

**BELLA VISTA WATER COMPANY, INC.**

**DOCKET NO. W-02465A-09-0411 ET AL.**

**DIRECT TESTIMONY**

**OF**

**RODNEY L. MOORE**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**APRIL 12, 2010**

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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 revenue requirement  
15 recommendations regarding Bella Vista Water Company’s (“BVWC” or  
16 “Company”) application for an increase in its water rates. The test year  
17 utilized by the Company in connection with the preparation of this  
18 application is the 12-month period that ended March 31, 2009 (“Test  
19 Year”).

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23

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 three sets of data requests, and the review  
8 and analysis of Company responses to Commission Staff data requests.

9

10 Q. Does RUCO support the Company's request to consolidate operations  
11 and the transfer of utility assets of Bella Vista Water Company, Inc.,  
12 Northern Sunrise Water Company, Inc ("NSWC"). and Southern Sunrise  
13 Water Company, Inc. ("SSWC") into Bella Vista Water Company, Inc.?

14 A. RUCO will address its position on rate consolidation in its testimony that is  
15 due April 23, 2010.

16

17 Q. Are you providing testimony for each of the three Liberty Water systems  
18 (BVWC, NSWC and SSWC) on a stand-alone basis?

19 A. No. In this round of testimony, I am providing testimony on a consolidated  
20 basis. As explained in the direct testimony of RUCO Director Jodi Jerich,  
21 RUCO will present schedules on a stand-alone basis when RUCO's direct  
22 testimony on rate design is filed on April 23, 2010. At that time, I will  
23 provide my recommendations on a stand-alone basis.

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

2 A. I will address issues, on a consolidated basis, related to revenue  
3 requirement, rate base, operating income and rate design. RUCO's  
4 witness Timothy J. Coley will provide an analysis of the rate base  
5 adjustment associated with the accumulated deferred income taxes as  
6 presented on Schedule RLM-5 and the operating income adjustment  
7 associated with the central office cost allocation expenses as presented  
8 on Schedule RLM-11. RUCO's witness William A. Rigsby will provide an  
9 analysis of the cost of capital as presented on Schedule RLM-14. On April  
10 23, 2010, Mr. Rigsby will provide a cost of capital analysis for each system  
11 in support of stand-alone rates.

12

13 Q. Please identify the exhibits you are sponsoring.

14 A. I am sponsoring a separate set of Schedules numbered RLM-1 through  
15 RLM-14. My rate design testimony and Schedules numbered RLM-RD1  
16 and RLM-RD2 will be filed on April 23, 2010.

17

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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 Post Test Year Gross Plant-In-Service and Accumulated Depreciation –

7 This adjustment reflects changes in recorded plant costs from budget to  
8 the actual amounts.

9 Customer Deposits – This adjustment reflects updated information to  
10 decrease meter deposits.

11 Accumulated Deferred Income Taxes – RUCO witness Timothy Coley will  
12 sponsor this adjustment.

13 **Operating Income**

14 Test Year Depreciation Expense – This adjustment corrects a Company  
15 calculation error by including all depreciation expenses in the summation.

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

19 Miscellaneous Operating Expenses – These adjustments remove  
20 unnecessary operating expenses not required for the provisioning of water  
21 service and/or remove test year expenses deemed atypical and non-  
22 recurring.

23

1           Central Office Cost Allocations - RUCO witness Timothy Coley will  
2           sponsor this adjustment.

3           Rate Case Expense - This adjustment is based on RUCO's determination  
4           of the fair and reasonable cost to Bella Vista ratepayers for this application  
5           process.

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

8

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

10          On April 23, 2010, I will be filing separate direct testimony on my  
11          recommended rate design that is generally consistent with the Company's  
12          proposed consolidated rate design, but reflects RUCO's recommended  
13          revenue requirement and provides proof that the design will produce the  
14          appropriate revenue requirement.

15

16          **REVENUE REQUIREMENTS**

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

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

21	<u>BVWC</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
22	\$5,672,485	\$4,919,615	(\$752,870)

23

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

	<u>BVWC</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$8,628,612	\$7,286,645	(\$1,341,967)

6  
7 RUCO's recommended required operating income is shown on Schedule  
8 RLM-1 as:

	<u>BVWC</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$965,542	\$613,796	(\$351,746)

11  
12 RUCO's recommended revenue requirement percentage increase versus  
13 the Company's proposal is as follows:

	<u>BVWC</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	36.29 %	18.20 %	-18.09 %

16  
17 Schedule RLM-1 presents the calculation of RUCO's recommended  
18 revenue requirement.

19  
20  
21  
22  
23

1 **RATE BASE**

2 Rate Base Adjustment Summary

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

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

8

9 Q. Does RUCO accept BVWC's request to use the Company's OCRB as the  
10 FVRB?

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

13

14 Q. Please describe your rate base adjustments.

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

16

17 Rate Base Adjustment No. 1 – Post Test Year Gross Plant-In-Service and

18 Accumulated Depreciation

19 Q. Please explain the basis for your adjustment to the post test year gross  
20 plant-in-service and the accumulated depreciation.

21 A. My plant-in-service analysis from the prior rate case to the end of the Test  
22 Year mirrored the Company's filing; however, the Company acknowledged  
23 in its response to Staff data request MSJ 5-2 there were updated costs for

1 the plant additions and retirements to reflect actual costs incurred. RUCO  
2 reviewed BVWC's response and made the appropriate adjustments.

