

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-08-0440

**SURREBUTTAL TESTIMONY
ON REQUIRED REVENUE**

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

AUGUST 7, 2009

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1 **INTRODUCTION**

2 Q. Please state your name for the record.

3 A. My name is Timothy J. Coley.

4

5 Q. Have you previously filed testimony regarding this docket?

6 A. Yes, I have. I filed direct testimony in this docket on June 12, 2009.

7

8 Q. What is the purpose of your surrebuttal testimony?

9 A. My surrebuttal testimony will address the Company's rebuttal comments
10 and non-responses pertaining to adjustments I recommended in my direct
11 testimony.

12

13 **SUMMARY OF ADJUSTMENTS**

14 Q. What areas will you address in your surrebuttal testimony?

15 A. My surrebuttal testimony will address RUCO's recommended rate base
16 adjustments and other issues for the following three groups for Arizona
17 Water Company's (hereafter referred to as "AWC" or "Company")
18 seventeen water systems:

19

20

21

22 ...

23

| | <u>Eastern Group</u> | <u>Western Group</u> | <u>Northern Group</u> |
|---|-----------------------------|-----------------------------|------------------------------|
| 1 | | | |
| 2 | Superstition | Casa Grande | Lakeside |
| 3 | Bisbee | Stanfield | Overgaard |
| 4 | Sierra Vista | White Tank | Sedona |
| 5 | San Manuel | Ajo | Pinewood |
| 6 | Oracle | Coolidge | Rimrock |
| 7 | Winkleman | | |
| 8 | Miami | | |

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For revenue requirement purposes, RUCO analyzed each system on a stand-alone basis. Mr. William A. Rigsby will address RUCO's surrebuttal operating income adjustments and cost of capital recommendations. RUCO Director, Ms. Jodi A. Jerich, will file testimony regarding RUCO's rate design on August 12, 2009.

SURREBUTTAL RATE BASE ADJUSTMENTS TO THE EASTERN, WESTERN, AND NORTHERN GROUPS:

Surrebuttal Adjustment No. 1 – Utility Plant in Service (“UPIS”) and Accumulated Depreciation Manual Reconstruction;

Surrebuttal Adjustment No. 2 – Remove RUCO's Post Test Year Phoenix Office Plant Direct Adjustment;

...

1 Surrebuttal Adjustment No. 3 – Remove Plant Held for Future Use
2 (“PHFFU”) and Record Certain Retirements;

3
4 Surrebuttal Adjustment No. 4 – Miscellaneous Adjustment for Three
5 Systems (Casa Grande, Pinewood, and Sedona);

6
7 Surrebuttal Adjustment No. 5 – To Account for Customer Deposits in Rate
8 Base (except for the Sedona System, which removed a Post Test Year
9 Arizona Department of Transportation Project);

10
11 Surrebuttal Adjustment No. 6 – Working Capital Adjustment (except for the
12 Sedona System, which accounted for the Customer Deposits in rate
13 base);

14
15 Surrebuttal Adjustment No. 7 – Working Capital Adjustment (unique to the
16 Sedona System only).

17
18 **OTHER ISSUES:**

19 Oracle System Depreciation Expense

20 There is an error in the Company’s depreciation expense calculation for
21 the Oracle System that will be discussed in detail later in this testimony.

22
23

1 **SURREBUTTAL SUPPORTING SCHEDULES**

2 To support the adjustments in my surrebuttal testimony, I am presenting
3 Surrebuttal Schedules numbered SURR TJC & WAR-1, pages 1 and 2,
4 SURR TJC & WAR-2, SURR TJC & WAR-3, SURR TJC & WAR-7, SURR
5 TJC & WAR-8, and SURR TJC & WAR-15, which are filed concurrently in
6 my surrebuttal testimony.

7

8 **ORIGINAL COST RATE BASE (“OCRB”) ADJUSTMENTS**

9 RUCO Surrebuttal OCRB Adjustment No. 1 – Utility Plant in Service
10 (“UPIS”) and Accumulated Depreciation

11 Q. Please briefly summarize your surrebuttal rate base adjustment #1.

12 A. This adjustment is common to all systems and reflects RUCO’s
13 recommended UPIS and accumulated depreciation balances since the
14 last rate case for each Group. I started with the last Commission
15 approved balance and reconstructed all plant additions, retirements, and
16 adjustments at the approved depreciation rates.

17

18 Q. Did the Company respond in rebuttal to RUCO regarding this adjustment?

19 A. No.

20

21

22 ...

23

1 Q. Does RUCO maintain that this adjustment is a proper recommendation?

2 A. Yes. The Company performed the same analysis as RUCO with similar
3 results but did not make the necessary adjustments that resulted from the
4 analysis.

5

6 Q. Does RUCO provide the adjustments in its surrebuttal testimony and
7 schedules?

8 A. Yes. The adjustments are on Schedule TJC-2 and WAR-2. The
9 supporting details are on Schedules TJC-3 and WAR-3.

10

11 RUCO Rate Base Adjustment #2 – Remove Post-Test Year Phoenix
12 Office Plant

13 Q. Please explain RUCO surrebuttal rate base adjustment #2.

14 A. RUCO reversed its direct testimony adjustment #2 pertaining to Phoenix
15 Office post-test year plant.

16

17 Q. Does RUCO no longer recommend removing the post-test year plant
18 associated with the Phoenix Office?

19 A. That is correct.

20

21

22 ...

23

1 Q. What reason(s) does RUCO give in reversing its adjustment to the post-
2 test year Phoenix Office plant?

3 A. RUCO determined that the post-test year plant related to the Phoenix
4 Office went into service two days after the test year.

5

6 Q. Doesn't RUCO normally oppose post-test year plant as creating
7 mismatches with other test year ratemaking elements?

8 A. Yes. RUCO believes mismatches of ratemaking elements do exist when
9 post-test year plant is allowed in the historical test year. However, in this
10 instance, RUCO makes exception because the plant went into service two
11 days after the test year.

12

13 RUCO Rate Base Adjustment #3 – Remove Plant Held for Future Use
14 ("PHFFU") and Record Certain Retirements

15 Q. Please briefly explain the basis of RUCO surrebuttal rate base adjustment
16 #3.

17 A. The basis of this adjustment derived from information the Company
18 provided in Staff data request BKB 11.16, which identified certain PHFFU
19 and retirements that the Company failed to record, which were included in
20 its rate application. This adjustment is simply a conforming adjustment to
21 that data response to properly account for those plant items.

22 ...

1 Q. Does the Company agree with this adjustment to remove PHFFU from
2 UPIS and to account for the retirements accordingly?

3 A. The Company agrees with the appropriate recording to account for the
4 retirements.

5

6 Q. What is the Company's position regarding the PHFFU?

7 A. The Company is requesting the PHFFU be rate based in this proceeding,
8 with the exception of the Carroll Canyon well in the Sedona System.

9

10 Q. What reason does the Company give to support its request that the plant
11 be rate based in this proceeding?

12 A. The Company essentially says that it has definitive plans for the plant in
13 question.

14

15 Q. Is the PHFFU providing service to the existing customers today?

16 A. Not to my knowledge.

17

18 Q. Did the Company provide any time frame as to when the plant in question
19 would be placed into service?

20 A. Yes. A Company engineering witness provided rebuttal testimony
21 indicating that the plant would be placed in service any where from 2010
22 to 2012.

23 ...

1 Q. Isn't 2010 and 2012 three to five years after the test year?

2 A. Yes.

3

4 Q. What reason(s) did the Company engineering witness provide for the long
5 delays in placing the plant in service?

6 A. The Company stated repeatedly "Due to the Company's deteriorated
7 earnings, this project has been temporarily delayed. The Company plans
8 to move forward with this project in the future when earnings and the
9 housing market improve."

10

11 Q. Does RUCO consider that response to be a bit speculative?

12 A. Yes. The Company claims in rebuttal testimony that if either RUCO or
13 Staff's revenue requirement recommendations were adopted by the
14 Commission in this proceeding the Company would essentially be in the
15 same financial position that led it to file this rate application (See Company
16 Exhibit JMR-RB1). Secondly, no one is certain when the housing market
17 will improve. Clearly, the Carroll Canyon well is not used and useful either
18 during the test year or at present.

19

20 Q. Did Staff make a similar adjustment in its direct testimony schedules?

21 A. Yes. The only difference between RUCO and Staff is a slight difference in
22 the amount of the adjustments. The difference is due to some plant
23 RUCO identified as being in service whereas Staff did not.

1 Q. What is RUCO's recommendation regarding the PHFFU?

2 A. Notwithstanding the Company's three to five year "definitive" plans, RUCO
3 recommends the Commission not allow rate base treatment for the
4 PHFFU as shown in RUCO's surrebuttal adjustment #3. The adjustments
5 are on Schedule TJC-2 and WAR-2. The supporting details are on
6 Schedules TJC-3 and WAR-3.

7
8 RUCO Rate Base Adjustment #4 – Remove Other Post Test Year Plant in
9 Pinewood/Sedona Systems and Adjust Net Regulatory Asset in Casa
10 Grande

11
12 Pinewood System

13 Q. Please explain RUCO's surrebuttal rate base adjustment #4 that removes
14 post-test year plant from the Pinewood System?

15 A. This adjustment removes an electrical panel box from the Pinewood
16 System that was not in service, to my knowledge, at the time of this
17 writing.

18
19 Q. Does that mean that this particular post test year plant was not in service
20 clearly one and a half years after the test year ended?

21 A. That is correct.

22

23 ...

1 Q. What is the Company's reason for requesting rate base treatment for plant
2 that was placed into service eighteen months after the test year?

3 A. AWC claims that the Company and Arizona Public Service ("APS") have
4 been in some sort of disagreement or misunderstanding regarding the
5 power connection for the electrical panel in question. In rebuttal
6 testimony, the Company stated that APS continues to delay establishing
7 service. However, "APS has informed the Company that the new panels
8 will be energized by July 20, 2009."

9

10 Q. Does RUCO know if APS has established service for the electrical panels
11 in the Pinewood System as stated above?

12 A. No. Neither would it matter in RUCO's recommendation if the electrical
13 panels have been energized as stated above nor if they have not yet been
14 energized.

15

16 Q. Why wouldn't it matter to RUCO if the electrical panels are now energized
17 and in service?

18 A. Post-test year plant is mismatched with the other historical test year
19 ratemaking elements (i.e. revenues, expenses, and other rate base
20 elements) of the test year. Matching is a fundamental principle of
21 accounting and ratemaking. The absence of matching misrepresents the
22 meaning and usefulness of operating income and rate base for measuring
23 the fairness and reasonableness in setting rates. RUCO recognizes that

1 the Commission has allowed post-test year plant in past decisions. In
2 recognition of that fact, RUCO has allowed post-test year plant additions
3 in special circumstances, unusual circumstances, when public safety and
4 health issues are of concern,¹ and when it is reasonably close to the test
5 year end (i.e. six-months post test year).

6

7 Q. Does the Company recognize any parameters or limitations relating to
8 post-test year plant?

9 A. The Company hasn't explicitly stated what its restrictions are regarding
10 post-test year plant in this case. In past AWC rate cases, the Company
11 usually stated that its post-test year plant is revenue neutral and within
12 one year of the year. It is plain that is no longer the case now.

13

14 Q. What recommendation does RUCO make regarding the electrical panels
15 in the Pinewood System?

16 A. RUCO believes the post-test year electrical panels should be disallowed
17 for the reasons previously mentioned. The adjustments are on Schedule
18 WAR-2. The supporting details are on Schedule WAR-3 in RUCO
19 surrebuttal rate base adjustment #4 that decreases UPIS by \$40,553 and
20 decreases accumulated depreciation by \$1,191.

21

¹ RUCO has allowed all arsenic and nitrate post test year plant in this rate proceeding because it constitutes a public health and/or safety concern.

1 Sedona System

2 Please explain RUCO's surrebuttal adjustment #4 that reduces post-test
3 year plant by \$2,011,576 and decreases accumulated depreciation by
4 \$21,940 in the Sedona System.

5 A. This adjustment consists of two post-test year wells. The first well is
6 located in the Valley Vista section of the Sedona System. Its well
7 identification number is #13. As shown on RUCO Exhibit 1, the
8 Company's data response to Staff data request BKB 11.16 designates
9 that this well was "placed in service in November '08." That is more than
10 ten full months after the test year.

11
12 Q. Does post-test year plant that exceeds Arizona's fundamental historical
13 test year concept for ratemaking by more than ten full months not meet
14 RUCO's criteria for allowing post-test year plant?

15 A. It does not meet RUCO's criteria for inclusion in rate base. As stated
16 earlier, RUCO has allowed post-test year plant additions in special
17 circumstances, unusual circumstances, when public safety and health
18 issues are of concern,² and when it is reasonably close to the test year
19 end (i.e. six-months post test year). To stray so far outside the test year,
20 Arizona's use of a historical test year would have to be abandoned.

21

² RUCO has allowed all arsenic and nitrate post-test year plant in this rate proceeding because it constitutes a public health and safety concern.

1 Q. What adjustment is necessary to remove the Valley Vista well #13 that did
2 not enter service until November 2008?

3 A. The necessary adjustment reduces UPIS by \$1,597,759 and reduces
4 accumulated depreciation by \$20,691.

5

6 Q. Did the Company accept RUCO's adjustment to remove the Valley Vista
7 well #13 from UPIS?

8 A. No. Although, the Company did accept the second part of rate base
9 adjustment #4 that removed the Carroll Canyon well from the Sedona
10 System.

11

12 Q. What adjustment was necessary to remove the Carroll Canyon well from
13 the Sedona System?

14 A. The necessary adjustment reduces UPIS by \$413,817 and reduces
15 accumulated depreciation by \$1,249. The adjustments are on Schedule
16 WAR-2. The supporting details are on Schedule WAR-3.

17

18 Casa Grande System

19 Q. Please explain RUCO's surrebuttal adjustment #4 in the Casa Grande
20 System?

21 A. This is a conforming adjustment that the Company accepted from
22 Commission Staff. The Company had improperly amortized a regulatory
23 asset in its rate application.

1 Q. What adjustment was necessary to properly reflect the net balance of the
2 regulatory asset?

3 A. It was necessary to reduce the regulatory asset by \$14,289 to properly
4 reflect the balance of that asset. This reduces the rate base by the same
5 amount. The adjustments are on Schedule TJC-2. The supporting details
6 are on Schedule TJC-3.

7

8 RUCO Rate Base Adjustment #5 – Customer Deposits Except in the
9 Sedona System

10 Q. Please explain RUCO's surrebuttal rate base adjustment #5 for all the
11 systems except the Sedona System.

12 A. This is a conforming adjustment to the Company's acceptance of a Staff
13 adjustment. The Company failed to include the customer deposits in its
14 rate base (B) Schedules. The adjustment includes the customer deposits
15 as a reduction to rate base since the deposits are a non-investor form of
16 capital. The adjustments are on Schedule TJC-2 and WAR-2. The
17 supporting details are on Schedules TJC-3 and WAR-3.

18

19 Q. Please explain RUCO's rate base adjustment #5 for the Sedona System.

20 A. This adjustment removes 35 percent of an Arizona Department of
21 Transportation ("ADOT") post-test year project. RUCO's reason for the
22 adjustment was due to an informal data response to Staff dated May 13,
23 2009. The data response indicated the project was 65 percent complete

1 as of November 2008. RUCO removed the other 35 percent of the
2 Company's post-test year plant adjustment as failing to meet RUCO's
3 criteria for inclusion in rate base in this case.

4

5 Q. Did the Company accept RUCO's rate base adjustment #5 for the Sedona
6 System?

7 A. No.

8

9 Q. Did the Company provide a reason for not accepting RUCO's adjustment
10 to the ADOT post-test year project in the Sedona System?

11 A. Yes. The Company stated, "Like arsenic and nitrate treatment, the costs
12 related to this project were mandated by the government." Therefore, the
13 Company erroneously concluded from my direct testimony that RUCO
14 automatically allows all post-test year plant that is mandated by
15 government.

16

17 Q. Please further clarify RUCO's position regarding post-test year plant that
18 is mandated by the government.

19 A. As stated earlier in my testimony, RUCO allowed all post test year plant in
20 this case that was related to arsenic and nitrate treatment plant for public
21 health and safety reasons. The caveat here regarding the ADOT project
22 is that RUCO does not view this project to be a public health and/or safety

1 Q. What was RUCO's rationale for making the purchased power adjustment
2 shown above to the Company's lead/lag study?

3 A. It was RUCO's understanding that the Company used the last Northern
4 Group rate case lead/lag study. After further review, the Company used
5 the Northern Group's lead/lag study as a starting point and made its own
6 adjustments to it. RUCO believes that a more appropriate starting point
7 would have been the most recent Western Group's lead/lag study.
8 RUCO's purchased power lag days adjustment used the 35.92 lag days
9 that were used in the most recent Western Group case. Upon further
10 review, the Company actually did their own lead/lag study for purchased
11 power expense.

12

13 Q. Please explain why RUCO believes the Western Group's lead/lag study is
14 more appropriate than the Northern Group's in this case.

15 A. The data in the Western Group's lead/lag study is much more current than
16 the Northern Group. The Western Group's lead/lag study was based on a
17 2003 test year whereas the Northern Group's was based on a 1999 test
18 year.

19

20 Q. Does RUCO accept the Company's purchased power expense lag days in
21 surrebuttal testimony?

22 A. Yes. RUCO accepts the Company's 30.87 lag days for all seventeen
23 systems in surrebuttal testimony.

1 Q. What was RUCO's rationale for making the purchased water adjustment
2 shown above to the Company's lead/lag study?

3 A. The Company utilized the same lead days for its lead/lag study for all
4 systems that had purchased water expense. There are five systems
5 (Superstition, Casa Grande, San Manuel, Ajo, and White Tanks) that have
6 considerable purchased water expense while a couple of other systems
7 have marginal purchased water expenses. Two of the systems
8 (Superstition and Casa Grande) purchase Central Arizona Project ("CAP")
9 surface water. San Manuel purchases water from BHP Mining Company.
10 Ajo purchases water from Ajo Improvement District. White Tanks
11 purchases water from Arizona-American Water Company.

12

13 Q. Wouldn't one think that the purchased water expense lead/lag days be
14 different in each system if purchased from different sources rather than
15 the Company's use of (0.11) lead days across all systems?

16 A. Yes. The Superstition and Casa Grande Systems should be quite similar
17 since those two purchase CAP water, but the other three systems should
18 be quite different.

19

20 Q. Did RUCO perform a purchased water expense lead/lag study for the five
21 systems with considerable purchased water expense?

22 A. Yes. RUCO reviewed the purchased water expense invoices of each of
23 the five systems with considerable amount of purchased water.

1 Q. Did the Company accept RUCO's purchased water expense lead/lag
2 days?

3 A. No.

4

5 Q. What reason(s) did the Company give for not accepting the purchased
6 water expense lead/lag days?

7 A. Company witness Mr. Reiker stated, "I found that while he did account for
8 CAP prepayments in the Casa Grande system, he did not account for any
9 water purchased from the CAP in the Superstition system."

10

11 Q. Is Mr. Reiker correct that RUCO overlooked the CAP prepayments?

12 A. Yes, but not entirely. RUCO's lead/lag study for the Superstition System
13 did not contain the CAP prepayments. RUCO requested all purchased
14 water invoices for the five systems. We went through and recorded each
15 invoice at the Company's Phoenix Office that the Company provided to
16 RUCO. Either the Company inadvertently failed to provide the
17 Superstition CAP prepayment invoices or RUCO overlooked them.

18

19 Q. Shouldn't an analyst immediately recognize that the CAP prepayment
20 invoices were missing from the study?

21 A. Yes, in most situations that would be true. However, the Superstition
22 System purchases CAP water and wheels it to the City of Mesa for
23 treatment. Then, Mesa wheels it back into the Superstition distribution

1 system. RUCO accounted for all of the treatment costs and simply
2 assumed that the CAP prepayment costs were captured in the City of
3 Mesa invoices.

4

5 Q. Has RUCO corrected the absence of the CAP prepayments?

6 A. Yes.

7

8 Q. How did RUCO correct for the absence of the CAP prepayments?

9 A. RUCO used the CAP prepayment lead days resulting from the Casa
10 Grande study. As Mr. Reiker rightfully points out, RUCO did account for
11 the CAP prepayments in the Casa Grande System properly. CAP
12 contracts have general terms for payments for all buyers. Therefore, the
13 lead days for the CAP prepayments that result in the number of purchased
14 water expense lead days to be used in the lead/lag study should be very
15 comparable because the terms are the same for both Superstition and
16 Casa Grande.

17

18 Q. What were the purchased water expense lead/lag days for each of the five
19 systems?

20 A. The following lead/lag days resulting from RUCO's study are now as
21 follows:

| | | |
|----|--------------|---------|
| 22 | Superstition | (40.09) |
| 23 | Casa Grande | (55.31) |

| | | |
|---|-------------|--------|
| 1 | Ajo | 38.97 |
| 2 | White Tanks | 121.16 |
| 3 | San Manuel | 26.04 |

4

5 The adjustments are on the respective Schedules TJC-6, page 2.

6

7 Q. Did the Company accept RUCO's lead/lag days for chemical expenses?

8 A. No. After further study and review, RUCO accepts the Company's (18.11)
9 lead days for chemical expenses.

10

11 Q. Did the Company accept RUCO's 30 lead/lag days for other operating and
12 maintenance expenses?

13 A. No. After further study and review, RUCO accepts the Company's (9.27)
14 lead days for other operating and maintenance expenses.

15

16 Q. Did the Company accept RUCO's recommendation to exclude rate case
17 expense from the lead/lag study?

18 A. Yes.

19

20 Q. Did the Company accept RUCO's adjustment to remove the cost of equity
21 from the lead/lag study?

22 A. No. All of RUCO's reasons for not including the cost of equity in the
23 lead/lag study are provided in Coley direct testimony on pages 23-25.

1 Q. Please explain RUCO's surrebuttal rate base adjustment #6 for the
2 Sedona System.

3 A. This adjustment includes the customer deposits in rate base and reduces
4 rate base accordingly. This adjustment is fully explained earlier in rate
5 base adjustment #5.

6

7 RUCO Rate Base Adjustment #7 – Working Capital in the Sedona System

8 Q. Please explain the adjustment to working capital for the Sedona System.

9 A. This adjustment is explained in RUCO rate base adjustment #6.

10

11 **OTHER ISSUES**

12 Q. Please explain any other issues RUCO has with the Company's rate
13 application and rebuttal schedules.

14 A. There is an error in both the Company's direct rate application and rebuttal
15 schedules.

16

17 Q. Please explain the error that exists in the rate application and rebuttal
18 schedules.

19 A. The error exists in the Oracle System and was pointed out to Mr. Reiker
20 via phone conversation. When the Company filed its rebuttal testimony
21 and schedules, the error was not corrected. The Company correctly
22 removes the Saddlebrook System plant in the B Schedules that were
23 recorded in the Oracle System. The Company does not remove the

1 Saddlebrook plant in its C-2 Appendix Schedules when calculating the
2 depreciation expense for the Oracle System. Rather than having a
3 positive pro-forma adjustment for Oracle's depreciation expense, the
4 adjustment should be negative once the Saddlebrook plant balances are
5 removed from Oracle's depreciation schedule.

6

7 Q. Did RUCO make the correct adjustment to properly reflect the plant
8 balances for Oracle excluding the Saddlebrook plant in its depreciation
9 expense schedule?

10 A. There is no special adjustment necessary to account for the error in the
11 Company's schedules. RUCO's total recommended plant balances are
12 the same in its TJC-2 and TJC-11. Whereas, the Company's B-2
13 Schedules for Oracle has a total plant balance of \$6,084,930 and the
14 Company's C-2 Appendix depreciation schedule has a total depreciable
15 plant balance of \$7,071,105, which is a difference of \$986,175. The
16 \$986,175 difference represents the total pro-forma adjustment shown on
17 Company Schedule B-2.

18

19 Q. Does this conclude your surrebuttal testimony?

20 A. Yes, it does.

TABLE OF CONTENTS TO TJC SURREBUTTAL SCHEDULES (ABBREVIATED)

| <u>SCH. NO.</u> | <u>PAGE NO.</u> | <u>TITLE</u> |
|---------------------|---------------------|---|
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| WAR-2 | 1 | RATE BASE |
| WAR-3 | 1 | SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS |
| WAR-7 | 1 | OPERATING INCOME |
| WAR-8 | 1 | SUMMARY OF OPERATING INCOME ADJUSTMENTS |
| WAR-15 | 1 | COST OF CAPITAL |

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB/FVRB COST | (B) RUCO OCRB/FVRB COST |
|----------|--|-------------------------------------|----------------------------------|
| 1 | Adjusted Original Cost/Fair Value Rate Base | \$ 43,424,545 | \$ 42,476,176 |
| 2 | Adjusted Operating Income (Loss) | \$ 1,850,403 | \$ 1,914,522 |
| 3 | Current Rate of Return (L2 / L1) | 4.26% | 4.51% |
| 4 | Required Operating Income (L5 X L1) | \$ 4,261,800 | \$ 3,113,504 |
| 5 | Required Rate of Return on Fair Value Rate Base | 9.81% | 7.33% |
| 6 | Operating Income Deficiency (L4 - L2) | \$ 2,411,397 | \$ 1,198,982 |
| 7 | Gross Revenue Conversion Factor (TJC-1, Page 2) | 1.6286 | 1.6286 |
| 8 | Required Increase in Gross Revenue Requirement (L7 X L6) | \$ 3,927,284 | \$ 1,952,703 |
| 9 | Adjusted Test Year Revenue | \$ 11,939,904 | \$ 11,939,904 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 15,867,189 | \$ 13,892,607 |
| 11 | Required Percentage Increase in Revenue (L8 / L9) | 32.89% | 16.35% |
| 12 | Consolidated Revenue Adjustment | \$ 937,341 | \$ 157,394 |
| 13 | Required Increase in Gross Revenue Under Proposed Consolidation | \$ 4,864,542 | \$ 2,110,097 |
| 14 | Required Revenue Under Proposed Consolidation | \$ 16,804,800 | \$ 14,050,001 |
| 15 | Required Percentage Increase in Revenue Under Proposed Consolidation | 40.74% | 17.67% |
| 16 | Rate of Return on Common Equity | 12.40% | 8.33% |

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule TJC-2, TJC-7, and TJC-13

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. TJC-1, Pg 1, C (B), L4) | \$ 3,113,504 | | | |
| 12 | Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2) | 1,914,522 | | | |
| 13 | Required Increase In Operating Income (L11 - L12) | | \$ 1,198,982 | | |
| 14 | Income Taxes On Recommended Revenue (Col. (D), L31) | \$ 1,020,017 | | | |
| 15 | Income Taxes On Test Year Revenue (Col. (D), L32) | 266,295 | | | |
| 16 | Required Increase In Revenue To Provide For Income Taxes (L14 - L15) | | \$ 753,722 | | |
| 17 | Total Required Increase In Revenue (L13 + L16) | | \$ 1,952,703 | | |
| CALCULATION OF INCOME TAX: | | | | | |
| RUCO Recommended | | | | | |
| 18 | Revenue (Sch. TJC-1, Pg 1, Col. (B), L12) | | | \$ 13,892,607 | |
| 19 | Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23) | | | 9,759,087 | |
| 20 | Synchronized Interest (Col. (C), L37) | | | 1,490,914 | |
| 21 | Arizona Taxable Income (L18 - L19 - L20) | | | \$ 2,642,607 | |
| 22 | Arizona State Income Tax Rate | | | 6.9680% | |
| 23 | Arizona Income Tax (L21 X L22) | | | | \$ 184,137 |
| 24 | Fed. Taxable Income (L21 - L23) | | | \$ 2,458,470 | |
| 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% | | | \$ 721,980 | |
| 30 | Total Federal Income Tax (L25 + L26 + L27 + L28 + L29) | | | | \$ 835,880 |
| 31 | Combined Federal and State Income Tax (L23 + L30) | | | | \$ 1,020,017 |
| 32 | Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23) | | | | \$ 266,295 |
| 33 | RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23) | | | | \$ 753,722 |
| 34 | Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24) | | | | 34.00% |
| CALCULATION OF INTEREST SYNCHRONIZATION: | | | | | |
| 35 | Rate Base (Sch. WAR-2, Col. (C), L17) | | | \$ 42,476,176 | |
| 36 | Weighted Avg. Cost of Debt (Sch. TJC-16, Col. (F), L1) | | | 3.51% | |
| 37 | Synchronized Interest (L35 X L36) | | | \$ 1,490,914 | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) RUCO OCRB/FVRB ADJUSTMENTS | (C) RUCO ADJ'TED OCRB/FVRB |
|----------|---|---|---|-------------------------------------|
| | Plant Classification | | | |
| 1 | Intangible Plant | \$ 12,555 | \$ 1 | \$ 12,556 |
| 2 | Source of Supply Plant | 5,528,785 | (801,061) | 4,727,724 |
| 3 | Pumping Plant | 7,692,391 | (59,595) | 7,632,796 |
| 4 | Water Treatment Plant | 6,885,736 | (3,057) | 6,882,679 |
| 5 | Transmission & Distribution Plant | 68,915,456 | (502) | 68,914,955 |
| 6 | General Plant | 4,555,508 | (7,089) | 4,548,420 |
| 7 | Total Gross Plant in Service | <u>\$ 93,590,431</u> | <u>\$ (871,303)</u> | <u>\$ 92,719,129</u> |
| 8 | Accumulated Depreciation | (17,724,938) | 212,613 | (17,512,325) |
| 9 | Net Utility Plant In Service (Sum L1 & L2) | <u>\$ 75,865,493</u> | <u>\$ (658,690)</u> | <u>\$ 75,206,804</u> |
| 10 | Advances In Aid Of Const. | \$ (18,952,520) | \$ - | \$ (18,952,520) |
| 11 | Contribution In Aid Of Const. | \$ (10,888,555) | \$ - | \$ (10,888,555) |
| 12 | Accumulated Amortization Of CIAC | 1,733,417 | - | 1,733,417 |
| 13 | NET CIAC (L5 + L6) | <u>\$ (9,155,138)</u> | <u>\$ -</u> | <u>\$ (9,155,138)</u> |
| 14 | Deferred Income Tax | \$ (4,779,751) | \$ - | \$ (4,779,751) |
| 15 | Customer Deposits | \$ - | \$ (196,185) | \$ (196,185) |
| 16 | Allowance For Working Capital | \$ 446,461 | \$ (93,495) | \$ 352,966 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u>\$ 43,424,545</u> | <u>\$ (948,369)</u> | <u>\$ 42,476,176</u> |

