

BLACK MOUNTAIN SEWER CORPORATION

DOCKET NO. SW-02361A-08-0609

DIRECT TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

SEPTEMBER 18, 2009

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1 **INTRODUCTION**

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

3 A. My name is Rodney L. Moore. I am a Public Utilities Analyst V with the
4 Residential Utility Consumer Office (“RUCO”), located at 1110 West
5 Washington Street, Suite 220, Phoenix, Arizona 85007.

6
7 Q. Please state your educational background and qualifications in the utility
8 regulation field.

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

12
13 Q. Please state the purpose of your testimony.

14 A. The purpose of my testimony is to present RUCO’s recommendations
15 regarding Black Mountain Sewer Corporation’s (“BMSC” or “Company”)
16 application for an increase in its wastewater rates. The test year utilized
17 by the Company in connection with the preparation of this application is
18 the 12-month period that ended June 30, 2008 (“Test Year”).

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1 **BACKGROUND**

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

3 A. I obtained and reviewed data and performed analytical procedures
4 necessary to understand the Company's filing as it relates to the rate
5 base, operating income and revenue requirements. My recommendations
6 are based on these analyses. Procedures performed include the in-house
7 formulation and analysis of two sets of data requests, and the review and
8 analysis of Company responses to Commission Staff data requests and
9 other intervenors.

10

11 Q. When were the Company's present rates and charges established?

12 A. The Company's present rates and charges were established by the
13 Commission in Decision No. 69164, dated December 5, 2006.

14

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

16 A. I will address issues related to revenue requirement, rate base, operating
17 income and rate design. RUCO's witness William A. Rigsby will provide
18 an analysis of the cost of capital as presented on Schedule RLM-15.

19

20 Q. Please identify the exhibits you are sponsoring.

21 A. I am sponsoring a separate set of Schedules numbered RLM-1 through
22 RLM-16.

23

1 **SUMMARY OF ADJUSTMENTS**

2 Q. Please summarize the adjustments to rate base, operating income and
3 revenue requirement addressed in your testimony.

4 A. My testimony addresses the following issues:

5 **Rate Base**

6 Gross Plant-In-Service and Accumulated Depreciation – This is a
7 conforming adjustment to reflect the Company’s responses to Staff data
8 requests.

9 Advances In Aid Of Construction (“AIAC”) – This also is a conforming
10 adjustment to reflect the Company’s responses to Staff data requests.

11 **Operating Income**

12 Test Year Depreciation Expense – This adjustment increases test year
13 operating expenses to reflect computations based on RUCO’s
14 recommended gross plant-in-service.

15 Property Tax Expense - This adjustment reflects property tax expense
16 based on RUCO’s calculation of adjusted and proposed operating
17 revenues.

18 City of Scottsdale Wastewater Treatment Expense – This adjustment
19 corrects a Company calculation error by inserting the appropriate rate into
20 the formula.

21

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1 Unnecessary and/or Non-Recurring Operating Expenses – These
2 adjustments remove unnecessary operating expenses not required for the
3 provisioning of wastewater service and/or remove test year expenses
4 deemed atypical and non-recurring.

5 Normalization of Rent Expense –This is a conforming adjustment to
6 increase rent expense based on the Company’s response to Staff data
7 request “MEM 1.55”.

8 Normalization of Taxes Other Than Income – This is a conforming
9 adjustment to decrease taxes other than income based on the Company’s
10 response to Staff data request “MEM 1.58”.

11 Income Tax Expense – This adjustment reflects income tax expenses
12 calculated on RUCO’s recommended revenues and expenses.

13 **Rate Design and Proof of Recommended Revenue**

14 I am recommending a rate design that is generally consistent with the
15 Company’s present rate design, but reflects RUCO’s recommended
16 revenue requirement and provides proof that the design will produce the
17 appropriate revenue requirement.

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1 **REVENUE REQUIREMENTS**

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

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

6	<u>BMSC</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
7	\$2,493,933	\$2,069,774	(\$424,159)

8
9 RUCO's recommended increase in Fair Value Rate Base ("FVRB") is
10 based on the Company's Original Cost Rate Base ("OCRB") and is
11 summarized on Schedule RLM-1:

12	<u>BMSC</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
13	\$3,723,245	\$3,745,364	\$22,119

14
15 RUCO's recommended required operating income is shown on Schedule
16 RLM-1 as:

17	<u>BMSC</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
18	\$476,575	\$278,281	(\$198,294)

19
20
21
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23

1 RUCO's recommended revenue requirement percentage increase versus
2 the Company's proposal is as follows:

3	<u>BMSC</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
4	57.83 %	30.98 %	-26.85 %

5
6 Schedule RLM-1 presents the calculation of RUCO's recommended
7 revenue requirement.

8

9 **RATE BASE**

10 Rate Base Adjustment Summary

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

13 A. Yes. My adjustments to rate base are exhibited on Schedule RLM-3,
14 columns A through G. Based on my analysis I made two adjustments to
15 the rate base as filed by the Company.

16

17 Q. Does RUCO accept BMSC's request to use the Company's OCRB as the
18 FVRB?

19 A. Yes. RUCO accepts the Company's request that the OCRB be used as
20 the fair value rate base ("FVRB").

21

22 Q. Please describe your rate base adjustments.

23 A. My review, analysis and adjustments are explained below.

1 Rate Base Adjustment No. 1 – Gross Plant-In-Service and Accumulated
2 Depreciation

3 Q. Please explain the basis for your adjustment to the gross plant-in-service
4 and the accumulated depreciation.

5 A. My plant-in-service analysis from the prior rate case to the end of the Test
6 Year mirrored the Company's filing; however, the Company acknowledged
7 in its responses to Staff data requests DH 2.4, DH 2.5, DH 2.7 and DH
8 2.17 there were plant additions and retirements omitted from the original
9 filing. RUCO reviewed BMSC's responses and made several appropriate
10 adjustments.

11
12 Q. Please explain your adjustments to gross plant-in-service and
13 accumulated depreciation.

14 A. First, the Company had failed to record the replacement of a sewer lift
15 station. This lift station was constructed under a line extension agreement
16 ("LXA") and financed by advances in aid of construction ("AIAC").
17 Because the Company was unable to provide documentation to
18 substantiate the actual costs I recorded the estimated values provided by
19 BMSC. The estimated value recorded was \$276,985.

