ -	\$ 567
2	302000	Franchises	-	-	-	2,030	-	2,030
3	303200	Land & Land Rights SS	-	-	-	20,414	-	20,414
4	303300	Land & Land Rights P	-	-	-	50	-	50
5	303400	Land & Land Rights WT	-	-	-	50	-	50
6	303500	Land & Land Rights TD	-	-	-	539	-	539
7	303600	Land & Land Rights AG	-	-	-	2,755	-	2,755
8	304100	Struct & Imp SS	-	-	(607)	25,292	(6,235)	19,057
9	304200	Struct & Imp P	-	-	(283)	14,608	(9,038)	5,570
10	304300	Struct & Imp WT	-	-	-	-	-	-
11	304400	Struct & Imp TD	-	-	(3)	156	(84)	72
12	304600	Struct & Imp Offices	-	-	(14)	498	(134)	364
13	304800	Struct & Imp Misc	-	-	-	-	-	-
14	305000	Collect & Impounding	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(5,574)	180,979	(99,094)	81,885
16	310100	Power Generation Equip Other	-	-	-	-	-	-
17	311200	Pump Equip Electric	13,360	(6,500)	(11,545)	275,386	(138,487)	136,899
18	311300	Pump Equip Diesel	-	-	(37)	879	(239)	640
19	311500	Pump Equip Other	-	-	(1,823)	42,994	(17,758)	25,236
20	320100	WT Equip Non-Media	-	-	(2,156)	53,895	(2,409)	51,486
21	330000	Dist Reservoirs & Standpipe	8,899	-	(2,378)	151,319	(37,384)	113,935
22	331001	TD Mains Not Classified By Size	623	-	(5,686)	288,882	(11,412)	277,470
23	331100	TD Mains 4in & Less	8,610	(19,432)	(17,322)	873,275	(286,432)	586,843
24	331200	TD Mains 6in to 8in	6,497	-	(4,324)	222,667	(5,519)	217,148
25	331300	TD Mains 10in to 16in	-	-	-	-	-	-
26	333000	Services	9,953	-	(8,015)	333,803	(84,636)	249,167
27	334100	Meters	-	(170)	(2,277)	93,953	(29,746)	64,207
28	334200	Meter Installations	5,267	-	(198)	11,903	(283)	11,620
29	335000	Hydrants	2,712	-	(1,342)	70,723	(4,549)	66,174
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	1,709	(4,513)	(322)	8,647	1,034	9,681
33	340200	Comp & Periph Equip	-	-	(1,887)	9,435	(14,131)	(4,696)
34	341100	Trans Equip Lt Duty Trks	-	-	(4,291)	17,166	(30,467)	(13,301)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	(137)	3,418	(1,592)	1,826
37	343000	Tools Shop, Garage Equip	-	-	(279)	8,161	(2,278)	5,883
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	-	-	-	-
40	346100	Comm Equip Non-Telephone	-	-	(124)	2,461	(1,317)	1,144
41	346300	Comm Equip Other	-	-	(32)	659	(264)	395
42	SUB-TOTAL		\$ 57,630	\$ (30,615)	\$ (70,658)	\$ 2,717,564	\$ (782,454)	\$ 1,935,110
43	Company As Filed		57,630	(30,615)	(40,016)	2,717,564	(783,483)	1,934,081
44	Difference		\$ -	\$ -	\$ (30,642)	\$ -	\$ 1,029	\$ 1,029

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 4, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 4, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 567	\$ -	\$ 567
2	302000	Franchises	-	-	-	2,030	-	2,030
3	303200	Land & Land Rights SS	-	-	-	20,414	-	20,414
4	303300	Land & Land Rights P	-	-	-	50	-	50
5	303400	Land & Land Rights WT	-	-	-	50	-	50
6	303500	Land & Land Rights TD	-	(117)	-	422	117	539
7	303600	Land & Land Rights AG	-	-	-	2,755	-	2,755
8	304100	Struct & Imp SS	-	-	(607)	25,292	(6,842)	18,450
9	304200	Struct & Imp P	-	-	(283)	14,608	(9,321)	5,287
10	304300	Struct & Imp WT	-	-	-	-	-	-
11	304400	Struct & Imp TD	-	-	(3)	156	(87)	69
12	304600	Struct & Imp Offices	-	-	(14)	498	(148)	350
13	304800	Struct & Imp Misc	-	-	-	-	-	-
14	305000	Collect & Impounding	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(5,574)	180,979	(104,668)	76,311
16	310100	Power Generation Equip Other	-	-	-	-	-	-
17	311200	Pump Equip Electric	3,575	(4,436)	(11,687)	274,525	(145,738)	128,787
18	311300	Pump Equip Diesel	-	-	(37)	879	(276)	603
19	311500	Pump Equip Other	345,437	-	(6,102)	388,431	(23,859)	364,572
20	320100	WT Equip Non-Media	1,961	-	(2,185)	55,856	(4,595)	51,261
21	330000	Dist Reservoirs & Standpipe	-	(116)	(2,451)	151,203	(39,719)	111,484
22	331001	TD Mains Not Classified By Size	107,182	-	(6,308)	396,064	(17,720)	378,344
23	331100	TD Mains 4in & Less	1,889	-	(17,227)	874,964	(303,659)	571,305
24	331200	TD Mains 6in to 8in	167,681	-	(4,524)	390,348	(10,043)	380,305
25	331300	TD Mains 10in to 16in	-	-	-	-	-	-
26	333000	Services	32,413	-	(8,272)	366,216	(92,909)	273,307
27	334100	Meters	199	(76)	(2,274)	94,076	(31,944)	62,132
28	334200	Meter Installations	5,657	(704)	(357)	16,856	64	16,920
29	335000	Hydrants	204	-	(1,393)	70,927	(5,942)	64,985
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	(2,381)	(280)	6,266	3,135	9,401
33	340200	Comp & Periph Equip	-	(673)	(1,881)	8,762	(15,339)	(6,577)
34	341100	Trans Equip Lt Duty Trks	-	-	(4,291)	17,166	(34,759)	(17,593)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	(3,418)	(131)	-	1,695	1,695
37	343000	Tools, Shop, Garage Equip	-	(377)	(279)	7,784	(2,180)	5,604
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	-	-	-	-
40	346100	Comm Equip Non-Telephone	-	-	(124)	2,461	(1,441)	1,020
41	346300	Comm Equip Other	-	-	(32)	659	(296)	363
42	SUB-TOTAL		\$ 665,998	\$ (12,298)	\$ (76,318)	\$ 3,371,264	\$ (846,474)	\$ 2,524,790
43	Company As Filed		665,998	(12,298)	(64,705)	3,371,264	(848,188)	2,523,076
44	Difference		\$ -	\$ -	\$ (11,613)	\$ -	\$ 1,714	\$ 1,714

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 5, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 5, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2007

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADD'TS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 567	\$ -	\$ 567
2	302000	Franchises	-	-	-	2,030	-	2,030
3	303200	Land & Land Rights SS	-	-	-	20,414	-	20,414
4	303300	Land & Land Rights P	-	-	-	50	-	50
5	303400	Land & Land Rights WT	-	-	-	50	-	50
6	303500	Land & Land Rights TD	-	-	-	422	117	539
7	303600	Land & Land Rights AG	-	-	-	2,755	-	2,755
8	304100	Struct & Imp SS	-	-	(607)	25,292	(7,449)	17,843
9	304200	Struct & Imp P	-	-	(283)	14,608	(9,604)	5,004
10	304300	Struct & Imp WT	-	-	-	-	-	-
11	304400	Struct & Imp TD	-	-	(3)	156	(91)	65
12	304600	Struct & Imp Offices	-	-	(14)	498	(162)	336
13	304800	Struct & Imp Misc	-	-	-	-	-	-
14	305000	Collect & Impounding	-	-	-	-	-	-
15	307000	Wells & Springs	57,972	-	(5,678)	238,951	(110,345)	128,606
16	310100	Power Generation Equip Other	4,832	-	-	4,832	-	4,832
17	311200	Pump Equip Electric	6,585	-	(11,644)	281,110	(157,382)	123,728
18	311300	Pump Equip Diesel	-	-	(63)	879	(339)	540
19	311500	Pump Equip Other	15,392	-	(16,498)	403,823	(40,357)	363,466
20	320100	WT Equip Non-Media	7	-	(2,235)	55,863	(6,829)	49,034
21	330000	Dist Reservoirs & Standpipe	-	-	(2,449)	151,203	(42,169)	109,034
22	331001	TD Mains Not Classified By Size	(94,942)	-	(7,728)	301,122	(25,449)	275,673
23	331100	TD Mains 4in & Less	(17)	(491)	(17,236)	874,456	(320,404)	554,052
24	331200	TD Mains 6in to 8in	36	-	(7,695)	390,384	(17,738)	372,646
25	331300	TD Mains 10in to 16in	-	-	-	-	-	-
26	333000	Services	36,835	(1,433)	(9,144)	401,618	(100,620)	300,998
27	334100	Meters	7,649	(2,672)	(2,417)	99,053	(31,689)	67,364
28	334200	Meter Installations	3,472	-	(489)	20,328	(425)	19,903
29	335000	Hydrants	7,440	-	(1,513)	78,367	(7,455)	70,912
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	(813)	(206)	5,453	3,742	9,195
33	340200	Comp & Periph Equip	-	(7,426)	(1,691)	1,336	(9,604)	(8,268)
34	341100	Trans Equip Lt Duty Trks	-	-	(4,291)	17,166	(39,050)	(21,884)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	-	-	1,695	1,695
37	343000	Tools, Shop, Garage Equip	6,658	-	(276)	14,442	(2,456)	11,986
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	-	-	-	-
40	346100	Comm Equip Non-Telephone	-	(529)	(123)	1,932	(1,035)	897
41	346300	Comm Equip Other	-	-	(32)	659	(329)	330
42	SUB-TOTAL		\$ 51,919	\$ (13,364)	\$ (92,317)	\$ 3,409,819	\$ (925,427)	\$ 2,484,392
43	Company As Filed		51,919	(13,364)	(78,788)	3,409,819	(926,977)	2,482,842
44	Difference		-	-	(13,529)	-	1,550	1,550
						RUCO TY As Calculated	\$ 3,409,819	\$ (925,427)
						RUCO Adjustments	-	(1,550)
						Co. TY Adjustments To Book	11,942	(14,011)
						Co. Variance To GL	1,623	1,624
						Co. Variance To GL	-	-
						Total	\$ 3,423,384	\$ (939,364)
						Co. As Filed	3,423,384	(939,364)
						Difference	\$ -	\$ -
						Adj. #1 - Difference in Computing Acc. Dep.	\$ -	\$ 1,550
						Adj. #3	-	-
						Adj. #4	-	-
						Total RUCO Adjustments	\$ -	\$ 1,550
						RUCO As Adjusted	\$ 3,423,384	\$ (937,814)
						RUCO Adjustments	-	1,550
						Co. As Filed	\$ 3,423,384	\$ (939,364)
						Co. Adjustments	13,565	(12,387)
						Co. Computed	\$ 3,409,819	\$ (926,977)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 6, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 6, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 1,445	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	1,445	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 1,598	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	1,598	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 40,665	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	16,210	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (24,455)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (24,455)</u>	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 131,623	\$ -	\$ 131,623	12.00	\$ 1,579,471
2	Purchased Water	-	-	-	-	-
3	Fuel & Power	25,631	-	25,631	32.42	830,990
4	Chemicals	2,190	-	2,190	18.06	39,546
5	Management Fees	87,180	(1,049)	86,131	10.40	895,759
6	Group Insurance	24,921	-	24,921	(14.08)	(350,939)
7	Pensions	28,546	-	28,546	45.00	1,284,592
8	Insurance Other Than Group	5,049	(3,011)	2,038	(68.27)	(139,133)
9	Customer Accounting	11,644	(6,595)	5,049	19.76	99,757
10	Rents	4,146	7,498	11,644	(10.50)	(122,262)
11	Depreciation & Amorization	81,679	(81,679)	-	-	-
12	Other Operating Expenses	77,593	(3,121)	74,472	30.00	2,234,156
	Taxes:					
13	Taxes Other Than Income	11,078	-	11,078	15.07	166,996
14	Property Taxes	26,350	3,842	30,192	212.50	6,415,749
15	Income Tax	52,871	(84,725)	(31,854)	28.75	(915,795)
16	Interest Expense	-	43,281	43,281	106.52	
17	Total Appropriate Operating Expenses	<u>\$ 570,501</u>	<u>\$ (125,559)</u>	<u>\$ 444,943</u>		<u>\$ 12,018,887</u>
18	Expense Lag	Line 17, Col. (E) / (C)	27.01			
19	Revenue Lag	Company Response To RUCO DR 8	40.31			
20	Net Lag	Line 19 - Line 18	13.30			
21	RUCO Adjusted Expenses	Col. (C), Line 17	<u>\$ 444,943</u>			
22	Cash Working Capital	Line 20 X Line 21 / 365 Days	<u>16,210</u>			
23	Company As Filed	Co. Schedule B-6, Page 1	40,665			
24	Difference	Line 22 - Line 23	<u>\$ (24,455)</u>			
25	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 24	<u>\$ (24,455)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'M'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 423,061	\$ -	\$ 423,061	\$ 210,004	\$ 633,065
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	3,839	-	3,839	-	3,839
4	TOTAL OPERATING REVENUE	<u>\$ 426,900</u>	<u>\$ -</u>	<u>\$ 426,900</u>	<u>\$ 210,004</u>	<u>\$ 636,904</u>
	Operating Expenses:					
5	Labor	\$ 131,623	\$ -	\$ 131,623	\$ -	\$ 131,623
6	Purchased Water	\$ -	-	-	-	-
7	Fuel & Power	25,631	-	25,631	-	25,631
8	Chemicals	2,190	-	2,190	-	2,190
9	Waste Disposal	(27)	27	-	-	-
10	Management Fees	87,180	(1,049)	86,131	-	86,131
11	Group Insurance	24,921	-	24,921	-	24,921
12	Pensions	28,546	-	28,546	-	28,546
13	Regulatory Expense	1,480	558	2,038	-	2,038
14	Insurance Other Than Group	5,049	-	5,049	-	5,049
15	Customer Accounting	11,644	-	11,644	-	11,644
16	Rents	4,146	-	4,146	-	4,146
17	General Office Expense	8,811	-	8,811	-	8,811
18	Miscellaneous	49,935	(1,668)	48,267	-	48,267
19	Maintenance Expense	17,394	-	17,394	-	17,394
20	Depreciation & Amortization	81,679	(301)	81,378	-	81,378
21	General Taxes - Property Taxes	26,350	3,842	30,192	-	30,192
22	General Taxes - Other	11,078	-	11,078	-	11,078
23	Income Tax	(52,178)	20,324	(31,854)	49,397	17,544
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 465,453</u>	<u>\$ 21,733</u>	<u>\$ 487,185</u>	<u>\$ 49,397</u>	<u>\$ 536,583</u>
26	OPERATING INCOME (LOSS)	<u>\$ (38,553)</u>	<u>\$ (21,733)</u>	<u>\$ (60,285)</u>	<u>\$ 160,607</u>	<u>\$ 100,321</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 PROPERTY TAX	(C) ADJMT NO. 2 DEPRECIATN & AMORTIZN	(D) ADJMT NO. 3 RATE CASE EXPENSE	(E) ADJMT NO. 4 WASTE DISPOSAL	(F) ADJMT NO. 5 AIP EXPENSE	(G) ADJMT NO. 6 MISC EXPENSES	(H) ADJMT NO. 7 INCOME TAX	(I) RUCO AS ADJTD
1	Revenues:									
2	Metered Water Revenues	\$ 423,061	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 423,061
3	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-
4	Other Water Revenues	3,839	-	-	-	-	-	-	-	3,839
5	TOTAL OPERATING REV.	<u>\$ 426,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 426,900</u>
6	Operating Expenses:									
7	Labor	\$ 131,623	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131,623
8	Purchased Water	-	-	-	-	-	-	-	-	-
9	Fuel & Power	25,631	-	-	-	-	-	-	-	25,631
10	Chemicals	2,190	-	-	-	-	-	-	-	2,190
11	Waste Disposal	(27)	-	-	-	27	-	-	-	-
12	Management Fees	87,180	-	-	-	-	(1,049)	-	-	86,131
13	Group Insurance	24,921	-	-	-	-	-	-	-	24,921
14	Pensions	28,546	-	-	-	-	-	-	-	28,546
15	Regulatory Expense	1,480	-	-	558	-	-	-	-	2,038
16	Insurance Other Than Group	5,049	-	-	-	-	-	-	-	5,049
17	Customer Accounting	11,644	-	-	-	-	-	-	-	11,644
18	Rents	4,146	-	-	-	-	-	-	-	4,146
19	General Office Expense	8,811	-	-	-	-	-	-	-	8,811
20	Miscellaneous	49,935	-	-	-	-	-	(1,668)	-	48,267
21	Maintenance Expense	17,394	-	-	-	-	-	-	-	17,394
22	Depreciation & Amortization	81,679	-	(301)	-	-	-	-	-	81,378
23	General Taxes - Property Taxes	26,350	3,842	-	-	-	-	-	-	30,192
24	General Taxes - Other	11,078	-	-	-	-	-	-	-	11,078
25	Income Tax	(52,178)	-	-	-	-	-	-	20,324	(31,854)
26	Rounding	-	-	-	-	-	-	-	-	-
27	TOTAL OPERATING EXP.	<u>\$ 465,453</u>	<u>\$ 3,842</u>	<u>\$ (301)</u>	<u>\$ 558</u>	<u>\$ 27</u>	<u>\$ (1,049)</u>	<u>\$ (1,668)</u>	<u>\$ 20,324</u>	<u>\$ 487,185</u>
28	OPERATING INC. (LOSS)	<u>\$ (38,553)</u>								<u>\$ (60,285)</u>

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Rate Case Expense
- 4 Waste Disposal Expense
- 5 Annual Incentive Pay Program Expense
- 6 Miscellaneous Expenses
- 7 Income Tax

REFERENCE:

- 1 Testimony, RLM And Schedule RLM-8
- 2 Testimony, RLM And Schedule RLM-9
- 3 Testimony, RLM And Schedule RLM-10
- 4 Testimony, RLM
- 5 Testimony, RLM And Schedule RLM-11
- 6 Testimony, RLM And Schedule RLM-12
- 7 Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
	Annual Operating Revenues:			
1	Year 2005	Co. Sch. E-2	\$ 435,053	
2	Year 2006	Co. Sch. E-2	405,985	
3	RUCO Proposed Revenue	RUCO Sch. RLM-6	636,904	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 1,477,942	
5	Average Annual Operating Revenues	Line 4 / 3	492,647	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 985,295
ADD:				
	10% Of Construction Work In Progress ("CWIP"):			
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 479,596	
8	10% Of CWIP	Line 7 X 10%		\$ 47,960
SUBTRACT:				
	Transportation At Book Value:			
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 1,033,254
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
	FCV X Valuation Assessment Ratio X Property Tax Rates:			
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 237,648	
	Property Tax Rates:			
15	Primary Tax Rate	Company Workpapers	12.70%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	12.70%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 30,192
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		26,350
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 3,842
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 3,842

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 567	0.00%	\$ -
2	302000	Franchises	2,030	0.00%	-
3	303200	Land & Land Rights SS	20,414	0.00%	-
4	303300	Land & Land Rights P	50	0.00%	-
5	303400	Land & Land Rights WT	50	0.00%	-
6	303500	Land & Land Rights TD	422	0.00%	-
7	303600	Land & Land Rights AG	2,755	0.00%	-
8	304100	Struct & Imp SS	25,292	2.40%	607
9	304200	Struct & Imp P	14,608	1.94%	283
10	304300	Struct & Imp WT	-	0.00%	-
11	304400	Struct & Imp TD	156	1.92%	3
12	304600	Struct & Imp Offices	498	2.89%	14
13	304800	Struct & Imp Misc	-	0.00%	-
14	305000	Collect & Impounding	-	0.00%	-
15	307000	Wells & Springs	238,951	3.08%	7,360
16	310100	Power Generation Equip Other	4,832	4.24%	205
17	311200	Pump Equip Electric	281,110	4.24%	11,919
18	311300	Pump Equip Diesel	879	4.42%	39
19	311500	Pump Equip Other	403,823	4.24%	17,122
20	320100	WT Equip Non-Media	55,863	4.00%	2,235
21	330000	Dist Reservoirs & Standpipe	151,203	1.62%	2,449
22	331001	TD Mains Not Classified By Size	301,122	1.97%	5,932
23	331100	TD Mains 4in & Less	874,456	1.97%	17,227
24	331200	TD Mains 6in to 8in	390,384	1.97%	7,691
25	331300	TD Mains 10in to 16in	-	2.34%	-
26	333000	Services	401,618	2.45%	9,840
27	334100	Meters	99,053	2.42%	2,397
28	334200	Meter Installations	20,328	2.42%	492
29	335000	Hydrants	78,367	1.97%	1,544
30	339100	Other P/E Intangible	-	0.00%	-
31	339500	Other P/E TD	-	0.00%	-
32	340100	Office Furniture & Equip	5,453	3.28%	179
33	340200	Comp & Periph Equip	1,336	20.00%	267
34	341100	Trans Equip Lt Duty Trks	17,166	25.00%	4,292
35	341200	Trans Equip Hvy Duty Trks	-	25.00%	-
36	342000	Stores Equipment	-	4.00%	-
37	343000	Tools,Shop,Garage Equip	14,442	3.42%	494
38	344000	Laboratory Equipment	-	0.00%	-
39	345000	Power Operated Equipment	-	4.64%	-
40	346100	Comm Equip Non-Telephone	1,932	5.03%	97
41	346300	Comm Equip Other	659	4.93%	32
42	SUB-TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 3,409,819		\$ 92,719
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE	12,387		3,026
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS	-		-
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 95,746
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORITZATION OF REGULATORY ASSETS			-
48		AMORTIZATION OF CONTRIBUTIONS			-
49		AMORTIZATION OF REGULATORY CIAC			(14,368)
50		Rounding			-
51		TOTAL DEPRECIATION EXPENSE			\$ 81,378
52		Company As Filed			81,679
53		Difference			\$ (301)
54		RUCO Adjustment (See RLM-7, Column (C))			\$ (301)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	\$ 612,000	\$ (187,735)	\$ 424,265
2	Allocation Factor (See NOTE Below)	0.9990%		1.4411%
3	Tubac Water District (Line 1 X Line 2)	\$ 6,114	\$ -	\$ 6,114
4	Amortization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 3 Years)			\$ 2,038
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			\$ 1,480
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			\$ 558
8	RUCO Adjustment (Line 7) (See RLM-7, Column (D))			\$ 558

NOTE

4-Factor Allocation		Company As Filed		RUCO As Adjusted	
Districts Included In This Filing					
9	Sun City West Water District	11.7965%	\$ 72,195	17.0164%	\$ 72,195
10	Paradise Valley Water District	10.4331%	63,851	15.0497%	63,851
11	Tubac Water District	0.9990%	6,114	1.4411%	6,114
12	Agua Fria Water District	31.3783%	192,035	45.2631%	192,035
13	Havasui Water District	1.8822%	11,519	2.7151%	11,519
14	Mohave Water District	11.3740%	69,609	16.4069%	69,609
15	Mohave Wastewater District	1.4612%	8,943	2.1078%	8,943
16	Total	69.3243%	\$ 424,265	100.0000%	\$ 424,265
Districts NOT Included In This Filing					
17	Agua Fria Wastewater District	8.2232%	\$ 50,326		
18	Distco/Treatco Sewer	9.8095%	60,034		
19	Distco/Treatco Water	12.6430%	77,375		
20		100.0000%	\$ 612,000		

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
ANNUAL INCENTIVE PLAN EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJUSTED
1	AZ-AM Annual Incentive Plan ("AIP") Expense Total	Co. Response To RUCO DR 3.01.e	\$ 482,198
2	Allocation Factor	Co. Workpapers Per SLH-6	0.7254%
3	Tubac Water District	Lines 1 X 2	<u>\$ 3,498</u>
4	Portion Deemed Shareholder Benefit Only	RLM Testimony	30.00%
5	RUCO Test-Year Disallowance Of AIP Expense	Lines 3 X 4	<u>\$ (1,049)</u>
6	RUCO Adjustment (See RLM-7, Column (D))	Line 5	<u><u>\$ (1,049)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		ALLOCABLE TOTAL	RUCO ADJUSTMENTS ALLOC'N 4-FACTOR	DISTRICT TOTAL	RUCO AS ADJUSTED
1	Tubac Water Direct Miscellaneous Account (RLM-12, Pg, Ln 113)	\$ (17.12)	100.00%	\$ (17)	
2	Corporate Office Allocable Miscellaneous Account (RLM-12, Pg 4, Ln 98)	\$ (13,607.91)	0.7254%	\$ (99)	
3	TOTAL				<u>\$ (116)</u>

NOTE

4-Factor Allocation

4	Sun City West Water District	8.3198%
5	Paradise Valley Water District	7.6863%
6	Tubac Water District	0.7254%
7	Agua Fria Water District	23.0946%
8	Havasui Water District	1.3850%
9	Mohave Water District	7.8288%
10	Mohave Wastewater District	1.0290%

ADDITIONAL ADJUSTMENT FOR TUBAC WATER DISTRICT

The Company Incorrectly Calculated "Corporate Office" Expense As A Positive Value Instead Of A Negative Value

Adjustment SLH-16 As Filed By Company

11	Tubac Water Direct Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ (100)	100.00%	\$ (100)	
12	Corporate Office Allocable Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ 16,849	0.7254%	\$ 122	
13	SUB-TOTAL				\$ 22

Company's Adjustment As Revised By RUCO

14	Tubac Water Direct Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ (1,524)	100.00%	\$ (1,524)	
15	Corporate Office Misc. Account (Recorded As a Negative Amount)	\$ (16,849)	0.7254%	\$ (122)	
16	SUB-TOTAL				\$ (1,646)
17	DIFFERENCE (Column D, Line 16 - Line 13)				<u>\$ (1,668)</u>
18	TOTAL (Column D, Sum Of Line 3 + Line 17)				<u>\$ (1,668)</u>
19	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (Line 18) (See RLM-7, Column (G))				<u>\$ (1,668)</u>

References:

Column (A): RLM-12, Pages 2 Thru 5 Derived From Company's Line 21 Workpapers
Column (B): See NOTE
Column (C): Column (A) X Column (B)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 -CONT'D
INAPPROPRIATE MISCELLANEOUS EXPENSES

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
CORPORATED OFFICE MISCELLANEOUS EXPENSES					
		\$			
1	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
2	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
3	PCard Undistributed	33.00	ALVES FLOWERS & GIFTS	NANCY J HUCKEY	Land
4	Employee Awards AG	2,400.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
5	Employee Awards AG	2,500.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
6	PCard Undistributed	27.29	BASHAS'	ARTHUR W FAIELLO	External training/seminars
7	Training AG	8.49	BASHAS'	KURTIS L STRAUDEL	External training/seminars
8	Training AG	13.24	BASHAS'	KURTIS L STRAUDEL	External training/seminars
9	Training AG	33.69	BASHAS'	KURTIS L STRAUDEL	In-house training/seminars
10	PCard Undistributed	25.64	BURGER KING #5915 Q	ANGEL STEVENS	NON-Catered Food & Beverages
11	PCard Undistributed	26.00	CHARLEY'S GRILLED SQ	ANGEL STEVENS	NON-Catered Food & Beverages
12	PCard Undistributed	1.89	CHEVRON	JAMES ISHMAEL	NON-Catered Food & Beverages
13	PCard Undistributed	1.59	CHEVRON	WILLIAM L WALLSTEAD	NON-Catered Food & Beverages
14	Misc Oper AG	59.57	CHIL'S GRI	BERT L REYNOLDS	NON-Catered Food & Beverages
15	PCard Undistributed	40.00	CHINA BUFFET	BRIAN BIESEMEYER	NON-Catered Food & Beverages
16	PCard Undistributed	23.49	CHIPOTLE #0898 Q	ANGEL STEVENS	NON-Catered Food & Beverages
17	PCard Undistributed	5.48	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
18	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
19	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
20	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
21	PCard Undistributed	7.18	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
22	Training AG	28.05	COLDSTN CREAM #30 Q	KURTIS L STRAUDEL	NON-Catered Food & Beverages
23	PCard Undistributed	273.61	COLORADO RIVER TEES	TERRI E BAYSINGER	In-house training/seminars
24	PCard Undistributed	7.36	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
25	PCard Undistributed	17.16	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
26	PCard Undistributed	220.69	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
27	Co Dues/Membership Deduct	281.06	Costco Wholesale Membership-RE	Membership Dues	Financial Costs
28	Misc Oper AG	55.89	Costco-REMIT	7003-7300-0000-6704	NON-Catered Food & Beverages
29	Training AG	48.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
30	Training AG	54.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	In-house training/seminars
31	PCard Undistributed	34.99	CRAZY CARLOS INC	GARRY T BURTON	NON-Catered Food & Beverages
32	PCard Undistributed	30.00	CUCINA TAGLIANI	JEREMIAH MECHAM	NON-Catered Food & Beverages
33	PCard Undistributed	18.52	DENNY'S INC	ANGEL STEVENS	NON-Catered Food & Beverages
34	PCard Undistributed	53.91	DILLONS GRAND	DALE E KENNOW	NON-Catered Food & Beverages
35	PCard Undistributed	14.21	DILLONS GRAND	PAUL D TAYLOR	NON-Catered Food & Beverages
36	PCard Undistributed	71.37	DILLONS THUNDERBIRD	FLOYD K MCKINNEY	NON-Catered Food & Beverages

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
37	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	External training/seminars
38	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	In-house training/seminars
39	PCard Undistributed	27.14	EINSTEIN BROS	PAULA A CHRISTIAN	NON-Catered Food & Beverages
40	Trans Oper AG	66.39	EL PASO BARBQUE	ERNEST G SANTA CRUZ	NON-Catered Food & Beverages
41	PCard Undistributed	30.84	EL TORITO	TODD R FARRELL	NON-Catered Food & Beverages
42	PCard Undistributed	19.22	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
43	PCard Undistributed	29.76	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
44	PCard Undistributed	28.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
45	PCard Undistributed	25.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
46	PCard Undistributed	33.28	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
47	PCard Undistributed	13.76	FRYS-FOOD-DRG #122 SXN	ROY PEREZ JR	NON-Catered Food & Beverages
48	Training AG	25.59	HMSHOST-PHX-AIR	NEIL J MEYER	NON-Catered Food & Beverages
49	Misc Oper AG	125.00	Huckeby, Nancy J -Petty Cash	Christmas Decorations	Office Decorations
50	Misc Oper AG	200.00	Huckeby, Nancy J -Petty Cash	Christmas Party Security	Security & Monitoring
51	PCard Undistributed	9.96	HUNGRY HOWIE'S PIZZA	JON C BEHRENDT	NON-Catered Food & Beverages
52	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	274560	NON-Catered Food & Beverages
53	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	ICE	NON-Catered Food & Beverages
54	Misc Oper AG	143.61	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
55	Misc Oper AG	81.18	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
56	PCard Undistributed	40.53	IHOP	ANGEL STEVENS	NON-Catered Food & Beverages
57	PCard Undistributed	27.58	KFC #1303016	ANGEL STEVENS	NON-Catered Food & Beverages
58	Trans Oper AG Lease Cost	60.91	LAS CAZUELA'S	ANGEL STEVENS	NON-Catered Food & Beverages
59	PCard Undistributed	67.37	MADLYN'S	PAUL M LI	NON-Catered Food & Beverages
60	PCard Undistributed	3.98	MCDONALD'S F	KURTIS L STRAUDEL	NON-Catered Food & Beverages
61	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	Catering/works catering
62	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	External training/seminars
63	PCard Undistributed	6.96	PILOT	JAMES ISHMAEL	In-house training/seminars
64	PCard Undistributed	6.34	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
65	PCard Undistributed	71.98	PIZZA HUT	ANGEL STEVENS	NON-Catered Food & Beverages
66	Other Welf Oper AG	41.25	Professional Plants & Inc-PO/R	SERVICES	Landscaping
67	PCard Undistributed	10.02	QUIZNOS	ANDREW C MARTINEZ	NON-Catered Food & Beverages
68	PCard Undistributed	54.55	RIO MIRAGE CAFE	JENNIFER L HALLIDAY	NON-Catered Food & Beverages
69	PCard Undistributed	16.77	ROMENS GYROS	RANDY J ZIOLKOWSKI	Pathwaynet Default
70	PCard Undistributed	69.87	ROSATI'S PIZZA - PEORI	ANGEL STEVENS	NON-Catered Food & Beverages
71	Training AG	61.53	ROSATI'S PIZZA UNION H	KURTIS L STRAUDEL	External training/seminars
72	PCard Undistributed	4.99	SAFEMAY STORE	CHRISTOPHER M WILLIAMS	NON-Catered Food & Beverages
73	PCard Undistributed	20.95	SAFEMAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
74	PCard Undistributed	39.37	SAFEMAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
75	PCard Undistributed	21.13	SAFEMAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
76	PCard Undistributed	14.53	SAFEMAY STORE	ROY PEREZ JR	Catering/works catering
77	PCard Undistributed	15.64	SUBWAY 25139	JEFFREY S BORN	NON-Catered Food & Beverages
78	Misc Oper AG	25.00	Supreme Court of Pennsylvania	Certificate	Event organization services
79	Employee Awards AG	107.84	Tharpe Company Inc-REMIT	8549	Service Awards and Premiums
80	Employee Awards AG	722.07	Tharpe Company Inc-REMIT	98415RI	Service Awards and Premiums
81	Employee Awards AG	829.39	Tharpe Company Inc-REMIT	CUST #16248	Service Awards and Premiums

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
82	Employee Awards AG	882.92	Tharpe Company Inc-REMIT	CUST# 16248	Service Awards and Premiums
83	Employee Awards AG	90.27	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
84	Employee Awards AG	176.84	Tharpe Company Inc-REMIT	cust# 8549	Service Awards and Premiums
85	Employee Awards AG	120.50	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
86	Employee Awards AG	110.61	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
87	Employee Awards AG	79.64	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
88	Employee Awards AG	88.41	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
89	Employee Awards AG	78.57	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
90	Employee Awards AG	204.49	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
91	Employee Awards AG	135.65	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
92	Employee Awards AG	79.93	Tharpe Company Inc-REMIT	inv 454294ri	Service Awards and Premiums
93	Misc Oper AG	67.04	TLF CACTUS FLOWER FLOR	NANCY J HUCKEBY	Land
94	Overnight Shipping AG	35.93	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
95	Overnight Shipping AG	(35.93)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
96	Community Relations	1,000.00	Water for People-REMIT	Water For People Sponsor	Sponsoring
97	Training AG	17.32	WONDER BREAD/HOSTESS	KURTIS L STRAUDEL	External training/seminars
98		\$ 13,607.91			

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
<u>DISTRICT DIRECTLY ALLOCATED MISCELLANEOUS EXPENSES</u>					
SUN CITY WEST WATER DISTRICT MISCELLANEOUS EXPENSES					
99	M & S Oper TD	\$ 18.94			Kitchen/Cleaning/Toiletries
100	M & S Oper SS	59.03	Ice Wagon The-PO/REMIT	SERVICE	NON-Catered Food & Beverages
101	Misc Oper PP	57.63	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
102	Misc Oper PP	30.93	RED ROBIN NO	PAUL D TAYLOR	NON-Catered Food & Beverages
103	Total	\$ 166.53	SAFEWAY STORE	ROBERT L CRON	
PARADISE VALLEY WATER DISTRICT MISCELLANEOUS EXPENSES					
104	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
105	Training AG	5.39	LONG JOHN SILV	NEIL J MEYER	NON-Catered Food & Beverages
106	Safety Incentive	132.00	Peavey Performance Systems	1004289	Service Awards and Premiums
107	Training AG	6.26	SUBWAY #10469	NEIL J MEYER	NON-Catered Food & Beverages
108	Misc Oper TD	33.98	THE HOME DEPOT	LEE F HUDDLESTON	Event organization services
109	Total	\$ 313.29			
TUBAC WATER DISTRICT MISCELLANEOUS EXPENSES					
110	Contract Svc-Eng Oper AG	\$ 17.12	KFC 1303012	ROBERT L CRON	NON-Catered Food & Beverages
111	Overnight Shipping AG	20.82	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
112	Overnight Shipping AG	(20.82)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
113	Total	\$ 17.12			
AGUA FRIA WATER DISTRICT MISCELLANEOUS EXPENSES					
114	Brochures and Handouts	\$ 1,788.00	AZ University	Project WET Sponsorship	Sponsoring
115	Misc Oper SS	157.41	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
116	Water Res Conservation	317.39	CSI CRESTLINE CO INC	SALLY L CECCARELLI WOLF	Service Awards and Premiums
117	M & S Oper TD	44.22	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
118	Total	\$ 2,307.02			
HAVASU WATER DISTRICT MISCELLANEOUS EXPENSES					
119	No Adjustment	\$ -			
MOHAVE WATER DISTRICT MISCELLANEOUS EXPENSES					
120	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
121	M & S Oper TD	22.80	DENNY'S INC	CHAD E GEBOW	NON-Catered Food & Beverages
122	M & S Oper TD	133.56	Ferguson Enterprises Inc #675	7202007	NON-Catered Food & Beverages
123	M & S Oper TD	50.00	Ferguson Enterprises Inc-#602-	CUST# 605937	NON-Catered Food & Beverages
124	Total	\$ 342.02			
MOHAVE WASTEWATER DISTRICT MISCELLANEOUS EXPENSES					
125	M & S Oper WT	\$ 26.92	WAL-MART	WILLIAM L WALLSTEAD	Animal feed
126	Total	\$ 26.92			

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ (92,139)
	LESS:		
2	Arizona State Tax	Line 11	(9,436)
3	Interest Expense	Note (A) Line 20	43,281
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (125,984)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	17.79%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (22,418)
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ (92,139)
	LESS:		
8	Interest Expense	Note (A) Line 20	43,281
9	State Taxable Income	Line 7 - Line 8	\$ (135,420)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (9,436)
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (22,418)
13	State Income Tax Expense	Line 11	(9,436)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (31,854)
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(52,178)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 20,324
17	RUCO Adjustment (See Sch. RLM-7, Column (J))	Line 16	\$ 20,324

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 1,433,161
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 43,281

COST OF CAPITAL

LINE NO.	DESCRIPTION	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST RATE
1	DEBT	55.20%	5.46%	3.02%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL			<u>7.00%</u>

References:

Columns (A) Thru (F): Testimony, WAR

ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-08-0227

DOCKET NO. SW-01303A-08-0227

DIRECT COST OF CAPITAL TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 9, 2009

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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 ("CRRA") by the Society of Utility and Regulatory Financial Analysts ("SURFA"). The CRRA designation is awarded based upon experience and the successful completion of a written examination.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present recommendations that are based on my analysis of Arizona-American Water Company, Inc.'s ("Arizona-American" or "Company") application for a permanent rate

1 increase ("Application") for seven of the Company's water and wastewater
2 operations in the state of Arizona. Arizona-American has chosen the
3 operating period ended December 31, 2007 for the test year in this
4 proceeding.

