

**BLACK MOUNTAIN SEWER CORPORATION**

**DOCKET NO. SW-02361A-08-0609**

**SURREBUTTAL TESTIMONY**

**OF**

**RODNEY L. MOORE**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**NOVEMBER 9, 2009**

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1 **INTRODUCTION**

2 Q. Please state your name for the record.

3 A. My name is Rodney Lane Moore.

4

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

6 A. Yes, I have. I filed direct testimony in this docket on September 18, 2009.

7

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

9 A. My surrebuttal testimony will address Company's rebuttal comments  
10 pertaining to adjustments I sponsored in my direct testimony.

11

12 **SUMMARY OF ADJUSTMENTS**

13 Q. After analyzing the Company's rebuttal testimony, did RUCO find positions  
14 of agreement?

15 A. Yes. RUCO is now in substantial agreement with several of the  
16 Company's rebuttal adjustments identified by BMSC as:

17 **Rate Base**

- 18 1. Unrecorded Plant Additions (RUCO Adjustment No. 1);  
19 2. Unrecorded Plant Retirements (RUCO Adjustment No. 1);  
20 3. Capitalized Expenses (RUCO Adjustment No.1); and  
21 4. Odor Control Unit (RUCO Adjustment No.1).

22 **Operating Income**

- 23 1. Depreciation (RUCO Adjustment No. 1);  
24 2. Expensed Plant (RUCO Surrebuttal Adjustment No. 9);  
25 3. Scottsdale WW Treatment (RUCO Adjustments No. 3 and 4);

- 1           4.     Annualized WW Treatment (RUCO Adjustments No. 3 and 4);
- 2           5.     Chemical Expenses (RUCO Adjustment No. 8);
- 3           6.     Annualize Chemical Expenses (RUCO Surrebuttal Adjustment
- 4                 No. 10);
- 5           7.     Testing Expense (RUCO Surrebuttal Adjustment No. 11);
- 6           8.     Rent Expense (RUCO Adjustment No. 6);
- 7           9.     Meals/Beverages/Contributions (RUCO Adjustment No. 5);
- 8           10.    Contractual Services (RUCO Adjustment No. 5);
- 9           11.    Taxes Other Than Income (RUCO Adjustment No. 7);
- 10          12.    Expense Allocation (RUCO Adjustment No. 5);
- 11          13.    Contractual Services (RUCO Surrebuttal Adjustment No. 12);
- 12

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

14    A.     My surrebuttal testimony will address the following RUCO proposed  
15           adjustments:

16           **Rate Base**

17           Gross Plant-In-Service and Accumulated Depreciation – This is a revision  
18           to my direct testimony adjustment, which reflects updated information  
19           provided by the Company’s rebuttal testimony. RUCO is now in  
20           substantial agreement with the Company.

21           Advances In Aid Of Construction (“AIAC”) – This is a revision to my direct  
22           testimony adjustment, which reflects updated information provided by the  
23           Company’s rebuttal testimony. RUCO is now in substantial agreement  
24           with the Company.

25           Deferred Income Taxes – This is a revision to my direct testimony  
26           adjustment, which reflects updated information provided by the

1 Company's rebuttal testimony. RUCO is now in substantial agreement  
2 with the Company.

3 Working Capital – RUCO has not changed the recommendation of a zero  
4 allowance for working capital.

5 **Operating Income**

6 Test Year Depreciation Expense – This is a revision to my direct testimony  
7 adjustment, which reflects updated information provided by the  
8 Company's rebuttal testimony. RUCO is now in substantial agreement  
9 with the Company.

10 Property Tax Expense - This adjustment reflects property tax expense  
11 based on RUCO's calculation of adjusted and proposed operating  
12 revenues.

13 City of Scottsdale Wastewater Treatment Expense – RUCO is now in  
14 substantial agreement with the Company. However, the Company has a  
15 computation error to be corrected in rejoinder testimony.

16 Unnecessary and/or Non-Recurring Operating Expenses – This  
17 adjustment has several components, although RUCO is now in substantial  
18 agreement with the Company in five out of the seven components, RUCO  
19 has to recommend additional adjustments in surrebuttal testimony on the  
20 two areas of disagreement.

21 Normalization of Chemical Expenses – RUCO is now in substantial  
22 agreement with the Company. However, RUCO has a \$6.00 computation  
23 error to be corrected in surrebuttal testimony.

1           Capitalization of Expenses - RUCO is now in substantial agreement with  
2           the Company over plant items incorrectly recorded as operating expenses.  
3           Thus, RUCO has to recommend an additional adjustment in surrebuttal  
4           testimony.

5           Annualization of Chemical Expenses - RUCO is now in substantial  
6           agreement with the Company. Thus, RUCO has to recommend an  
7           additional adjustment in surrebuttal testimony.

8           Bad Debt Expense - RUCO has not altered its position and does not  
9           recommend an adjustment for bad debt expense.

10          Rate Case Expense - RUCO will provide a final recommended level of  
11          rate case expense when it files final schedules after the evidentiary  
12          hearing on the instant case is concluded.

13          Income Tax Expense – This adjustment reflects income tax expenses  
14          calculated on RUCO's recommended revenues and expenses.

15

16          To support the adjustments in my surrebuttal testimony, I prepared  
17          seventeen Surrebuttal Schedules, which are filed concurrently in my  
18          surrebuttal testimony.

19

20

21

22

23

1 **RATE BASE**

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

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

6 A. RUCO and the Company are now in substantial agreement with the level  
7 of gross plant-in-service and accumulated depreciation as adjusted in my  
8 surrebuttal schedules. This adjustment consists of five elements.