20
21 Second, the Company had failed to record the retirement of the replaced
22 sewer lift station. Because the Company was unable to provide
23 documentation to substantiate the original costs I recorded the values

1 calculated by BMSC using the Handy Whitman index for structures. The
2 calculated retirement value recorded was (\$13,208).

3
4 Third, the Company had failed to record the transfer of an odor control unit
5 from Litchfield Park Sewer Company (“LPSCO”), an affiliated Company.
6 The value transferred from LPSCO to BMSC was \$38,625.

7
8 Next, I calculated the associated accumulated depreciation for
9 replacement/retirement of the sewer lift station using authorized
10 depreciation rates and the half-year convention. The accumulated
11 depreciation recorded for the replacement of the lift station was \$4,392
12 and (\$13,208) for the retired lift station, amounting to a total decrease of
13 \$8,816.

14
15 Finally, the associated accumulated depreciation for the transferred odor
16 control unit was obtained through the Company’s response to RUCO data
17 request 2.01 in the amount of \$11,148.

18
19 Q. Please explain the total effect of your Adjustment No. 1 on the rate base.

20 A. As shown on Schedule RLM-3, column (B), and with supporting Schedule
21 RLM-4, these adjustments increase adjusted test year rate base by
22 \$299,104.

23

1 Rate Base Adjustment No. 2 – Advances In Aid Of Construction (“AIAC”)

2 Q. Please explain the basis for your adjustment to AIAC.

3 A. This is a companion adjustment to the sewer lift station replacement
4 discussed above. Since a developer paid for all the costs associated with
5 the installation of the new lift station, these costs were appropriately
6 recorded in the AIAC account, but were not reflected in the Company’s
7 application.

8
9 As shown on Schedule RLM-3, column (C), this adjustment decreased
10 adjusted test year rate base by \$276,985.

11

12 **OPERATING INCOME**

13 Operating Income Adjustment Summary

14 Q. Is RUCO recommending any changes to the Company’s proposed
15 operating expenses?

16 A. Yes. Based on my analysis of the Company’s adjustments to its historical
17 test year operating income, I have made nine adjustments to the
18 Company-proposed level of operating income. The adjustments are
19 exhibited on Schedule RLM-7, columns A through K.

20

21

22

23

1 Operating Income Adjustment No. 1 – Test Year Depreciation Expense

2 Q. Please explain your adjustment to the test year depreciation expense.

3 A. As shown on Schedule RLM-8, adjustment No. 1 reflects RUCO's end of
4 test year gross plant-in-service and calculates the depreciation expense
5 based on depreciation rates proposed by the Company and accepted by
6 RUCO.

7
8 As shown on Schedule RLM-7, column (B), with supporting documentation
9 on Schedule RLM-8, this adjustment increased the adjusted test year
10 operating expenses by \$10,715.

11
12 Operating Income Adjustment No. 2 – Property Tax Computation

13 Q. Did RUCO use the same methodology used by BMSC to calculate
14 property tax expenses?

15 A. Yes.

16
17 Q. Did RUCO make an adjustment to the Company-proposed level of
18 property tax expense?

19 A. Yes. RUCO made adjustments to the property tax expense based on its
20 calculation of adjusted and proposed operating revenues.

21

22

23

1 As shown on Schedule RLM-7, column (C), with supporting
2 documentation on Schedule RLM-9 this adjustment decreased the
3 adjusted test year operating expenses by \$2,203.

4

5 Operating Income Adjustments Nos. 3 & 4 – City of Scottsdale

6 Wastewater Treatment Expense

7 Q. Please explain your adjustment to the test year revenue.

8 A. This adjustment recalculated the Company's expected charges from the
9 City of Scottsdale for the treatment of BMSC wastewater to accurately
10 reflect the new rate schedule (\$2.53 per thousand gallons). The Company
11 had used an incorrect rate (\$2.59 per thousand gallons) when computing
12 this expense.

13

14 First, I made an adjustment to reflect RUCO's recalculation of the test year
15 charges from the City of Scottsdale for treatment of the test year
16 wastewater gallons.

17

18 As shown on Schedule RLM-10 this adjustment decreased the adjusted
19 test year operating revenues by \$7,528.

20

21 Secondly, I made an adjustment to reflect RUCO's recalculation of the
22 charges expected from the City of Scottsdale for treatment of the
23 additional annualized wastewater gallons on a going-forward basis.

1 RUCO's computation used the correct rate of a \$2.53 base plus the
2 environmental surcharge and city sales tax to determine the proper level
3 of this expense.

4
5 As shown on Schedule RLM-11 this adjustment decreased adjusted test
6 year expenses by \$24.

7
8 Therefore, in total and as shown on Schedule RLM-7, column (D), with
9 supporting documentation on Schedules RLM-11 and RLM-12, this
10 adjustment decreased test year expenses by \$7,551.

11
12 Operating Income Adjustment No. 5 – Unnecessary and/or Non-Recurring

13 Q. Please explain your adjustments based on information obtained from the
14 Company's response to Staff data requests MEM 1.46 and MEM 1.55.

15
16 A After an analysis of the Company's responses to Staff data requests MEM
17 1.46 and MEM 1.55, I determined there were test year expenditures not
18 required for the provision of wastewater service or were abnormal and
19 atypical for considerations as a reasonable recurring test year expense.
20 Therefore, I disallowed their inclusion as acceptable test year operating
21 expenses.

22
23

1 My adjustment removed unnecessary expenditures for charitable
2 donations and bottled water. I also removed costs associated with an
3 easement boundary dispute and costs to clean up a sewer spill, which are
4 incidents that are unlikely to occur on a regular basis.

5
6 As shown on Schedule RLM-7, column (E), with supporting documentation
7 on Schedule RLM-12, this adjustment decreased test year expenses by
8 \$834.

9

10 Operating Income Adjustment No. 6 – Normalization of Rent Expense

11 Q. Please explain your adjustment to the test year rent expense.

12 A. This is a conforming adjustment to reflect the Company's response to
13 Staff data request MEM 1.55. The adjustment addresses an incorrect
14 charge for annual rent for the operations office in Carefree. The instant
15 filing inadvertently included only six months rent. Thus an additional six
16 months rent was allowed for inclusion as a fair, reasonable and recurring
17 test year expense. My adjustment normalized the level of rent expense
18 that will be incurred by the Company on a going-forward basis.

