

BELLA VISTA WATER COMPANY, INC.

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

**SUPPLEMENTAL DIRECT TESTIMONY
(COST OF CAPITAL)**

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 23, 2010

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1 **INTRODUCTION**

2 Q. Please state your name, occupation, and business address.

3 A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6

7 Q. Please state the purpose of your supplemental direct testimony.

8 A. The purpose of my supplemental direct testimony is to present RUCO's
9 recommended weighted average costs of capital for BVWC, NSWC and
10 SSWC on a stand-alone basis.

11

12 Q. Have you filed any prior testimony in this case on behalf of RUCO?

13 A. Yes, on April 12, 2010, I filed direct testimony with the Commission on
14 RUCO's cost of capital recommendations for BVWC on a consolidated
15 basis.

16

17 Q. Are you recommending a separate cost of common equity for each of the
18 three Liberty Water systems?

19 A. No. I am recommending the same 9.00 percent cost of common equity
20 that I recommended on a consolidated basis. The analysis which
21 produced my recommended 9.00 percent cost of common equity was
22 explained in my direct testimony filed on April 12, 2010 and so there is no
23 need to repeat it in this supplemental direct testimony.

1 Q. Will RUCO be filing supplemental direct testimony on the rate base and
2 operating income issues as they relate to the three Liberty Water systems
3 on a stand-alone basis?

4 A. Yes. RUCO analyst Rodney L. Moore will file supplemental direct
5 testimony on the rate base and operating income issues as they relate to
6 the three Liberty Water systems on a stand-alone basis.

7

8 Q. Is RUCO filing testimony on rate consolidation and rate design in this
9 proceeding?

10 A. Yes. RUCO Director Jodi A. Jerich, Esq. and RUCO analyst Rodney L.
11 Moore will provide direct testimony on RUCO's rate consolidation policy
12 and RUCO's recommended rate designs respectively.

13

14 Q. How is your supplemental direct testimony organized?

15 A. My supplemental direct testimony contains five parts: the introduction that
16 I have just presented; a summary of RUCO's recommendations on a
17 stand-alone basis that I am about to present; a section on RUCO's stand-
18 alone capital structure recommendations; a section on RUCO's stand-
19 alone cost of debt recommendations; and, a section on the weighted costs
20 of capital for each of the three Liberty Water systems.

21

22

1 **SUMMARY OF RECOMMENDATIONS**

2 Q. What are RUCO's capital structure, cost of debt and weighted average
3 cost of capital recommendations for BVWC, NSWV and SSWC on a
4 stand-alone basis?

5 A. RUCO is recommending the following capital structure, cost of debt and
6 weighted average cost of capital recommendations for BVWC, NSWV and
7 SSWC on a stand-alone basis:

8

9 **Bella Vista Water Company**

10 BVWC Capital Structure – For BVWC, I am recommending that the
11 Commission adopt BVWC's proposed capital structure, which is
12 comprised of 27.76 percent long-term debt and 72.24 percent common
13 equity.

14

15 BVWC Cost of Debt – For BVWC, I am recommending that the
16 Commission adopt the Company-proposed cost of debt of 6.27 percent,
17 which is the average weighted cost of debt of BVWC's various loans.

18

19 BVWC Weighted Average Cost of Capital – Based on the results of my
20 recommended capital structure, I am recommending an 8.24 percent cost
21 of capital for BVWC, which is the weighted cost of my recommended 6.28
22 percent cost of long-term debt and my recommended 9.00 percent cost of
23 common equity. My recommended weighted average cost of capital for

1 BVWC is 253 basis points lower than the 10.77 percent weighted average
2 cost of capital being proposed by the Company.

3
4 **Northern and Southern Sunrise Water Companies**

5 NSWC and SSWC Capital Structures – I am recommending that NSWC’s
6 and SSWC’s proposed capital structures, which are comprised of 100
7 percent common equity be rejected by the ACC and that my
8 recommended hypothetical capital structures, which are comprised of 60
9 percent common equity and 40 percent debt, be adopted by the
10 Commission.

11
12 NSWC and SSWC Costs of Debt – For both NSWC and SSWC, I am
13 recommending that the Commission adopt a hypothetical cost of debt of
14 6.26 percent, which is the average weighted cost of debt of eight publicly
15 traded water companies that are followed by securities analysts with The
16 Value Line Investment Survey.