9  
10 First, the Company finally provided the documentation requested during  
11 discovery, which verified the actual cost to replace a sewer lift station.  
12 RUCO had originally relied on the estimated cost of \$276,985; however,  
13 BMSC's documentation records the actual cost at \$254,251, a reduction of  
14 \$22,734.

15  
16 Second, RUCO agrees with Staff and the Company to capitalize plant,  
17 which was previously expensed; therefore, \$9,181 was removed from  
18 operating expenses in operating income adjustment No. 9 (discussed  
19 below) and added to plant-in-service through this adjustment.

20  
21 Third, the Company accepts RUCO adjustment to remove the retired lift  
22 station from rate base; therefore, the Company rate base adjustment B  
23 decreases BMSC's plant-in-service by \$13,208.

1 Fourth, these three adjustments to plant-in-service result in a reduction in  
2 the associated accumulated depreciation.

3  
4 Fifth, the Company identified, and RUCO accepted, a correction to reflect  
5 the actual date of implementation of the authorized depreciation rates from  
6 the prior rate case. Originally, parties had inadvertently used the date of  
7 December 5, 2005 instead of the actual Decision's docketed date of  
8 December 5, 2006, one year later.

9  
10 In conclusion, as shown Schedule SURR RLM-3, column B, and with  
11 supporting Schedule SURR RLM-4, RUCO and the Company recommend  
12 an aggregate increase to the rate base of \$187,573.

13  
14 Rate Base Adjustment No. 2 – Advances In Aid Of Construction (“AIAC”)

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

16 A. RUCO and the Company are now in substantial agreement with the level  
17 of AIAC. This is a conforming adjustment to correct the level of AIAC  
18 associated with the revisions to the plant-in-service to reflect the actual  
19 replacement cost of a sewer lift station (versus the estimated value relied  
20 on in direct testimony), as outlined in the Company's rebuttal testimony  
21 and explained in the first element of rate base adjustment No. 1 above.

22

23

1           Therefore, as shown on Schedule SURR RLM-3, column C, I revised my  
2           direct testimony to reflect the correct level of AIAC, \$1,711,260, with an  
3           adjustment to decrease the rate base by \$254,251.

4  
5           Rate Base Adjustment No. 3 – Deferred Income Taxes (“DITs”)

6           Q.    Please explain the basis for your adjustment to DITs.

7           A.    RUCO and the Company are now in substantial agreement with the level  
8           of DITs. This is a conforming adjustment to correct the level of DITs  
9           associated changes to rate base, as explained in the rate base  
10          adjustments Nos. 1 and 2 above, and outlined in the Company’s rebuttal  
11          testimony.

12  
13          Therefore, as shown on Schedule SURR RLM-3, column D, I revised my  
14          direct testimony to reflect the correct level of DITs with an adjustment to  
15          increase the rate base by \$24,344.

16  
17          Rate Base Adjustment No. 4 – Allowance For Working Capital

18          Q.    Please explain the basis for RUCO’s position on the allowance for working  
19          capital.

20          A.    RUCO accepted the Company’s original position on the allowance for  
21          working capital, because working capital calculations and lead/lag studies  
22          are time-consuming and expensive.

23

1           The Company did not include a request for an allowance for working  
2           capital to avoid disputes and eliminate rate case expense associated with  
3           this issue.

4  
5           Therefore, as shown on Schedule SURR RLM-3, column D, RUCO, in the  
6           instant case, will avoid the time-consuming analysis of a lead/lag study  
7           and continue to recommend a zero working capital allowance.

8

9           **OPERATING INCOME**

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

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

12           A.     RUCO and the Company are now in substantial agreement with the level  
13           of test year depreciation expense. This adjustment reflects RUCO's end  
14           of test year gross plant-in-service. The adjustment is driven by the  
15           revisions to plant additions and retirements as explained previously in my  
16           testimony.

17

18           As shown on Schedule SURR RLM-7, column B and supporting Schedule  
19           SURR RLM-8, this adjustment increases adjusted test-year operating  
20           expenses by \$19,169.

21

22

23

1           Operating Income Adjustment No. 2 – Property Tax Computation

2   Q.    Did RUCO and the Company use the same methodology to calculate  
3       property tax expenses?

4   A.    Yes. This adjustment varies from the Company’s recommendation only to  
5       reflect RUCO’s proposed annual revenue.

6  
7       As shown on Schedule SURR RLM-7, column C and supporting Schedule  
8       SURR RLM-9, this adjustment decreases adjusted test-year operating  
9       expenses by \$2,440.

10  
11       Operating Income Adjustments Nos. 3 & 4 – City of Scottsdale

12       Wastewater Treatment Expense

13   Q.    Please explain your adjustment to the City of Scottsdale Wastewater  
14       treatment expense.

15   A.    RUCO and the Company are now in substantial agreement with the level  
16       of City of Scottsdale wastewater treatment expense. This adjustment  
17       reflects the most recent known and measurable fee structure between the  
18       City of Scottsdale and the Company. Documentation provided by the  
19       Company in its rebuttal filing indicates the cost to treat wastewater at the  
20       City of Scottsdale facility is \$2.60 per thousand gallons (excluding  
21       environmental fees and sales tax), effective July 2009. This adjustment  
22       has also been increased to recognize the annualization component of the  
23       expense.