19

20 As shown on Schedule RLM-7, column (F), this adjustment increased the
21 adjusted test year expenses by $\$3,072 \times 6 = \$18,432$.

22

23

1 Operating Income Adjustment No. 7 – Normalization of Taxes Other Than
2 Income

3 Q. Please explain your adjustment to test year taxes other than income
4 expense.

5 A. This is a conforming adjustment to reflect the Company's response to
6 Staff data request MEM 1.58. This adjustment reflects an over accrual of
7 \$1,780 related to fees assessed in 2006 and corrected in 2007. RUCO
8 agreed with the Company that this expense should be \$0 and excluded
9 from test year operating expenses.

10
11 As shown on Schedule RLM-7, column (G), this adjustment increased the
12 adjusted test year expenses by \$1,780.

13
14 Operating Income Adjustment No. 8 – Normalization of Chemical
15 Expenses

16 Q. Please explain your adjustment to normalize chemical expenses.

17 A. This is a conforming adjustment to reflect the Company's response to
18 RUCO data request 2.03. The adjustment recalculated the test year level
19 of chemical expenses to include the sale tax omitted in the Company's
20 original filing. RUCO also made an additional adjustment to reflect the
21 known and measurable post test year increase in the "cost per gallon"
22 charge identified by the Company in the response.

23

1 As shown on Schedule RLM-7, column (H), with supporting
2 documentation on Schedule RLM-13, this adjustment increased the
3 adjusted test year expenses by \$3,185.

4

5 RUCO Operating Income Adjustment No. 9 – Income Taxes

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

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

9

10 Q. Does RUCO's recommended level of income tax expense reflect an
11 interest deduction using a synchronized interest calculation?

12 A. Yes.

13

14 As shown on Schedules RLM-7, column (K) and supporting Schedule
15 RLM-14, this adjustment decreased the adjusted test year expenses by
16 \$81,261.

17

18 **COST OF CAPITAL**

19 Q. Has RUCO conducted a cost of capital analysis for BMSC?

20 A. Yes. RUCO witness William A. Rigsby has filed testimony on the cost of
21 capital issues associated with the case. His recommended capital
22 structure and weighted average cost of capital is exhibited on Schedule
23 RLM-15.

1 **RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

2 Q. Have you prepared a Schedule presenting your recommended rate
3 designs?

4 A. Yes, as shown on Schedule RLM-16, I am recommending a rate design
5 that is consistent with RUCO's recommended revenue allocations and
6 requirement.

7
8 Q. Please describe your recommended rate designs for the Company's
9 wastewater operation.

10 A. RUCO recommends a \$58.88 flat rate residential monthly charge, which is
11 a \$13.24 or 29 percent increase over the present rate of \$45.64.

12
13 RUCO also recommends a \$0.23608 per gallon per day commodity usage
14 rate for commercial customers, which is a \$0.0531 or 29 percent increase
15 over the present rate of \$0.18298.

16
17 The rate design provides for a 23 percent increase equally across the
18 residential and standard commercial classes of service, which is a
19 decrease of 33 percent over the Company's requested 56 percent
20 increase.

21
22
23

1 Q. Have you prepared a Schedule presenting proof of your recommended
2 revenue?

3 A. Yes, I have. Proof that my recommended rate designs will produce the
4 recommended required revenue as illustrated, is presented also on
5 Schedule RLM-16.

6

7 Q. Does this conclude your direct testimony?

8 A. Yes, it does.

APPENDIX 1

Qualifications of Rodney Lane Moore

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

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

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

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

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RESUME OF RATE CASE AND REGULATORY PARTICIPATION

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

Utility Company**Docket No.**

Dragoon Water Company	W-01917A-01-0851
Roosevelt Lake Resort, Inc.	W-01958A-02-0283
Southwest Gas Company	G-01551A-02-0425
Arizona-American Water Company	W-01303A-02-0867 et al.
Rio Rico Utilities, Inc.	WS-02676A-03-0434
Qwest Corporation	T-01051B-03-0454
Chaparral City Water Company	W-02113A-04-0616
Southwest Gas Company	G-01551A-04-0876
Arizona-American Water Company	W-01303A-05-0405
Far West Water and Sewer Company	WS-03478A-05-0801
Gold Canyon Sewer Company	SW-02519A-06-0015
Arizona-American Water Company	WS-01303A-06-0403
UNS Gas, Inc.	G-04204A-06-0463 et al.
UNS Electric, Inc.	E-04204A-06-0783
Tucson Electric Power Company	E-01933A-07-0402
Southwest Gas Company	G-01551A-07-0504
Arizona-American Water Company	W-01303A-08-0227 et al.
Arizona Water Company	W-01445A-08-0440

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RLM-4	1	RATE BASE ADJUSTMENT NO. 1 - RUCO ADJUSTMENT TO GROSS PLANT AND ACCUMULATED DEPRECIATION
TESTIMONY		RATE BASE ADJUSTMENT NO. 2 - RUCO ADJUSTMENT TO ADVANCES IN AID OF CONSTRUCTION
RLM-5	1	INTENTIONALLY LEFT BLANK
RLM-6	1	OPERATING INCOME
RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - TEST YEAR DEPRECIATION EXPENSE
RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - PROPERTY TAX COMPUTATION
RLM-10		OPERATING INCOME ADJUSTMENT NO. 3 - SCOTTSDALE WASTEWATER TREATMEN EXPENSE
RLM-11		OPERATING INCOME ADJUSTMENT NO. 4 - ANNUALIZED WASTEWATER TREATMENT EXPENSE
RLM-12		OPERATING INCOME ADJUSTMENT NO. 5 - UNNECESSARY AND/OR NON-RECURRING EXPENSES
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 6 - NORMALIZATION OF RENT EXPENSE
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 7 - NORMALIZATION OF TAX OTHER THAN INCOME TAX
RLM-13		OPERATING INCOME ADJUSTMENT NO. 8 - NORMALIZATION OF CHEMICAL EXPENSE
RLM-14		OPERATING INCOME ADJUSTMENT NO. 9 - INCOME TAX EXPENSE
RLM-15	1	COST OF CAPITAL
RLM-16	1	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Fair Value Rate Base	\$ 3,723,245	\$ 3,745,364
2	Adjusted Operating Income (Loss)	\$ (84,485)	\$ (27,286)
3	Current Rate Of Return (L2 / L1)	-2.27%	-0.73%
4	Required Operating Income (L5 X L1)	\$ 476,575	\$ 278,281
5	Required Rate Of Return On Fair Value Rate Base	12.80%	7.43%
6	Operating Income Deficiency (L4 - L2)	\$ 561,060	\$ 305,567
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)	<u>1.6286</u>	<u>1.6023</u>
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 913,763	\$ 489,604
9	Adjusted Test Year Revenue	\$ 1,580,170	\$ 1,580,170
10	Proposed Annual Revenue (L8 + L9)	\$ 2,493,933	\$ 2,069,774
11	Required Percentage Increase In Revenue (L8 / L9)	57.83%	30.98%
12	Rate Of Return On Common Equity	12.80%	8.22%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-2, RLM-6, And RLM-15