5
6 Q. What issues will you address in your testimony?

7 A. I will address the cost of capital issues associated with the case. I have
8 also filed, under separate cover, direct testimony on RUCO's policy
9 positions in this proceeding. Appendix 1 attached to my policy testimony
10 further describes my educational background and also includes a list of
11 the rate cases and regulatory matters that I have been involved with.

12
13 Q. Were you also responsible for conducting an analysis on the Company's
14 proposed revenue level, rate base and rate design?

15 A. No. RUCO witnesses Rodney L. Moore and Timothy J. Coley handled
16 those aspects of the Company's Application.

17
18 Q. Please explain your role in RUCO's analysis of Arizona-American's
19 Application.

20 A. I reviewed Arizona-American's Application and performed a cost of capital
21 analysis to determine a fair rate of return on the Company's invested
22 capital. In addition to my recommended capital structure, my direct
23 testimony will present my recommended costs of common equity and my

1 recommended cost of debt (the Company has no preferred stock). The
2 recommendations contained in this testimony are based on information
3 obtained from Company responses to data requests, the Company's
4 Application and from market-based research that I conducted during my
5 analysis.

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 Arizona-American is operating in. Fourth, I
23 will 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 Arizona-American's cost of capital
4 testimony. Schedules WAR-1 through WAR-9 will provide support for my
5 cost of 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 Arizona-American, I am making the
10 following recommendations:

11
12 Cost of Equity Capital – I am recommending an 8.88 percent cost of equity
13 capital. This 8.88 percent figure is based on the results that I obtained in
14 my cost of equity analysis, which employed both the DCF and CAPM
15 methodologies.

16
17 Cost of Debt – I am recommending a 5.46 percent cost of debt. This is
18 based on my review of the costs associated with Arizona-American's
19 various long-term notes and agreements.

20
21 Capital Structure – I am recommending a blanket capital structure, for
22 each of the seven systems included in the Company's filing, comprised of

1 approximately 55.2 percent debt and 44.8 percent common equity, be
2 adopted by the Commission.

3
4 Cost of Capital – Based on the results of my recommended blanket capital
5 structure, cost of common equity, and debt analyses, I am recommending
6 a 7.00 percent cost of capital for Arizona-American. This figure represents
7 the weighted cost of my recommended cost of common equity and my
8 recommended cost of debt.

9
10 Q. Why do you believe that your recommended 7.00 percent cost of capital is
11 an appropriate rate of return for Arizona-American to earn on its invested
12 capital?

13 A. The 7.00 percent cost of capital figure that I have recommended meets
14 the criteria established in the landmark Supreme Court cases of Bluefield
15 Water Works & Improvement Co. v. Public Service Commission of West
16 Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope
17 Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two
18 cases affirmed that a public utility that is efficiently and economically
19 managed is entitled to a return on investment that instills confidence in its
20 financial soundness, allows the utility to attract capital, and also allows the
21 utility to perform its duty to provide service to ratepayers. The rate of
22 return adopted for the utility should also be comparable to a return that
23 investors would expect to receive from investments with similar risk.

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

7
8 Q. Do the Bluefield and Hope decisions indicate that a rate of return sufficient
9 to cover all operating and capital costs is guaranteed?

10 A. No. Neither case *guarantees* a rate of return on utility investment. What
11 the Bluefield and Hope decisions *do allow*, is for a utility to be provided
12 with the *opportunity* to earn a reasonable rate of return on its investment.
13 That is to say that a utility, such as Arizona-American, is provided with the
14 opportunity to earn an appropriate rate of return if the Company's
15 management exercises good judgment and *manages* its assets and
16 resources in a manner that is both prudent and economically efficient.

17
18 **COST OF EQUITY CAPITAL**

19 Q. What is your recommended cost of equity capital for Arizona-American?

20 A. Based on the results of my DCF and CAPM analyses, which ranged from
21 5.07 percent to 11.19 percent, I am recommending an 8.88 percent cost of
22 equity capital for Arizona-American. My recommended 8.88 percent figure
23 represents an average of the results of my DCF and CAPM analyses,

1 which utilized a sample of publicly traded water providers and a sample of
2 publicly traded natural gas local distribution companies ("LDC").

3
4 **Discounted Cash Flow (DCF) Method**

5 Q. Please explain the DCF method that you used to estimate Arizona-
6 American's cost of equity capital.

7 A. The DCF method employs a stock valuation model known as the constant
8 growth valuation model, that bears the name of Dr. Myron J. Gordon (i.e.
9 the Gordon model), the professor of finance who was responsible for its
10 development. Simply stated, the DCF model is based on the premise that
11 the current price of a given share of common stock is determined by the
12 present value of all of the future cash flows that will be generated by that
13 share of common stock. The rate that is used to discount these cash
14 flows back to their present value is often referred to as the investor's cost
15 of capital (i.e. the cost at which an investor is willing to forego other
16 investments in favor of the one that he or she has chosen).

17 Another way of looking at the investor's cost of capital is to consider it from
18 the standpoint of a company that is offering its shares of stock to the
19 investing public. In order to raise capital, through the sale of common
20 stock, a company must provide a required rate of return on its stock that
21 will attract investors to commit funds to that particular investment. In this
22 respect, the terms "cost of capital" and "investor's required return" are one
23 in the same. For common stock, this required return is a function of the

1 dividend that is paid on the stock. The investor's required rate of return
2 can be expressed as the percentage of the dividend that is paid on the
3 stock (dividend yield) plus an expected rate of future dividend growth.
4 This is illustrated in mathematical terms by the following formula:

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

5
6 where: k = the required return (cost of equity, equity capitalization rate),

7 $\frac{D_1}{P_0}$ = the dividend yield of a given share of stock calculated

8 by dividing the expected dividend by the current market

9 price of the given share of stock, and

10 g = the expected rate of future dividend growth

11 This formula is the basis for the standard growth valuation model that I
12 used to determine Arizona-American's cost of equity capital. It is similar to
13 one of the models used by the Company.

14
15 Q. In determining the rate of future dividend growth for Arizona-American,
16 what assumptions did you make?

17 A. There are two primary assumptions regarding dividend growth that must
18 be made when using the DCF method. First, dividends will grow by a
19 constant rate into perpetuity, and second, the dividend payout ratio will
20 remain at a constant rate. Both of these assumptions are predicated on

the traditional DCF model's basic underlying assumption that a company's earnings, dividends, book value and share growth all increase at the same constant rate of growth into infinity. Given these assumptions, if the dividend payout ratio remains constant, so does the earnings retention ratio (the percentage of earnings that are retained by the company as opposed to being paid out in dividends). This being the case, a company's dividend growth can be measured by multiplying its retention ratio (1 - dividend payout ratio) by its book return on equity. This can be stated as $g = b \times r$.

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.¹

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%

¹ Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

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

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

20
21
22 ...
23

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

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

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>
Book Value	\$10.00	\$10.40	\$10.82	\$11.47	\$12.158	5.00%
Equity Return	10%	10%	15%	15%	15%	10.67%
Earnings/Sh	\$1.00	\$1.04	\$1.623	\$1.720	\$1.824	16.20%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	\$0.60	\$0.624	\$0.974	\$1.032	\$1.094	16.20%

In the example displayed in Table II, a sustainable growth rate of four percent² exists in Year 1 and Year 2 (as in the prior example). In Year 3, Year 4 and Year 5, however, the sustainable growth rate increases to six percent.³ If the hypothetical utility in Mr. Hill's illustration were expected to earn a fifteen-percent return on common equity on a continuing basis, then a six percent long-term rate of growth would be reasonable. However, the compound growth rates for earnings and dividends,

² $[(\text{Year 2 Earnings/Sh} - \text{Year 1 Earnings/Sh}) \div \text{Year 1 Earnings/Sh}] = [(\$1.04 - \$1.00) \div \$1.00] = [\$0.04 \div \$1.00] = \underline{4.00\%}$

³ $[(1 - \text{Payout Ratio}) \times \text{Rate of Return}] = [(1 - 0.60) \times 15.00\%] = 0.40 \times 15.00\% = \underline{6.00\%}$

1 displayed in the last column, are 16.20 percent. If this rate were to be
2 used in the DCF model, the utility's return on common equity would be
3 expected to increase by fifty percent every five years, $[(15 \text{ percent} \div 10$
4 $\text{percent}) - 1]$. This is clearly an unrealistic expectation.

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

11
12 Q. Other than the retention of internally generated funds, as illustrated in Mr.
13 Hill's hypothetical example, are there any other sources of new equity
14 capital that can influence an investor's growth expectations for a given
15 company?

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

21
22 ...
23

1 Q. How does external equity financing influence the growth expectations held
2 by investors?

3 A. Rational investors will put their available funds into investments that will
4 either meet or exceed their given cost of capital (i.e. the return earned on
5 their investment). In the case of a utility, the book value of a company's
6 stock usually mirrors the equity portion of its rate base (the utility's earning
7 base). Because regulators allow utilities the opportunity to earn a
8 reasonable rate of return on rate base, an investor would take into
9 consideration the effect that a change in book value would have on the
10 rate of return that he or she would expect the utility to earn. If an investor
11 believes that a utility's book value (i.e. the utility's earning base) will
12 increase, then he or she would expect the return on the utility's common
13 stock to increase. If this positive trend in book value continues over an
14 extended period of time, an investor would have a reasonable expectation
15 for sustained long-term growth.

16
17 Q. Please provide an example of how external financing affects a utility's
18 book value of equity.

19 A. As I explained earlier, one way that a utility can increase its equity is by
20 selling new shares of common stock on the open market. If these new
21 shares are purchased at prices that are higher than those shares sold
22 previously, the utility's book value per share will increase in value. This
23 would increase both the earnings base of the utility and the earnings

1 expectations of investors. However, if new shares sold at a price below
2 the pre-sale book value per share, the after-sale book value per share
3 declines in value. If this downward trend continues over time, investors
4 might view this as a decline in the utility's sustainable growth rate and will
5 have lower expectations regarding growth. Using this same logic, if a new
6 stock issue sells at a price per share that is the same as the pre-sale book
7 value per share, there would be no impact on either the utility's earnings
8 base or investor expectations.

9
10 Q. Please explain how the external component of the DCF growth rate is
11 determined.

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

17
18
$$g = (br) + (sv)$$

19 where: g = DCF expected growth rate,
20 b = the earnings retention ratio,
21 r = the return on common equity,

⁴ Gordon, M.J., *The Cost of Capital to a Public Utility*, East Lansing, MI: Michigan State University, 1974, pp. 30-33.

1 s = the fraction of new common stock sold that
2 accrues to a current shareholder, and
3 v = funds raised from the sale of stock as a fraction
4 of existing equity.

$$5 \quad \text{and} \quad v = 1 - [(BV) \div (MP)]$$

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

7 MP = the market price per share of common stock.

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

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

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

A. The market price of a utility's common stock will tend to move toward book value, or a market-to-book ratio of 1.0, if regulators allow a rate of return that is equal to the cost of capital (one of the desired effects of regulation). As a result of this situation, I used $[(M \div B) + 1] \div 2$ as opposed to the

1 current market-to-book ratio by itself to represent investor's expectations
2 that, in the future, a given utility will achieve a market-to-book ratio of 1.0.
3

4 Q. Has the Commission ever adopted a cost of capital estimate that included
5 this assumption?

6 A. Yes. In a prior Southwest Gas Corporation rate case⁵, the Commission
7 adopted the recommendations of ACC Staff's cost of capital witness,
8 Stephen Hill, who I noted earlier in my testimony. In that case, Mr. Hill
9 used the same methods that I have used in arriving at the inputs for the
10 DCF model. His final recommendation for Southwest Gas Corporation
11 was largely based on the results of his DCF analysis, which incorporated
12 the same valid market-to-book ratio assumption that I have used
13 consistently in the DCF model as a cost of capital witness for RUCO.
14

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

16 A. I analyzed data on two separate proxy groups. A water company proxy
17 group comprised of four publicly traded water companies and a natural
18 gas proxy group consisting of ten natural gas local distribution companies
19 ("LDC") which have similar operating characteristics to water providers.
20
21 ...
22

⁵ Decision No. 68487, Dated February 23, 2006 (Docket No. G-01551A-04-0876)

1 Q. Why did you use a proxy group methodology as opposed to a direct
2 analysis of Arizona-American?

3 A. One of the problems in performing this type of analysis is that the utility
4 applying for a rate increase is not always a publicly traded company, as is
5 the case with Arizona-American itself. Although shares of Arizona-
6 American's holding company, American Water Works Company, Inc., are
7 traded on the New York Stock Exchange (NYSE) under the ticker symbol
8 AWK, there is no financial data available on dividends paid on *publicly*
9 *held* shares of Arizona-American or any of the Company's water or
10 wastewater districts. Consequently it was necessary to create a proxy by
11 analyzing publicly traded water companies and LDC's with similar risk
12 characteristics.

13
14 Q. Are there any other advantages to the use of a proxy?

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

1 Q. Didn't you state earlier that Arizona-American is seeking rates for both its
2 water and wastewater operations in Arizona?

3 A. Yes, I did.
4

5 Q. Why did you analyze only publicly traded water utilities and LDC's as
6 opposed to firms that provide wastewater service?

7 A. The use of water utilities and LDC's was necessitated by the fact that
8 there is a lack of financial and market information available on stand-alone
9 wastewater utilities. This in itself is not a problem, given the fact that both
10 water and wastewater utilities share similar risk characteristics. Both
11 types of utilities provide a basic service for which there are no substitutes
12 and are also subject to strict federal and state regulations.
13

14 Q. What criteria did you use in selecting the companies that make up your
15 water company proxy for Arizona-American?

16 A. Three of the water companies used in the proxy are publicly traded on the
17 New York Stock Exchange ("NYSE"), and one of them, Southwest Water
18 Company is traded over the counter through the National Association of
19 Securities Dealers Automated Quotation System ("NASDAQ"). All four
20 water companies are followed by The Value Line Investment Survey
21 ("Value Line") and are the same companies that comprise Value Line's
22 large capitalization Water Utility Industry segment of the U.S. economy
23 (Attachment A contains Value Line's October 24, 2008 update of the water

1 utility industry and evaluations of the four water companies used in my
2 proxy).

3
4 Q. What companies comprise your water company proxy group?

5 A. My water company proxy group includes American States Water
6 Company (stock ticker symbol "AWR"), Aqua America, Inc. ("WTR"),
7 California Water Service Group ("CWT") and Southwest Water Company
8 ("SWWC"). Each of these water companies face the same types of risk
9 that Arizona-American faces. For the sake of brevity, I will refer to each
10 of these companies by their appropriate stock ticker symbols henceforth.

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

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

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

3
4 Q. Are these the same water companies that Arizona-American used in its
5 application?

6 A. Arizona-American's cost of equity witness, Dr. Bente Villadsen, used the
7 same four water companies included in my proxy. In addition to these four
8 companies, Dr. Villadsen also uses four other water companies in her
9 DCF and risk positioning (i.e. CAPM) analyses,⁶ which are included in
10 Value Line's Small and Mid Cap Edition.

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

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

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

⁶ Connecticut Water Service, Inc., Middlesex Water Company, SJW Corp., and York Water Co.

1 A. As are the water companies that I just described, each of the natural gas
2 LDC's used in the proxy are publicly traded on a major stock exchange (all
3 ten trade on the NYSE) and are followed by Value Line. Each of the ten
4 LDC's are tracked in Value Line's natural gas (distribution) industry
5 segment. All of the companies in the proxy are engaged in the provision
6 of regulated natural gas distribution services. Attachment B of my
7 testimony contains Value Line's most recent evaluation of the natural gas
8 proxy group that I used for my cost of common equity analysis.

9
10 Q. What companies are included your natural gas proxy?

11 A. The ten natural gas LDC's included in my proxy (and their NYSE ticker
12 symbols) are AGL Resources, Inc. ("ATG"), Atmos Energy Corp. ("ATO"),
13 Laclede Group, Inc. ("LG"), New Jersey Resources Corporation ("NJR"),
14 Nicor, Inc. ("GAS"), Northwest Natural Gas Co. ("NWN"), Piedmont
15 Natural Gas Company ("PNY"), South Jersey Industries, Inc. ("SJI")
16 Southwest Gas Corporation ("SWX"), which is the dominant natural gas
17 provider in Arizona, and WGL Holdings, Inc. ("WGL"). These are the
18 same ten LDC's that I analyzed recently in the UNS Gas, Inc. proceeding.⁷

19
20
21 ...
22

⁷ Docket No. G-04204A-06-0463

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

3 A. The ten LDC's listed above provide natural gas service to customers in the
4 Middle Atlantic region (i.e. NJI which serves portions of northern New
5 Jersey, SJI which serves southern New Jersey and WGL which serves the
6 Washington D.C. metro area), the Southeast and South Central portions
7 of the U.S. (i.e. ATG which serves Virginia, southern Tennessee and the
8 Atlanta, Georgia area and PNY which serves customers in North Carolina,
9 South Carolina and Tennessee), the South, deep South and Midwest (i.e.
10 ATO which serves customers in Kentucky, Mississippi, Louisiana, Texas,
11 Colorado and Kansas, GAS which provides service to northern and
12 western Illinois, and LG which serves the St. Louis area), and the Pacific
13 Northwest (i.e. NWN which serves Washington state and Oregon).
14 Portions of Arizona, Nevada and California are served by SWX.

15
16 Q. Did the Company's witness also perform a similar analysis using natural
17 gas LDC's?

18 A. Yes, she did.

19
20 Q. Does your sample of LDC's include all of the same companies that Dr.
21 Villadsen included in her sample?

22 A. Yes.

1 Q. Please explain your DCF growth rate calculations for the sample
2 companies used in your proxy.

3 A. Schedule WAR-5 provides retention ratios, returns on book equity, internal
4 growth rates, book values per share, numbers of shares outstanding, and
5 the compounded share growth for each of the water and gas utilities
6 included in my samples for the historical observation period 2003 to 2007.
7 Schedule WAR-5 also includes Value Line's projected 2008, 2009 and
8 2011-13 values for the retention ratio, equity return, book value per share
9 growth rate, and number of shares outstanding for both the water utilities
10 and the LDC's in my samples.

11
12 Q. Please describe how you used the information displayed in Schedule
13 WAR-5 to estimate each comparable utility's dividend growth rate.

14 A. In explaining my analysis, I will use American States Water Company,
15 (NYSE symbol AWR) as an example. The first dividend growth
16 component that I evaluated was the internal growth rate. I used the "b x r"
17 formula (described on page 9) to multiply AWR's earned return on
18 common equity by its earnings retention ratio for each year in the 2003 to
19 2007 observation period to derive the utility's annual internal growth rates.
20 I used the mean average of this five-year period as a benchmark against
21 which I compared the projected growth rate trends provided by Value Line.
22 Because an investor is more likely to be influenced by recent growth
23 trends, as opposed to historical averages, the five-year mean noted earlier

1 was used only as a benchmark figure. As shown on Schedule WAR-5,
2 Page 1, AWR's average internal growth rate of 2.51% over the 2003 to
3 2007 time frame reflects an upward trend that began during the 2004
4 operating period. AWR rebounded from non-meaningful negative growth
5 in 2003 to 1.01% in 2004. Internal growth climbed from 1.01% in 2004 to
6 3.79% during 2007. Value Line is predicting that growth will increase
7 steadily from 4.79% in 2008, to 7.18% during the 2011-13 time frame.
8 After weighing Value Line's increased projections on earnings, I believe
9 that a 6.75% rate of growth is reasonable for AWR.

10
11 Q. Please continue with the external growth rate component portion of your
12 analysis.

13 A. Schedule WAR-5 demonstrates that the pattern of share's outstanding
14 increased from 15.21 million to 17.23 million from 2003 to 2007. Value
15 Line is predicting that this level will increase from 18.00 million in 2008 to
16 20.00 million by the end of 2013. Based on this data, I believe that a
17 3.25% growth in shares is not unreasonable for AWR. My final dividend
18 growth rate estimate for AWR is 7.98 percent (6.75 percent internal + 1.23
19 percent external) and is shown on Page 1 of Schedule WAR-4.

20
21
22 ...
23

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

3 A. Based on the DCF model, my average dividend growth rate estimate is
4 7.66 percent as 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 both Zacks (Attachment C) and Value Line. In the
11 case of the water companies, my 7.66 percent estimate is 235 basis
12 points higher than the 5.31 percent projection of analysts at Value Line
13 (which is an average of EPS, DPS and BVPS), and 102 basis points lower
14 than the 8.68 percent consensus opinions published by Zacks Investment
15 Research, Inc. ("Zacks"). My 7.66 percent estimate is 190 basis points
16 higher than the 5.76 percent Value Line 5-year compound historical
17 average also displayed in Schedule WAR-6. This indicates that investors
18 are expecting increased performance from water utilities in the future. On
19 balance, I would say my 7.66 percent estimate is a good representation of
20 the growth projections that are available to the investing public.

21
22 ...
23

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

3 A. Yes.
4

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

7 A. Based on the DCF model, my average dividend growth rate estimate is
8 6.81 percent, which is also displayed on page 1 of Schedule WAR-4.
9

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

13 A. In regard to the natural gas LDC's, my 6.81 percent estimate is 34 basis
14 points lower than the 7.15 percent consensus projections published by
15 Zacks, and 201 basis points higher than Value Line's 4.80 percent
16 projected estimates. As can also be seen on Schedule WAR-6, the 6.81
17 percent estimate that I have calculated is 125 basis points higher than the
18 5.56 percent average of the 5-year historic EPS, DPS and BVPS means of
19 Value Line and 107 basis points higher than the 5.74 percent five-year
20 compound historical average of Value Line data (on EPS, DPS and
21 BVPS). In fact, my 6.81 percent estimate is 133 basis points higher than
22 the combined Value Line and Zacks averages of 5.48 percent. As with
23 water companies, this indicates that investors are expecting increased

1 performance from natural gas distribution companies in the future. In the
2 case of the LDC's I would say that my 6.81 percent estimate, which is
3 higher than Zack's projections and higher than Value Line's forecasts, is a
4 fair representation of the growth projections presented by securities
5 analysts at this point in time.
6

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

8 A. For both the water companies and the natural gas LDC's I used the
9 estimated annual dividends, for the next twelve-month period, that
10 appeared in Value Line's October 24, 2008 Ratings and Reports Water
11 Services Industry update and Value Line's December 12, 2008 Ratings
12 and Reports Natural Gas (Distribution) update. I then divided those
13 figures by the eight-week average price per share of the appropriate
14 utility's common stock. The eight-week average price is based on the
15 daily closing stock prices for each of the companies in my proxies for the
16 period November 3, 2008 to December 26, 2008.
17

18 Q. Based on the results of your DCF analysis, what is your cost of equity
19 capital estimate for the water and natural gas utilities included in your
20 sample?

21 A. As shown in Schedule WAR-2, the cost of equity capital derived from my
22 DCF analysis is 11.19 percent for the water utilities and 11.16 percent for
23 the 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. Sharpe⁸, 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.⁹ 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),

⁸ William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

⁹ 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 systematic risk, on the other hand, cannot be eliminated by diversification.
2 Thus, systematic risk is the only risk of importance to investors. Simply
3 stated, the underlying theory behind CAPM states that the expected return
4 on a given investment is the sum of a risk-free rate of return plus a market
5 risk premium that is proportional to the systematic (non-diversifiable risk)
6 associated with that investment. In mathematical terms, the formula is as
7 follows:

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

8
9
10 where: k = the expected return of a given security,
11 r_f = risk-free rate of return,
12 β = beta coefficient, a statistical measurement of a
13 security's systematic risk,
14 r_m = average market return (e.g. S&P 500), and
15 $r_m - r_f$ = market risk premium.
16

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

19 A. Generally speaking, the yields of U.S. Treasury instruments are used by
20 analysts as a proxy for the risk-free rate of return component.
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,¹⁰ 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

¹⁰ 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 real 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 January 2, 2009 Selection and Opinion
8 publication. (Attachment E). This resulted in a risk-free (r_f) rate of return
9 of 1.50 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 intermediate-term government
7 bonds for the same eighty-one year period. The risk premium ($r_m - r_f$) that
8 results by using these inputs is 5.10 percent ($10.40\% - 5.30\% = \underline{5.10\%}$).
9 The risk premium that results by using the arithmetic mean calculation is
10 6.80 percent ($12.30\% - 5.50\% = \underline{6.80\%}$).
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 proxy
15 groups, were calculated by Value Line and were current as of October 24,
16 2008 for the water companies and December 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 1.10 with an average beta of 1.01. The beta

coefficients for the LDC's included in my natural gas sample ranged from 0.65 to 0.75 with an average beta of 0.70.

Q. What are the results of your CAPM analysis?

A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation using a geometric mean to calculate the risk premium results in an average expected return of 6.66 percent for the water companies and 5.07 percent for the natural gas LDC's. My calculation using an arithmetic mean results in an average expected return of 8.39 percent for the water companies and 6.26 percent for the natural gas LDC's.

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

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

<u>METHOD</u>	<u>RESULTS</u>
DCF (Water Sample)	11.19%
DCF (Natural Gas Sample)	11.16%
CAPM (Water Sample)	6.66% – 8.39%
CAPM (Natural Gas)	5.07% – 6.26%

1 Based on these results, my best estimate of an appropriate range for a
2 cost of common equity for Arizona-American is 5.07 percent to 11.19
3 percent. My final recommendation for Arizona-American is 8.88 percent.

4
5 Q How did you arrive at your recommended 8.88 percent cost of common
6 equity?

7 A. My recommended 8.88 percent cost of common equity is the average of
8 my DCF and CAPM results. The calculation can be seen on Page 3 of
9 Schedule WAR-1.

10
11 Q. How does your recommended cost of equity capital compare with the cost
12 of equity capital proposed by the Company?

13 A. The 11.75 percent cost of equity capital proposed by the Company is 287
14 basis points higher than the 8.88 percent cost of equity capital that I am
15 recommending.

16
17 **Current Economic Environment**

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

21 A. Consideration of the economic environment is necessary because trends
22 in interest rates, present and projected levels of inflation, and the overall
23 state of the U.S. economy determine the rates of return that investors earn

1 on their invested funds. Each of these factors represent potential risks
2 that must be weighed when estimating the cost of equity capital for a
3 regulated utility and are, most often, the same factors considered by
4 individuals who are also investing in non-regulated entities.

5
6 Q. Please discuss your analysis of the current economic environment.

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

11 In 1991, as measured by the most recently revised annual change in
12 gross domestic product ("GDP"), the U.S. economy experienced a rate of
13 growth of negative 0.20 percent. This decline in GDP marked the
14 beginning of a mild recession that ended sometime before the end of the
15 first half of 1992. Reacting to this situation, the Federal Reserve Board
16 ("Federal Reserve" or "Fed"), then chaired by noted economist Alan
17 Greenspan, lowered its benchmark federal funds rate¹¹ in an effort to
18 further loosen monetary constraints - an action that resulted in lower
19 interest rates.

20

¹¹ 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 During this same period, the nation's major money center banks followed
2 the Federal Reserve's lead and began lowering their interest rates as well.
3 By the end of the fourth quarter of 1993, the prime rate (the rate charged
4 by banks to their best customers) had dropped to 6.00 percent from a
5 1990 level of 10.01 percent. In addition, the Federal Reserve's discount
6 rate on loans to its member banks had fallen to 3.00 percent and short-
7 term interest rates had declined to levels that had not been seen since
8 1972.

9
10 Although GDP increased in 1992 and 1993, the Federal Reserve took
11 steps to increase interest rates beginning in February of 1994, in order to
12 keep inflation under control. By the end of 1995, the Federal discount rate
13 had risen to 5.21 percent. Once again, the banking community followed
14 the Federal Reserve's moves. The Fed's strategy, during this period, was
15 to engineer a "soft landing." That is to say that the Federal Reserve
16 wanted to foster a situation in which economic growth would be stabilized
17 without incurring either a prolonged recession or runaway inflation.

18
19 Q. Did the Federal Reserve achieve its goals during this period?

20 A. Yes. The Fed's strategy of decreasing interest rates to stimulate the
21 economy worked. The annual change in GDP began an upward trend in
22 1992. A change of 4.50 percent and 4.20 percent were recorded at the
23 end of 1997 and 1998 respectively. Based on daily reports that were

1 presented in the mainstream print and broadcast media during most of
2 1999, there appeared to be little doubt among both economists and the
3 public at large that the U.S. was experiencing a period of robust economic
4 growth highlighted by low rates of unemployment and inflation. Investors,
5 who believed that technology stocks and Internet company start-ups (with
6 little or no history of earnings) had high growth potential, purchased these
7 types of issues with enthusiasm. These types of investors, who exhibited
8 what former Chairman Greenspan described as "irrational exuberance,"
9 pushed stock prices and market indexes to all time highs from 1997 to
10 2000.

11
12 Q. What has been the state of the economy since 2001?

13 A. The U.S. economy entered into a recession near the end of the first
14 quarter of 2001. The bullish trend, which had characterized the last half of
15 the 1990's, had already run its course sometime during the third quarter of
16 2000. Economic data released since the beginning of 2001 had already
17 been disappointing during the months preceding the September 11, 2001
18 terrorist attacks on the World Trade Center and the Pentagon. Slower
19 growth figures, rising layoffs in the high technology manufacturing sector,
20 and falling equity prices (due to lower earnings expectations) prompted
21 the Fed to begin cutting interest rates as it had done in the early 1990's.
22 The now infamous terrorist attacks on New York City and Washington
23 D.C. marked a defining point in this economic slump and prompted the

1 Federal Reserve to continue its rate cutting actions through December
2 2001. Prior to the 9/11 attacks, commentators, reporting in both the
3 mainstream financial press and various economic publications including
4 Value Line, believed that the Federal Reserve was cutting rates in the
5 hope of avoiding a recession.

6
7 Despite several intervals during 2002 and 2003 in which the Federal Open
8 Market Committee ("FOMC") decided not to change interest rates – moves
9 which indicated that the worst may be over and that the recession might
10 have bottomed out during the last quarter of 2001 – a lackluster economy
11 persisted. The continuing economic malaise and even fears of possible
12 deflation prompted the FOMC to make a thirteenth rate cut on June 25,
13 2003. The quarter point cut reduced the federal funds rate to 1.00
14 percent, the lowest level in forty-five years.

15
16 Even though some signs of economic strength, mainly attributed to
17 consumer spending, began to crop up during the latter part of 2002 and
18 into 2003, Chairman Greenspan appeared to be concerned with sharp
19 declines in capital spending in the business sector.