1 As shown on Schedule SURR RLM-7, column D and supporting  
2 Schedules SURR RLM-10 and SURR RLM-11, this adjustment increases  
3 adjusted test-year operating expenses by \$1,258.

4  
5 Operating Income Adjustment No. 5 – Unnecessary and/or Non-Recurring  
6 Expenses

7 Q. Please explain the basis for your adjustment to the unnecessary and/or  
8 non-recurring expenses

9 A. RUCO and the Company are now in substantial agreement with five out of  
10 seven components of this adjustment. The seven components of this  
11 adjustment are listed below.

12  
13 First, RUCO maintains the legal and survey costs associated with an  
14 easement dispute is an unique and non-recurring expense and atypical for  
15 consideration as an appropriate historical test year operating expense.  
16 Therefore, RUCO disallowed \$4,723 of contractual services expense.

17  
18 Second, RUCO maintains the clean-up costs associated with a sewer spill  
19 are not the financial responsibility of the ratepayers. The Company has a  
20 duty to provide safe conduct and handling of the sewage from the  
21 customer's point of collection. Thus, the cost to clean up improperly  
22 discharged sewage is not an appropriate historical test year operating  
23 expense.

1           Therefore, RUCO disallowed \$39,870 of contractual services expense.

2

3           Third, RUCO and the Company are now in substantial agreement with the  
4           removal of \$908 for bottled water.

5

6           Fourth, RUCO and the Company are now in substantial agreement with  
7           the additional expense of \$42,200 to correctly account for contractual  
8           services previously recorded improperly under an affiliate – Litchfield Park  
9           Service Company.

10

11           Fifth, RUCO and the Company are now in substantial agreement with the  
12           removal of \$52 for charitable donations.

13

14           Sixth, RUCO and the Company are now in substantial agreement with the  
15           removal of \$526 for additional meals.

16

17           Seventh, RUCO and the Company are now in substantial agreement with  
18           the removal of \$1,490 for unallowable expenses identified by Staff on  
19           Schedule CSB-12, page 2.

20

21           In conclusion, as shown on Schedule SURR RLM-7, column E and  
22           supporting Schedule SURR RLM-12, this adjustment aggregately  
23           decreases adjusted test-year operating expenses by \$5,369.

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

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

3           A.     RUCO and the Company are now in substantial agreement with the  
4           appropriate level of rent expense. The Company accepts RUCO's  
5           adjustment to reflect a full twelve months of rental costs.

6  
7           As shown on Schedule SURR RLM-7, column F, this adjustment  
8           increases adjusted test-year operating expenses by \$18,432.

9

10           Operating Income Adjustment No. 7 – Normalization of Taxes Other Than  
11           Income

12          Q.     Please explain your adjustment to test year taxes other than income  
13          expense.

14          A.     RUCO and the Company are now in substantial agreement with the  
15          appropriate level of taxes other than income expense. RUCO accepted  
16          the Company's original adjustment to reflect a zero balance in this  
17          account.

18

19          As shown on Schedule SURR RLM-7, column G, this adjustment  
20          increases adjusted test-year operating expenses by \$1,780.

21

22

23

1           Operating Income Adjustment No. 8 – Normalization of Chemical  
2           Expenses

3           Q.     Please explain your adjustment to normalization chemical expenses.

4           A.     RUCO and the Company are now in substantial agreement with the  
5           appropriate test year level of the chemical expenses. RUCO accepts the  
6           Company's adjustment for a known and measurable change to the cost of  
7           chemicals. The Company provided documentation to reflect January 2009  
8           chemical costs. Therefore, the test year level of chemical expenses was  
9           adjusted for the known and measurable January 2009 chemical costs.

10

11           As shown on Schedule SURR RLM-7, column H, and supporting Schedule  
12           SURR RLM-13, this adjustment increases adjusted test-year operating  
13           expenses by \$3,191.

14

15           Operating Income Adjustment No. 9 – Capitalized Expenses

16           Q.     Please explain your adjustment to capitalize expenses.

17           A.     RUCO and the Company are now in substantial agreement to capitalize  
18           certain expenses. This is a companion adjustment to RUCO's rate base  
19           adjustment No. 1 (the second element) discussed above. RUCO accepts  
20           the Company and Staff's adjustment to appropriately record plant items in  
21           the plant-in-service accounts and remove those plant items from operating  
22           expense accounts.

23

1 As shown on Schedule SURR RLM-7, column I, and supporting Schedule  
2 SURR RLM-4, this adjustment decreases adjusted test-year operating  
3 expenses by \$9,141.

4  
5 Operating Income Adjustment No. 10 – Annualization of Chemical  
6 Expenses

7 Q. Please explain your adjustment to annualization chemical expenses.

8 A. RUCO and the Company are now in substantial agreement with the  
9 appropriate level of the chemical expenses on a going forward basis.  
10 RUCO accepts the Company's adjustment for a known and measurable  
11 change to the cost of chemicals. The Company provided documentation  
12 to reflect January 2009 chemical costs. Test year chemical usage was  
13 annualized to reflect the calculated increase in the quantity of chemicals  
14 required due to changes directly related to the annualization of the number  
15 of customers, which creates an incremental increase in wastewater to be  
16 treated. Therefore, the annualized level of chemical expenses was  
17 adjusted for the known and measurable January 2009 chemical costs.

18  
19 As shown on Schedule SURR RLM-7, column J, this adjustment increases  
20 adjusted test-year operating expenses by \$133.