**REVENUE REQUIREMENT - CONT'D
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)	<u>(0.3759)</u>			
3	Subtotal (L1 + L2)	0.6241			
4	Revenue Conversion Factor (L1 / L3)	1.6023			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	<u>6.9680%</u>			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	32.9144%			
9	Effective Federal Income Tax Rate (L7 X L8)	<u>30.6209%</u>			
10	Combined Federal And State Income Tax Rate (L6 + L9)	<u>37.5889%</u>			
11	Required Operating Income (Sch. RLM-1, Col. (B), L4)	\$ 278,281			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Col. (B), L2)	<u>(27,286)</u>			
13	Required Increase In Operating Income (L11 - L12)		\$ 305,567		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 111,209			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	<u>(72,828)</u>			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 184,037		
17	Total Required Increase In Revenue (L13 + L16)		<u>\$ 489,604</u>		
CALCULATION OF INCOME TAX:					
18	Revenue (Sch. RLM-1, Col. (B), L10)			Recommended	
19	Operating Expense Excluding Income Tax (RLM-5, Col. (E), L25 - L24)			\$ 2,069,774	
20	Synchronized Interest (Col. (C), L37)			(1,680,284)	
21	Arizona Taxable Income (L18 + L19 + L20)			<u>(93,634)</u>	
22	Arizona State Income Tax Rate			\$ 295,855	
23	Arizona Income Tax (L21 X L22)			6.9680%	
24	Fed. Taxable Income (L21 - L23)			\$ 275,240	\$ 20,615
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%			68,344	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 90,594
31	Combined Federal And State Income Tax (L23 + L30)				<u>\$ 111,209</u>
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L24)				\$ (72,828)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L24)				<u>\$ 184,037</u>
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				32.91%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 3,745,364	
36	Weighted Avg. Cost Of Debt (Sch. RLM-15, Col. (F), L1)			2.50%	
37	Synchronized Interest (L35 X L36)			<u>\$ 93,634</u>	

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 11,357,735	\$ 302,402	\$ 11,660,137
2	Accumulated Depreciation	(5,625,025)	(3,298)	(5,628,323)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 5,732,710</u>	<u>\$ 299,104</u>	<u>\$ 6,031,814</u>
4	Advances In Aid Of Const.	\$ (1,457,009)	\$ (276,985)	\$ (1,733,994)
5	Contribution In Aid Of Const.	\$ (5,232,139)	\$ -	\$ (5,232,139)
6	Accumulated Amortization Of CIAC	4,214,384	-	4,214,384
7	NET CIAC (L5 + L6)	<u>\$ (1,017,755)</u>	<u>\$ -</u>	<u>\$ (1,017,755)</u>
8	Customer Meter Deposits	\$ (94,290)	\$ -	\$ (94,290)
9	Deferred Income Taxes & Credits	\$ 170,554	\$ -	\$ 170,554
10	Unamortized Finance Charges	\$ -	\$ -	\$ -
11	Deferred Regulatory Assets	\$ 389,035	\$ -	\$ 389,035
12	Allowance For Working Capital	\$ -	\$ -	\$ -
13	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	<u>\$ 3,723,245</u>	<u>\$ 22,119</u>	<u>\$ 3,745,364</u>

References:

Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
Column (B): RLM-3, Columns (B) Thru (G)
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) ADJ # 1 GROSS PLT & ACC DEP	(C) ADJ # 2 AIAC	(D) INTENT'NLY LEFT BLANK	(E) INTENT'NLY LEFT BLANK	(F) INTENT'NLY LEFT BLANK	(G) INTENT'NLY LEFT BLANK	(H) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 11,357,735	\$ 302,402	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,660,137
2	Accumulated Depreciation	(5,625,025)	(3,298)	-	-	-	-	-	(5,628,323)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 5,732,710</u>	<u>\$ 299,104</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,031,814</u>
4	Advances In Aid Of Const.	\$ (1,457,009)	\$ -	\$ (276,985)	\$ -	\$ -	\$ -	\$ -	\$ (1,733,994)
5	Contribution In Aid Of Const.	\$ (5,232,139)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,232,139)
6	Accumulated Amortization Of CIAC	4,214,384	-	-	-	-	-	-	4,214,384
7	NET CIAC (L5 + L6)	<u>\$ (1,017,755)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,017,755)</u>
8	Customer Meter Deposits	\$ (94,290)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (94,290)
9	Deferred Income Taxes & Credits	\$ 170,554	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 170,554
10	Unamortized Finance Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11	Deferred Regulatory Assets	\$ 389,035	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 389,035
12	Allowance For Working Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	<u>\$ 3,723,245</u>	<u>\$ 299,104</u>	<u>\$ (276,985)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,745,364</u>

References:

- Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
- Column (B): Adjustment No. 1 - RUCO Adjustment To GPIS And Acc. Dep. (See Testimony and Schedule RLM-4)
- Column (C): Adjustment No. 2 - RUCO Adjustment To AIAC (See Testimony)
- Column (D): Intentionally Left Blank
- Column (E): Intentionally Left Blank
- Column (F): Intentionally Left Blank
- Column (G): Intentionally Left Blank
- Column (H): Sum Of Columns (A), (B), (C), (D), (E) & (F)