17
18 NSWC and SSWC Weighted Average Costs of Capital – Based on the
19 results of my recommended hypothetical capital structures, I am
20 recommending a 7.90 percent cost of capital for both NSWC and SSWC,
21 which is the weighted cost of my recommended costs of common equity
22 and hypothetical debt. My recommended 7.90 percent weighted average
23 costs of capital for NSWC and SSWC are 490 basis points lower than the

1 12.80 percent weighted average costs of capital being proposed by
2 NSWC and SSWC.

3

4 **CAPITAL STRUCTURE**

5 **Bella Vista Water Company**

6 Q. Please describe BVWC's proposed capital structure.

7 A. BVWC's proposed capital structure is comprised of 72.24 percent
8 common equity and 27.76 percent long-term debt.

9

10 Q. How does BVWC's capital structure compare with the capital structures of
11 the water and gas utilities that comprise your samples?

12 A. BVWC's capital structure, comprised of 72.24 percent equity capital is
13 clearly heavier in equity than the capital structures of the water and gas
14 utilities in my samples and would be perceived by investors as having
15 lower risk overall. The lower level of debt in the Company's capital
16 structure would indicate lower financial risk and would justify a downward
17 adjustment to the cost of common equity derived from my sample
18 companies that had average capital structures of approximately 49.00
19 percent common equity and 51.00 percent debt in the case of water, and
20 approximately 54.00 percent equity and 46.00 percent debt in the case of
21 natural gas.

22

23

1 Q. Why have you decided not to recommend a hypothetical capital structure
2 for BVWC given the fact that BVWC's capital structure contains less debt
3 than the utilities in your sample?

4 A. As I explained in my direct testimony filed on April 12, 2010, in recent
5 years I have attempted, for the most part, to recommend hypothetical
6 capital structures for utilities that have extreme levels of debt or equity in
7 their capital structures. In the case of Liberty Water systems I have
8 recommended hypothetical capital structures in cases where imprudent
9 capital structures comprised of 100 percent equity were being proposed.
10 While a higher level of lower cost debt would be desirable for BVWC, I
11 believe that the fact that my recommended capital structure, which is
12 comprised of 21.08 percent long-term debt, eliminates the need for a
13 hypothetical capital structure in this case.

14
15 Q. Did you make any direct downward adjustment to your recommended cost
16 of common equity that takes into consideration the higher level of equity
17 contained in the Company-proposed capital structure?

18 A. No. While a good argument could be made for such an adjustment, I
19 believe my recommended 9.00 percent cost of equity would cover any
20 investor concerns regarding unique business risk associated with BVWC.

21
22
23

1 **Northern and Southern Sunrise Water Companies**

2 Q. Have you reviewed both NSWC's and SSWC's testimony regarding their
3 proposed capital structures?

4 A. Yes, I have.

5

6 Q. Please describe the capital structures being proposed by NSWC and
7 SSWC.

8 A. Both NSWC and SSWC are proposing capital structures comprised of 100
9 percent common equity.

10

11 Q. Are the capital structures being proposed by NSWC and SSWC in line
12 with industry averages?

13 A. No. The capital structures being proposed by NSWC and SSWC are
14 comprised entirely of equity as opposed to the capital structures of the
15 other water companies included in my cost of capital analysis (Schedule
16 WAR-9, direct testimony filed on April 12, 2010). The capital structures for
17 those utilities averaged 51.4 percent for debt and 48.6 percent for equity.

18

19 Q. In terms of risk, how do the capital structures proposed by NSWC and
20 SSWC compare to the water utilities in your sample?

21 A. The water utilities in my sample, from which I derived an estimated cost of
22 common equity of 9.00 percent versus the Company-proposed 12.80
23 percent, would be considered as having a higher level of financial risk (i.e.

1 the risk associated with debt repayment) because of their higher levels of
2 debt. The additional financial risk due to debt leverage is embedded in the
3 cost of equities derived for those companies through the DCF analysis.
4 Thus, the cost of equity derived in my DCF analysis is applicable to
5 companies that are more leveraged and, theoretically speaking, riskier
6 than utilities such as NSWC and SSWC, which have no debt in their
7 capital structures. In the case of a publicly traded company, like those
8 included in my proxy, a company with NSWC's and SSWC's levels of
9 equity would be perceived as having extremely low to no financial risk and
10 would therefore also have a lower expected return on common equity.
11 Because of this, I believe a hypothetical capital structure that produces a
12 lower weighted cost of common equity is warranted for both NSWC and
13 SSWC.

14

15 Q. What capital structure are you recommending for both NSWC and SSWC?

16 A. I am recommending a hypothetical capital structure comprised of 60
17 percent equity and 40 percent debt for both NSWC and SSWC.

18

19 Q. Has the Commission addressed the issue of capital structures comprised
20 of 100 percent common equity in prior cases?