21  
22  
23

1           Operating Income Adjustment No. 11 – Testing Expenses

2           Q.     Please explain your adjustment to effluent testing expenses.

3           A.     RUCO and the Company are now in substantial agreement with the  
4           appropriate level of the effluent testing expenses on a going forward basis.  
5           RUCO accepts the Company's adjustment for a known and measurable  
6           change to the cost of testing the effluent to be treated by the City of  
7           Scottsdale. The Company provided documentation to reflect July 2009  
8           testing requirements and frequencies now imposed by the City of  
9           Scottsdale for effluent received for treatment. Therefore, the level of  
10          effluent testing expenses was adjusted for the known and measurable July  
11          2009 testing costs.

12  
13          As shown on Schedule SURR RLM-7, column K, this adjustment  
14          increases adjusted test-year operating expenses by \$12,094.

15  
16           Operating Income Adjustment No. 12 – Contract Services Expense

17          Q.     Please explain your adjustment to contract services expense.

18          A.     RUCO and the Company are now in substantial agreement with the  
19          appropriate level of the contract services expense. RUCO accepts the  
20          Company's adjustment for a known and measurable change to allocated  
21          direct operations costs, accounting/billing costs and overhead costs. The  
22          Company provided documentation to reflect the actual test year costs  
23          (versus the estimated/budgeted value originally used) allocated and

1 record as shared services. Therefore, the level of contractual services  
2 expense was adjusted for the known and measurable changes.

3  
4 As shown on Schedule SURR RLM-7, column L, this adjustment  
5 decreases adjusted test-year operating expenses by \$6,284.

6

7 RUCO Operating Income Adjustment No. 13 – Income Taxes

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

9 A. This adjustment reflects income tax expenses calculated on RUCO's  
10 recommended revenues and expenses. RUCO rejects the Company's  
11 proposal to adopt the Commission approved exclusion of the Scottsdale  
12 capacity operating lease expense from operating expenses in  
13 determination of taxable income as authorized in the prior Decision.  
14 RUCO disagrees with the Company and the prior Decision's taxation  
15 treatment of the Scottsdale capacity operating lease expense. RUCO  
16 recommends that for ratemaking purposes the costs associated with the  
17 Scottsdale capacity operating lease be treated as an operating expense  
18 and therefore, similar to other allowable expenses requires no further  
19 recognition in the determination of the income tax expense.

20

21 As shown on Schedule SURR RLM-7, column M, this adjustment  
22 decreases adjusted test-year operating expenses by \$83,795.

23

1 **COST OF CAPITAL**

2 Q. Is RUCO proposing any surrebuttal adjustments to the Company  
3 proposed cost of capital?

4 A. No. This adjustment is fully explained in the testimony of RUCO witness  
5 William A. Rigsby.

6

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

8 Q. Have you revised your Schedule presenting your recommended rate  
9 designs?

10 A. Yes, as shown on Schedule SURR RLM-16, I am recommending a rate  
11 design that is consistent with RUCO's recommended revenue allocations  
12 and requirement as revised in my surrebuttal testimony.

13

14 Q. Please describe your recommended rate designs for the Company's  
15 wastewater operation.

16 A. RUCO recommends a \$58.98 flat rate residential monthly charge, which is  
17 a \$13.34 or 29 percent increase over the present rate of \$45.64.

18

19 RUCO also recommends a \$0.23649 per gallon per day commodity usage  
20 rate for commercial customers, which is a \$0.0551 or 29 percent increase  
21 over the present rate of \$0.18298.

22

23

1           The rate design provides for a 23 percent increase equally across the  
2           residential and standard commercial classes of service, which is a  
3           decrease of 36 percent over the Company's rebuttal requested 59 percent  
4           increase.

5

6   Q.    Have you prepared a Schedule presenting proof of your recommended  
7           revenue?

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

11

12   **COMPARISON OF THE IMPACT ON A TYPICAL BILL**

13   Q.    Have you presented a comparison of the impact on a typical bill based on  
14          RUCO and the Company's recommendations?

15   A.    Yes, as shown on Schedule SURR RLM-17, I compare the present impact  
16          on a typical bill with the Company's original filing and the Company's  
17          rebuttal position to RUCO's direct filing and RUCO's surrebuttal position.

18

19          A residential customer currently pays \$45.64 per month. The Company's  
20          rebuttal position increases the residential customer's bill to \$72.45, a  
21          58.74 percent increase. RUCO's surrebuttal position increases the  
22          residential customer's bill to \$58.94, a 29.14 percent increase.

23

1 Q. Does this conclude your direct testimony?

2 A. Yes, it does.

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**SURREBUTTAL  
REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Fair Value Rate Base	\$ 3,723,245	\$ 3,680,911
2	Adjusted Operating Income (Loss)	\$ (84,485)	\$ (34,000)
3	Current Rate Of Return (L2 / L1)	-2.27%	-0.92%
4	Required Operating Income (L5 X L1)	\$ 476,575	\$ 273,492
5	Required Rate Of Return On Fair Value Rate Base	12.80%	7.43%
6	Operating Income Deficiency (L4 - L2)	\$ 561,060	\$ 307,492
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)	1.6286	1.5995
8	Increase In Gross Revenue Requirement (L7 X L6)	<b>\$ 913,763</b>	<b>\$ 491,827</b>
9	Adjusted Test Year Revenue	\$ 1,580,170	\$ 1,580,170
10	Proposed Annual Revenue (L8 + L9)	\$ 2,493,933	\$ 2,071,997
11	Required Percentage Increase In Revenue (L8 / L9)	57.83%	31.12%
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 SURR RLM-2, SURR RLM-6, And SURR RLM-15