20
21 During the latter part of 2003, the FOMC went on record as saying that it
22 intended to leave interest rates low "for a considerable period." After its
23 two-day meeting that ended on January 28, 2004, the FOMC announced

1 "that with inflation 'quite low' and plenty of excess capacity in the
2 economy, policy-makers 'can be patient in removing its policy
3 accommodation.¹²"

4
5 Q. What actions has the Federal Reserve taken in terms of interest rates
6 since the beginning of 2001?

7 A. As noted earlier, from January 2001 to June 2003 the Federal Reserve cut
8 interest rates a total of thirteen times. During this period, the federal funds
9 rate fell from 6.50 percent to 1.00 percent. The FOMC reversed this trend
10 on June 29, 2004 and raised the federal funds rate 25 basis points to 1.25
11 percent. From June 29, 2004 to January 31, 2006, the FOMC raised the
12 federal funds rate thirteen more times to a level of 4.50 percent.

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

19 As expected by Fed watchers, Chairman Bernanke picked up where his
20 predecessor left off and increased the federal funds rate by 25 basis
21 points during each of the next three FOMC meetings for a total of
22 seventeen consecutive rate increases since June 2004, and raising the

¹² Wolk, Martin, "Fed holds interest rates steady," MSNBC, January 28, 2004.

1 federal funds rate to a level of 5.25 percent. The Fed's rate increase
2 campaign finally came to a halt at the FOMC meeting held on August 8,
3 2006, when the FOMC decided not to raise rates.

4
5 Q. What was the reaction in the financial community to the Fed's decision not
6 to raise interest rates?

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

10
11 Q. How did analysts view the Fed's actions between January 2001 and
12 August 2006?

13 A. According to an article that appeared in the December 2, 2004 edition of
14 The Wall Street Journal, the FOMC's decision to begin raising rates two
15 years ago was viewed as a move to increase rates from emergency lows
16 in order to avoid creating an inflation problem in the future as opposed to
17 slowing down the strengthening economy.¹³ In other words, the Fed was
18 trying to head off inflation *before* it became a problem. During the period
19 following the August 8, 2006 FOMC meeting, the Fed's decisions not to

¹³ McKinnon, John D. and Greg IP, "Fed Raises Rates by a Quarter Point," The Wall Street Journal, September 22, 2004.

1 raise rates were viewed as a gamble that a slower U.S. economy would
2 help to cap growing inflationary pressures.¹⁴

3
4 Q. Was the Fed attempting to engineer another "soft landing", as it did in the
5 mid-nineties, by holding interest rates steady?

6 A. Yes, however, as pointed out in an August 2006 article in The Wall Street
7 Journal by E.S. Browning, soft landings – like the one that the Fed
8 managed to pull off during the 1994-95 time frame, in which a recession or
9 a bear market were avoided – rarely happen¹⁵. Since it began increasing
10 the federal funds rate in June 2004, the Fed had assured investors that it
11 would increase rates at a "measured" pace. Many analysts and
12 economists interpreted this language to mean that former Chairman
13 Greenspan would be cautious in increasing interest rates too quickly in
14 order to avoid what is considered to be one of the Fed's few blunders
15 during Greenspan's tenure – a series of increases in 1994 that caught the
16 financial markets by surprise after a long period of low rates. The rapid
17 rise in rates contributed to the bankruptcy of Orange County, California
18 and the Mexican peso crisis¹⁶. According to Mr. Browning, at the time that
19 his article was published, the hope was that Chairman Bernanke would

¹⁴ Ip, Greg, "Fed Holds Interest Rates Steady As Slowdown Outweighs Inflation," The Wall Street Journal Online Edition, August 8, 2006.

¹⁵ Browning, E.S, "Not Too Fast, Not Too Slow...", The Wall Street Journal Online Edition, August 21, 2006.

¹⁶ Associated Press (AP), "Fed begins debating interest rates" USA Today, June 29, 2004.

1 succeed in slowing the economy "just enough to prevent serious inflation,
2 but not enough to choke off growth." In other words, "a 'Goldilocks
3 economy,' in which growth is not too hot and not too cold."

4
5 Q. Was the Fed's attempt to engineer a soft landing successful during the
6 period that followed the August 8, 2006 FOMC meeting?

7 A. It would appear so. Articles published in the mainstream financial press
8 were generally upbeat on the economy during that period. An example of
9 this is an article written by Nell Henderson that appeared in the January
10 30, 2007 edition of The Washington Post. According to Ms. Henderson, "a
11 year into [Fed Chairman] Bernanke's tenure, the [economic] picture has
12 turned considerably brighter. Inflation is falling; unemployment is low;
13 wages are rising; and the economy, despite continued problems in
14 housing, is growing at a brisk clip."¹⁷

15
16 Q. What has been the state of the economy over the past two years?

17 A. Reports in the mainstream financial press during the majority of 2007
18 reflected the view that the U.S. economy was slowing as a result of a
19 worsening situation in the housing market and higher oil prices. The
20 overall outlook for the economy was one of only moderate growth at best.

¹⁷ Henderson, Nell, "Bullish on Bernanke" The Washington Post, January 30, 2007.

1 Also during this period the Fed's key measure of inflation began to exceed
2 the rate setting body's comfort level.

3 On August 7, 2007, the FOMC decided not to increase or decrease the
4 federal funds rate for the ninth straight time and left its target rate
5 unchanged at 5.25 percent.¹⁸ At the time of the Fed's decision, analysts
6 speculated that a rate cut over the next several months was unlikely given
7 the Fed's concern that inflation would fail to moderate. However, during
8 this same period, evidence of an even slower economy and a possible
9 recession was beginning to surface. Within days of the Fed's decision to
10 stand pat on rates, a borrowing crises rooted in a deterioration of the
11 market for subprime mortgages and securities linked to them, forced the
12 Fed to inject \$24 billion in funds (raised through open market operations)
13 into the credit markets.¹⁹ By Friday, August 17, 2007, after a turbulent
14 week on Wall Street, the Fed made the decision to lower its discount rate
15 (i.e. the rate charged on direct loans to banks) by 50 basis points, from
16 6.25 percent to 5.75 percent, and took steps to encourage banks to
17 borrow from the Fed's discount window in order to provide liquidity to
18 lenders. According to an article that appeared in the August 18, 2007
19 edition of The Wall Street Journal,²⁰ the Fed had used all of its tools to

¹⁸ Ip, Greg, "Markets Gyrate As Fed Straddles Inflation, Growth" The Wall Street Journal, August 8, 2007

¹⁹ Ip, Greg, "Fed Enters Market To Tamp Down Rate" The Wall Street Journal, August 9, 2007

²⁰ Ip, Greg, Robin Sidel and Randall Smith, "Fed Offers Banks Loans Amid Crises" The Wall Street Journal, August 9, 2007

1 restore normalcy to the financial markets. If the markets failed to settle
2 down, the Fed's only weapon left was to cut the Federal Funds rate –
3 possibly before the next FOMC meeting scheduled on September 18,
4 2007.

5
6 Q. Did the Fed cut rates as a result of the subprime mortgage borrowing
7 crises?

8 A. Yes. At its regularly scheduled meeting on September 18, 2007, the
9 FOMC surprised the investment community and cut both the federal funds
10 rate and the discount rate by 50 basis points (25 basis points more than
11 what was anticipated). This brought the federal funds rate down to a level
12 of 4.75 percent. The Fed's action was seen as an effort to curb the
13 aforementioned slowdown in the economy. Over the course of the next
14 four months, the FOMC reduced the Federal funds rate by a total 175
15 basis points to a level of 3.00 percent – mainly as a result of concerns that
16 the economy was slipping into a recession. This included a 75 basis point
17 reduction that occurred one week prior to the FOMC's meeting on January
18 29, 2008.

19
20 Q. What recent actions have the Fed taken in regard to interest rates?

21 A. The Fed made two more rate cuts which included a 75 basis point
22 reduction in the federal funds rate on March 18, 2008 and an additional 25
23 basis point reduction on April 30, 2008. The Fed's decision to cut rates

1 was based on its belief that the slowing economy was a greater concern
2 than the current rate of inflation (which the majority of FOMC members
3 believed would moderate during the economic slowdown).²¹ As a result of
4 the Fed's actions, the federal funds rate was reduced to a level of 2.00
5 percent. From April 30, 2008 through September 16, 2008, the Fed took
6 no further action on its key interest rate. However, the days before and
7 after the Fed's September 16, 2008 meeting saw longstanding Wall Street
8 firms such as Lehman Brothers, Merrill Lynch and AIG failing as a result of
9 their subprime holdings. By the end of the week, the Bush administration
10 had announced plans to deal with the deteriorating financial condition
11 which had now become a worldwide crisis. The administrations actions
12 included Treasury Secretary Henry Paulson's request to Congress for
13 \$700 billion to buy distressed assets as part of a plan to halt what has
14 been described as the worst financial crisis since the 1930's²². Amidst this
15 turmoil, the Fed made the decision to cut the federal funds rate by another
16 50 basis points in a coordinated move with foreign central banks on
17 October 8, 2008. This was followed by another 50 basis point cut during
18 the regular FOMC meeting on October 29, 2008. At the time of this
19 writing, the federal funds target rate now stands at 0.25 percent, the result
20 of a 75 basis point cut announced on December 16, 2008. The Fed's

²¹ Ip, Greg, "Credit Worries Ease as Fed Cuts, Hints at More Relief" The Wall Street Journal, March 19, 2008

²² 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 is at 0.50 percent, a level not seen since 1940s.²³ Based on
2 data released during the early part of December 2008, the U.S. is now
3 officially in a recession which began in December of 2007.

4
5 Q. Putting this all into perspective, how have the Fed's actions since 2000
6 affected benchmark rates?

7 A. U.S. Treasury instruments are for the most part still at historically low
8 levels. The Fed's actions have also had the overall effect of reducing the
9 cost of many types of business and consumer loans. As can be seen in
10 Schedule WAR-8, the previously mentioned federal discount rate (the rate
11 charged to the Fed's member banks), has fallen to 0.50 percent from 4.75
12 percent in 2007.

13
14 Q. What has been the trend in other leading interest rates over the last year?

15 A. As of December 23, 2008, the leading interest rates have all dropped from
16 the levels that existed a year ago (Attachment C). The prime rate has
17 fallen from 7.25 percent a year ago to 3.25 percent. The benchmark
18 federal funds rate, just discussed, has decreased from 4.25 percent, in
19 December 2007, to a level of 0.25 percent (as a result of the December
20 16th rate cut discussed above). The yields on all of the maturities of U.S.
21 Treasury instruments exhibited in my Attachment C have also decreased

²³ Hilsenrath, Jon, "Fed Cuts Rates Near Zero to Battle Slump" The Wall Street Journal,
December 17, 2008

1 over the past year. A previous trend, described by former Chairman
2 Greenspan as a "conundrum"²⁴, in which long-term rates fell as short-term
3 rates increased, thus creating a somewhat inverted yield curve that
4 existed as late as June 2007, is completely reversed and a more
5 traditional yield curve (one where yields increase as maturity dates
6 lengthen) presently exists (Attachment C). The 5-year Treasury yield,
7 used in my CAPM analysis, has fallen from 3.70 percent, in December
8 2007, to 1.50 percent as of December 23, 2008. The 1-Year Treasury
9 constant maturity rate also decreased from 3.46 percent over the past
10 year to 0.35 percent. These current yields are considerably lower than
11 corresponding yields that existed during the early nineties and at the
12 beginning of the current decade (as can be seen on Schedule WAR-8).

13
14 Q. What is the current outlook for the economy?

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

19 **The economic picture continues to darken**, with data recently showing
20 additional slippage in manufacturing activity (to a 26-year low), a sharp
21 decline in construction spending, and another setback in
22 nonmanufacturing. Add to this, expectations for a weak holiday
23 shopping season and for new turmoil in the housing and automobile
24 industries and it is not hard to make a case that the current quarter could
25 see a drop in the U.S. gross domestic product of 3% to 5%.

26
²⁴ Wolk, Martin, "Greenspan wrestling with rate 'conundrum'," MSNBC, June 8, 2005

1 Value Line's analysts went on to state:

2 **We face several difficult quarters up ahead.** Our sense is that the first
3 and second quarters of 2009 will see declines in business activity of 2%
4 to 3%, as the broad contraction in the economy drones on for a possible
5 six to nine months more. At this point, none of the consumer and
6 industrial markets that we view as critical to a sustained revival in
7 economic activity (such as the housing, retail, auto, and manufacturing
8 sectors) appears to be even close to bottoming out.
9

10 Q. What is Value Line's outlook for credit availability and interest rates?

11 A. In the recent Selection and Opinion publication noted above, Value Line's
12 analysts had this to say:

13 **Challenges will await the Obama Administration and the Federal**
14 **Reserve.** Those challenges are likely to center around the need for
15 greater credit availability, more lending by the banks, the adoption of a
16 program to revive the auto industry, the passage of an effective stimulus
17 plan, and, possibly, further in interest rate cuts. How well these issues
18 are addressed will go a long way toward determining the severity of the
19 recession, which the National Bureau of Economic Research now claims
20 has been under way since December of 2007.
21

22 Value Line's analysts continued to state:

23 **It is likely to be late next year before we see a durable economic**
24 **comeback start to take hold.** Once that recovery does unfold, it is likely
25 to be led, ironically, by the housing market, which was the first area of
26 the economy to falter and could be the first to revive thanks to falling
27 home prices and lower mortgage rates.
28
29

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

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

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

10
11 While Mr. Van Liew's views appeared in Value Line's Electric Utility
12 Industry update, I believe his comments hold true for all regulated utilities
13 including the water and natural gas distribution segments. Given the fact
14 that interest rates are even lower now than they were at the time of Mr.
15 Van Liew's writing, and A-rated utility bond rates are currently lower than
16 their 2007 averages (Schedule WAR 8), I believe that his views are still
17 valid.

18
19 Q. Has the subprime mortgage crises had an impact on borrowing?

20 A. Yes. The situation has had a strong impact on liquidity for both banks and
21 the capital markets. Hopefully the actions of both the U.S. Treasury and
22 the Fed will succeed in eliminating the credit crunch that presently exists
23 and restore the credit markets to their pre-subprime status.

24
25 Q. How are water utilities faring in the current economic environment?

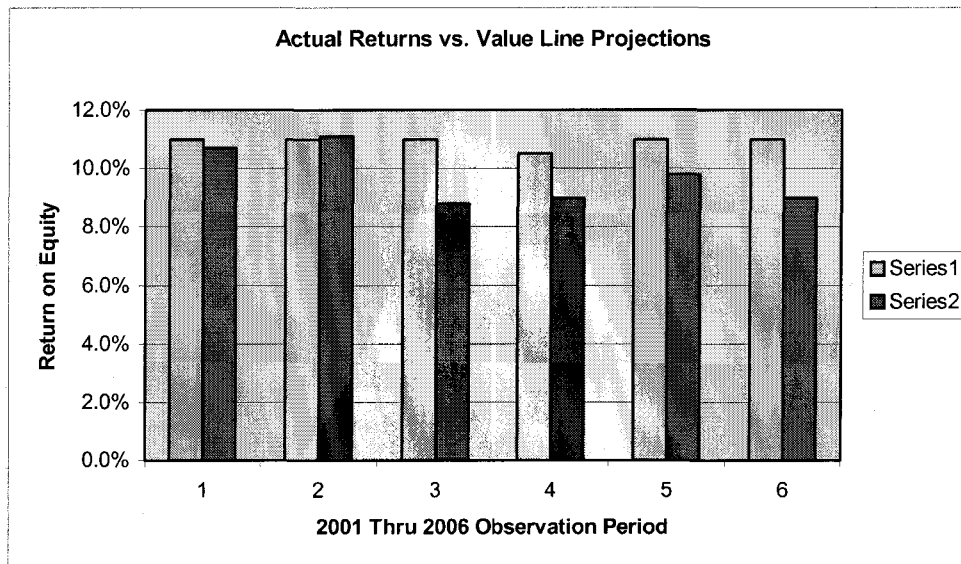
26 A. Although there are some concerns regarding long-term infrastructure
27 requirements, water utilities appear to be doing well according to Value

1 Line analyst Andre J. Costanza. In the October 24, 2008 quarterly update
2 on the water utility industry Mr. Costanza stated the following:

3 The Water Utility Industry has held up relatively well over the past few
4 months. Although the broad market has been sent into a tailspin by
5 growing economic uncertainties and a tightening credit market, water
6 utility stocks have given little, if any, ground, and have thus jumped into
7 the middle of the pack of The Value Line Investment Survey for
8 Timeliness. Companies here are enjoying an increasingly favorable
9 regulatory environment, but the primary reason for the share-price
10 strength boils down to their perceived safety. Indeed, because of the
11 steady stream of income these stocks generate and the necessity for
12 water itself, the group provides shelter for investors looking to get out of
13 the treacherous economic waters that have been pulling many under
14 without having to take too conservative a stance. With no end to the
15 volatility in sight, these stocks are likely to continue outpacing the broad
16 market averages over the coming six to 12 months.
17

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

20 A. Up until 2005, and with the exception of 2003, Value Line's analysts have
21 been making downward projections on water industry book returns on
22 common equity ("ROE"). In addition to the downward trend in projections
23 that I just addressed (exhibited in Attachment D), Value Line's analysts
24 have been somewhat more optimistic in their forward-looking one-year
25 and long-term projections. As can be seen in the chart below, Value
26 Line's analysts have been somewhat high in their coming year projections
27 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. According to the
3 most recent Value Line update for the water utility industry, average
4 returns on common equity for the industry are expected to range from 6.00
5 percent in 2008 to 7.50 percent through the end of 2013.

6
7 Q. After weighing the economic information that you've just discussed, do you
8 believe that the 8.88 percent cost of equity capital that you have estimated
9 is reasonable for Arizona-American?

10 A. I believe that my recommended 8.88 percent cost of equity will provide
11 Arizona-American with a reasonable rate of return on the Company's
12 invested capital when economic data on interest rates (that are low by
13 historical standards), the current slowdown in growth in new housing
14 construction, and the Fed's ability to keep inflation in check are all taken
15 into consideration. As I noted earlier, the Hope decision determined that a
16 utility is entitled to earn a rate of return that is commensurate with the
17 returns it would make on other investments with comparable risk. I
18 believe that my cost of equity analysis, which is an average of the results
19 of both the DCF and CAPM models, has produced such a return.

COST OF DEBT

Q. Have you reviewed the costs associated on Arizona-American's various debt issuances?

A. Yes. Based on information provided by Arizona-American in ACC Staff data request PMC 15.1, I have arrived at my recommended cost of debt of 5.46 percent.

CAPITAL STRUCTURE

Q. What capital structure are you proposing for Arizona-American?

A. Relying again on information provided by Arizona-American in ACC Staff data request PMC 15.1, I am recommending a blanket capital structure, for each of the seven systems included in the Company's filing, comprised of approximately 55.2 percent debt and 44.8 percent common equity.

Q. Is Arizona-American's capital structure in line with industry averages?

A. No. Arizona-American's capital structure is heavier in debt than the capital structures of the other water companies included in my cost of capital analysis (Schedule WAR-9). The capital structures for those utilities averaged 50.2 percent for debt and 49.8 percent for equity (49.8 percent common equity + 0.1 percent preferred equity).

...

1 Q. In terms of risk, how does Arizona-American's capital structure compare to
2 the water utilities in your sample?

3 A. The water utilities in my sample would be considered as having a
4 somewhat lower level of financial risk (i.e. the risk associated with debt
5 repayment) because of their lower levels of debt. The additional financial
6 risk due to debt leverage is embedded in the cost of equities derived for
7 those companies through the DCF analysis. Thus, the cost of equity
8 derived in my DCF analysis is applicable to companies that are not as
9 leveraged and, theoretically speaking, not as risky than a utility with a level
10 of debt similar to Arizona-American's. In the case of a publicly traded
11 company, such as those included in my proxy, a company with Arizona-
12 American's level of debt would be perceived as having a somewhat higher
13 level of financial risk.

14
15 Q. Have you made an adjustment to your DCF estimate based on this
16 perception of higher financial risk?

17 A. No, I have not.

18
19 Q. Why have you decided not to make an upward adjustment to Arizona-
20 American's cost of common equity?

21 A. In prior Arizona-American cases I have made such an adjustment and in
22 some cases I have even done so in conjunction with a hypothetical capital
23 structure. In this case I have decided not to make such an adjustment

1 because I believe that the Company should start making a concerted effort
2 to increase its level of common equity in order to achieve a more balanced
3 capital structure. I should point out that ACC staff has taken such a
4 position in other cases before the Commission and have placed utilities on
5 notice that the use of hypothetical capital structures to improve their
6 operating incomes may not be a given in future rate cases.

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 8.40 percent.
12 This composite figure is the result of a weighted average of Arizona-
13 American's proposed 5.46 percent cost of debt and 11.75 percent cost of
14 equity capital. The Company-proposed 8.40 percent weighted cost of
15 capital is 140 basis points higher than the 7.00 percent weighted cost that
16 I am recommending.

17
18
19
20
21
22 ...
23

COMMENTS ON ARIZONA-AMERICAN'S COST OF EQUITY CAPITAL

TESTIMONY

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

A. The 11.75 percent cost of equity capital proposed by the Company is 287 basis points higher than the 8.88 percent cost of equity capital that I am recommending.

Q. Who estimated the Company-proposed cost of equity capital?

A. As noted earlier Dr. Bente Villadsen, a principal of the Brattle Group, a consulting firm located in Cambridge, Massachusetts, estimated the Company-proposed cost of equity capital. Dr. Villadsen estimated a cost of common equity to be within a range of 11.00 percent to 12.50 percent. Her final recommendation is 11.75 percent. In arriving at her recommended cost of equity, Dr. Villadsen employs an after tax weighted average cost of capital ("ATWACC") methodology which was advocated by Dr. A. Lawrence Kolbe, also of the Brattle Group, in a prior Arizona-American proceeding that involved the Company's Paradise Valley Water District.

...

1 Q. Did the Commission adopt Dr. Kolbe's ATWACC methodology in the
2 Company's Paradise Valley Water District proceeding?

3 A. No. Dr. Kolbe's ATWACC methodology for estimating the cost of equity
4 capital for the Company's Paradise Valley Water District was rejected by
5 the Commission²⁵.

6
7 Q. Has the Commission adopted the results of the ATWACC methodology in
8 any other Arizona-American cases that have been before the
9 Commission?

10 A. No.

11
12 Q. Does your silence on any of the issues, matters or findings addressed in
13 the testimony of Dr. Villadsen or any other witness for Arizona-American
14 constitute your acceptance of their positions on such issues, matters or
15 findings?

16 A. No, it does not.

17
18 Q. Does this conclude your direct testimony on the cost of capital issues in
19 Arizona-Americans filing?

20 A. Yes, it does.

²⁵ Decision No. 68858, Dated July 28, 2006

ATTACHMENT A

The Water Utility Industry has held up relatively well over the past few months. Although the broad market has been sent into a tailspin by growing economic uncertainties and a tightening credit market, water utility stocks have given little, if any, ground, and have thus jumped into the middle of the pack of *The Value Line Investment Survey* for Timeliness. Companies here are enjoying an increasingly favorable regulatory environment, but the primary reason for the share-price strength boils down to their perceived safety. Indeed, because of the steady stream of income these stocks generate and the necessity for water itself, the group provides shelter for investors looking to get out of the treacherous economic waters that have been pulling many under without having to take too conservative a stance. With no end to the volatility in sight, these stocks are likely to continue outpacing the broad market averages over the coming six to 12 months.

The long-term picture is not as rosy, unfortunately. Yes, industry fundamentals are improving, but increasingly stringent infrastructure costs threaten to wipe out most of these gains stemming from regulatory reform. And while some of the larger entities in the group will be able to pick off smaller players incapable of meeting the increasing capital requirements, even many of them do not have the funds to stay afloat and will have to look to outside financiers.

Economic Backdrop

The economy has gone into shock and wild market swings appear to have become commonplace of late. With the federal government's bail out of big banks failing to stimulate the economy as hoped, visibility surrounding a market recovery has been clouded even further. Water utilities will probably benefit from such a market environment, as many on Wall Street look to limit the risk profile of their portfolios.

Regulatory Improvements

Water utility companies have long come up on the short end in regards to regulatory backing. The authorities, put in place in an effort to maintain a balance of power between customers and providers, as well as ensure fair business practices, have tended to side with

INDUSTRY TIMELINESS: 50 (of 99)

customers. But those days may well be coming to an end. Commissions have been handing down more timely and favorable general rate cases in recent months, auguring well for utilities going forward.

Long-Term Limitations

Despite the favorable backdrop current economic conditions and more friendly regulations create, there are some concerns. The costs of maintaining current water systems in the United States continue to climb and do not appear to be slowing down. Many systems are over the century mark and require significant upkeep or even rebuilding. Coupled with increasingly stringent EPA requirements, infrastructure repairs are likely to require hundreds of millions of dollars in maintenance the coming decade. However, many do not have the finances to foot the bill and will have to tap finance and debt markets to do so, or, in the case of smaller operators, close up shop. That said, M&A activity is expected to remain at a feverish pace.

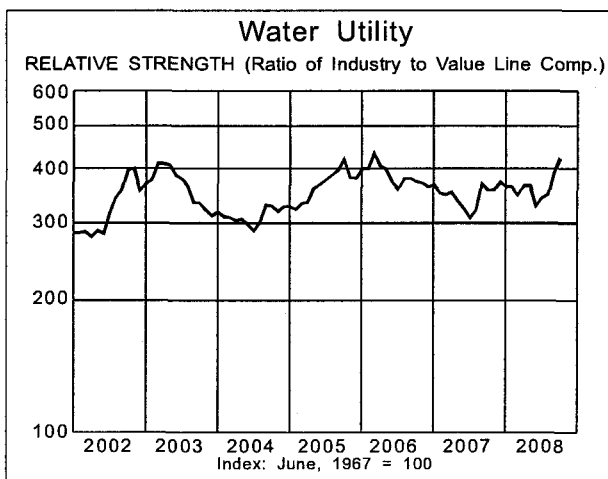
Conclusion

We have reversed course with regard to entry into the Water Utility industry and, for the first time in recent memory, are advising investors to consider establishing a position here. The economic backdrop is likely to remain difficult for the foreseeable future and these stocks stand to be the beneficiaries, as investors look to ride out the rough investment waters in less volatile areas of the market. The industry's healthy dividend yields ought to whet the appetite of anxious participants. That said, the 3- to 5-year prospects of these stock's are not as promising, with the aforementioned infrastructure expenditures and necessary financing hovering over shareholder returns. *American Water Works* is an extremely intriguing play, but its short trading history adds some uncertainty to its future trading patterns. Although *Aqua America's* aggressive acquisition game places it atop our list for appreciation potential, it also increases its risk profile. *American States Water* is now ranked 2 (Above Average) for Timeliness, and it is on our recommended list for the coming six to 12 months.

Andre J. Costanza

Composite Statistics: Water Utility Industry									
2004	2005	2006	2007	2008	2009				11-13
1173.6	1256.9	3454.1	3100.0	3925	4300	Revenues (\$mill)			5275
127.1	148.2	d5.8	d278.0	360	450	Net Profit (\$mill)			600
39.1%	40.5%	NMF	NMF	38.0%	40.0%	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%	52.0%	53.0%	Long-Term Debt Ratio			52.0%
50.7%	49.5%	45.9%	49.9%	48.0%	47.0%	Common Equity Ratio			48.0%
2782.1	3049.9	12110.2	10790.6	12950	13600	Total Capital (\$mill)			16225
3836.9	4200.7	13308.3	11522.4	15180	16125	Net Plant (\$mill)			18350
6.0%	6.3%	1.6%	NMF	5.0%	5.5%	Return on Total Cap'l			6.0%
9.0%	9.8%	NMF	NMF	6.0%	7.0%	Return on Shr. Equity			7.5%
9.0%	9.8%	NMF	NMF	6.0%	7.0%	Return on Com Equity			7.5%
3.1%	3.7%	NMF	NMF	3.0%	3.0%	Retained to Com Eq			3.5%
66%	62%	NMF	NMF	51%	57%	All Div'ds to Net Prof			56%
25.4	29.4	NMF	NMF			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			2.4%

Bold figures are
Value Line
estimates



RECENT PRICE	34.38	P/E RATIO	18.3 (Trailing: 21.2 Median: 20.0)	RELATIVE P/E RATIO	1.51	DIV'D YLD	2.9%	VALUE LINE
--------------	-------	-----------	---------------------------------------	--------------------	------	-----------	------	------------

TIMELINESS **2** Raised 9/26/08
SAFETY **3** New 2/4/00
TECHNICAL **3** Lowered 10/10/08
BETA 95 /100 = Market)

High:	17.1	19.5
Low:	13.5	14.1

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

	Price	Gain	Ann'l Tot Return
High	70	(+105%)	22%
Low	40	(+15%)	7%

	N	D	J	F	M	A	M	J
to Buy	0	1	0	0	0	0	0	2
Options	4	0	0	0	0	0	1	0
to Sell	4	0	0	0	0	0	1	0

Institutional Decisions				
	4Q2007	1Q2008	2Q2008	3Q2008
to Buy	63	53	51	51
to Sell	52	59	51	51
Mld's (000)	9617	9783	1017	1017

1992	1993	1994	1995
10.10	9.27	10.43	11.00
1.81	1.67	1.68	1.70
1.15	1.11	.95	1.00
.77	.79	.80	.80
2.31	1.90	2.43	2.10
8.85	9.95	10.07	10.20
9.96	11.71	11.77	11.70
10.6	13.4	12.8	11.0
.64	.79	.84	.70
6.3%	5.3%	6.6%	6.7%

1996	1997	1998	1999
11.37	11.44	11.02	1
1.75	1.85	2.04	
1.13	1.04	1.08	
.82	.83	.84	
2.40	2.58	3.11	
11.01	11.24	11.48	1
13.33	13.44	13.44	1
12.6	14.5	15.5	
.79	.84	.81	
5.8%	5.5%	5.0%	4

CAPITAL STRUCTURE as of 6/30/07
Total Debt \$324.4 mill. **Due in 5**
LT Debt \$267.1 mill. **LT Interest**
 (LT interest earned: 5.1x; total interest
 coverage: 4.7x)

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

198	148.1	1
s \$50.0 mill.	14.6	
\$22.0 mill.	40.9%	46
st	--	
(46% of Cap'l)	43.6%	51
	55.7%	48
	277.1	3
	414.8	4
	7.0%	5

Common Stock 17,253,910 shs.
MARKET CAP: \$600 million (\$m)

	7.0%	6
	9.4%	10
Cap)	9.4%	10

CURRENT POSITION	2006
(\$MILL.)	
Cash Assets	3.2

2007	6/30/08	2.1%	2
1.3	4	78%	7

Cash Assets	3.2
Receivables	14.8
Inventory (Avg Cst)	1.6
Other	44.8
Current Assets	64.4
Accts Payable	24.0
Debt Due	32.6
Other	29.3
Current Liab.	85.9
Fix. Chg. Cov.	268%

16.1	26.2	BUSINESS company. Company, i communities metropolitan pany also p
1.6	1.7	
43.7	41.7	
63.1	70.0	
29.1	34.9	
37.8	57.3	
27.4	27.1	
94.3	119.3	
14%	300%	Improv on, h

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.
Revenues	3.5%	4.0%
"Cash Flow"	5.0%	4.0%
Earnings	3.0%	3.0%
Dividends	1.0%	1.0%
Book Value	4.5%	4.0%

	Est'd '05-'07 to '11-'13
%	5.0%
%	8.0%
%	11.0%
%	5.0%
%	2.5%

Calendar	QUARTERLY REVENUES		
	Mar.31	Jun. 30	Sep. 30
2005	49.8	60.5	68.1
2006	64.3	63.0	75.0
2007	72.3	79.3	75.8
2008	68.9	80.3	85.8
2009	74.0	86.0	89.0

(mill.) Dec. 31	Full Year
57.8	236.2
66.3	268.6
74.0	301.4
82.0	317
86.0	335

Cal- endar	EARNINGS PER SHARE		
	Mar.31	Jun. 30	Sep. 30
2005	.22	.34	.47
2006	.35	.36	.32
2007	.40	.42	.44
2008	.30	.53	.60
2009	.33	.55	.65

A	Full
Dec. 31	Year
.29	1.32
.30	1.33
.35	1.62
.42	1.85
.47	2.00

Cal-endar	QUARTERLY DIVIDENDS		
	Mar.31	Jun.30	Sep.30
2004	.221	.221	.221
2005	.225	.225	.225
2006	.225	.225	.225
2007	.235	.235	.235
2008	.250	.250	.250

ID #	Full Year
Dec.31	
.225	.89
.225	.90
.235	.91
.250	.96

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.

Improvements on the regulatory front are helping American States Water. With more favorable backing from the California Public Utilities Commission (CPUC) in place, the utility provider was able to overcome the difficult backdrop that conservation efforts (related to the federally proclaimed June 5th state wide drought) created, posting a 26% earnings growth in the second quarter. Indeed, approved rate increases added roughly \$5.5 million to the top line and boosted water margins by \$3.0 million. Recently filed general rate cases for Region II and III should result in meaningful annual rate increases effective the beginning of 2009.

There may be additional support on the horizon. Now that more timely and company-friendly rulings seem to have become more commonplace, the revamped CPUC can work on implementing some of the regulatory mechanisms laid out in the California Water Action Plan of 2005. If so, the company stands to benefit from the adoption of the water revenue adjustment mechanism, which attempts to limit the effects of weather conditions and generate more-stable earnings patterns. Conse-

ers 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.

quently, we've bumped up our 2008 and 2009 earnings estimates by 12% and 8%, to \$1.85 and \$2.00, respectively. **These shares have moved up a couple of notches on our Timeliness system and are now ranked 2 (Above Average).** They've inched up a bit since our July review, despite the difficulties of the overall market. We think this issue will likely continue to better the broad market over the coming six to 12 months, benefiting from the continued regulatory improvements mentioned above, as well as the issue's more conservative bent, namely the healthy income stream it provides.

Still, the stock does not stand out for 3- to 5-year appreciation potential. The financial cupboard is barren, meaning that the lofty infrastructure costs that we suspect to persist will have to be funded by outside financiers. The troubles of the debt markets make share offerings a bit more likely, but either method would dilute the future shareholder gains we envision, as well as limit the company's ability to take advantage of a highly fragmented industry landscape.

Andre J. Costanza October 24, 2008

(A) Primary earnings. Excludes nonrecurring gains: '91, 73¢; '92, 13¢; '04, 14¢; '05, 25¢; '06, 6¢. Next earnings report due early November. May not add due to rounding.