**TEST YEAR PLANT SCHEDULE
YEAR ENDED JUNE 30, 2008**

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)	(G)
			COMPANY T/Y PLANT AS FILED	RUCO TEST-YEAR ADJUSTMENTS PLANT ADDITIONS	PLANT RETIRMENTS	DEPRECIATION EXPENSE	TOTAL PLANT VALUE	ACCUMULATED DEPRECIATION	NET PLANT VALUE
1	351	Organization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352	Franchises	-	-	-	-	-	-	-
3	353	Land and Land Rights	461,300	-	-	-	461,300	-	461,300
4	354	Structures And Improvements	2,557,920	-	-	-	2,557,920	(1,067,642)	1,490,278
5	355	Power Generation Equipment	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	706,291	-	-	-	706,291	(217,363)	488,928
7	361	Collection Sewers - Gravity	4,284,949	-	-	-	4,284,949	(2,869,293)	1,415,656
8	362	Special Collecting Structures	-	-	-	-	-	-	-
9	363	Services To Customers	198,723	-	-	-	198,723	(145,843)	52,880
10	364	Flow Measuring Devices	31,512	-	-	-	31,512	(32,828)	(1,316)
11	365	Flow Measuring Installations	179,622	-	-	-	179,622	(57,602)	122,020
12	370	Receiving Wells	690,628	276,985	(13,208)	(4,392)	954,405	(274,222)	680,183
13	371	Effluent Pumping Equipment	654,845	-	-	-	654,845	(437,967)	216,878
14	380	Treatment And Disposal Equip	143,578	38,625	-	(966)	182,203	(16,004)	166,199
15	381	Plant Sewers	123,289	-	-	-	123,289	(105,593)	17,696
16	382	Outfall Sewer Lines	-	-	-	-	-	-	-
17	389	Other Plant And Misc Equip	939,433	-	-	-	939,433	(263,481)	675,952
18	390	Office Furniture And Equipment	224,588	-	-	-	224,588	(75,701)	148,887
19	391	Transportation Equipment	107,367	-	-	-	107,367	(60,947)	46,420
20	393	Tools, Shop And Garage Equip	5,755	-	-	-	5,755	(203)	5,552
21	394	Laboratory Equipment	7,488	-	-	-	7,488	(2,624)	4,864
22	395	Power Operated Equipment	-	-	-	-	-	-	-
23	396	Communication Equipment	40,451	-	-	-	40,451	(1,011)	39,440
24	398	Other Tangible Plant	-	-	-	-	-	-	-
			(4)				(4)	2	
25		TOTAL WASTEWATER PLANT	<u>\$ 11,357,735</u>	<u>\$ 315,610</u>	<u>\$ (13,208)</u>	<u>\$ (5,358)</u>	<u>\$ 11,660,137</u>	<u>\$ (5,628,323)</u>	<u>\$ 6,031,816</u>
26		Company As Filed					\$ 11,357,735	\$ (5,625,025)	
27		Difference					<u>\$ 302,402</u>	<u>\$ (3,298)</u>	
28		RUCO Adjustment (Line 27) (See RLM-3, Column (B))					<u>\$ 302,402</u>	<u>\$ (3,298)</u>	<u>\$ 299,104</u>

References:

Column (A): RUCO Workpapers "WP RLM-4(5)"
Columns (B) (C): Testimony, RLM
Column (D): [(Col. (A) + Col. (B) + Col. (C)) X WP RLM-4, Page 1, Col. (A) X 1/2 yr. conv.]

Column (E): Column (A) + Column (B) + Column (C)
Column (F): WP RLM-4, Page 5, Col. (E) + (Col. (C) + Col. (D) - \$11,148.46 (See Testimony, Pg 9)
Column (G): (Column (E) + Column (F))

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

Schedule RLM-5
Page 1 of 1

RUCO MADE NO POST TEST-YEAR PLANT ADJUSTMENTS

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
Revenues:						
1	Flat Rate Revenues	\$ 1,557,337	\$ -	\$ 1,557,337	\$ 485,943	\$ 2,043,280
2	Misc. Service Revenues	15,917	-	15,917	3,661	19,578
3	Other WW Revenues	6,916	-	6,916	-	6,916
4	TOTAL OPERATING REVENUE	\$ 1,580,170	\$ -	\$ 1,580,170	\$ 489,603	\$ 2,069,773
Operating Expenses:						
5	Salaries And Wages	\$ -	-	\$ -	\$ -	\$ -
6	Purchased WW Treatment	335,255	(7,551)	327,704	-	327,704
7	Sludge Removal Expense	706	-	706	-	706
8	Purchased Power	54,690	-	54,690	-	54,690
9	Fuel For Power Production	928	-	928	-	928
10	Chemicals	37,489	3,185	40,674	-	40,674
11	Materials And Supplies	11,224	-	11,224	-	11,224
12	Contractual Services	9,362	(4,723)	4,639	-	4,639
13	Contractual Services - Testing	16,955	-	16,955	-	16,955
14	Contractual Services - Other	553,043	3,942	556,984	-	556,984
15	Equipment Rentals	1,863	-	1,863	-	1,863
16	Rents	19,830	18,432	38,262	-	38,262
17	Transportation Expenses	34,445	-	34,445	-	34,445
18	Insurance - General Liability	18,704	-	18,704	-	18,704
19	Insurance - Other	990	-	990	-	990
20	Regulatory Comm. Expense	60,000	-	60,000	-	60,000
21	Miscellaneous Expense	20,845	(52)	20,793	-	20,793
22	Bad Debt Expense	11,962	-	11,962	-	11,962
23	Scottsdale Cap. (Oper'g Lease)	164,522	-	164,522	-	164,522
24	Amort. Scottsdale Cap.	48,629	-	48,629	-	48,629
25	Depreciation Expense	224,818	10,715	235,533	-	235,533
26	Taxes Other Than Income	(1,780)	1,780	-	-	-
27	Property Taxes	32,414	(2,338)	30,077	-	30,077
28	Income Tax	7,760	(80,588)	(72,828)	184,037	111,209
29	TOTAL OPERATING EXPENSES	\$ 1,664,655	\$ (57,198)	\$ 1,607,456	\$ 184,037	\$ 1,791,493
30	OPERATING INCOME (LOSS)	\$ (84,485)		\$ (27,286)		\$ 278,280