3

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

5 A. As shown on Schedule RLM-3, column (B), and with supporting Schedule  
6 RLM-5, these adjustments decrease gross utility plant in service by \$1,940  
7 and accumulated depreciation by \$3,610 for a net reduction in the  
8 adjusted test year rate base of \$5,550.

9

10 Rate Base Adjustment No. 2 – Customer Deposits

11 Q. Please explain the basis for your adjustment to the customer deposits.

12 A. The Company acknowledged in its response to RUCO data request 2.1  
13 that the actual amount of the customer deposits was less than the amount  
14 recorded in the application. RUCO reviewed BVWC's response and made  
15 the appropriate adjustments to reflect actual customer deposits.

16

17 As shown on Schedule RLM-3, column (C), this adjustment increased  
18 adjusted test year rate base by \$121,861.

19

20

21

22

23

1           Rate Base Adjustment No. 3 – Accumulated Deferred Income Taxes

2    Q.    Please explain how this adjustment to accumulated deferred income taxes  
3           was analyzed by RUCO.

4    A.    This adjustment is sponsored by RUCO witness Timothy Coley, please  
5           refer to his testimony for clarification.

6  
7           Based on Mr. Coley’s testimony and as shown on Schedule RLM-3,  
8           column (D), and with supporting Schedule RLM-4 this adjustment  
9           decreased adjusted test year rate base by \$1,458,278.

10

11    **OPERATING INCOME**

12           Operating Income Adjustment Summary

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

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

19

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

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

22    A.    This adjustment reflects a Company acknowledged computation error,  
23           which failed to include all depreciation expenses in BVWC’s total.

1 As shown on Schedule RLM-7, column (B), with supporting documentation  
2 on Schedule RLM-8, this adjustment increased the adjusted test year  
3 operating expenses by \$32,214.

4

5 Operating Income Adjustment No. 2 – Property Tax Computation

6 Q. Did RUCO use the same methodology used by BVWC to calculate  
7 property tax expenses?

8 A. Yes. RUCO calculated property tax expense using two times the adjusted  
9 revenues for the year ending March 31, 2009, and one year of revenues at  
10 proposed rates. The assessed value (21 percent of full cash value) was  
11 then multiplied by the property tax rate to determine adjusted property tax  
12 expense. The difference between the Company and RUCO's property tax  
13 expense is a result of RUCO's lower level of adjusted and proposed  
14 operating revenues.

15

16 As shown on Schedule RLM-7, column (C), with supporting  
17 documentation on Schedule RLM-9 this adjustment decreased the  
18 adjusted test year operating expenses by \$9,408.

19

20 Operating Income Adjustment No. 3 – Miscellaneous Expense

21 Q. Please explain your adjustment to the test year miscellaneous expenses.

22 A After an analysis of the Company's response to Staff data request CSB 1-  
23 32, I determined there were test year expenditures not required for the

1 provision of water service or were abnormal and atypical for  
2 considerations as a reasonable recurring test year expense. Therefore, I  
3 disallowed their inclusion as acceptable test year operating expenses.

4  
5 My adjustment removed unnecessary expenditures for charitable  
6 donations and a Company Christmas party.

7  
8 As shown on Schedule RLM-7, column (E), with supporting documentation  
9 on Schedule RLM-10, this adjustment decreased test year expenses by  
10 \$2,500.

11  
12 Operating Income Adjustment No. 4 – Central Office Cost Allocations

13 Q. Please explain how this adjustment to the allocation of central office costs  
14 was analyzed by RUCO.

15 A. This adjustment is sponsored by RUCO witness Timothy Coley, please  
16 refer to his testimony for clarification.

17  
18 Based on Mr. Coley's testimony and as shown on Schedule RLM-7,  
19 column (F), this adjustment decreased adjusted test year rate base by  
20 \$144,927.

21  
22  
23

1           Operating Income Adjustment No. 5 – Rate Case Expense

2           Q.     Please explain the adjustment to the rate case expense.

3           A.     RUCO made a determination of the expense to ratepayers for costs  
4           incurred by the Company for filing this rate case application.

5

6           Q.     What level of rate case expense had Bella Vista requested?

7           A.     Bella Vista is requesting \$400,000 in rate case expense normalized over  
8           three years for a test year expense of \$133,333.

9

10          Q.     Please explain the basis for determining the appropriate level of rate case  
11          expense.

12          A.     My adjustment consists of two elements. First, I analyzed the actual rate  
13          case expenses incurred to the date of this filing. As of the end of February  
14          2010, the Company has incurred \$59,206.

15

16          Second, I analyzed a Company-provided estimate of similar remaining  
17          costs to be expended for the duration of the Black Mountain Sewer  
18          Company (“BMSC”) proceeding. In the BMSC preceding the Company  
19          estimated \$130,000. Because this matter will be heard in Tucson, I have  
20          added an additional \$10,000 as a per diem allowance to reflect costs  
21          associated with conducting the Hearing out of town.

22

23

1 Q. Based on this analysis, what level of rate case expense are you  
2 recommending as the financial burden on the ratepayers?

3 A. As shown on Schedule RLM-7, column (F) and supporting Schedule RLM-  
4 12, I recommended total rate case expenses of \$200,000 normalized over  
5 three years. This adjustment decreased the adjusted test year expenses  
6 by \$66,667.