**SURREBUTTAL  
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)	(0.3748)			
3	Subtotal (L1 + L2)	0.6252			
4	<b>Revenue Conversion Factor (L1 / L3)</b>	<b>1.5995</b>			
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)	32.7970%			
9	Effective Federal Income Tax Rate (L7 X L8)	30.5117%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	37.4797%			
11	Required Operating Income (SURR RLM-1, Col. (B), L4)	\$ 273,492			
12	Adj'd T.Y. Oper'g Inc. (Loss) (SURR RLM-1, Col. (B), L2)	(34,000)			
13	Required Increase In Operating Income (L11 - L12)		\$ 307,492		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 108,787			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(75,548)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 184,335		
17	Total Required Increase In Revenue (L13 + L16)		<u>\$ 491,827</u>		
RUCO					
Recommended					
18	Revenue (Sch. SURR RLM-1, Col. (B), L10)			\$ 2,071,997	
19	Operating Expense Excluding Income Tax (SURR RLM-6, Col. (E), L25 - L24)			(1,689,719)	
20	Synchronized Interest (Col. (C), L37)			(92,023)	
21	Arizona Taxable Income (L18 + L19 + L20)			\$ 290,256	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 20,225
24	Fed. Taxable Income (L21 - L23)			\$ 270,031	
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%			66,312	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 88,562
31	Combined Federal And State Income Tax (L23 + L30)				<u>\$ 108,787</u>
32	Test Year Combined Income Tax, RUCO As Adjusted (SURR RLM-6, Col. (C), L24)				\$ (75,548)
33	RUCO Adjustment (L31 - L32) (See SURR RLM-6, Col. (D), L24)				<u>\$ 184,335</u>
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				32.80%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (SURR RLM-2, Col. (H), L15)			\$ 3,680,911	
36	Weighted Avg. Cost Of Debt (SURR RLM-15, Col. (F), L1)			2.50%	
37	Synchronized Interest (L35 X L36)			<u>\$ 92,023</u>	

**SURREBUTTAL  
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	\$ 288,809	\$ 11,646,544
2	Accumulated Depreciation	(5,625,025)	(101,236)	(5,726,261)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 5,732,710</u>	<u>\$ 187,573</u>	<u>\$ 5,920,283</u>
4	Advances In Aid Of Const.	\$ (1,457,009)	\$ (254,251)	\$ (1,711,260)
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	\$ 24,344	\$ 194,898
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><u>\$ 3,723,245</u></u>	<u><u>\$ (42,334)</u></u>	<u><u>\$ 3,680,911</u></u>

References:

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

**SURREBUTTAL  
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) ADJ # 3 DEFERRED INC TAXES	(E) ADJ # 4 WORKING CAPITAL	(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	\$ 288,809	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,646,544
2	Accumulated Depreciation	(5,625,025)	(101,236)	-	-	-	-	-	(5,726,261)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 5,732,710</u>	<u>\$ 187,573</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,920,283</u>
4	Advances In Aid Of Const.	\$ (1,457,009)	\$ -	\$ (254,251)	\$ -	\$ -	\$ -	\$ -	\$ (1,711,260)
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	\$ -	\$ -	\$ 24,344	\$ -	\$ -	\$ -	\$ 194,898
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>\$ 187,573</u>	<u>\$ (254,251)</u>	<u>\$ 24,344</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,680,911</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 SURR RLM-4)
- Column (C): Adjustment No. 2 - RUCO Adjustment To AIAC (See Testimony)
- Column (D): Adjustment No. 3 - RUCO Adjustment To DITs (See Testimony)
- Column (E): Adjustment No. 4 - RUCO Adjustment To The Allowance For Working Capital (See Testimony)
- Column (F): Intentionally Left Blank
- Column (G): Intentionally Left Blank
- Column (H): Sum Of Columns (A), (B), (C), (D), (E) & (F)

**SURREBUTTAL  
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	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	2,300	-	(38)	2,560,220	(1,089,289)	1,470,931
5	355	Power Generation Equipment	-	-	-	-	-	-	-
6	360	Collection Sewers - Force	706,291	1,600	-	(16)	707,891	(237,055)	470,836
7	361	Collection Sewers - Gravity	4,284,949	-	-	-	4,284,949	(2,986,891)	1,298,058
8	362	Special Collecting Structures	-	-	-	-	-	-	-
9	363	Services To Customers	198,723	-	-	-	198,723	(151,259)	47,464
10	364	Flow Measuring Devices	31,512	-	-	-	31,512	(31,231)	281
11	365	Flow Measuring Installations	179,622	-	-	-	179,622	(48,777)	130,845
12	370	Receiving Wells	690,628	255,451	(13,208)	(4,033)	932,871	(285,506)	647,365
13	371	Effluent Pumping Equipment	654,845	2,803	-	(175)	657,648	(401,791)	255,857
14	380	Treatment And Disposal Equip	143,578	38,625	-	(966)	182,203	(16,004)	166,199
15	381	Plant Sewers	123,289	1,238	-	(31)	124,527	(105,624)	18,903
16	382	Outfall Sewer Lines	-	-	-	-	-	-	-
17	389	Other Plant And Misc Equip	939,433	-	-	-	939,433	(249,600)	689,833
18	390	Office Furniture And Equipment	224,588	-	-	-	224,588	(71,997)	152,591
19	391	Transportation Equipment	107,367	-	-	-	107,367	(47,775)	59,592
20	393	Tools, Shop And Garage Equip	5,755	-	-	-	5,755	(203)	5,552
21	394	Laboratory Equipment	7,488	-	-	-	7,488	(2,250)	5,238
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>\$ 302,017</u>	<u>\$ (13,208)</u>	<u>\$ (5,259)</u>	<u>\$ 11,646,544</u>	<u>\$ (5,726,261)</u>	<u>\$ 5,920,285</u>
26		Company As Filed		\$ 254,251			\$ 11,357,735	\$ (5,625,025)	
27		Difference		38,625			\$ 288,809	\$ (101,236)	
		Capitalized Plant		9,141					
28		RUCO Adjustment (Line 27) (See SURR RLM-3, Column (B))		<u>\$ 302,017</u>			<u>\$ 288,809</u>	<u>\$ (101,236)</u>	<u>\$ 187,573</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