References:

- Column (A): Company Schedule C-1
- Column (B): RLM-7, Columns (B) Thru (K)
- Column (C): Column (A) + Column (B)
- Column (D): Revenue From RLM-1, Column (B), Line 8 And Income Tax From RLM-1, Column (B), Line 8 - Line 6
- Column (E): Column (C) + Column (D)

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

LINE NO.	(A) COMPANY AS FILED	(B) ADJ # 1 DEP. EXPENSE	(C) ADJ # 2 PROPERTY TAX	(D) ADJ # 3 & 4 SC'SDALE TREATMT	(E) ADJ # 5 UNNES'R Y EXPENSES	(F) ADJ # 6 NORM'LIZE RENT	(G) ADJ # 7 NORM'LIZE OTH'R TAX	(H) ADJ # 8 NORM'LIZE CHEMICAL	(I) INTENT'LY LEFT BLANK	(J) INTENT'LY LEFT BLANK	(K) ADJ # 9 INCOME TAX	(L) RUCO AS ADJT'D
Revenues:												
1	Flat Rate Revenues	\$ 1,557,337	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,557,337
2	Misc. Service Revenues	15,917	-	-	-	-	-	-	-	-	-	15,917
3	Other WW Revenues	6,916	-	-	-	-	-	-	-	-	-	6,916
4	TOTAL OPR'G REV.	<u>\$ 1,580,170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,580,170</u>
Operating Expenses:												
5	Salaries And Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purchased WW Treatment	335,255	-	-	(7,551)	-	-	-	-	-	-	327,704
7	Sludge Removal Expense	706	-	-	-	-	-	-	-	-	-	706
8	Purchased Power	54,690	-	-	-	-	-	-	-	-	-	54,690
9	Fuel For Power Production	928	-	-	-	-	-	-	-	-	-	928
10	Chemicals	37,489	-	-	-	-	-	3,185	-	-	-	40,674
11	Materials And Supplies	11,224	-	-	-	-	-	-	-	-	-	11,224
12	Contractual Services	9,362	-	-	-	(4,723)	-	-	-	-	-	4,639
13	Contractual Services - Testing	16,955	-	-	-	-	-	-	-	-	-	16,955
14	Contractual Services - Other	553,043	-	-	-	3,942	-	-	-	-	-	556,984
15	Equipment Rentals	1,863	-	-	-	-	-	-	-	-	-	1,863
16	Rents	19,830	-	-	-	-	18,432	-	-	-	-	38,262
17	Transportation Expenses	34,445	-	-	-	-	-	-	-	-	-	34,445
18	Insurance - General Liability	18,704	-	-	-	-	-	-	-	-	-	18,704
19	Insurance - Other	990	-	-	-	-	-	-	-	-	-	990
20	Regulatory Comm. Expense	60,000	-	-	-	-	-	-	-	-	-	60,000
21	Miscellaneous Expense	20,845	-	-	-	(52)	-	-	-	-	-	20,793
22	Bad Debt Expense	11,962	-	-	-	-	-	-	-	-	-	11,962
23	Scottsdale Cap. (Oper'g Lease)	164,522	-	-	-	-	-	-	-	-	-	164,522
24	Amort. Scottsdale Cap.	48,629	-	-	-	-	-	-	-	-	-	48,629
25	Depreciation Expense	224,818	10,715	-	-	-	-	-	-	-	-	235,533
26	Taxes Other Than Income	(1,780)	-	-	-	-	-	1,780	-	-	-	-
27	Property Taxes	32,414	-	(2,338)	-	-	-	-	-	-	-	30,077
28	Income Tax	7,760	-	-	-	-	-	-	-	-	(80,588)	(72,828)
29	TOTAL OPR'G EXP.	<u>\$ 1,664,655</u>	<u>\$ 10,715</u>	<u>\$ (2,338)</u>	<u>\$ (7,551)</u>	<u>\$ (834)</u>	<u>\$ 18,432</u>	<u>\$ 1,780</u>	<u>\$ 3,185</u>	<u>\$ -</u>	<u>\$ (80,588)</u>	<u>\$ 1,607,456</u>
30	OPR'G INC. (LOSS)	<u>\$ (84,485)</u>										<u>\$ (27,286)</u>

References:

- Column (A): Company Schedule C-1
- Column (B): Testimony, RLM And Schedule RLM-8
- Column (C): Testimony, RLM And Schedule RLM-9
- Column (D): Testimony, RLM And Schedule RLM-10
- Column (E): Testimony, RLM And Schedule RLM-11
- Column (F): Testimony, RLM And Schedule RLM-12
- Column (G): Testimony, RLM
- Column (H): Testimony, RLM
- Column (I): Testimony, RLM And Schedule RLM-13
- Column (J): Intentionally Left Blank
- Column (K): Testimony, RLM And Schedule RLM-14
- Column (L): Sum Of Columns (A) Thru (K)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) APR'D DEP. RATE	(C) TEST YEAR DEPREC'N EXPENSE
1	351	Organization	\$ -	0.00%	\$ -
2	352	Franchises	-	0.00%	-
3	353	Land and Land Rights	461,300	0.00%	-
4	354	Structures And Improvements	2,557,920	3.33%	85,179
5	355	Power Generation Equipment	-	5.00%	-
6	360	Collection Sewers - Force	706,291	2.00%	14,126
7	361	Collection Sewers - Gravity	4,284,949	2.00%	85,699
8	362	Special Collecting Structures	-	2.00%	-
9	363	Services To Customers	198,723	2.00%	3,974
10	364	Flow Measuring Devices	31,512	10.00%	3,151
11	365	Flow Measuring Installations	179,622	10.00%	17,962
12	370	Receiving Wells	954,405	3.33%	31,782
13	371	Effluent Pumping Equipment	654,845	12.50%	81,856
14	380	Treatment And Disposal Equip	182,203	5.00%	9,110
15	381	Plant Sewers	123,289	5.00%	6,164
16	382	Outfall Sewer Lines	-	3.33%	-
17	389	Other Plant And Misc Equip	939,433	6.67%	62,660
18	390	Office Furniture And Equipment	224,588	6.67%	14,980
19	391	Transportation Equipment	107,367	20.00%	21,473
20	393	Tools, Shop And Garage Equip	5,755	5.00%	288
21	394	Laboratory Equipment	7,488	10.00%	749
22	395	Power Operated Equipment	-	5.00%	-
23	396	Communication Equipment	40,451	10.00%	4,045
24	398	Other Tangible Plant	-	10.00%	-
25		TOTALS	<u>\$ 11,660,141</u>		<u>\$ 443,198</u> (1)
26		Less: Amortizations Of CIAC (RLM-2, Col. (C), Line 5)	\$ (5,232,139)	3.9690%	(207,665)
27		TOTAL DEPRECIATION EXPENSE (Line 25 + Line 26)			<u>\$ 235,533</u>
28		Test Year Depreciation Expense As Filed (Co. Sch. C-1)			224,818
29		Decrease Of Depreciation Expense (Line 27 - Line 28)			<u>\$ 10,715</u>
30		RUCO Adjustment (Line 29) (See RLM-7, Column (B), Line 25)			<u>\$ 10,715</u>