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-3
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) ADJMT NO. 1 PLANT & ACCUM DEP. | (C) ADJMT NO. 2 | (D) ADJMT NO. 3 PER BKB 11.16 | (E) ADJMT NO. 4 | (F) ADJMT NO. 5 CUSTOMER DEPOSITS | (G) ADJMT NO. 6 WORKING CAPITAL | (H) RUCO ADJTED OCRB/FVRB |
|---|--|---|---|--------------------|--|--------------------|--|--|------------------------------------|
| Plant Classification | | | | | | | | | |
| 1 | Intangible Plant | \$ 12,555 | \$ 1 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 12,556 |
| 2 | Source of Supply Plant | 5,528,785 | (8) | - | (801,053) | - | - | - | 4,727,724 |
| 3 | Pumping Plant | 7,692,391 | 6,292 | - | (65,887) | - | - | - | 7,632,796 |
| 4 | Water Treatment Plant | 6,885,736 | (0) | - | (3,057) | - | - | - | 6,882,679 |
| 5 | Transmission & Distribution Plant | 68,915,456 | (2) | - | (500) | - | - | - | 68,914,955 |
| 6 | General Plant | 4,555,508 | (1) | - | (7,088) | - | - | - | 4,548,420 |
| 7 | Total Gross Plant in Service | <u>\$ 93,590,431</u> | <u>\$ 6,282</u> | <u>\$ -</u> | <u>\$ (877,585)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 92,719,129</u> |
| 8 | Accumulated Depreciation | <u>\$ (17,724,938)</u> | <u>(22,612)</u> | <u>-</u> | <u>235,225</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(17,512,325)</u> |
| 9 | Net Utility Plant In Service (Sum L1 & L2) | <u>\$ 75,865,493</u> | <u>\$ (16,330)</u> | <u>\$ -</u> | <u>\$ (642,360)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 75,206,804</u> |
| 10 | Advances In Aid Of Const. | \$ (18,952,520) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (18,952,520) |
| 11 | Contribution In Aid Of Const. | \$ (10,888,555) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (10,888,555) |
| 12 | Accumulated Amortization Of CIAC | 1,733,417 | - | - | - | - | - | - | 1,733,417 |
| 13 | NET CIAC (L5 + L6) | <u>\$ (9,155,138)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (9,155,138)</u> |
| 14 | Deferred Income Tax | \$ (4,779,751) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (4,779,751) |
| 15 | Customer Deposits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (196,185) | \$ - | \$ (196,185) |
| 16 | Allowance For Working Capital | \$ 446,461 | \$ - | \$ - | \$ - | \$ - | \$ (93,495) | \$ (93,495) | \$ 352,966 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | | <u>\$ 43,424,545</u> | <u>\$ (16,330)</u> | <u>\$ -</u> | <u>\$ (642,360)</u> | <u>\$ -</u> | <u>\$ (196,185)</u> | <u>\$ (93,495)</u> | <u>\$ 42,476,176</u> |

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Plant, PTY Plant & Accumulated Depreciation (See TJC-4 Total, TJC-4 Direct, TJC-4 PHX OFF and TJC-4 MS Schedules and TJC Testimony)
- Column (C): Adjustment No. 2 - Intentionally Left Blank
- Column (D): Adjustment No. 3 - Conforming Adkustment Per Data Response to BKB 11.16 to Remove Plant and Record Retirements
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - Customer Deposits
- Column (G): Adjustment No. 6 - Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

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 |
|----------|--|-------------------------------|-------------------------------------|--|----------------------------------|-------------------------------|
| | Operating Revenues | | | | | |
| 1 | Residential | \$ 8,708,171 | \$ - | \$ 8,708,171 | \$ 1,679,702 | \$ 10,387,873 |
| 2 | Commercial | 2,125,918 | - | 2,125,918 | 222,341 | 2,348,259 |
| 3 | Industrial | 35,010 | - | 35,010 | 435 | 35,445 |
| 4 | Private Fire Service | 8,293 | - | 8,293 | 33,132 | 41,425 |
| 5 | Other Water Revenues | 346,347 | - | 346,347 | 17,093 | 363,440 |
| 6 | Total Water Revenues | \$ 11,223,738 | \$ - | \$ 11,223,738 | \$ 1,952,703 | \$ 13,176,441 |
| 7 | Miscellaneous | \$ 716,166 | \$ - | \$ 716,166 | \$ - | \$ 716,166 |
| 8 | Total Operating Revenues | \$ 11,939,904 | \$ - | \$ 11,939,904 | \$ 1,952,703 | \$ 13,892,607 |
| | Operating Expenses | | | | | |
| | Source of Supply Expenses: | | | | | |
| 9 | Purchased Water | \$ 1,019,696 | \$ - | \$ 1,019,696 | \$ - | \$ 1,019,696 |
| 10 | Other | 48,540 | - | 48,540 | - | 48,540 |
| 11 | Pumping Expenses: | | | | | |
| 12 | Purchased Power | 1,170,704 | - | 1,170,704 | - | 1,170,704 |
| 13 | Purchased Gas | - | - | - | - | - |
| 14 | Other | 307,004 | - | 307,004 | - | 307,004 |
| 15 | Water Treatment Expenses | 389,035 | - | 389,035 | - | 389,035 |
| 16 | Transmission & Distribution Expenses | 1,339,694 | - | 1,339,694 | - | 1,339,694 |
| 17 | Customer Accounting Expenses | 945,427 | - | 945,427 | - | 945,427 |
| 18 | Sales Expense | 5,489 | - | 5,489 | - | 5,489 |
| 19 | Administrative & General Expenses | 1,591,413 | (57,875) | 1,533,538 | - | 1,533,538 |
| 20 | Total Operations & Maintenance Expense | \$ 6,817,003 | \$ (57,875) | \$ 6,759,128 | \$ - | \$ 6,759,128 |
| 21 | Depreciation & Amortization Expenses | \$ 2,169,209 | \$ (50,843) | \$ 2,118,366 | \$ - | \$ 2,118,366 |
| | Taxes | | | | | |
| 22 | Federal Income Taxes | \$ 123,547 | \$ 94,676 | \$ 218,223 | \$ 617,657 | \$ 835,880 |
| 23 | State Income Taxes | 27,216 | 20,856 | 48,072 | 136,064 | 184,137 |
| 24 | Property Taxes | 815,362 | (68,099) | 747,263 | - | 747,263 |
| 25 | Other | 137,164 | (2,834) | 134,330 | - | 134,330 |
| 26 | Total Taxes | \$ 1,103,289 | \$ 44,599 | \$ 1,147,888 | \$ 753,722 | \$ 1,901,609 |
| 27 | Total Operating Expenses | \$ 10,089,501 | \$ (64,119) | \$ 10,025,382 | \$ 753,722 | \$ 10,779,103 |
| 28 | Operating Income | \$ 1,850,403 | \$ 64,119 | \$ 1,914,522 | \$ 1,198,982 | \$ 3,113,504 |

References:

- Column (A): Company Schedule C-1
- Column (B): TJC-8, Columns (B) Thru (I)
- Column (C): Column (A) + Column (B)
- Column (D): TJC-1
- 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 LABOR EXPENSE | (C) ADJMT NO. 2 PAYROLL TAX EXPENSE | (D) ADJMT NO. 3 401(K) EXPENSE | (E) ADJMT NO. 4 REVERSE ADJ. FOR CONSERVATION | (F) ADJMT NO. 5 PURCH. POWER REVENUES | (G) ADJMT NO. 6 INSURANCE EXPENSE | (H) ADJMT NO. 7 DEPRECIATION EXPENSE | (I) ADJMT NO. 8 PROPERTY TAX | (J) ADJMT NO. 9 RATE CASE EXPENSE | (K) ADJMT NO. 10 INCOME TAXES | (L) RUCO AS ADJTD |
|----------------------------|--|-------------------------|-------------------------------------|---|--------------------------------------|---|---|---|--|------------------------------------|---|-------------------------------------|----------------------|
| Operating Revenues | | | | | | | | | | | | | |
| 1 | Residential | \$ 8,708,171 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 8,708,171 |
| 2 | Commercial | 2,125,918 | - | - | - | - | - | - | - | - | - | - | 2,125,918 |
| 3 | Industrial | 35,010 | - | - | - | - | - | - | - | - | - | - | 35,010 |
| 4 | Private Fire Service | 8,293 | - | - | - | - | - | - | - | - | - | - | 8,293 |
| 5 | Other Water Revenues | 346,347 | - | - | - | - | - | - | - | - | - | - | 346,347 |
| 6 | Total Water Revenues | \$11,223,738 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$11,223,738 |
| 7 | Miscellaneous | \$ 716,166 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 716,166 |
| 8 | Total Operating Revenues | \$11,939,904 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$11,939,904 |
| Operating Expenses | | | | | | | | | | | | | |
| Source of Supply Expenses: | | | | | | | | | | | | | |
| 9 | Purchased Water | \$ 1,019,696 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,019,696 |
| 10 | Other | 48,540 | - | - | - | - | - | - | - | - | - | - | 48,540 |
| 11 | Pumping Expenses: | - | - | - | - | - | - | - | - | - | - | - | - |
| 12 | Purchased Power | 1,170,704 | - | - | - | - | - | - | - | - | - | - | 1,170,704 |
| 13 | Purchased Gas | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 | Other | 307,004 | - | - | - | - | - | - | - | - | - | - | 307,004 |
| 15 | Water Treatment Expenses | 389,035 | - | - | - | - | - | - | - | - | - | - | 389,035 |
| 16 | Transmission & Distribution Expenses | 1,339,694 | - | - | - | - | - | - | - | - | - | - | 1,339,694 |
| 17 | Customer Accounting Expenses | 945,427 | - | - | - | - | - | - | - | - | - | - | 945,427 |
| 18 | Sales Expense | 5,489 | - | - | - | - | - | - | - | - | - | - | 5,489 |
| 19 | Administrative & General Expenses | 1,591,413 | (37,927) | - | (3,184) | - | - | (137) | - | - | (16,627) | - | 1,533,538 |
| 20 | Total Operations & Maintenance Expense | \$ 6,817,003 | \$ (37,927) | \$ - | \$ (3,184) | \$ - | \$ - | \$ (137) | \$ - | \$ - | \$ (16,627) | \$ - | \$ 6,759,128 |
| 21 | Depreciation & Amortization Expenses | \$ 2,169,209 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (50,843) | \$ - | \$ - | \$ - | \$ 2,118,366 |
| Taxes | | | | | | | | | | | | | |
| 22 | Federal Income Taxes | \$ 123,547 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 94,676 | \$ 218,223 |
| 23 | State Income Taxes | 27,216 | - | - | - | - | - | - | - | - | - | 20,856 | 48,072 |
| 24 | Property Taxes | 815,362 | - | - | - | - | - | - | - | (68,099) | - | - | 747,263 |
| 25 | Other | 137,164 | - | (2,834) | - | - | - | - | - | - | - | - | 134,330 |
| 26 | Total Taxes | \$ 1,103,289 | \$ - | \$ (2,834) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (68,099) | \$ - | \$ 115,532 | \$ 1,147,888 |
| 27 | Total Operating Expenses | \$10,089,501 | \$ (37,927) | \$ (2,834) | \$ (3,184) | \$ - | \$ - | \$ (137) | \$ (50,843) | \$ (68,099) | \$ (16,627) | \$ 115,532 | \$10,025,382 |
| 28 | Operating Income | \$ 1,850,403 | \$ 37,927 | \$ 2,834 | \$ 3,184 | \$ - | \$ - | \$ 137 | \$ 50,843 | \$ 68,099 | \$ 16,627 | \$ (115,532) | \$ 1,914,522 |

ADJUSTMENTS:

- 1 - Labor Expense - Normalize OT Hours in Test Year
- 2 - Payroll Tax Expense Related to Adjustment 1
- 3 - 401(K) Expense Related to Adjustment 1
- 4 - Reverse Adjustment for Conservation
- 5 - Purchased Power Revenues
- 6 - Insurance Expense
- 7 - Depreciation Expense
- 8 - Property Tax Expense
- 9 - Rate Case Expense

REFERENCE:

- Testimony, WAR And Schedule TJC-9 Page, 1 of 3
- Testimony, WAR And Schedule TJC-9 Page, 2 of 3
- Testimony, WAR And Schedule TJC-9 Page, 3 of 3
- Testimony WAR
- Testimony WAR
- Testimony, WAR And Schedule TJC-10
- Testimony, WAR And Schedule TJC-11
- Testimony, WAR And Schedule TJC-12
- Testimony, WAR And Schedule TJC-13

COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) DOLLAR AMOUNT | (B) CAPITAL RATIO | (C) COST RATE | (D) WEIGHTED COST RATE |
|----------|----------------------------------|-----------------------|----------------------|------------------|---------------------------|
| 1 | Long-Term Debt | \$ 7,300,000 | 4.80% | 3.00% | 0.14% |
| 2 | Long-Term Debt | \$ 75,000,000 | 49.35% | 6.83% | 3.37% |
| 3 | Common Equity | 69,671,689 | 45.85% | 8.33% | 3.82% |
| 4 | Total Capitalization | <u>\$ 151,971,689</u> | <u>100.00%</u> | | |
| 5 | WEIGHTED AVERAGE COST OF CAPITAL | | | | 7.33% |

References:

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

TABLE OF CONTENTS TO TJC SURREBUTTAL SCHEDULES (ABBREVIATED)

| <u>SCH. NO.</u> | <u>PAGE NO.</u> | <u>TITLE</u> |
|---------------------|---------------------|---|
| WAR-1 | 1 & 2 | REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR |
| WAR-2 | 1 | RATE BASE |
| WAR-3 | 1 | SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS |
| WAR-7 | 1 | OPERATING INCOME |
| WAR-8 | 1 | SUMMARY OF OPERATING INCOME ADJUSTMENTS |
| WAR-15 | 1 | COST OF CAPITAL |

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB/FVRB COST | (B) RUCO OCRB/FVRB COST |
|----------|--|-------------------------------------|----------------------------------|
| 1 | Adjusted Original Cost/Fair Value Rate Base | \$ 4,660,984 | \$ 4,622,091 |
| 2 | Adjusted Operating Income (Loss) | \$ 168,796 | \$ 181,625 |
| 3 | Current Rate of Return (L2 / L1) | 3.62% | 3.93% |
| 4 | Required Operating Income (L5 X L1) | \$ 457,441 | \$ 338,799 |
| 5 | Required Rate of Return on Fair Value Rate Base | 9.81% | 7.33% |
| 6 | Operating Income Deficiency (L4 - L2) | \$ 288,646 | \$ 157,175 |
| 7 | Gross Revenue Conversion Factor (TJC-1, Page 2) | 1.6286 | 1.6286 |
| 8 | Required Increase in Gross Revenue Requirement (L7 X L6) | \$ 470,098 | \$ 255,980 |
| 9 | Adjusted Test Year Revenue | \$ 1,723,475 | \$ 1,723,475 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 2,193,573 | \$ 1,979,454 |
| 11 | Required Percentage Increase in Revenue (L8 / L9) | 27.28% | 14.85% |
| 12 | Consolidated Revenue Adjustment | \$ (106,651) | \$ 19,875 |
| 13 | Required Increase in Gross Revenue Under Proposed Consolidation | \$ 363,319 | \$ 275,855 |
| 14 | Required Revenue Under Proposed Consolidation | \$ 2,086,472 | \$ 1,999,329 |
| 15 | Required Percentage Increase in Revenue Under Proposed Consolidation | 21.08% | 16.01% |
| 16 | Rate of Return on Common Equity | 12.40% | 8.33% |

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule TJC-2, TJC-7, and TJC-13

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. TJC-1, Pg 1, C (B), L4) | \$ 338,799 | | | |
| 12 | Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2) | 181,625 | | | |
| 13 | Required Increase In Operating Income (L11 - L12) | | \$ 157,175 | | |
| 14 | Income Taxes On Recommended Revenue (Col. (D), L31) | \$ 110,994 | | | |
| 15 | Income Taxes On Test Year Revenue (Col. (D), L32) | 12,189 | | | |
| 16 | Required Increase In Revenue To Provide For Income Taxes (L14 - L15) | | \$ 98,805 | | |
| 17 | Total Required Increase In Revenue (L13 + L16) | | \$ 255,980 | | |
| CALCULATION OF INCOME TAX: | | | | | |
| RUCO Recommended | | | | | |
| 18 | Revenue (Sch. TJC-1, Pg 1, Col. (B), L12) | | | \$ 1,979,454 | |
| 19 | Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23) | | | 1,529,661 | |
| 20 | Synchronized Interest (Col. (C), L37) | | | 162,235 | |
| 21 | Arizona Taxable Income (L18 - L19 - L20) | | | \$ 287,558 | |
| 22 | Arizona State Income Tax Rate | | | 6.9680% | |
| 23 | Arizona Income Tax (L21 X L22) | | | | \$ 20,037 |
| 24 | Fed. Taxable Income (L21 - L23) | | | \$ 267,521 | |
| 25 | Fed. Tax on 1st Inc. Bracket (\$1 - \$50,000) @ 15% | | | \$ - | |
| 26 | Fed. Tax on 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25% | | | \$ - | |
| 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% | | | \$ 90,957 | |
| 30 | Total Federal Income Tax (L25 + L26 + L27 + L28 + L29) | | | \$ 90,957 | |
| 31 | Combined Federal and State Income Tax (L23 + L30) | | | \$ 110,994 | |
| 32 | Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23) | | | \$ 12,189 | |
| 33 | RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23) | | | \$ 98,805 | |
| 34 | Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24) | | | | 34.00% |
| CALCULATION OF INTEREST SYNCHRONIZATION: | | | | | |
| 35 | Rate Base (Sch. WAR-2, Col. (C), L17) | | | \$ 4,622,091 | |
| 36 | Weighted Avg. Cost of Debt (Sch. TJC-16, Col. (F), L1) | | | 3.51% | |
| 37 | Synchronized Interest (L35 X L36) | | | \$ 162,235 | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) RUCO OCRB/FVRB ADJUSTMENTS | (C) RUCO ADJ'TED OCRB/FVRB |
|----------|---|---|---|-------------------------------------|
| | Plant Classification | | | |
| 1 | Intangible Plant | \$ 43,332 | \$ - | \$ 43,332 |
| 2 | Source of Supply Plant | 849,846 | - | 849,846 |
| 3 | Pumping Plant | 889,639 | 6,328 | 895,967 |
| 4 | Water Treatment Plant | 46,503 | - | 46,503 |
| 5 | Transmission & Distribution Plant | 7,664,743 | - | 7,664,743 |
| 6 | General Plant | 820,594 | (704) | 819,890 |
| 7 | Total Gross Plant in Service | <u>\$ 10,314,658</u> | <u>\$ 5,624</u> | <u>\$ 10,320,281</u> |
| 8 | Accumulated Depreciation | (4,218,432) | (10,167) | (4,228,599) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | <u>\$ 6,096,226</u> | <u>\$ (4,543)</u> | <u>\$ 6,091,683</u> |
| 10 | Advances in Aid Of Const. | \$ (258,981) | \$ - | \$ (258,981) |
| 11 | Contribution in Aid of Const. | \$ (452,659) | \$ - | \$ (452,659) |
| 12 | Accumulated Amortization of CIAC | 106,681 | - | 106,681 |
| 13 | NET CIAC (L5 + L6) | <u>\$ (345,978)</u> | <u>\$ -</u> | <u>\$ (345,978)</u> |
| 14 | Deferred Income Tax | \$ (954,417) | \$ - | \$ (954,417) |
| 15 | Customer Deposits | \$ - | \$ (17,600) | \$ (17,600) |
| 16 | Allowance for Working Capital | \$ 124,134 | \$ (16,750) | \$ 107,384 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u><u>\$ 4,660,984</u></u> | <u><u>\$ (38,893)</u></u> | <u><u>\$ 4,622,091</u></u> |

References:

Column (A): Company Schedule B-1
Column (B): Schedule TJC-3
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) ADJMT NO. 1 PLANT & ACCUM DEP. | (C) ADJMT NO. 2 | (D) ADJMT NO. 3 PER BKB 11.16 | (E) ADJMT NO. 4 | (F) ADJMT NO. 5 CUSTOMER DEPOSITS | (G) ADJMT NO. 6 WORKING CAPITAL | (H) RUCO ADJ'TED OCRB/FVRB |
|----------|---|---|---|--------------------|--|--------------------|--|--|-------------------------------------|
| | Plant Classification | | | | | | | | |
| 1 | Intangible Plant | \$ 43,332 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 43,332 |
| 2 | Source of Supply Plant | 849,846 | - | - | - | - | - | - | 849,846 |
| 3 | Pumping Plant | 889,639 | 6,328 | - | - | - | - | - | 895,967 |
| 4 | Water Treatment Plant | 46,503 | - | - | - | - | - | - | 46,503 |
| 5 | Transmission & Distribution Plant | 7,664,743 | - | - | - | - | - | - | 7,664,743 |
| 6 | General Plant | 820,594 | - | - | (704) | - | - | - | 819,890 |
| 7 | Total Gross Plant in Service | \$ 10,314,658 | \$ 6,328 | \$ - | \$ (704) | \$ - | \$ - | \$ - | \$ 10,320,281 |
| 8 | Accumulated Depreciation | (4,218,432) | (10,913) | - | 746 | - | - | - | (4,228,599) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | \$ 6,096,226 | \$ (4,585) | \$ - | \$ 42 | \$ - | \$ - | \$ - | \$ 6,091,683 |
| 10 | Advances in Aid Of Const. | \$ (258,981) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (258,981) |
| 11 | Contribution in Aid of Const. | \$ (452,659) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (452,659) |
| 12 | Accumulated Amortization of CIAC | 106,681 | - | - | - | - | - | - | 106,681 |
| 13 | NET CIAC (L5 + L6) | \$ (345,978) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (345,978) |
| 14 | Deferred Income Tax | \$ (954,417) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (954,417) |
| 15 | Customer Deposits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (17,600) | \$ - | \$ (17,600) |
| 16 | Allowance for Working Capital | \$ 124,134 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (16,750) | \$ 107,384 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | \$ 4,660,984 | \$ (4,585) | \$ - | \$ 42 | \$ - | \$ (17,600) | \$ (16,750) | \$ 4,622,091 |

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Plant, PTY Plant & Accumulated Depreciation (See TJC-4 Total, TJC-4 Direct, TJC-4 PHX OFF and TJC-4 MS Schedules and TJC Testimony)
- Column (C): Adjustment No. 2 - Intentionally Left Blank
- Column (D): Adjustment No. 3 - Conforming Adkustment Per Data Response to BKB 11.16 to Remove Plant and Record Retirements
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - Customer Deposits
- Column (G): Adjustment No. 6 - Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

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 |
|----------|--|-------------------------------|-------------------------------------|--|----------------------------------|-------------------------------|
| | Operating Revenues | | | | | |
| 1 | Residential | \$ 1,192,596 | \$ - | \$ 1,192,596 | \$ 181,437 | \$ 1,374,034 |
| 2 | Commercial | 491,700 | - | 491,700 | 72,429 | 564,129 |
| 3 | Industrial | 2,302 | - | 2,302 | (200) | 2,102 |
| 4 | Private Fire Service | 908 | - | 908 | 3,617 | 4,525 |
| 5 | Other Water Revenues | 12,628 | - | 12,628 | (1,303) | 11,325 |
| 6 | Total Water Revenues | \$ 1,700,135 | \$ - | \$ 1,700,135 | \$ 255,980 | \$ 1,956,115 |
| 7 | Miscellaneous | \$ 23,340 | \$ - | \$ 23,340 | \$ - | \$ 23,340 |
| 8 | Total Operating Revenues | \$ 1,723,475 | \$ - | \$ 1,723,475 | \$ 255,980 | \$ 1,979,454 |
| | Operating Expenses | | | | | |
| | Source of Supply Expenses: | | | | | |
| 9 | Purchased Water | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Other | 2,443 | - | 2,443 | - | 2,443 |
| 11 | Pumping Expenses: | - | - | - | - | - |
| 12 | Purchased Power | 224,856 | - | 224,856 | - | 224,856 |
| 13 | Purchased Gas | 615 | - | 615 | - | 615 |
| 14 | Other | 50,077 | - | 50,077 | - | 50,077 |
| 15 | Water Treatment Expenses | 32,933 | - | 32,933 | - | 32,933 |
| 16 | Transmission & Distribution Expenses | 270,483 | - | 270,483 | - | 270,483 |
| 17 | Customer Accounting Expenses | 179,534 | - | 179,534 | - | 179,534 |
| 18 | Sales Expense | 529 | - | 529 | - | 529 |
| 19 | Administrative & General Expenses | 392,583 | (11,551) | 381,032 | - | 381,032 |
| 20 | Total Operations & Maintenance Expense | \$ 1,154,054 | \$ (11,551) | \$ 1,142,502 | \$ - | \$ 1,142,502 |
| 21 | Depreciation & Amortization Expenses | \$ 261,462 | \$ (4,015) | \$ 257,447 | \$ - | \$ 257,447 |
| | Taxes | | | | | |
| 22 | Federal Income Taxes | \$ (2,100) | \$ 12,088 | \$ 9,988 | \$ 80,969 | \$ 90,957 |
| 23 | State Income Taxes | (463) | 2,663 | 2,200 | 17,837 | 20,037 |
| 24 | Property Taxes | 114,911 | (11,448) | 103,463 | - | 103,463 |
| 25 | Other | 26,815 | (566) | 26,249 | - | 26,249 |
| 26 | Total Taxes | \$ 139,163 | \$ 2,737 | \$ 141,900 | \$ 98,805 | \$ 240,706 |
| 27 | Total Operating Expenses | \$ 1,554,679 | \$ (12,829) | \$ 1,541,850 | \$ 98,805 | \$ 1,640,655 |
| 28 | Operating Income | \$ 168,796 | \$ 12,829 | \$ 181,625 | \$ 157,175 | \$ 338,799 |

References:

- Column (A): Company Schedule C-1
- Column (B): TJC-8, Columns (B) Thru (I)
- Column (C): Column (A) + Column (B)
- Column (D): TJC-1
- 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 LABOR EXPENSE | (C) ADJMT NO. 2 PAYROLL TAX EXPENSE | (D) ADJMT NO. 3 401(K) EXPENSE | (E) ADJMT NO. 4 REVERSE ADJ. FOR CONSERVATION | (F) ADJMT NO. 5 PURCH. POWER REVENUES | (G) ADJMT NO. 6 INSURANCE EXPENSE | (H) ADJMT NO. 7 DEPRECIATION EXPENSE | (I) ADJMT NO. 8 PROPERTY TAX | (J) ADJMT NO. 9 RATE CASE EXPENSE | (K) ADJMT NO. 10 INCOME TAXES | (L) RUCO AS ADJTD |
|----------------------------|--|-------------------------|-------------------------------------|---|--------------------------------------|---|---|---|--|------------------------------------|---|-------------------------------------|----------------------|
| Operating Revenues | | | | | | | | | | | | | |
| 1 | Residential | \$ 1,192,596 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,192,596 |
| 2 | Commercial | 491,700 | - | - | - | - | - | - | - | - | - | - | 491,700 |
| 3 | Industrial | 2,302 | - | - | - | - | - | - | - | - | - | - | 2,302 |
| 4 | Private Fire Service | 908 | - | - | - | - | - | - | - | - | - | - | 908 |
| 5 | Other Water Revenues | 12,628 | - | - | - | - | - | - | - | - | - | - | 12,628 |
| 6 | Total Water Revenues | \$ 1,700,135 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,700,135 |
| 7 | Miscellaneous | \$ 23,340 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 23,340 |
| 8 | Total Operating Revenues | \$ 1,723,475 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,723,475 |
| Operating Expenses | | | | | | | | | | | | | |
| Source of Supply Expenses: | | | | | | | | | | | | | |
| 9 | Purchased Water | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Other | 2,443 | - | - | - | - | - | - | - | - | - | - | 2,443 |
| Pumping Expenses: | | | | | | | | | | | | | |
| 12 | Purchased Power | 224,856 | - | - | - | - | - | - | - | - | - | - | 224,856 |
| 13 | Purchased Gas | 615 | - | - | - | - | - | - | - | - | - | - | 615 |
| 14 | Other | 50,077 | - | - | - | - | - | - | - | - | - | - | 50,077 |
| 15 | Water Treatment Expenses | 32,933 | - | - | - | - | - | - | - | - | - | - | 32,933 |
| 16 | Transmission & Distribution Expenses | 270,483 | - | - | - | - | - | - | - | - | - | - | 270,483 |
| 17 | Customer Accounting Expenses | 179,534 | - | - | - | - | - | - | - | - | - | - | 179,534 |
| 18 | Sales Expense | 529 | - | - | - | - | - | - | - | - | - | - | 529 |
| 19 | Administrative & General Expenses | 392,583 | (7,573) | - | (636) | - | - | (23) | - | - | (3,320) | - | 381,032 |
| 20 | Total Operations & Maintenance Expense | \$ 1,154,054 | \$ (7,573) | \$ - | \$ (636) | \$ - | \$ - | \$ (23) | \$ - | \$ - | \$ (3,320) | \$ - | \$ 1,142,502 |
| 21 | Depreciation & Amortization Expenses | \$ 261,462 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (4,015) | \$ - | \$ - | \$ - | \$ 257,447 |
| Taxes | | | | | | | | | | | | | |
| 22 | Federal Income Taxes | \$ (2,100) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 12,088 | \$ 9,988 |
| 23 | State Income Taxes | (463) | - | - | - | - | - | - | - | - | - | 2,663 | 2,200 |
| 24 | Property Taxes | 114,911 | - | - | - | - | - | - | - | (11,448) | - | - | 103,463 |
| 25 | Other | 26,815 | - | (566) | - | - | - | - | - | - | - | - | 26,249 |
| 26 | Total Taxes | \$ 139,163 | \$ - | \$ (566) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (11,448) | \$ - | \$ 14,751 | \$ 141,900 |
| 27 | Total Operating Expenses | \$ 1,554,679 | \$ (7,573) | \$ (566) | \$ (636) | \$ - | \$ - | \$ (23) | \$ (4,015) | \$ (11,448) | \$ (3,320) | \$ 14,751 | \$ 1,541,850 |
| 28 | Operating Income | \$ 168,796 | \$ 7,573 | \$ 566 | \$ 636 | \$ - | \$ - | \$ 23 | \$ 4,015 | \$ 11,448 | \$ 3,320 | \$ (14,751) | \$ 181,625 |

ADJUSTMENTS:

- 1 - Labor Expense - Normalize OT Hours in Test Year
- 2 - Payroll Tax Expense Related to Adjustment 1
- 3 - 401(K) Expense Related to Adjustment 1
- 4 - Reverse Adjustment for Conservation
- 5 - Purchased Power Revenues
- 6 - Insurance Expense
- 7 - Depreciation Expense
- 8 - Property Tax Expense
- 9 - Rate Case Expense
- 10 - Income Tax

REFERENCE:

- Testimony, WAR And Schedule TJC-9 Page, 1 of 3
- Testimony, WAR And Schedule TJC-9 Page, 2 of 3
- Testimony, WAR And Schedule TJC-9 Page, 3 of 3
- Testimony WAR
- Testimony WAR
- Testimony, WAR And Schedule TJC-10
- Testimony, WAR And Schedule TJC-11
- Testimony, WAR And Schedule TJC-12
- Testimony, WAR And Schedule TJC-13
- Testimony, WAR And Schedule TJC-14

COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) DOLLAR AMOUNT | (B) CAPITAL RATIO | (C) COST RATE | (D) WEIGHTED COST RATE |
|----------|----------------------------------|-----------------------|----------------------|------------------|---------------------------|
| 1 | Short-Term Debt | \$ 7,300,000 | 4.80% | 3.00% | 0.14% |
| 2 | Long-Term Debt | \$ 75,000,000 | 49.35% | 6.83% | 3.37% |
| 3 | Common Equity | <u>69,671,689</u> | <u>45.85%</u> | 8.33% | <u>3.82%</u> |
| 4 | Total Capitalization | <u>\$ 151,971,689</u> | <u>100.00%</u> | | |
| 5 | WEIGHTED AVERAGE COST OF CAPITAL | | | | 7.33% |

References:

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

TABLE OF CONTENTS TO TJC SURREBUTTAL SCHEDULES (ABBREVIATED)

| <u>SCH. NO.</u> | <u>PAGE NO.</u> | <u>TITLE</u> |
|---------------------|---------------------|---|
| WAR-1 | 1 & 2 | REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR |
| WAR-2 | 1 | RATE BASE |
| WAR-3 | 1 | SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS |
| WAR-7 | 1 | OPERATING INCOME |
| WAR-8 | 1 | SUMMARY OF OPERATING INCOME ADJUSTMENTS |
| WAR-15 | 1 | COST OF CAPITAL |

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB/FVRB COST | (B) RUCO OCRB/FVRB COST |
|----------|--|-------------------------------------|----------------------------------|
| 1 | Adjusted Original Cost/Fair Value Rate Base | \$ 2,520,716 | \$ 2,501,385 |
| 2 | Adjusted Operating Income (Loss) | \$ 275,060 | \$ 280,323 |
| 3 | Current Rate of Return (L2 / L1) | 10.91% | 11.21% |
| 4 | Required Operating Income (L5 X L1) | \$ 247,390 | \$ 183,352 |
| 5 | Required Rate of Return on Fair Value Rate Base | 9.81% | 7.33% |
| 6 | Operating Income Deficiency (L4 - L2) | \$ (27,670) | \$ (96,972) |
| 7 | Gross Revenue Conversion Factor (TJC-1, Page 2) | 1.6286 | 1.6286 |
| 8 | Required Increase in Gross Revenue Requirement (L7 X L6) | \$ (45,064) | \$ (157,931) |
| 9 | Adjusted Test Year Revenue | \$ 1,461,897 | \$ 1,461,897 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 1,416,833 | \$ 1,303,966 |
| 11 | Required Percentage Increase in Revenue (L8 / L9) | -3.08% | -10.80% |
| 12 | Consolidated Revenue Adjustment | \$ 106,651 | 17,425 |
| 13 | Required Increase in Gross Revenue Under Proposed Consolidation | \$ 61,586 | \$ (140,506) |
| 14 | Required Revenue Under Proposed Consolidation | \$ 1,523,034 | \$ 1,321,391 |
| 15 | Required Percentage Increase in Revenue Under Proposed Consolidation | 4.20% | -9.61% |
| 16 | Rate of Return on Common Equity | 12.40% | 8.33% |

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule TJC-2, TJC-7, and TJC-13

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. TJC-1, Pg 1, C (B), L4) | \$ 183,352 | | | |
| 12 | Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2) | 280,323 | | | |
| 13 | Required Increase In Operating Income (L11 - L12) | | \$ (96,972) | | |
| 14 | Income Taxes On Recommended Revenue (Col. (D), L31) | \$ 60,068 | | | |
| 15 | Income Taxes On Test Year Revenue (Col. (D), L32) | 121,028 | | | |
| 16 | Required Increase In Revenue To Provide For Income Taxes (L14 - L15) | | \$ (60,960) | | |
| 17 | Total Required Increase In Revenue (L13 + L16) | | \$ (157,931) | | |
| CALCULATION OF INCOME TAX: | | | | | |
| RUCO Recommended | | | | | |
| 18 | Revenue (Sch. TJC-1, Pg 1, Col. (B), L12) | | | \$ 1,303,966 | |
| 19 | Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23) | | | 1,060,547 | |
| 20 | Synchronized Interest (Col. (C), L37) | | | 87,799 | |
| 21 | Arizona Taxable Income (L18 - L19 - L20) | | | \$ 155,621 | |
| 22 | Arizona State Income Tax Rate | | | 6.9680% | |
| 23 | Arizona Income Tax (L21 X L22) | | | | \$ 10,844 |
| 24 | Fed. Taxable Income (L21 - L23) | | | \$ 144,777 | |
| 25 | Fed. Tax on 1st Inc. Bracket (\$1 - \$50,000) @ 15% | | | \$ - | |
| 26 | Fed. Tax on 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25% | | | \$ - | |
| 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% | | | \$ 49,224 | |
| 30 | Total Federal Income Tax (L25 + L26 + L27 + L28 + L29) | | | \$ 49,224 | |
| 31 | Combined Federal and State Income Tax (L23 + L30) | | | \$ 60,068 | |
| 32 | Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23) | | | \$ 121,028 | |
| 33 | RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23) | | | \$ (60,960) | |
| 34 | Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24) | | | | 34.00% |
| CALCULATION OF INTEREST SYNCHRONIZATION: | | | | | |
| 35 | Rate Base (Sch. WAR-2, Col. (C), L17) | | | \$ 2,501,385 | |
| 36 | Weighted Avg. Cost of Debt (Sch. TJC-16, Col. (F), L1) | | | 3.51% | |
| 37 | Synchronized Interest (L35 X L36) | | | \$ 87,799 | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) RUCO OCRB/FVRB ADJUSTMENTS | (C) RUCO ADJ TED OCRB/FVRB |
|----------|---|---|---|-------------------------------------|
| | Plant Classification | | | |
| 1 | Intangible Plant | \$ 756 | \$ - | \$ 756 |
| 2 | Source of Supply Plant | 688,417 | - | 688,417 |
| 3 | Pumping Plant | 719,189 | - | 719,189 |
| 4 | Water Treatment Plant | 92,922 | - | 92,922 |
| 5 | Transmission & Distribution Plant | 5,348,207 | - | 5,348,207 |
| 6 | General Plant | 546,855 | - | 546,855 |
| 7 | Total Gross Plant in Service | <u>\$ 7,396,345</u> | <u>\$ -</u> | <u>\$ 7,396,345</u> |
| 8 | Accumulated Depreciation | (2,113,607) | 6,701 | (2,106,905) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | <u>\$ 5,282,738</u> | <u>\$ 6,701</u> | <u>\$ 5,289,440</u> |
| 10 | Advances in Aid Of Const. | \$ (1,453,186) | \$ - | \$ (1,453,186) |
| 11 | Contribution in Aid of Const. | \$ (1,089,317) | \$ - | \$ (1,089,317) |
| 12 | Accumulated Amortization of CIAC | 226,089 | - | 226,089 |
| 13 | NET CIAC (L5 + L6) | <u>\$ (863,228)</u> | <u>\$ -</u> | <u>\$ (863,228)</u> |
| 14 | Deferred Income Tax | \$ (494,457) | \$ - | \$ (494,457) |
| 15 | Customer Deposits | \$ - | \$ (15,925) | \$ (15,925) |
| 16 | Allowance for Working Capital | \$ 48,849 | \$ (10,107) | \$ 38,742 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u>\$ 2,520,716</u> | <u>\$ (19,331)</u> | <u>\$ 2,501,385</u> |

References:

Column (A): Company Schedule B-1
Column (B): Schedule TJC-3
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) ADJMT NO. 1 PLANT & ACCUM DEP. | (C) ADJMT NO. 2 | (D) ADJMT NO. 3 PER BKB 11.16 | (E) ADJMT NO. 4 | (F) ADJMT NO. 5 CUSTOMER DEPOSITS | (G) ADJMT NO. 6 WORKING CAPITAL | (H) RUCO ADJTED OCRB/FVRB |
|---|--|---|---|--------------------|--|--------------------|--|--|------------------------------------|
| Plant Classification | | | | | | | | | |
| 1 | Intangible Plant | \$ 756 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 756 |
| 2 | Source of Supply Plant | 688,417 | - | - | - | - | - | - | 688,417 |
| 3 | Pumping Plant | 719,189 | - | - | - | - | - | - | 719,189 |
| 4 | Water Treatment Plant | 92,922 | - | - | - | - | - | - | 92,922 |
| 5 | Transmission & Distribution Plant | 5,348,207 | - | - | - | - | - | - | 5,348,207 |
| 6 | General Plant | 546,855 | - | - | - | - | - | - | 546,855 |
| 7 | Total Gross Plant in Service | \$ 7,396,345 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 7,396,345 |
| 8 | Accumulated Depreciation | (2,113,607) | 6,701 | - | - | - | - | - | (2,106,905) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | \$ 5,282,738 | \$ 6,701 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,289,440 |
| 10 | Advances in Aid Of Const. | \$ (1,453,186) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1,453,186) |
| 11 | Contribution in Aid of Const. | \$ (1,089,317) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1,089,317) |
| 12 | Accumulated Amortization of CIAC | 226,089 | - | - | - | - | - | - | 226,089 |
| 13 | NET CIAC (L5 + L6) | \$ (863,228) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (863,228) |
| 14 | Deferred Income Tax | \$ (494,457) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (494,457) |
| 15 | Customer Deposits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (15,925) | \$ - | \$ (15,925) |
| 16 | Allowance for Working Capital | \$ 48,849 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (10,107) | \$ 38,742 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | | \$ 2,520,716 | \$ 6,701 | \$ - | \$ - | \$ - | \$ (15,925) | \$ (10,107) | \$ 2,501,385 |

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Plant, PTY Plant & Accumulated Depreciation (See TJC-4 Total, TJC-4 Direct, TJC-4 PHX OFF and TJC-4 MS Schedules and TJC Testimony)
- Column (C): Adjustment No. 2 - Intentionally Left Blank
- Column (D): Adjustment No. 3 - Intentionally Left Blank
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - Customer Deposits
- Column (G): Adjustment No. 6 - Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

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 |
|----------|--|-------------------------------|-------------------------------------|--|----------------------------------|-------------------------------|
| | Operating Revenues | | | | | |
| 1 | Residential | \$ 1,067,828 | \$ - | \$ 1,067,828 | \$ (97,767) | \$ 970,060 |
| 2 | Commercial | 346,169 | - | 346,169 | (61,828) | 284,342 |
| 3 | Industrial | - | - | - | - | - |
| 4 | Private Fire Service | 1,924 | - | 1,924 | 7,701 | 9,625 |
| 5 | Other Water Revenues | 29,331 | - | 29,331 | (6,037) | 23,294 |
| 6 | Total Water Revenues | \$ 1,445,253 | \$ - | \$ 1,445,253 | \$ (157,932) | \$ 1,287,321 |
| 7 | Miscellaneous | \$ 16,645 | \$ - | \$ 16,645 | \$ - | \$ 16,645 |
| 8 | Total Operating Revenues | \$ 1,461,897 | \$ - | \$ 1,461,897 | \$ (157,932) | \$ 1,303,966 |
| | Operating Expenses | | | | | |
| | Source of Supply Expenses: | | | | | |
| 9 | Purchased Water | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Other | 2,096 | - | 2,096 | - | 2,096 |
| 11 | Pumping Expenses: | - | - | - | - | - |
| 12 | Purchased Power | 220,661 | - | 220,661 | - | 220,661 |
| 13 | Purchased Gas | 698 | - | 698 | - | 698 |
| 14 | Other | 46,020 | - | 46,020 | - | 46,020 |
| 15 | Water Treatment Expenses | 22,454 | - | 22,454 | - | 22,454 |
| 16 | Transmission & Distribution Expenses | 213,548 | - | 213,548 | - | 213,548 |
| 17 | Customer Accounting Expenses | 134,508 | - | 134,508 | - | 134,508 |
| 18 | Sales Expense | 275 | - | 275 | - | 275 |
| 19 | Administrative & General Expenses | 152,251 | (5,992) | 146,259 | - | 146,259 |
| 20 | Total Operations & Maintenance Expense | \$ 792,510 | \$ (5,992) | \$ 786,518 | \$ - | \$ 786,518 |
| 21 | Depreciation & Amortization Expenses | \$ 186,533 | \$ (2,248) | \$ 184,285 | \$ - | \$ 184,285 |
| | Taxes | | | | | |
| 22 | Federal Income Taxes | \$ 93,535 | \$ 5,644 | \$ 99,179 | \$ (49,955) | \$ 49,224 |
| 23 | State Income Taxes | 20,605 | 1,243 | 21,848 | (11,005) | 10,844 |
| 24 | Property Taxes | 80,115 | (3,618) | 76,497 | - | 76,497 |
| 25 | Other | 13,539 | (293) | 13,246 | - | 13,246 |
| 26 | Total Taxes | \$ 207,794 | \$ 2,976 | \$ 210,771 | \$ (60,960) | \$ 149,811 |
| 27 | Total Operating Expenses | \$ 1,186,838 | \$ (5,263) | \$ 1,181,574 | \$ (60,960) | \$ 1,120,615 |
| 28 | Operating Income | \$ 275,060 | \$ 5,263 | \$ 280,323 | \$ (96,972) | \$ 183,351 |

References:

Column (A): Company Schedule C-1
Column (B): TJC-8, Columns (B) Thru (I)
Column (C): Column (A) + Column (B)
Column (D): TJC-1
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 LABOR EXPENSE | (C) ADJMT NO. 2 PAYROLL TAX EXPENSE | (D) ADJMT NO. 3 401(K) EXPENSE | (E) ADJMT NO. 4 REVERSE ADJ. FOR CONSERVATION | (F) ADJMT NO. 5 PURCH. POWER REVENUES | (G) ADJMT NO. 6 INSURANCE EXPENSE | (H) ADJMT NO. 7 DEPRECIATION EXPENSE | (I) ADJMT NO. 8 PROPERTY TAX | (J) ADJMT NO. 9 RATE CASE EXPENSE | (K) ADJMT NO. 10 INCOME TAXES | (L) RUCO AS ADJT'D |
|----------------------------|--|-------------------------|-------------------------------------|---|--------------------------------------|---|---|---|--|------------------------------------|---|-------------------------------------|-----------------------|
| Operating Revenues | | | | | | | | | | | | | |
| 1 | Residential | \$ 1,067,828 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,067,828 |
| 2 | Commercial | 346,169 | - | - | - | - | - | - | - | - | - | - | 346,169 |
| 3 | Industrial | - | - | - | - | - | - | - | - | - | - | - | - |
| 4 | Private Fire Service | 1,924 | - | - | - | - | - | - | - | - | - | - | 1,924 |
| 5 | Other Water Revenues | 29,331 | - | - | - | - | - | - | - | - | - | - | 29,331 |
| 6 | Total Water Revenues | \$ 1,445,253 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,445,253 |
| 7 | Miscellaneous | \$ 16,645 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 16,645 |
| 8 | Total Operating Revenues | \$ 1,461,897 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,461,897 |
| Operating Expenses | | | | | | | | | | | | | |
| Source of Supply Expenses: | | | | | | | | | | | | | |
| 9 | Purchased Water | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Other | 2,096 | - | - | - | - | - | - | - | - | - | - | 2,096 |
| Pumping Expenses: | | | | | | | | | | | | | |
| 12 | Purchased Power | 220,661 | - | - | - | - | - | - | - | - | - | - | 220,661 |
| 13 | Purchased Gas | 698 | - | - | - | - | - | - | - | - | - | - | 698 |
| 14 | Other | 46,020 | - | - | - | - | - | - | - | - | - | - | 46,020 |
| 15 | Water Treatment Expenses | 22,454 | - | - | - | - | - | - | - | - | - | - | 22,454 |
| 16 | Transmission & Distribution Expenses | 213,548 | - | - | - | - | - | - | - | - | - | - | 213,548 |
| 17 | Customer Accounting Expenses | 134,508 | - | - | - | - | - | - | - | - | - | - | 134,508 |
| 18 | Sales Expense | 275 | - | - | - | - | - | - | - | - | - | - | 275 |
| 19 | Administrative & General Expenses | 152,251 | (3,923) | - | (329) | - | - | (19) | - | - | (1,720) | - | 146,259 |
| 20 | Total Operations & Maintenance Expense | \$ 792,510 | \$ (3,923) | \$ - | \$ (329) | \$ - | \$ - | \$ (19) | \$ - | \$ - | \$ (1,720) | \$ - | \$ 786,518 |
| 21 | Depreciation & Amortization Expenses | \$ 186,533 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (2,248) | \$ - | \$ - | \$ - | \$ 184,285 |
| Taxes | | | | | | | | | | | | | |
| 22 | Federal Income Taxes | \$ 93,535 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,644 | \$ 99,179 |
| 23 | State Income Taxes | 20,605 | - | - | - | - | - | - | - | - | - | 1,243 | 21,848 |
| 24 | Property Taxes | 80,115 | - | - | - | - | - | - | - | (3,618) | - | - | 76,497 |
| 25 | Other | 13,539 | - | (293) | - | - | - | - | - | - | - | - | 13,246 |
| 26 | Total Taxes | \$ 207,794 | \$ - | \$ (293) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (3,618) | \$ - | \$ 6,887 | \$ 210,771 |
| 27 | Total Operating Expenses | \$ 1,186,838 | \$ (3,923) | \$ (293) | \$ (329) | \$ - | \$ - | \$ (19) | \$ (2,248) | \$ (3,618) | \$ (1,720) | \$ 6,887 | \$ 1,181,574 |
| 28 | Operating Income | \$ 275,060 | \$ 3,923 | \$ 293 | \$ 329 | \$ - | \$ - | \$ 19 | \$ 2,248 | \$ 3,618 | \$ 1,720 | \$ (6,887) | \$ 280,323 |

ADJUSTMENTS:

- 1 - Labor Expense - Normalize OT Hours in Test Year
- 2 - Payroll Tax Expense Related to Adjustment 1
- 3 - 401(K) Expense Related to Adjustment 1
- 4 - Reverse Adjustment for Conservation
- 5 - Purchased Power Revenues
- 6 - Insurance Expense
- 7 - Depreciation Expense
- 8 - Property Tax Expense
- 9 - Rate Case Expense

REFERENCE:

- Testimony, WAR And Schedule TJC-9 Page, 1 of 3
Testimony, WAR And Schedule TJC-9 Page, 2 of 3
Testimony, WAR And Schedule TJC-9 Page, 3 of 3
Testimony WAR
Testimony WAR
Testimony, WAR And Schedule TJC-10
Testimony, WAR And Schedule TJC-11
Testimony, WAR And Schedule TJC-12
Testimony, WAR And Schedule TJC-13

COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) DOLLAR AMOUNT | (B) CAPITAL RATIO | (C) COST RATE | (D) WEIGHTED COST RATE |
|----------|----------------------------------|-----------------------|----------------------|------------------|---------------------------|
| 1 | Short-Term Debt | \$ 7,300,000 | 4.80% | 3.00% | 0.14% |
| 2 | Long-Term Debt | \$ 75,000,000 | 49.35% | 6.83% | 3.37% |
| 3 | Common Equity | 69,671,689 | 45.85% | 8.33% | 3.82% |
| 4 | Total Capitalization | <u>\$ 151,971,689</u> | <u>100.00%</u> | | |
| 5 | WEIGHTED AVERAGE COST OF CAPITAL | | | | 7.33% |

References:

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

TABLE OF CONTENTS TO TJC SURREBUTTAL SCHEDULES (ABBREVIATED)

| <u>SCH. NO.</u> | <u>PAGE NO.</u> | <u>TITLE</u> |
|---------------------|---------------------|---|
| WAR-1 | 1 & 2 | REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR |
| WAR-2 | 1 | RATE BASE |
| WAR-3 | 1 | SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS |
| WAR-7 | 1 | OPERATING INCOME |
| WAR-8 | 1 | SUMMARY OF OPERATING INCOME ADJUSTMENTS |
| WAR-15 | 1 | COST OF CAPITAL |

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB/FVRB COST | (B) RUCO OCRB/FVRB COST |
|----------|--|-------------------------------------|----------------------------------|
| 1 | Adjusted Original Cost/Fair Value Rate Base | \$ 2,035,209 | \$ 2,041,060 |
| 2 | Adjusted Operating Income (Loss) | \$ (47,524) | \$ (42,235) |
| 3 | Current Rate of Return (L2 / L1) | -2.34% | -2.07% |
| 4 | Required Operating Income (L5 X L1) | \$ 199,741 | \$ 149,610 |
| 5 | Required Rate of Return on Fair Value Rate Base | 9.81% | 7.33% |
| 6 | Operating Income Deficiency (L4 - L2) | \$ 247,264 | \$ 191,845 |
| 7 | Gross Revenue Conversion Factor (TJC-1, Page 2) | 1.6286 | 1.6286 |
| 8 | Required Increase in Gross Revenue Requirement (L7 X L6) | \$ 402,704 | \$ 312,445 |
| 9 | Adjusted Test Year Revenue | \$ 812,359 | \$ 812,359 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 1,215,223 | \$ 1,124,804 |
| 11 | Required Percentage Increase in Revenue (L8 / L9) | 49.57% | 38.46% |
| 12 | Consolidated Revenue Adjustment | \$ - | \$ 9,183 |
| 13 | Required Increase in Gross Revenue Under Proposed Consolidation | \$ - | \$ 321,629 |
| 14 | Required Revenue Under Proposed Consolidation | \$ - | \$ 1,133,987 |
| 15 | Required Percentage Increase in Revenue Under Proposed Consolidation | - | 39.59% |
| 16 | Rate of Return on Common Equity | 12.40% | 8.33% |

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule TJC-2, TJC-7, and TJC-13

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. TJC-1, Pg 1, C (B), L4) | \$ 149,610 | | | |
| 12 | Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2) | (42,235) | | | |
| 13 | Required Increase In Operating Income (L11 - L12) | | \$ 191,845 | | |
| 14 | Income Taxes On Recommended Revenue (Col. (D), L31) | \$ 49,014 | | | |
| 15 | Income Taxes On Test Year Revenue (Col. (D), L32) | (71,587) | | | |
| 16 | Required Increase In Revenue To Provide For Income Taxes (L14 - L15) | | \$ 120,601 | | |
| 17 | Total Required Increase In Revenue (L13 + L16) | | \$ 312,446 | | |
| CALCULATION OF INCOME TAX: | | | | | |
| RUCO Recommended | | | | | |
| 18 | Revenue (Sch. TJC-1, Pg 1, Col. (B), L12) | | | \$ 1,124,805 | |
| 19 | Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23) | | | 926,181 | |
| 20 | Synchronized Interest (Col. (C), L37) | | | 71,641 | |
| 21 | Arizona Taxable Income (L18 - L19 - L20) | | | \$ 126,983 | |
| 22 | Arizona State Income Tax Rate | | | 6.9680% | |
| 23 | Arizona Income Tax (L21 X L22) | | | | \$ 8,848 |
| 24 | Fed. Taxable Income (L21 - L23) | | | \$ 118,134 | |
| 25 | Fed. Tax on 1st Inc. Bracket (\$1 - \$50,000) @ 15% | | | \$ - | |
| 26 | Fed. Tax on 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25% | | | \$ - | |
| 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% | | | \$ 40,166 | |
| 30 | Total Federal Income Tax (L25 + L26 + L27 + L28 + L29) | | | | \$ 40,166 |
| 31 | Combined Federal and State Income Tax (L23 + L30) | | | | \$ 49,014 |
| 32 | Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23) | | | | \$ (71,587) |
| 33 | RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23) | | | | \$ 120,601 |
| 34 | Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24) | | | | 34.00% |
| CALCULATION OF INTEREST SYNCHRONIZATION: | | | | | |
| 35 | Rate Base (Sch. WAR-2, Col. (C), L17) | | | \$ 2,041,060 | |
| 36 | Weighted Avg. Cost of Debt (Sch. TJC-16, Col. (F), L1) | | | 3.51% | |
| 37 | Synchronized Interest (L35 X L36) | | | \$ 71,641 | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) RUCO OCRB/FVRB ADJUSTMENTS | (C) RUCO ADJ'TED OCRB/FVRB |
|----------|---|---|---|-------------------------------------|
| | Plant Classification | | | |
| 1 | Intangible Plant | \$ 488 | \$ - | \$ 488 |
| 2 | Source of Supply Plant | 175,502 | - | 175,502 |
| 3 | Pumping Plant | 376,086 | 2,058 | 378,144 |
| 4 | Water Treatment Plant | 1,398,624 | - | 1,398,624 |
| 5 | Transmission & Distribution Plant | 1,712,957 | - | 1,712,957 |
| 6 | General Plant | 458,818 | - | 458,818 |
| 7 | Total Gross Plant in Service | <u>\$ 4,122,476</u> | <u>\$ 2,058</u> | <u>\$ 4,124,534</u> |
| 8 | Accumulated Depreciation | (997,040) | 33,929 | (963,111) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | <u>\$ 3,125,436</u> | <u>\$ 35,986</u> | <u>\$ 3,161,423</u> |
| 10 | Advances in Aid Of Const. | \$ (73,164) | \$ - | \$ (73,164) |
| 11 | Contribution in Aid of Const. | \$ (742,146) | \$ - | \$ (742,146) |
| 12 | Accumulated Amortization of CIAC | 7,505 | - | 7,505 |
| 13 | NET CIAC (L5 + L6) | <u>\$ (734,641)</u> | <u>\$ -</u> | <u>\$ (734,641)</u> |
| 14 | Deferred Income Tax | \$ (321,972) | \$ - | \$ (321,972) |
| 15 | Customer Deposits | \$ - | \$ (5,425) | \$ (5,425) |
| 16 | Allowance for Working Capital | \$ 39,551 | \$ (24,710) | \$ 14,840 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u>\$ 2,035,209</u> | <u>\$ 5,851</u> | <u>\$ 2,041,060</u> |

References:

Column (A): Company Schedule B-1
Column (B): Schedule TJC-3
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) ADJMT NO. 1 PLANT & ACCUM DEP. | (C) ADJMT NO. 2 | (D) ADJMT NO. 3 PER BKB 11.16 | (E) ADJMT NO. 4 | (F) ADJMT NO. 5 CUSTOMER DEPOSITS | (G) ADJMT NO. 6 WORKING CAPITAL | (H) RUCO ADJTED OCRB/FVRB |
|---|--|---|---|--------------------|--|--------------------|--|--|------------------------------------|
| Plant Classification | | | | | | | | | |
| 1 | Intangible Plant | \$ 488 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 488 |
| 2 | Source of Supply Plant | 175,502 | - | - | - | - | - | - | 175,502 |
| 3 | Pumping Plant | 376,086 | 2,058 | - | - | - | - | - | 378,144 |
| 4 | Water Treatment Plant | 1,398,624 | - | - | - | - | - | - | 1,398,624 |
| 5 | Transmission & Distribution Plant | 1,712,957 | - | - | - | - | - | - | 1,712,957 |
| 6 | General Plant | 458,818 | - | - | - | - | - | - | 458,818 |
| 7 | Total Gross Plant in Service | \$ 4,122,476 | \$ 2,058 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 4,124,534 |
| 8 | Accumulated Depreciation | (997,040) | 33,929 | - | - | - | - | - | (963,111) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | \$ 3,125,436 | \$ 35,986 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,161,423 |
| 10 | Advances in Aid Of Const. | \$ (73,164) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (73,164) |
| 11 | Contribution in Aid of Const. | \$ (742,146) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (742,146) |
| 12 | Accumulated Amortization of CIAC | 7,505 | - | - | - | - | - | - | 7,505 |
| 13 | NET CIAC (L5 + L6) | \$ (734,641) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (734,641) |
| 14 | Deferred Income Tax | \$ (321,972) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (321,972) |
| 15 | Customer Deposits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (5,425) | \$ - | \$ (5,425) |
| 16 | Allowance for Working Capital | \$ 39,551 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (24,710) | \$ 14,840 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | | \$ 2,035,209 | \$ 35,986 | \$ - | \$ - | \$ - | \$ (5,425) | \$ (24,710) | \$ 2,041,060 |

References:

Column (A): Company Schedule B-2
Column (B): Adjustment No. 1 - Adjust Test-Year Plant, PTY Plant & Accumulated Depreciation (See TJC-4 Total, TJC-4 Direct, TJC-4 PHX OFF and TJC-4 MS Schedules and TJC Testimony)
Column (C): Adjustment No. 2 - Intentionally Left Blank
Column (D): Adjustment No. 3 - Intentionally Left Blank
Column (E): Adjustment No. 4 - Intentionally Left Blank
Column (F): Adjustment No. 5 - Customer Deposits
Column (G): Adjustment No. 6 - Working Capital
Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

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 |
|----------|--|-------------------------------|-------------------------------------|--|----------------------------------|-------------------------------|
| | Operating Revenues | | | | | |
| 1 | Residential | \$ 646,904 | \$ - | \$ 646,904 | \$ 258,486 | \$ 905,390 |
| 2 | Commercial | 143,872 | - | 143,872 | 50,123 | 193,995 |
| 3 | Industrial | - | - | - | - | - |
| 4 | Private Fire Service | 56 | - | 56 | 244 | 300 |
| 5 | Other Water Revenues | 11,113 | - | 11,113 | 3,592 | 14,705 |
| 6 | Total Water Revenues | \$ 801,946 | \$ - | \$ 801,946 | \$ 312,446 | \$ 1,114,391 |
| 7 | Miscellaneous | \$ 10,413 | \$ - | \$ 10,413 | \$ - | \$ 10,413 |
| 8 | Total Operating Revenues | \$ 812,359 | \$ - | \$ 812,359 | \$ 312,446 | \$ 1,124,805 |
| | Operating Expenses | | | | | |
| | Source of Supply Expenses: | | | | | |
| 9 | Purchased Water | \$ 241,318 | \$ - | \$ 241,318 | \$ - | \$ 241,318 |
| 10 | Other | 6,907 | - | 6,907 | - | 6,907 |
| 11 | Pumping Expenses: | - | - | - | - | - |
| 12 | Purchased Power | 38,358 | - | 38,358 | - | 38,358 |
| 13 | Purchased Gas | - | - | - | - | - |
| 14 | Other | 34,669 | - | 34,669 | - | 34,669 |
| 15 | Water Treatment Expenses | 40,816 | - | 40,816 | - | 40,816 |
| 16 | Transmission & Distribution Expenses | 145,743 | - | 145,743 | - | 145,743 |
| 17 | Customer Accounting Expenses | 104,642 | - | 104,642 | - | 104,642 |
| 18 | Sales Expense | 497 | - | 497 | - | 497 |
| 19 | Administrative & General Expenses | 140,854 | (3,899) | 136,955 | - | 136,955 |
| 20 | Total Operations & Maintenance Expense | \$ 753,804 | \$ (3,899) | \$ 749,904 | \$ - | \$ 749,904 |
| 21 | Depreciation & Amortization Expenses | \$ 106,134 | \$ (1,342) | \$ 104,792 | \$ - | \$ 104,792 |
| | Taxes | | | | | |
| 22 | Federal Income Taxes | \$ (63,368) | \$ 4,704 | \$ (58,664) | \$ 98,829 | \$ 40,166 |
| 23 | State Income Taxes | (13,959) | 1,036 | (12,923) | 21,771 | 8,848 |
| 24 | Property Taxes | 68,170 | (5,596) | 62,573 | - | 62,573 |
| 25 | Other | 9,102 | (191) | 8,911 | - | 8,911 |
| 26 | Total Taxes | \$ (56) | \$ (47) | \$ (103) | \$ 120,601 | \$ 120,498 |
| 27 | Total Operating Expenses | \$ 859,882 | \$ (5,288) | \$ 854,594 | \$ 120,601 | \$ 975,195 |
| 28 | Operating Income | \$ (47,524) | \$ 5,288 | \$ (42,235) | \$ 191,845 | \$ 149,610 |

References:

- Column (A): Company Schedule C-1
- Column (B): TJC-8, Columns (B) Thru (I)
- Column (C): Column (A) + Column (B)
- Column (D): TJC-1
- 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 LABOR EXPENSE | (C) ADJMT NO. 2 PAYROLL TAX EXPENSE | (D) ADJMT NO. 3 401(K) EXPENSE | (E) ADJMT NO. 4 REVERSE ADJ. FOR CONSERVATION | (F) ADJMT NO. 5 PURCH. POWER REVENUES | (G) ADJMT NO. 6 INSURANCE EXPENSE | (H) ADJMT NO. 7 DEPRECIATION EXPENSE | (I) ADJMT NO. 8 PROPERTY TAX | (J) ADJMT NO. 9 RATE CASE EXPENSE | (K) ADJMT NO. 10 INCOME TAXES | (L) RUCO AS ADJTD |
|-----------------------------------|---|-------------------------|-------------------------------------|---|--------------------------------------|---|---|---|--|------------------------------------|---|-------------------------------------|----------------------|
| Operating Revenues | | | | | | | | | | | | | |
| 1 | Residential | \$ 646,904 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 646,904 |
| 2 | Commercial | 143,872 | - | - | - | - | - | - | - | - | - | - | 143,872 |
| 3 | Industrial | - | - | - | - | - | - | - | - | - | - | - | - |
| 4 | Private Fire Service | 56 | - | - | - | - | - | - | - | - | - | - | 56 |
| 5 | Other Water Revenues | 11,113 | - | - | - | - | - | - | - | - | - | - | 11,113 |
| 6 | Total Water Revenues | \$ 801,946 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 801,946 |
| 7 | Miscellaneous | \$ 10,413 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 10,413 |
| 8 | Total Operating Revenues | \$ 812,359 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 812,359 |
| Operating Expenses | | | | | | | | | | | | | |
| Source of Supply Expenses: | | | | | | | | | | | | | |
| 9 | Purchased Water | \$ 241,318 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 241,318 |
| 10 | Other | 6,907 | - | - | - | - | - | - | - | - | - | - | 6,907 |
| Pumping Expenses: | | | | | | | | | | | | | |
| 11 | Purchased Power | 38,358 | - | - | - | - | - | - | - | - | - | - | 38,358 |
| 13 | Purchased Gas | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 | Other | 34,669 | - | - | - | - | - | - | - | - | - | - | 34,669 |
| 15 | Water Treatment Expenses | 40,816 | - | - | - | - | - | - | - | - | - | - | 40,816 |
| 16 | Transmission & Distribution Expenses | 145,743 | - | - | - | - | - | - | - | - | - | - | 145,743 |
| 17 | Customer Accounting Expenses | 104,642 | - | - | - | - | - | - | - | - | - | - | 104,642 |
| 18 | Sales Expense | 497 | - | - | - | - | - | - | - | - | - | - | 497 |
| 19 | Administrative & General Expenses | 140,854 | (2,555) | - | (214) | - | - | (10) | - | - | (1,120) | - | 136,955 |
| 20 | Total Operations & Maintenance Expense | \$ 753,804 | \$ (2,555) | \$ - | \$ (214) | \$ - | \$ - | \$ (10) | \$ - | \$ - | \$ (1,120) | \$ - | \$ 749,904 |
| 21 | Depreciation & Amortization Expenses | \$ 106,134 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1,342) | \$ - | \$ - | \$ - | \$ 104,792 |
| Taxes | | | | | | | | | | | | | |
| 22 | Federal Income Taxes | \$ (63,368) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 4,704 | \$ (58,664) |
| 23 | State Income Taxes | (13,959) | - | - | - | - | - | - | - | - | - | 1,036 | (12,923) |
| 24 | Property Taxes | 68,170 | - | - | - | - | - | - | - | (5,596) | - | - | 62,573 |
| 25 | Other | 9,102 | - | (191) | - | - | - | - | - | - | - | - | 8,911 |
| 26 | Total Taxes | \$ (56) | \$ - | \$ (191) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (5,596) | \$ - | \$ 5,740 | \$ (103) |
| 27 | Total Operating Expenses | \$ 859,882 | \$ (2,555) | \$ (191) | \$ (214) | \$ - | \$ - | \$ (10) | \$ (1,342) | \$ (5,596) | \$ (1,120) | \$ 5,740 | \$ 854,594 |
| 28 | Operating Income | \$ (47,524) | \$ 2,555 | \$ 191 | \$ 214 | \$ - | \$ - | \$ 10 | \$ 1,342 | \$ 5,596 | \$ 1,120 | \$ (5,740) | \$ (42,235) |

ADJUSTMENTS:

- 1 - Labor Expense - Normalize OT Hours in Test Year
- 2 - Payroll Tax Expense Related to Adjustment 1
- 3 - 401(K) Expense Related to Adjustment 1
- 4 - Reverse Adjustment for Conservation
- 5 - Purchased Power Revenues
- 6 - Insurance Expense
- 7 - Depreciation Expense
- 8 - Property Tax Expense
- 9 - Rate Case Expense

REFERENCE:

- Testimony, WAR And Schedule TJC-9 Page, 1 of 3
- Testimony, WAR And Schedule TJC-9 Page, 2 of 3
- Testimony, WAR And Schedule TJC-9 Page, 3 of 3
- Testimony WAR
- Testimony WAR
- Testimony, WAR And Schedule TJC-10
- Testimony, WAR And Schedule TJC-11
- Testimony, WAR And Schedule TJC-12
- Testimony, WAR And Schedule TJC-13

COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) DOLLAR AMOUNT | (B) CAPITAL RATIO | (C) COST RATE | (D) WEIGHTED COST RATE |
|----------|----------------------------------|-----------------------|----------------------|------------------|---------------------------|
| 1 | Short-Term Debt | \$ 7,300,000 | 4.80% | 3.00% | 0.14% |
| 2 | Long-Term Debt | \$ 75,000,000 | 49.35% | 6.83% | 3.37% |
| 3 | Common Equity | 69,671,689 | 45.85% | 8.33% | 3.82% |
| 4 | Total Capitalization | <u>\$ 151,971,689</u> | <u>100.00%</u> | | |
| 5 | WEIGHTED AVERAGE COST OF CAPITAL | | | | 7.33% |

References:

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

TABLE OF CONTENTS TO TJC SURREBUTTAL SCHEDULES (ABBREVIATED)

| <u>SCH. NO.</u> | <u>PAGE NO.</u> | <u>TITLE</u> |
|---------------------|---------------------|---|
| WAR-1 | 1 & 2 | REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR |
| WAR-2 | 1 | RATE BASE |
| WAR-3 | 1 | SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS |
| WAR-7 | 1 | OPERATING INCOME |
| WAR-8 | 1 | SUMMARY OF OPERATING INCOME ADJUSTMENTS |
| WAR-15 | 1 | COST OF CAPITAL |

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB/FVRB COST | (B) RUCO OCRB/FVRB COST |
|----------|--|-------------------------------------|----------------------------------|
| 1 | Adjusted Original Cost/Fair Value Rate Base | \$ 2,412,232 | \$ 2,393,683 |
| 2 | Adjusted Operating Income (Loss) | \$ 194,248 | \$ 214,630 |
| 3 | Current Rate of Return (L2 / L1) | 8.05% | 8.97% |
| 4 | Required Operating Income (L5 X L1) | \$ 236,743 | \$ 175,457 |
| 5 | Required Rate of Return on Fair Value Rate Base | 9.81% | 7.33% |
| 6 | Operating Income Deficiency (L4 - L2) | \$ 42,494 | \$ (39,173) |
| 7 | Gross Revenue Conversion Factor (TJC-1, Page 2) | 1.6286 | 1.6286 |
| 8 | Required Increase in Gross Revenue Requirement (L7 X L6) | \$ 69,208 | \$ (63,798) |
| 9 | Adjusted Test Year Revenue | \$ 1,126,215 | \$ 1,126,215 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 1,195,423 | \$ 1,062,417 |
| 11 | Required Percentage Increase in Revenue (L8 / L9) | 6.15% | -5.66% |
| 12 | Consolidated Revenue Adjustment | \$ - | \$ 8,846 |
| 13 | Required Increase in Gross Revenue Under Proposed Consolidation | \$ - | \$ (54,952) |
| 14 | Required Revenue Under Proposed Consolidation | \$ - | \$ 1,071,263 |
| 15 | Required Percentage Increase in Revenue Under Proposed Consolidation | - | -4.88% |
| 16 | Rate of Return on Common Equity | 12.40% | 8.33% |

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule TJC-2, TJC-7, and TJC-13

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. TJC-1, Pg 1, C (B), L4) | \$ 175,457 | | | |
| 12 | Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2) | 214,630 | | | |
| 13 | Required Increase In Operating Income (L11 - L12) | | \$ (39,173) | | |
| 14 | Income Taxes On Recommended Revenue (Col. (D), L31) | \$ 57,481 | | | |
| 15 | Income Taxes On Test Year Revenue (Col. (D), L32) | 82,107 | | | |
| 16 | Required Increase In Revenue To Provide For Income Taxes (L14 - L15) | | \$ (24,625) | | |
| 17 | Total Required Increase In Revenue (L13 + L16) | | \$ (63,798) | | |
| CALCULATION OF INCOME TAX: | | | | | |
| RUCO Recommended | | | | | |
| 18 | Revenue (Sch. TJC-1, Pg 1, Col. (B), L12) | | | \$ 1,062,416 | |
| 19 | Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23) | | | 829,478 | |
| 20 | Synchronized Interest (Col. (C), L37) | | | 84,018 | |
| 21 | Arizona Taxable Income (L18 - L19 - L20) | | | \$ 148,920 | |
| 22 | Arizona State Income Tax Rate | | | 6.9680% | |
| 23 | Arizona Income Tax (L21 X L22) | | | | \$ 10,377 |
| 24 | Fed. Taxable Income (L21 - L23) | | | \$ 138,543 | |
| 25 | Fed. Tax on 1st Inc. Bracket (\$1 - \$50,000) @ 15% | | | \$ - | |
| 26 | Fed. Tax on 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25% | | | \$ - | |
| 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% | | | \$ 47,105 | |
| 30 | Total Federal Income Tax (L25 + L26 + L27 + L28 + L29) | | | | \$ 47,105 |
| 31 | Combined Federal and State Income Tax (L23 + L30) | | | | \$ 57,481 |
| 32 | Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23) | | | | \$ 82,107 |
| 33 | RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23) | | | | \$ (24,625) |
| 34 | Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24) | | | | 34.00% |
| CALCULATION OF INTEREST SYNCHRONIZATION: | | | | | |
| 35 | Rate Base (Sch. WAR-2, Col. (C), L17) | | | \$ 2,393,683 | |
| 36 | Weighted Avg. Cost of Debt (Sch. TJC-16, Col. (F), L1) | | | 3.51% | |
| 37 | Synchronized Interest (L35 X L36) | | | \$ 84,018 | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) RUCO OCRB/FVRB ADJUSTMENTS | (C) RUCO ADJ'TED OCRB/FVRB |
|----------|---|---|---|-------------------------------------|
| | Plant Classification | | | |
| 1 | Intangible Plant | \$ 627 | \$ - | \$ 627 |
| 2 | Source of Supply Plant | 571,108 | - | 571,108 |
| 3 | Pumping Plant | 951,836 | - | 951,836 |
| 4 | Water Treatment Plant | 104,121 | - | 104,121 |
| 5 | Transmission & Distribution Plant | 4,194,584 | - | 4,194,584 |
| 6 | General Plant | 262,652 | - | 262,652 |
| 7 | Total Gross Plant in Service | <u>\$ 6,084,930</u> | <u>\$ -</u> | <u>\$ 6,084,930</u> |
| 8 | Accumulated Depreciation | (2,307,793) | (1,038) | (2,308,831) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | <u>\$ 3,777,137</u> | <u>\$ (1,038)</u> | <u>\$ 3,776,099</u> |
| 10 | Advances in Aid Of Const. | \$ (432,749) | \$ - | \$ (432,749) |
| 11 | Contribution in Aid of Const. | \$ (623,732) | \$ - | \$ (623,732) |
| 12 | Accumulated Amortization of CIAC | 93,964 | - | 93,964 |
| 13 | NET CIAC (L5 + L6) | <u>\$ (529,768)</u> | <u>\$ -</u> | <u>\$ (529,768)</u> |
| 14 | Deferred Income Tax | \$ (436,962) | \$ - | \$ (436,962) |
| 15 | Customer Deposits | \$ - | \$ (7,460) | \$ (7,460) |
| 16 | Allowance for Working Capital | \$ 34,574 | \$ (10,051) | \$ 24,523 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - |
| | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u>\$ 2,412,232</u> | <u>\$ (18,548)</u> | <u>\$ 2,393,683</u> |

References:

- Column (A): Company Schedule B-1
- Column (B): Schedule TJC-3
- Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) ADJMT NO. 1 PLANT & ACCUM DEP. | (C) ADJMT NO. 2 | (D) ADJMT NO. 3 PER BKB 11.16 | (E) ADJMT NO. 4 | (F) ADJMT NO. 5 CUSTOMER DEPOSITS | (G) ADJMT NO. 6 WORKING CAPITAL | (H) RUCO ADJTED OCRB/FVRB |
|----------|---|---|---|--------------------|--|--------------------|--|--|------------------------------------|
| | Plant Classification | | | | | | | | |
| 1 | Intangible Plant | \$ 627 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 627 |
| 2 | Source of Supply Plant | 571,108 | - | - | - | - | - | - | 571,108 |
| 3 | Pumping Plant | 951,836 | - | - | - | - | - | - | 951,836 |
| 4 | Water Treatment Plant | 104,121 | - | - | - | - | - | - | 104,121 |
| 5 | Transmission & Distribution Plant | 4,194,584 | - | - | - | - | - | - | 4,194,584 |
| 6 | General Plant | 262,652 | - | - | - | - | - | - | 262,652 |
| 7 | Total Gross Plant in Service | \$ 6,084,930 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 6,084,930 |
| 8 | Accumulated Depreciation | (2,307,793) | (1,038) | - | - | - | - | - | (2,308,831) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | \$ 3,777,137 | \$ (1,038) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,776,099 |
| 10 | Advances in Aid Of Const. | \$ (432,749) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (432,749) |
| 11 | Contribution in Aid of Const. | \$ (623,732) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (623,732) |
| 12 | Accumulated Amortization of CIAC | 93,964 | - | - | - | - | - | - | 93,964 |
| 13 | NET CIAC (L5 + L6) | \$ (529,768) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (529,768) |
| 14 | Deferred Income Tax | \$ (436,962) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (436,962) |
| 15 | Customer Deposits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (7,460) | \$ - | \$ (7,460) |
| 16 | Allowance for Working Capital | 34,574 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (10,051) | \$ 24,523 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | \$ 2,412,232 | \$ (1,038) | \$ - | \$ - | \$ - | \$ (7,460) | \$ (10,051) | \$ 2,393,683 |

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Plant, PTY Plant & Accumulated Depreciation (See TJC-4 Total, TJC-4 Direct, TJC-4 PHX OFF and TJC-4 MS Schedules and TJC Testimony)
- Column (C): Adjustment No. 2 - Intentionally Left Blank
- Column (D): Adjustment No. 3 - Conforming Adkustment Per Data Response to BKB 11.16 to Remove Plant and Record Retirements
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - Intentionally Left Blank
- Column (G): Adjustment No. 6 - Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

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 |
|----------|--|-------------------------------|-------------------------------------|--|----------------------------------|-------------------------------|
| | Operating Revenues | | | | | |
| 1 | Residential | \$ 864,595 | \$ - | \$ 864,595 | \$ (47,871) | \$ 816,724 |
| 2 | Commercial | 229,443 | - | 229,443 | (14,962) | 214,481 |
| 3 | Industrial | - | - | - | - | - |
| 4 | Private Fire Service | 56 | - | 56 | 244 | 300 |
| 5 | Other Water Revenues | 21,015 | - | 21,015 | (1,209) | 19,806 |
| 6 | Total Water Revenues | \$ 1,115,109 | \$ - | \$ 1,115,109 | \$ (63,798) | \$ 1,051,310 |
| 7 | Miscellaneous | \$ 11,106 | \$ - | \$ 11,106 | \$ - | \$ 11,106 |
| 8 | Total Operating Revenues | \$ 1,126,215 | \$ - | \$ 1,126,215 | \$ (63,798) | \$ 1,062,416 |
| | Operating Expenses | | | | | |
| | Source of Supply Expenses: | | | | | |
| 9 | Purchased Water | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Other | 9,508 | - | 9,508 | - | 9,508 |
| 11 | Pumping Expenses: | - | - | - | - | - |
| 12 | Purchased Power | 149,736 | - | 149,736 | - | 149,736 |
| 13 | Purchased Gas | - | - | - | - | - |
| 14 | Other | 38,603 | - | 38,603 | - | 38,603 |
| 15 | Water Treatment Expenses | 15,542 | - | 15,542 | - | 15,542 |
| 16 | Transmission & Distribution Expenses | 152,010 | - | 152,010 | - | 152,010 |
| 17 | Customer Accounting Expenses | 100,428 | - | 100,428 | - | 100,428 |
| 18 | Sales Expense | 549 | - | 549 | - | 549 |
| 19 | Administrative & General Expenses | 151,950 | (5,288) | 146,662 | - | 146,662 |
| 20 | Total Operations & Maintenance Expense | \$ 618,326 | \$ (5,288) | \$ 613,037 | \$ - | \$ 613,037 |
| 21 | Depreciation & Amortization Expenses | \$ 181,393 | \$ (27,957) | \$ 153,436 | \$ - | \$ 153,436 |
| | Taxes | | | | | |
| 22 | Federal Income Taxes | \$ 53,978 | \$ 13,307 | \$ 67,285 | \$ (20,180) | \$ 47,105 |
| 23 | State Income Taxes | 11,891 | 2,931 | 14,822 | (4,445) | 10,377 |
| 24 | Property Taxes | 53,921 | (3,115) | 50,806 | - | 50,806 |
| 25 | Other | 12,458 | (259) | 12,199 | - | 12,199 |
| 26 | Total Taxes | \$ 132,248 | \$ 12,864 | \$ 145,112 | \$ (24,625) | \$ 120,486 |
| 27 | Total Operating Expenses | \$ 931,966 | \$ (20,381) | \$ 911,585 | \$ (24,625) | \$ 886,960 |
| 28 | Operating Income | \$ 194,248 | \$ 20,381 | \$ 214,630 | \$ (39,173) | \$ 175,457 |

References:

- Column (A): Company Schedule C-1
- Column (B): TJC-8, Columns (B) Thru (I)
- Column (C): Column (A) + Column (B)
- Column (D): TJC-1
- Column (E): Column (C) + Column (D)

**SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS**

| LINE NO. | (A) COMPANY AS FILED | (B) ADJMT NO. 1 LABOR EXPENSE | (C) ADJMT NO. 2 PAYROLL TAX EXPENSE | (D) ADJMT NO. 3 401(K) EXPENSE | (E) ADJMT NO. 4 REVERSE ADJ. FOR CONSERVATION | (F) ADJMT NO. 5 PURCH. POWER REVENUES | (G) ADJMT NO. 6 INSURANCE EXPENSE | (H) ADJMT NO. 7 DEPRECIATION EXPENSE | (I) ADJMT NO. 8 PROPERTY TAX | (J) ADJMT NO. 9 RATE CASE EXPENSE | (K) ADJMT NO. 10 INCOME TAXES | (L) RUCO AS ADJT'D |
|----------------------------|--|-------------------------------------|---|--------------------------------------|---|---|---|--|------------------------------------|---|-------------------------------------|-----------------------|
| Operating Revenues | | | | | | | | | | | | |
| 1 | Residential | \$ 864,595 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 864,595 |
| 2 | Commercial | 229,443 | - | - | - | - | - | - | - | - | - | 229,443 |
| 3 | Industrial | - | - | - | - | - | - | - | - | - | - | - |
| 4 | Private Fire Service | 56 | - | - | - | - | - | - | - | - | - | 56 |
| 5 | Other Water Revenues | 21,015 | - | - | - | - | - | - | - | - | - | 21,015 |
| 6 | Total Water Revenues | \$ 1,115,109 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,115,109 |
| 7 | Miscellaneous | \$ 11,106 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 11,106 |
| 8 | Total Operating Revenues | \$ 1,126,215 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,126,215 |
| Operating Expenses | | | | | | | | | | | | |
| Source of Supply Expenses: | | | | | | | | | | | | |
| 9 | Purchased Water | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Other | 9,508 | - | - | - | - | - | - | - | - | - | 9,508 |
| Pumping Expenses: | | | | | | | | | | | | |
| 12 | Purchased Power | 149,736 | - | - | - | - | - | - | - | - | - | 149,736 |
| 13 | Purchased Gas | - | - | - | - | - | - | - | - | - | - | - |
| 14 | Other | 38,603 | - | - | - | - | - | - | - | - | - | 38,603 |
| 15 | Water Treatment Expenses | 15,542 | - | - | - | - | - | - | - | - | - | 15,542 |
| 16 | Transmission & Distribution Expenses | 152,010 | - | - | - | - | - | - | - | - | - | 152,010 |
| 17 | Customer Accounting Expenses | 100,428 | - | - | - | - | - | - | - | - | - | 100,428 |
| 18 | Sales Expense | 549 | - | - | - | - | - | - | - | - | - | 549 |
| 19 | Administrative & General Expenses | 151,950 | (3,467) | - | (291) | - | (10) | - | - | (1,520) | - | 146,662 |
| 20 | Total Operations & Maintenance Expense | \$ 618,326 | \$ (3,467) | \$ - | \$ (291) | \$ - | \$ (10) | \$ - | \$ - | \$ (1,520) | \$ - | \$ 613,037 |
| 21 | Depreciation & Amortization Expenses | \$ 181,393 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (27,957) | \$ - | \$ - | \$ - | \$ 153,436 |
| Taxes | | | | | | | | | | | | |
| 22 | Federal Income Taxes | \$ 53,978 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 13,307 | \$ 67,285 |
| 23 | State Income Taxes | 11,891 | - | - | - | - | - | - | - | - | 2,931 | 14,822 |
| 24 | Property Taxes | 53,921 | - | - | - | - | - | - | (3,115) | - | - | 50,806 |
| 25 | Other | 12,458 | - | (259) | - | - | - | - | - | - | - | 12,199 |
| 26 | Total Taxes | \$ 132,248 | \$ - | \$ (259) | \$ - | \$ - | \$ - | \$ - | \$ (3,115) | \$ - | \$ 16,238 | \$ 145,112 |
| 27 | Total Operating Expenses | \$ 931,966 | \$ (3,467) | \$ (259) | \$ (291) | \$ - | \$ (10) | \$ (27,957) | \$ (3,115) | \$ (1,520) | \$ 16,238 | \$ 911,595 |
| 28 | Operating Income | \$ 194,248 | \$ 3,467 | \$ 259 | \$ 291 | \$ - | \$ 10 | \$ 27,957 | \$ 3,115 | \$ 1,520 | \$ (16,238) | \$ 214,630 |

ADJUSTMENTS:

- 1 Labor Expense - Normalize OT Hours in Test Year
- 2 Payroll Tax Expense Related to Adjustment 1
- 3 401(K) Expense Related to Adjustment 1
- 4 Reverse Adjustment for Conservation
- 5 Purchased Power Revenues
- 6 Insurance Expense
- 7 Depreciation Expense
- 8 Property Tax Expense
- 9 Rate Case Expense

REFERENCE:

- Testimony, WAR And Schedule TJC-9 Page, 1 of 3
Testimony, WAR And Schedule TJC-9 Page, 2 of 3
Testimony, WAR And Schedule TJC-9 Page, 3 of 3
Testimony WAR
Testimony WAR
Testimony, WAR And Schedule TJC-10
Testimony, WAR And Schedule TJC-11
Testimony, WAR And Schedule TJC-12
Testimony, WAR And Schedule TJC-13

COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) DOLLAR AMOUNT | (B) CAPITAL RATIO | (C) COST RATE | (D) WEIGHTED COST RATE |
|----------|----------------------------------|-----------------------|----------------------|------------------|---------------------------|
| 1 | Short-Term Debt | \$ 7,300,000 | 4.80% | 3.00% | 0.14% |
| 2 | Long-Term Debt | \$ 75,000,000 | 49.35% | 6.83% | 3.37% |
| 3 | Common Equity | 69,671,689 | 45.85% | 8.33% | 3.82% |
| 4 | Total Capitalization | <u>\$ 151,971,689</u> | <u>100.00%</u> | | |
| 5 | WEIGHTED AVERAGE COST OF CAPITAL | | | | 7.33% |

References:

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

TABLE OF CONTENTS TO TJC SURREBUTTAL SCHEDULES (ABBREVIATED)

| <u>SCH. NO.</u> | <u>PAGE NO.</u> | <u>TITLE</u> |
|---------------------|---------------------|---|
| WAR-1 | 1 & 2 | REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR |
| WAR-2 | 1 | RATE BASE |
| WAR-3 | 1 | SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS |
| WAR-7 | 1 | OPERATING INCOME |
| WAR-8 | 1 | SUMMARY OF OPERATING INCOME ADJUSTMENTS |
| WAR-15 | 1 | COST OF CAPITAL |

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB/FVRB COST | (B) RUCO OCRB/FVRB COST |
|----------|--|-------------------------------------|----------------------------------|
| 1 | Adjusted Original Cost/Fair Value Rate Base | \$ 325,142 | \$ 339,758 |
| 2 | Adjusted Operating Income (Loss) | \$ 10,198 | \$ 12,299 |
| 3 | Current Rate of Return (L2 / L1) | 3.14% | 3.62% |
| 4 | Required Operating Income (L5 X L1) | \$ 31,910 | \$ 24,904 |
| 5 | Required Rate of Return on Fair Value Rate Base | 9.81% | 7.33% |
| 6 | Operating Income Deficiency (L4 - L2) | \$ 21,712 | \$ 12,605 |
| 7 | Gross Revenue Conversion Factor (TJC-1, Page 2) | 1.6286 | 1.6286 |
| 8 | Required Increase in Gross Revenue Requirement (L7 X L6) | \$ 35,361 | \$ 20,529 |
| 9 | Adjusted Test Year Revenue | \$ 98,722 | \$ 98,722 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 134,083 | \$ 119,252 |
| 11 | Required Percentage Increase in Revenue (L8 / L9) | 35.82% | 20.80% |
| 12 | Consolidated Revenue Adjustment | \$ - | \$ (9,617) |
| 13 | Required Increase in Gross Revenue Under Proposed Consolidation | \$ - | \$ 10,913 |
| 14 | Required Revenue Under Proposed Consolidation | \$ - | \$ 109,635 |
| 15 | Required Percentage Increase in Revenue Under Proposed Consolidation | - | 11.05% |
| 16 | Rate of Return on Common Equity | 12.40% | 8.33% |

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule TJC-2, TJC-7, and TJC-13

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. TJC-1, Pg 1, C (B), L4) | \$ 24,904 | | | |
| 12 | Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2) | 12,299 | | | |
| 13 | Required Increase In Operating Income (L11 - L12) | | \$ 12,605 | | |
| 14 | Income Taxes On Recommended Revenue (Col. (D), L31) | \$ 8,159 | | | |
| 15 | Income Taxes On Test Year Revenue (Col. (D), L32) | 235 | | | |
| 16 | Required Increase In Revenue To Provide For Income Taxes (L14 - L15) | | \$ 7,924 | | |
| 17 | Total Required Increase In Revenue (L13 + L16) | | \$ 20,530 | | |
| CALCULATION OF INCOME TAX: | | | | | |
| RUCO Recommended | | | | | |
| 18 | Revenue (Sch. TJC-1, Pg 1, Col. (B), L12) | | | \$ 119,252 | |
| 19 | Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23) | | | 86,188 | |
| 20 | Synchronized Interest (Col. (C), L37) | | | 11,926 | |
| 21 | Arizona Taxable Income (L18 - L19 - L20) | | | \$ 21,138 | |
| 22 | Arizona State Income Tax Rate | | | 6.9680% | |
| 23 | Arizona Income Tax (L21 X L22) | | | | \$ 1,473 |
| 24 | Fed. Taxable Income (L21 - L23) | | | \$ 19,665 | |
| 25 | Fed. Tax on 1st Inc. Bracket (\$1 - \$50,000) @ 15% | | | \$ - | |
| 26 | Fed. Tax on 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25% | | | \$ - | |
| 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% | | | \$ 6,686 | |
| 30 | Total Federal Income Tax (L25 + L26 + L27 + L28 + L29) | | | | \$ 6,686 |
| 31 | Combined Federal and State Income Tax (L23 + L30) | | | | \$ 8,159 |
| 32 | Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23) | | | | \$ 235 |
| 33 | RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23) | | | | \$ 7,924 |
| 34 | Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24) | | | | 34.00% |
| CALCULATION OF INTEREST SYNCHRONIZATION: | | | | | |
| 35 | Rate Base (Sch. WAR-2, Col. (C), L17) | | | \$ 339,758 | |
| 36 | Weighted Avg. Cost of Debt (Sch. TJC-16, Col. (F), L1) | | | 3.51% | |
| 37 | Synchronized Interest (L35 X L36) | | | \$ 11,926 | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) RUCO OCRB/FVRB ADJUSTMENTS | (C) RUCO ADJ TED OCRB/FVRB |
|----------|---|---|---|-------------------------------------|
| | Plant Classification | | | |
| 1 | Intangible Plant | \$ 2,137 | \$ - | \$ 2,137 |
| 2 | Source of Supply Plant | 51,263 | (66,360) | (15,097) |
| 3 | Pumping Plant | 163,932 | - | 163,932 |
| 4 | Water Treatment Plant | 39,948 | - | 39,948 |
| 5 | Transmission & Distribution Plant | 265,881 | - | 265,881 |
| 6 | General Plant | 31,008 | - | 31,008 |
| 7 | Total Gross Plant in Service | <u>\$ 554,169</u> | <u>\$ (66,360)</u> | <u>\$ 487,809</u> |
| 8 | Accumulated Depreciation | (167,152) | 82,798 | (84,354) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | <u>\$ 387,018</u> | <u>\$ 16,438</u> | <u>\$ 403,455</u> |
| 10 | Advances in Aid Of Const. | \$ (18,649) | \$ - | \$ (18,649) |
| 11 | Contribution in Aid of Const. | \$ (1,835) | \$ - | \$ (1,835) |
| 12 | Accumulated Amortization of CIAC | 506 | - | 506 |
| 13 | NET CIAC (L5 + L6) | <u>\$ (1,329)</u> | <u>\$ -</u> | <u>\$ (1,329)</u> |
| 14 | Deferred Income Tax | \$ (42,163) | \$ - | \$ (42,163) |
| 15 | Customer Deposits | \$ - | \$ (650) | \$ (650) |
| 16 | Allowance for Working Capital | \$ 266 | \$ (1,171) | \$ (906) |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u><u>\$ 325,142</u></u> | <u><u>\$ 14,616</u></u> | <u><u>\$ 339,758</u></u> |

References:

Column (A): Company Schedule B-1
Column (B): Schedule TJC-3
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) ADJMT NO. 1 PLANT & ACCUM DEP. | (C) ADJMT NO. 2 | (D) ADJMT NO. 3 PER BKB 11.16 | (E) ADJMT NO. 4 | (F) ADJMT NO. 5 CUSTOMER DEPOSITS | (G) ADJMT NO. 6 WORKING CAPITAL | (H) RUCO ADJTED OCRB/FVRB |
|----------------------|---|---|---|--------------------|--|--------------------|--|--|------------------------------------|
| Plant Classification | | | | | | | | | |
| 1 | Intangible Plant | \$ 2,137 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,137 |
| 2 | Source of Supply Plant | 51,263 | - | - | (66,360) | - | - | - | (15,097) |
| 3 | Pumping Plant | 163,932 | - | - | - | - | - | - | 163,932 |
| 4 | Water Treatment Plant | 39,948 | - | - | - | - | - | - | 39,948 |
| 5 | Transmission & Distribution Plant | 265,881 | - | - | - | - | - | - | 265,881 |
| 6 | General Plant | 31,008 | - | - | - | - | - | - | 31,008 |
| 7 | Total Gross Plant in Service | \$ 554,169 | \$ - | \$ - | \$ (66,360) | \$ - | \$ - | \$ - | \$ 487,809 |
| 8 | Accumulated Depreciation | (167,152) | 3,162 | - | 79,635 | - | - | - | (84,354) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | \$ 387,018 | \$ 3,162 | \$ - | \$ 13,275 | \$ - | \$ - | \$ - | \$ 403,455 |
| 10 | Advances in Aid Of Const. | \$ (18,649) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (18,649) |
| 11 | Contribution in Aid of Const. | \$ (1,835) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1,835) |
| 12 | Accumulated Amortization of CIAC | 506 | - | - | - | - | - | - | 506 |
| 13 | NET CIAC (L5 + L6) | \$ (1,329) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1,329) |
| 14 | Deferred Income Tax | \$ (42,163) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (42,163) |
| 15 | Customer Deposits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (650) | \$ - | \$ (650) |
| 16 | Allowance for Working Capital | 266 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1,171) | \$ (906) |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | - | - | - | - | - | - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | \$ 325,142 | \$ 3,162 | \$ - | \$ 13,275 | \$ - | \$ (650) | \$ (1,171) | \$ 339,758 |

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Plant, PTY Plant & Accumulated Depreciation (See TJC-4 Total, TJC-4 Direct, TJC-4 PHX OFF and TJC-4 MS Schedules and TJC Testimony)
- Column (C): Adjustment No. 2 - Intentionally Left Blank
- Column (D): Adjustment No. 3 - Conforming Adkustment Per Data Response to BKB 11.16 to Remove Plant and Record Retirements
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - Customer Deposits
- Column (G): Adjustment No. 6 - Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

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 |
|----------|--|-------------------------------|-------------------------------------|--|----------------------------------|-------------------------------|
| | Operating Revenues | | | | | |
| 1 | Residential | \$ 44,901 | \$ - | \$ 44,901 | \$ 13,825 | \$ 58,725 |
| 2 | Commercial | 50,096 | - | 50,096 | 5,851 | 55,947 |
| 3 | Industrial | 1,774 | - | 1,774 | 826 | 2,599 |
| 4 | Private Fire Service | - | - | - | - | - |
| 5 | Other Water Revenues | 749 | - | 749 | 28 | 777 |
| 6 | Total Water Revenues | \$ 97,519 | \$ - | \$ 97,519 | \$ 20,530 | \$ 118,049 |
| 7 | Miscellaneous | \$ 1,203 | \$ - | \$ 1,203 | \$ - | \$ 1,203 |
| 8 | Total Operating Revenues | \$ 98,722 | \$ - | \$ 98,722 | \$ 20,530 | \$ 119,252 |
| | Operating Expenses | | | | | |
| | Source of Supply Expenses: | | | | | |
| 9 | Purchased Water | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Other | 897 | - | 897 | - | 897 |
| 11 | Pumping Expenses: | - | - | - | - | - |
| 12 | Purchased Power | 7,310 | - | 7,310 | - | 7,310 |
| 13 | Purchased Gas | - | - | - | - | - |
| 14 | Other | 4,150 | - | 4,150 | - | 4,150 |
| 15 | Water Treatment Expenses | 1,372 | - | 1,372 | - | 1,372 |
| 16 | Transmission & Distribution Expenses | 16,618 | - | 16,618 | - | 16,618 |
| 17 | Customer Accounting Expenses | 11,332 | - | 11,332 | - | 11,332 |
| 18 | Sales Expense | 58 | - | 58 | - | 58 |
| 19 | Administrative & General Expenses | 16,116 | (506) | 15,611 | - | 15,611 |
| 20 | Total Operations & Maintenance Expense | \$ 57,855 | \$ (506) | \$ 57,349 | \$ - | \$ 57,349 |
| 21 | Depreciation & Amortization Expenses | \$ 19,928 | \$ (2,269) | \$ 17,660 | \$ - | \$ 17,660 |
| | Taxes | | | | | |
| 22 | Federal Income Taxes | \$ (959) | \$ 1,151 | \$ 192 | \$ 6,494 | \$ 6,686 |
| 23 | State Income Taxes | (211) | 254 | 42 | 1,431 | 1,473 |
| 24 | Property Taxes | 10,675 | (706) | 9,969 | - | 9,969 |
| 25 | Other | 1,235 | (25) | 1,210 | - | 1,210 |
| 26 | Total Taxes | \$ 10,741 | \$ 674 | \$ 11,414 | \$ 7,924 | \$ 19,338 |
| 27 | Total Operating Expenses | \$ 88,524 | \$ (2,101) | \$ 86,423 | \$ 7,924 | \$ 94,347 |
| 28 | Operating Income | \$ 10,198 | \$ 2,101 | \$ 12,299 | \$ 12,605 | \$ 24,905 |

References:

- Column (A): Company Schedule C-1
- Column (B): TJC-8, Columns (B) Thru (I)
- Column (C): Column (A) + Column (B)
- Column (D): TJC-1
- 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 LABOR EXPENSE | (C) ADJMT NO. 2 PAYROLL TAX EXPENSE | (D) ADJMT NO. 3 401(K) EXPENSE | (E) ADJMT NO. 4 REVERSE ADJ. FOR CONSERVATION | (F) ADJMT NO. 5 PURCH. POWER REVENUES | (G) ADJMT NO. 6 INSURANCE EXPENSE | (H) ADJMT NO. 7 DEPRECIATION EXPENSE | (I) ADJMT NO. 8 PROPERTY TAX | (J) ADJMT NO. 9 RATE CASE EXPENSE | (K) ADJMT NO. 10 INCOME TAXES | (L) RUCO AS ADJTD |
|----------------------------|--|-------------------------|-------------------------------------|---|--------------------------------------|---|---|---|--|------------------------------------|---|-------------------------------------|----------------------|
| Operating Revenues | | | | | | | | | | | | | |
| 1 | Residential | \$ 44,901 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 44,901 |
| 2 | Commercial | 50,096 | - | - | - | - | - | - | - | - | - | - | 50,096 |
| 3 | Industrial | 1,774 | - | - | - | - | - | - | - | - | - | - | 1,774 |
| 4 | Private Fire Service | - | - | - | - | - | - | - | - | - | - | - | - |
| 5 | Other Water Revenues | 749 | - | - | - | - | - | - | - | - | - | - | 749 |
| 6 | Total Water Revenues | \$ 97,519 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 97,519 |
| 7 | Miscellaneous | \$ 1,203 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,203 |
| 8 | Total Operating Revenues | \$ 98,722 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 98,722 |
| Operating Expenses | | | | | | | | | | | | | |
| Source of Supply Expenses: | | | | | | | | | | | | | |
| 9 | Purchased Water | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Other | 897 | - | - | - | - | - | - | - | - | - | - | 897 |
| Pumping Expenses: | | | | | | | | | | | | | |
| 12 | Purchased Power | 7,310 | - | - | - | - | - | - | - | - | - | - | 7,310 |
| 13 | Purchased Gas | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 | Other | 4,150 | - | - | - | - | - | - | - | - | - | - | 4,150 |
| 15 | Water Treatment Expenses | 1,372 | - | - | - | - | - | - | - | - | - | - | 1,372 |
| 16 | Transmission & Distribution Expenses | 16,618 | - | - | - | - | - | - | - | - | - | - | 16,618 |
| 17 | Customer Accounting Expenses | 11,332 | - | - | - | - | - | - | - | - | - | - | 11,332 |
| 18 | Sales Expense | 58 | - | - | - | - | - | - | - | - | - | - | 58 |
| 19 | Administrative & General Expenses | 16,116 | (335) | - | (28) | - | - | 4 | - | - | (147) | - | 15,611 |
| 20 | Total Operations & Maintenance Expense | \$ 57,855 | \$ (335) | \$ - | \$ (28) | \$ - | \$ - | \$ 4 | \$ - | \$ - | \$ (147) | \$ - | \$ 57,349 |
| 21 | Depreciation & Amortization Expenses | \$ 19,928 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (2,269) | \$ - | \$ - | \$ - | \$ 17,660 |
| Taxes | | | | | | | | | | | | | |
| 22 | Federal Income Taxes | \$ (959) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,151 | \$ 192 |
| 23 | State Income Taxes | (211) | - | - | - | - | - | - | - | - | - | 254 | 42 |
| 24 | Property Taxes | 10,675 | - | - | - | - | - | - | - | (706) | - | - | 9,969 |
| 25 | Other | 1,235 | - | (25) | - | - | - | - | - | - | - | - | 1,210 |
| 26 | Total Taxes | \$ 10,741 | \$ - | \$ (25) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (706) | \$ - | \$ 1,405 | \$ 11,414 |
| 27 | Total Operating Expenses | \$ 88,524 | \$ (335) | \$ (25) | \$ (28) | \$ - | \$ - | \$ 4 | \$ (2,269) | \$ (706) | \$ (147) | \$ 1,405 | \$ 86,423 |
| 28 | Operating Income | \$ 10,198 | \$ 335 | \$ 25 | \$ 28 | \$ - | \$ - | \$ (4) | \$ 2,269 | \$ 706 | \$ 147 | \$ (1,405) | \$ 12,299 |

ADJUSTMENTS:

- 1 - Labor Expense - Normalize OT Hours in Test Year
- 2 - Payroll Tax Expense Related to Adjustment 1
- 3 - 401(K) Expense Related to Adjustment 1
- 4 - Reverse Adjustment for Conservation
- 5 - Purchased Power Revenues
- 6 - Insurance Expense
- 7 - Depreciation Expense
- 8 - Property Tax Expense
- 9 - Rate Case Expense
- 10 - Income Tax

REFERENCE:

- Testimony, WAR And Schedule TJC-9 Page, 1 of 3
- Testimony, WAR And Schedule TJC-9 Page, 2 of 3
- Testimony, WAR And Schedule TJC-9 Page, 3 of 3
- Testimony WAR
- Testimony WAR
- Testimony, WAR And Schedule TJC-10
- Testimony, WAR And Schedule TJC-11
- Testimony, WAR And Schedule TJC-12
- Testimony, WAR And Schedule TJC-13
- Testimony, WAR And Schedule TJC-14

COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) DOLLAR AMOUNT | (B) CAPITAL RATIO | (C) COST RATE | (D) WEIGHTED COST RATE |
|----------|----------------------------------|-----------------------|----------------------|------------------|---------------------------|
| 1 | Short-Term Debt | \$ 7,300,000 | 4.80% | 3.00% | 0.14% |
| 2 | Long-Term Debt | \$ 75,000,000 | 49.35% | 6.83% | 3.37% |
| 3 | Common Equity | 69,671,689 | 45.85% | 8.33% | 3.82% |
| 4 | Total Capitalization | <u>\$ 151,971,689</u> | <u>100.00%</u> | | |
| 5 | WEIGHTED AVERAGE COST OF CAPITAL | | | | 7.33% |

References:

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

TABLE OF CONTENTS TO TJC SURREBUTTAL SCHEDULES (ABBREVIATED)

| <u>SCH. NO.</u> | <u>PAGE NO.</u> | <u>TITLE</u> |
|---------------------|---------------------|---|
| WAR-1 | 1 & 2 | REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR |
| WAR-2 | 1 | RATE BASE |
| WAR-3 | 1 | SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS |
| WAR-7 | 1 | OPERATING INCOME |
| WAR-8 | 1 | SUMMARY OF OPERATING INCOME ADJUSTMENTS |
| WAR-15 | 1 | COST OF CAPITAL |

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB/FVRB COST | (B) RUCO OCRB/FVRB COST |
|----------|--|-------------------------------------|----------------------------------|
| 1 | Adjusted Original Cost/Fair Value Rate Base | \$ 7,663,611 | \$ 7,426,481 |
| 2 | Adjusted Operating Income (Loss) | \$ 143,848 | \$ 159,794 |
| 3 | Current Rate of Return (L2 / L1) | 1.88% | 2.15% |
| 4 | Required Operating Income (L5 X L1) | \$ 752,127 | \$ 544,361 |
| 5 | Required Rate of Return on Fair Value Rate Base | 9.81% | 7.33% |
| 6 | Operating Income Deficiency (L4 - L2) | \$ 608,279 | \$ 384,567 |
| 7 | Gross Revenue Conversion Factor (TJC-1, Page 2) | <u>1.6286</u> | <u>1.6286</u> |
| 8 | Required Increase in Gross Revenue Requirement (L7 X L6) | \$ 990,665 | \$ 626,319 |
| 9 | Adjusted Test Year Revenue | \$ 1,850,677 | \$ 1,850,677 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 2,841,341 | \$ 2,476,995 |
| 11 | Required Percentage Increase in Revenue (L8 / L9) | 53.53% | 33.84% |
| 12 | Consolidated Revenue Adjustment (Superstition/Miami) | \$ (937,341) | \$ (360,458) |
| 13 | Required Increase in Gross Revenue Under Proposed Consolidation | \$ 53,500 | \$ 265,861 |
| 14 | Required Revenue Under Proposed Consolidation | \$ 1,904,272 | \$ 2,116,537 |
| 15 | Required Percentage Increase in Revenue Under Proposed Consolidation | 2.89% | 14.37% |
| 16 | Rate of Return on Common Equity | 12.40% | 8.33% |

References:

Column (A): Company Schedules A-1 and C-1

Column (B): RUCO Schedule TJC-2, TJC-7, and TJC-13

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. TJC-1, Pg 1, C (B), L4) | \$ 544,361 | | | |
| 12 | Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2) | 159,794 | | | |
| 13 | Required Increase In Operating Income (L11 - L12) | | \$ 384,567 | | |
| 14 | Income Taxes On Recommended Revenue (Col. (D), L31) | \$ 178,338 | | | |
| 15 | Income Taxes On Test Year Revenue (Col. (D), L32) | (63,414) | | | |
| 16 | Required Increase In Revenue To Provide For Income Taxes (L14 - L15) | | \$ 241,752 | | |
| 17 | Total Required Increase In Revenue (L13 + L16) | | \$ 626,319 | | |
| CALCULATION OF INCOME TAX: | | | | | |
| RUCO | | | | | |
| Recommended | | | | | |
| 18 | Revenue (Sch. TJC-1, Pg 1, Col. (B), L12) | | | \$ 2,476,995 | |
| 19 | Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23) | | | 1,754,296 | |
| 20 | Synchronized Interest (Col. (C), L37) | | | 260,669 | |
| 21 | Arizona Taxable Income (L18 - L19 - L20) | | | \$ 462,030 | |
| 22 | Arizona State Income Tax Rate | | | 6.9680% | |
| 23 | Arizona Income Tax (L21 X L22) | | | | \$ 32,194 |
| 24 | Fed. Taxable Income (L21 - L23) | | | \$ 429,836 | |
| 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% | | | \$ 32,244 | |
| 30 | Total Federal Income Tax (L25 + L26 + L27 + L28 + L29) | | | \$ 146,144 | |
| 31 | Combined Federal and State Income Tax (L23 + L30) | | | \$ 178,338 | |
| 32 | Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23) | | | \$ (63,414) | |
| 33 | RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23) | | | \$ 241,752 | |
| 34 | Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24) | | | | 34.00% |
| CALCULATION OF INTEREST SYNCHRONIZATION: | | | | | |
| 35 | Rate Base (Sch. TJC-2, Col. (C), L17) | | | \$ 7,426,481 | |
| | | | | 3.51% | |
| | | | | \$ 260,669 | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) RUCO OCRB/FVRB ADJUSTMENTS | (C) RUCO ADJ'TED OCRB/FVRB |
|----------|---|---|---|-------------------------------------|
| | Plant Classification | | | |
| 1 | Intangible Plant | \$ 2,557 | \$ - | \$ 2,557 |
| 2 | Source of Supply Plant | 4,436,512 | (77,542) | 4,358,970 |
| 3 | Pumping Plant | 1,646,392 | (201,695) | 1,444,697 |
| 4 | Water Treatment Plant | 86,137 | - | 86,137 |
| 5 | Transmission & Distribution Plant | 5,281,481 | - | 5,281,481 |
| 6 | General Plant | 848,882 | - | 848,882 |
| 7 | Total Gross Plant in Service | <u>\$ 12,301,961</u> | <u>\$ (279,237)</u> | <u>\$ 12,022,724</u> |
| 8 | Accumulated Depreciation | (2,957,804) | 101,814 | (2,855,990) |
| 9 | Net Utility Plant In Service (Sum L1 & L2) | <u>\$ 9,344,157</u> | <u>\$ (177,424)</u> | <u>\$ 9,166,733</u> |
| 10 | Advances In Aid Of Const. | \$ (12,005) | \$ - | \$ (12,005) |
| 11 | Contribution In Aid Of Const. | \$ (324,169) | \$ - | \$ (324,169) |
| 12 | Accumulated Amortization Of CIAC | 62,181 | - | 62,181 |
| 13 | NET CIAC (L5 + L6) | <u>\$ (261,988)</u> | <u>\$ -</u> | <u>\$ (261,988)</u> |
| 14 | Deferred Income Tax | \$ (954,417) | \$ - | \$ (954,417) |
| 15 | Customer Deposits | \$ - | \$ (31,336) | \$ (31,336) |
| 16 | Allowance For Working Capital | \$ 79,865 | \$ (28,370) | \$ 51,494 |
| 17 | Net Regulatory Asset / (Liability) | \$ (532,000) | \$ - | \$ (532,000) |
| 18 | Rounding | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u>\$ 7,663,611</u> | <u>\$ (205,794)</u> | <u>\$ 7,426,481</u> |

References:

Column (A): Company Schedule B-1
Column (B): Schedule TJC-3
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) ADJMT NO. 1 PLANT & ACCUM DEP. | (C) ADJMT NO. 2 | (D) ADJMT NO. 3 PER BKB 11.16 | (E) ADJMT NO. 4 | (F) ADJMT NO. 5 CUSTOMER DEPOSITS | (G) ADJMT NO. 6 WORKING CAPITAL | (H) RUCO ADJ'TED OCRB/FVRB |
|----------------------|---|---|---|--------------------|--|--------------------|--|--|-------------------------------------|
| Plant Classification | | | | | | | | | |
| 1 | Intangible Plant | \$ 2,557 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,557 |
| 2 | Source of Supply Plant | 4,436,512 | - | - | (77,542) | - | - | - | 4,358,970 |
| 3 | Pumping Plant | 1,646,392 | - | - | (201,695) | - | - | - | 1,444,697 |
| 4 | Water Treatment Plant | 86,137 | - | - | - | - | - | - | 86,137 |
| 5 | Transmission & Distribution Plant | 5,281,481 | - | - | - | - | - | - | 5,281,481 |
| 6 | General Plant | 848,882 | - | - | - | - | - | - | 848,882 |
| 7 | Total Gross Plant in Service | \$ 12,301,961 | \$ - | \$ - | \$ (279,237) | \$ - | \$ - | \$ - | \$ 12,022,724 |
| 8 | Accumulated Depreciation | \$ (2,957,804) | 25,492 | - | 76,321 | - | - | - | (2,855,990) |
| 9 | Net Utility Plant In Service (Sum L1 & L2) | \$ 9,344,157 | \$ 25,492 | \$ - | \$ (202,916) | \$ - | \$ - | \$ - | \$ 9,166,733 |
| 10 | Advances In Aid Of Const. | \$ (12,005) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (12,005) |
| 11 | Contribution In Aid Of Const. | \$ (324,169) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (324,169) |
| 12 | Accumulated Amortization Of CIAC | 62,181 | - | - | - | - | - | - | 62,181 |
| 13 | NET CIAC (L5 + L6) | \$ (261,988) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (261,988) |
| 14 | Deferred Income Tax | \$ (954,417) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (954,417) |
| 15 | Customer Deposits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (31,336) | \$ - | \$ (31,336) |
| 16 | Allowance For Working Capital | \$ 79,865 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (28,370) | \$ 51,494 |
| 17 | Net Regulatory Asset / (Liability) | \$ (532,000) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (532,000) |
| 18 | Rounding | \$ - | - | - | - | - | - | - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | \$ 7,663,611 | \$ 25,492 | \$ - | \$ (202,916) | \$ - | \$ (31,336) | \$ (28,370) | \$ 7,426,481 |

References:

Column (A): Company Schedule B-2

Column (B): Adjustment No. 1 - Adjust Test-Year Plant, PTY Plant & Accumulated Depreciation (See TJC-4 Total, TJC-4 Direct, TJC-4 PHX OFF and TJC-4 MS Schedules and TJC Testimony)

Column (C): Adjustment No. 2 - Intentionally Left Blank

Column (D): Adjustment No. 3 - Conforming Adkustment Per Data Response to BKB 11.16 to Remove Plant and Record Retirements

Column (E): Adjustment No. 4 - Intentionally Left Blank

Column (F): Adjustment No. 5 - Customer Deposits

Column (G): Adjustment No. 6 - Working Capital

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

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 |
|----------|--|-------------------------------|-------------------------------------|--|----------------------------------|-------------------------------|
| | Operating Revenues | | | | | |
| 1 | Residential | \$ 1,223,975 | \$ - | \$ 1,223,975 | \$ 420,889 | \$ 1,644,864 |
| 2 | Commercial | 491,044 | - | 491,044 | 161,295 | 652,339 |
| 3 | Industrial | 98,160 | - | 98,160 | 37,735 | 135,895 |
| 4 | Private Fire Service | 874 | - | 874 | 3,476 | 4,350 |
| 5 | Other Water Revenues | 16,285 | - | 16,285 | 2,923 | 19,208 |
| 6 | Total Water Revenues | \$ 1,830,337 | \$ - | \$ 1,830,337 | \$ 626,319 | \$ 2,456,655 |
| 7 | Miscellaneous | \$ 20,340 | \$ - | \$ 20,340 | \$ - | \$ 20,340 |
| 8 | Total Operating Revenues | \$ 1,850,677 | \$ - | \$ 1,850,677 | \$ 626,319 | \$ 2,476,995 |
| | Operating Expenses | | | | | |
| | Source of Supply Expenses: | | | | | |
| 9 | Purchased Water | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Other | 9,610 | - | 9,610 | - | 9,610 |
| | Pumping Expenses: | | | | | |
| 12 | Purchased Power | 199,919 | - | 199,919 | - | 199,919 |
| 13 | Purchased Gas | - | - | - | - | - |
| 14 | Other | 106,061 | - | 106,061 | - | 106,061 |
| 15 | Water Treatment Expenses | 10,374 | - | 10,374 | - | 10,374 |
| 16 | Transmission & Distribution Expenses | 353,495 | - | 353,495 | - | 353,495 |
| 17 | Customer Accounting Expenses | 226,344 | - | 226,344 | - | 226,344 |
| 18 | Sales Expense | 2,486 | - | 2,486 | - | 2,486 |
| 19 | Administrative & General Expenses | 394,754 | (11,549) | 383,205 | - | 383,205 |
| 20 | Total Operations & Maintenance Expense | \$ 1,303,044 | \$ (11,549) | \$ 1,291,494 | \$ - | \$ 1,291,494 |
| 21 | Depreciation & Amortization Expenses | \$ 355,564 | \$ (18,626) | \$ 336,938 | \$ - | \$ 336,938 |
| | Taxes | | | | | |
| 22 | Federal Income Taxes | \$ (72,321) | \$ 20,355 | \$ (51,966) | \$ 198,110 | \$ 146,144 |
| 23 | State Income Taxes | (15,932) | 4,484 | (11,448) | 43,642 | 32,194 |
| 24 | Property Taxes | 107,575 | (10,045) | 97,530 | - | 97,530 |
| 25 | Other | 28,899 | (566) | 28,333 | - | 28,333 |
| 26 | Total Taxes | \$ 48,221 | \$ 14,229 | \$ 62,450 | \$ 241,752 | \$ 304,202 |
| 27 | Total Operating Expenses | \$ 1,706,829 | \$ (15,946) | \$ 1,690,882 | \$ 241,752 | \$ 1,932,634 |
| 28 | Operating Income | \$ 143,848 | \$ 15,946 | \$ 159,794 | \$ 384,567 | \$ 544,361 |

References:

- Column (A): Company Schedule C-1
- Column (B): TJC-8, Columns (B) Thru (I)
- Column (C): Column (A) + Column (B)
- Column (D): TJC-1
- 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 LABOR EXPENSE | (C) ADJMT NO. 2 PAYROLL TAX EXPENSE | (D) ADJMT NO. 3 401(K) EXPENSE | (E) ADJMT NO. 4 REVERSE ADJ. FOR CONSERVATION | (F) ADJMT NO. 5 PURCH. POWER REVENUES | (G) ADJMT NO. 6 INSURANCE EXPENSE | (H) ADJMT NO. 7 DEPRECIATION EXPENSE | (I) ADJMT NO. 8 PROPERTY TAX | (J) ADJMT NO. 9 RATE CASE EXPENSE | (K) ADJMT NO. 10 INCOME TAXES | (L) RUCO AS ADJTD |
|----------------------------|--|-------------------------|----------------------------------|--|-----------------------------------|--|--|--------------------------------------|---|---------------------------------|--------------------------------------|----------------------------------|----------------------|
| Operating Revenues | | | | | | | | | | | | | |
| 1 | Residential | \$ 1,223,975 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,223,975 |
| 2 | Commercial | 491,044 | - | - | - | - | - | - | - | - | - | - | 491,044 |
| 3 | Industrial | 98,160 | - | - | - | - | - | - | - | - | - | - | 98,160 |
| 4 | Private Fire Service | 874 | - | - | - | - | - | - | - | - | - | - | 874 |
| 5 | Other Water Revenues | 16,285 | - | - | - | - | - | - | - | - | - | - | 16,285 |
| 6 | Total Water Revenues | \$ 1,830,337 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,830,337 |
| 7 | Miscellaneous | \$ 20,340 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 20,340 |
| 8 | Total Operating Revenues | \$ 1,850,677 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,850,677 |
| Operating Expenses | | | | | | | | | | | | | |
| Source of Supply Expenses: | | | | | | | | | | | | | |
| 9 | Purchased Water | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Other | 9,610 | - | - | - | - | - | - | - | - | - | - | 9,610 |
| 11 | Pumping Expenses: | - | - | - | - | - | - | - | - | - | - | - | - |
| 12 | Purchased Power | 199,919 | - | - | - | - | - | - | - | - | - | - | 199,919 |
| 13 | Purchased Gas | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 | Other | 106,061 | - | - | - | - | - | - | - | - | - | - | 106,061 |
| 15 | Water Treatment Expenses | 10,374 | - | - | - | - | - | - | - | - | - | - | 10,374 |
| 16 | Transmission & Distribution Expenses | 353,495 | - | - | - | - | - | - | - | - | - | - | 353,495 |
| 17 | Customer Accounting Expenses | 226,344 | - | - | - | - | - | - | - | - | - | - | 226,344 |
| 18 | Sales Expense | 2,486 | - | - | - | - | - | - | - | - | - | - | 2,486 |
| 19 | Administrative & General Expenses | 394,754 | (7,573) | - | (636) | - | - | (20) | - | - | (3,320) | - | 383,205 |
| 20 | Total Operations & Maintenance Expense | \$ 1,303,044 | \$ (7,573) | \$ - | \$ (636) | \$ - | \$ - | \$ (20) | \$ - | \$ - | \$ (3,320) | \$ - | \$ 1,291,494 |
| 21 | Depreciation & Amortization Expenses | \$ 355,564 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (18,626) | \$ - | \$ - | \$ - | \$ 336,938 |
| Taxes | | | | | | | | | | | | | |
| 22 | Federal Income Taxes | \$ (72,321) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 20,355 | \$ (51,966) |
| 23 | State Income Taxes | (15,932) | - | - | - | - | - | - | - | - | - | 4,484 | (11,448) |
| 24 | Property Taxes | 107,575 | - | - | - | - | - | - | - | (10,045) | - | - | 97,530 |
| 25 | Other | 28,899 | - | (566) | - | - | - | - | - | - | - | - | 28,333 |
| 26 | Total Taxes | \$ 48,221 | \$ - | \$ (566) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (10,045) | \$ - | \$ 24,839 | \$ 62,450 |
| 27 | Total Operating Expenses | \$ 1,706,829 | \$ (7,573) | \$ (566) | \$ (636) | \$ - | \$ - | \$ (20) | \$ (18,626) | \$ (10,045) | \$ (3,320) | \$ 24,839 | \$ 1,690,882 |
| 28 | Operating Income | \$ 143,848 | \$ 7,573 | \$ 566 | \$ 636 | \$ - | \$ - | \$ 20 | \$ 18,626 | \$ 10,045 | \$ 3,320 | \$ (24,839) | \$ 159,794 |

ADJUSTMENTS:

- 1 - Labor Expense - Normalize OT Hours in Test Year
- 2 - Payroll Tax Expense Related to Adjustment 1
- 3 - 401(K) Expense Related to Adjustment 1
- 4 - Reverse Adjustment for Conservation
- 5 - Purchased Power Revenues
- 6 - Insurance Expense
- 7 - Depreciation Expense
- 8 - Property Tax Expense
- 9 - Rate Case Expense

REFERENCE:

- Testimony, WAR And Schedule TJC-9 Page, 1 of 3
- Testimony, WAR And Schedule TJC-9 Page, 2 of 3
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- Testimony, WAR And Schedule TJC-12
- Testimony, WAR And Schedule TJC-13

COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) DOLLAR AMOUNT | (B) CAPITAL RATIO | (C) COST RATE | (D) WEIGHTED COST RATE |
|----------|----------------------------------|-----------------------|----------------------|------------------|---------------------------|
| 1 | Short-Term Debt | \$ 7,300,000 | 4.80% | 3.00% | 0.14% |
| 2 | Long-Term Debt | \$ 75,000,000 | 49.35% | 6.83% | 3.37% |
| 3 | Common Equity | 69,671,689 | 45.85% | 8.33% | 3.82% |
| 4 | Total Capitalization | <u>\$ 151,971,689</u> | <u>100.00%</u> | | |
| 5 | WEIGHTED AVERAGE COST OF CAPITAL | | | | 7.33% |

References:

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

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| WAR-2 | 1 | RATE BASE |
| WAR-3 | 1 | SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS |
| WAR-7 | 1 | OPERATING INCOME |
| WAR-8 | 1 | SUMMARY OF OPERATING INCOME ADJUSTMENTS |
| WAR-15 | 1 | COST OF CAPITAL |

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB/FVRB COST | (B) RUCO OCRB/FVRB COST |
|----------|--|-------------------------------------|----------------------------------|
| 1 | Adjusted Original Cost/Fair Value Rate Base | \$ 41,274,515 | \$ 39,870,486 |
| 2 | Adjusted Operating Income (Loss) | \$ 656,994 | \$ 780,941 |
| 3 | Current Rate of Return (L2 / L1) | 1.59% | 1.96% |
| 4 | Required Operating Income (L5 X L1) | \$ 4,050,790 | \$ 2,922,507 |
| 5 | Required Rate of Return on Fair Value Rate Base | 9.81% | 7.33% |
| 6 | Operating Income Deficiency (L4 - L2) | \$ 3,393,796 | \$ 2,141,566 |
| 7 | Gross Revenue Conversion Factor (TJC-1, Page 2) | 1.6286 | 1.6286 |
| 8 | Required Increase in Gross Revenue Requirement (L7 X L6) | \$ 5,527,254 | \$ 3,487,828 |
| 9 | Adjusted Test Year Revenue | \$ 10,934,895 | \$ 10,934,895 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 16,462,148 | \$ 14,422,723 |
| 11 | Required Percentage Increase in Revenue (L8 / L9) | 50.55% | 31.90% |
| 12 | Consolidated Revenue Adjustment | \$ (146,842) | \$ 137,287 |
| 13 | Required Increase in Gross Revenue Under Proposed Consolidation | \$ 5,380,398 | \$ 3,625,115 |
| 14 | Required Revenue Under Proposed Consolidation | \$ 16,315,353 | \$ 14,560,010 |
| 15 | Required Percentage Increase in Revenue Under Proposed Consolidation | 49.20% | 33.15% |
| 16 | Rate of Return on Common Equity | 12.40% | 8.33% |