21 A. Yes. This issue was addressed in a prior Gold Canyon Sewer Company
22 ("Gold Canyon") case in which the Commission adopted both a
23 hypothetical capital structure and a hypothetical cost of debt in order to

1 remedy a capital structure comprised of 100 percent common equity (Gold
2 Canyon is also owned by Liberty Water). In Decision No. 70662, dated
3 December 23, 2008, the Commission stated the following: We agree with
4 RUCO's hypothetical structure of 40 percent debt and 60 percent equity. A
5 capital structure comprised of 100 percent equity would be viewed as
6 having little to no financial risk. The proposed capital structure adopted by
7 the Commission will bring the Company's capital structure and weighted
8 cost of capital in line with the industry average and it will result in lower
9 rates for the customers of the system. We therefore adopt a hypothetical
10 capital structure of 40 percent debt and 60 percent equity.

11
12 Q. Why are you recommending a higher 60 percent level of equity for both
13 NSWC and SSWC in your hypothetical capital structure than the average
14 49.6 percent level of equity of your sample companies?

15 A. My hypothetical capital structure takes into account any perceived
16 additional business risk that both NSWC and SSWC may face and for that
17 reason I believe a higher level of equity is reasonable.

18
19 **COST OF DEBT**

20 **Bella Vista Water Company**

21 Q. Have you reviewed the various debt instruments that comprise the long-
22 term debt in BVWC's capital structure?

23 A. Yes.

1 Q. What cost of long-term debt are you recommending for BVWC?

2 A. I am recommending that the Commission adopt the 6.27 percent cost of
3 debt being proposed by BVWC, which is the average of the weighted
4 costs of BVWC's various loans agreements.

5

6 **Northern and Southern Sunrise Water Companies**

7 Q. Are you recommending a hypothetical cost of debt for both NSWC and
8 SSWC?

9 A. Yes.

10

11 Q. What hypothetical cost of debt are you recommending for both NSWC and
12 SSWC?

13 A. I am recommending a hypothetical cost of debt of 6.26 percent for both
14 NSWC and SSWC.

15

16 Q. How did you determine your hypothetical cost of debt for NSWC and
17 SSWC?

18 A. As can be viewed on page 2 of Schedule WAR-1 for both NSWC and
19 SSWC, my recommended 6.26 percent hypothetical cost of debt is an
20 average of the weighted costs of long-term debt of seven publicly traded
21 water utilities followed by Value Line analysts. Three of these water
22 utilities are the same ones that I described in my direct testimony filed on
23 April 11, 2010, and were used in my DCF and CAPM analyses. Three of

1 the remaining four (Connecticut Water Service, Inc., Middlesex Water 2
2 Company, and SJW Corp.) are ones that I noted earlier in my testimony
3 that were included in the Company's proxy. The seventh water utility,
4 York Water Company, is also followed in Value Line's Small & Mid-Cap
5 Edition.

6
7 Q. Is your recommended hypothetical cost of debt for NSWC and SSWC
8 similar to BVWC's cost of debt?

9 A. Yes. The 6.26 percent hypothetical cost of debt that I am recommending
10 for NSWC and SSWC is only one basis point lower than BVWC's 6.27
11 percent cost of debt.

12
13 Q. Why do you believe your recommended 6.26 percent hypothetical cost of
14 debt for NSWC and SSWC is reasonable given the recent turbulence in
15 the financial markets?

16 A. My recommended 6.26 percent hypothetical cost of debt is falls within the
17 current yields of A-rated and Baa/BBB-rated utility bonds that was
18 reported in the April 23, 2010 Value Line Selection and Opinion
19 publication (Attachment A). In addition to this, Arizona Water Company,
20 the second largest water provider in the state, privately placed \$35 million
21 in bonds at a stated rate of 6.67 percent on the first day of September
22 2008 during a period when the yield on Baa/BBB-rated utility bonds
23 averaged 6.63 percent. Given Liberty Water's parent company's ability to

1 access capital, it is reasonable to believe that Algonquin Power & Utilities
2 Corp. can obtain debt at a cost in the A-rated to Baa/BBB-rated range of
3 5.89 percent to 6.35 percent stated above, I believe, for the reasons
4 stated above, my recommended 6.26 percent hypothetical cost of debt is
5 reasonable and there is no need for additional basis point adjustment.

6

7 Q. How does your recommended 6.26 percent hypothetical cost of debt for
8 NSWC and SSWC compare to the weighted costs of debt of other Arizona
9 water providers?