7

8 Operating Income Adjustment No. 6 – Income Taxes

9 Q. Please explain RUCO's adjustment to BVWC's income tax expenses.

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

12

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

15 A. Yes.

16

17 As shown on Schedules RLM-7, column (K) and supporting Schedule  
18 RLM-13, this adjustment increased the adjusted test year expenses by  
19 \$80,763.

20

21

22

23

1 **COST OF CAPITAL**

2 Q. Has RUCO conducted a cost of capital analysis for BVWC?

3 A. Yes. RUCO witness William A. Rigsby has filed testimony on the cost of  
4 capital issues associated with the case. His recommended capital  
5 structure and weighted average cost of capital is exhibited on Schedule  
6 RLM-14.

7  
8 Q. Does this conclude your direct testimony?

9 A. Yes, it does.

## APPENDIX 1

### Qualifications of Rodney Lane Moore

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

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

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

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

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

### RESUME OF RATE CASE AND REGULATORY PARTICIPATION

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

**Utility Company****Docket No.**

Dragoon Water Company	W-01917A-01-0851
Roosevelt Lake Resort, Inc.	W-01958A-02-0283
Southwest Gas Company	G-01551A-02-0425
Arizona-American Water Company	W-01303A-02-0867 et al.
Rio Rico Utilities, Inc.	WS-02676A-03-0434
Qwest Corporation	T-01051B-03-0454
Chaparral City Water Company	W-02113A-04-0616
Southwest Gas Company	G-01551A-04-0876
Arizona-American Water Company	W-01303A-05-0405
Far West Water and Sewer Company	WS-03478A-05-0801
Gold Canyon Sewer Company	SW-02519A-06-0015
Arizona-American Water Company	WS-01303A-06-0403
UNS Gas, Inc.	G-04204A-06-0463 et al.
UNS Electric, Inc.	E-04204A-06-0783
Tucson Electric Power Company	E-01933A-07-0402
Southwest Gas Company	G-01551A-07-0504
Arizona Water Company	W-01445A-08-0440
Arizona-American Water Company	W-01303A-08-0227 et al.
Johnson Utilities, LLC	WS-02987A-08-0180
Black Mountain Sewer Corporation	SW-02361A-08-0609
Arizona-American Water Company	W-01303A-09-0343 et al.
Global Water Company	SW-20445A-09-0077 et al.

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RLM-3	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
RLM-4	1	RATE BASE ADJUSTMENT NO. 1 - POST TEST YEAR PLANT AND ACCUMULATED DEPRECIATION
TESTIMONY		RATE BASE ADJUSTMENT NO. 2 - CUSTOMER DEPOSITS
RLM-5	1	RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEFERRED INCOME TAXES
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	1	OPERATING INCOME ADJUSTMENT NO. 3 - MISCELLANEOUS EXPENSES
RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 4 - CENTRAL OFFICE COST ALLOCATION
RLM-12	1	OPERATING INCOME ADJUSTMENT NO. 5 - RATE CASE EXPENSES
RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 6 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

**REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Fair Value Rate Base	\$ 8,628,612	\$ 7,286,645
2	Adjusted Operating Income (Loss)	\$ 38,170	\$ 148,696
3	Current Rate Of Return (L2 / L1)	0.44%	2.04%
4	Required Operating Income (L5 X L1)	\$ 965,542	\$ 613,796
5	Required Rate Of Return On Fair Value Rate Base	11.19%	8.42%
6	Operating Income Deficiency (L4 - L2)	\$ 927,371	\$ 465,101
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)	<u>1.6286</u>	<u>1.6286</u>
8	Increase In Gross Revenue Requirement (L7 X L6)	<b>\$ 1,510,349</b>	<b>\$ 757,479</b>
9	Adjusted Test Year Revenue	\$ 4,162,136	\$ 4,162,136
10	Proposed Annual Revenue (L8 + L9)	\$ 5,672,485	\$ 4,919,615
11	Required Percentage Increase In Revenue (L8 / L9)	36.29%	18.20%
12	Rate Of Return On Common Equity	12.50%	9.00%

References:

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

**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>(0.3860)</u>			
3	Subtotal (L1 + L2)	0.6140			
4	<b>Revenue Conversion Factor (L1 / L3)</b>	<b>1.6286</b>			
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)	<u>34.0000%</u>			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	<u>38.5989%</u>			
11	Required Operating Income (Sch. RLM-1, Col. (B), L4)	\$ 613,796			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Col. (B), L2)	<u>148,696</u>			
13	Required Increase In Operating Income (L11 - L12)		\$ 465,101		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 325,355			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	<u>32,976</u>			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		<u>\$ 292,378</u>		
17	Total Required Increase In Revenue (L13 + L16)		<u>\$ 757,479</u>		
CALCULATION OF INCOME TAX:					
18	Revenue (Sch. RLM-1, Col. (B), L10)			RUCO Recommended \$ 4,919,615	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L28 - L27)			(3,980,464)	
20	Synchronized Interest (Col. (C), L37)			<u>(96,239)</u>	
21	Arizona Taxable Income (L18 + L19 + L20)			\$ 842,912	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)			\$ 58,734	
24	Fed. Taxable Income (L21 - L23)			<u>\$ 784,178</u>	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			152,720	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)			\$ 266,620	
31	Combined Federal And State Income Tax (L23 + L30)			<u>\$ 325,355</u>	
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L24)			\$ 32,976	
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L24)			<u>\$ 292,378</u>	
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 7,286,645	
36	Weighted Avg. Cost Of Debt (Sch. RLM-14, Col. (F), L1)			1.32%	
37	Synchronized Interest (L35 X L36)			<u>\$ 96,239</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	\$ 28,165,701	\$ (1,940)	\$ 28,163,761
2	Accumulated Depreciation	(12,057,912)	(3,610)	(12,061,522)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 16,107,789</u>	<u>\$ (5,550)</u>	<u>\$ 16,102,239</u>
4	Advances In Aid Of Const.	\$ (6,781,443)	\$ -	\$ (6,781,443)
5	Contribution In Aid Of Const.	\$ (542,445)	\$ -	\$ (542,445)
6	Accumulated Amortization Of CIAC	230,987	-	230,987
7	NET CIAC (L5 + L6)	<u>\$ (311,458)</u>	<u>\$ -</u>	<u>\$ (311,458)</u>
8	Customer Meter Deposits	\$ (559,605)	\$ 134,361	\$ (425,244)
9	Customer Hydrant Meter Deposits	\$ -	\$ (12,500)	\$ (12,500)
10	Deferred Income Taxes & Credits	\$ 173,329	\$ (1,458,278)	\$ (1,284,949)
11	Unamortized Finance Charges	\$ -	\$ -	\$ -
12	Deferred Regulatory Assets	\$ -	\$ -	\$ -
13	Allowance For Working Capital	\$ -	\$ -	\$ -
14	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	<u>\$ 8,628,612</u>	<u>\$ (1,341,967)</u>	<u>\$ 7,286,645</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 POST TY PLT & ACC DEP	(C) ADJ # 2 CUSTOMER DEPOSITS	(D) ADJ # 3 DEFERRED INCOME TAX	(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	\$ 28,165,701	\$ (1,940)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,163,761
2	Accumulated Depreciation	(12,057,912)	(3,610)	-	-	-	-	-	(12,061,522)
3	Net Utility Plant In Service (L1 + L2)	<u>\$ 16,107,789</u>	<u>\$ (5,550)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,102,239</u>
4	Advances In Aid Of Const.	\$ (6,781,443)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (6,781,443)
5	Contribution In Aid Of Const.	\$ (542,445)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (542,445)
6	Accumulated Amortization Of CIAC	230,987	-	-	-	-	-	-	230,987
7	NET CIAC (L5 + L6)	<u>\$ (311,458)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (311,458)</u>
8	Customer Meter Deposits	\$ (559,605)	\$ -	\$ 134,361	\$ -	\$ -	\$ -	\$ -	\$ (425,244)
9	Customer Hydrant Meter Deposits	\$ -	\$ -	\$ (12,500)	\$ -	\$ -	\$ -	\$ -	\$ (12,500)
10	Deferred Income Taxes & Credits	\$ 173,329	\$ -	\$ -	\$ (1,458,278)	\$ -	\$ -	\$ -	\$ (1,284,949)
11	Unamortized Finance Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	Deferred Regulatory Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Allowance For Working Capital	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	TOTAL RATE BASE (Sum L's 3, 4, 7, 8 Thru 12)	<u>\$ 8,628,612</u>	<u>\$ (5,550)</u>	<u>\$ 121,861</u>	<u>\$ (1,458,278)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,286,645</u>

References:

- Column (A): Company Schedule B-2, Page 1 And Workpapers Schedule E-1
- Column (B): Adjustment No. 1 - RUCO Adjustment To Post Test-Year GPIS And Acc. Dep. (See Testimony and Schedule RLM-4)
- Column (C): Adjustment No. 2 - RUCO Adjustment To Customer Deposits (See Testimony)
- Column (D): Adjustment No. 3 - RUCO Adjustment To Deferred Income Taxes (See Testimony Of RUCO Witness Tim Coley and Schedule RLM-5)
- 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)