**SURREBUTTAL**  
**RUCO MADE NO POST TEST-YEAR PLANT ADJUSTMENTS**

**SURREBUTTAL  
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	\$ 488,166	\$ 2,045,503
2	Misc. Service Revenues	15,917	-	15,917	3,661	19,578
3	Other WW Revenues	6,916	-	6,916	-	6,916
4	<b>TOTAL OPERATING REVENUE</b>	<b>\$ 1,580,170</b>	<b>\$ -</b>	<b>\$ 1,580,170</b>	<b>\$ 491,827</b>	<b>\$ 2,071,997</b>
Operating Expenses:						
5	Salaries And Wages	\$ -	-	\$ -	\$ -	\$ -
6	Purchased WW Treatment	335,255	1,258	336,513	-	336,513
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	3,324	40,813	-	40,813
11	Materials And Supplies	11,224	(526)	10,698	-	10,698
12	Contractual Services	9,362	(6,223)	3,139	-	3,139
13	Contractual Services - Testing	16,955	12,094	29,049	-	29,049
14	Contractual Services - Other	553,043	(13,992)	539,050	-	539,050
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	19,169	243,987	-	243,987
26	Taxes Other Than Income	(1,780)	1,780	-	-	-
27	Property Taxes	32,414	(2,440)	29,975	-	29,975
28	Income Tax	7,760	(83,308)	(75,548)	184,335	108,787
29	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,664,655</b>	<b>\$ (50,484)</b>	<b>\$ 1,614,170</b>	<b>\$ 184,335</b>	<b>\$ 1,798,506</b>
30	<b>OPERATING INCOME (LOSS)</b>	<b>\$ (84,485)</b>		<b>\$ (34,000)</b>		<b>\$ 273,492</b>

References:

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

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

LINE NO.	(A) COMPANY DESCRIPTION AS FILED	(B) ADJ # 1 DEP. EXPENSE	(C) ADJ # 2 PROPERTY TAX	(D) ADJ # 3 & 4 SC'SDALE TREATMT	(E) ADJ # 5 UNNES'RY EXPENSES	(F) ADJ # 6 NORM'LIZE RENT	(G) ADJ # 7 NORM'LIZE OTH'R TAX	(H) ADJ # 8 NORM'LIZE CHEMICAL	(I) ADJ # 9 CAPITAL'D PLANT	(J) ADJ # 10 ANN'LIZE CHEMICAL	(K) ADJ # 11 TESTING EXPENSES	(L) ADJ # 12 CONTRACT SERVICES	(M) ADJ # 13 INCOME TAX	(N) 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>\$ -</u>	<u>\$ -</u>	<u>\$ 1,580,170</u>
Operating Expenses:														
5	Salaries And Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purchased WW Treatment	335,255	-	-	1,258	-	-	-	-	-	-	-	-	336,513
7	Sludge Removal Expense	706	-	-	-	-	-	-	-	-	-	-	-	706
8	Purchased Power	54,690	-	-	-	-	-	-	-	-	-	-	-	54,690
9	Fuel For Power Production	928	-	-	-	-	-	-	-	-	-	-	-	928
10	Chemicals	37,489	-	-	-	-	-	3,191	-	133	-	-	-	40,813
11	Materials And Supplies	11,224	-	-	-	(526)	-	-	-	-	-	-	-	10,698
12	Contractual Services	9,362	-	-	-	(4,723)	-	-	(1,500)	-	-	-	-	3,139
13	Contractual Services - Testing	16,955	-	-	-	-	-	-	-	-	12,094	-	-	29,049
14	Contractual Services - Other	553,043	-	-	-	(67)	-	-	(7,641)	-	-	(6,284)	-	539,050
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	19,169	-	-	-	-	-	-	-	-	-	-	243,987
26	Taxes Other Than Income	(1,780)	-	-	-	-	-	1,780	-	-	-	-	-	-
27	Property Taxes	32,414	-	(2,440)	-	-	-	-	-	-	-	-	-	29,975
28	Income Tax	7,760	-	-	-	-	-	-	-	-	-	-	(83,308)	(75,548)
29	TOTAL OPR'G EXP.	<u>\$ 1,664,655</u>	<u>\$ 19,169</u>	<u>\$ (2,440)</u>	<u>\$ 1,258</u>	<u>\$ (5,369)</u>	<u>\$ 18,432</u>	<u>\$ 1,780</u>	<u>\$ 3,191</u>	<u>\$ (9,141)</u>	<u>\$ 133</u>	<u>\$ 12,094</u>	<u>\$ (6,284)</u>	<u>\$ (83,308)</u>
30	OPR'G INC. (LOSS)	<u>\$ (84,485)</u>												<u>\$ (34,000)</u>

References:

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

**SURREBUTTAL**  
**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	2,560,220	3.33%	85,255
5	355	Power Generation Equipment	-	5.00%	-
6	360	Collection Sewers - Force	707,891	2.00%	14,158
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	932,871	3.33%	31,065
13	371	Effluent Pumping Equipment	657,648	12.50%	82,206
14	380	Treatment And Disposal Equip	182,203	5.00%	9,110
15	381	Plant Sewers	124,527	5.00%	6,226
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>\$ 11,646,548</u>		<u>\$ 443,001</u> (1)
26		Less: Amortize Of CIAC (SURR RLM-2, Col. (C), Ln 5)	\$ (5,232,139)	3.8037%	(199,015)
27		TOTAL DEPRECIATION EXPENSE (Line 25 + Line 26)			<u>\$ 243,986</u>
28		Test Year Depreciation Expense As Filed (Co. Sch. C-1)			224,818
29		Decrease Of Depreciation Expense (Line 27 - Line 28)			<u>\$ 19,169</u>
30		RUCO Adjustment (Line 29) (See SURR RLM-7, Column (B), Line 25)			<u>\$ 19,169</u>

References:

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

**SURREBUTTAL**  
**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	SURR RLM-6, Col (C), Ln 4	\$ 1,580,170	
2	Adjusted Revenues In Year Ended December 2007	SURR RLM-6, Col (C), Ln 4	1,580,170	
3	Proposed Revenues	SUR RLM-6, Col (E), Ln 4	2,071,997	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	<u>\$ 5,232,337</u>	
5	Average Annual Operating Revenues	Line 4 / 3	<u>1,744,112</u>	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 3,488,225
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	SURR RLM-4, Col. (B), Ln 19	\$ 107,367	
10	Acc. Dep. Of Transportation Equipment	SURR RLM-4, Col. (C), Ln 19	<u>(47,775)</u>	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ (59,592)
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		<u>\$ 3,442,835</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	\$ 722,995	
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>\$ 29,974</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		<u>\$ (2,440)</u>
21	RUCO Adjustment (See SURR RLM-7, Column (C), Line 27)	Line 20		<u><u>\$ (2,440)</u></u>

**SURREBUTTAL**  
**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
<b>COMPANY CALCULATION</b>								
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>
<b>RUCO CALCULATION</b>								
4	RUCO's Computation Under Actual New Rate Per Co. WP's	103,757,173	\$ 2.60	\$ 269,769	\$ 51,129	\$ 320,898	\$ 5,295	\$ 326,193
5	Actual Increase In Purchased Wastewater Treatment (Line 4 - Line 1)							<u>\$ 35,099</u>
6	Difference Between Calculations Using Actual new Rate (Line 5 - Line 3)							<u>\$ 1,255</u>
7	RUCO Adjustment (Line 6) (See SURR RLM-7, Column (D), Line 6)							<u>\$ 1,255</u>

References:

- Column (A): Company Workpapers
- Column (B): Correction To New Rate (Company filed Rate Incorrect As \$2.59 / Actual Rate Is \$2.60 Per Company's Rebuttal Response)
- 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)

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

LINE NO.	DESCRIPTION	REFERENCE	(A) AMOUNT
1	Adjusted Year Purchased Wastewater Treatment (Scottsdale)	SURR RLM-10, Column (G), Line 4	\$ 326,193
2	Gallons Treated By Scottsdale (In 1000's)	SURR 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	<u>\$ 3.14</u>
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	<u>320</u>
7	Increase (Decrease) In Purchased Wastewater Treatmer	Line 3 X Line 6	<u>\$ 1,006</u>
8	Company's Calculation Of Annualized Purchased WW Treatmen	Company Schedule C-2, Page 8	<u>\$ 1,002</u>
9	Difference	Line 8 - Line 7	<u>\$ 3</u>
10	RUCO Adjustment (See SURR RLM-7, Column (E), Line 6)	Line 9	<u>\$ 3</u>

**SURREBUTTAL**  
**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)	Bourassa Rebuttal Schedule C-2, Page 13	(908)
4	Increased Contractual Services Expenses - Other Transfer Costs From LPSCO - Aerotek Environmental	Bourassa Rebuttal Schedule C-2, Page 14	42,200
5	Disallowed Miscellaneous Expenses Charitable Donations Allocated To BMSC	Bourassa Rebuttal Schedule C-2, Page 13	(52)
<b>SURREBUTTAL ADJUSTMENTS</b>			
6	Company's Rebuttal Testimony To Remove Additional Meal Costs	Bourassa Rebuttal Schedule C-2, Page 13	(526)
7	Company's Rebuttal Testimony To Remove Additional Central Office Costs	Bourassa Rebuttal Schedule C-2, Page 16	\$ (1,490)
8	RUCO Adjustment To Unnecessary/Non-Recurring Expense	Sum Of Lines 1 Thru 17	<u>\$ (5,369)</u>
9	RUCO Adjustment (See SURR RLM-7, Column (F))	Line 18	<u>\$ (5,369)</u>