References:

Column (A): Company Schedules A-1 and C-1

Column (B): RUCO Schedule TJC-2, TJC-7, and TJC-15

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. TJC-1, Pg 1, C (B), L4) | \$ 2,922,507 | | | |
| 12 | Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2) | 780,941 | | | |
| 13 | Required Increase In Operating Income (L11 - L12) | | \$ 2,141,566 | | |
| 14 | Income Taxes On Recommended Revenue (Col. (D), L31) | \$ 957,444 | | | |
| 15 | Income Taxes On Test Year Revenue (Col. (D), L32) | (388,819) | | | |
| 16 | Required Increase In Revenue To Provide For Income Taxes (L14 - L15) | | \$ 1,346,263 | | |
| 17 | Total Required Increase In Revenue (L13 + L16) | | \$ 3,487,828 | | |
| CALCULATION OF INCOME TAX: | | | | | |
| RUCO Recommended | | | | | |
| 18 | Revenue (Sch. TJC-1, Pg 1, Col. (B), L12) | | | \$ 14,422,723 | |
| 19 | Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23) | | | 10,542,772 | |
| 20 | Synchronized Interest (Col. (C), L37) | | | 1,399,454 | |
| 21 | Arizona Taxable Income (L18 - L19 - L20) | | | \$ 2,480,496 | |
| 22 | Arizona State Income Tax Rate | | | 6.9680% | |
| 23 | Arizona Income Tax (L21 X L22) | | | | \$ 172,841 |
| 24 | Fed. Taxable Income (L21 - L23) | | | \$ 2,307,655 | |
| 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% | | | \$ 670,703 | |
| 30 | Total Federal Income Tax (L25 + L26 + L27 + L28 + L29) | | | \$ 784,603 | |
| 31 | Combined Federal and State Income Tax (L23 + L30) | | | \$ 957,444 | |
| 32 | Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23) | | | \$ (388,819) | |
| 33 | RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23) | | | \$ 1,346,263 | |
| 34 | Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24) | | | | 34.00% |
| CALCULATION OF INTEREST SYNCHRONIZATION: | | | | | |
| 35 | Rate Base (Sch. WAR-2, Col. (C), L17) | | | \$ 39,870,486 | |
| 36 | Weighted Avg. Cost of Debt (Sch. TJC-16, Col. (F), L1) | | | 3.51% | |
| 37 | Synchronized Interest (L35 X L36) | | | \$ 1,399,454 | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) RUCO OCRB/FVRB ADJUSTMENTS | (C) RUCO ADJ'TED OCRB/FVRB |
|----------|---|---|---|-------------------------------------|
| | Plant Classification | | | |
| 1 | Intangible Plant | \$ 1,975,834 | \$ (822,694) | \$ 1,153,140 |
| 2 | Source of Supply Plant | 6,113,706 | (896,925) | 5,216,781 |
| 3 | Pumping Plant | 5,577,501 | - | 5,577,501 |
| 4 | Water Treatment Plant | 7,112,797 | - | 7,112,797 |
| 5 | Transmission & Distribution Plant | 80,496,004 | - | 80,496,004 |
| 6 | General Plant | 3,245,256 | - | 3,245,256 |
| 7 | Total Gross Plant in Service | <u>\$ 104,521,097</u> | <u>\$ (1,719,619)</u> | <u>\$ 102,801,478</u> |
| 8 | Accumulated Depreciation | (17,639,046) | 674,867 | (16,964,179) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | <u>\$ 86,882,051</u> | <u>\$ (1,044,752)</u> | <u>\$ 85,837,300</u> |
| 10 | Advances in Aid Of Const. | \$ (29,671,663) | \$ - | \$ (29,671,663) |
| 11 | Contribution in Aid of Const. | \$ (14,050,085) | \$ - | \$ (14,050,085) |
| 12 | Accumulated Amortization of CIAC | 2,242,757 | - | 2,242,757 |
| 13 | NET CIAC (L5 + L6) | <u>\$ (11,807,328)</u> | <u>\$ -</u> | <u>\$ (11,807,328)</u> |
| 14 | Deferred Income Tax | \$ (5,088,308) | \$ - | \$ (5,088,308) |
| 15 | Customer Deposits | \$ - | \$ (252,738) | \$ (252,738) |
| 16 | Allowance for Working Capital | \$ 383,959 | \$ (92,250) | \$ 291,709 |
| 17 | Net Regulatory Asset / (Liability) | \$ 575,803 | \$ (14,289) | \$ 561,514 |
| 18 | Rounding | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u><u>\$ 41,274,515</u></u> | <u><u>\$ (1,404,029)</u></u> | <u><u>\$ 39,870,486</u></u> |

References:

Column (A): Company Schedule B-1
Column (B): Schedule TJC-3
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) ADJMT NO. 1 PLANT & ACCUM DEP. | (C) ADJMT NO. 2 | (D) ADJMT NO. 3 PER BKB 11.16 | (E) ADJMT NO. 4 REGULATORY ASSET | (F) ADJMT NO. 5 CUSTOMER DEPOSITS | (G) ADJMT NO. 6 WORKING CAPITAL | (H) RUCO ADJTED OCRB/FVRB |
|----------|---|---|---|--------------------|--|---|--|--|------------------------------------|
| | Plant Classification | | | | | | | | |
| 1 | Intangible Plant | \$ 1,975,834 | \$ (822,694) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,153,140 |
| 2 | Source of Supply Plant | 6,113,706 | - | - | (896,925) | - | - | - | 5,216,781 |
| 3 | Pumping Plant | 5,577,501 | - | - | - | - | - | - | 5,577,501 |
| 4 | Water Treatment Plant | 7,112,797 | - | - | - | - | - | - | 7,112,797 |
| 5 | Transmission & Distribution Plant | 80,496,004 | - | - | - | - | - | - | 80,496,004 |
| 6 | General Plant | 3,245,256 | - | - | - | - | - | - | 3,245,256 |
| 7 | Total Gross Plant in Service | \$ 104,521,097 | \$ (822,694) | \$ - | \$ (896,925) | \$ - | \$ - | \$ - | \$ 102,801,478 |
| 8 | Accumulated Depreciation | (17,639,046) | (1,579) | - | 676,446 | - | - | - | (16,964,179) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | \$ 86,882,051 | \$ (824,273) | \$ - | \$ (220,479) | \$ - | \$ - | \$ - | \$ 85,837,300 |
| 10 | Advances in Aid Of Const. | \$ (29,671,663) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (29,671,663) |
| 11 | Contribution in Aid of Const. | \$ (14,050,085) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (14,050,085) |
| 12 | Accumulated Amortization of CIAC | 2,242,757 | - | - | - | - | - | - | 2,242,757 |
| 13 | NET CIAC (L5 + L6) | \$ (11,807,328) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (11,807,328) |
| 14 | Deferred Income Tax | \$ (5,088,308) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (5,088,308) |
| 15 | Customer Deposits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (252,738) | \$ - | \$ (252,738) |
| 16 | Allowance for Working Capital | 383,959 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (92,250) | \$ 291,709 |
| 17 | Net Regulatory Asset / (Liability) | \$ 575,803 | \$ - | \$ - | \$ - | \$ (14,289) | \$ - | \$ - | \$ 561,514 |
| 18 | Rounding | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | \$ 41,274,515 | \$ (824,273) | \$ - | \$ (220,479) | \$ (14,289) | \$ (252,738) | \$ (92,250) | \$ 39,870,486 |

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Plant, PTY Plant & Accumulated Depreciation (See TJC-4 Total, TJC-4 Direct, TJC-4 PHX OFF and TJC-4 MS Schedules and TJC Testimony)
- Column (C): Adjustment No. 2 - Intentionally Left Blank
- Column (D): Adjustment No. 3 - Conforming Adkustment Per Data Response to BKB 11.16 to Remove Plant and Record Retirements
- Column (E): Adjustment No. 4 - To Adjust Net Regulatory Asset
- Column (F): Adjustment No. 5 - Customer Deposits
- Column (G): Adjustment No. 6 - Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

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 |
|----------|--|-------------------------------|-------------------------------------|--|----------------------------------|-------------------------------|
| | Operating Revenues | | | | | |
| 1 | Residential | \$ 6,578,320 | \$ - | \$ 6,578,320 | \$ 2,359,983 | \$ 8,938,303 |
| 2 | Commercial | 2,217,689 | - | 2,217,689 | 921,097 | 3,138,785 |
| 3 | Industrial | 1,085,224 | - | 1,085,224 | (82,746) | 1,002,478 |
| 4 | Private Fire Service | 13,268 | - | 13,268 | 52,257 | 65,525 |
| 5 | Other Water Revenues | 450,711 | - | 450,711 | 237,238 | 687,950 |
| 6 | Total Water Revenues | \$ 10,345,212 | \$ - | \$ 10,345,212 | \$ 3,487,828 | \$ 13,833,040 |
| 7 | Miscellaneous | \$ 589,682 | \$ - | \$ 589,682 | \$ - | \$ 589,682 |
| 8 | Total Operating Revenues | \$ 10,934,895 | \$ - | \$ 10,934,895 | \$ 3,487,828 | \$ 14,422,723 |
| | Operating Expenses | | | | | |
| | Source of Supply Expenses: | | | | | |
| 9 | Purchased Water | \$ 374,207 | \$ - | \$ 374,207 | \$ - | \$ 374,207 |
| 10 | Other | 76,178 | - | 76,178 | - | 76,178 |
| 11 | Pumping Expenses: | - | - | - | - | - |
| 12 | Purchased Power | 1,387,878 | - | 1,387,878 | - | 1,387,878 |
| 13 | Purchased Gas | 509 | - | 509 | - | 509 |
| 14 | Other | 537,890 | - | 537,890 | - | 537,890 |
| 15 | Water Treatment Expenses | 531,617 | - | 531,617 | - | 531,617 |
| 16 | Transmission & Distribution Expenses | 1,887,995 | - | 1,887,995 | - | 1,887,995 |
| 17 | Customer Accounting Expenses | 909,384 | - | 909,384 | - | 909,384 |
| 18 | Sales Expense | 4,312 | - | 4,312 | - | 4,312 |
| 19 | Administrative & General Expenses | 1,761,682 | (60,564) | 1,701,118 | - | 1,701,118 |
| 20 | Total Operations & Maintenance Expense | \$ 7,471,653 | \$ (60,564) | \$ 7,411,089 | \$ - | \$ 7,411,089 |
| 21 | Depreciation & Amortization Expenses | \$ 2,329,760 | \$ (152,308) | \$ 2,177,452 | \$ - | \$ 2,177,452 |
| | Taxes | | | | | |
| 22 | Federal Income Taxes | \$ (450,160) | \$ 131,532 | \$ (318,628) | \$ 1,103,231 | \$ 784,603 |
| 23 | State Income Taxes | (99,166) | 28,975 | (70,191) | 243,032 | 172,841 |
| 24 | Property Taxes | 806,467 | (66,879) | 739,588 | - | 739,588 |
| 25 | Other | 219,346 | (4,703) | 214,643 | - | 214,643 |
| 26 | Total Taxes | \$ 476,487 | \$ 88,925 | \$ 565,412 | \$ 1,346,263 | \$ 1,911,675 |
| 27 | Total Operating Expenses | \$ 10,277,900 | \$ (123,947) | \$ 10,153,954 | \$ 1,346,263 | \$ 11,500,216 |
| 28 | Operating Income | \$ 656,994 | \$ 123,947 | \$ 780,941 | \$ 2,141,566 | \$ 2,922,507 |

References:

- Column (A): Company Schedule C-1
- Column (B): TJC-8, Columns (B) Thru (I)
- Column (C): Column (A) + Column (B)
- Column (D): TJC-1
- 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 LABOR EXPENSE | (C) ADJMT NO. 2 PAYROLL TAX EXPENSE | (D) ADJMT NO. 3 401(K) EXPENSE | (E) ADJMT NO. 4 REVERSE ADJ. FOR CONSERVATION | (F) ADJMT NO. 5 PURCH. POWER REVENUES | (G) ADJMT NO. 6 INSURANCE EXPENSE | (H) ADJMT NO. 7 DEPRECIATION EXPENSE | (I) ADJMT NO. 8 PROPERTY TAX | (J) ADJMT NO. 9 RATE CASE EXPENSE | (K) ADJMT NO. 10 INCOME TAXES | (L) RUCO AS ADJTD |
|----------|--|-------------------------|-------------------------------------|---|--------------------------------------|---|---|---|--|------------------------------------|---|-------------------------------------|----------------------|
| | Operating Revenues | | | | | | | | | | | | |
| 1 | Residential | \$ 6,578,320 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 6,578,320 |
| 2 | Commercial | 2,217,689 | - | - | - | - | - | - | - | - | - | - | 2,217,689 |
| 3 | Industrial | 1,085,224 | - | - | - | - | - | - | - | - | - | - | 1,085,224 |
| 4 | Private Fire Service | 13,268 | - | - | - | - | - | - | - | - | - | - | 13,268 |
| 5 | Other Water Revenues | 450,711 | - | - | - | - | - | - | - | - | - | - | 450,711 |
| 6 | Total Water Revenues | \$ 10,345,212 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 10,345,212 |
| 7 | Miscellaneous | \$ 589,682 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 589,682 |
| 8 | Total Operating Revenues | \$ 10,934,895 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 10,934,895 |
| | Operating Expenses | | | | | | | | | | | | |
| | Source of Supply Expenses: | | | | | | | | | | | | |
| 9 | Purchased Water | \$ 374,207 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 374,207 |
| 10 | Other | 76,178 | - | - | - | - | - | - | - | - | - | - | 76,178 |
| 11 | Pumping Expenses: | | | | | | | | | | | | |
| 12 | Purchased Power | 1,387,878 | - | - | - | - | - | - | - | - | - | - | 1,387,878 |
| 13 | Purchased Gas | 509 | - | - | - | - | - | - | - | - | - | - | 509 |
| 14 | Other | 537,890 | - | - | - | - | - | - | - | - | - | - | 537,890 |
| 15 | Water Treatment Expenses | 531,617 | - | - | - | - | - | - | - | - | - | - | 531,617 |
| 16 | Transmission & Distribution Expenses | 1,887,995 | - | - | - | - | - | - | - | - | - | - | 1,887,995 |
| 17 | Customer Accounting Expenses | 909,384 | - | - | - | - | - | - | - | - | - | - | 909,384 |
| 18 | Sales Expense | 4,312 | - | - | - | - | - | - | - | - | - | - | 4,312 |
| 19 | Administrative & General Expenses | 1,761,682 | (40,375) | - | (3,412) | - | - | (149) | - | - | (16,627) | - | 1,701,118 |
| 20 | Total Operations & Maintenance Expense | \$ 7,471,653 | \$ (40,375) | \$ - | \$ (3,412) | \$ - | \$ - | \$ (149) | \$ - | \$ - | \$ (16,627) | \$ - | \$ 7,411,089 |
| 21 | Depreciation & Amortization Expenses | \$ 2,329,760 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (152,308) | \$ - | \$ - | \$ - | \$ 2,177,452 |
| | Taxes | | | | | | | | | | | | |
| 22 | Federal Income Taxes | \$ (450,160) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 131,532 | \$ (318,628) |
| 23 | State Income Taxes | (99,166) | - | - | - | - | - | - | - | - | - | 28,975 | (70,191) |
| 24 | Property Taxes | 806,467 | - | - | - | - | - | (149) | - | (66,730) | - | - | 739,588 |
| 25 | Other | 219,346 | - | (4,703) | - | - | - | - | - | - | - | - | 214,643 |
| 26 | Total Taxes | \$ 476,487 | \$ - | \$ (4,703) | \$ - | \$ - | \$ - | \$ (149) | \$ - | \$ (66,730) | \$ - | \$ 160,507 | \$ 565,412 |
| 27 | Total Operating Expenses | \$ 10,277,900 | \$ (40,375) | \$ (4,703) | \$ (3,412) | \$ - | \$ - | \$ (299) | \$ (152,308) | \$ (66,730) | \$ (16,627) | \$ 160,507 | \$ 10,153,954 |
| 28 | Operating Income | \$ 656,994 | \$ 40,375 | \$ 4,703 | \$ 3,412 | \$ - | \$ - | \$ 299 | \$ 152,308 | \$ 66,730 | \$ 16,627 | \$ (160,507) | \$ 780,941 |

ADJUSTMENTS:

- 1 - Labor Expense - Normalize OT Hours in Test Year
- 2 - Payroll Tax Expense Related to Adjustment 1
- 3 - 401(K) Expense Related to Adjustment 1
- 4 - Reverse Adjustment for Conservation
- 5 - Purchased Power Revenues
- 6 - Insurance Expense
- 7 - Depreciation Expense
- 8 - Property Tax Expense
- 9 - Rate Case Expense
- 10 - Income Tax

REFERENCE:

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- Testimony, WAR And Schedule TJC-12
- Testimony, WAR And Schedule TJC-13
- Testimony, WAR And Schedule TJC-14

COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) DOLLAR AMOUNT | (B) CAPITAL RATIO | (C) COST RATE | (D) WEIGHTED COST RATE |
|----------|----------------------------------|-----------------------|----------------------|------------------|---------------------------|
| 1 | Short-Term Debt | \$ 7,300,000 | 4.80% | 3.00% | 0.14% |
| 2 | Long-Term Debt | \$ 75,000,000 | 49.35% | 6.83% | 3.37% |
| 3 | Common Equity | 69,671,689 | 45.85% | 8.33% | 3.82% |
| 4 | Total Capitalization | <u>\$ 151,971,689</u> | <u>100.00%</u> | | |
| 5 | WEIGHTED AVERAGE COST OF CAPITAL | | | | 7.33% |

References:
Columns (A) Thru (D): Testimony, WAR

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| WAR-2 | 1 | RATE BASE |
| WAR-3 | 1 | SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS |
| WAR-7 | 1 | OPERATING INCOME |
| WAR-8 | 1 | SUMMARY OF OPERATING INCOME ADJUSTMENTS |
| WAR-15 | 1 | COST OF CAPITAL |

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB/FVRB COST | (B) RUCO OCRB/FVRB COST |
|----------|--|-------------------------------------|----------------------------------|
| 1 | Adjusted Original Cost/Fair Value Rate Base | \$ 823,590 | \$ 781,962 |
| 2 | Adjusted Operating Income (Loss) | \$ (31,092) | \$ (30,967) |
| 3 | Current Rate of Return (L2 / L1) | -3.78% | -3.96% |
| 4 | Required Operating Income (L5 X L1) | \$ 80,829 | \$ 57,318 |
| 5 | Required Rate of Return on Fair Value Rate Base | 9.81% | 7.33% |
| 6 | Operating Income Deficiency (L4 - L2) | \$ 111,922 | \$ 88,285 |
| 7 | Gross Revenue Conversion Factor (TJC-1, Page 2) | 1.6286 | 1.6286 |
| 8 | Required Increase in Gross Revenue Requirement (L7 X L6) | \$ 182,279 | \$ 143,784 |
| 9 | Adjusted Test Year Revenue | \$ 131,926 | \$ 131,926 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 314,205 | \$ 275,710 |
| 11 | Required Percentage Increase in Revenue (L8 / L9) | 138.17% | 108.99% |
| 12 | Consolidated Revenue Adjustment | \$ (174,589) | \$ (120,609) |
| 13 | Required Increase in Gross Revenue Under roposed Consolidation | \$ 7,690 | \$ 23,175 |
| 14 | Required Revenue Under Proposed Consolidation | \$ 139,662 | \$ 155,101 |
| 15 | Required Percentage Increase in Revenue Under Proposed Consolidation | 5.85% | 17.57% |
| 16 | Rate of Return on Common Equity | 12.40% | 8.33% |

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule TJC-2, TJC-7, and TJC-15

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. TJC-1, Pg 1, C (B), L4) | \$ 57,318 | | | |
| 12 | Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2) | (30,967) | | | |
| 13 | Required Increase In Operating Income (L11 - L12) | | \$ 88,285 | | |
| 14 | Income Taxes On Recommended Revenue (Col. (D), L31) | \$ 18,778 | | | |
| 15 | Income Taxes On Test Year Revenue (Col. (D), L32) | (36,721) | | | |
| 16 | Required Increase In Revenue To Provide For Income Taxes (L14 - L15) | | \$ 55,499 | | |
| 17 | Total Required Increase In Revenue (L13 + L16) | | \$ 143,784 | | |
| CALCULATION OF INCOME TAX: | | | | | |
| RUCO | | | | | |
| Recommended | | | | | |
| 18 | Revenue (Sch. TJC-1, Pg 1, Col. (B), L12) | | | \$ 275,709 | |
| 19 | Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23) | | | 199,614 | |
| 20 | Synchronized Interest (Col. (C), L37) | | | 27,447 | |
| 21 | Arizona Taxable Income (L18 - L19 - L20) | | | \$ 48,648 | |
| 22 | Arizona State Income Tax Rate | | | 6.9680% | |
| 23 | Arizona Income Tax (L21 X L22) | | | | \$ 3,390 |
| 24 | Fed. Taxable Income (L21 - L23) | | | \$ 45,259 | |
| 25 | Fed. Tax on 1st Inc. Bracket (\$1 - \$50,000) @ 15% | | | \$ - | |
| 26 | Fed. Tax on 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25% | | | \$ - | |
| 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% | | | \$ 15,388 | |
| 30 | Total Federal Income Tax (L25 + L26 + L27 + L28 + L29) | | | | \$ 15,388 |
| 31 | Combined Federal and State Income Tax (L23 + L30) | | | | \$ 18,778 |
| 32 | Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23) | | | | \$ (36,721) |
| 33 | RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23) | | | | \$ 55,499 |
| 34 | Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24) | | | | 34.00% |
| CALCULATION OF INTEREST SYNCHRONIZATION: | | | | | |
| 35 | Rate Base (Sch. WAR-2, Col. (C), L17) | | | \$ 781,962 | |
| 36 | Weighted Avg. Cost of Debt (Sch. TJC-16, Col. (F), L1) | | | 3.51% | |
| 37 | Synchronized Interest (L35 X L36) | | | \$ 27,447 | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) RUCO OCRB/FVRB ADJUSTMENTS | (C) RUCO ADJ TED OCRB/FVRB |
|----------|---|---|---|-------------------------------------|
| | Plant Classification | | | |
| 1 | Intangible Plant | \$ 1,223 | \$ - | \$ 1,223 |
| 2 | Source of Supply Plant | 172,909 | - | 172,909 |
| 3 | Pumping Plant | 428,386 | (2,500) | 425,886 |
| 4 | Water Treatment Plant | 32,783 | (35,041) | (2,258) |
| 5 | Transmission & Distribution Plant | 438,789 | (5,100) | 433,689 |
| 6 | General Plant | 106,655 | - | 106,655 |
| 7 | Total Gross Plant in Service | <u>\$ 1,180,745</u> | <u>\$ (42,641)</u> | <u>\$ 1,138,104</u> |
| 8 | Accumulated Depreciation | (260,401) | 7,385 | (253,016) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | <u>\$ 920,344</u> | <u>\$ (35,256)</u> | <u>\$ 885,088</u> |
| 10 | Advances in Aid Of Const. | \$ (15,715) | \$ - | \$ (15,715) |
| 11 | Contribution in Aid of Const. | \$ (49,164) | \$ - | \$ (49,164) |
| 12 | Accumulated Amortization of CIAC | 12,246 | - | 12,246 |
| 13 | NET CIAC (L5 + L6) | <u>\$ (36,918)</u> | <u>\$ -</u> | <u>\$ (36,918)</u> |
| 14 | Deferred Income Tax | \$ (51,746) | \$ - | \$ (51,746) |
| 15 | Customer Deposits | \$ - | \$ (2,635) | \$ (2,635) |
| 16 | Allowance for Working Capital | \$ 7,625 | \$ (3,738) | \$ 3,887 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u><u>\$ 823,590</u></u> | <u><u>\$ (41,628)</u></u> | <u><u>\$ 781,962</u></u> |

References:

Column (A): Company Schedule B-1
Column (B): Schedule TJC-3
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRBFVFRB | (B) ADJMT NO. 1 PLANT & ACCUM DEP. | (C) ADJMT NO. 2 | (D) ADJMT NO. 3 PER BKB 11.16 | (E) ADJMT NO. 4 | (F) ADJMT NO. 5 CUSTOMER DEPOSITS | (G) ADJMT NO. 6 WORKING CAPITAL | (H) RUCO ADJTED OCRBFVFRB |
|----------|---|---|---|--------------------|--|--------------------|--|--|------------------------------------|
| | Plant Classification | | | | | | | | |
| 1 | Intangible Plant | \$ 1,223 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,223 |
| 2 | Source of Supply Plant | 172,909 | - | - | - | - | - | - | 172,909 |
| 3 | Pumping Plant | 428,386 | - | - | (2,500) | - | - | - | 425,886 |
| 4 | Water Treatment Plant | 32,783 | - | - | (35,041) | - | - | - | (2,258) |
| 5 | Transmission & Distribution Plant | 438,789 | - | - | (5,100) | - | - | - | 433,689 |
| 6 | General Plant | 106,655 | - | - | - | - | - | - | 106,655 |
| 7 | Total Gross Plant in Service | \$ 1,180,745 | \$ - | \$ - | \$ (42,641) | \$ - | \$ - | \$ - | \$ 1,138,104 |
| 8 | Accumulated Depreciation | (260,401) | (9,692) | - | 17,077 | - | - | - | (253,016) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | \$ 920,344 | \$ (9,692) | \$ - | \$ (25,564) | \$ - | \$ - | \$ - | \$ 885,088 |
| 10 | Advances in Aid Of Const. | \$ (15,715) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (15,715) |
| 11 | Contribution in Aid of Const. | \$ (49,164) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (49,164) |
| 12 | Accumulated Amortization of CIAC | 12,246 | - | - | - | - | - | - | 12,246 |
| 13 | NET CIAC (L5 + L6) | \$ (36,918) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (36,918) |
| 14 | Deferred Income Tax | \$ (51,746) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (51,746) |
| 15 | Customer Deposits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (2,635) | \$ - | \$ (2,635) |
| 16 | Allowance for Working Capital | 7,625 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (3,738) | \$ 3,887 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | - | - | - | - | - | - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | \$ 823,590 | \$ (9,692) | \$ - | \$ (25,564) | \$ - | \$ (2,635) | \$ (3,738) | \$ 781,962 |

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Plant, PTY Plant & Accumulated Depreciation (See TJC-4 Total, TJC-4 Direct, TJC-4 PHX OFF and TJC-4 MS Schedules and TJC Testimony)
- Column (C): Adjustment No. 2 - Intentionally Left Blank
- Column (D): Adjustment No. 3 - Conforming Adkustment Per Data Response to BKB 11.16 to Remove Plant and Record Retirements
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - Customer Deposits
- Column (G): Adjustment No. 6 - Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

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 |
|----------|--|-------------------------------|-------------------------------------|--|----------------------------------|-------------------------------|
| | Operating Revenues | | | | | |
| 1 | Residential | \$ 88,841 | \$ - | \$ 88,841 | \$ 118,852 | \$ 207,692 |
| 2 | Commercial | 22,651 | - | 22,651 | 27,297 | 49,948 |
| 3 | Industrial | - | - | - | - | - |
| 4 | Private Fire Service | - | - | - | - | - |
| 5 | Other Water Revenues | 19,498 | - | 19,498 | (2,365) | 17,133 |
| 6 | Total Water Revenues | \$ 130,990 | \$ - | \$ 130,990 | \$ 143,783 | \$ 274,773 |
| 7 | Miscellaneous | \$ 936 | \$ - | \$ 936 | \$ - | \$ 936 |
| 8 | Total Operating Revenues | \$ 131,926 | \$ - | \$ 131,926 | \$ 143,783 | \$ 275,709 |
| | Operating Expenses | | | | | |
| | Source of Supply Expenses: | | | | | |
| 9 | Purchased Water | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Other | 378 | - | 378 | - | 378 |
| 11 | Pumping Expenses: | - | - | - | - | - |
| 12 | Purchased Power | 20,599 | - | 20,599 | - | 20,599 |
| 13 | Purchased Gas | - | - | - | - | - |
| 14 | Other | 4,831 | - | 4,831 | - | 4,831 |
| 15 | Water Treatment Expenses | 62,986 | - | 62,986 | - | 62,986 |
| 16 | Transmission & Distribution Expenses | 25,008 | - | 25,008 | - | 25,008 |
| 17 | Customer Accounting Expenses | 8,718 | - | 8,718 | - | 8,718 |
| 18 | Sales Expense | 43 | - | 43 | - | 43 |
| 19 | Administrative & General Expenses | 17,560 | (627) | 16,934 | - | 16,934 |
| 20 | Total Operations & Maintenance Expense | \$ 140,124 | \$ (627) | \$ 139,498 | \$ - | \$ 139,498 |
| 21 | Depreciation & Amortization Expenses | \$ 46,067 | \$ (1,478) | \$ 44,589 | \$ - | \$ 44,589 |
| | Taxes | | | | | |
| 22 | Federal Income Taxes | \$ (31,753) | \$ 1,661 | \$ (30,092) | \$ 45,480 | \$ 15,388 |
| 23 | State Income Taxes | (6,995) | 366 | (6,629) | 10,019 | 3,390 |
| 24 | Property Taxes | 14,053 | - | 14,053 | - | 14,053 |
| 25 | Other | 1,522 | (48) | 1,474 | - | 1,474 |
| 26 | Total Taxes | \$ (23,173) | \$ 1,979 | \$ (21,194) | \$ 55,499 | \$ 34,305 |
| 27 | Total Operating Expenses | \$ 163,018 | \$ (125) | \$ 162,893 | \$ 55,499 | \$ 218,392 |
| 28 | Operating Income | \$ (31,092) | \$ 125 | \$ (30,967) | \$ 88,285 | \$ 57,318 |

References:

- Column (A): Company Schedule C-1
- Column (B): TJC-8, Columns (B) Thru (I)
- Column (C): Column (A) + Column (B)
- Column (D): TJC-1
- 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 LABOR EXPENSE | (C) ADJMT NO. 2 PAYROLL TAX EXPENSE | (D) ADJMT NO. 3 401(K) EXPENSE | (E) ADJMT NO. 4 REVERSE ADJ. FOR CONSERVATION | (F) ADJMT NO. 5 PURCH. POWER REVENUES | (G) ADJMT NO. 6 INSURANCE EXPENSE | (H) ADJMT NO. 7 DEPRECIATION EXPENSE | (I) ADJMT NO. 8 PROPERTY TAX | (J) ADJMT NO. 9 RATE CASE EXPENSE | (K) ADJMT NO. 10 INCOME TAXES | (L) RUCO AS ADJTD |
|----------------------------|--|-------------------------|-------------------------------------|---|--------------------------------------|---|---|---|--|------------------------------------|---|-------------------------------------|----------------------|
| Operating Revenues | | | | | | | | | | | | | |
| 1 | Residential | \$ 88,841 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 88,841 |
| 2 | Commercial | 22,651 | - | - | - | - | - | - | - | - | - | - | 22,651 |
| 3 | Industrial | - | - | - | - | - | - | - | - | - | - | - | - |
| 4 | Private Fire Service | - | - | - | - | - | - | - | - | - | - | - | - |
| 5 | Other Water Revenues | 19,498 | - | - | - | - | - | - | - | - | - | - | 19,498 |
| 6 | Total Water Revenues | \$ 130,990 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 130,990 |
| 7 | Miscellaneous | \$ 936 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 936 |
| 8 | Total Operating Revenues | \$ 131,926 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 131,926 |
| Operating Expenses | | | | | | | | | | | | | |
| Source of Supply Expenses: | | | | | | | | | | | | | |
| 9 | Purchased Water | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Other | 378 | - | - | - | - | - | - | - | - | - | - | 378 |
| Pumping Expenses: | | | | | | | | | | | | | |
| 12 | Purchased Power | 20,599 | - | - | - | - | - | - | - | - | - | - | 20,599 |
| 13 | Purchased Gas | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 | Other | 4,831 | - | - | - | - | - | - | - | - | - | - | 4,831 |
| 15 | Water Treatment Expenses | 62,986 | - | - | - | - | - | - | - | - | - | - | 62,986 |
| 16 | Transmission & Distribution Expenses | 25,008 | - | - | - | - | - | - | - | - | - | - | 25,008 |
| 17 | Customer Accounting Expenses | 8,718 | - | - | - | - | - | - | - | - | - | - | 8,718 |
| 18 | Sales Expense | 43 | - | - | - | - | - | - | - | - | - | - | 43 |
| 19 | Administrative & General Expenses | 17,560 | (411) | - | (35) | - | - | (1) | - | - | (180) | - | 16,934 |
| 20 | Total Operations & Maintenance Expense | \$ 140,124 | \$ (411) | \$ - | \$ (35) | \$ - | \$ - | \$ (1) | \$ - | \$ - | \$ (180) | \$ - | \$ 139,498 |
| 21 | Depreciation & Amortization Expenses | \$ 46,067 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1,478) | \$ - | \$ - | \$ - | \$ 44,589 |
| Taxes | | | | | | | | | | | | | |
| 22 | Federal Income Taxes | \$ (31,753) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,661 | \$ (30,092) |
| 23 | State Income Taxes | (6,995) | - | - | - | - | - | - | - | - | - | 366 | (6,629) |
| 24 | Property Taxes | 14,053 | - | - | - | - | - | - | - | - | - | - | 14,053 |
| 25 | Other | 1,522 | - | (48) | - | - | - | - | - | - | - | - | 1,474 |
| 26 | Total Taxes | \$ (23,173) | \$ - | \$ (48) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,027 | \$ (21,194) |
| 27 | Total Operating Expenses | \$ 163,018 | \$ (411) | \$ (48) | \$ (35) | \$ - | \$ - | \$ (1) | \$ (1,478) | \$ - | \$ (180) | \$ 2,027 | \$ 162,893 |
| 28 | Operating Income | \$ (31,092) | \$ 411 | \$ 48 | \$ 35 | \$ - | \$ - | \$ 1 | \$ 1,478 | \$ - | \$ 180 | \$ (2,027) | \$ (30,967) |

ADJUSTMENTS:

- 1 - Labor Expense - Normalize OT Hours in Test Year
- 2 - Payroll Tax Expense Related to Adjustment 1
- 3 - 401(K) Expense Related to Adjustment 1
- 4 - Reverse Adjustment for Conservation
- 5 - Purchased Power Revenues
- 6 - Insurance Expense
- 7 - Depreciation Expense
- 8 - Property Tax Expense
- 9 - Rate Case Expense
- 10 - Income Tax

REFERENCE:

- Testimony, WAR And Schedule TJC-9 Page, 1 of 3
- Testimony, WAR And Schedule TJC-9 Page, 2 of 3
- Testimony, WAR And Schedule TJC-9 Page, 3 of 3
- Testimony WAR
- Testimony WAR
- Testimony, WAR And Schedule TJC-10
- Testimony, WAR And Schedule TJC-11
- Testimony, WAR And Schedule TJC-12
- Testimony, WAR And Schedule TJC-13
- Testimony, WAR And Schedule TJC-14

COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) DOLLAR AMOUNT | (B) CAPITAL RATIO | (C) COST RATE | (D) WEIGHTED COST RATE |
|----------|----------------------------------|-----------------------|----------------------|------------------|---------------------------|
| 1 | Short-Term Debt | \$ 7,300,000 | 4.80% | 3.00% | 0.14% |
| 2 | Long-Term Debt | \$ 75,000,000 | 49.35% | 6.83% | 3.37% |
| 3 | Common Equity | <u>69,671,689</u> | <u>45.85%</u> | 8.33% | <u>3.82%</u> |
| 4 | Total Capitalizator | <u>\$ 151,971,689</u> | <u>100.00%</u> | | |
| 5 | WEIGHTED AVERAGE COST OF CAPITAL | | | | 7.33% |

References:

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

TABLE OF CONTENTS TO TJC SURREBUTTAL SCHEDULES (ABBREVIATED)

| <u>SCH. NO.</u> | <u>PAGE NO.</u> | <u>TITLE</u> |
|---------------------|---------------------|---|
| WAR-1 | 1 & 2 | REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR |
| WAR-2 | 1 | RATE BASE |
| WAR-3 | 1 | SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS |
| WAR-7 | 1 | OPERATING INCOME |
| WAR-8 | 1 | SUMMARY OF OPERATING INCOME ADJUSTMENTS |
| WAR-15 | 1 | COST OF CAPITAL |

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB/FVRB COST | (B) RUCO OCRB/FVRB COST |
|----------|--|-------------------------------------|----------------------------------|
| 1 | Adjusted Original Cost/Fair Value Rate Base | \$ 4,415,017 | \$ 4,334,611 |
| 2 | Adjusted Operating Income (Loss) | \$ 130,069 | \$ 131,942 |
| 3 | Current Rate of Return (L2 / L1) | 2.95% | 3.04% |
| 4 | Required Operating Income (L5 X L1) | \$ 433,301 | \$ 317,727 |
| 5 | Required Rate of Return on Fair Value Rate Base | 9.81% | 7.33% |
| 6 | Operating Income Deficiency (L4 - L2) | \$ 303,233 | \$ 185,785 |
| 7 | Gross Revenue Conversion Factor (TJC-1, Page 2) | 1.6286 | 1.6286 |
| 8 | Required Increase in Gross Revenue Requirement (L7 X L6) | \$ 493,855 | \$ 302,576 |
| 9 | Adjusted Test Year Revenue | \$ 1,244,735 | \$ 1,244,735 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 1,739,054 | \$ 1,547,311 |
| 11 | Required Percentage Increase in Revenue (L8 / L9) | 39.68% | 24.31% |
| 12 | Consolidated Revenue Adjustment | \$ - | \$ 10,210 |
| 13 | Required Increase in Gross Revenue Under Proposed Consolidation | \$ - | \$ 312,786 |
| 14 | Required Revenue Under Proposed Consolidation | \$ - | \$ 1,557,521 |
| 15 | Required Percentage Increase in Revenue Under Proposed Consolidation | - | 25.13% |
| 16 | Rate of Return on Common Equity | 12.40% | 8.33% |

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule TJC-2, TJC-7, and TJC-15

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. TJC-1, Pg 1, C (B), L4) | \$ 317,727 | | | |
| 12 | Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2) | 131,942 | | | |
| 13 | Required Increase In Operating Income (L11 - L12) | | \$ 185,785 | | |
| 14 | Income Taxes On Recommended Revenue (Col. (D), L31) | \$ 104,091 | | | |
| 15 | Income Taxes On Test Year Revenue (Col. (D), L32) | (12,700) | | | |
| 16 | Required Increase In Revenue To Provide For Income Taxes (L14 - L15) | | \$ 116,791 | | |
| 17 | Total Required Increase In Revenue (L13 + L16) | | \$ 302,576 | | |
| CALCULATION OF INCOME TAX: | | | | | |
| RUCO Recommended | | | | | |
| 18 | Revenue (Sch. TJC-1, Pg 1, Col. (B), L12) | | | \$ 1,547,311 | |
| 19 | Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23) | | | 1,125,493 | |
| 20 | Synchronized Interest (Col. (C), L37) | | | 152,145 | |
| 21 | Arizona Taxable Income (L18 - L19 - L20) | | | \$ 269,673 | |
| 22 | Arizona State Income Tax Rate | | | 6.9680% | |
| 23 | Arizona Income Tax (L21 X L22) | | | | \$ 18,791 |
| 24 | Fed. Taxable Income (L21 - L23) | | | \$ 250,882 | |
| 25 | Fed. Tax on 1st Inc. Bracket (\$1 - \$50,000) @ 15% | | | \$ - | |
| 26 | Fed. Tax on 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25% | | | \$ - | |
| 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% | | | \$ 85,300 | |
| 30 | Total Federal Income Tax (L25 + L26 + L27 + L28 + L29) | | | | \$ 85,300 |
| 31 | Combined Federal and State Income Tax (L23 + L30) | | | | \$ 104,091 |
| 32 | Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23) | | | | \$ (12,700) |
| 33 | RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23) | | | | \$ 116,791 |
| 34 | Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24) | | | | 34.00% |
| CALCULATION OF INTEREST SYNCHRONIZATION: | | | | | |
| 35 | Rate Base (Sch. WAR-2, Col. (C), L17) | | | \$ 4,334,611 | |
| 36 | Weighted Avg. Cost of Debt (Sch. TJC-16, Col. (F), L1) | | | 3.51% | |
| 37 | Synchronized Interest (L35 X L36) | | | \$ 152,145 | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) RUCO OCRB/FVRB ADJUSTMENTS | (C) RUCO ADJ TED OCRB/FVRB |
|----------|---|---|---|-------------------------------------|
| | Plant Classification | | | |
| 1 | Intangible Plant | \$ 10,580 | \$ - | \$ 10,580 |
| 2 | Source of Supply Plant | 615,238 | - | 615,238 |
| 3 | Pumping Plant | 881,883 | (35,104) | 846,779 |
| 4 | Water Treatment Plant | 1,119,829 | (904) | 1,118,925 |
| 5 | Transmission & Distribution Plant | 10,239,592 | - | 10,239,592 |
| 6 | General Plant | 269,914 | - | 269,914 |
| 7 | Total Gross Plant in Service | <u>\$ 13,137,036</u> | <u>\$ (36,008)</u> | <u>\$ 13,101,028</u> |
| 8 | Accumulated Depreciation | (1,716,046) | 27,545 | (1,688,502) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | <u>\$ 11,420,990</u> | <u>\$ (8,463)</u> | <u>\$ 11,412,526</u> |
| 10 | Advances in Aid Of Const. | \$ (5,647,808) | \$ - | \$ (5,647,808) |
| 11 | Contribution in Aid of Const. | \$ (1,134,727) | \$ - | \$ (1,134,727) |
| 12 | Accumulated Amortization of CIAC | 175,250 | - | 175,250 |
| 13 | NET CIAC (L5 + L6) | <u>\$ (959,477)</u> | <u>\$ -</u> | <u>\$ (959,477)</u> |
| 14 | Deferred Income Tax | \$ (454,211) | \$ - | \$ (454,211) |
| 15 | Customer Deposits | \$ 55,523 | \$ (9,530) | \$ 45,993 |
| 16 | Allowance for Working Capital | \$ 55,523 | \$ (71,942) | \$ (16,420) |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u>\$ 4,415,017</u> | <u>\$ (80,406)</u> | <u>\$ 4,334,611</u> |

References:

Column (A): Company Schedule B-1
Column (B): Schedule TJC-3
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) ADJMT NO. 1 PLANT & ACCUM DEP. | (C) ADJMT NO. 2 | (D) ADJMT NO. 3 PER BKB 11.16 | (E) ADJMT NO. 4 | (F) ADJMT NO. 5 CUSTOMER DEPOSITS | (G) ADJMT NO. 6 WORKING CAPITAL | (H) RUCO ADJTED OCRB/FVRB |
|----------|---|---|---|--------------------|--|--------------------|--|--|------------------------------------|
| | Plant Classification | | | | | | | | |
| 1 | Intangible Plant | \$ 10,580 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 10,580 |
| 2 | Source of Supply Plant | 615,238 | - | - | - | - | - | - | 615,238 |
| 3 | Pumping Plant | 881,883 | - | - | (35,104) | - | - | - | 846,779 |
| 4 | Water Treatment Plant | 1,119,829 | - | - | (904) | - | - | - | 1,118,925 |
| 5 | Transmission & Distribution Plant | 10,239,592 | - | - | - | - | - | - | 10,239,592 |
| 6 | General Plant | 269,914 | - | - | - | - | - | - | 269,914 |
| 7 | Total Gross Plant in Service | \$ 13,137,036 | \$ - | \$ - | \$ (36,008) | \$ - | \$ - | \$ - | \$ 13,101,028 |
| 8 | Accumulated Depreciation | (1,716,046) | 54 | - | 27,491 | - | - | - | (1,688,502) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | \$ 11,420,990 | \$ 54 | \$ - | \$ (8,517) | \$ - | \$ - | \$ - | \$ 11,412,526 |
| 10 | Advances in Aid Of Const. | \$ (5,647,808) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (5,647,808) |
| 11 | Contribution in Aid of Const. | \$ (1,134,727) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1,134,727) |
| 12 | Accumulated Amortization of CIAC | 175,250 | - | - | - | - | - | - | 175,250 |
| 13 | NET CIAC (L5 + L6) | \$ (959,477) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (959,477) |
| 14 | Deferred Income Tax | \$ (454,211) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (454,211) |
| 15 | Customer Deposits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (9,530) | \$ - | \$ (9,530) |
| 16 | Allowance for Working Capital | \$ 55,523 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (71,942) | \$ (16,420) |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | | | | | | | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | \$ 4,415,017 | \$ 54 | \$ - | \$ (8,517) | \$ - | \$ - | \$ (71,942) | \$ 4,334,611 |

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Plant, PTY Plant & Accumulated Depreciation (See TJC-4 Total, TJC-4 Direct, TJC-4 PHX OFF and TJC-4 MS Schedules and TJC Testimony)
- Column (C): Adjustment No. 2 - Intentionally Left Blank
- Column (D): Adjustment No. 3 - Conforming Adkustment Per Data Response to BKB 11.16 to Remove Plant and Record Retirements
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - Customer Deposits
- Column (G): Adjustment No. 6 - Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

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 |
|----------|--|-------------------------------|-------------------------------------|--|----------------------------------|-------------------------------|
| | Operating Revenues | | | | | |
| 1 | Residential | \$ 1,057,928 | \$ - | \$ 1,057,928 | \$ 250,778 | \$ 1,308,706 |
| 2 | Commercial | 119,358 | - | 119,358 | 35,148 | 154,506 |
| 3 | Industrial | 18,658 | - | 18,658 | 4,638 | 23,295 |
| 4 | Private Fire Service | 295 | - | 295 | 1,180 | 1,475 |
| 5 | Other Water Revenues | 36,166 | - | 36,166 | 10,832 | 46,998 |
| 6 | Total Water Revenues | \$ 1,232,404 | \$ - | \$ 1,232,404 | \$ 302,576 | \$ 1,534,980 |
| 7 | Miscellaneous | \$ 12,331 | \$ - | \$ 12,331 | \$ - | \$ 12,331 |
| 8 | Total Operating Revenues | \$ 1,244,735 | \$ - | \$ 1,244,735 | \$ 302,576 | \$ 1,547,311 |
| | Operating Expenses | | | | | |
| | Source of Supply Expenses: | | | | | |
| 9 | Purchased Water | \$ 150,244 | \$ - | \$ 150,244 | \$ - | \$ 150,244 |
| 10 | Other | 5,606 | - | 5,606 | - | 5,606 |
| 11 | Pumping Expenses: | - | - | - | - | - |
| 12 | Purchased Power | 105,581 | - | 105,581 | - | 105,581 |
| 13 | Purchased Gas | - | - | - | - | - |
| 14 | Other | 41,276 | - | 41,276 | - | 41,276 |
| 15 | Water Treatment Expenses | 34,975 | - | 34,975 | - | 34,975 |
| 16 | Transmission & Distribution Expenses | 173,577 | - | 173,577 | - | 173,577 |
| 17 | Customer Accounting Expenses | 72,619 | - | 72,619 | - | 72,619 |
| 18 | Sales Expense | 362 | - | 362 | - | 362 |
| 19 | Administrative & General Expenses | 146,701 | (5,500) | 141,201 | - | 141,201 |
| 20 | Total Operations & Maintenance Expense | \$ 730,940 | \$ (5,500) | \$ 725,440 | \$ - | \$ 725,440 |
| 21 | Depreciation & Amortization Expenses | \$ 294,495 | \$ (3,953) | \$ 290,542 | \$ - | \$ 290,542 |
| | Taxes | | | | | |
| 22 | Federal Income Taxes | \$ (17,350) | \$ 6,943 | \$ (10,408) | \$ 95,707 | \$ 85,300 |
| 23 | State Income Taxes | (3,822) | 1,529 | (2,293) | 21,084 | 18,791 |
| 24 | Property Taxes | 53,436 | (473) | 52,963 | - | 52,963 |
| 25 | Other | 56,967 | (420) | 56,547 | - | 56,547 |
| 26 | Total Taxes | \$ 89,231 | \$ 7,579 | \$ 96,811 | \$ 116,791 | \$ 213,602 |
| 27 | Total Operating Expenses | \$ 1,114,666 | \$ (1,873) | \$ 1,112,793 | \$ 116,791 | \$ 1,229,584 |
| 28 | Operating Income | \$ 130,069 | \$ 1,873 | \$ 131,942 | \$ 185,785 | \$ 317,727 |

References:

- Column (A): Company Schedule C-1
- Column (B): TJC-8, Columns (B) Thru (I)
- Column (C): Column (A) + Column (B)
- Column (D): TJC-1
- 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 LABOR EXPENSE | (C) ADJMT NO. 2 PAYROLL TAX EXPENSE | (D) ADJMT NO. 3 401(K) EXPENSE | (E) ADJMT NO. 4 REVERSE ADJ. FOR CONSERVATION | (F) ADJMT NO. 5 PURCH. POWER REVENUES | (G) ADJMT NO. 6 INSURANCE EXPENSE | (H) ADJMT NO. 7 DEPRECIATION EXPENSE | (I) ADJMT NO. 8 PROPERTY TAX | (J) ADJMT NO. 9 RATE CASE EXPENSE | (K) ADJMT NO. 10 INCOME TAXES | (L) RUCO AS ADJTD |
|----------|--|-------------------------|----------------------------------|--|-----------------------------------|--|--|--------------------------------------|---|---------------------------------|--------------------------------------|----------------------------------|----------------------|
| 1 | Operating Revenues | | | | | | | | | | | | |
| 1 | Residential | \$ 1,057,928 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,057,928 |
| 2 | Commercial | 119,358 | - | - | - | - | - | - | - | - | - | - | 119,358 |
| 3 | Industrial | 18,658 | - | - | - | - | - | - | - | - | - | - | 18,658 |
| 4 | Private Fire Service | 295 | - | - | - | - | - | - | - | - | - | - | 295 |
| 5 | Other Water Revenues | 36,166 | - | - | - | - | - | - | - | - | - | - | 36,166 |
| 6 | Total Water Revenues | \$ 1,232,404 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,232,404 |
| 7 | Miscellaneous | \$ 12,331 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 12,331 |
| 8 | Total Operating Revenues | \$ 1,244,735 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,244,735 |
| | Operating Expenses | | | | | | | | | | | | |
| | Source of Supply Expenses: | | | | | | | | | | | | |
| 9 | Purchased Water | \$ 150,244 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 150,244 |
| 10 | Other | 5,606 | - | - | - | - | - | - | - | - | - | - | 5,606 |
| 11 | Pumping Expenses: | | | | | | | | | | | | |
| 12 | Purchased Power | 105,581 | - | - | - | - | - | - | - | - | - | - | 105,581 |
| 13 | Purchased Gas | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 | Other | 41,276 | - | - | - | - | - | - | - | - | - | - | 41,276 |
| 15 | Water Treatment Expenses | 34,975 | - | - | - | - | - | - | - | - | - | - | 34,975 |
| 16 | Transmission & Distribution Expenses | 173,577 | - | - | - | - | - | - | - | - | - | - | 173,577 |
| 17 | Customer Accounting Expenses | 72,619 | - | - | - | - | - | - | - | - | - | - | 72,619 |
| 18 | Sales Expense | 362 | - | - | - | - | - | - | - | - | - | - | 362 |
| 19 | Administrative & General Expenses | 146,701 | (3,604) | - | (305) | - | - | (11) | - | - | (1,580) | - | 141,201 |
| 20 | Total Operations & Maintenance Expense | \$ 730,940 | \$ (3,604) | \$ - | \$ (305) | \$ - | \$ - | \$ (11) | \$ - | \$ - | \$ (1,580) | \$ - | \$ 725,440 |
| 21 | Depreciation & Amortization Expenses | \$ 294,495 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (3,953) | \$ - | \$ - | \$ - | \$ 290,542 |
| | Taxes | | | | | | | | | | | | |
| 22 | Federal Income Taxes | \$ (17,350) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 6,943 | \$ (10,408) |
| 23 | State Income Taxes | (3,822) | - | - | - | - | - | - | - | - | - | 1,529 | (2,293) |
| 24 | Property Taxes | 53,436 | - | - | - | - | - | - | - | (473) | - | - | 52,963 |
| 25 | Other | 56,967 | - | (420) | - | - | - | - | - | - | - | - | 56,547 |
| 26 | Total Taxes | \$ 89,231 | \$ - | \$ (420) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (473) | \$ - | \$ 8,472 | \$ 96,811 |
| 27 | Total Operating Expenses | \$ 1,114,666 | \$ (3,604) | \$ (420) | \$ (305) | \$ - | \$ - | \$ (11) | \$ (3,953) | \$ (473) | \$ (1,580) | \$ 8,472 | \$ 1,112,793 |
| 28 | Operating Income | \$ 130,069 | \$ 3,604 | \$ 420 | \$ 305 | \$ - | \$ - | \$ 11 | \$ 3,953 | \$ 473 | \$ 1,580 | \$ (8,472) | \$ 131,942 |

ADJUSTMENTS:

- 1 - Labor Expense - Normalize OT Hours in Test Year
- 2 - Payroll Tax Expense Related to Adjustment 1
- 3 - 401(K) Expense Related to Adjustment 1
- 4 - Reverse Adjustment for Conservation
- 5 - Purchased Power Revenues
- 6 - Insurance Expense
- 7 - Depreciation Expense
- 8 - Property Tax Expense
- 9 - Rate Case Expense
- 10 - Income Tax

REFERENCE:

- Testimony, WAR And Schedule TJC-9 Page, 1 of 3
- Testimony, WAR And Schedule TJC-9 Page, 2 of 3
- Testimony, WAR And Schedule TJC-9 Page, 3 of 3
- Testimony WAR
- Testimony WAR
- Testimony, WAR And Schedule TJC-10
- Testimony, WAR And Schedule TJC-11
- Testimony, WAR And Schedule TJC-12
- Testimony, WAR And Schedule TJC-13
- Testimony, WAR And Schedule TJC-14

COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) DOLLAR AMOUNT | (B) CAPITAL RATIO | (C) COST RATE | (D) WEIGHTED COST RATE |
|----------|----------------------------------|-----------------------|----------------------|------------------|---------------------------|
| 1 | Short-Term Debt | \$ 7,300,000 | 4.80% | 3.00% | 0.14% |
| 2 | Long-Term Debt | \$ 75,000,000 | 49.35% | 6.83% | 3.37% |
| 3 | Common Equity | 69,671,689 | 45.85% | 8.33% | 3.82% |
| 4 | Total Capitalization | <u>\$ 151,971,689</u> | <u>100.00%</u> | | |
| 5 | WEIGHTED AVERAGE COST OF CAPITAL | | | | 7.33% |

References:
Columns (A) Thru (D): Testimony, WAR

TABLE OF CONTENTS TO TJC SURREBUTTAL SCHEDULES (ABBREVIATED)

| <u>SCH. NO.</u> | <u>PAGE NO.</u> | <u>TITLE</u> |
|---------------------|---------------------|---|
| WAR-1 | 1 & 2 | REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR |
| WAR-2 | 1 | RATE BASE |
| WAR-3 | 1 | SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS |
| WAR-7 | 1 | OPERATING INCOME |
| WAR-8 | 1 | SUMMARY OF OPERATING INCOME ADJUSTMENTS |
| WAR-15 | 1 | COST OF CAPITAL |

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB/FVRB COST | (B) RUCO OCRB/FVRB COST |
|----------|--|-------------------------------------|----------------------------------|
| 1 | Adjusted Original Cost/Fair Value Rate Base | \$ 1,123,706 | \$ 1,097,935 |
| 2 | Adjusted Operating Income (Loss) | \$ 49,548 | \$ 51,013 |
| 3 | Current Rate of Return (L2 / L1) | 4.41% | 4.65% |
| 4 | Required Operating Income (L5 X L1) | \$ 110,284 | \$ 80,479 |
| 5 | Required Rate of Return on Fair Value Rate Base | 9.81% | 7.33% |
| 6 | Operating Income Deficiency (L4 - L2) | \$ 60,735 | \$ 29,466 |
| 7 | Gross Revenue Conversion Factor (TJC-1, Page 2) | 1.6286 | 1.6286 |
| 8 | Required Increase in Gross Revenue Requirement (L7 X L6) | \$ 98,916 | \$ 47,989 |
| 9 | Adjusted Test Year Revenue | \$ 470,994 | \$ 470,994 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 569,955 | \$ 518,982 |
| 11 | Required Percentage Increase in Revenue (L8 / L9) | 20.99% | 10.19% |
| 12 | Consolidated Revenue Adjustment | \$ - | \$ 3,676 |
| 13 | Required Increase in Gross Revenue Under Proposed Consolidation | \$ - | \$ 51,665 |
| 14 | Required Revenue Under Proposed Consolidation | \$ - | \$ 522,659 |
| 15 | Required Percentage Increase in Revenue Under Proposed Consolidation | - | 10.97% |
| 16 | Rate of Return on Common Equity | 12.40% | 8.33% |

References:

Column (A): Company Schedules A-1 and C-1

Column (B): RUCO Schedule TJC-2, TJC-7, and TJC-15

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. TJC-1, Pg 1, C (B), L4) | \$ 80,479 | | | |
| 12 | Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2) | 51,013 | | | |
| 13 | Required Increase In Operating Income (L11 - L12) | | \$ 29,466 | | |
| 14 | Income Taxes On Recommended Revenue (Col. (D), L31) | \$ 26,365 | | | |
| 15 | Income Taxes On Test Year Revenue (Col. (D), L32) | 7,843 | | | |
| 16 | Required Increase In Revenue To Provide For Income Taxes (L14 - L15) | | \$ 18,523 | | |
| 17 | Total Required Increase In Revenue (L13 + L16) | | \$ 47,989 | | |
| CALCULATION OF INCOME TAX: | | | | | |
| RUCO Recommended | | | | | |
| 18 | Revenue (Sch. TJC-1, Pg 1, Col. (B), L12) | | | \$ 518,982 | |
| 19 | Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23) | | | 412,138 | |
| 20 | Synchronized Interest (Col. (C), L37) | | | 38,538 | |
| 21 | Arizona Taxable Income (L18 - L19 - L20) | | | \$ 68,306 | |
| 22 | Arizona State Income Tax Rate | | | 6.9680% | |
| 23 | Arizona Income Tax (L21 X L22) | | | | \$ 4,760 |
| 24 | Fed. Taxable Income (L21 - L23) | | | \$ 63,547 | |
| 25 | Fed. Tax on 1st Inc. Bracket (\$1 - \$50,000) @ 15% | | | \$ - | |
| 26 | Fed. Tax on 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25% | | | \$ - | |
| 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% | | | \$ 21,606 | |
| 30 | Total Federal Income Tax (L25 + L26 + L27 + L28 + L29) | | | | \$ 21,606 |
| 31 | Combined Federal and State Income Tax (L23 + L30) | | | | \$ 26,365 |
| 32 | Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23) | | | | \$ 7,843 |
| 33 | RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23) | | | | \$ 18,523 |
| 34 | Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24) | | | | 34.00% |
| CALCULATION OF INTEREST SYNCHRONIZATION: | | | | | |
| 35 | Rate Base (Sch. WAR-2, Col. (C), L17) | | | \$ 1,097,935 | |
| 36 | Weighted Avg. Cost of Debt (Sch. TJC-16, Col. (F), L1) | | | 3.51% | |
| 37 | Synchronized Interest (L35 X L36) | | | \$ 38,538 | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) RUCO OCRB/FVRB ADJUSTMENTS | (C) RUCO ADJ TED OCRB/FVRB |
|----------|---|---|---|-------------------------------------|
| | Plant Classification | | | |
| 1 | Intangible Plant | \$ 3,702 | \$ - | \$ 3,702 |
| 2 | Source of Supply Plant | 9,477 | - | 9,477 |
| 3 | Pumping Plant | 89,231 | - | 89,231 |
| 4 | Water Treatment Plant | 4,306 | - | 4,306 |
| 5 | Transmission & Distribution Plant | 1,916,378 | - | 1,916,378 |
| 6 | General Plant | 184,119 | - | 184,119 |
| 7 | Total Gross Plant in Service | <u>\$ 2,207,212</u> | <u>\$ -</u> | <u>\$ 2,207,212</u> |
| 8 | Accumulated Depreciation | (812,825) | (13) | (812,838) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | <u>\$ 1,394,387</u> | <u>\$ (13)</u> | <u>\$ 1,394,375</u> |
| 10 | Advances in Aid Of Const. | \$ (87,953) | \$ - | \$ (87,953) |
| 11 | Contribution in Aid of Const. | \$ (65,554) | \$ - | \$ (65,554) |
| 12 | Accumulated Amortization of CIAC | 15,854 | - | 15,854 |
| 13 | NET CIAC (L5 + L6) | <u>\$ (49,700)</u> | <u>\$ -</u> | <u>\$ (49,700)</u> |
| 14 | Deferred Income Tax | \$ (155,237) | \$ - | \$ (155,237) |
| 15 | Customer Deposits | \$ - | \$ (4,600) | \$ (4,600) |
| 16 | Allowance for Working Capital | \$ 22,208 | \$ (21,159) | \$ 1,050 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u><u>\$ 1,123,706</u></u> | <u><u>\$ (25,771)</u></u> | <u><u>\$ 1,097,935</u></u> |

References:

Column (A): Company Schedule B-1
Column (B): Schedule TJC-3
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) ADJMT NO. 1 PLANT & ACCUM DEP. | (C) ADJMT NO. 2 | (D) ADJMT NO. 3 PER BKB 11.16 | (E) ADJMT NO. 4 | (F) ADJMT NO. 5 CUSTOMER DEPOSITS | (G) ADJMT NO. 6 WORKING CAPITAL | (H) RUCO ADJTED OCRB/FVRB |
|----------|---|---|---|--------------------|--|--------------------|--|--|------------------------------------|
| | Plant Classification | | | | | | | | |
| 1 | Intangible Plant | \$ 3,702 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,702 |
| 2 | Source of Supply Plant | 9,477 | - | - | - | - | - | - | 9,477 |
| 3 | Pumping Plant | 89,231 | - | - | - | - | - | - | 89,231 |
| 4 | Water Treatment Plant | 4,306 | - | - | - | - | - | - | 4,306 |
| 5 | Transmission & Distribution Plant | 1,916,378 | - | - | - | - | - | - | 1,916,378 |
| 6 | General Plant | 184,119 | - | - | - | - | - | - | 184,119 |
| 7 | Total Gross Plant in Service | \$ 2,207,212 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,207,212 |
| 8 | Accumulated Depreciation | (812,825) | (13) | - | - | - | - | - | (812,838) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | \$ 1,394,387 | \$ (13) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,394,375 |
| 10 | Advances in Aid Of Const. | \$ (87,953) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (87,953) |
| 11 | Contribution in Aid of Const. | \$ (65,554) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (65,554) |
| 12 | Accumulated Amortization of CIAC | 15,854 | - | - | - | - | - | - | 15,854 |
| 13 | NET CIAC (L5 + L6) | \$ (49,700) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (49,700) |
| 14 | Deferred Income Tax | \$ (155,237) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (155,237) |
| 15 | Customer Deposits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (4,600) | \$ - | \$ (4,600) |
| 16 | Allowance for Working Capital | 22,208 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (21,159) | \$ 1,050 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | | | | | | | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | \$ 1,123,706 | \$ (13) | \$ - | \$ - | \$ - | \$ (4,600) | \$ (21,159) | \$ 1,097,935 |

References:

Column (A): Company Schedule B-2

Column (B): Adjustment No. 1 - Adjust Test-Year Plant, PTY Plant & Accumulated Depreciation (See TJC-4 Total, TJC-4 Direct, TJC-4 PHX OFF and TJC-4 MS Schedules and TJC Testimony)

Column (C): Adjustment No. 2 - Intentionally Left Blank

Column (D): Adjustment No. 3 - Conforming Adkustment Per Data Response to BKB 11.16 to Remove Plant and Record Retirements

Column (E): Adjustment No. 4 - Intentionally Left Blank

Column (F): Adjustment No. 5 - Customer Deposits

Column (G): Adjustment No. 6 - Working Capital

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

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 |
|----------|--|-------------------------------|-------------------------------------|--|----------------------------------|-------------------------------|
| | Operating Revenues | | | | | |
| 1 | Residential | \$ 360,038 | \$ - | \$ 360,038 | \$ 24,681 | \$ 384,718 |
| 2 | Commercial | 106,351 | - | 106,351 | 22,816 | 129,167 |
| 3 | Industrial | - | - | - | - | - |
| 4 | Private Fire Service | 124 | - | 124 | 476 | 600 |
| 5 | Other Water Revenues | 812 | - | 812 | 16 | 828 |
| 6 | Total Water Revenues | \$ 467,325 | \$ - | \$ 467,325 | \$ 47,988 | \$ 515,313 |
| 7 | Miscellaneous | \$ 3,669 | \$ - | \$ 3,669 | \$ - | \$ 3,669 |
| 8 | Total Operating Revenues | \$ 470,994 | \$ - | \$ 470,994 | \$ 47,988 | \$ 518,982 |
| | Operating Expenses | | | | | |
| | Source of Supply Expenses: | | | | | |
| 9 | Purchased Water | \$ 159,092 | \$ - | \$ 159,092 | \$ - | \$ 159,092 |
| 10 | Other | 71 | - | 71 | - | 71 |
| 11 | Pumping Expenses: | - | - | - | - | - |
| 12 | Purchased Power | 3,297 | - | 3,297 | - | 3,297 |
| 13 | Purchased Gas | - | - | - | - | - |
| 14 | Other | 16,314 | - | 16,314 | - | 16,314 |
| 15 | Water Treatment Expenses | 4,904 | - | 4,904 | - | 4,904 |
| 16 | Transmission & Distribution Expenses | 66,320 | - | 66,320 | - | 66,320 |
| 17 | Customer Accounting Expenses | 29,076 | - | 29,076 | - | 29,076 |
| 18 | Sales Expense | 133 | - | 133 | - | 133 |
| 19 | Administrative & General Expenses | 55,525 | (1,880) | 53,644 | - | 53,644 |
| 20 | Total Operations & Maintenance Expense | \$ 334,732 | \$ (1,880) | \$ 332,851 | \$ - | \$ 332,851 |
| 21 | Depreciation & Amortization Expenses | \$ 51,154 | \$ (706) | \$ 50,448 | \$ - | \$ 50,448 |
| | Taxes | | | | | |
| 22 | Federal Income Taxes | \$ 4,055 | \$ 2,372 | \$ 6,427 | \$ 15,179 | \$ 21,606 |
| 23 | State Income Taxes | 893 | 523 | 1,416 | 3,344 | 4,760 |
| 24 | Property Taxes | 26,265 | (1,630) | 24,636 | - | 24,636 |
| 25 | Other | 4,347 | (143) | 4,203 | - | 4,203 |
| 26 | Total Taxes | \$ 35,560 | \$ 1,121 | \$ 36,681 | \$ 18,523 | \$ 55,204 |
| 27 | Total Operating Expenses | \$ 421,445 | \$ (1,465) | \$ 419,981 | \$ 18,523 | \$ 438,504 |
| 28 | Operating Income | \$ 49,548 | \$ 1,465 | \$ 51,013 | \$ 29,465 | \$ 80,478 |

References:

- Column (A): Company Schedule C-1
- Column (B): TJC-8, Columns (B) Thru (I)
- Column (C): Column (A) + Column (B)
- Column (D): TJC-1
- 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 LABOR EXPENSE | (C) ADJMT NO. 2 PAYROLL TAX EXPENSE | (D) ADJMT NO. 3 401(K) EXPENSE | (E) ADJMT NO. 4 REVERSE ADJ. FOR CONSERVATION | (F) ADJMT NO. 5 PURCH. POWER REVENUES | (G) ADJMT NO. 6 INSURANCE EXPENSE | (H) ADJMT NO. 7 DEPRECIATION EXPENSE | (I) ADJMT NO. 8 PROPERTY TAX | (J) ADJMT NO. 9 RATE CASE EXPENSE | (K) ADJMT NO. 10 INCOME TAXES | (L) RUCO AS ADJTD |
|----------------------------|--|-------------------------|-------------------------------------|---|--------------------------------------|---|---|---|--|------------------------------------|---|-------------------------------------|----------------------|
| Operating Revenues | | | | | | | | | | | | | |
| 1 | Residential | \$ 360,038 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 360,038 |
| 2 | Commercial | 106,351 | - | - | - | - | - | - | - | - | - | - | 106,351 |
| 3 | Industrial | - | - | - | - | - | - | - | - | - | - | - | - |
| 4 | Private Fire Service | 124 | - | - | - | - | - | - | - | - | - | - | 124 |
| 5 | Other Water Revenues | 812 | - | - | - | - | - | - | - | - | - | - | 812 |
| 6 | Total Water Revenues | \$ 467,325 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 467,325 |
| 7 | Miscellaneous | \$ 3,669 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,669 |
| 8 | Total Operating Revenues | \$ 470,994 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 470,994 |
| Operating Expenses | | | | | | | | | | | | | |
| Source of Supply Expenses: | | | | | | | | | | | | | |
| 9 | Purchased Water | \$ 159,092 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 159,092 |
| 10 | Other | 71 | - | - | - | - | - | - | - | - | - | - | 71 |
| Pumping Expenses: | | | | | | | | | | | | | |
| 12 | Purchased Power | 3,297 | - | - | - | - | - | - | - | - | - | - | 3,297 |
| 13 | Purchased Gas | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 | Other | 16,314 | - | - | - | - | - | - | - | - | - | - | 16,314 |
| 15 | Water Treatment Expenses | 4,904 | - | - | - | - | - | - | - | - | - | - | 4,904 |
| 16 | Transmission & Distribution Expenses | 66,320 | - | - | - | - | - | - | - | - | - | - | 66,320 |
| 17 | Customer Accounting Expenses | 29,076 | - | - | - | - | - | - | - | - | - | - | 29,076 |
| 18 | Sales Expense | 133 | - | - | - | - | - | - | - | - | - | - | 133 |
| 19 | Administrative & General Expenses | 55,525 | (1,232) | - | (104) | - | - | (4) | - | - | (540) | - | 53,644 |
| 20 | Total Operations & Maintenance Expense | \$ 334,732 | \$ (1,232) | \$ - | \$ (104) | \$ - | \$ - | \$ (4) | \$ - | \$ - | \$ (540) | \$ - | \$ 332,851 |
| 21 | Depreciation & Amortization Expenses | \$ 51,154 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (706) | \$ - | \$ - | \$ - | \$ 50,448 |
| Taxes | | | | | | | | | | | | | |
| 22 | Federal Income Taxes | \$ 4,055 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,372 | \$ 6,427 |
| 23 | State Income Taxes | 893 | - | - | - | - | - | - | - | - | - | 523 | 1,416 |
| 24 | Property Taxes | 26,265 | - | - | - | - | - | - | - | (1,630) | - | - | 24,636 |
| 25 | Other | 4,347 | - | (143) | - | - | - | - | - | - | - | - | 4,203 |
| 26 | Total Taxes | \$ 35,560 | \$ - | \$ (143) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1,630) | \$ - | \$ 2,895 | \$ 36,681 |
| 27 | Total Operating Expenses | \$ 421,445 | \$ (1,232) | \$ (143) | \$ (104) | \$ - | \$ - | \$ (4) | \$ (706) | \$ (1,630) | \$ (540) | \$ 2,895 | \$ 419,981 |
| 28 | Operating Income | \$ 49,548 | \$ 1,232 | \$ 143 | \$ 104 | \$ - | \$ - | \$ 4 | \$ 706 | \$ 1,630 | \$ 540 | \$ (2,895) | \$ 51,013 |

ADJUSTMENTS:

- 1 - Labor Expense - Normalize OT Hours in Test Year
- 2 - Payroll Tax Expense Related to Adjustment 1
- 3 - 401(K) Expense Related to Adjustment 1
- 4 - Reverse Adjustment for Conservation
- 5 - Purchased Power Revenues
- 6 - Insurance Expense
- 7 - Depreciation Expense
- 8 - Property Tax Expense
- 9 - Rate Case Expense
- 10 - Income Tax

REFERENCE:

- Testimony, WAR And Schedule TJC-9 Page, 1 of 3
- Testimony, WAR And Schedule TJC-9 Page, 2 of 3
- Testimony, WAR And Schedule TJC-9 Page, 3 of 3
- Testimony WAR
- Testimony WAR
- Testimony, WAR And Schedule TJC-10
- Testimony, WAR And Schedule TJC-11
- Testimony, WAR And Schedule TJC-12
- Testimony, WAR And Schedule TJC-13
- Testimony, WAR And Schedule TJC-14

COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) DOLLAR AMOUNT | (B) CAPITAL RATIO | (C) COST RATE | (D) WEIGHTED COST RATE |
|----------|----------------------------------|-----------------------|----------------------|------------------|---------------------------|
| 1 | Short-Term Debt | \$ 7,300,000 | 4.80% | 3.00% | 0.14% |
| 2 | Long-Term Debt | \$ 75,000,000 | 49.35% | 6.83% | 3.37% |
| 3 | Common Equity | <u>69,671,689</u> | <u>45.85%</u> | 8.33% | <u>3.82%</u> |
| 4 | Total Capitalization | <u>\$ 151,971,689</u> | <u>100.00%</u> | | |
| 5 | WEIGHTED AVERAGE COST OF CAPITAL | | | | 7.33% |

References:
Columns (A) Thru (D): Testimony, WAR

TABLE OF CONTENTS TO TJC SURREBUTTAL SCHEDULES (ABBREVIATED)

| <u>SCH. NO.</u> | <u>PAGE NO.</u> | <u>TITLE</u> |
|---------------------|---------------------|---|
| WAR-1 | 1 & 2 | REVENUE REQUIREMENT AND GROSS REVENUE CONVERSION FACTOR |
| WAR-2 | 1 | RATE BASE |
| WAR-3 | 1 | SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS |
| WAR-7 | 1 | OPERATING INCOME |
| WAR-8 | 1 | SUMMARY OF OPERATING INCOME ADJUSTMENTS |
| WAR-15 | 1 | COST OF CAPITAL |

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB/FVRB COST | (B) RUCO OCRB/FVRB COST |
|----------|--|-------------------------------------|----------------------------------|
| 1 | Adjusted Original Cost/Fair Value Rate Base | \$ 4,318,206 | \$ 3,433,064 |
| 2 | Adjusted Operating Income (Loss) | \$ 276,633 | \$ 295,500 |
| 3 | Current Rate of Return (L2 / L1) | 6.41% | 8.61% |
| 4 | Required Operating Income (L5 X L1) | \$ 423,800 | \$ 251,644 |
| 5 | Required Rate of Return on Fair Value Rate Base | 9.81% | 7.33% |
| 6 | Operating Income Deficiency (L4 - L2) | \$ 147,168 | \$ (43,857) |
| 7 | Gross Revenue Conversion Factor (TJC-1, Page 2) | 1.6286 | 1.6286 |
| 8 | Required Increase in Gross Revenue Requirement (L7 X L6) | \$ 239,682 | \$ (71,427) |
| 9 | Adjusted Test Year Revenue | \$ 2,214,952 | \$ 2,214,952 |
| 10 | Proposed Annual Revenue (L8 + L9) | \$ 2,454,634 | \$ 2,143,525 |
| 11 | Required Percentage Increase in Revenue (L8 / L9) | 10.82% | -3.22% |
| 12 | Consolidated Revenue Adjustment | \$ 321,431 | \$ 29,664 |
| 13 | Required Increase in Gross Revenue Under Proposed Consolidation | \$ 561,113 | \$ (41,763) |
| 14 | Required Revenue Under Proposed Consolidation | \$ 2,776,111 | \$ 2,173,189 |
| 15 | Required Percentage Increase in Revenue Under Proposed Consolidation | 25.34% | -1.89% |
| 16 | Rate of Return on Common Equity | 12.40% | 8.33% |

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule TJC-2, TJC-7, and TJC-15

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. TJC-1, Pg 1, C (B), L4) | \$ 251,644 | | | |
| 12 | Adj'd T.Y. Oper'g Inc. (Loss) (Sch. TJC-1, Pg 1, C (B), L2) | 295,500 | | | |
| 13 | Required Increase In Operating Income (L11 - L12) | | \$ (43,857) | | |
| 14 | Income Taxes On Recommended Revenue (Col. (D), L31) | \$ 82,441 | | | |
| 15 | Income Taxes On Test Year Revenue (Col. (D), L32) | 110,011 | | | |
| 16 | Required Increase In Revenue To Provide For Income Taxes (L14 - L15) | | \$ (27,570) | | |
| 17 | Total Required Increase In Revenue (L13 + L16) | | \$ (71,427) | | |
| CALCULATION OF INCOME TAX: | | | | | |
| RUCO | | | | | |
| Recommended | | | | | |
| 18 | Revenue (Sch. TJC-1, Pg 1, Col. (B), L12) | | | \$ 2,143,525 | |
| 19 | Operating Expense Excluding Income Tax (TJC-7, Col. (E), L27 - L22 - L23) | | | 1,809,440 | |
| 20 | Synchronized Interest (Col. (C), L37) | | | 120,501 | |
| 21 | Arizona Taxable Income (L18 - L19 - L20) | | | \$ 213,584 | |
| 22 | Arizona State Income Tax Rate | | | 6.9680% | |
| 23 | Arizona Income Tax (L21 X L22) | | | | \$ 14,883 |
| 24 | Fed. Taxable Income (L21 - L23) | | | \$ 198,702 | |
| 25 | Fed. Tax on 1st Inc. Bracket (\$1 - \$50,000) @ 15% | | | \$ - | |
| 26 | Fed. Tax on 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25% | | | \$ - | |
| 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% | | | \$ 67,559 | |
| 30 | Total Federal Income Tax (L25 + L26 + L27 + L28 + L29) | | | | \$ 67,559 |
| 31 | Combined Federal and State Income Tax (L23 + L30) | | | | \$ 82,441 |
| 32 | Test Year Combined Income Tax, RUCO as Adjusted (TJC-7, Col. (C), L22 + L23) | | | | \$ 110,011 |
| 33 | RUCO Adjustment (L31 - L32) (See TJC-6, Col. (D), L23) | | | | \$ (27,570) |
| 34 | Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24) | | | | 34.00% |
| CALCULATION OF INTEREST SYNCHRONIZATION: | | | | | |
| 35 | Rate Base (Sch. WAR-2, Col. (C), L17) | | | \$ 3,433,064 | |
| 36 | Weighted Avg. Cost of Debt (Sch. TJC-16, Col. (F), L1) | | | 3.51% | |
| 37 | Synchronized Interest (L35 X L36) | | | \$ 120,501 | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) RUCO OCRB/FVRB ADJUSTMENTS | (C) RUCO ADJ'TED OCRB/FVRB |
|----------|---|---|---|-------------------------------------|
| | Plant Classification | | | |
| 1 | Intangible Plant | \$ 42,011 | \$ - | \$ 42,011 |
| 2 | Source of Supply Plant | 2,098,977 | (856,324) | 1,242,653 |
| 3 | Pumping Plant | 1,400,953 | - | 1,400,953 |
| 4 | Water Treatment Plant | 845,417 | - | 845,417 |
| 5 | Transmission & Distribution Plant | 11,910,083 | - | 11,910,083 |
| 6 | General Plant | 762,698 | - | 762,698 |
| 7 | Total Gross Plant in Service | <u>\$ 17,060,139</u> | <u>\$ (856,324)</u> | <u>\$ 16,203,815</u> |
| 8 | Accumulated Depreciation | (3,207,118) | 51,770 | (3,155,348) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | <u>\$ 13,853,022</u> | <u>\$ (804,554)</u> | <u>\$ 13,048,468</u> |
| 10 | Advances in Aid Of Const. | \$ (7,214,952) | \$ - | \$ (7,214,952) |
| 11 | Contribution in Aid of Const. | \$ (1,544,697) | \$ - | \$ (1,544,697) |
| 12 | Accumulated Amortization of CIAC | 145,424 | - | 145,424 |
| 13 | NET CIAC (L5 + L6) | <u>\$ (1,399,273)</u> | <u>\$ -</u> | <u>\$ (1,399,273)</u> |
| 14 | Deferred Income Tax | \$ (1,009,996) | \$ - | \$ (1,009,996) |
| 15 | Customer Deposits | \$ - | \$ (69,105) | \$ (69,105) |
| 16 | Allowance for Working Capital | \$ 89,405 | \$ (11,484) | \$ 77,922 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | <u>\$ 4,318,206</u> | <u>\$ (885,143)</u> | <u>\$ 3,433,064</u> |

References:

Column (A): Company Schedule B-1
Column (B): Schedule TJC-3
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED OCRB/FVRB | (B) ADJMT NO. 1 PLANT & ACCUM DEP. | (C) ADJMT NO. 2 | (D) ADJMT NO. 3 PER BKB 11.16 | (E) ADJMT NO. 4 | (F) ADJMT NO. 5 CUSTOMER DEPOSITS | (G) ADJMT NO. 6 WORKING CAPITAL | (H) RUCO ADJTED OCRB/FVRB |
|----------------------|---|---|---|--------------------|--|--------------------|--|--|------------------------------------|
| Plant Classification | | | | | | | | | |
| 1 | Intangible Plant | \$ 42,011 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 42,011 |
| 2 | Source of Supply Plant | 2,098,977 | - | - | (856,324) | - | - | - | 1,242,653 |
| 3 | Pumping Plant | 1,400,953 | - | - | - | - | - | - | 1,400,953 |
| 4 | Water Treatment Plant | 845,417 | - | - | - | - | - | - | 845,417 |
| 5 | Transmission & Distribution Plant | 11,910,083 | - | - | - | - | - | - | 11,910,083 |
| 6 | General Plant | 762,698 | - | - | - | - | - | - | 762,698 |
| 7 | Total Gross Plant in Service | \$ 17,060,139 | \$ - | \$ - | \$ (856,324) | \$ - | \$ - | \$ - | \$ 16,203,815 |
| 8 | Accumulated Depreciation | (3,207,118) | 5,582 | - | 46,188 | - | - | - | (3,155,348) |
| 9 | Net Utility Plant in Service (Sum L1 & L2) | \$ 13,853,022 | \$ 5,582 | \$ - | \$ (810,136) | \$ - | \$ - | \$ - | \$ 13,048,468 |
| 10 | Advances in Aid Of Const. | \$ (7,214,952) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (7,214,952) |
| 11 | Contribution in Aid of Const. | \$ (1,544,697) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1,544,697) |
| 12 | Accumulated Amortization of CIAC | 145,424 | - | - | - | - | - | - | 145,424 |
| 13 | NET CIAC (L5 + L6) | \$ (1,399,273) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1,399,273) |
| 14 | Deferred Income Tax | \$ (1,009,996) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (1,009,996) |
| 15 | Customer Deposits | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (69,105) | \$ - | \$ (69,105) |
| 16 | Allowance for Working Capital | 89,405 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (11,484) | \$ 77,922 |
| 17 | Net Regulatory Asset / (Liability) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 18 | Rounding | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 19 | TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16) | \$ 4,318,206 | \$ 5,582 | \$ - | \$ (810,136) | \$ - | \$ (69,105) | \$ (11,484) | \$ 3,433,064 |

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Plant, PTY Plant & Accumulated Depreciation (See TJC-4 Total, TJC-4 Direct, TJC-4 PHX OFF and TJC-4 MS Schedules and TJC Testimony)
- Column (C): Adjustment No. 2 - Intentionally Left Blank
- Column (D): Adjustment No. 3 - Conforming Adkustment Per Data Response to BKB 11.16 to Remove Plant and Record Retirements
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - Customer Deposits
- Column (G): Adjustment No. 6 - Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

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 |
|----------|--|-------------------------------|-------------------------------------|--|----------------------------------|-------------------------------|
| | Operating Revenues | | | | | |
| 1 | Residential | \$ 1,458,989 | \$ - | \$ 1,458,989 | \$ (34,123) | \$ 1,424,866 |
| 2 | Commercial | 609,270 | - | 609,270 | (45,518) | 563,751 |
| 3 | Industrial | 8,657 | - | 8,657 | (552) | 8,104 |
| 4 | Private Fire Service | 1,673 | - | 1,673 | 5,952 | 7,625 |
| 5 | Other Water Revenues | 84,784 | - | 84,784 | 2,815 | 87,599 |
| 6 | Total Water Revenues | \$ 2,163,372 | \$ - | \$ 2,163,372 | \$ (71,427) | \$ 2,091,945 |
| 7 | Miscellaneous | \$ 51,580 | \$ - | \$ 51,580 | \$ - | \$ 51,580 |
| 8 | Total Operating Revenues | \$ 2,214,952 | \$ - | \$ 2,214,952 | \$ (71,427) | \$ 2,143,525 |
| | Operating Expenses | | | | | |
| | Source of Supply Expenses: | | | | | |
| 9 | Purchased Water | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Other | 10,262 | - | 10,262 | - | 10,262 |
| 11 | Pumping Expenses: | - | - | - | - | - |
| 12 | Purchased Power | 192,581 | - | 192,581 | - | 192,581 |
| 13 | Purchased Gas | 878 | - | 878 | - | 878 |
| 14 | Other | 64,710 | - | 64,710 | - | 64,710 |
| 15 | Water Treatment Expenses | 33,911 | - | 33,911 | - | 33,911 |
| 16 | Transmission & Distribution Expenses | 285,973 | - | 285,973 | - | 285,973 |
| 17 | Customer Accounting Expenses | 267,290 | - | 267,290 | - | 267,290 |
| 18 | Sales Expense | 890 | - | 890 | - | 890 |
| 19 | Administrative & General Expenses | 378,361 | (12,236) | 366,125 | - | 366,125 |
| 20 | Total Operations & Maintenance Expense | \$ 1,234,856 | \$ (12,236) | \$ 1,222,620 | \$ - | \$ 1,222,620 |
| 21 | Depreciation & Amortization Expenses | \$ 426,056 | \$ (34,032) | \$ 392,024 | \$ - | \$ 392,024 |
| | Taxes | | | | | |
| 22 | Federal Income Taxes | \$ 60,002 | \$ 30,150 | \$ 90,151 | \$ (22,593) | \$ 67,559 |
| 23 | State Income Taxes | 13,218 | 6,642 | 19,860 | (4,977) | 14,883 |
| 24 | Property Taxes | 151,656 | (8,458) | 143,197 | - | 143,197 |
| 25 | Other | 52,532 | (934) | 51,598 | - | 51,598 |
| 26 | Total Taxes | \$ 277,407 | \$ 27,400 | \$ 304,807 | \$ (27,570) | \$ 277,237 |
| 27 | Total Operating Expenses | \$ 1,938,319 | \$ (18,868) | \$ 1,919,451 | \$ (27,570) | \$ 1,891,881 |
| 28 | Operating Income | \$ 276,633 | \$ 18,868 | \$ 295,500 | \$ (43,857) | \$ 251,644 |

References:

- Column (A): Company Schedule C-1
- Column (B): TJC-8, Columns (B) Thru (I)
- Column (C): Column (A) + Column (B)
- Column (D): TJC-1
- 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 LABOR EXPENSE | (C) ADJMT NO. 2 PAYROLL TAX EXPENSE | (D) ADJMT NO. 3 401(K) EXPENSE | (E) ADJMT NO. 4 REVERSE ADJ. FOR CONSERVATION | (F) ADJMT NO. 5 PURCH. POWER REVENUES | (G) ADJMT NO. 6 INSURANCE EXPENSE | (H) ADJMT NO. 7 DEPRECIATION EXPENSE | (I) ADJMT NO. 8 PROPERTY TAX | (J) ADJMT NO. 9 RATE CASE EXPENSE | (K) ADJMT NO. 10 INCOME TAXES | (L) RUCO AS ADJTD |
|----------------------------|--|-------------------------|-------------------------------------|---|--------------------------------------|---|---|---|--|------------------------------------|---|-------------------------------------|----------------------|
| Operating Revenues | | | | | | | | | | | | | |
| 1 | Residential | \$1,458,989 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,458,989 |
| 2 | Commercial | 609,270 | - | - | - | - | - | - | - | - | - | - | 609,270 |
| 3 | Industrial | 8,657 | - | - | - | - | - | - | - | - | - | - | 8,657 |
| 4 | Private Fire Service | 1,673 | - | - | - | - | - | - | - | - | - | - | 1,673 |
| 5 | Other Water Revenues | 84,784 | - | - | - | - | - | - | - | - | - | - | 84,784 |
| 6 | Total Water Revenues | \$2,163,372 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,163,372 |
| 7 | Miscellaneous | \$ 51,580 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 51,580 |
| 8 | Total Operating Revenues | \$2,214,952 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,214,952 |
| Operating Expenses | | | | | | | | | | | | | |
| Source of Supply Expenses: | | | | | | | | | | | | | |
| 9 | Purchased Water | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Other | 10,262 | - | - | - | - | - | - | - | - | - | - | 10,262 |
| Pumping Expenses: | | | | | | | | | | | | | |
| 12 | Purchased Power | 192,581 | - | - | - | - | - | - | - | - | - | - | 192,581 |
| 13 | Purchased Gas | 878 | - | - | - | - | - | - | - | - | - | - | 878 |
| 14 | Other | 64,710 | - | - | - | - | - | - | - | - | - | - | 64,710 |
| 15 | Water Treatment Expenses | 33,911 | - | - | - | - | - | - | - | - | - | - | 33,911 |
| 16 | Transmission & Distribution Expenses | 285,973 | - | - | - | - | - | - | - | - | - | - | 285,973 |
| 17 | Customer Accounting Expenses | 267,290 | - | - | - | - | - | - | - | - | - | - | 267,290 |
| 18 | Sales Expense | 890 | - | - | - | - | - | - | - | - | - | - | 890 |
| 19 | Administrative & General Expenses | 378,361 | (8,014) | - | (677) | - | - | (31) | - | - | (3,513) | - | 366,125 |
| 20 | Total Operations & Maintenance Expense | \$1,234,856 | \$ (8,014) | \$ - | \$ (677) | \$ - | \$ - | \$ (31) | \$ - | \$ - | \$ (3,513) | \$ - | \$ 1,222,620 |
| 21 | Depreciation & Amortization Expenses | \$ 426,056 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (34,032) | \$ - | \$ - | \$ - | \$ 392,024 |
| Taxes | | | | | | | | | | | | | |
| 22 | Federal Income Taxes | \$ 60,002 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 30,150 | \$ 90,151 |
| 23 | State Income Taxes | 13,218 | - | - | - | - | - | - | - | - | - | 6,642 | 19,860 |
| 24 | Property Taxes | 151,656 | - | - | - | - | - | - | - | (8,458) | - | - | 143,197 |
| 25 | Other | 52,532 | - | (934) | - | - | - | - | - | - | - | - | 51,598 |
| 26 | Total Taxes | \$ 277,407 | \$ - | \$ (934) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (8,458) | \$ - | \$ 36,791 | \$ 304,807 |
| 27 | Total Operating Expenses | \$1,938,319 | \$ (8,014) | \$ (934) | \$ (677) | \$ - | \$ - | \$ (31) | \$ (34,032) | \$ (8,458) | \$ (3,513) | \$ 36,791 | \$ 1,919,451 |
| 28 | Operating Income | \$ 276,633 | \$ 8,014 | \$ 934 | \$ 677 | \$ - | \$ - | \$ 31 | \$ 34,032 | \$ 8,458 | \$ 3,513 | \$ (36,791) | \$ 295,500 |

ADJUSTMENTS:

- 1 - Labor Expense - Normalize OT Hours in Test Year
- 2 - Payroll Tax Expense Related to Adjustment 1
- 3 - 401(K) Expense Related to Adjustment 1
- 4 - Reverse Adjustment for Conservation
- 5 - Purchased Power Revenues
- 6 - Insurance Expense
- 7 - Depreciation Expense
- 8 - Property Tax Expense
- 9 - Rate Case Expense
- 10 - Income Tax

REFERENCE:

- Testimony, WAR And Schedule TJC-9 Page, 1 of 3
- Testimony, WAR And Schedule TJC-9 Page, 2 of 3
- Testimony, WAR And Schedule TJC-9 Page, 3 of 3
- Testimony WAR
- Testimony WAR
- Testimony, WAR And Schedule TJC-10
- Testimony, WAR And Schedule TJC-11
- Testimony, WAR And Schedule TJC-12
- Testimony, WAR And Schedule TJC-13
- Testimony, WAR And Schedule TJC-14

COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) DOLLAR AMOUNT | (B) CAPITAL RATIO | (C) COST RATE | (D) WEIGHTED COST RATE |
|----------|----------------------------------|-----------------------|----------------------|------------------|---------------------------|
| 1 | Short-Term Debt | \$ 7,300,000 | 4.80% | 3.00% | 0.14% |
| 2 | Long-Term Debt | \$ 75,000,000 | 49.35% | 6.83% | 3.37% |
| 3 | Common Equity | 69,671,689 | 45.85% | 8.33% | 3.82% |
| 4 | Total Capitalization | <u>\$ 151,971,689</u> | <u>100.00%</u> | | |
| 5 | WEIGHTED AVERAGE COST OF CAPITAL | | | | 7.33% |

References:

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