(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

--	--

Company's Financial Strength	B++
Stock's Price Stability	80
Price Growth Persistence	75
Earnings Predictability	60

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**VALUE
LINE**

	Target 2011	Price 2012	Range 2013
			80
			60
			50
			40
			30
			25
			20
			15
			10
			7.5
TOT. RETURN 9/08			
THIS STOCK	VL ARITH.	INDEX	
3.2	-19.3		
1.6	1.5		
74.7	43.8		

Company	1990	1991	1992	1993	1994	1995
1. General Electric	4.5	5.5	6.5	7.5	8.5	9.5
2. Johnson & Johnson	4.0	4.5	5.0	5.5	6.0	6.5
3. Merck	3.5	4.0	4.5	5.0	5.5	6.0
4. Pfizer	3.0	3.5	4.0	4.5	5.0	5.5
5. Procter & Gamble	2.5	3.0	3.5	4.0	4.5	5.0
6. Amgen	2.0	2.5	3.0	3.5	4.0	4.5
7. Bristol-Myers Squibb	1.5	2.0	2.5	3.0	3.5	4.0
8. Eli Lilly	1.0	1.5	2.0	2.5	3.0	3.5
9. Abbott Laboratories	0.5	1.0	1.5	2.0	2.5	3.0
10. Schering-Plough	0.0	0.5	1.0	1.5	2.0	2.5

CAPITAL STRUCTURE as of 6/30/08		186.3	206.4	244.8	246.8	263.2	277.1	315.6	320.7	334.7	367.1	395	430	Revenues (\$mill)	500
Total Debt \$314.0 mill. Due in 5 Yrs \$25.0 mill.		18.4	19.9	20.0	14.4	19.1	19.4	26.0	27.2	25.6	31.2	36.0	43.0	Net Profit (\$mill)	60.0
LT Debt \$288.3 mill. LT Interest \$20.5 mill.		36.4%	37.9%	42.3%	39.4%	39.7%	39.9%	39.6%	42.4%	37.4%	39.9%	40.0%	40.0%	Income Tax Rate	40.0%
(LT interest earned: 2.7x; total int. cov.: 2.6x)		--	--	--	--	--	10.3%	3.2%	3.3%	10.6%	8.3%	5.0%	5.0%	AFUDC % to Net Profit	5.0%
		44.2%	46.9%	48.9%	50.3%	55.3%	50.2%	48.6%	48.3%	43.5%	42.9%	42.0%	41.0%	Long-Term Debt Ratio	43.0%
Pension Assets-12/07 \$85.3 mill.		54.7%	52.0%	50.2%	48.8%	44.0%	49.1%	50.8%	51.1%	55.9%	56.6%	57.5%	58.5%	Common Equity Ratio	57.0%
Oblig. \$105.8 mill.		308.6	333.8	388.8	402.7	453.1	498.4	565.9	568.1	670.1	674.9	710	750	Total Capital (\$mill)	900
Pfd Stock \$3.5 mill. Pfd Div'd \$ 15 mill.		478.3	515.4	582.0	624.3	697.0	759.5	800.3	862.7	941.5	1010.2	1055	1100	Net Plant (\$mill)	1250
139,000 shares, 4.4% cumulative (\$25 par).		7.8%	7.8%	6.8%	5.3%	5.9%	5.6%	6.1%	6.3%	5.2%	5.9%	6.5%	7.0%	Return on Total Cap'l	8.0%
		10.7%	11.2%	10.0%	7.2%	9.4%	7.8%	8.9%	9.3%	6.8%	8.1%	9.0%	10.0%	Return on Shr. Equity	11.5%
Common Stock 20,716,702 shs. as of 8/1/08		10.8%	11.4%	10.1%	7.2%	9.5%	7.9%	9.0%	9.3%	6.8%	8.1%	9.0%	10.0%	Return on Com Equity	11.5%
MARKET CAP: \$700 million (Small Cap)		2.8%	3.5%	1.8%	NMF	1.0%	.7%	2.1%	2.1%	1.0%	1.8%	2.5%	4.0%	Retained to Com Eq	5.5%
CURRENT POSITION 2006 2007 6/30/08		74%	70%	80%	110%	00%	01%	77%	78%	86%	77%	69%	60%	All Div'ds to Net Prof	51%

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.

adjustment mechanism ought to better allow the company to recover incurred costs and make for a smoother earnings stream going forward. Consequently, we've raised our 2008 and 2009 share-earning estimates by a dime a piece, to \$1.70 and \$1.95, respectively.

We like the diversification strategy that is being employed. Management has completed the acquisition of Waikoloa Water and Wastewater Systems, which provides services to resort areas in Hawaii. This is its second purchase there this year and should limit geographic-specific weather constraints.

These shares do not stand out ... They are ranked 3 (Average) for Timeliness and offer below-average 3- to 5-year appreciation potential, due to the high infrastructure costs we envision persisting. **... but may whet the appetite of risk-averse investors.** CWT has not given much ground since our July review, a novelty in such a tumultuous market environment. Investors may favor the stock's steady returns and healthy dividend yield until there is evidence of market recovery.

Andre I Costanza October 24, 2008

Company's Financial Strength	B++
Stock's Price Stability	65
Price Growth Persistence	65
Earnings Predictability	75

[illegible]**Price Range** \$25.47 - \$25.99

Year	Number of people (millions)
1980	10.5
1985	12.5
1990	14.5
1995	16.5
2000	18.5

Year	Number of people (millions)
1980	4.5
1985	6.0
1990	7.5

9/08
ARITH.
INDEX
19.3
1.5
43.8

11-13	10.00
	1.55
B	.60
	.30
sh	1.70
o	7.10
g C	29.00
	25.0
	1.65
d	1.7%

	290	17.5
Profit	36.0%	16.8%
Ratio	42.0%	58.0%
	355	
	525	
	6.0%	

y	8.5%
ty	8.5%
	4.5%
f	51%

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Overall, the study should be considered a success for the six-to-eight-year-olds.

earnings
reaching 3
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SWWC's
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not have

24, 2008	B
	60
	50
	55

833-0046

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.

A number of outstanding petitions in the courts may lead to an earnings recovery over the next few years. In California, a rate increase case has been filed, and if approved, will add up to \$6.8 million in annualized revenues. The price hike would begin to be implemented in the first quarter of 2009. Also, an application has been accepted by the New Mexico Public Regulation Commission for a rate hike to cover rising costs of sewage treatment, and a rate increase case will likely be entered with the Albuquerque Bernalillo County Water Utility Authority once an ongoing litigation is concluded. Overall, higher prices from rate increases should support top-and-bottom-line improvements out to 2011-2013.

This stock is ranked to mirror the broader market in the coming six- to 12-month period. Also, the earnings recovery we foresee over the approaching 3 to 5 years has already been discounted in the current share price, limiting SWWC's price appreciation potential over this period. As a result, this stock does not have much appeal at this juncture.

John D. Burke *October 24, 2008*

John D. Burke *October 24, 2008*

Company's Financial Strength	B
Stock's Price Stability	60
Price Growth Persistence	50
Earnings Predictability	55

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ATTACHMENT B

The Natural Gas Utility Industry has moved to the top quartile of our industry spectrum for Timeliness since our September review. However, this group has been facing a challenging operating environment due to a tough regulatory climate, frustrating weather conditions, and weakness in the economy. These utilities have remained resilient, though, and have continued to post solid results. Thus, investor sentiment has improved for these good-quality businesses, despite of the turmoil in the world's financial markets.

Macroeconomic Climate

Much has happened since our last report. The global economy has weakened considerably in recent months. Accordingly, the domestic economy has moved into a recession. The weak real estate market and the credit crunch have been among the factors behind the slowdown. Natural Gas Utilities have not been immune to these problems. To be sure, weakness in the housing market has weighed on demand in this industry. Furthermore, consumers are becoming more cost-conscious, which has led to more energy conservation. As a result, usage continues to decline across the industry. What's more, as consumers continue to face this tough economic environment, bill collection will likely become increasingly difficult in the year ahead. Despite these pressures, this sector has become a more attractive choice relative to the rest of the market. Indeed, members in this group tend to offer fairly predictable results, solid balance sheets, and attractive yields.

Regulation

The most important factor for natural gas utilities remains the regulatory environment. This is determined by state commissions that dictate the return on equity these companies can achieve. On point, many of the players in this industry have rate cases pending. The decisions on these cases will be a key factor driving this sector's performance in the near term. If a company receives an unfavorable ruling, it can end up with a tight budget that can hurt profitability. In fact, a few of these utilities appear to be operating with insufficient relief. On the other hand, a positive decision can provide a boost to earnings. Therefore, regulators try to strike a balance between shareholder and consumer interests

INDUSTRY TIMELINESS: 21 (of 99)

when evaluating rate cases. All told, investors should keep an eye out for these decisions, which will likely continue to impact this industry's performance going forward.

Weather

The majority of this sector's annual profits will be derived over the next few months during the peak heating seasons. Thus far, earnings have been mostly unimpressive for this group this year. Therefore, the coming months will be key for companies trying to post gains in 2008.

Investors should watch for unseasonably warm or cold weather because these patterns can create volatility for this group. Many enterprises contend with this risk by using weather-adjusted rate mechanisms. This strategy hedges the risk of weather abnormalities, enabling utilities to maintain their steady operating performance.

Conclusion

The majority of the stocks in this industry are ranked 3 (Average) for Timeliness. However, *Atmos Energy*, *Laclede Group*, *UGI Corporation*, and *New Jersey Resources* are ranked Above Average for relative price performance. Investors should note that this group has moved to the top quartile of our industry spectrum for Timeliness since our September report. Given these businesses predictable cash flows and solid balance sheets, utilities tend to be more defensive plays when there is volatility in the global economy. However, we recommend interested investors look for companies with a favorable regulatory environment.

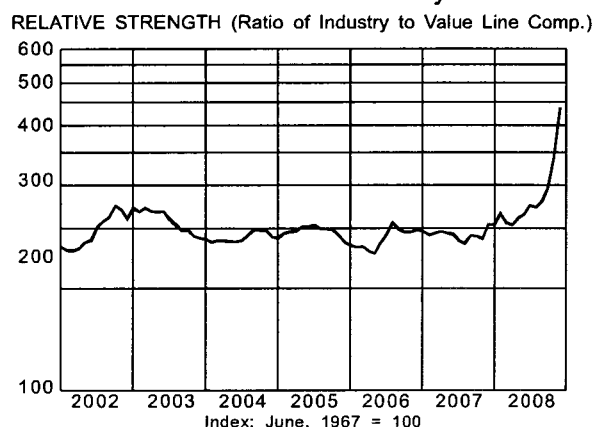
The main appeal of this sector is its above-average dividend yield. The average yield for this industry is about 4.4%, which is above the *Value Line* median of 3.5%. Most notably, *AGL Resources*, *Atmos Energy*, *NiSource*, and *Nicor* all offer yields that top the industry norm. Thus, conservative income-oriented accounts may find these stocks of interest.

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



AGL RESOURCES NYSE-ATG

RECENT PRICE **28.54** P/E RATIO **10.2** (Trailing: 11.0 Median: 14.0) RELATIVE P/E RATIO **1.00** DIVD YLD **6.0%** VALUE LINE

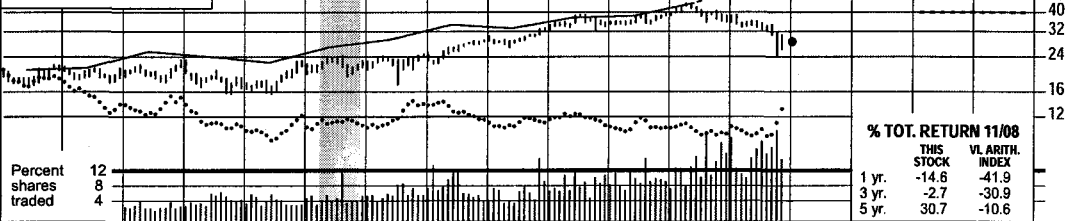
TIMELINESS 3 Raised 11/7/08
SAFETY 2 New 7/27/90
TECHNICAL 3 Raised 12/21/07
BETA .75 (1.00 = Market)

2011-13 PROJECTIONS
 Price Gain Ann'l Total
 High 55 (+95%) 21%
 Low 40 (+40%) 13%

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

Institutional Decisions
 1Q2008 2Q2008 3Q2008
 to Buy 105 131 92
 to Sell 127 106 130
 Hld's(000) 47696 46762 48796

LEGENDS
 1.25 x Dividends p sh
 divided by Interest Rate
 Relative Price Strength
 2-for-1 split 12/95
 Options: Yes
 Shaded area: prior recession
 Latest recession began 12/07



% TOT. RETURN 11/08
 THIS STOCK VL ARITH.
 1 yr. -14.8 -41.9
 3 yr. -2.7 -30.9
 5 yr. 30.7 -10.6

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
20.43	22.73	23.59	19.32	21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	34.98	33.73	32.64	35.40	35.90	Revenues per sh ^A	41.25
2.31	2.25	2.24	2.33	2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	4.20	4.50	4.64	4.70	4.80	"Cash Flow" per sh	5.40
1.13	1.08	1.17	1.33	1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.48	2.72	2.72	2.70	2.80	Earnings per sh ^{A B}	3.15
1.03	1.04	1.04	1.04	1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.30	1.48	1.64	1.68	1.72	Div'ds Decl'd per sh ^C	1.84
2.74	2.49	2.37	2.17	2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.44	3.26	3.39	4.20	4.35	Cap'l Spending per sh	5.00
9.70	9.90	10.19	10.12	10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.29	20.71	21.74	22.60	22.75	Book Value per sh ^D	23.15
48.69	49.72	50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	77.70	76.40	77.00	78.00	Common Shs Outst'g ^E	80.00
15.5	17.9	15.1	12.6	13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	14.3	13.5	14.7	14.7	14.7	Avg Ann'l P/E Ratio	15.0
.94	1.06	.99	.84	.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	.78	.78	.78	Relative P/E Ratio	1.00
5.9%	5.4%	5.9%	6.2%	5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	3.9%	3.7%	4.0%	4.1%	4.1%	4.1%	Avg Ann'l Div'd Yield	3.9%

CAPITAL STRUCTURE as of 9/30/08
 Total Debt \$2444.0 mill. Due in 5 Yrs \$1088 mill.
 LT Debt \$1675.0 mill. LT Interest \$85.0 mill.
 (Total interest coverage: 3.8x)

Leases, Uncapitalized Annual rentals \$26.0 mill.

Pension Assets-12/07 \$383.0 mill.
 Oblig. \$427.0 mill.

Pfd Stock None
 Common Stock 76,780,439 shs.
 as of 10/22/08

MARKET CAP: \$2.2 billion (Mid Cap)

CURRENT POSITION	2006	2007	9/30/08
Cash Assets (\$mill.)	20.0	21.0	11.0
Other	1802.0	1790.0	1929.0
Current Assets	1822.0	1811.0	1940.0
Accts Payable	213.0	172.0	181.0
Debt Due	539.0	580.0	769.0
Other	875.0	893.0	872.0
Current Liab.	1627.0	1645.0	1822.0
Fix. Chg. Cov.	397%	391%	390%

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Past Est'd '05-'07
of change (per sh)	10 Yrs.	5 Yrs.	to '11-'13
Revenues	3.5%	13.5%	3.5%
"Cash Flow"	5.5%	7.0%	3.5%
Earnings	7.0%	15.0%	3.0%
Dividends	2.5%	4.0%	4.0%
Book Value	6.5%	10.5%	2.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2005	908	430	387	993	2718
2006	1044	436	434	707	2621
2007	973	467	369	685	2494
2008	1012	444	539	730	2725
2009	1040	480	505	775	2800

Cal-endar	EARNINGS PER SHARE ^B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	Year
2005	1.14	.30	.19	.85	2.48
2006	1.41	.25	.46	.60	2.72
2007	1.29	.40	.17	.86	2.72
2008	1.16	.30	.28	.96	2.70
2009	1.20	.35	.30	.95	2.80

2009	1.20	.35	.30	.35	2.60
Cal-endar	QUARTERLY DIVIDENDS PAID ^C				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2004	.28	.29	.29	.29	1.15
2005	.31	.31	.31	.37	1.30
2006	.37	.37	.37	.37	1.48
2007	.41	.41	.41	.41	1.64
2008	.42	.42	.42	.42	

BUSINESS: AGL Resources, Inc. is a public utility holding company. Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, and Virginia Natural Gas. The utilities have more than 2.2 million customers in Georgia, Virginia, Tennessee, New Jersey, Florida, and Maryland. Engaged in nonregulated natural gas marketing and other allied services. Also wholesales and retails

Shares of AGL Resources have held up relatively well since our September review, despite considerable weakness in the broader market. The company reported healthy performance in the third quarter. Revenues and share earnings advanced considerably in the recent interim. This was primarily due to strength in the Wholesale Services business, which reported much higher operating income for the period. Elsewhere, performance at the Distribution Operations was helped by greater pipeline replacement revenues for Atlanta Gas Light. However, the utility operations continued to be dampened by weakness in the housing market, and customer growth has slowed significantly in recent times. Despite the challenging economic environment, healthy performance should continue at the company's core businesses. Thus, we anticipate solid results at AGL Resources going forward.

The company continues to progress with its capital projects. The Hampton Roads Crossing Project remains on schedule and within budget. This initiative will connect two pipeline systems crossing the Hampton Roads harbor, and provide for an

ample supply of natural gas to the region. The project will likely be completed late in 2009, and ought to earn solid returns for the company. Elsewhere, construction continues on the Spindletop salt dome in Beaumont, Texas. This underground natural gas storage facility will offer up to 12 billion cubic feet (bcf) of gas capacity in two caverns. The project should meet a growing demand for natural gas storage in the region. Meantime, AGL is moving forward with the Magnolia Pipeline Project. This \$48 million initiative will provide transportation of regasified liquid natural gas from Elba Island to Atlanta Gas Light in the Macon and Atlanta areas.

Overall, this stock offers attractive total return potential for a utility. We anticipate steady bottom-line growth from 2009 onward, assuming capital projects pay off. Moreover, AGL earns high marks for Safety, Price Stability, and Earnings Predictability. Income investors may find this neutrally-ranked issue's healthy dividend yield appealing. Earnings need to pick up for dividend growth to remain above average, though.

Michael Napoli, CPA December 12, 2008

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.	\$0.13; '01, \$0.13; '03, (\$0.07); '08, (\$0.45).	plan available. (D) Includes intangibles. At 9/30/08: \$418 million, \$5.44/share.	Company's Financial Strength B++
(B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, (\$0.83); '99, \$0.39; '00, \$0.13.	Next earnings report due late January/early February. (C) Dividends historically paid early March, June, Sept., and Dec. ■ Div'd reinvest.	(E) In millions, adjusted for stock split.	Stock's Price Stability 100
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			Earnings Predictability 85

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		Target Price Range		
		2011	2012	2013
				80
				60
				50
				40

	THIS STOCK	VL ARITH. INDEX
1 yr.	0.0	-41.9
3 yr.	7.7	-30.9
5 yr.	27.4	-10.6

99	© VALUE LINE PUB., INC.	11-13
95	Revenues per sh ^A	93.05
40	"Cash Flow" per sh	4.65
10	Earnings per sh ^{A B}	2.45
32	Div'ds Decl'd per sh ^C	1.40
65	Cap'l Spending per sh	6.30
10	Book Value per sh	25.55
00	Common Shs Outst'g ^D	115.00
	Avg Ann'l P/E Ratio	14.5
	Relative P/E Ratio	.95
	Avg Ann'l Div'd Yield	4.0%
00	Revenues (\$mill) ^A	10700
95	Net Profit (\$mill)	280
%	Income Tax Rate	40.0%
%	Net Profit Margin	2.6%
%	Long-Term Debt Ratio	51.0%
%	Common Equity Ratio	49.0%
50	Total Capital (\$mill)	6000
50	Net Plant (\$mill)	5800
%	Return on Total Cap'l	6.0%
%	Return on Shr. Equity	9.5%
%	Return on Com Equity	9.5%
%	Retained to Com Eq	4.0%
%	All Div'ds to Net Prof	58%

and 4% other. 2007 depreciation rate
years. Officers and directors own ap-
stock (12/07 Proxy). Chairman and
t W. Best. Incorporated: Texas. Ad-
as, Texas 75265. Telephone: 972-
energy.com.

commercial paper market froze. Efficiency gains may provide an offset, though. We expect a similar rate of bottom-line growth (to \$2.20 a share) in fiscal 2010.

Steady, albeit unspectacular, annual earnings gains appear to be in store over the 2011-2013 horizon. The utility is one of the country's leading natural gas-only distributors, serving some 3.2 million customers across 12 states. Furthermore, the unregulated segments (contributing between 15% and 35% to net income annually on a historical basis) seem to possess healthy overall prospects. Finally, management should continue to implement its successful strategy of purchasing less-efficient utilities and shoring up their profitability via expense-reduction efforts, rate relief, and aggressive marketing.

These good-quality shares offer a healthy dose of current dividend income, which is adequately covered by earnings. Continued moderate increases in the distribution seem likely, too.

Total return prospects look decent, on a risk-adjusted basis. Also, the stock is ranked 2 (Above Average) for Timeliness.

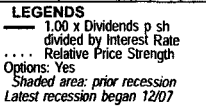
Frederick L. Harris III December 12, 2008

to change in shrs	Company's Financial Strength	B+
	Stock's Price Stability	100
Cities merger 7/97.	Price Growth Persistence	40
	Earnings Predictability	80

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To subscribe call 1-800-833-0046.

RECENT PRICE	48.89	P/E RATIO	21.2 (Trailing: 18.4 Median: 15.0)	RELATIVE P/E RATIO	2.08	DIV'D YLD	3.1%	VALUE LINE
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[illegible]

2011-13 PROJECTIONS

Shaded area: prior recession
Latest recession began 12/07

	Price	Gain	Ann'l Total Return
High	60	(+25%)	8%
Low	45	(-10%)	1%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	1	0	9	0	0	2	0
to Sell	0	0	1	0	9	0	0	2	0

Institutional Decisions

	1Q2008	2Q2008	3Q2008
to Buy	72	97	82
to Sell	55	50	72
Hold's (DPO)	10492	11750	11943

% TOT. RETURN 11/08

	THIS STOCK	VL ARITH. INDEX
1 yr.	59.3	-41.9
3 yr.	100.2	-30.9
5 yr.	124.7	-10.6

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13			
26.83	32.33	33.43	24.79	31.03	34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	75.43	93.51	93.40	100.40	96.00	Revenues per sh	111.75			
2.32	2.81	2.65	2.55	3.29	3.32	3.02	2.56	2.68	3.00	2.56	3.15	2.79	2.98	3.81	3.87	4.20	4.30	"Cash Flow" per sh	5.30			
1.17	1.61	1.42	1.27	1.87	1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	1.90	2.37	2.31	2.64	2.50	Earnings per sh ^{A B}	2.85			
1.20	1.22	1.22	1.24	1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.35	1.37	1.40	1.45	1.49	1.53	Div'ds Decl'd per sh ^C	1.65			
2.87	2.62	2.50	2.63	2.35	2.44	2.68	2.58	2.77	2.51	2.80	2.67	2.45	2.84	2.97	2.72	2.55	2.65	Cap'l Spending per sh	3.40			
11.79	12.19	12.44	13.05	13.72	14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	17.31	18.85	19.79	22.10	21.90	Book Value per sh ^D	26.00			
15.59	15.59	15.67	17.42	17.56	17.56	17.63	18.88	18.88	18.88	18.96	19.11	20.98	21.17	21.36	21.65	22.00	22.50	Common Shs Outst'g ^E	25.50			
15.8	13.5	16.4	15.5	11.9	12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	16.2	13.6	14.2	14.3		Avg Ann'l P/E Ratio	18.0			
.96	.80	1.08	1.04	.75	.72	.81	.90	.97	.74	1.09	.78	.83	.86	.73	.75	.85		Relative P/E Ratio	1.20			
6.5%	5.6%	5.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%	4.3%	4.4%	3.9%		Avg Ann'l Div'd Yield	3.1%			
CAPITAL STRUCTURE as of 6/30/08						547.2	491.6	566.1	1002.1	755.2	1050.3	1250.3	1597.0	1997.6	2021.6	2209.0	2160	Revenues (\$mill) ^A	2850			
Total Debt \$368.0 mill. Due in 5 Yrs \$275.0 mill.						27.9	26.9	26.0	30.5	22.4	34.6	36.1	40.1	50.5	49.8	57.5	56.5	Net Profit (\$mill)	75.0			
LT Debt \$309.2 mill. LT Interest \$20.0 mill.						35.6%	35.5%	35.2%	32.7%	35.4%	35.0%	34.8%	34.1%	32.5%	33.4%	31.3%	31.5%	Income Tax Rate	35.0%			
(Total interest coverage: 3.0x)						5.1%	5.5%	4.6%	3.0%	3.0%	3.3%	2.9%	2.5%	2.5%	2.5%	2.6%	2.6%	Net Profit Margin	2.7%			
Leases, Uncapitalized Annual rentals \$.9 mill.						40.9%	41.8%	45.2%	49.5%	47.5%	50.4%	51.6%	48.1%	49.5%	45.3%	44.5%	45.0%	Long-Term Debt Ratio	47.0%			
Pension Assets-9/07 \$260.3 mill.						58.6%	57.8%	54.5%	50.2%	52.3%	49.4%	48.3%	51.8%	50.4%	54.6%	55.5%	55.0%	Common Equity Ratio	53.0%			
Oblig. \$293.3 mill.						438.0	488.6	519.2	574.1	546.6	605.0	737.4	707.9	798.9	784.5	875	895	Total Capital (\$mill)	1250			
Pfd Stock \$.5 mill. Pfd Div'd \$.04 mill.						490.6	519.4	575.4	602.5	594.4	621.2	646.9	679.5	763.8	793.8	825	855	Net Plant (\$mill)	1150			
Common Stock 21,971,760 shs. as of 8/5/08						8.1%	7.1%	6.7%	6.9%	6.0%	7.4%	6.6%	7.6%	8.4%	8.5%	8.0%	7.5%	Return on Total Cap'l	7.5%			
						10.8%	9.5%	9.1%	10.5%	7.8%	11.5%	10.1%	10.9%	12.5%	11.6%	12.0%	11.5%	Return on Shr. Equity	11.5%			
						10.8%	9.5%	9.1%	10.5%	7.8%	11.6%	10.1%	10.9%	12.5%	11.6%	12.0%	11.5%	Return on Com Equity	11.5%			
MARKET CAP: \$1.1 billion (Mid Cap)						1.8%	1.0%	.2%	1.8%	NMF	3.1%	2.7%	3.1%	5.1%	4.3%	5.0%	4.5%	Retained to Com Eq	5.0%			
CURRENT POSITION						2006	2007	6/30/08	83%	89%	98%	83%	113%	74%	73%	72%	59%	63%	57%	61%	All Div'ds to Net Prof	56%

(SMILL)			
Cash Assets	50.8	52.7	33.3
Other	409.0	414.6	395.5
Current Assets	459.8	467.3	428.8
<hr/>			
Accts Payable	103.3	106.8	191.4
Debt Due	207.5	251.6	58.8
Other	120.1	115.3	75.5
Current Liab.	430.9	473.7	325.7
Fix. Chg. Cov.	285%	282%	285%
<hr/>			
ANNUAL RATES	Past	Past	Est'd '05-'0
of change (per sh)	10 Yrs.	5 Yrs.	to '11's
Revenues	11.5%	16.5%	4.5%
"Cash Flow"	1.5%	5.5%	7.0%
Earnings	3.0%	9.5%	4.0%
Dividends	1.0%	1.0%	2.5%
Book Value	3.0%	4.5%	5.5%

Fiscal Year Ends	QUARTERLY REVENUES (\$ mill.) ^A				Full Fiscal Year
	Dec.31	Mar.31	Jun.30	Sep.30	
2005	442.5	576.5	311.3	266.7	1597.0
2006	689.2	708.8	330.6	269.0	1997.6
2007	539.6	700.8	457.9	323.3	2021.6
2008	504.0	747.7	505.5	451.8	2209.0
2009	540.0	540.0	540.0	540.0	2160.0

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2005	.79	1.06	.29	d.24	1.99
2006	1.23	1.05	.13	d.04	2.33
2007	.89	.97	.43	.03	2.32
2008	.99	1.39	.41	d.14	2.63
2009	.88	.89	.32	.17	2.57

2009	.96	1.16	.33	.05	2.50
Calendar	QUARTERLY DIVIDENDS PAID C =				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2005	.34	.345	.345	.345	1.38
2006	.345	.355	.355	.355	1.41
2007	.365	.365	.365	.365	1.47
2008	.375	.375	.375	.375	1.50

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 10 other counties. Has roughly 632,000 customers. Purchased SM&P Utility Resources, 1/02; divested, 3/08. Therms sold and transported in fiscal 2007: 1.12 million. Revenue mix for regulated operations: residential, 60%; commercial and industrial, 24%; transportation, 1%; other, 15%. Has around 3,845 employees. Officers and directors own approximately 7.0% of common shares (1/08 proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.thelacledegroup.com.

We do not believe that Laclede Group's share net in fiscal 2009 (which began on October 1st) will reach last year's level, attributable mainly to the difficult comparison. Regarding Laclede Gas, accounting for the biggest portion of profits, it appears that the substantial rate increase effective August 1st of 2007 won't be repeated. Furthermore, there may not be a recording of additional previously unrecognized tax benefits here. Meanwhile, Laclede Energy Resources stands to have a respectable performance (depending greatly on natural gas price volatility), but we do not anticipate a reversal of more tax-related expenses. All things considered, consolidated share net ought to decrease roughly 5%, to \$2.50, this fiscal year. Laclede Group's bottom line could expand in the mid-single-digit range (to \$2.60 a share) in fiscal 2010, assuming additional expansion in operating margins.

Steady, if unspectacular, earnings increases seem achievable over the 3- to 5-year timeframe. Expansion of the customer base for the natural gas distribution unit has been moderate for some time, be-

cause the service area, located in eastern Missouri, is in a mature stage. That being the case, internal growth here will likely remain a challenge. The non-regulated division has promising expansion opportunities, but it has contributed just a small portion to Laclede Group's profits on a historical basis. A significant acquisition could help to offset this, but it appears that management has no such plans in the works at this juncture. Consequently, annual bottom-line advances could be only between 4% and 5% over the 2011-2013 horizon.

This favorably ranked equity offers a decent level of current dividend income, which is adequately covered by earnings. But further increases in the distribution will probably be slow in coming. This is primarily because of the regulated gas segment's unexciting long-term growth prospects.

Total-return possibilities are limited. That is attributable to these shares' relatively high present quotation and our expectation of moderate increases in the dividend.