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

LINE NO.	DESCRIPTION	REFERENCE	(A) AMOUNT	(B)
<b>CALCULATION OF TEST-YEAR CHEMICAL EXPENSES</b>				
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%	1,034.88	
8	Total Cost Of Sodium Hydroxide	Sum Of Lines 5, 6 & 7		13,210
9	Total Cost Of Test-Year Chemical Expense:	Sum Of Lines 1 & 8	\$	<u>21,379</u>
<b>NORMALIZATION OF TEST-YEAR CHEMICAL EXPENSES</b>				
10	Sodium Hydroxide Projected Gallons Used During A Full Test Yea	Line 3 / 7 Months X 12 Months	11,995	
11	Cost Per Gallons Effective January 2009	Company Response To RUCO DR 2.03	\$ 2.05	
12	Sub-Total Of Sodium Hydroxide		\$ 24,589.46	
13	Delivery costs (24 deliveries at \$32 per)	Company Response To RUCO DR 2.03	768.00	
14	Sales Tax Of 8.5%	Sum Of Lines 12 & 13 X 8.5%	2,155.38	
15	Total Normalization Of Test-Year Chemical Exp	Sum Of Lines 12,13 & 14		<u>\$ 27,513</u>
16	Calculated Additional Costs To Chemcial Exp	Line 15 - Line 9	\$	<u>6,134</u>
17	Company Adjustment	Schedule C-2, Adjusmtent 8	\$	2,943
18	Difference	Line 16 - Line 17	\$	<u>3,191</u>
19	RUCO Adjustment (See SURR RLM-7, Column (I	Line 18	\$	<u>3,191</u>

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

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
<b>FEDERAL INCOME TAXES:</b>			
1	Operating Income Before Taxes	SURR RLM-5, Column (C), L26 + L24	\$ (109,549)
LESS:			
2	Arizona State Tax	Line 11	14,045
3	Interest Expense	Note (A) Line 20	(92,023)
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	<u>\$ (187,526)</u>
5	Federal Tax Rate	SURR RLM-1, Pg 2, Col. (D), L34	32.80%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ (61,503)</u>
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ (109,549)
LESS:			
8	Interest Expense	Note (A) Line 20	(92,023)
9	State Taxable Income	Line 7 - Line 8	<u>\$ (201,571)</u>
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ (14,045)</u>
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ (61,503)
13	State Income Tax Expense	Line 11	(14,045)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ (75,548)</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		7,760
16	Total Income Tax Adjustmen	Line 14 - Line 15	<u>\$ (83,308)</u>
17	RUCO Adjustment (See SURR RLM-7, Column (I), L28)	Line 16	<u>\$ (83,308)</u>

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (E), L15)	\$ 3,680,911
19	Weighted Cost Of Debt (Sch. RLM-15, Col. (F), L1)	2.50%
20	Interest Expense (L17 X L18)	<u>\$ 92,023</u>

**SURREBUTTAL  
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)

**SURREBUTTAL  
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	\$ 58.94	\$ 1,394,852
2	Commercial (Standard Rate) Customers	125	\$ -	\$ -
3	Commodity Usage (Per Thousand Gallons)	2,069,505	\$ 0.23633	489,090
4	Sub-Total			<u>\$ 489,090</u>
5	Commercial (Special Rate) Boulders Resort	1	\$ 6,935.16	\$ 83,221.88
6	Desert Forest	1	\$ 1,654.32	\$ 19,851.87
7	El Pedegral	1	\$ 3,730.97	\$ 44,771.64
8	Boulders Club	1	\$ 283.60	\$ 3,403.18
9	Spanish Village	1	\$ 1,178.11	\$ 14,137.37
10	Sub-Total			<u>\$ 165,385.94</u>
11	Effluent Sales (Per Thousand Gallons)	42,513	\$ 0.46051	\$ 19,578
12	TOTAL REVENUE PER BILL DETERMINENTS			<u>\$ 2,068,905</u>
13	Flat Rate Revenues			\$ 2,049,328
14	Miscellaneous Service Revenues			19,578
15	Other Wastewater Revenues			6,916
16	Reconciliation With Book Value			(3,824)
17	TOTAL PROPOSED REVENUE			<u>\$ 2,071,997</u>
18	RUCO RECOMMENDED REVENUE REQUIREMENT			\$ 2,071,997
19	DIFFERENCE			<u>\$ (0)</u>

**COMPARISON OF TYPICAL BILLS**

.LINE NO.	CUSTOMER CLASSIFICATION	(A) PRESENT RATES	(B) COMPANY ORIGINAL RATES	(C) COMPANY REBUTTAL RATES	(D) RUCO DIRECT RATES	(E) RUCO SURREBUTTAL RATES
	Residential					
1	Customers	\$ 45.64	\$ 71.08	\$ 72.45	\$ 58.88	\$ 58.94
	Commercial (Standard Rate)					
2	Customers				\$ -	
3	Commodity Usage (Per 1000 Gallons)	\$ 0.18298	\$ 0.28499	\$ 0.29048	\$ 0.23608	\$ 0.23633
4	Sub-Total					
	Commercial (Special Rate)					
5	Boulders Resort	\$ 4,173.74	\$ 8,363.03	\$ 8,524.14	\$ 6,927.63	\$ 6,935.16
6	Desert Forest	\$ 1,144.08	\$ 1,994.93	\$ 2,033.36	\$ 1,652.53	\$ 1,654.32
7	El Pedegral	\$ 2,215.55	\$ 4,499.14	\$ 4,584.81	\$ 3,726.92	\$ 3,730.97
8	Boulders Club	\$ 168.41	\$ 341.99	\$ 348.58	\$ 283.29	\$ 283.60
9	Spanish Village	\$ 699.59	\$ 1,420.68	\$ 1,448.04	\$ 1,176.84	\$ 1,178.11
10	Sub-Total					
11	Effluent Sales (Per Thousand Gallons)	\$ 0.37440	\$ 0.46051	\$ 0.46051	\$ 0.46051	\$ 0.46051