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

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)
			RUCO T/Y PLANT AS ADJUSTED	RUCO PLANT ADDITIONS	POST TY ADJM'TS PLANT RETIRMENTS	TOTAL PLANT VALUE	ACC. DEP.	NET PLANT VALUE
1	301	Organization Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	302	Franchise Cost	961	-	-	961	-	961
3	303	Land and Land Rights	688,011	-	-	688,011	-	688,011
4	304	Structures and Improvements	1,929,428	-	-	1,929,428	(401,914)	1,527,514
5	305	Collecting and Impounding Res.	51,378	-	-	51,378	(2,059)	49,319
6	306	Lake River and Other Intakes	-	-	-	-	-	-
7	307	Wells and Springs	1,300,212	-	-	1,300,212	(532,200)	768,011
8	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-
9	309	Supply Mains	3,798	-	-	3,798	(104)	3,694
10	310	Power Generation Equipment	1,293	-	-	1,293	(75)	1,218
11	311	Electric Pumping Equipment	2,777,250	-	-	2,777,250	(2,527,613)	249,638
12	320	Water Treatment Equipment	109,639	-	-	109,639	(50,073)	59,566
13	320.1	Water Treatment Equipment	-	-	-	-	-	-
14	320.2	Chemical Solution Feeders	-	-	-	-	-	-
15	330	Dist. Reservoirs & Standpipe	2,709,163	-	-	2,709,163	(822,901)	1,886,263
16	330.1	Storage tanks	-	-	-	-	-	-
17	330.2	Pressure Tanks	-	-	-	-	-	-
18	331	Trans. and Dist. Mains	12,722,170	104,507	(8,390)	12,818,287	(4,104,951)	8,713,336
19	333	Services	1,500,252	-	-	1,500,252	(837,916)	662,336
20	334	Meters	1,517,711	-	-	1,517,711	(1,492,936)	24,774
21	335	Hydrants	970,159	-	-	970,159	(284,597)	685,562
22	336	Backflow Prevention Devices	-	-	-	-	-	-
23	339	Other Plant and Misc. Equip.	114,540	-	-	114,540	(8,753)	105,786
24	340	Office Furniture and Fixtures	202,929	-	-	202,929	(170,545)	32,385
25	340.1	Computers and Software	161,264	-	-	161,264	(117,801)	43,463
26	341	Transportation Equipment	295,224	-	-	295,224	(291,918)	3,305
27	342	Stores Equipment	-	-	-	-	-	-
28	343	Tools and Work Equipment	124,953	-	-	124,953	(124,689)	264
29	344	Laboratory Equipment	-	-	-	-	-	-
30	345	Power Operated Equipment	31,548	-	-	31,548	(5,882)	25,666
31	346	Communications Equipment	444,928	-	-	444,928	(127,515)	317,413
32	347	Miscellaneous Equipment	110,348	-	-	110,348	(104,580)	5,768
33	348	Other Tangible Plant	300,001	-	-	300,001	(52,500)	247,501
34		Rounding	484	-	-	484	-	484
		0						
35		TOTAL WASTEWATER PLANT	<u>\$ 28,067,644</u>	<u>\$ 104,507</u>	<u>\$ (8,390)</u>	<u>\$ 28,163,761</u>	<u>\$ (12,061,522)</u>	<u>\$ 16,102,239</u>
36		Company As Filed				28,165,701	\$ (12,057,912)	
37		Difference				(1,940)	\$ (3,610)	
38		RUCO Adjustment (Line 37) (See RLM-3, Column (B))				(1,940)	\$ (3,610)	

References:

- Column (A): RUCO Workpapers RLM-4-A(1)
- Columns (B) (C): Testimony, RLM
- Column (D): Sum Of Columns (A), (B), & (C)
- Column (E): Sum Of WP RLM-4-A(1), Column (B) And RLM-4, Column (C)
- Column (F): Column (D) + Column (E)

**ACCUMULATED DEFERRED INCOME TAXES**

LINE NO.	DESCRIPTION	(A)	(B)
		REFERENCE	AMOUNT
Deferred Income Taxes:			
1	Algonquin Accumulated Deferred Income Tax Assets	2008 Algonquin Annual Report	\$ 23,032,000
2	Algonquin Accumulated Deferred Income Tax Liabilities	2008 Algonquin Annual Report	<u>(106,983,000)</u>
3	Net Accumulated Deferred Income Tax Assets (Liabilities)	Line 1 + Line 2	\$ (83,951,000)
4	Bella Vista Allocation	Note (A)	<u>1.5438%</u>
5	Bella Vista ADIT Liabilities Allocation	Line 3 X Line 4	\$ (1,296,004)
6	Convert to US Dollars	Note (B)	<u>0.9915</u>
7	Bella Vista Allocated ADIT Liabilities Balance	Line 5 X Line 6	\$ (1,284,949)
8	Test Year Deferred Income Taxes & Credits As Filed	Company Schedule C-1	173,329
9	Decrease In Deferred Income Taxes & Credits	Line 7 - Line 8	<u>\$ (1,458,278)</u>
10	RUCO Adjustment (See RLM-3, Column (D), Line 11)	Line 9	<u>\$ (1,458,278)</u>

NOTES:

11	(A)	Purchase Price of BVWC, NSWC and SSWC	Annual Report	\$ 15,100,000
12		Algonquin Total Assets	Annual Report	\$ 978,130,000
13		Ratio Of BVWC, NSWC & SSWC To Algonquin Total Assets	Line 11 / Line 12	1.5438%
14	(B)	Currency Conversion	moneycentral.com on 04/1/2010	0.9915

SUPPORTING SCHEDULES

2008 Algonquin Power Income Fund Annual Report

**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	\$ 4,023,022	\$ -	\$ 4,023,022	\$ 757,479	\$ 4,780,501
2	Misc. Service Revenues	-	-	-	-	-
3	Other WW Revenues	139,114	-	139,114	-	139,114
4	<b>TOTAL OPERATING REVENUE</b>	<b>\$ 4,162,136</b>	<b>\$ -</b>	<b>\$ 4,162,136</b>	<b>\$ 757,479</b>	<b>\$ 4,919,615</b>
Operating Expenses:						
5	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purchased Water	708	-	708	-	708
7	Purchased Power	609,481	-	609,481	-	609,481
8	Fuel for Power Production	-	-	-	-	-
9	Chemicals	5,709	-	5,709	-	5,709
10	Materials & Supplies	49,998	-	49,998	-	49,998
11	Outside Services	4,696	-	4,696	-	4,696
12	Outside Services- Legal	41,937	-	41,937	-	41,937
13	Outside Services- Other	1,599,375	(144,927)	1,454,447	-	1,454,447
14	Water Testing	28,184	-	28,184	-	28,184
15	Equipment Rental	6,205	-	6,205	-	6,205
16	Rents	60,600	-	60,600	-	60,600
17	Transportation Expenses	125,122	-	125,122	-	125,122
18	Insurance - General Liability	59,410	-	59,410	-	59,410
19	Insurance - Health and Life	7,290	-	7,290	-	7,290
20	Reg. Comm. Exp.	10,628	-	10,628	-	10,628
21	Reg. Comm. Exp. - Rate Case	133,333	(66,667)	66,667	-	66,667
22	Miscellaneous Expense	92,502	(2,500)	90,002	-	90,002
23	Bad Debt Expense	18,178	-	18,178	-	18,178
24	Depreciation Expense	1,122,442	32,214	1,154,656	-	1,154,656
25	Taxes Other Than Income	-	-	-	-	-
26	Property Taxes	195,954	(9,408)	186,546	-	186,546
27	Income Tax	(47,787)	80,763	32,976	292,378	325,355
28	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 4,123,965</b>	<b>\$ (110,525)</b>	<b>\$ 4,013,440</b>	<b>\$ 292,378</b>	<b>\$ 4,305,818</b>
29	<b>OPERATING INCOME (LOSS)</b>	<b>\$ 38,170</b>		<b>\$ 148,696</b>		<b>\$ 613,796</b>