Frederick J. Harris, III, December 12, 2009

2009	385	unit has been moderate for some time be-	Frederick L. Harris, III December 12, 2008
(A) Fiscal year ends Sept. 30th.		ations: '08, 94¢. Next earnings report due late Jan. (C) Dividends historically paid in early January, April, July, and October. = Dividend reinvestment plan available. (D) Incl. deferred	Company's Financial Strength B+ Stock's Price Stability 100 Price Growth Persistence 60 Earnings Predictability 75
(B) Based on average shares outstanding thru '97, then diluted. Excludes nonrecurring loss: '06, '7¢. Excludes gain from discontinued oper-		ations: '08, 94¢. Next earnings report due late Jan. (C) Dividends historically paid in early January, April, July, and October. = Dividend reinvestment plan available. (D) Incl. deferred	
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		charges. In '07: \$289.7 mill., \$13.38/sh. (E) In millions. (F) Qtly. egs. may not sum due to rounding or change in shares outstanding.	
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NEW JERSEY RES. NYSE-NJR

RECENT PRICE **38.42**

P/E RATIO **12.2**

Trailing: 14.2
Median: 15.0

RELATIVE P/E RATIO **1.20**

DIV'D YLD **3.2%**

VALUE LINE

TIMELINESS 2 Raised 11/28/08
SAFETY 1 Raised 9/15/06
TECHNICAL 2 Raised 11/21/08
BETA .70 (1.00 = Market)

2011-13 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+15%)	7%
Low	40	(+5%)	4%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	0	0	0	0	0	0	0
Options	2	0	0	1	2	0	0	1	0
to Sell	0	2	0	0	2	0	0	1	0

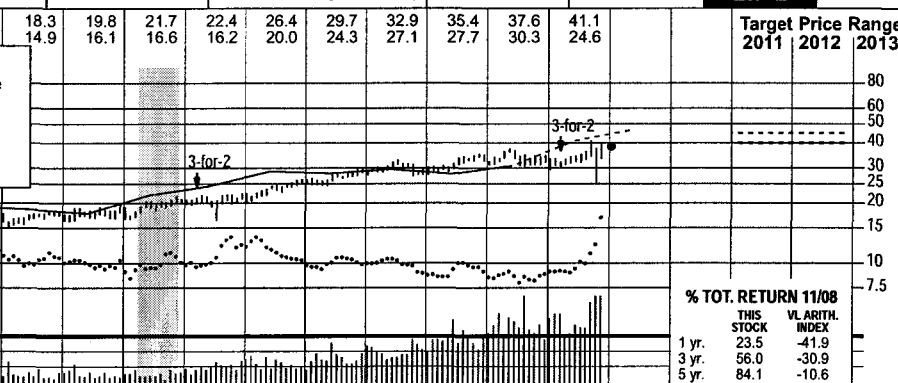
Institutional Decisions

	1Q2008	2Q2008	3Q2008
to Buy	85	90	64
to Sell	70	62	88
Hld's(000)	26518	26910	26312

LEGENDS
1.40 x Dividends p sh
divided by Interest Rate
Relative Price Strength
3-for-2 split 3/02
3-for-2 split 3/08
Options: No
Shaded area: prior recession
Latest recession began 12/07

Percent shares traded

	12	8	4
to Buy	85	90	64
to Sell	70	62	88
Hld's(000)	26518	26910	26312



% TOT. RETURN 11/08

	THIS STOCK	VL ARITH. INDEX
1 yr.	23.5	-41.9
3 yr.	56.0	-30.9
5 yr.	84.1	-10.6

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
11.25	12.02	12.81	11.36	13.48	17.31	17.73	22.65	29.42	51.22	44.11	62.29	60.89	76.19	79.63	72.62	91.12	92.45	Revenues per sh ^A	97.60
1.30	1.42	1.54	1.42	1.48	1.63	1.74	1.86	1.99	2.12	2.14	2.38	2.50	2.62	2.73	2.44	3.64	3.70	"Cash Flow" per sh	3.90
.73	.76	.84	.86	.92	.99	1.04	1.11	1.20	1.30	1.39	1.59	1.70	1.77	1.87	1.55	2.70	2.80	Earnings per sh ^B	3.00
.68	.68	.68	.68	.69	.71	.73	.75	.76	.78	.80	.83	.87	.91	.96	1.01	1.11	1.24	Div'ds Decl'd per sh ^C	1.36
1.33	1.54	1.40	1.18	1.19	1.15	1.07	1.21	1.23	1.10	1.02	1.14	1.45	1.28	1.28	1.46	1.73	1.75	Cap'l Spending per sh	1.80
6.29	6.54	6.43	6.47	6.73	6.92	7.26	7.57	8.29	8.80	8.71	10.26	11.25	10.60	15.00	15.50	17.36	19.35	Book Value per sh ^D	25.75
36.64	37.84	38.93	40.03	40.69	40.23	40.07	39.92	39.59	40.00	41.50	40.85	41.61	41.32	41.44	41.61	41.88	42.50	Common Shs Outst'g ^E	44.00
12.4	15.1	13.0	11.7	13.6	13.5	15.3	15.2	14.7	14.2	14.7	14.0	15.3	16.8	16.1	21.6	12.3		Avg Ann'l P/E Ratio	14.0
.75	.89	.85	.78	.85	.78	.80	.87	.96	.73	.80	.80	.81	.89	.87	1.13	.73		Relative P/E Ratio	.95
7.5%	5.8%	6.2%	6.7%	5.6%	5.3%	4.6%	4.5%	4.4%	4.2%	3.9%	3.7%	3.3%	3.1%	3.2%	3.0%	3.3%		Avg Ann'l Div'd Yield	3.4%
CAPITAL STRUCTURE as of 9/30/08						710.3	904.3	1164.5	2048.4	1830.8	2544.4	2533.6	3148.3	3299.6	3021.8	3816.2	3930	Revenues (\$mill) ^A	4295
Total Debt \$693.4 mill. Due in 5 Yrs \$175.6 mill.						43.3	44.9	47.9	52.3	56.8	65.4	71.6	74.4	78.5	65.3	113.9	120	Net Profit (\$mill)	130
LT Debt \$455.1 mill. LT Interest \$16.9 mill.						30.4%	36.2%	37.8%	38.0%	38.7%	39.4%	39.1%	39.1%	38.9%	38.8%	37.8%	39.0%	Income Tax Rate	40.0%
Incl. \$8.8 mill. capitalized leases.						6.1%	5.0%	4.1%	2.6%	3.1%	2.6%	2.8%	2.4%	2.4%	2.2%	3.0%	3.1%	Net Profit Margin	3.0%
(LT interest earned: 4.8x; total interest coverage: 4.8x)						51.2%	48.7%	47.0%	50.1%	50.6%	38.1%	40.3%	42.0%	34.8%	37.3%	38.5%	38.0%	Long-Term Debt Ratio	32.5%
Pension Assets-9/08 \$80.6 mill.						45.6%	51.2%	52.9%	49.9%	49.4%	61.9%	59.7%	58.0%	65.2%	62.7%	61.5%	62.0%	Common Equity Ratio	67.5%
Oblig. \$102.4 mill.						638.2	590.4	620.1	706.2	732.4	676.8	783.8	755.3	954.0	1028.0	1182.1	1325	Total Capital (\$mill)	1680
Pfd Stock None						680.0	705.4	730.6	743.9	756.4	852.6	880.4	905.1	934.9	970.9	1017.3	1040	Net Plant (\$mill)	1100
Common Stock 42,120,169 shs.						8.1%	9.0%	9.0%	8.5%	8.7%	10.7%	10.1%	11.2%	9.6%	7.7%	10.7%	10.0%	Return on Total Cap'l	8.5%
as of 11/20/08						13.9%	14.8%	14.6%	14.8%	15.7%	15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	14.5%	Return on Shr. Equity	11.5%
MARKET CAP: \$1.6 billion (Mid Cap)						14.4%	14.8%	14.6%	14.9%	15.7%	15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	14.5%	Return on Com Equity	11.5%
CURRENT POSITION						4.4%	5.0%	5.4%	6.1%	6.9%	7.7%	7.8%	8.5%	6.3%	3.6%	9.3%	8.0%	Retained to Com Eq	6.5%
(\$MILL.)						71%	67%	63%	58%	56%	51%	49%	50%	50%	64%	41%	44%	All Div'ds to Net Prof	46%

ANNUAL RATES

	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07
of change (per sh)	10 Yrs.	5 Yrs.	to '11-'13
Revenues	18.5%	13.0%	4.5%
"Cash Flow"	5.5%	4.5%	7.0%
Earnings	6.5%	6.0%	9.5%
Dividends	3.5%	4.0%	6.0%
Book Value	7.5%	10.0%	11.0%

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2005	854.1	1065	544.3	684.9	3148.3
2006	1164	1064	536.1	535.5	3299.6
2007	737.4	1029	662.2	593.2	3021.8
2008	811.1	1178	1000	827.1	3816.2
2009	850	1190	1050	840	3930

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2005	.61	1.23	.05	d.12	1.77
2006	.82	1.43	d.09	d.29	1.87
2007	.70	.19	.60	.06	1.55
2008	.87	.30	d.18	1.86	2.70
2009	.90	.40	--	1.50	2.80

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.217	.217	.217	.217	.87
2005	.227	.227	.227	.227	.91
2006	.24	.24	.24	.24	.96
2007	.253	.253	.253	.253	1.01
2008	.267	.28	.28	.28	

BUSINESS: New Jersey Resources Corp. is a holding company providing retail/wholesale energy svcs. to customers in New Jersey, and in states from the Gulf Coast to New England, and Canada. New Jersey Natural Gas had about 478,000 customers at 9/30/07 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2007 volume: 102.8 bill. cu. ft. (58% firm, 6% interruptible industrial

New Jersey Resources posted solid results for its fiscal fourth quarter (ended September 30th) and year. This stemmed from roughly 7,175 new customers last year, as well as about 730 conversions, which boosted results at the New Jersey Natural Gas (NJNG) division. Meanwhile, record performance from NJR Energy Services also contributed nicely.

Capital projects ought to provide room for the expansion of its mid-stream assets. NJR has been making progress at its Steckman Ridge storage facility in western Pennsylvania. Meanwhile, the company has drilled three wells so far, and expects to have nine others completed in 2009. This facility will provide extra capacity during the peak winter and summer months to the Northeast. Also, the completion of a new 16-inch main pipeline into the Whiting section of Manchester Township, NJ is allowing for new first-time customers.

We have raised our 2009 annual estimate by 30%. This stems a recent base rate case approval for NJNG that boosts annual revenues by \$32.5 million, as well as the aforementioned capital projects.

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 empl. 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.

New customers at the NJNG division are expected to contribute approximately \$4 million annually to utility gross margins. And there is still sizable room for that segment to grow through potential customers and conversions. The NJR Energy Services unit has benefited from its dynamic portfolio of supply storage and transportation contacts. And the Steckman Ridge facility ought to complement that mix nicely. All told, the company's prospects appear bright.

Meanwhile, the balance sheet and financial position appear strong. NJR has ample cash on hand, and solid access to capital through revolving bank credit. **These timely shares have been on a bumpy ride since our September review.** Still, they are currently trading up about 6% over that interim, thanks to a dividend increase and solid earnings this past year. Meanwhile, the 10.7% hike in NJR's quarterly dividend may appeal to income-oriented accounts. And conservative investors may find the high Safety rank (1) and solid Financial Strength rating (A) comforting.

Bryan Fong December 12, 2008

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Qly eggs may not sum to total due to change in shares outstanding. Next earnings report due late Jan.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Includes regulatory assets in 2008: \$340.7 million, \$8.09/share.
(E) In millions, adjusted for split.
(F) Restated.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	50

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NICOR, INC. NYSE-GAS

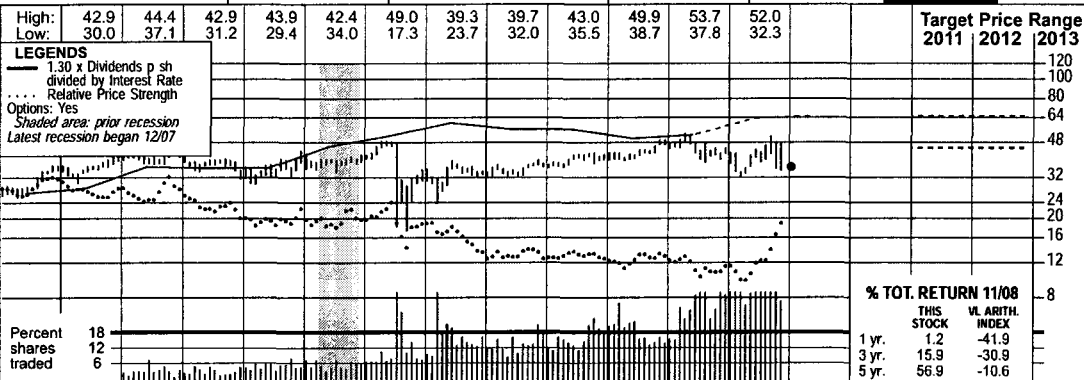
RECENT PRICE **36.17** P/E RATIO **18.5** (Trailing: 12.9 Median: 15.0) RELATIVE P/E RATIO **1.81** DIV'D YLD **5.1%** VALUE LINE

TIMELINESS 3 Raised 12/7/07
SAFETY 3 Lowered 6/17/05
TECHNICAL 2 Raised 10/10/08
BETA .70 (1.00 = Market)

2011-13 PROJECTIONS
 Price Gain Ann'l Total
 High 65 (+80%) 19%
 Low 45 (+25%) 10%

Insider Decisions
 J F M A M J J A S
 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
 1Q2008 2Q2008 3Q2008
 to Buy 91 119 105
 to Sell 120 90 125
 Hld's (000) 31875 32273 32539



1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
28.90	31.02	31.23	29.42	37.39	41.33	30.84	34.45	50.52	57.30	43.11	60.46	62.12	76.00	65.92	69.20	83.35	86.65	Revenues per sh	100.00		
4.14	3.80	4.11	4.19	4.97	5.29	5.21	5.59	6.16	6.41	6.03	5.37	6.00	6.19	6.82	6.96	6.60	7.15	"Cash Flow" per sh	8.85		
1.92	1.97	2.07	1.96	2.42	2.55	2.31	2.57	2.94	3.01	2.88	2.11	2.22	2.29	2.87	2.98	2.25	2.50	Earnings per sh ^A	3.45		
1.18	1.22	1.25	1.28	1.32	1.40	1.48	1.54	1.66	1.76	1.84	1.86	1.86	1.86	1.86	1.86	1.86	1.86	Div'ds Decl'd per sh ^B	1.86		
3.12	2.62	3.34	3.12	2.42	2.34	2.87	3.28	3.48	4.18	4.37	4.12	4.32	4.57	4.17	3.77	4.20	4.35	Cap'l Spending per sh	4.80		
12.76	13.05	13.26	13.67	14.74	15.43	15.97	16.80	15.56	16.39	16.55	17.13	16.99	18.36	19.43	20.58	20.75	21.35	Book Value per sh	25.40		
55.77	53.96	51.54	50.30	49.49	48.22	47.51	46.89	45.49	44.40	44.01	44.04	44.10	44.18	44.90	45.90	45.00	45.00	Common Shs Outst'g ^C	45.00		
11.6	14.1	12.5	13.1	12.5	14.2	17.6	14.6	11.9	12.8	13.1	15.8	15.9	17.3	15.0	15.0	15.0	15.0	Avg Ann'l P/E Ratio	16.0		
.70	.83	.82	.88	.78	.82	.92	.83	.77	.66	.72	.90	.84	.92	.81	.80	.80	.80	Relative P/E Ratio	1.05		
5.3%	4.4%	4.8%	5.0%	4.4%	3.9%	3.6%	4.1%	4.7%	4.6%	4.9%	5.6%	5.3%	4.7%	4.3%	4.2%	4.3%	4.3%	Avg Ann'l Div'd Yield	3.2%		

CAPITAL STRUCTURE as of 9/30/08
 Total Debt \$937.0 mill. Due in 5 Yrs \$544.0 mill.
 LT Debt \$448.0 mill. LT Interest \$30.0 mill.
 (Total interest coverage: 5.9x)

Pension Assets-12/07 \$478.7 mill. Oblig. \$263.2 mill.

Pfd Stock \$6 mill. **Pfd Div'd** None

Common Stock 45,191,267 shares as of 10/27/08
MARKET CAP: \$1.6 billion (Mid Cap)

CURRENT POSITION 2006 2007 9/30/08

	2006	2007	9/30/08
Cash Assets	67.6	91.9	74.4
Other	843.1	931.9	934.5
Current Assets	910.7	1023.8	1008.9
Accts Payable	564.5	428.2	435.4
Debt Due	350.0	444.0	489.0
Other	227.9	404.2	394.9
Current Liab.	1142.4	1276.4	1319.3
Fix. Chg. Cov.	543%	544%	94%

ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '05-'07 of change (per sh)

	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07
Revenues	7.0%	7.0%	6.0%
"Cash Flow"	3.5%	1.5%	5.0%
Earnings	1.5%	-1.5%	4.0%
Dividends	3.5%	1.0%	Nil
Book Value	3.0%	4.0%	4.5%

QUARTERLY REVENUES (\$ mill.)

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	1179.9	484.4	336.0	1357.5	3357.8
2006	1319.4	451.3	351.1	838.2	2960.0
2007	1334.7	556.9	365.2	919.5	3176.3
2008	1595.7	699.8	440.3	1014.2	3750
2009	1650	715	435	1104	3900

EARNINGS PER SHARE^A

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.98	.35	d.06	1.02	2.29
2006	.99	.19	.39	1.30	2.87
2007	1.04	.40	.32	1.22	2.98
2008	.91	.64	.03	.67	2.25
2009	.90	.35	.25	1.00	2.50

QUARTERLY DIVIDENDS PAID^B

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.465	.465	.465	.465	1.86
2005	.465	.465	.465	.465	1.86
2006	.465	.465	.465	.465	1.86
2007	.465	.465	.465	.465	1.86
2008	.465	.465	.465	.465	1.86

BUSINESS: Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.2 million customers in northern and western Illinois. 2007 gas delivered: 468.3 Bcf, incl. 212.1 Bcf from transportation. 2007 gas sales (256.2 bcf): residential, 79%; commercial, 19%; industrial, 2%. Principal supplying pipelines: Natural Gas Pipeline, Horizon Pipeline, and TGPC. Current operations include Tropical Shipping subsidiary and several energy related ventures. Divested oil and gas E&P, 6/93. Has about 3,900 employees. Officers/directors own about 2.2% of common stock (3/08 proxy). Chairman and Chief Executive Officer: Russ Strobel. Incorporated: Illinois. Address: 1844 Ferry Road, Naperville, Illinois 60563. Telephone: 630-305-9500. Internet: www.nicor.com.

Nicor's performance has been unimpressive lately. Most notably, earnings of \$0.03 a share fell well short of our \$0.20-a-share estimate. Weakness in the gas distribution business was the primary reason for the disappointing performance. The company has faced various challenges over the course of 2008 including high gas prices, rising costs, and tough market conditions in its shipping business.

Management reiterated its outlook for the year. Despite the shortfall in the September interim, Nicor expects earnings to be between \$2.20 and \$2.40 a share for 2008. This view does not include the potential for volatility in natural gas markets and assumes normal weather for the remainder of the year.

We look for earnings to be on the low end of the company's guidance. Given the weak third-quarter showing, we estimate share net will be \$2.25. Nicor will probably continue to face a challenging operating environment, which should pressure results in the December period.

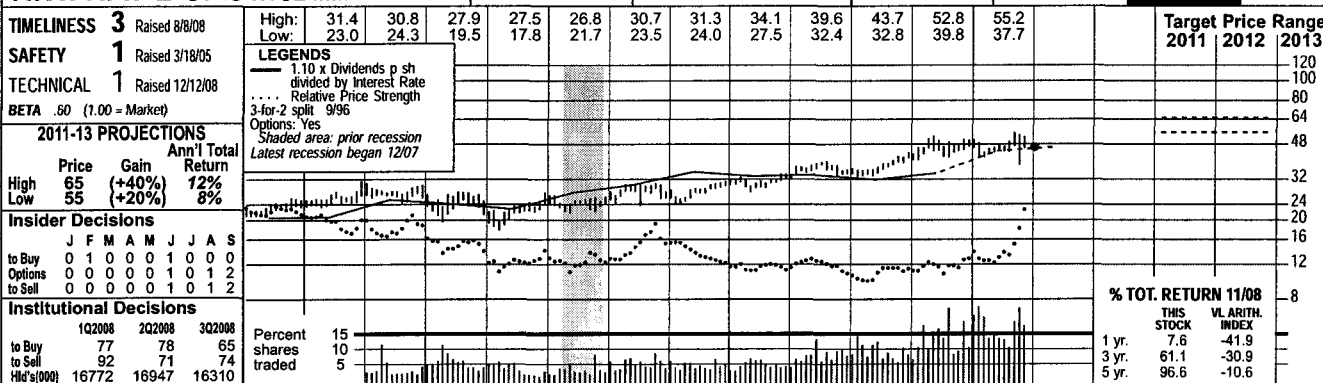
Nicor is still focused on obtaining rate relief. The company filed a case and is awaiting a decision from the Illinois Com-

merce Commission (ICC). Nicor initially wanted to increase its rate base by \$140.3 million in order to recoup rising costs in its market. This case reflected an 11.05% return on equity on a \$1.5 billion base. In response to a direct testimony by the ICC, the company filed rebuttal testimony in late September, which revised its proposed rate to \$141.6 million and increased its cost of equity to 11.15%. All told, the process is expected to continue into the middle of 2009, and the outcome should be a key factor in GAS' performance over the coming years. Thus, we recommend investors continue to keep a close eye on these proceedings over the coming months.

This stock is ranked 3 (Average) for year-ahead performance. However, risk-averse investors may find these stable shares appealing, given the volatility in the world's financial markets. Nicor's yield is above the industry average, which may interest income-oriented accounts. Still, the company will probably continue to be pressured by a tough operating environment in the foreseeable future. Therefore, most investors should look elsewhere.

Richard Gallagher December 12, 2008

RECENT PRICE	46.38	P/E RATIO	17.4 (Trailing: 18.0 Median: 16.0)	RELATIVE P/E RATIO	1.71	DIV'D YLD	3.4%	VALUE LINE
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1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13			
14.10	18.15	18.30	16.02	16.86	15.82	16.77	18.17	21.09	25.78	25.07	23.57	25.69	33.01	37.20	39.13	40.55	43.95	Revenues per sh	50.00			
3.25	3.74	3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.86	3.65	3.85	3.92	4.34	4.76	5.41	5.40	5.75	"Cash Flow" per sh	6.60			
.74	1.74	1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.86	2.11	2.35	2.76	2.53	2.80	Earnings per sh ^A	3.35			
1.15	1.17	1.17	1.18	1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	1.32	1.39	1.44	1.52	1.60	Div'ds Decl'd per sh ^B	1.88			
3.73	3.61	4.23	3.02	3.70	5.07	4.02	4.78	3.46	3.23	3.11	4.90	5.52	3.48	3.56	4.48	5.45	9.00	Cap'l Spending per sh	4.50			
12.41	13.08	12.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	19.52	20.64	21.28	22.01	22.52	23.65	23.75	Book Value per sh	26.50			
19.46	19.77	20.13	22.24	22.56	22.86	24.85	25.09	25.23	25.23	25.59	25.94	27.55	27.58	27.24	26.41	26.50	26.50	Common Shs Outst'g ^C	28.00			
27.0	12.9	13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.8	16.7	17.0	15.9	16.7	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	18.0			
1.64	.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88	.91	.86	.88			Relative P/E Ratio	1.20			
5.7%	5.2%	5.5%	5.7%	5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	4.2%	3.7%	3.7%	3.7%			Avg Ann'l Div'd Yield	3.1%			
CAPITAL STRUCTURE as of 9/30/08						416.7	455.8	532.1	650.3	641.4	611.3	707.6	910.5	1013.2	1033.2	1000	1025	Revenues (\$/mill)	1400			
Total Debt \$686.8 mill. Due in 5 Yrs \$259.8 mill.						27.3	44.9	47.8	50.2	43.8	46.0	50.6	58.1	65.2	74.5	67.5	74.0	Net Profit (\$/mill)	94.0			
LT Debt \$512.0 mill. LT Interest \$37.0 mill.						31.0%	35.4%	35.9%	35.4%	34.9%	33.7%	34.4%	36.0%	36.3%	37.2%	37.0%	37.0%	Income Tax Rate	37.0%			
(Total interest coverage: 4.0x)						6.6%	9.9%	9.0%	7.7%	6.8%	7.5%	7.1%	6.4%	6.4%	7.2%	6.8%	6.4%	Net Profit Margin	67.0%			
Pension Assets-12/07 \$241 mill.						45.0%	46.0%	45.1%	43.0%	47.6%	49.7%	46.0%	47.0%	46.3%	46.3%	47.0%	48.0%	Long-Term Debt Ratio	48.0%			
Oblig. \$260 mill.						50.6%	49.9%	50.9%	53.2%	51.5%	50.3%	54.0%	53.0%	53.7%	53.7%	53.0%	52.0%	Common Equity Ratio	52.0%			
Pfd Stock None						815.6	861.5	887.8	880.5	937.3	1006.6	1052.5	1108.4	1116.5	1106.8	1150	1200	Total Capital (\$/mill)	1500			
Common Stock 26,470,688 shs.						894.7	895.9	934.0	965.0	995.6	1205.9	1318.4	1373.4	1425.1	1495.9	1550	1650	Net Plant (\$/mill)	2000			
as of 10/31/08						5.0%	6.8%	6.7%	6.9%	5.9%	5.7%	5.9%	6.5%	7.1%	8.5%	7.5%	7.7%	Return on Total Cap'l	7.0%			
MARKET CAP \$1.2 billion (Mid Cap)						6.1%	9.7%	9.8%	10.0%	8.9%	9.1%	8.9%	9.9%	10.9%	12.5%	11.5%	11.5%	Return on Shr. Equity	11.0%			
						6.0%	9.9%	10.0%	10.2%	8.5%	9.0%	8.9%	9.9%	10.9%	12.5%	11.5%	11.5%	Return on Com Equity	11.0%			
						NMF	2.8%	3.1%	3.5%	1.9%	2.6%	2.7%	3.7%	4.5%	6.0%	5.0%	5.0%	Retained to Com Eq	5.0%			
CURRENT POSITION						2006	2007	9/30/08	118%	74%	70%	67%	79%	72%	69%	63%	59%	52%	58%	57%	All Div'ds to Net Prof	56%

	2005	2004	2003
Cash Assets	5.8	6.1	4.1
Other	303.0	268.8	279.7
Current Assets	308.8	274.9	283.8
Accts Payable	113.6	119.7	53.5
Debt Due	129.6	148.1	174.8
Other	98.3	122.1	184.0
Current Liab.	341.5	389.9	412.3
Fx. Chg. Cov.	349%	408%	NMF
ANNUAL RATES	Past	Past	Est'd '05-'07
of change (per sh)	10 Yrs.	5 Yrs.	to '11-'13
Revenues	8.5%	8.5%	6.5%
"Cash Flow"	3.0%	5.5%	5.0%
Earnings	3.0%	6.5%	7.0%
Dividends	1.5%	2.0%	5.5%
Book Value	3.5%	3.5%	3.5%

Calendar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2005	308.7	153.7	106.7	341.4	910.5
2006	390.4	171.0	114.9	336.9	1013.2
2007	394.1	183.2	124.2	331.7	1033.2
2008	387.7	191.3	109.7	311.3	1000
2009	390	190	120	325	1025

Calendar	EARNINGS PER SHARE A					Full Year
	Mar.31	Jun.30	Sep.30	Dec.31		
2005	1.44	.04	d.31	.94		2.11
2006	1.48	.07	d.35	1.15		2.35
2007	1.77	.10	d.22	1.11		2.76
2008	1.63	.08	d.38	1.22		2.55
2009	1.70	.13	d.30	1.27		2.80

Calendar	QUARTERLY DIVIDENDS PAID \$				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2004	.325	.325	.325	.325	1.30
2005	.325	.325	.325	.345	1.32
2006	.345	.345	.345	.355	1.39
2007	.355	.355	.355	.375	1.44
2008	.375	.375	.375	.395	

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 million (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system.

Northwest Natural's third-quarter results reflected mostly unusual items. In the 2007 period, the company received a state tax refund, and in the 2008 quarter, it lost money from its gas cost-sharing mechanism in Oregon; the two items added up to about \$0.12 a share of the higher year-to-year loss. (Gas utilities usually book losses in the summer quarter.) Meanwhile, customer growth, at 2.4% from September 30, 2007, was below the recent 3% pace, but still above the national average. **Lower costs should lead to a good fourth-quarter earnings gain.** Despite the higher-than-expected third-quarter loss, Northwest reaffirmed its 2008 earnings-per-share guidance of \$2.48-\$2.63. In the final frame of 2007, Northwest spent about \$3 million over its normal operating expenses, partly in connection with redoing some business practices. The absence of those costs, plus continued customer growth, should produce a good earnings boost.

We look for normal earnings growth in 2009, excluding the effects of gas cost-sharing. In the first nine months of 2008, Northwest lost about \$0.17 a share

Owens 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; off/ dir., 1.3% (4/08 proxy). CEO Mark S. Dodson; CEO-elect: Gregg S. Kantor. Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Tel.: 503-226-4211. Internet: www.nwnatural.com.

from its gas cost-sharing in Oregon. The state has modified the cost-sharing procedure, so that the company now chooses to receive either 20% or 10% of the difference between actual gas costs and the prices built into rates, with the balance going to its customers. For the next year, starting in November 2008, Northwest has chosen to retain 20% of that difference, believing that it will earn a small profit from the cost-sharing arrangement.

Several projects should contribute considerably to earnings by the end of our 3- to 5-year horizon. Gill Ranch, a gas storage project near Fresno, CA, should receive approval from that state next year and open by 2011. The Palomar pipeline, a joint venture with TransCanada, would connect Portland to a second source of gas. Northwest's investment in the two projects would total about \$525 million if both halves of Palomar are built. The two investments would add significantly to our out-year earnings forecast. These top-quality shares, steady in recent troubled times, should appeal to conservative investors.

Sigourney b. Romaine *December 12, 2008*

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	80

<p>(A) Diluted earnings per share. Excludes non-recurring items: '98, \$0.15; '00, \$0.11; '06, (\$0.06). Next earnings report due early February.</p>	<p>(B) Dividends historically paid in mid-February, mid-May, mid-August, and mid-November. ■ Dividend reinvestment plan available. (C) In millions, adjusted for stock split.</p>
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SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE **37.07**

P/E RATIO **15.6** (Trailing: 16.5) (Median: 14.0)

RELATIVE P/E RATIO **1.53**

DIVID YLD **3.2%**

VALUE LINE

TIMELINESS 3 Raised 5/23/08
SAFETY 2 Lowered 1/4/91
TECHNICAL 2 Raised 12/5/08
BETA .75 (1.00 = Market)

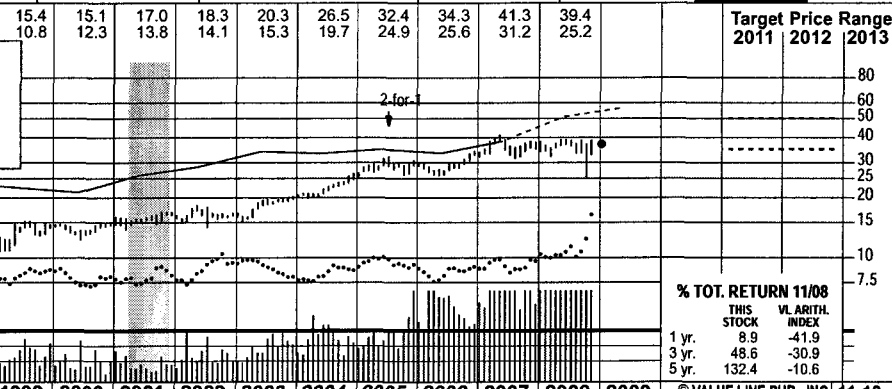
2011-13 PROJECTIONS
Price **50** Gain **(+35%)** Ann'l Total Return **10%**
High **50** Low **35** (-5%) 2%

Insider Decisions
J F M A M J J A S
to Buy 0 0 0 1 0 0 0 0 0
Options 0 0 0 0 0 0 0 0 0
to Sell 0 0 2 0 2 1 0 0 0

Institutional Decisions
1Q2008 2Q2008 3Q2008
to Buy 57 85 71
to Sell 71 58 59
Hld's(000) 17182 17430 17041

LEGENDS
1.75 x Dividends p sh
divided by Interest Rate
Relative Price Strength
2-for-1 split 7/05
Options: No
Shaded area: prior recession
Latest recession began 12/07

Percent shares traded
6
4
2



% TOT. RETURN 11/08
THIS STOCK VL ARITH. INDEX
1 yr. 8.9 -41.9
3 yr. 48.6 -30.9
5 yr. 132.4 -10.6

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13			
16.67	17.03	17.45	16.50	16.52	16.18	20.89	17.60	22.43	35.30	20.69	26.34	29.51	31.78	31.76	32.30	32.00	32.25	Revenues per sh	35.95			
1.56	1.54	1.35	1.65	1.54	1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.51	3.51	3.20	3.30	3.60	"Cash Flow" per sh	4.20			
.81	.78	.61	.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	2.09	2.30	2.50	Earnings per sh ^A	3.00			
.71	.72	.72	.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	1.01	1.11	1.20	Div'ds Decl'd per sh ^B	1.30			
1.69	1.87	1.93	2.08	2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.21	2.51	1.88	2.00	2.25	Cap'l Spending per sh	3.15			
6.95	7.17	7.23	7.34	8.03	6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.50	15.11	16.25	17.35	17.75	Book Value per sh ^C	19.55			
19.00	19.61	21.43	21.44	21.51	21.54	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.98	29.33	29.61	30.00	31.00	Common Shs Outst'g ^D	32.00			
13.2	15.8	16.1	12.2	13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	14.1	16.6	11.9	17.2	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	14.0			
.80	.93	1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	.64	.91			Relative P/E Ratio	.95			
6.6%	5.9%	7.4%	7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%	3.0%	3.2%	2.8%			Avg Ann'l Div'd Yield	3.1%			
CAPITAL STRUCTURE as of 9/30/08						450.2	392.5	515.9	837.3	505.1	696.8	819.1	921.0	931.4	956.4	960	1000	Revenues (\$mill)	1150			
Total Debt \$517.0 mill. Due in 5 Yrs \$196.8 mill.						13.8	22.0	24.7	26.8	29.4	34.6	43.0	48.6	72.0	61.8	70.0	80.0	Net Profit (\$mill)	100			
LT Debt \$357.8 mill. LT Interest \$17.0 mill.						46.2%	42.8%	43.1%	42.2%	41.4%	40.6%	40.9%	41.5%	41.3%	41.3%	42.0%	40.0%	Income Tax Rate	40.0%			
(Total interest coverage: 5.9x)						3.1%	5.6%	4.8%	3.2%	5.8%	5.0%	5.2%	5.3%	7.7%	6.5%	7.3%	8.0%	Net Profit Margin	8.7%			
Pension Assets-12/07 \$120.4 mill. <div>Oblig. \$133.0 mill.</div>						57.3%	53.8%	54.1%	57.0%	53.6%	50.8%	48.7%	44.9%	44.7%	42.7%	41.0%	40.5%	Long-Term Debt Ratio	40.5%			
						33.5%	37.0%	37.6%	35.9%	46.1%	49.0%	51.0%	55.1%	55.3%	57.3%	59.0%	59.5%				Common Equity Ratio	59.5%
						401.1	405.9	443.5	516.2	512.5	608.4	675.0	710.3	801.1	839.0	880	925				Total Capital (\$mill)	1050
Pfd Stock none						504.3	533.3	562.2	607.0	666.6	748.3	799.9	877.3	920.0	948.9	980	1015	Net Plant (\$mill)	1200			
Common Stock 29,728,697 common shs. as of 11/3/08						5.3%	7.4%	7.4%	6.9%	7.6%	7.3%	7.9%	8.3%	10.1%	8.6%	9.0%	9.5%	Return on Total Cap'l	10.5%			
						8.1%	11.7%	12.1%	12.1%	12.4%	11.5%	12.4%	12.4%	16.3%	12.8%	13.5%	14.5%				Return on Shr. Equity	16.0%
						10.3%	14.6%	14.8%	12.8%	12.5%	11.6%	12.5%	12.4%	16.3%	12.8%	13.5%	14.5%				Return on Com Equity	16.0%
MARKET CAP: \$1.1 billion (Mid Cap)						NMF	4.2%	4.8%	3.5%	4.7%	5.0%	5.9%	6.2%	10.2%	6.7%	7.0%	8.0%	Retained to Com Eq	9.5%			
CURRENT POSITION						112%	72%	67%	76%	62%	57%	52%	50%	37%	48%	48%	47%	All Div'ds to Net Prof	42%			
2006																						
2007																						
9/30/08																						

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 335,663 customers in New Jersey's southern counties, which covers 2,500 square miles and includes Atlantic City. Gas revenue mix '07: residential, 46%; commercial, 23%; cogeneration and electric generation, 8%; industrial, 23%. Non-utility operations include:

South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 604 employees. Off/dir. control 1.0% of com. shares; Dimensional

SOUTHWEST GAS NYSE-SWX

RECENT PRICE **24.79** P/E RATIO **13.6** Trailing: 14.1 Median: 18.1 RELATIVE P/E RATIO **1.33** DIV YLD **3.8%** VALUE LINE

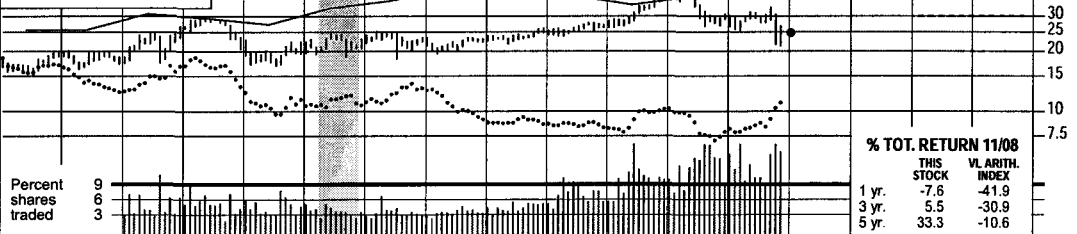
TIMELINESS 3 Raised 5/23/08
SAFETY 3 Lowered 1/4/91
TECHNICAL 2 Raised 12/12/08
BETA .75 (1.00 = Market)

LEGENDS
 — 2.00 x Dividends p sh
 divided by Interest Rate
 Relative Price Strength
 Options: Yes
 Shaded area: prior recession
 Latest recession began 12/07

2011-13 PROJECTIONS
 Price Gain Ann'l Total
 High 45 (+80%) 18%
 Low 30 (+20%) 8%