10 A. In its most recent rate case before the Commission, Arizona-American
11 Water Company, the largest investor owned water utility in the state, had a
12 weighted cost of debt of approximately 5.50 percent. Arizona Water
13 Company's weighted cost of debt as of the last quarter of 2008 was 6.83
14 percent. The midpoint of these two figures is 6.17 percent which is 9
15 basis points lower than my recommended 6.26 percent hypothetical cost
16 of debt.

17

18 **WEIGHTED AVERAGE COST OF CAPITAL**

19 **Bella Vista Water Company**

20 Q. What weighted average cost of capital are you recommending for BVWC?

21 A. I am recommending an 8.24 percent weighted average cost of capital for
22 BVWC.

23

1 Q. How does the Company's proposed weighted cost of capital compare with
2 your recommendation?

3 A. BVWC has proposed a weighted average cost of capital of 10.77 percent
4 which is 253 basis points higher than the 8.24 percent weighted cost that I
5 am recommending. My cost of capital recommendation for BVWC is
6 consistent with the one that I made for Liberty Water's Litchfield Park
7 Service Company in a case that is now pending before the Commission.

8

9 **Northern and Southern Sunrise Water Companies**

10 Q. What weighted average cost of capital are you recommending for both
11 NSWC and SSWC?

12 A. I am recommending a 7.90 percent weighted average cost of capital for
13 both NSWC and SSWC.

14

15 Q. How does the weighted average cost of capital being proposed by NSWC
16 and SSWC compare with your recommendation?

17 A. Both NSWC and SSWC have proposed weighted average costs of capital
18 of 12.80 percent which reflects the total absence of debt financing in their
19 proposed capital structures. The proposed weighted average cost of
20 capital of 12.80 percent for both NSWC and SSWC is 490 basis points
21 higher than the 7.90 percent weighted average cost of capital that I am
22 recommending. I would also point out that my cost of capital
23 recommendations for NSWC and SSWC are consistent with the

1 recommendations that I made in Liberty Water's Gold Canyon, Black
2 Mountain Sewer Corporation, and Rio Rico Utilities, Inc. rate cases.

3

4 Q. Does your silence on any of the issues, matters or findings addressed in
5 the rebuttal testimony of any of the witnesses for BVWC, NSWC or SSWC
6 constitute your acceptance of their positions on such issues, matters or
7 findings?

8 A. No, it does not.

9

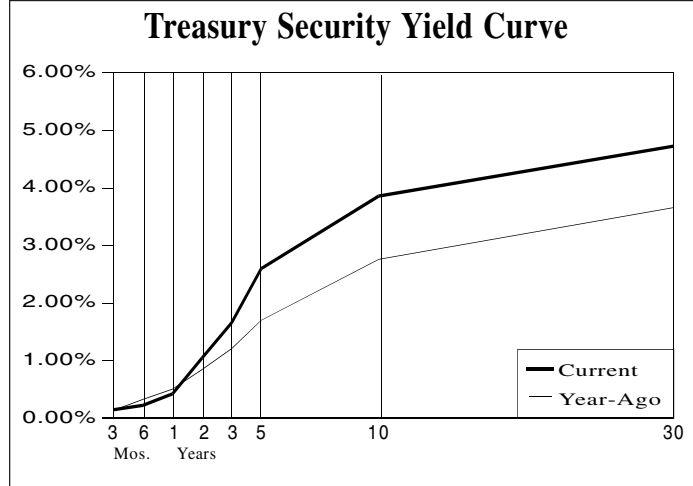
10 Q. Does this conclude your supplemental direct testimony on the stand-alone
11 cost of capital issues for BVWC, NSWC and SSWC?

12 A. Yes, it does.

ATTACHMENT A

Selected Yields

	Recent (4/14/10)	3 Months Ago (1/13/10)	Year Ago (4/15/09)		Recent (4/14/10)	3 Months Ago (1/13/10)	Year Ago (4/15/09)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.50	0.50				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.20	0.16	0.38				
3-month LIBOR	0.30	0.25	1.11				
Bank CDs							
6-month	0.25	0.26	0.81				
1-year	0.43	0.47	1.02				
5-year	1.99	2.02	2.01				
U.S. Treasury Securities							
3-month	0.15	0.05	0.14				
6-month	0.23	0.14	0.33				
1-year	0.43	0.35	0.51				
5-year	2.60	2.54	1.70				
10-year	3.86	3.79	2.76				
10-year (inflation-protected)	1.51	1.31	1.43				
30-year	4.73	4.71	3.66				
30-year Zero	4.99	4.95	3.66				
Mortgage-Backed Securities							
GNMA 6.5%	2.52	3.63	3.39				
FHLMC 6.5% (Gold)	1.83	2.41	2.67				
FNMA 6.5%	2.14	2.54	2.62				
FNMA ARM	2.76	3.24	3.15				
Corporate Bonds							
Financial (10-year) A	5.22	5.65	7.61				
Industrial (25/30-year) A	5.76	5.87	6.25				
Utility (25/30-year) A	5.89	5.89	6.17				
Utility (25/30-year) Baa/BBB	6.35	6.49	7.59				
Foreign Bonds (10-Year)							
Canada	3.71	3.60	2.94				
Germany	3.14	3.30	3.14				
Japan	1.38	1.34	1.44				
United Kingdom	4.03	3.96	3.26				
Preferred Stocks							
Utility A	5.99	5.57	6.36				
Financial A	6.60	5.83	7.55				
Financial Adjustable A	5.49	5.49	5.49				