References:

- Column (A): RLM-4, Column (E)
- Column (B): Company Schedule C-2, Page 2
- Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 1,580,170	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	1,580,170	
3	Proposed Revenues	Sch. RLM-6, Col (E), Ln 4	2,069,773	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 5,230,113	
5	Average Annual Operating Revenues	Line 4 / 3	<u>1,743,371</u>	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 3,486,742
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1	\$ 142,018	
8	10% Of CWIP	Line 7 X 10%		\$ 14,202
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	RLM-4, Col. (B), Ln 19	\$ 107,367	
10	Acc. Dep. Of Transportation Equipment	RLM-4, Col. (C), Ln 19	<u>(60,947)</u>	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ (46,420)
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		<u>\$ 3,454,524</u>
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	21.0%	
14	Assessed Value	Line 12 X Line 13	\$ 725,450	
Property Tax Rates:				
15	Primary Tax Rate - 2005 Tax Notice	RUCO Data Req. 1.12	4.1459%	
16	Secondary Tax Rate - 2005 Tax Notice	RUCO Data Req. 1.12	<u>0.0000%</u>	
17	Estimated Tax Rate Liability	Line 15 + Line 16	4.15%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		<u>\$ 30,076</u>
19	Test Year Adjusted Property Tax Expense As Filing	Co. Sch. C-1, Line 25		<u>32,414</u>
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ (2,338)
21	RUCO Adjustment (See RLM-7, Column (C), Line 27)	Line 20		<u><u>\$ (2,338)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
PURCHASED WASTEWATER TREATMENT FROM THE CITY OF SCOTTSDALE**

LINE NO.	DESCRIPTION	(A) SEWAGE FLOW (Gallon)	(B) COST PER 1,000 GAL.	(C) RAW BILLING	(D) ENVIRO TAX 18.953%	(E) SUBJECT TO SALES TAX	(F) SALES TAX 1.65%	(G) SCOTTSDALE BILLING
COMPANY CALCULATION								
1	Co.'s Computation Of Test-Year Billings (Co. Sch C-2, Pg 7)	103,757,173		\$ 240,741	\$ 45,628	\$ 286,368	\$ 4,725	\$ 291,093
2	Company's Computation Under New Rate (Co. Sch C-2, Pg 7)	103,757,173	\$ 2.59	\$ 268,731	\$ 50,933	\$ 319,664	\$ 5,274	\$ 324,938
3	Company's Adjustment Number 6 (Line 2 - Line 1)							<u>\$ 33,845</u>
RUCO CALCULATION								
4	RUCO's Computation Under Actual New Rate Per Co. WP's	103,757,173	\$ 2.53	\$ 262,506	\$ 49,753	\$ 312,258	\$ 5,152	\$ 317,411
5	Actual Increase In Purchased Wastewater Treatment (Line 4 - Line 1)							<u>\$ 26,317</u>
6	Difference Between Calculations Using Actual new Rate (Line 5 - Line 4)							<u>\$ (7,528)</u>
7	RUCO Adjustment (Line 6) (See RLM-7, Column (D), Line 6)							<u>\$ (7,528)</u>

References:

- Column (A): Company Workpapers
- Column (B): Correction To New Rate (Company filed Rate Incorrect As \$2.59 / Actual Rate Is \$2.53 Per Response To RUCO DR 2.02)
- Column (C): Column (A) X Column (B)
- Column (D): Column (C) X 18.953% Environment Tax
- Column (E): Column (C) + Column (D)
- Column (F): Column (E) X 1.65% Sales Tax
- Column (G): Column (E) + Column (F)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4
ANNUALIZATION PURCHASED WASTEWATER TREATMENT**

LINE NO.	DESCRIPTION	REFERENCE	(A) AMOUNT
1	Adjusted Year Purchased Wastewater Treatment (Scottsdale)	RLM-10, Column (G), Line 4	\$ 317,411
2	Gallons Treated By Scottsdale (In 1000's)	RLM-10, Column (A), Line 1	103,757
3	Cost Per 1,000 gallons (Per Co. Response To Staff DR MEM 5.2)	Line 1 / Line 2	\$ 3.06
4	Additional Wasterwater Gallons (In 1,000's) From Rev. Annualization	Company's Workpapers	451
5	Percent Diverted To Scottsdale	Company's Workpapers	70.94%
6	Additonal Gallons Treated By Scottsdale (In 1,000's)	Line 4 X Line 5	320
7	Increase (Decrease) In Purchased Wastewater Treatmer	Line 3 X Line 6	\$ 979
8	Company's Calculation Of Annualized Purchased WW Treatmen	Company Schedule C-2, Page 8	\$ 1,002
9	Difference	Line 8 - Line 7	\$ (24)
10	RUCO Adjustment (See RLM-7, Column (E), Line 6)	Line 9	\$ (24)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
DISALLOWANCE OF UNNECESSARY AND/OR NON-RECURRING OPERATING EXPENSES**