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

Institutional Decisions
 1Q2008 2Q2008 3Q2008
 to Buy 80 85 69
 to Sell 88 65 74
 Hld's(000) 34496 34150 33669



% TOT. RETURN 11/08
 THIS STOCK V.L. ARITH. INDEX
 1 yr. -7.6 -41.9
 3 yr. 5.5 -30.9
 5 yr. 33.3 -10.6

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13	
25.93	25.68	28.16	23.03	24.09	26.73	30.17	30.24	32.61	42.98	39.68	35.96	40.14	43.59	48.47	50.27	48.85	50.00	Revenues per sh ^A	58.35	
3.34	3.24	5.09	2.65	3.00	3.85	4.48	4.45	4.57	4.79	5.07	5.11	5.57	5.20	5.97	6.21	6.00	6.45	"Cash Flow" per sh	7.00	
.81	.63	1.22	.10	.25	.77	1.65	1.27	1.21	1.15	1.16	1.13	1.66	1.25	1.98	1.95	1.75	2.00	Earnings per sh ^{A B}	2.50	
.70	.74	.80	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.86	.90	.94	Div'ds Decl'd per sh ^C	1.06	
5.02	5.43	6.64	6.79	8.19	6.19	6.40	7.41	7.04	8.17	8.50	7.03	8.23	7.49	8.27	7.96	6.80	7.50	Cap'l Spending per sh	9.90	
15.99	15.96	16.38	14.55	14.20	14.09	15.67	16.31	16.82	17.27	17.91	18.42	19.18	19.10	21.58	22.98	23.30	24.45	Book Value per sh	26.55	
20.60	21.00	21.28	24.47	26.73	27.39	30.41	30.99	31.71	32.49	33.29	34.23	36.79	39.33	41.77	42.81	44.00	45.00	Common Shs Outst'g ^D	48.00	
16.6	26.5	14.0	NMF	69.3	24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	20.6	15.9	18.4	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	15.0	
1.01	1.57	.92	NMF	4.34	1.39	.69	1.20	1.04	.97	1.09	1.09	.76	1.10	.86	.98			Relative P/E Ratio	1.00	
5.2%	4.4%	4.7%	5.4%	4.7%	4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%	3.2%	2.6%	2.4%			Avg Ann'l Div'd Yield	2.8%	
CAPITAL STRUCTURE as of 9/30/08						917.3	936.9	1034.1	1396.7	1320.9	1231.0	1477.1	1714.3	2024.7	2152.1	2150	2250	Revenues (\$mill) ^A	2800	
Total Debt \$1325.6 mill. Due in 5 Yrs \$615.0 mill.						47.5	39.3	38.3	37.2	38.6	38.5	58.9	48.1	80.5	83.3	75.0	90.0	Net Profit (\$mill)	120	
LT Debt \$1313.1 mill. LT Interest \$90.0 mill.						43.4%	35.5%	26.2%	34.5%	32.8%	30.5%	34.8%	29.7%	37.3%	36.5%	39.0%	36.0%	Income Tax Rate	35.0%	
(Total interest coverage: 2.3x)						5.2%	4.2%	3.7%	2.7%	2.9%	3.1%	4.0%	2.8%	4.0%	3.9%	3.5%	4.0%	Net Profit Margin	4.3%	
Leases, Uncapitalized Annual rentals \$7.0 mill.						60.2%	60.3%	60.2%	56.2%	62.5%	66.0%	64.2%	63.8%	60.6%	58.1%	56.0%	54.0%	Long-Term Debt Ratio	50.5%	
Pension Assets-12/07 \$441.7 mill.						35.3%	35.5%	35.8%	39.6%	34.1%	34.0%	35.8%	36.2%	39.4%	41.9%	44.0%	46.0%	Common Equity Ratio	49.5%	
Oblig. \$546.4 mill.						1349.3	1424.7	1489.9	1417.6	1748.3	1851.6	1968.6	2076.0	2287.8	2349.8	2325	2380	Total Capital (\$mill)	2575	
Pfd Stock None						1459.4	1581.1	1686.1	1825.6	1979.5	2175.7	2336.0	2489.1	2668.1	2845.3	2960	3100	Net Plant (\$mill)	3600	
Common Stock 43,914,407 shs.						5.8%	4.8%	4.6%	5.1%	4.3%	4.2%	5.0%	4.3%	5.5%	5.5%	5.0%	5.5%	Return on Total Cap'l	6.5%	
as of 10/31/08						8.9%	7.0%	6.5%	6.0%	5.9%	6.1%	8.3%	6.4%	8.9%	8.5%	7.5%	8.0%	Return on Shr. Equity	9.5%	
MARKET CAP: \$1.1 billion (Mid Cap)						10.0%	7.8%	7.2%	6.6%	6.5%	6.1%	8.3%	6.4%	8.9%	8.5%	7.5%	8.0%	Return on Com Equity	9.5%	
CURRENT POSITION						50%	64%	67%	71%	70%	72%	49%	65%	42%	44%	52%	47%	All Div'ds to Net Prof	42%	
2006						2007	9/30/08													
Cash Assets						18.8	32.0	13.2												
Other						482.8	470.5	257.2												
Current Assets						501.6	502.5	270.4												
Accts Payable						265.7	220.7	79.7												
Debt Due						27.5	47.1	12.5												
Other						202.9	260.1	266.8												
Current Liab.						496.1	527.9	359.0												
Fix. Chg. Cov.						220%	229%	230%												

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Past Est'd '05-'07 to '11-'13
Revenues	6.0%	4.5%	3.5%
"Cash Flow"	4.5%	4.0%	3.0%
Earnings	12.0%	6.0%	6.5%
Dividends	-	-	4.0%
Book Value	3.0%	3.5%	4.0%

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	542.9	361.1	313.3	497.0	1714.3
2006	676.9	430.9	351.8	565.1	2024.7
2007	793.7	426.6	371.5	560.3	2152.1
2008	813.6	447.3	374.4	514.7	2150
2009	800	475	415	560	2250

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.88	d.07	d.43	.87	1.25
2006	1.11	.02	d.26	1.11	1.98
2007	1.17	d.01	d.22	1.00	1.95
2008	1.14	d.06	d.38	1.05	1.75
2009	1.15	Nil	d.25	1.10	2.00

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.205	.205	.205	.205	.82
2005	.205	.205	.205	.205	.82
2006	.205	.205	.205	.205	.82
2007	.205	.215	.215	.215	.85
2008	.215	.225	.225	.225	

BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approximately 1.8 million customers in sections of Arizona, Nevada, and California. Comprised of two business segments: natural gas operations and construction services. 2007 margin mix: residential and small commercial, 86%; large commercial and industrial, 5%; transportation, 9%. Total throughput: 2.4 billion

Southwest Gas reported an unimpressive performance for the third quarter. The top line advanced slightly in the recent interim. Operating costs increased at a faster pace, though. Moreover, the company reported a negative return on long-term investments. Overall, Southwest posted a much greater share loss for the period. Customer growth has moderated in recent periods. A slowdown in the new construction market and an increasing inventory of vacant homes in the Southwest hurt performance. Third-quarter losses are common, considering the seasonal nature of the business. Still, the company is operating in a challenging environment, which ought to continue to stymie growth in the near term. We anticipate flat revenues and lower earnings per share at Southwest Gas for full-year 2008. Share earnings may rebound in 2009, assuming success at controlling costs.

The company has two important rate case proceedings nearing conclusion. It is seeking a rate increase of \$50.2 million in Arizona, and has included proposed rate design changes to address weather-related volatility. Elsewhere, Southwest is

seeking a \$9.1 million increase in operating revenues in California. These requests appear reasonable, although it is unclear what pressures the rate boards may face, if any. We expect decisions on these cases by yearend. The company's focus on procuring rate relief and improving rate design is important, as SWX depends upon such approved revenue increases to help it cope with higher expenses and to provide for smoother earnings.

Investors should be aware of several caveats. Warmer-than-normal temperatures during the winter months can hurt profitability at Southwest Gas. Moreover, the company will likely incur higher operating costs as it continues to expand. Furthermore, insufficient, or lagging, rate relief could also hurt profits.

Shares of Southwest Gas, once favored for their growth, are out of sorts now. Nevertheless, we anticipate higher share earnings at the company by early next decade. At the current quotation, this issue features good total return potential for a utility, considering its healthy dividend yield.

Michael Napoli, CPA December 12, 2008

(A) Incl. income for PriMerit Bank on the equity basis through 1994. (B) Based on avg. shares outstanding, thru '96, then diluted. Excl. nonrec. gains (losses): '93, '84; '97, '16; '02, ('10); '05, ('11); '06, '74. Incl. asset writedown: '93, 44¢. Excl. loss from disc. ops.: '95, '75¢. Totals may not sum due to rounding. Next egs. report due late February. (C) Dividends historically paid early March, June, September, December. ■ Div'd reinvest. plan avail. (D) In millions.

Company's Financial Strength	B
Stock's Price Stability	100
Price Growth Persistence	55
Earnings Predictability	65

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WGL HOLDINGS NYSE-WGL				RECENT PRICE	33.52	P/E RATIO	14.1	(Trailing: 8.3 Median: 15.0)	RELATIVE P/E RATIO	1.38	DIV'D YLD	4.3%	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	37.1	22.4	Target Price	Range			
SAFETY	1	Raised 4/29/93	Low: 20.9	23.1	21.0	21.8	25.3	19.3	23.2	26.7	28.8	27.0	29.8			2011	2012			
TECHNICAL	2	Raised 12/12/08	LEGENDS 1.30 x Dividends p sh divided by Interest Rate Relative Price Strength 2-for-1 split 5/95 Options: Yes Shaded area: prior recession Latest recession began 12/07													80				
BETA	.75	(1.00 = Market)														60				
2011-13 PROJECTIONS				Price	Gain	Ann'l Total Return											50			
High	40	20%	8%														40			
Low	35	5%	5%														30			
Insider Decisions				J	F	M	A	M	J	J	A	S					20			
to Buy	0	0	0	0	1	0	0	0	0	0	0	0					15			
Options	0	0	0	0	5	1	0	0	0	2							10			
to Sell	2	0	0	0	7	1	0	0	2								7.5			
Institutional Decisions				10/2008	20/2008	30/2008											% TOT. RETURN 11/08			
to Buy	106	95	83											THIS STOCK	VL ARITH. INDEX					
to Sell	89	100	119											1 yr.	14.2	-41.9				
Hld's(000)	35559	34195	32939											3 yr.	35.2	-30.9				
				Percent shares traded	9	6	3											5 yr.	68.0	-10.6
1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.		11-13
18.37	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	52.98	53.35	Revenues per sh ^A	54.60	
2.17	2.25	2.43	2.51	2.93	3.02	2.79	2.74	3.20	3.24	2.63	4.00	3.87	3.97	3.93	3.89	4.17	4.30	"Cash Flow" per sh	4.55	
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	2.33	2.40	Earnings per sh ^B	2.55	
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	1.42	1.44	Div'ds Decl'd per sh ^C	1.56	
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	3.33	3.00	Cap'l Spending per sh	2.50	
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	21.06	22.00	Book Value per sh ^D	25.00	
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	49.61	49.65	Common Shs Outst ^g ^E	50.00	
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	14.3		Avg Ann'l P/E Ratio	15.0	
.82	.92	.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	.84	.82	.85		Relative P/E Ratio	1.00	
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%	4.3%		Avg Ann'l Div'd Yield	4.2%	
CAPITAL STRUCTURE as of 9/30/08				1040.6	972.1	1031.1	1446.5	1584.8	2064.2	2089.6	2186.3	2637.9	2646.0	2628.2	2650	Revenues (\$mill) ^A	2730			
Total Debt \$950.7 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	116.3	120	Net Profit (\$mill)	130			
LT Debt \$603.7 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%	Income Tax Rate	38.0%			
(LT interest earned: 6.7%; 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%	4.4%	4.5%	Net Profit Margin	4.8%			
Pension Assets-9/08 \$588.2 mill.				40.3%	41.5%	43.1%	41.7%	45.7%	43.8%	40.9%	39.5%	38.5%	37.9%	36.0%	35.0%	Long-Term Debt Ratio	32.0%			
Oblig. \$590.5 mill.				57.1%	56.1%	54.8%	56.3%	52.4%	54.3%	57.2%	58.6%	61.5%	60.3%	62.3%	63.5%	Common Equity Ratio	66.5%			
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	1677.2	1720	Total Capital (\$mill)	1880			
Common Stock 49,971,614 shs. as of 10/31/08				1319.5	1402.7	1460.3	1519.7	1606.8	1874.9	1915.6	1969.7	2067.9	2150.4	2208.3	2325	Net Plant (\$mill)	2615			
MARKET CAP: \$1.7 billion (Mid Cap)				8.0%	7.1%	7.9%	7.9%	5.3%	9.1%	8.2%	8.5%	7.7%	7.6%	8.1%	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%	11.1%	11.0%	Return on Shr. Equity	10.0%			
(\$MILL.)				11.1%	9.9%	11.7%	11.2%	7.2%	14.0%	11.7%	12.0%	10.2%	10.4%	11.6%	11.5%	Return on Com Equity	10.5%			
Cash Assets				2.5%	1.8%	3.7%	3.8%	NMF	6.2%	4.1%	4.6%	3.1%	3.5%	4.3%	4.5%	Retained to Com Eq	4.0%			
Other				78%	82%	69%	67%	112%	56%	65%	62%	70%	66%	61%	60%	All Div'ds to Net Prof	61%			
Current Assets				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 resident'l 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 provides 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). Chmn. & CEO: J.H. DeGraffenreidt, Inc.: D.C. and VA. Addr.: 1100 H St, N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.																
Accts Payable				WGL Holdings performed well in fiscal 2008 (ended September 30th). New rates, higher consumption, and customer growth contributed to the annual top-line increase of almost 18%. Meanwhile, the initiation of regulatory mechanisms like the weather normalization adjustment (WMA) minimized usage volatility. And margins widened due to the successful expansion of the "asset optimization" program. The retail energy segment did not fare as well. This reflects lower margins from electric sales, partially offset by slightly higher margins for natural gas sales. Weakness here stemmed from milder weather and the loss of certain government and large commercial accounts. However, on balance, WGL's earnings per share advanced 11%. Next up, we look for December-period results to be little changed compared to last year. Aggregate electric and gas customer accounts declined in the most recent quarter, due to the extended run-up in natural gas and electric prices from February through June. That caused WGL to halt its mass market customer acquisition efforts. However, as the company begins fiscal 2009, lower energy prices have allowed it to resume those efforts. It may take some time for these programs to pick up steam, consequently, WGL will likely experience growth in electricity sales, but natural gas volumes will probably continue to decline, as the last of the lost government accounts roll off its books. However, The company should still register a modest 3% earnings increase for fiscal 2009. The utility segment should benefit from an estimated 9,500 new accounts, as well as higher contributions from its expanded asset management strategy. Meanwhile, the retail energy business may get a boost from stronger gross margins on natural gas sales. Also, rate case approvals and capital projects augur well for WGL's prospects. However, a likely decline in usage compared to last year's unusually high levels could be an offset. These neutrally ranked shares may appeal to conservative income-oriented accounts. Indeed, this is evident in their good dividend yield, strong Safety rank (1), solid financial strength (A), and top mark for Price Stability (100). Bryan Fong December 12, 2008																
Debt Due																				
Other																				
Current Liab.																				
Fix. Chg. Cov.																				
ANNUAL RATES				Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07 to '11-'13														
of change (per sh)				10.9%	12.5%	1.0%														
Revenues				3.5%	5.0%	2.5%														
"Cash Flow"				2.0%	5.0%	3.5%														
Earnings				1.5%	1.5%	2.5%														
Dividends				4.0%	3.5%	5.0%														
Book Value																				
Fiscal Year Ends				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	391.9	2628.2												
2009				760	1050	480	360	2650												
Fiscal Year Ends				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.22	2.33												
2009				.97	1.50	.13	d.20	2.40												
Cal-endar				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	.36													

ATTACHMENT C

**AMERICAN STS WTR CO (NYSE)**

Scottrade

AWR 31.52 \pm 0.74 (2.40%) Vol. 25,600

12:06 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

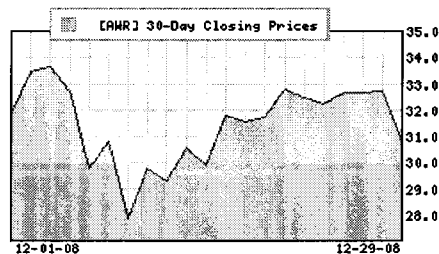
AMER STATES WTR
 630 East Foothill Boulevard
 San Dimas, CA 91773-1212
 Phone: 909 394-3600
 Fax: 909 394-0711
 Web: www.gswater.com
 Email: investorinfo@aswater.com

Industry: UTIL-WATER
 Sector: SPLY
 Utilities

Fiscal Year End: December
 Last Reported Quarter: 09/30/08
 Next EPS Date: 03/05/2009

Price and Volume Information

Zacks Rank
 Yesterday's Close: 30.78
 52 Week High: 42.00
 52 Week Low: 27.00
 Beta: 0.59
 20 Day Moving Average: 148,334.91
 Target Price Consensus: 38.67

**% Price Change**

4 Week: -3.45
 12 Week: -16.97
 YTD: -18.31

% Price Change Relative to S&P 500

4 Week: -9.36
 12 Week: 0.94
 YTD: 46.04

Share Information

Shares Outstanding (millions): 17.29
 Market Capitalization (millions): 532.16
 Short Ratio: 4.12
 Last Split Date: 06/10/2002

Dividend Information

Dividend Yield: 3.25%
 Annual Dividend: \$1.00
 Payout Ratio: 0.63
 Change in Payout Ratio: -0.13
 Last Dividend Payout / Amount: 11/07/2008 / \$0.25

EPS Information

Current Quarter EPS Consensus Estimate: 0.41
 Current Year EPS Consensus Estimate: 1.54
 Estimated Long-Term EPS Growth Rate: 12.00
 Next EPS Report Date: 03/05/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 1.50
 30 Days Ago: 2.00
 60 Days Ago: 2.00
 90 Days Ago: 2.40

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 20.05	vs. Previous Year: -11.36%	vs. Previous Year: 12.42%
Trailing 12 Months: 19.48	vs. Previous Quarter: -27.78%	vs. Previous Quarter: 6.16%
PEG Ratio: 1.67		

Price Ratios	ROE	ROA
Price/Book: 1.71	09/30/08: 8.97	09/30/08: 2.77

Price/Cash Flow	9.55	06/30/08	9.33	06/30/08	2.90
Price / Sales	1.72	03/31/08	8.81	03/31/08	2.73
Current Ratio			Quick Ratio		Operating Margin
09/30/08	0.57	09/30/08	0.55	09/30/08	8.91
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
Net Margin			Pre-Tax Margin		Book Value
09/30/08	14.27	09/30/08	14.27	09/30/08	18.02
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
Inventory Turnover			Debt-to-Equity		Debt to Capital
09/30/08	59.72	09/30/08	0.86	09/30/08	46.19
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

**CALIFORNIA WTR SVC GROUP (NYSE)**

Scottrade

CWT 45.73 ▲ 2.01 (4.60%) Vol. 141,240

12:08 ET

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

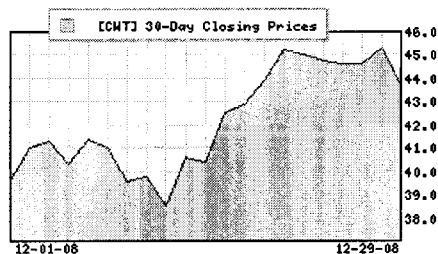
CALIF WATER SVC
 1720 North First Street
 San Jose, CA 95112
 Phone: 408 367-8200
 Fax: 408 437-9185
 Web: www.calwatergroup.com
 Email: klichtenberg@calwater.com

Industry: UTIL-WATER
 Sector: SPLY
 Utilities

Fiscal Year End: December
 Last Reported Quarter: 09/30/08
 Next EPS Date: 02/25/2009

Price and Volume Information

Zacks Rank:
 Yesterday's Close: 43.72
 52 Week High: 46.44
 52 Week Low: 27.68
 Beta: 0.62
 20 Day Moving Average: 226,865.50
 Target Price Consensus: 43.6

**% Price Change**

4 Week: 10.29
 12 Week: 20.18
 YTD: 18.10

% Price Change Relative to S&P 500

4 Week: 3.54
 12 Week: 46.09
 YTD: 105.77

Share Information

Shares Outstanding (millions): 20.72
 Market Capitalization (millions): 905.75
 Short Ratio: 2.33
 Last Split Date: 01/26/1998

Dividend Information

Dividend Yield: 2.68%
 Annual Dividend: \$1.17
 Payout Ratio: 0.63
 Change in Payout Ratio: -0.19
 Last Dividend Payout / Amount: 10/30/2008 / \$0.29

EPS Information

Current Quarter EPS Consensus Estimate: 0.39
 Current Year EPS Consensus Estimate: 1.92
 Estimated Long-Term EPS Growth Rate: 8.40
 Next EPS Report Date: 02/25/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.29
 30 Days Ago: 2.00
 60 Days Ago: 1.67
 90 Days Ago: 1.67

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 22.77	vs. Previous Year: 58.21%	vs. Previous Year: 15.68%
Trailing 12 Months: 23.50	vs. Previous Quarter: 120.83%	vs. Previous Quarter: 24.74%
PEG Ratio: 2.71		

Price Ratios		ROE		ROA		
Price/Book	2.26	09/30/08		9.99	09/30/08	3.14
Price/Cash Flow	15.88	06/30/08		7.95	06/30/08	2.53
Price / Sales	2.29	03/31/08		7.39	03/31/08	2.37
Current Ratio		Quick Ratio		Operating Margin		
09/30/08	0.57	09/30/08		0.54	09/30/08	9.81
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
Net Margin		Pre-Tax Margin		Book Value		
09/30/08	-	09/30/08		-	09/30/08	19.37
06/30/08	-	06/30/08		-	06/30/08	18.60
03/31/08	-	03/31/08		-	03/31/08	18.38
Inventory Turnover		Debt-to-Equity		Debt to Capital		
09/30/08	-	09/30/08		0.72	09/30/08	41.83
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

**SOUTHWEST WTR CO (NASD)****Scottrade**

SWWC 3.04 ▼-0.12 (-3.80%) Vol. 216,355

12:09 ET

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**

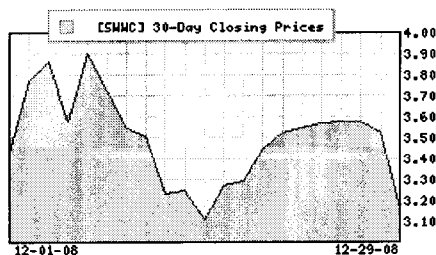
One Wilshire Building 624 South Grand Avenue
Suite 2900
Los Angeles, CA 90017-3782
Phone: 213 929-1800
Fax: 626-915-1558
Web: www.southwestwater.com
Email: swwc@swwc.com

Industry: UTIL-WATER
Sector: SPLY
Utilities

Fiscal Year End: December
Last Reported Quarter: 09/30/08
Next EPS Date: 11/10/2008

Price and Volume Information

Zacks Rank: 
Yesterday's Close: 3.16
52 Week High: 13.40
52 Week Low: 2.75
Beta: 1.33
20 Day Moving Average: 220,346.25
Target Price Consensus: 6.67

**% Price Change**

4 Week: -7.87
12 Week: -69.70
YTD: -74.76

% Price Change Relative to S&P 500

4 Week: -13.51
12 Week: -63.17
YTD: -52.70

Share Information

Shares Outstanding (millions): 24.59
Market Capitalization (millions): 77.71
Short Ratio: 5.82
Last Split Date: 12/28/2005

Dividend Information

Dividend Yield: 7.59%
Annual Dividend: \$0.24
Payout Ratio: 0.00
Change in Payout Ratio: 0.00
Last Dividend Payout / Amount: NA / \$0.00

EPS Information

Current Quarter EPS Consensus Estimate: 0.10
Current Year EPS Consensus Estimate: 0.20
Estimated Long-Term EPS Growth Rate: 6.30
Next EPS Report Date: 11/10/2008

Consensus Recommendations

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

Fundamental Ratios**P/E**

Current FY Estimate: 15.54
Trailing 12 Months: 14.36
PEG Ratio: 2.45

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	0.49	09/30/08	-	09/30/08	-
Price/Cash Flow	3.86	06/30/08	3.39	06/30/08	1.03
Price / Sales	-	03/31/08	4.13	03/31/08	1.30
Current Ratio			Quick Ratio		Operating Margin
09/30/08	-	09/30/08	-	09/30/08	-
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
Net Margin			Pre-Tax Margin		Book Value
09/30/08	-	09/30/08	-	09/30/08	-
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
Inventory Turnover			Debt-to-Equity		Debt to Capital
09/30/08	-	09/30/08	-	09/30/08	-
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

**AQUA AMERICA INC (NYSE)****Scottrade**

WTR 20.50 ▲ 0.50 (2.50%) Vol. 330,558

12:09 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

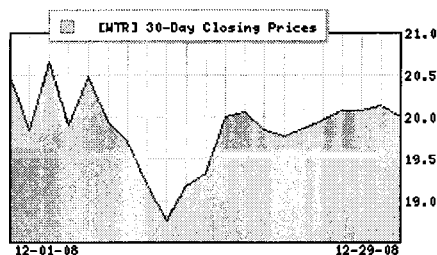
AQUA AMER INC
 762 W Lancaster Avenue
 Bryn Mawr, PA 19010-3489
 Phone: 610 527-8000
 Fax: 610-645-1061
 Web: www.suburbanwater.com
 Email: ir.aquaamerica.com

Industry: UTIL-WATER
 SPLY
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 09/30/08
 Next EPS Date: 02/25/2009

Price and Volume Information

Zacks Rank:
 Yesterday's Close: N/A
 52 Week High: 22.00
 52 Week Low: 12.20
 Beta: 0.21
 20 Day Moving Average: 1,060,547.63
 Target Price Consensus: 21.92

**% Price Change**

4 Week: -2.34
 12 Week: 16.96
 YTD: -5.66

% Price Change Relative to S&P 500

4 Week: -8.32
 12 Week: 42.18
 YTD: 59.74

Share Information

Shares Outstanding (millions): 134.86
 Market Capitalization (millions): 2,697.20
 Short Ratio: 8.63
 Last Split Date: 12/02/2005

Dividend Information

Dividend Yield: 2.70%
 Annual Dividend: \$0.54
 Payout Ratio: 0.68
 Change in Payout Ratio: 0.05
 Last Dividend Payout / Amount: 11/13/2008 / \$0.14

EPS Information

Current Quarter EPS Consensus Estimate: 0.20
 Current Year EPS Consensus Estimate: 0.74
 Estimated Long-Term EPS Growth Rate: 8.00
 Next EPS Report Date: 02/25/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.22
 30 Days Ago: 1.78
 60 Days Ago: 1.56
 90 Days Ago: 1.89

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 27.03	vs. Previous Year: 18.18%	vs. Previous Year: 7.01%
Trailing 12 Months: 27.40	vs. Previous Quarter: 52.94%	vs. Previous Quarter: 17.48%
PEG Ratio: 3.38		

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

Price/Book	2.62	09/30/08	9.70	09/30/08	2.96
Price/Cash Flow	14.56	06/30/08	9.26	06/30/08	2.84
Price / Sales	4.38	03/31/08	9.57	03/31/08	2.92
Current Ratio			Quick Ratio		Operating Margin
09/30/08	0.59	09/30/08	0.54	09/30/08	15.77
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
Net Margin			Pre-Tax Margin		Book Value
09/30/08	25.94	09/30/08	25.94	09/30/08	7.62
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
Inventory Turnover			Debt-to-Equity		Debt to Capital
09/30/08	0.00	09/30/08	1.18	09/30/08	54.14
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

**AGL RES INC (NYSE)****Scottrade**

ATG	30.05	▲0.48	(1.62%)	Vol. 174,886	12:15 ET
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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

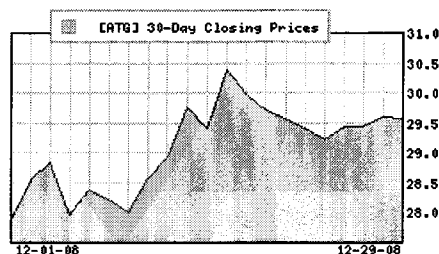
AGL RESOURCES
 Ten Peachtree Place NE
 Atlanta, GA 30309
 Phone: 404 584-4000
 Fax: 404 584-3945
 Web: www.aglresources.com
 Email: scave@aglresources.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 09/30/08
 Next EPS Date: 02/05/2009

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 29.57
 52 Week High: 39.13
 52 Week Low: 24.02
 Beta: 0.32
 20 Day Moving Average: 497,127.19
 Target Price Consensus: 36.17

**% Price Change**

4 Week: 6.06
 12 Week: -1.47
 YTD: -21.44

% Price Change Relative to S&P 500

4 Week: -0.43
 12 Week: 19.78
 YTD: 32.35

Share Information

Shares Outstanding (millions): 76.78
 Market Capitalization (millions): 2,270.39
 Short Ratio: 2.79
 Last Split Date: 12/04/1995

Dividend Information

Dividend Yield: 5.68%
 Annual Dividend: \$1.68
 Payout Ratio: 0.65
 Change in Payout Ratio: 0.08
 Last Dividend Payout / Amount: 11/12/2008 / \$0.42

EPS Information

Current Quarter EPS Consensus Estimate: 0.97
 Current Year EPS Consensus Estimate: 2.79
 Estimated Long-Term EPS Growth Rate: 4.30
 Next EPS Report Date: 02/05/2009

Consensus Recommendations

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

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 10.59	vs. Previous Year: 64.71%	vs. Previous Year: 46.07%
Trailing 12 Months: 11.37	vs. Previous Quarter: -6.67%	vs. Previous Quarter: 21.40%
PEG Ratio: 2.44		

Price Ratios	ROE	ROA
Price/Book: 1.32	09/30/08: 11.74	09/30/08: 3.13

Price/Cash Flow	6.38	06/30/08	11.42	06/30/08	3.08
Price / Sales	0.85	03/31/08	11.86	03/31/08	3.29
Current Ratio			Quick Ratio		Operating Margin
09/30/08	1.06	09/30/08	0.62	09/30/08	7.44
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
Net Margin			Pre-Tax Margin		Book Value
09/30/08	12.43	09/30/08	12.43	09/30/08	22.49
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
Inventory Turnover			Debt-to-Equity		Debt to Captial
09/30/08	2.60	09/30/08	0.97	09/30/08	49.71
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

**ATMOS ENERGY CORP (NYSE)****Scottrade**

ATO	23.48	▲ 0.16	(0.69%)	Vol. 141,430	12:14 ET
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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**

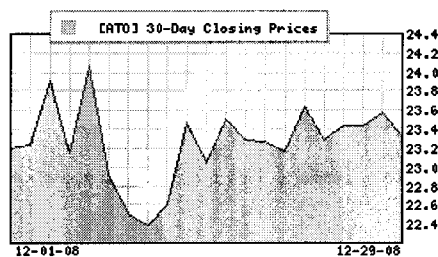
Three Lincoln Centre 5430 Lbj Freeway
Suite 1800
Dallas, TX 75240
Phone: 972-934-9227
Fax: 972-855-3040
Web: www.atmosenergy.com
Email: InvestorRelations@atmosenergy.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: September
Last Reported Quarter: 09/30/08
Next EPS Date: 02/10/2009

Price and Volume Information

Zacks Rank: 
Yesterday's Close: 23.32
52 Week High: 29.29
52 Week Low: 19.68
Beta: 0.51
20 Day Moving Average: 584,259.38
Target Price Consensus: 29.33

**% Price Change**

4 Week	0.52
12 Week	-15.14
YTD	-16.83

% Price Change Relative to S&P 500

4 Week	-5.63
12 Week	3.16
YTD	41.42

Share Information

Shares Outstanding (millions)	91.56
Market Capitalization (millions)	2,135.11
Short Ratio	1.12
Last Split Date	05/17/1994

Dividend Information

Dividend Yield	5.66%
Annual Dividend	\$1.32
Payout Ratio	0.65
Change in Payout Ratio	-0.01
Last Dividend Payout / Amount	11/21/2008 / \$0.33

EPS Information

Current Quarter EPS Consensus Estimate	0.80
Current Year EPS Consensus Estimate	2.09
Estimated Long-Term EPS Growth Rate	5.50
Next EPS Report Date	02/10/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	2.50
30 Days Ago	2.40
60 Days Ago	2.40
90 Days Ago	2.50

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 11.18	vs. Previous Year 150.00%	vs. Previous Year 43.77%
Trailing 12 Months: 11.60	vs. Previous Quarter 128.57%	vs. Previous Quarter: -12.11%
PEG Ratio 2.03		

Price Ratios		ROE		ROA	
Price/Book	1.03	09/30/08	8.67	09/30/08	2.82
Price/Cash Flow	5.55	06/30/08	8.50	06/30/08	2.79
Price / Sales	0.30	03/31/08	8.29	03/31/08	2.71
Current Ratio		Quick Ratio		Operating Margin	
09/30/08	1.06	09/30/08	0.59	09/30/08	2.50
06/30/08	1.20	06/30/08	0.71	06/30/08	2.58
03/31/08	1.22	03/31/08	0.87	03/31/08	2.64
Net Margin		Pre-Tax Margin		Book Value	
09/30/08	4.05	09/30/08	4.05	09/30/08	22.65
06/30/08	3.92	06/30/08	3.92	06/30/08	23.34
03/31/08	4.00	03/31/08	4.00	03/31/08	23.63
Inventory Turnover		Debt-to-Equity		Debt to Capital	
09/30/08	11.06	09/30/08	1.03	09/30/08	50.81
06/30/08	10.64	06/30/08	1.01	06/30/08	50.17
03/31/08	10.40	03/31/08	1.00	03/31/08	49.93

**LACLEDE GROUP INC (NYSE)**

Scottrade

LG 45.39 ▲0.54 (1.20%) Vol. 201,481

12:17 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

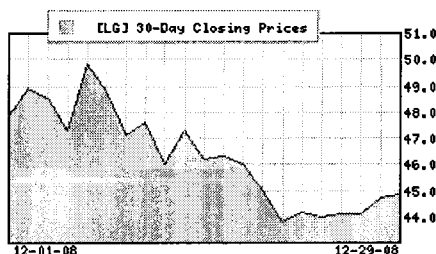
LACLEDE GRP INC
720 Olive Street
St. Louis, MO 63101
Phone: 314-342-0500
Fax: 314-421-1979
Web: www.thelacledegroupp.com
Email: mkullman@lacledegas.com

Industry UTIL-GAS DISTR
Sector Utilities

Fiscal Year End September
Last Reported Quarter 09/30/08
Next EPS Date 01/22/2009