References:

- Column (A): Company Schedule C-1
- Column (B): RLM-7, Columns (B) Thru (H)
- 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 MISC. EXPENSES	(E) ADJ # 4 CENTRAL OFFICE COST	(F) ADJ # 5 RATE CASE EXPENSES	(G) LEFT BLANK	(H) ADJ # 6 INCOME TAX	(I) RUCO AS ADJT'D
<b>Revenues:</b>									
1	Flat Rate Revenues	\$ 4,023,022	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,023,022
2	Misc. Service Revenues	-	-	-	-	-	-	-	-
3	Other WW Revenues	139,114	-	-	-	-	-	-	139,114
4	<b>TOTAL OPR'G REV.</b>	<b>\$ 4,162,136</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,162,136</b>
<b>Operating Expenses:</b>									
5	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	Purchased Water	708	-	-	-	-	-	-	708
7	Purchased Power	609,481	-	-	-	-	-	-	609,481
8	Fuel for Power Production	-	-	-	-	-	-	-	-
9	Chemicals	5,709	-	-	-	-	-	-	5,709
10	Materials & Supplies	49,998	-	-	-	-	-	-	49,998
11	Outside Services	4,696	-	-	-	-	-	-	4,696
12	Outside Services- Legal	41,937	-	-	-	-	-	-	41,937
13	Outside Services- Other	1,599,375	-	-	(144,927)	-	-	-	1,454,447
14	Water Testing	28,184	-	-	-	-	-	-	28,184
15	Equipment Rental	6,205	-	-	-	-	-	-	6,205
16	Rents	60,600	-	-	-	-	-	-	60,600
17	Transportation Expenses	125,122	-	-	-	-	-	-	125,122
18	Insurance - General Liability	59,410	-	-	-	-	-	-	59,410
19	Insurance - Health and Life	7,290	-	-	-	-	-	-	7,290
20	Reg. Comm. Exp.	10,628	-	-	-	-	-	-	10,628
21	Reg. Comm. Exp. - Rate Case	133,333	-	-	-	(66,667)	-	-	66,667
22	Miscellaneous Expense	92,502	-	-	(2,500)	-	-	-	90,002
23	Bad Debt Expense	18,178	-	-	-	-	-	-	18,178
24	Depreciation Expense	1,122,442	32,214	-	-	-	-	-	1,154,656
25	Taxes Other Than Income	-	-	-	-	-	-	-	-
26	Property Taxes	195,954	-	(9,408)	-	-	-	-	186,546
27	Income Tax	(47,787)	-	-	-	-	-	80,763	32,976
29	<b>TOTAL OPR'G EXP.</b>	<b>\$ 4,123,965</b>	<b>\$ 32,214</b>	<b>\$ (9,408)</b>	<b>\$ (2,500)</b>	<b>\$ (144,927)</b>	<b>\$ (66,667)</b>	<b>\$ 80,763</b>	<b>\$ 4,013,440</b>
30	<b>OPR'G INC. (LOSS)</b>	<b>\$ 38,170</b>							<b>\$ 148,696</b>

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, TLC And Schedule RLM-11  
Column (F): Testimony, RLM And Schedule RLM-12

Column (G): Intentionally Left Blank  
Column (H): Testimony, RLM And Schedule RLM-13  
Column (I): Sum Of Columns (A) Thru (H)