LINE NO.	DESCRIPTION	REFERENCE	(B) TOTAL
1	Disallowed Contractual Services Expenses Legal & Survey Costs To Clarify BMSC Easement Dispute	Co. Response To Staff D. R. MEM 1.55	\$ (4,723)
2	Disallowed Contractual Services Expenses - Other Clean-Up Costs For A Sewer Spill	Co. Response To Staff D. R. MEM 1.55	(39,870)
3	Sparkletts (13 Journal Entries) (Bottled Water)		(908)
4	Increased Contractual Services Expenses - Other Transfer Costs From LPSCO - Aerotek Environmental	Co. Response To Staff D. R. CSB 10.5	42,200
5	Increased Contractual Services Expenses - Other Revised Central Office Fixed Overhead Costs	Co. Responses To D. R. CSB 10.8 & 10.14	2,519
6	Disallowed Miscellaneous Expenses Charitable Donations Allocated To BMSC	Co. Response To Staff D. R.t MEM 1.46	(52)
7	RUCO Adjustment To Unnecessary/Non-Recurring Expense	Sum Of Lines 1 Thru 17	<u>\$ (834)</u>
8	RUCO Adjustment (See RLM-7, Column (F))	Line 18	<u>\$ (834)</u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 8
NORMALIZATION OF CHEMICAL EXPENSES**

LINE NO.	DESCRIPTION	REFERENCE	(A) AMOUNT	(B)
CALCULATION OF TEST-YEAR CHEMICAL EXPENSES				
1	Thoigard Used From July To November 2007	Company Worpapers	\$	8,169
2	Sodium Hydroxide (Ordor Control Chemical)			
3	Gallons Used During Test Year (7 Months)	Company Response To RUCO DR 2.03	6,997	
4	Cost Per Gallons	Company Response To RUCO DR 2.03	\$ 1.65	
5	Sub-Total Of Sodium Hydroxide	Line 2 X Line 3	\$ 11,545.05	
6	Delivery costs (14 deliveries at \$45 per)	Company Response To RUCO DR 2.03	630.00	
7	Sales Tax Of 8.5%	Sum Of Lines 5 & 6 X 8.5%	1,040.70	
8	Total Cost Of Sodium Hydroxide	Sum Of Lines 5, 6 & 7		13,216
9	Total Cost Of Test-Year Chemical Expense:	Sum Of Lines 1 & 8	\$	<u>21,385</u>
NORMALIZATION OF TEST-YEAR CHEMICAL EXPENSES				
10	Sodium Hydroxide			
11	Projected Gallons Used During A Full Test Yea	Line 3 / 7 Months X 12 Months	11,995	
12	Cost Per Gallons Effective January 2009	Company Response To RUCO DR 2.03	\$ 2.05	
13	Sub-Total Of Sodium Hydroxide		\$ 24,589.46	
14	Delivery costs (24 deliveries at \$32 per)	Company Response To RUCO DR 2.03	768.00	
15	Sales Tax Of 8.5%	Sum Of Lines 12 & 13 X 8.5%	2,155.38	
16	Total Normalization Of Test-Year Chemical Exp	Sum Of Lines 12,13 & 14		\$ <u>27,513</u>
17	Calculated Additional Costs To Chemcial Exp	Line 15 - Line 9	\$	<u>6,128</u>
18	Company Adjustment	Schedule C-2, Adjusmtent 8	\$	2,943
19	Difference	Line 16 - Line 17	\$	<u>3,185</u>
20	RUCO Adjustment (See RLM-7, Column (I))	Line 18	\$	<u>3,185</u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 9
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-5, Column (C), L26 + L24	\$ (100,114)
LESS:			
2	Arizona State Tax	Line 11	13,500
3	Interest Expense	Note (A) Line 20	(93,634)
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (180,248)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	32.91%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (59,328)
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ (100,114)
LESS:			
8	Interest Expense	Note (A) Line 20	(93,634)
9	State Taxable Income	Line 7 - Line 8	\$ (193,748)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (13,500)
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (59,328)
13	State Income Tax Expense	Line 11	(13,500)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (72,828)
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		7,760
16	Total Income Tax Adjustmen	Line 14 - Line 15	\$ (80,588)
17	RUCO Adjustment (See Sch. RLM-7, Column (I), L28)	Line 16	\$ (80,588)

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (E), L15)	\$ 3,745,364
19	Weighted Cost Of Debt (Sch. RLM-15, Col. (F), L1)	2.50%
20	Interest Expense (L17 X L18)	\$ 93,634

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST RATE
1	Long-Term Debt				40.00%	6.26%	2.50%
2	Stockholder's Equity				60.00%	8.22%	4.93%
3	TOTAL CAPITAL				<u>100.00%</u>		
4	COST OF CAPITAL						<u>7.43%</u>

References:

- Column (A): Intentionally Left Blank
- Column (B): Intentionally Left Blank
- Column (C): Intentionally Left Blank
- Column (D): Hypothetical Capital Structure
- Column (E): Testimony, WAR
- Column (F): Column (D) X Column (E)

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE**

LINE NO.	CUSTOMER CLASSIFICATION	(A) BILL DETERMINENTS	(B) MONTHLY RATES & CHARGES	(C) REVENUE
1	Residential Customers	1,972	\$ 58.88	\$ 1,393,338
2	Commercial (Standard Rate) Customers	125	\$ -	\$ -
3	Commodity Usage (Per Thousand Gallons)	2,069,505	\$ 0.23608	488,559
4	Sub-Total			\$ 488,559
5	Commercial (Special Rate) Boulders Resort	1	\$ 6,927.63	\$ 83,131.57
6	Desert Forest	1	\$ 1,652.53	\$ 19,830.33
7	El Pedegral	1	\$ 3,726.92	\$ 44,723.06
8	Boulders Club	1	\$ 283.29	\$ 3,399.48
9	Spanish Village	1	\$ 1,176.84	\$ 14,122.03
10	Sub-Total			\$ 165,206.47
11	Effluent Sales (Per Thousand Gallons)	42,513	\$ 0.46051	\$ 19,578
12	TOTAL REVENUE PER BILL DETERMINENTS			\$ 2,066,682
13	Flat Rate Revenues			\$ 2,047,104
14	Miscellaneous Service Revenues			19,578
15	Other Wastewater Revenues			6,916
16	Reconciliation With Book Value			(3,824)
17	TOTAL PROPOSED REVENUE			\$ 2,069,773
18	RUCO RECOMMENDED REVENUE REQUIREMENT			\$ 2,069,774
19	DIFFERENCE			\$ (0)