Price and Volume Information

Zacks Rank 
Yesterday's Close 44.85
52 Week High 55.81
52 Week Low 31.86
Beta 0.10
20 Day Moving Average 273,241.84
Target Price Consensus N/A

**% Price Change**

4 Week -6.31
12 Week -9.65
YTD 30.99

% Price Change Relative to S&P 500

4 Week -12.04
12 Week 9.83
YTD 119.78

Share Information

Shares Outstanding (millions) 22.13
Market Capitalization (millions) 992.35
Short Ratio 5.01
Last Split Date 03/08/1994

Dividend Information

Dividend Yield 3.43%
Annual Dividend \$1.54
Payout Ratio 0.57
Change in Payout Ratio -0.10
Last Dividend Payout / Amount 12/09/2008 / \$0.38

EPS Information

Current Quarter EPS Consensus Estimate 1.02
Current Year EPS Consensus Estimate 2.42
Estimated Long-Term EPS Growth Rate 10.00
Next EPS Report Date 01/22/2009

Consensus Recommendations

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

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 18.53	vs. Previous Year -566.67%	vs. Previous Year 39.76%
Trailing 12 Months: 16.99	vs. Previous Quarter -133.33%	vs. Previous Quarter: -10.62%
PEG Ratio 1.85		

Price Ratios	ROE	ROA
Price/Book 2.03	09/30/08 12.04	09/30/08 3.35

Price/Cash Flow	10.44	06/30/08	13.24	06/30/08	3.65
Price / Sales	0.44	03/31/08	13.64	03/31/08	3.69
Current Ratio			Quick Ratio		Operating Margin
09/30/08	1.17	09/30/08	0.69	09/30/08	2.53
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
Net Margin			Pre-Tax Margin		Book Value
09/30/08	3.79	09/30/08	3.79	09/30/08	22.14
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
Inventory Turnover			Debt-to-Equity		Debt to Captial
09/30/08	5.73	09/30/08	0.80	09/30/08	44.42
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

**NEW JERSEY RES (NYSE)**

Scottrade

NJR **38.41** **▲1.07** **(2.87%)** **Vol. 126,145**

12:19 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

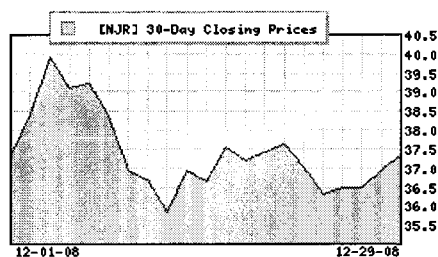
NJ RESOURCES
 1415 Wyckoff Road
 Wall, NJ 07719
 Phone: 732-938-1489
 Fax: 732 938-3154
 Web: www.njresources.com
 Email: investcont@njresources.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: September
 Last Reported Quarter: 09/30/08
 Next EPS Date: 02/04/2009

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 37.34
 52 Week High: 41.13
 52 Week Low: 21.90
 Beta: 0.15
 20 Day Moving Average: 545,436.06
 Target Price Consensus: 38.33

**% Price Change**

4 Week: 0.03
 12 Week: 5.69
 YTD: 11.98

% Price Change Relative to S&P 500

4 Week: -6.09
 12 Week: 28.48
 YTD: 86.46

Share Information

Shares Outstanding (millions): 42.12
 Market Capitalization (millions): 1,572.80
 Short Ratio: 6.99
 Last Split Date: 03/04/2008

Dividend Information

Dividend Yield: 3.32%
 Annual Dividend: \$1.24
 Payout Ratio: 0.50
 Change in Payout Ratio: 0.00
 Last Dividend Payout / Amount: 12/11/2008 / \$0.31

EPS Information

Current Quarter EPS Consensus Estimate: 0.82
 Current Year EPS Consensus Estimate: 2.34
 Estimated Long-Term EPS Growth Rate: 8.00
 Next EPS Report Date: 02/04/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 1.67
 30 Days Ago: 2.33
 60 Days Ago: 2.33
 90 Days Ago: 3.00

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 15.94	vs. Previous Year: -6.36%	vs. Previous Year: 38.43%
Trailing 12 Months: 16.69	vs. Previous Quarter: -290.00%	vs. Previous Quarter: -17.33%
PEG Ratio: 1.99		

Price Ratios		ROE		ROA	
Price/Book	2.16	09/30/08	13.77	09/30/08	3.74
Price/Cash Flow	11.79	06/30/08	14.36	06/30/08	3.94
Price / Sales	0.41	03/31/08	14.16	03/31/08	4.09
Current Ratio		Quick Ratio		Operating Margin	
09/30/08	1.24	09/30/08	0.70	09/30/08	2.46
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
Net Margin		Pre-Tax Margin		Book Value	
09/30/08	4.72	09/30/08	4.72	09/30/08	17.29
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
Inventory Turnover		Debt-to-Equity		Debt to Capital	
09/30/08	8.77	09/30/08	0.63	09/30/08	38.50
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

**NICOR INC (NYSE)****Scottrade**

GAS	33.89	+0.76	(2.29%)	Vol. 187,158	12:19 ET
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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

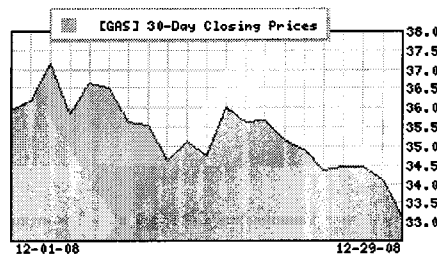
NICOR INC
 1844 Ferry Road
 Naperville, IL 60563-9600
 Phone: 630-305-9500
 Fax: 630-983-9328
 Web: www.nicor.com
 Email: None

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 09/30/08
 Next EPS Date: 02/13/2009

Price and Volume Information

Zacks Rank 
 Yesterday's Close: 33.13
 52 Week High: 51.99
 52 Week Low: 32.35
 Beta: 0.40
 20 Day Moving Average: 661,124.31
 Target Price Consensus: 44

**% Price Change**

4 Week	-7.79
12 Week	-26.41
YTD	-21.77

% Price Change Relative to S&P 500

4 Week	-13.44
12 Week	-10.54
YTD	35.46

Share Information

Shares Outstanding (millions)	45.19
Market Capitalization (millions)	1,497.18
Short Ratio	4.27
Last Split Date	04/27/1993

Dividend Information

Dividend Yield	5.61%
Annual Dividend	\$1.86
Payout Ratio	0.66
Change in Payout Ratio	-0.09
Last Dividend Payout / Amount	NA / \$0.00

EPS Information

Current Quarter EPS Consensus Estimate	0.68
Current Year EPS Consensus Estimate	2.26
Estimated Long-Term EPS Growth Rate	6.50
Next EPS Report Date	02/13/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell)	3.40
30 Days Ago	3.40
60 Days Ago	3.40
90 Days Ago	3.20

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 14.64	vs. Previous Year: -90.63%	vs. Previous Year: 20.56%
Trailing 12 Months: 11.83	vs. Previous Quarter: -95.31%	vs. Previous Quarter: -37.08%
PEG Ratio: 2.25		
Price Ratios	ROE	ROA
Price/Book: 1.57	09/30/08: 13.19	09/30/08: 2.87

Price/Cash Flow	4.75	06/30/08	14.73	06/30/08	3.25
Price / Sales	0.41	03/31/08	13.83	03/31/08	3.11
Current Ratio			Quick Ratio		Operating Margin
09/30/08	0.76	09/30/08	0.56	09/30/08	3.48
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
Net Margin			Pre-Tax Margin		Book Value
09/30/08	4.80	09/30/08	4.80	09/30/08	21.15
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
Inventory Turnover			Debt-to-Equity		Debt to Captial
09/30/08	23.38	09/30/08	0.47	09/30/08	31.92
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

**NORTHWEST NAT GAS CO (NYSE)**

Scottrade

NWN 43.19 ▲ 0.35 (0.82%) Vol. 58,380

12:25 ET

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

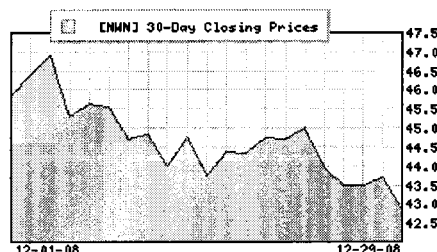
NORTHWEST NAT G
220 NW Second Avenue
Portland, OR 97209
Phone: 503 226-4211
Fax: 503 273-4824
Web: www.nwnatural.com
Email: Bob.Hess@nwnatural.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: December
Last Reported Quarter: 09/30/08
Next EPS Date: 02/05/2009

Price and Volume Information

Zacks Rank:
Yesterday's Close: 42.84
52 Week High: 78.55
52 Week Low: 36.61
Beta: 0.36
20 Day Moving Average: 215,709.09
Target Price Consensus: 52.25

**% Price Change**

4 Week: -6.59
12 Week: -15.82
YTD: -11.96

% Price Change Relative to S&P 500

4 Week: -12.30
12 Week: 2.33
YTD: 51.02

Share Information

Shares Outstanding (millions): 26.43
Market Capitalization (millions): 1,132.47
Short Ratio: 7.22
Last Split Date: 09/09/1996

Dividend Information

Dividend Yield: 3.69%
Annual Dividend: \$1.58
Payout Ratio: 0.60
Change in Payout Ratio: -0.02
Last Dividend Payout / Amount: 10/29/2008 / \$0.40

EPS Information

Current Quarter EPS Consensus Estimate: 1.21
Current Year EPS Consensus Estimate: 2.53
Estimated Long-Term EPS Growth Rate: 7.00
Next EPS Report Date: 02/05/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.00
30 Days Ago: 1.80
60 Days Ago: 1.80
90 Days Ago: 2.20

Fundamental Ratios

P/E	EPS Growth		Sales Growth	
Current FY Estimate: 16.91	vs. Previous Year	-72.73%	vs. Previous Year	-11.71%
Trailing 12 Months: 17.20	vs. Previous Quarter	-416.67%	vs. Previous Quarter:	-42.64%
PEG Ratio: 2.42				

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

Price/Book	1.87	09/30/08	10.77	09/30/08	3.29
Price/Cash Flow	7.93	06/30/08	11.55	06/30/08	3.56
Price / Sales	1.11	03/31/08	11.51	03/31/08	3.57
Current Ratio			Quick Ratio		Operating Margin
09/30/08	0.69	09/30/08	0.44	09/30/08	6.47
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
Net Margin			Pre-Tax Margin		Book Value
09/30/08	10.30	09/30/08	10.30	09/30/08	22.88
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
Inventory Turnover			Debt-to-Equity		Debt to Captial
09/30/08	9.67	09/30/08	0.85	09/30/08	45.84
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

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

PNY 31.21 ▲ 0.63 (2.06%) Vol. 197,053

12:19 ET

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

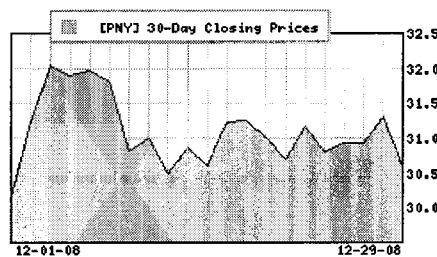
PIEDMONT NAT GA
 4720 Piedmont Row Drive
 Charlotte, NC 28210
 Phone: 704 364-3120
 Fax: 704-365-3849
 Web: www.piedmontng.com
 Email: margaret.griffith@piedmontng.com

Industry UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End October
 Last Reported Quarter 10/31/08
 Next EPS Date 03/10/2009

Price and Volume Information

Zacks Rank 
 Yesterday's Close 30.58
 52 Week High 35.29
 52 Week Low 20.52
 Beta 0.10
 20 Day Moving Average 554,579.38
 Target Price Consensus 31.67

**% Price Change**

4 Week 1.36
 12 Week 0.82
 YTD 16.90

% Price Change Relative to S&P 500

4 Week -4.84
 12 Week 22.57
 YTD 101.36

Share Information

Shares Outstanding 73.28
 (millions)
 Market Capitalization 2,240.87
 (millions)
 Short Ratio 6.97
 Last Split Date 11/01/2004

Dividend Information

Dividend Yield 3.40%
 Annual Dividend \$1.04
 Payout Ratio 0.00
 Change in Payout Ratio 0.00
 Last Dividend Payout / Amount 12/23/2008 / \$0.26

EPS Information

Current Quarter EPS Consensus Estimate 1.12
 Current Year EPS Consensus Estimate 1.65
 Estimated Long-Term EPS Growth Rate 7.20
 Next EPS Report Date 03/10/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell) 2.67
 30 Days Ago 2.67
 60 Days Ago 2.60
 90 Days Ago 2.60

Fundamental Ratios

P/E	EPS Growth	Sales Growth
Current FY Estimate: 18.57	vs. Previous Year -63.64%	vs. Previous Year 12.13%
Trailing 12 Months: 19.48	vs. Previous Quarter -80.00%	vs. Previous Quarter: -12.11%
PEG Ratio 2.60		

Price Ratios		ROE		ROA	
Price/Book	2.43	10/31/08	-	10/31/08	-
Price/Cash Flow	11.45	07/31/08	12.52	07/31/08	3.93
Price / Sales	1.07	04/30/08	12.43	04/30/08	3.94
Current Ratio		Quick Ratio		Operating Margin	
10/31/08	-	10/31/08	-	10/31/08	-
07/31/08	1.00	07/31/08	0.60	07/31/08	5.59
04/30/08	1.19	04/30/08	0.86	04/30/08	5.89
Net Margin		Pre-Tax Margin		Book Value	
10/31/08	-	10/31/08	-	10/31/08	-
07/31/08	7.23	07/31/08	7.23	07/31/08	12.56
04/30/08	8.04	04/30/08	8.04	04/30/08	12.96
Inventory Turnover		Debt-to-Equity		Debt to Captial	
10/31/08	-	10/31/08	-	10/31/08	-
07/31/08	10.43	07/31/08	0.89	07/31/08	47.21
04/30/08	10.03	04/30/08	0.87	04/30/08	46.44

**SOUTH JERSEY INDS INC (NYSE)**

Scottrade

SJI	38.89	▲ 0.79	(2.07%)	Vol. 168,723	12:21 ET
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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

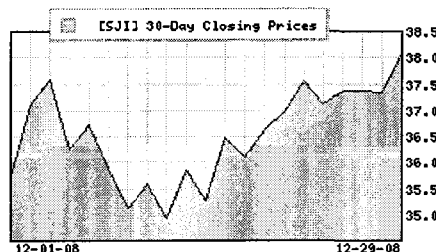
SOUTH JERSEY IN
 1 South Jersey Plaza
 Folsom, NJ 08037
 Phone: 609 561-9000
 Fax: 609 561-8225
 Web: www.sjindustries.com
 Email: sharehd@sjindustries.com

Industry: UTIL-GAS DISTR
 Sector: Utilities

Fiscal Year End: December
 Last Reported Quarter: 09/30/08
 Next EPS Date: 02/19/2009

Price and Volume Information

Zacks Rank: 
 Yesterday's Close: 38.10
 52 Week High: 39.81
 52 Week Low: 25.19
 Beta: 0.30
 20 Day Moving Average: 235,270.59
 Target Price Consensus: 40.33

**% Price Change**

4 Week	6.63
12 Week	10.92
YTD	5.57

% Price Change Relative to S&P 500

4 Week	0.11
12 Week	34.83
YTD	73.97

Share Information

Shares Outstanding (millions)	29.73
Market Capitalization (millions)	1,132.68
Short Ratio	6.41
Last Split Date	07/01/2005

Dividend Information

Dividend Yield	3.12%
Annual Dividend	\$1.19
Payout Ratio	0.48
Change in Payout Ratio	-0.05
Last Dividend Payout / Amount	12/08/2008 / \$0.30

EPS Information

Current Quarter EPS Consensus Estimate	0.65
Current Year EPS Consensus Estimate	2.29
Estimated Long-Term EPS Growth Rate	7.50
Next EPS Report Date	02/19/2009

Consensus Recommendations

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

Fundamental Ratios

P/E	EPS Growth		Sales Growth	
Current FY Estimate:	16.61	vs. Previous Year	180.00%	vs. Previous Year
Trailing 12 Months:	16.93	vs. Previous Quarter	-84.62%	vs. Previous Quarter:
PEG Ratio	2.22			54.90%

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

Price/Book	2.20	09/30/08	13.73	09/30/08	4.30
Price/Cash Flow	11.90	06/30/08	13.31	06/30/08	4.16
Price / Sales	1.19	03/31/08	13.08	03/31/08	4.14
Current Ratio			Quick Ratio		Operating Margin
09/30/08	-	09/30/08	-	09/30/08	6.99
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
Net Margin			Pre-Tax Margin		Book Value
09/30/08	12.52	09/30/08	12.52	09/30/08	-
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
Inventory Turnover			Debt-to-Equity		Debt to Capital
09/30/08	8.54	09/30/08	-	09/30/08	-
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

**SOUTHWEST GAS CORP (NYSE)**

Scottrade

SWX 24.65 ▲0.35 (1.44%) Vol. 90,390

12:22 ET

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

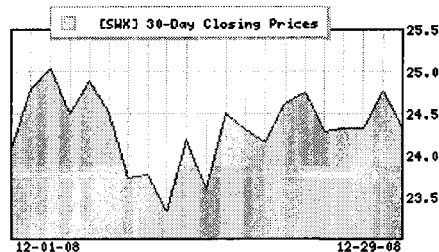
SOUTHWEST GAS
5241 Spring Mountain Road
P.O. Box 98510
Las Vegas, NV 89193-8510
Phone: 702 876-7237
Fax: 702-876-7037
Web: www.swgas.com
Email: None

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: December
Last Reported Quarter: 09/30/08
Next EPS Date: 11/21/2008

Price and Volume Information

Zacks Rank 
Yesterday's Close: 24.30
52 Week High: 33.29
52 Week Low: 21.11
Beta: 0.65
20 Day Moving Average: 320,132.41
Target Price Consensus: 33.88

**% Price Change**

4 Week: 0.91
12 Week: -16.24
YTD: -18.37

% Price Change Relative to S&P 500

4 Week: -5.26
12 Week: 1.83
YTD: 39.92

Share Information

Shares Outstanding (millions): 43.91
Market Capitalization (millions): 1,067.11
Short Ratio: 3.49
Last Split Date: N/A

Dividend Information

Dividend Yield: 3.70%
Annual Dividend: \$0.90
Payout Ratio: 0.53
Change in Payout Ratio: 0.01
Last Dividend Payout / Amount: 11/13/2008 / \$0.22

EPS Information

Current Quarter EPS Consensus Estimate: -0.25
Current Year EPS Consensus Estimate: 1.92
Estimated Long-Term EPS Growth Rate: 8.00
Next EPS Report Date: 11/21/2008

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.60
30 Days Ago: 2.60
60 Days Ago: 2.50
90 Days Ago: 2.50

Fundamental Ratios

P/E	EPS Growth		Sales Growth	
Current FY Estimate:	12.63	vs. Previous Year	-72.73%	vs. Previous Year
Trailing 12 Months:	14.29	vs. Previous Quarter	-533.33%	vs. Previous Quarter:
PEG Ratio	1.58			-16.29%

Price Ratios	ROE		ROA	
Price/Book	1.05	09/30/08	7.18	09/30/08
				2.04

Price/Cash Flow	3.90	06/30/08	8.05	06/30/08	2.27
Price / Sales	0.49	03/31/08	8.45	03/31/08	2.35
Current Ratio			Quick Ratio		
09/30/08	0.75	09/30/08	0.75	09/30/08	3.32
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
Net Margin			Pre-Tax Margin		
09/30/08	5.37	09/30/08	5.37	09/30/08	23.22
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
Inventory Turnover			Debt-to-Equity		
09/30/08	-	09/30/08	1.30	09/30/08	56.50
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
			Debt to Captial		

**WGL HLDGS INC (NYSE)**

Scottrade

WGL 31.76 ▲ 0.69 (2.22%) Vol. 233,317

12:23 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

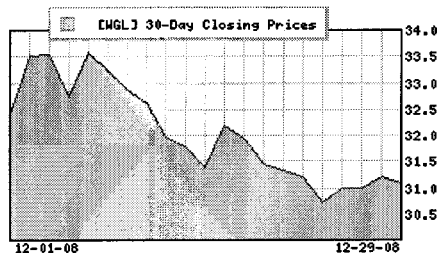
WGL HLDGS INC
101 Constitution Avenue NW
Washington, DC 20080
Phone: 703 750-2000
Fax: 703 750-4828
Web: www.wglholdings.com
Email: madams@washgas.com

Industry: UTIL-GAS DISTR
Sector: Utilities

Fiscal Year End: September
Last Reported Quarter: 09/30/08
Next EPS Date: 02/09/2009

Price and Volume Information

Zacks Rank: **2**
Yesterday's Close: 31.07
52 Week High: 37.08
52 Week Low: 22.40
Beta: 0.26
20 Day Moving Average: 713,611.13
Target Price Consensus: 33

**% Price Change**

4 Week: -4.13
12 Week: -1.15
YTD: -5.16

% Price Change Relative to S&P 500

4 Week: -10.00
12 Week: 20.17
YTD: 60.22

Share Information

Shares Outstanding (millions): 49.97
Market Capitalization (millions): 1,552.63
Short Ratio: 6.85
Last Split Date: 05/02/1995

Dividend Information

Dividend Yield: 4.57%
Annual Dividend: \$1.42
Payout Ratio: 0.58
Change in Payout Ratio: -0.11
Last Dividend Payout / Amount: 10/08/2008 / \$0.35

EPS Information

Current Quarter EPS Consensus Estimate: 0.96
Current Year EPS Consensus Estimate: 2.34
Estimated Long-Term EPS Growth Rate: 7.50
Next EPS Report Date: 02/09/2009

Consensus Recommendations

Current (1=Strong Buy, 5=Strong Sell): 2.75
30 Days Ago: 2.50
60 Days Ago: 2.25
90 Days Ago: 2.25

Fundamental Ratios**P/E**

Current FY Estimate: 13.30
Trailing 12 Months: 12.63
PEG Ratio: 1.77

EPS Growth

vs. Previous Year: 29.03%
vs. Previous Quarter: -466.67%

Sales Growth

vs. Previous Year: -50.38%
vs. Previous Quarter: -65.22%

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

Price/Book	1.48	09/30/08	11.60	09/30/08	3.72
Price/Cash Flow	7.21	06/30/08	11.37	06/30/08	3.64
Price / Sales	0.65	03/31/08	12.32	03/31/08	4.00
Current Ratio			Quick Ratio		Operating Margin
09/30/08	0.99	09/30/08	0.42	09/30/08	5.09
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
Net Margin			Pre-Tax Margin		Book Value
09/30/08	7.08	09/30/08	7.08	09/30/08	20.99
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
Inventory Turnover			Debt-to-Equity		Debt to Captial
09/30/08	7.07	09/30/08	0.58	09/30/08	35.95
06/30/08	7.63	06/30/08	0.56	06/30/08	35.26
03/31/08	8.18	03/31/08	0.55	03/31/08	35.06

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.

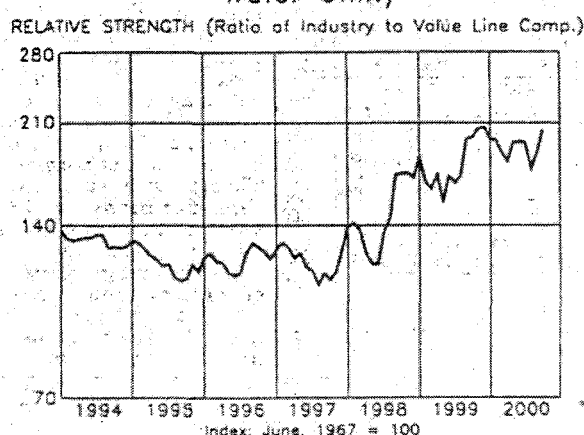
Joseph Espallat

Composite Statistics: Water Utility Industry

1996	1997	1998	1999	2000	2001		03-05
1793.9	1924.7	1994.2	2422.6	2550	2750	Revenues (\$mill)	3500
214.4	23.2	285.6	295.3	315	325	Net Profit (\$mill)	415
39.2%	37.6%	37.0%	38.2%	39.0%	39.0%	Income Tax Rate	39.0%
7.0%	6.3%	7.5%	8.7%	8.0%	8.0%	AFUDC % to Net Profit	8.0%
55.7%	56.6%	56.9%	55.9%	53.0%	52.0%	Long-Term Debt Ratio	50.0%
40.0%	39.6%	39.7%	42.0%	45.0%	46.0%	Common Equity Ratio	46.0%
5271.8	5703.3	5188.6	7223.7	7300	7900	Total Capital (\$mill)	9300
6377.2	6785.5	7361.9	8961.3	8700	9300	Net Plant (\$mill)	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 Str. 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%	3.9%	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	15.8	18.3	20.2			Avg Ann'l P/E Ratio	13.0
.91	.91	.96	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



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.

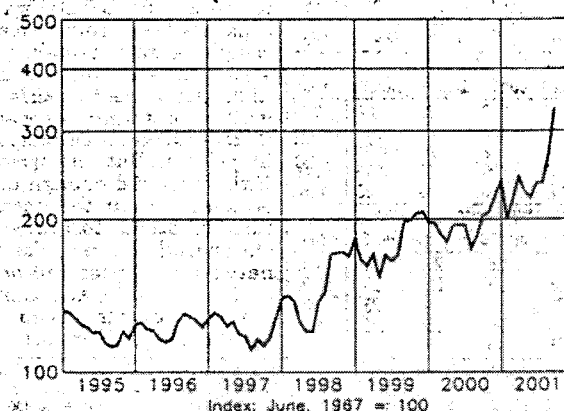
Joseph Espallat

Composite Statistics: Water Utility Industry

1997	1998	1999	2000	2001	2002		04-06
1439.5	1503.1	1898.0	2054.9	2210	2215	Revenues (\$mill)	2885
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%
8.4%	7.9%	9.6%	5.5%	6.5%	6.5%	AFUDC % to Net Profit	7.5%
57.3%	58.0%	58.2%	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	48.0%
4113.2	4524.8	5566.3	5654.5	6055	6335	Total Capital (\$mill)	7495
5069.2	5644.7	7039.7	7545.4	7975	8425	Net Plant (\$mill)	9935
6.5%	6.3%	6.2%	6.6%	8.0%	8.0%	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%	9.9%	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%	58%	59%	61%	60%	59%	All Div'ds to Net Prof	52%
15.2	19.4	19.2	18.3	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%

Water Utility

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



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.

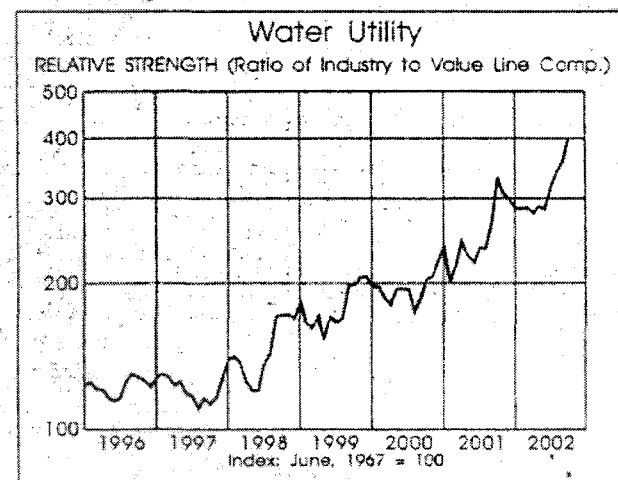
Decent Grounds For Conservative Investors

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	1899.0	2054.9	2190.5	2495	2710	Revenues (\$bill)			3380
192.9	232.8	249.7	281.8	275	315	Net Profit (\$bill)			465
39.1%	39.7%	40.1%	39.5%	41.5%	40.0%	Income Tax Rate			40.0%
7.9%	9.6%	5.5%	3.4%	2.0%	2.0%	AFUDC % to Net Profit			3.0%
58.0%	56.2%	54.9%	58.7%	57.0%	56.0%	Long-Term Debt Ratio			52.5%
39.8%	41.9%	44.0%	42.4%	42.0%	43.0%	Common Equity Ratio			47.0%
4524.6	5566.3	5854.5	6198.1	7005	7085	Total Capital (\$bill)			8790
5544.7	7039.7	7545.4	7991.2	9210	9940	Net Plant (\$bill)			12085
6.3%	6.2%	6.8%	6.3%	6.0%	6.5%	Return on Total CapT			7.0%
10.2%	9.5%	9.8%	9.9%	10.0%	10.5%	Return on Shr. Equity			11.5%
10.5%	9.9%	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%	60%	61%	61%	58%	All Div'ds to Net Prof			47%
19.4	19.2	18.3	20.9			Avg Ann'l P/E Ratio			13.5
1.01	1.09	1.08	1.07			Relative P/E Ratio			.90
3.0%	3.0%	3.7%	2.9%			Avg Ann'l Div'd Yield			3.0%

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estimates



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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.

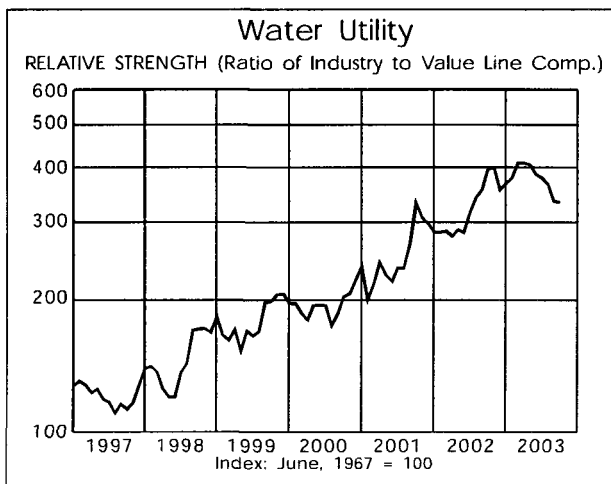
Investment Advice

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%

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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-

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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.

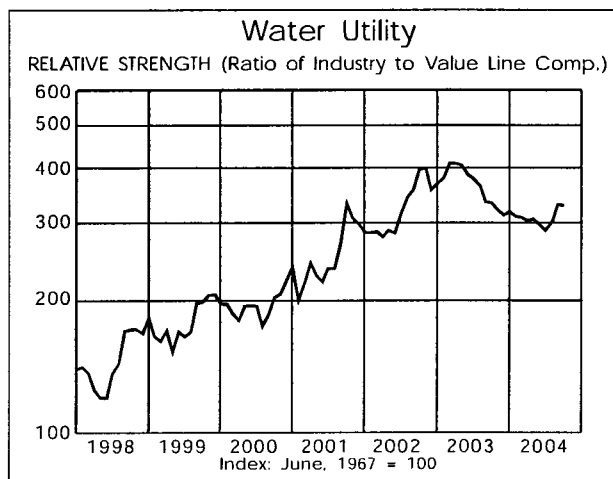
Investment Advice

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	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			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%

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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-

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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

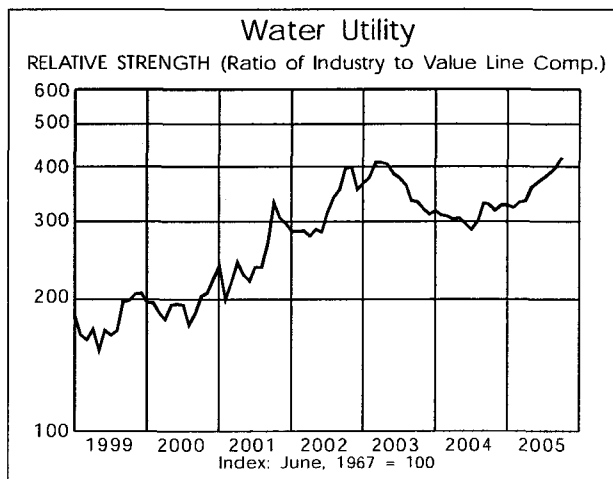
Most investors will probably want to take a pass on the stocks in this industry. Typically market laggards, not one of the issues covered in the next few pages stands out for near-term or long-term capital gains potential. The limited financial resources of most of these companies, along with the capital-intensive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

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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

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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.

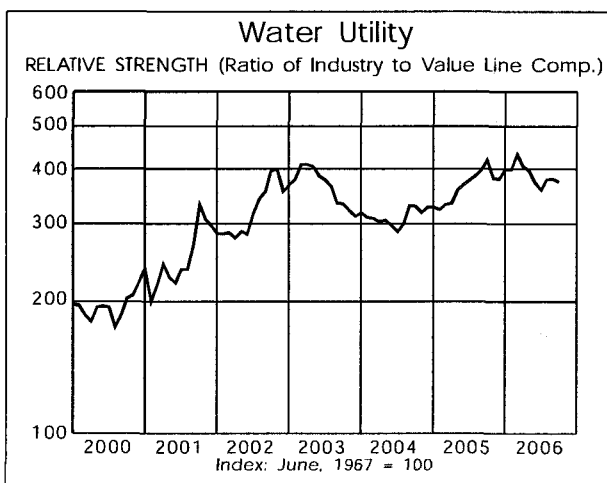
Investment Advice

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			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%

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Many of the stock's in the Water Utility industry have continued to benefit from more favorable regulatory backing since our October review. Nevertheless, as usual, the industry, as a whole, ranks at the very bottom of the *Value Line* investment universe for Timeliness. Elevated well and waterway maintenance costs are responsible for most of the blame and will likely continue to dampen profits for years to come. Indeed, the growing need for infrastructure renovations poses a significant threat to the industry's long-term prospects, especially given the capital constraints that most companies are facing. As a result, many investors are going to want to steer clear of the issues in this industry.

Regulatory Winds at its Back

Regulatory authorities, designed to keep a balance of power between utility providers and consumers, have been extremely tough on utility companies in years past. However, current administrations have taken a much more business-friendly approach in recent months in handing down timely and generally favorable rulings. This has not been more glaringly evident than in California, where the California Public Utilities Commission's board has undergone a major facelift with adversaries being replaced with business supporters. Recent rulings set a good tone for utility providers doing business in the Golden State, which typically request a step-up in rates every year. This augurs particularly well for *California Water Service Group* and *American States Water*, which both derive a significant amount of business from California.

But Choppy Waters Lie Ahead

Even still, the same cannot be said for infrastructure costs. Although regulators are softening their stance on rate case decisions, infrastructure demands are growing more stringent. Many of the current infrastructures are more than 100 years old and in need of serious upkeep, or even complete replacement in some cases. Water companies are being forced to pony up significant cash in order to get their systems up to par. Making matters worse, the Environmental Protection Agency (EPA) continues to increase its water purification standards, given the geopolitical volatility worldwide and the threat of bio-terrorist actions on U.S. water systems. In all, infra-

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structure repair costs are expected to climb into the hundreds of millions of dollars over the next two decades. These extra costs will make it very difficult for most water utility companies to sustain the earnings momentum that we think the improved regulatory landscape will produce this year.