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

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) APPROVED DEPRECIATION RATE	(C) TEST YEAR DEPRECIATION EXPENSE
1	301	Organization Cost	\$ -	0.00%	\$ -
2	302	Franchise Cost	961	0.00%	-
3	303	Land and Land Rights	688,011	0.00%	-
4	304	Structures and Improvements	1,929,428	3.33%	64,250
5	305	Collecting and Impounding Res.	51,378	2.50%	1,284
6	306	Lake River and Other Intakes	-	2.50%	-
7	307	Wells and Springs	1,300,212	3.33%	43,297
8	308	Infiltration Galleries and Tunnels	-	6.67%	-
9	309	Supply Mains	3,798	2.00%	76
10	310	Power Generation Equipment	1,293	5.00%	65
11	311	Electric Pumping Equipment	2,777,250	12.50%	347,156
12	320	Water Treatment Equipment	109,639	3.33%	3,651
13	320.1	Water Treatment Equipment	-	3.33%	-
14	320.2	Chemical Solution Feeders	-	20.00%	-
15	330	Dist. Reservoirs & Standpipe	2,709,163	2.22%	60,143
16	330.1	Storage tanks	-	2.22%	-
17	330.2	Pressure Tanks	-	5.00%	-
18	331	Trans. and Dist. Mains	12,818,287	2.00%	256,366
19	333	Services	1,500,252	3.33%	49,958
20	334	Meters	1,517,711	8.33%	126,425
21	335	Hydrants	970,159	2.00%	19,403
22	336	Backflow Prevention Devices	-	6.67%	-
23	339	Other Plant and Misc. Equip.	114,540	6.67%	7,640
24	340	Office Furniture and Fixtures	202,929	6.67%	13,535
25	340.1	Computers and Software	161,264	20.00%	32,253
26	341	Transportation Equipment	295,224	20.00%	59,045
27	342	Stores Equipment	-	4.00%	-
28	343	Tools and Work Equipment	124,953	5.00%	6,248
29	344	Laboratory Equipment	-	10.00%	-
30	345	Power Operated Equipment	31,548	5.00%	1,577
31	346	Communications Equipment	444,928	10.00%	44,493
32	347	Miscellaneous Equipment	110,348	10.00%	11,035
33	348	Other Tangible Plant	300,001	10.00%	30,000
34		Rounding	485		10
35		<b>TOTAL WASTEWATER PLANT</b>	<b>\$ 28,163,762</b>		<b>\$ 1,177,911</b>
36		Less: Amortizations Of CIAC (RLM-2, Col. (C), Line 5)	\$ (542,445)	4.2869%	(23,254)
37		<b>TOTAL DEPRECIATION EXPENSE (Line 35 + Line 36)</b>			<b>\$ 1,154,656</b>
38		Test Year Depreciation Expense As Filed (Co. Sch. C-1)			1,122,442
39		Increase In Depreciation Expense (Line 37 - Line 37)			<b>\$ 32,214</b>
40		RUCO Adjustment (Line 39) (See RLM-7, Column (B), Line 25)			<b>\$ 32,214</b>

References: Column (A): RLM-4, Column (E)  
Column (B): Company Schedule "C-2p1Depr"  
Column (C): Column (A) X Column (B)

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

LINE NO.	DESCRIPTION	REFERENCE	(A) AMOUNT	(B) TOTAL
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	\$ 4,162,136	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	4,162,136	
3	Proposed Revenues	Sch. RLM-6, Col (E), Ln 4	4,919,615	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 13,243,886	
5	Average Annual Operating Revenues	Line 4 / 3	4,414,629	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 8,829,257
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1	\$ 526,003	
8	10% Of CWIP	Line 7 X 10%		\$ 52,600
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	RLM-4, Col. (E), Ln 26	\$ 295,224	
10	Acc. Dep. Of Transportation Equipment	RLM-4, Col. (F), Ln 26	(291,918)	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ (3,305)
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 8,878,553
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	\$ 1,864,496	
Property Tax Rates:				
15	Primary Tax Rate - 2009 Tax Notice	Co. Sch. C-2, Pg 3	9.8984%	
16	Secondary Tax Rate - 2009 Tax Notice	Co. Sch. C-2, Pg 3	0.0000%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	9.90%	
18	Company's Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 184,554
19	Company's Tax on Parcels	Co. Sch. C-2, Pg 3		\$ 1,991
20	Company's Total Tax Liability	Line 18 + Line 19		\$ 186,546
21	Test Year Adjusted Property Tax Expense As Filing	Co. Sch. C-1, Line 25		195,954
22	Increase In Property Tax Expense	Line 20 - Line 21		\$ (9,408)
23	RUCO Adjustment (See RLM-7, Column (C), Line 27)	Line 22		\$ (9,408)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3  
 DISALLOWANCE OF MISCELLANEOUS EXPENSES**

			(A)
LINE NO.	DESCRIPTION	REFERENCE	TOTAL
	Disallowed Miscellaneous Expenses	Co. Response To Staff D. R. CSB 1-32	
1	Bella Vista Water Company Christmas Party		\$ (2,000)
2	Special Olympics Pledge		(250)
3	Muscular Distrophy Association Donation		(250)
4	RUCO Adjustment To Unnecessary/Non-Recurring Expense	Sum Of Lines 1 Thru 17	<u>\$ (2,500)</u>
5	RUCO Adjustment (See RLM-7, Column (D))	Line 18	<u>\$ (2,500)</u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4  
CENTRAL OFFICE COST ALLOCATIONS**