Many of the smaller companies in the industry do not have the resources to meet the capital expenditures that they are being saddled with. Some are deciding to merge with larger, more financially sound enterprises. As a result, some of the biggest water utility companies are growing bigger, faster than ever. *Aqua America*, for example, has made well over 100 acquisitions in the past five years (28 coming in 2006), based on the aforementioned weakness of smaller players, improved operations and increased their lines. This has drastically increased its customer base and clearly improved its long-term prospects. We expect *Aqua* to continue growing its business via acquisitions as rising water standards spark further consolidation.

Investment Advice

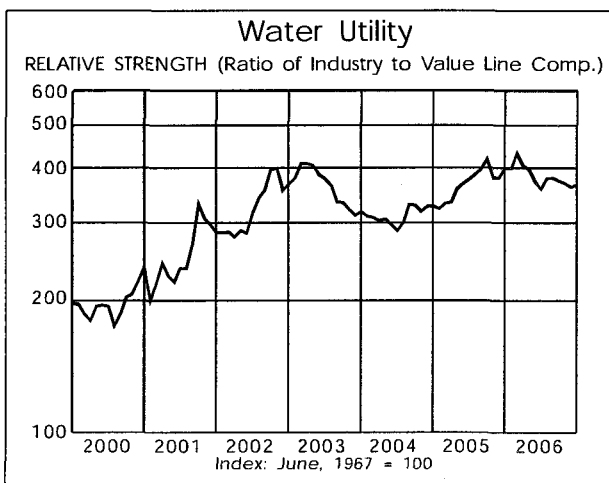
Most investors will want to steer clear of the stocks in the Water Utility Industry. Each of the issues in the coming pages hold below average appreciation potential, whether it be for the coming six to 12 months or out to 2009-2011. In fact, each is ranked either 4 or 5 for Timeliness. The growing infrastructure costs and capital constraints mentioned above are likely to continue pressuring bottom lines of water utility companies for years to come.

Meanwhile, most look to have lost their income appeal as well. Higher interest rates have increased the income-producing appeal of alternative investments, making the yields found in this industry modestly attractive at best. That said, more conservative investors looking for a steady stream of income may want to take a peek at *California Water*, which is ranked 2 (Above Average) for Safety. Its yield is still above the *Value Line* average. Nevertheless, we advise all potential investors to carefully look over the individual reports of each company in the next few pages before making any decisions.

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	1450	Revenues (\$mill)			1825
107.8	112.6	105.7	148.3	155	180	Net Profit (\$mill)			240
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	3360	3650	Total Capital (\$mill)			4500
2995.1	3405.6	3836.9	4194.7	5350	5750	Net Plant (\$mill)			6800
6.9%	5.9%	6.0%	6.3%	7.0%	8.0%	Return on Total Cap'l			9.0%
11.1%	8.8%	9.0%	9.8%	9.0%	10.0%	Return on Shr. Equity			10.5%
11.1%	8.8%	9.0%	9.8%	9.0%	10.0%	Return on Com Equity			10.5%
4.0%	2.7%	3.1%	3.7%	3.0%	3.5%	Retained to Com Eq			2.5%
64%	70%	66%	62%	68%	65%	All Div'ds to Net Prof			62%
21.6	25.6	25.4	29.4			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%

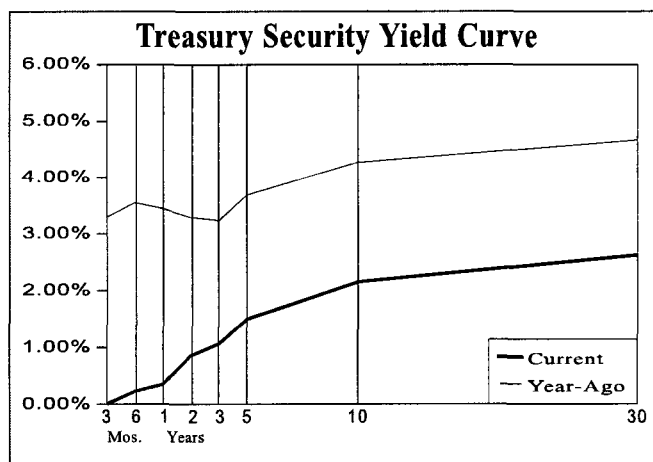
Bold figures are
Value Line
estimates



ATTACHMENT E

Selected Yields

	Recent (12/23/08)	3 Months Ago (9/24/08)	Year Ago (12/26/07)		Recent (12/23/08)	3 Months Ago (9/24/08)	Year Ago (12/26/07)
TAXABLE							
Market Rates							
Discount Rate	0.50	2.25	4.75				
Federal Funds	0.00-0.25	2.00	4.25				
Prime Rate	3.25	5.00	7.25				
30-day CP (A1/P1)	0.10	2.85	4.90				
3-month LIBOR	1.47	3.48	4.83				
Bank CDs							
6-month	1.17	1.61	2.82				
1-year	1.56	2.14	3.44				
5-year	2.72	3.77	3.73				
U.S. Treasury Securities							
3-month	0.01	0.46	3.31				
6-month	0.23	1.43	3.56				
1-year	0.35	1.89	3.46				
5-year	1.50	2.91	3.70				
10-year	2.16	3.81	4.28				
10-year (inflation-protected)	2.36	1.99	1.90				
30-year	2.63	4.41	4.67				
30-year Zero	2.67	4.39	4.70				
Mortgage-Backed Securities							
GNMA 6.5%	4.43	5.56	5.52				
FHLMC 6.5% (Gold)	4.38	5.43	5.70				
FNMA 6.5%	4.16	5.34	5.52				
FNMA ARM	4.23	3.86	5.47				
Corporate Bonds							
Financial (10-year) A	7.08	7.14	6.27				
Industrial (25/30-year) A	6.02	6.53	6.22				
Utility (25/30-year) A	5.90	6.50	6.28				
Utility (25/30-year) Baa/BBB	7.07	6.74	6.42				
Foreign Bonds (10-Year)							
Canada	2.80	3.66	4.09				
Germany	2.95	4.16	4.31				
Japan	1.22	1.49	1.57				
United Kingdom	3.12	4.57	4.60				
Preferred Stocks							
Utility A	6.25	6.85	6.19				
Financial A	11.45	8.04	8.15				
Financial Adjustable A	5.47	5.47	5.47				



TAX-EXEMPT

Bond Buyer Indexes							
20-Bond Index (GOs)	5.46	5.03	4.39				
25-Bond Index (Revs)	6.22	5.44	4.76				
General Obligation Bonds (GOs)							
1-year Aaa	0.85	2.15	2.90				
1-year A	0.95	2.25	3.00				
5-year Aaa	2.57	3.10	3.22				
5-year A	2.87	3.20	3.32				
10-year Aaa	3.70	4.02	3.65				
10-year A	4.20	4.22	3.95				
25/30-year Aaa	5.17	5.13	4.35				
25/30-year A	6.15	5.45	4.55				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	6.15	5.55	4.65				
Electric AA	6.20	5.60	4.70				
Housing AA	6.50	5.90	4.80				
Hospital AA	6.55	5.95	4.85				
Toll Road Aaa	6.25	5.65	4.70				

Federal Reserve Data

BANK RESERVES

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

	Recent Levels			Average Levels Over the Last...		
	12/17/08	12/3/08	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	774432	589720	184712	402723	202422	105940
Borrowed Reserves	674517	675885	-1368	607558	387830	244268
Net Free/Borrowed Reserves	99915	-86165	186080	-204836	-185409	-138328

MONEY SUPPLY

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

	Recent Levels			Growth Rates Over the Last...		
	12/8/08	12/1/08	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1585.5	1538.6	46.9	64.1%	31.3%	15.7%
M2 (M1+savings+small time deposits)	8062.4	7988.5	73.9	22.2%	11.2%	9.0%

ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-08-0227

DOCKET NO. SW-01303A-08-0227

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ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2006
COST OF CAPITAL SUMMARY

DOCKET NO. W-01303A-08-0227
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SCHEDULE WAR - 1, PAGE 1 OF 3

WEIGHTED AVERAGE COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST
1	LONG-TERM DEBT	55.20%	5.46%	3.02%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED AVERAGE COST OF CAPITAL			<u>7.00%</u>

REFERENCES:

COLUMN (A): ACC STAFF DATA REQUEST PMC 15.1
COLUMN (B): LINE 1 - SCHEDULE WAR-1, PAGE 2; LINE 3 - TESTIMONY, WAR
COLUMN (C): COLUMN (A) x COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2006
COST OF CAPITAL SUMMARY

DOCKET NO. W-01303A-08-0227
DOCKET NO. SW-01303A-08-0227
SCHEDULE WAR - 1, PAGE 2 OF 3

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	SEPTEMBER 2013 PILR - MONTEREY	\$ 32,726	\$ 2,049	6.261%	0.02%	0.001%
2	AUGUST 2013 PILR - MONTEX/LINCOLN	19,220	1,107	5.760%	0.01%	0.001%
3	AUGUST 2015 PILR - ROSALEE	38,347	2,753	7.179%	0.02%	0.001%
4	AUGUST 2015 PILR - T.O. DEVELOPMENT	32,847	2,358	7.179%	0.02%	0.001%
5	SEPTEMBER 2028 LONG-TERM NOTE - MARICOPA	10,635,000	386,051	3.630%	5.62%	0.204%
6	DECEMBER 2013 LONG-TERM PROMISSORY NOTE	24,700,000	1,331,330	5.390%	13.05%	0.704%
7	DECEMBER 2016 LONG-TERM PROMISSORY NOTE	11,200,000	618,240	5.520%	5.92%	0.327%
8	DECEMBER 2018 LONG-TERM PROMISSORY NOTE	123,100,000	6,918,220	5.620%	65.06%	3.656%
9	OCTOBER 2037 PROMISSORY NOTE	10,000,000	650,000	6.500%	5.29%	0.344%
10	OCTOBER 2037 PROMISSORY NOTE	6,450,000	425,249	6.593%	3.41%	0.225%
11	PHOENIX AGREEMENT	3,000,000	-	0.000%	1.59%	0.000%
12	TOTALS	\$ 189,208,140	\$ 10,337,357		100.00%	

13 WEIGHTED COST OF DEBT

5.463%

REFERENCES:

COLUMN (A) LINES 1 THRU 11: COMPANY RESPONSE TO ACC STAFF DATA REQUEST PMC 15.1
COLUMN (B) LINES 1 THRU 11: COMPANY RESPONSE TO ACC STAFF DATA REQUEST PMC 15.1
COLUMN (C) LINES 1 THRU 11: COMPANY RESPONSE TO ACC STAFF DATA REQUEST PMC 15.1
COLUMN (D) LINES 1 THRU 11: COLUMN (C) + COLUMN (B)
COLUMN (E): COLUMN (B) LINES 1 THRU 11 + COLUMN (B) LINE 12
COLUMN (F): COLUMN (D) x COLUMN (E)

ARIZONA-AMERICAN WATER COMPANY
 TEST YEAR ENDED DECEMBER 31, 2006
 COST OF CAPITAL SUMMARY

DOCKET NO. W-01303A-08-0227
 DOCKET NO. SW-01303A-08-0227
 SCHEDULE WAR - 1, PAGE 3 OF 3

COST OF COMMON EQUITY CALCULATION

LINE NO.				
1	<u>DCF METHODOLOGY</u>			
2	DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	11.19%	SCHEDULE WAR-2, COLUMN (C), LINE 5	
3	DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	<u>11.16%</u>	SCHEDULE WAR-2, COLUMN (C), LINE 13	
4	AVERAGE OF DCF ESTIMATES	11.17%	(LINE 2 + LINE 3) ÷ 2	
5	<u>CAPM METHODOLOGY</u>			
6	CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE	6.66%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5	
7	CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE	5.07%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13	
8	CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE	8.39%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5	
9	CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE	<u>6.26%</u>	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13	
10	AVERAGE OF CAPM ESTIMATES	6.59%	(SUM OF LINES 6 THRU 9) ÷ 4	
11	AVERAGE OF DCF AND CAPM ESTIMATES	<u>8.88%</u>	(SUM OF LINES 4 AND 10) ÷ 2	

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2006
DCF COST OF EQUITY CAPITAL

DOCKET NO. W-01303A-08-0227
DOCKET NO. SW-01303A-08-0227
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.	3.10%	+	7.98%	=	11.08%
2	CWT	CALIFORNIA WATER SERVICE GROUP	2.87%	+	6.67%	=	9.54%
3	SWWC	SOUTHWEST WATER COMPANY	5.38%	+	10.18%	=	15.57%
4	WTR	AQUA AMERICA, INC.	2.75%	+	5.80%	=	8.55%
5		WATER COMPANY AVERAGE					11.19%
6	ATG	AGL RESOURCES, INC.	5.77%	+	5.39%	=	11.17%
7	ATO	ATMOS ENERGY CORP.	5.62%	+	13.98%	=	19.60%
8	LG	LACLEDE GROUP, INC.	3.14%	+	6.33%	=	9.47%
9	NJR	NEW JERSEY RESOURCES CORPORATION	3.01%	+	6.82%	=	9.83%
10	GAS	NICOR, INC.	4.89%	+	6.03%	=	10.92%
11	NWN	NORTHWEST NATURAL GAS CO.	3.37%	+	5.24%	=	8.61%
12	PNY	PIEDMONT NATURAL GAS COMPANY	3.27%	+	5.01%	=	8.28%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	6.32%	+	9.94%	=	16.26%
14	SWX	SOUTHWEST GAS CORPORATION	3.66%	+	5.32%	=	8.98%
15	WGL	WGL HOLDINGS, INC.	4.43%	+	4.05%	=	8.49%
16		NATURAL GAS LDC AVERAGE					11.16%

REFERENCES:

COLUMN (A): SCHEDULE WAR - 3, COLUMN C
COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2006
DIVIDEND YIELD CALCULATION

DOCKET NO. W-01303A-08-0227
DOCKET NO. SW-01303A-08-0227
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 ÷	\$32.23 =	3.10%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.17 ÷	40.77 =	2.87%
3	SWWC	SOUTHWEST WATER COMPANY	0.24 ÷	4.46 =	5.38%
4	WTR	AQUA AMERICA, INC.	0.54 ÷	19.65 =	2.75%
5		WATER COMPANY AVERAGE			3.53%
6	ATG	AGL RESOURCES, INC.	\$1.68 ÷	\$29.10 =	5.77%
7	ATO	ATMOS ENERGY CORP.	1.32 ÷	23.49 =	5.62%
8	LG	LACLEDE GROUP, INC.	1.54 ÷	49.09 =	3.14%
9	NJR	NEW JERSEY RESOURCES CORPORATION	1.12 ÷	37.24 =	3.01%
10	GAS	NICOR, INC.	1.86 ÷	38.03 =	4.89%
11	NWN	NORTHWEST NATURAL GAS CO.	1.58 ÷	46.88 =	3.37%
12	PNY	PIEDMONT NATURAL GAS COMPANY	1.04 ÷	31.77 =	3.27%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	2.27 ÷	35.96 =	6.32%
14	SWX	SOUTHWEST GAS CORPORATION	0.90 ÷	24.61 =	3.66%
15	WGL	WGL HOLDINGS, INC.	1.44 ÷	32.48 =	4.43%
16		NATURAL GAS LDC AVERAGE			4.35%

REFERENCES:

COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT
SURVEY - RATINGS & REPORTS DATED 10/24/2008 (WATER COMPANIES) AND 12/12/2008 (NATURAL GAS LDC's).
COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 11/03/2008 TO 12/26/2008
STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).
COLUMN (C): COLUMN (A) ÷ COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2006
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-01303A-08-0227
DOCKET NO. SW-01303A-08-0227
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.	6.75%	+	1.23%	=	7.98%
2	CWT	CALIFORNIA WATER SERVICE GROUP	5.00%	+	1.67%	=	6.67%
3	SWWC	SOUTHWEST WATER COMPANY	3.75%	+	6.43%	=	10.18%
4	WTR	AQUA AMERICA, INC.	5.00%	+	0.80%	=	5.80%
5		WATER COMPANY AVERAGE					7.66%
6	ATG	AGL RESOURCES, INC.	5.25%	+	0.14%	=	5.39%
7	ATO	ATMOS ENERGY CORP.	4.00%	+	9.98%	=	13.98%
8	LG	LACLEDE GROUP, INC.	4.50%	+	1.83%	=	6.33%
9	NJR	NEW JERSEY RESOURCES CORPORATION	6.25%	+	0.57%	=	6.82%
10	GAS	NICOR, INC.	6.00%	+	0.03%	=	6.03%
11	NWN	NORTHWEST NATURAL GAS CO.	4.75%	+	0.49%	=	5.24%
12	PNY	PIEDMONT NATURAL GAS COMPANY	5.00%	+	0.01%	=	5.01%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	9.00%	+	0.94%	=	9.94%
14	SWX	SOUTHWEST GAS CORPORATION	5.25%	+	0.07%	=	5.32%
15	WGL	WGL HOLDINGS, INC.	4.00%	+	0.05%	=	4.05%
16		NATURAL GAS LDC AVERAGE					6.81%

REFERENCES:

COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2; COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2006
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-01303A-08-0227
DOCKET NO. SW-01303A-08-0227
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.	3.25%	$x \{ [((1.76) + 1) + 2] - 1 \}$	= 1.23%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.00%	$x \{ [((2.11) + 1) + 2] - 1 \}$	= 1.67%
3	SWWC	SOUTHWEST WATER COMPANY	3.50%	$x \{ [((0.68) + 1) + 2] - 1 \}$	= 6.43%
4	WTR	AQUA AMERICA, INC.	1.00%	$x \{ [((2.60) + 1) + 2] - 1 \}$	= 0.80%
5	WATER COMPANY AVERAGE				2.53%
6	ATG	AGL RESOURCES, INC.	1.00%	$x \{ [((1.29) + 1) + 2] - 1 \}$	= 0.14%
7	ATO	ATMOS ENERGY CORP.	5.00%	$x \{ [((0.99) + 1) + 2] - 1 \}$	= 9.98%
8	LG	LACLEDE GROUP, INC.	3.00%	$x \{ [((2.22) + 1) + 2] - 1 \}$	= 1.83%
9	NJR	NEW JERSEY RESOURCES CORPORATION	1.00%	$x \{ [((2.15) + 1) + 2] - 1 \}$	= 0.57%
10	GAS	NICOR, INC.	0.07%	$x \{ [((1.83) + 1) + 2] - 1 \}$	= 0.03%
11	NWN	NORTHWEST NATURAL GAS CO.	1.00%	$x \{ [((1.98) + 1) + 2] - 1 \}$	= 0.49%
12	PNY	PIEDMONT NATURAL GAS COMPANY	0.01%	$x \{ [((2.52) + 1) + 2] - 1 \}$	= 0.01%
13	SJI	SOUTH JERSEY INDUSTRIES, INC.	1.75%	$x \{ [((2.07) + 1) + 2] - 1 \}$	= 0.94%
14	SWX	SOUTHWEST GAS CORPORATION	2.50%	$x \{ [((1.06) + 1) + 2] - 1 \}$	= 0.07%
15	WGL	WGL HOLDINGS, INC.	0.20%	$x \{ [((1.54) + 1) + 2] - 1 \}$	= 0.05%
16	NATURAL GAS LDC AVERAGE				1.41%

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 10/24/2008 (WATER COMPANIES) AND 12/12/2008 (NATURAL GAS LDC's)
COLUMN (C): COLUMN (A) x COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2006
DIVIDEND GROWTH COMPONENTS

DOCKET NO. W-01303A-08-0227
DOCKET NO. SW-01303A-08-0227
SCHEDULE WAR - 5, PAGE 1 OF 4

LINE NO.	STOCK SYMBOL	WATER COMPANY 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	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	0.4595	10.00%	4.59%		18.00	4.47%
8			2009	0.4600	10.50%	4.83%		18.50	3.62%
9			2011-13	0.5321	13.50%	7.18%	2.50%	20.00	3.03%
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	0.3118	9.00%	2.81%		21.25	2.81%
18			2009	0.3949	10.00%	3.95%		22.00	3.17%
19			2011-13	0.4468	11.50%	5.14%	4.00%	23.50	2.60%
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	0.0400	3.50%	0.14%		25.00	3.01%
28			2009	0.4000	5.00%	2.00%		26.00	3.50%
29			2011-13	0.5000	8.50%	4.25%	1.00%	29.00	3.63%
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	0.3200	10.00%	3.20%		135.00	1.20%
38			2009	0.3647	11.00%	4.01%		136.00	0.97%
39			2011-13	0.4545	11.50%	5.23%	5.50%	139.00	0.83%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 10/24/2008
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

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2006
DIVIDEND GROWTH COMPONENTS

DOCKET NO. W-01303A-08-0227
DOCKET NO. SW-01303A-08-0227
SCHEDULE WAR - 5, PAGE 2 OF 4

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (i) =	(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	0.4758	12.90%	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	0.3778	12.00%	4.53%		77.00	0.79%
8			2009	0.3857	12.50%	4.82%		78.00	1.04%
9			2011-13	0.4159	13.50%	5.61%	2.00%	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	0.3500	9.00%	3.15%		91.00	1.87%
18			2009	0.3714	9.00%	3.34%		92.00	1.48%
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	0.4356	12.00%	5.23%		22.00	1.62%
28			2009	0.3880	11.50%	4.46%		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	0.4859	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	0.5889	15.70%	9.25%		41.88	0.65%
38			2009	0.5571	14.50%	8.08%		42.50	1.06%
39			2011-13	0.5467	11.50%	6.29%	11.00%	44.00	1.12%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 12/12/2008
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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

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2006
DIVIDEND GROWTH COMPONENTS

DOCKET NO. W-01303A-08-0227
DOCKET NO. SW-01303A-08-0227
SCHEDULE WAR - 5, PAGE 3 OF 4

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (c) =	(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	0.1878	12.50%	2.35%	18.36	44.18	
4			2006	0.3519	14.70%	5.17%	19.43	44.90	
5			2007	0.3758	14.30%	5.37%	20.58	45.90	
6			GROWTH 2003 - 2007			3.30%	4.00%		1.04%
7			2008	0.1733	11.50%	1.99%		45.00	-1.96%
8			2009	0.2560	11.50%	2.94%		45.00	-0.99%
9			2011-13	0.4609	13.50%	6.22%	4.50%	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	0.4039	11.50%	4.65%		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%		73.50	0.37%
28			2009	0.3313	12.50%	4.14%		73.50	0.18%
29			2011-13	0.4195	13.50%	5.66%	4.50%	73.00	-0.06%
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	0.5174	13.50%	6.98%		30.00	1.32%
38			2009	0.5200	14.50%	7.54%		31.00	2.32%
39			2011-13	0.5667	16.00%	9.07%	4.50%	32.00	1.56%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 12/12/2008

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	SWX	SOUTHWEST GAS CORPORATION	2003	0.2743	6.10%	1.67%	18.42	34.23	
2			2004	0.5080	8.30%	4.20%	19.18	36.79	
3			2005	0.3440	6.40%	2.20%	19.10	39.33	
4			2006	0.5859	8.90%	5.21%	21.58	41.77	
5			2007	0.5590	8.50%	4.75%	22.98	42.81	
6			GROWTH 2003 - 2007				3.50%		5.75%
7			2008	0.4857	7.50%	3.64%		44.00	2.78%
8			2009	0.5300	8.00%	4.24%		45.00	2.53%
9			2011-13	0.5760	9.50%	5.47%	4.00%	48.00	2.31%
10									
11	WGL	WGL HOLDINGS, INC.	2003	0.4435	14.00%	6.21%	16.25	48.63	
12			2004	0.3434	14.00%	4.81%	16.95	48.67	
13			2005	0.3744	12.00%	4.49%	17.80	48.65	
14			2006	0.3093	10.20%	3.15%	18.28	48.89	
15			2007	0.3476	10.40%	3.62%	19.83	49.45	
16			GROWTH 2003 - 2007				3.50%		0.42%
17			2008	0.3906	11.60%	4.53%		49.61	0.32%
18			2009	0.4000	11.50%	4.60%		49.65	0.20%
19			2011-13	0.3882	10.50%	4.08%	5.00%	50.00	0.22%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 12/12/2008

COLUMN (C): COLUMN (A) x COLUMN (B)

COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2003 - 2007

WATER COMPANY SAMPLE:

LINE NO.	STOCK SYMBOL	(A)		(B)		(C)		(D)		(E)		(F)	
		(br) + (sv)	ZACKS EPS	EPS	VALUE LINE PROJECTED DPS	BVPS	EPS	VALUE LINE HISTORIC DPS	BVPS	VALUE LINE & ZACKS AVGS	EPS	5 - YEAR COMPOUND HISTORY DPS	BVPS
1	AWR	7.98%	12.00%	11.00%	5.00%	2.50%	1.50%	1.50%	4.50%	5.43%	20.05%	2.20%	5.84%
2	CWT	6.67%	8.40%	4.75%	2.00%	3.50%	4.50%	0.50%	6.00%	4.24%	5.52%	0.88%	6.39%
3	SWWC	10.18%	6.30%	9.50%	6.00%	1.00%	-19.50%	9.00%	11.50%	3.40%	-8.38%	9.50%	5.11%
4	WTR	5.80%	8.00%	7.50%	5.50%	5.50%	7.00%	7.50%	10.50%	7.36%	5.64%	8.22%	8.20%
5				8.19%	4.63%	3.13%	-1.63%	4.63%	8.13%		5.71%	5.20%	6.38%
6	AVERAGES	7.66%	8.68%		5.31%			3.71%		5.11%		5.76%	

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A)		(B)		(C)		(D)		(E)		(F)	
		(br) + (sv)	ZACKS EPS	EPS	VALUE LINE PROJECTED DPS	BVPS	EPS	VALUE LINE HISTORIC DPS	BVPS	VALUE LINE & ZACKS AVGS	EPS	5 - YEAR COMPOUND HISTORY DPS	BVPS
1	ATG	5.39%	4.30%	3.00%	4.00%	2.00%	15.00%	4.00%	10.50%	6.11%	6.84%	10.25%	10.35%
2	ATO	13.98%	5.50%	4.50%	2.00%	3.50%	7.50%	1.50%	9.00%	4.79%	3.21%	1.63%	7.21%
3	LG	6.33%	10.00%	4.50%	2.50%	5.50%	9.50%	1.00%	4.50%	5.36%	6.14%	1.99%	6.04%
4	NJR	6.82%	8.00%	9.50%	6.00%	11.00%	6.00%	4.00%	10.00%	7.79%	-0.63%	5.03%	10.87%
5	GAS	6.03%	6.50%	4.00%	-	4.50%	-1.50%	1.00%	4.00%	3.08%	9.01%	0.00%	4.69%
6	NWN	5.24%	7.00%	7.00%	5.50%	3.50%	6.50%	2.00%	3.50%	5.00%	11.90%	3.19%	3.64%
7	PNY	5.01%	7.20%	7.50%	4.00%	4.50%	6.00%	4.50%	6.50%	5.74%	5.97%	4.82%	6.39%
8	SJI	9.94%	7.50%	6.00%	5.50%	4.50%	12.50%	4.50%	12.50%	7.57%	11.14%	6.67%	9.60%
9	SWX	5.32%	8.00%	6.50%	4.00%	4.00%	6.00%	-	3.50%	5.33%	14.61%	1.20%	5.69%
10	WGL	4.05%	7.50%	3.50%	2.50%	5.00%	5.00%	1.50%	3.50%	4.07%	2.25%	1.71%	5.10%
11				5.60%	4.00%	4.80%	7.25%	2.67%	6.75%		6.60%	3.65%	6.96%
12	AVERAGES	6.81%	7.15%		4.80%			5.56%		5.48%		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 10/24/2008 (WATER COMPANIES) AND 12/12/2008 (NATURAL GAS LDC's)
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 10/24/2008 (WATER COMPANIES) AND 12/12/2008 (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 10/24/2008 (WATER COMPANIES) AND 12/12/2008 (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	=	1.50%	+	[0.95 x (10.40% - 5.30%)]	=	6.35%
2	CWT	k	=	1.50%	+	[1.10 x (10.40% - 5.30%)]	=	7.11%
3	SWWC	k	=	1.50%	+	[1.00 x (10.40% - 5.30%)]	=	6.60%
4	WTR	k	=	1.50%	+	[1.00 x (10.40% - 5.30%)]	=	6.60%
5	WATER COMPANY AVERAGE					1.01		6.66%
6	ATG	k	=	1.50%	+	[0.75 x (10.40% - 5.30%)]	=	5.33%
7	ATO	k	=	1.50%	+	[0.85 x (10.40% - 5.30%)]	=	4.82%
8	LG	k	=	1.50%	+	[0.65 x (10.40% - 5.30%)]	=	4.82%
9	NJR	k	=	1.50%	+	[0.70 x (10.40% - 5.30%)]	=	5.07%
10	GAS	k	=	1.50%	+	[0.70 x (10.40% - 5.30%)]	=	5.07%
11	NWN	k	=	1.50%	+	[0.60 x (10.40% - 5.30%)]	=	4.56%
12	PNY	k	=	1.50%	+	[0.70 x (10.40% - 5.30%)]	=	5.07%
13	SJI	k	=	1.50%	+	[0.75 x (10.40% - 5.30%)]	=	5.33%
14	SWX	k	=	1.50%	+	[0.75 x (10.40% - 5.30%)]	=	5.33%
15	WGL	k	=	1.50%	+	[0.75 x (10.40% - 5.30%)]	=	5.33%
16	NATURAL GAS LDC AVERAGE					0.70		5.07%

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 YIELD ON A 5-YEAR TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION ON 01/02/2009 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE MARKET RATE PROXY USED WAS THE GEOMETRIC MEAN FOR S&P 500 RETURNS LESS THE RETURNS ON INTERMEDIATE TERM TREASURIES OVER THE 1926 - 2007 PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR, INC.'S STOCKS, BONDS, BILLS AND INFLATION: 2008 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	(A)				(B)
		k	=	r _f	+ [β x (r _m - r _f)]	= EXPECTED RETURN
1	AWR	k	=	1.50%	+ [0.95 x (12.30% - 5.50%)]	= 7.96%
2	CWT	k	=	1.50%	+ [1.10 x (12.30% - 5.50%)]	= 8.98%
3	SWWC	k	=	1.50%	+ [1.00 x (12.30% - 5.50%)]	= 8.30%
4	WTR	k	=	1.50%	+ [1.00 x (12.30% - 5.50%)]	= 8.30%
5	WATER COMPANY AVERAGE				<u>1.01</u>	<u>8.39%</u>
6	ATG	k	=	1.50%	+ [0.75 x (12.30% - 5.50%)]	= 6.60%
7	ATO	k	=	1.50%	+ [0.65 x (12.30% - 5.50%)]	= 5.92%
8	LG	k	=	1.50%	+ [0.65 x (12.30% - 5.50%)]	= 5.92%
9	NJR	k	=	1.50%	+ [0.70 x (12.30% - 5.50%)]	= 6.26%
10	GAS	k	=	1.50%	+ [0.70 x (12.30% - 5.50%)]	= 6.26%
11	NWN	k	=	1.50%	+ [0.60 x (12.30% - 5.50%)]	= 5.58%
12	PNY	k	=	1.50%	+ [0.70 x (12.30% - 5.50%)]	= 6.26%
13	SJI	k	=	1.50%	+ [0.75 x (12.30% - 5.50%)]	= 6.60%
14	SWX	k	=	1.50%	+ [0.75 x (12.30% - 5.50%)]	= 6.60%
15	WGL	k	=	1.50%	+ [0.75 x (12.30% - 5.50%)]	= 6.60%
16	NATURAL GAS LDC AVERAGE				<u>0.70</u>	<u>6.26%</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 YIELD ON A 5-YEAR TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION ON 01/02/2009 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS LESS THE RETURNS ON INTERMEDIATE TERM TREASURIES OVER THE 1926 - 2007 PERIOD. THE DATA WAS OBTAINED FROM MORNINGSTAR, INC.'S STOCKS, BONDS, BILLS AND INFLATION, 2008 YEARBOOK.

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2006
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. W-01303A-08-0227
DOCKET NO. SW-01303A-08-0227
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	5.39%	1.90%	10.01%	6.98%	8.10%	7.50%	7.49%	9.86%	10.06%
2	1991	4.25%	-0.20%	8.46%	5.45%	5.69%	5.38%	5.38%	9.36%	9.55%
3	1992	3.03%	3.30%	6.25%	3.25%	3.52%	3.43%	3.43%	8.69%	8.86%
4	1993	2.96%	2.70%	6.00%	3.00%	3.02%	3.00%	3.00%	7.59%	7.91%
5	1994	2.61%	4.00%	7.14%	3.60%	4.21%	4.25%	4.25%	8.31%	8.63%
6	1995	2.81%	2.50%	8.83%	5.21%	5.83%	5.49%	5.49%	7.89%	8.29%
7	1996	2.93%	3.70%	8.27%	5.02%	5.30%	5.01%	5.01%	7.75%	8.17%
8	1997	2.34%	4.50%	8.44%	5.00%	5.46%	5.06%	5.06%	7.60%	8.12%
9	1998	1.55%	4.20%	8.35%	4.92%	5.35%	4.78%	4.78%	7.04%	7.27%
10	1999	2.19%	4.50%	7.99%	4.62%	4.97%	4.64%	4.64%	7.62%	7.88%
11	2000	3.38%	3.70%	9.23%	5.73%	6.24%	5.82%	5.82%	8.24%	8.36%
12	2001	2.83%	0.80%	6.92%	3.41%	3.88%	3.40%	5.95%	7.59%	8.02%
13	2002	1.59%	1.60%	4.67%	1.17%	1.67%	1.61%	5.38%	7.41%	7.98%
14	2003	2.27%	2.50%	4.12%	2.03%	1.13%	1.01%	4.92%	6.18%	6.64%
15	2004	2.68%	3.60%	4.34%	2.34%	1.35%	1.37%	5.03%	5.77%	6.20%
16	2005	3.39%	2.90%	6.16%	4.19%	3.22%	3.15%	4.57%	5.38%	5.78%
17	2006	3.24%	2.80%	7.97%	5.96%	4.97%	4.73%	4.91%	5.94%	6.30%
18	2007	2.85%	2.00%	8.05%	5.86%	5.02%	4.36%	4.84%	6.07%	6.24%
19	CURRENT	4.55%	-0.50%	3.25%	0.50%	0.00% - 0.25%	0.01%	2.63%	5.90%	7.07%

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 (C) THROUGH (D): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 01/02/2009
COLUMN (F) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 01/02/2009
COLUMN (H) THROUGH (I): 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

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2006
CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. W-01303A-08-0227
DOCKET NO. SW-01303A-08-0227
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