LINE NO.	DESCRIPTION	(A) COMPANY ACTUAL COSTS (CAN \$)	(B) RUCO ALLOWED % OF COSTS	(C) RUCO ALLOWABLE COSTS	(D) RUCO UTILITIES % ALLOCATION	(E) RUCO ALLOCATED COSTS	(F) ALLOCATION % To BVWC	(G) RUCO ALLOCATED BVWC COSTS
1	Audit	\$ 778,285	25.00%	\$ 194,571	24.29%	\$ 47,253	14.52%	\$ 6,863
2	Tax Services	518,775	25.00%	129,694	24.29%	31,497	14.52%	4,575
3	Legal	159,053	25.00%	39,763	24.29%	9,657	14.52%	1,403
4	Other Professional Services	506,082	0.00%	-	24.29%	-	14.52%	-
5	Management Fee - Total	644,943	0.00%	-	24.29%	-	14.52%	-
6	Unit Holder Communications	156,766	0.00%	-	24.29%	-	14.52%	-
7	Trustee Fees	129,000	0.00%	-	24.29%	-	14.52%	-
8	Escrow & Transfer Agent Fees	96,138	0.00%	-	24.29%	-	14.52%	-
9	Rent	307,337	0.00%	-	24.29%	-	14.52%	-
10	Licenses/Fees & Permits	17,561	0.00%	-	24.29%	-	14.52%	-
11	Office Expenses	579,379	0.00%	-	24.29%	-	14.52%	-
12	Depreciation	211,653	25.00%	52,913	24.29%	12,850	14.52%	1,866
13	TOTAL	<u>\$ 4,104,971</u>		<u>\$ 416,941</u>		<u>\$ 101,257</u>		<u>\$ 14,707</u>
14	Company's APT Cost Allocation for Bella Vista in Canadian Dollars (Per RUCO DR 3.01)							\$ 160,881
15	Conversion Factor to Convert Canadian Dollars to US Dollars per <a href="http://moneycentral.msn.com">http://moneycentral.msn.com</a> on April 1, 2010							0.99147
16	Company's APT Cost Allocation for Bella Vista in US Dollars							\$ 159,508
17	RUCO's Allowed APT Cost Allocations in US Dollars							\$ 14,581
18	RUCO's APT Cost Allocation Adjustment for Bella Vista in US Dollars							<u>(144,927)</u>
19	RUCO Adjustment (See RLM-7, Column (E))							<u>(144,927)</u>

References:

- Columns (A) (D) (F): Company Response To RUCO Data Requestion 3.01
- Column (B): Testimony, RUCO Witness Tim Coley
- Column (C): Sum Of Columns (A) & (B)
- Column (E): Column (C) X Column (D)
- Column (G): Column (E) X Column (F)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5  
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	\$ 400,000	\$ (200,000)	\$ 200,000
2	Normalization Period - 3 Years			3
3	RUCO Adjusted Rate Case Expense For Instant Case (Line 1 / 3 Years)			\$ 66,667
4	Company Rate Case Expenses As Filed (Company Sch. C-2)			\$ 133,333
5	RUCO Pro Forma Rate Case Expense (Lines 3 - 4)			\$ (66,667)
6	RUCO Adjustment (Line 5) (See RLM-7, Column (F))			\$ (66,667)

	RUCO CALCULATED RATE CASE EXPENSES	REFERENCE	AMOUNT
	<b>ACTUALS</b>		
7	Total Costs Through February 2010	Invoices Per Fennemore Craig	\$ 59,206
	<b>ESTIMATES</b>	Based On Estimate From Black Mountain Sewer Co.	
8	Remaining Costs For Company Witness Tom Borassa:		
9	Rebuttal, Surrebuttal, Rejoinder And Trial Process;		
10	Final Schedules, Assistance With Briefing, Evaluation Of ROO; Open Meeting Prep		25,000
11	Expedited Hearing Transcript		5,000
12	Fennemore Craig Estimated Remaining Costs		
13	Rebuttal, Surrebuttal, Rejoinder And Trial Process;		45,000
14	Briefing		30,000
15	Reviewing ROO; Exceptions Open Meeting Prep		10,000
16	Post Decision Compliance And Filings		15,000
17	Per Diam Expenses		10,000
18	Rounding		794
19	RUCO ESTIMATED RATE CASE EXPENSES		\$ 200,000

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6  
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
<b>FEDERAL INCOME TAXES:</b>			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L29 + L27	\$ 181,672
LESS:			
2	Arizona State Tax	Line 11	(5,953)
3	Interest Expense	Note (A) Line 20	(96,239)
4	Federal Taxable Income	Sum Of Lines 1 Thru 3	\$ 79,480
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 27,023
<b>STATE INCOME TAXES:</b>			
7	Operating Income Before Taxes	Line 1	\$ 181,672
LESS:			
8	Interest Expense	Note (A) Line 20	(96,239)
9	State Taxable Income	Sum Of Lines 7 & 8	\$ 85,433
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 5,953
<b>TOTAL INCOME TAX EXPENSE:</b>			
12	Federal Income Tax Expense	Line 6	\$ 27,023
13	State Income Tax Expense	Line 11	5,953
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 32,976
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(47,787)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 80,763
17	RUCO Adjustment (See Sch. RLM-7, Column (K), L278)	Line 16	\$ 80,763

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (E), L15)	\$ 7,286,645
19	Weighted Cost Of Debt (Sch. RLM-14, Col. (F), L1)	1.32%
20	Interest Expense (L17 X L18)	\$ 96,239

**COST OF CAPITAL**

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) RUCO ADJTM'T	(C) RUCO ADJUSTED	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST RATE
1	Long-Term Debt	\$ 1,697,323	\$ -	\$ 1,697,323	21.08%	6.27%	1.32%
2	Common Equity	<u>6,354,582</u>	<u>-</u>	<u>6,354,582</u>	<u>78.92%</u>	9.00%	<u>7.10%</u>
3	Total Capitalizator	<u>\$ 8,051,905</u>	<u>\$ -</u>	<u>\$ 8,051,905</u>	<u>100.00%</u>		
4	COST OF CAPITAL						<u>8.42%</u>

References:  
Columns (A) Thru (F): See Testimony Of RUCO Witness William Rigsby