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	4.45	4.31	4.92				
25-Bond Index (Revs)	4.96	4.96	5.74				
General Obligation Bonds (GOs)							
1-year Aaa	0.43	0.31	0.43				
1-year A	1.18	1.27	0.53				
5-year Aaa	1.87	1.68	1.91				
5-year A	2.85	2.77	2.13				
10-year Aaa	3.30	3.28	3.09				
10-year A	4.27	4.20	3.62				
25/30-year Aaa	4.45	4.47	4.71				
25/30-year A	5.51	5.41	5.75				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.81	4.83	5.70				
Electric AA	4.79	4.74	5.80				
Housing AA	5.75	5.70	6.10				
Hospital AA	5.15	5.04	6.15				
Toll Road Aaa	4.78	4.80	5.85				

Federal Reserve Data

BANK RESERVES							
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>							
	Recent Levels			Average Levels Over the Last...			
	4/7/10	3/24/10	Change	12 Wks.	26 Wks.	52 Wks.	
Excess Reserves	1093777	1103634	-9857	1105760	1072867	937535	
Borrowed Reserves	84524	88326	-3802	113453	168251	295198	
Net Free/Borrowed Reserves	1009253	1015308	-6055	992307	904616	642338	
MONEY SUPPLY							
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>							
	Recent Levels			Growth Rates Over the Last...			
	3/29/10	3/22/10	Change	3 Mos.	6 Mos.	12 Mos.	
M1 (Currency+demand deposits)	1719.7	1718.9	0.8	5.7%	7.6%	10.4%	
M2 (M1+savings+small time deposits)	8490.8	8502.5	-11.7	-2.0%	0.3%	1.5%	

BELLA VISTA WATER COMPANY, INC. (STAND-ALONE)
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SCHEDULE #

WAR - 1

COST OF CAPITAL SUMMARY

WEIGHTED AVERAGE COST OF CAPITAL - CONSOLIDATED

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) RUCO ADJUSTMENT	(C) RUCO ADJUSTED	(D) CAPITAL RATIO	(E) COST RATE	WEIGHTED COST RATE
1	Long-Term Debt	\$ 1,697,323	\$ -	\$ 1,697,323	27.76%	6.27%	1.74%
2	Common Equity	4,416,118	-	4,416,118	72.24%	9.00%	6.50%
3	Total Capitalization	<u>\$ 6,113,441</u>	<u>\$ -</u>	<u>\$ 6,113,441</u>	<u>100.00%</u>		
4	WEIGHTED AVERAGE COST OF CAPITAL						8.24%

REFERENCES:

- COLUMN (A): COMPANY, SCHEDULE D
- COLUMN (B): TESTIMONY, WAR
- COLUMN (C): COLUMN (A) + COLUMN (B)
- COLUMN (D): COLUMN (C) LINES 1 & 2 / LINE 4
- COLUMN (E): LINE 1; SCHEDULE WAR-1, PAGE 2, LINE 2; TESTIMONY WAR
- COLUMN (F): COLUMN (D) x COLUMN (E), LINE 4; LINE 1 + LINE 2

WEIGHTED COST OF LONG-TERM DEBT

LINE NO.	DESCRIPTION	END OF TEST YEAR				END OF PROJECTED YEAR			
		(B) AMOUNT OUTSTANDING	(C) ANNUAL INTEREST	(D) INTEREST RATE	(E) WEIGHTED COST	(F) AMOUNT OUTSTANDING	(G) ANNUAL INTEREST	(H) INTEREST RATE	(I) WEIGHTED COST
1	WIFA #1	\$ 108,754	\$ 6,634	6.10%	0.391%	\$ 99,968	\$ 6,098	6.10%	0.385%
2	WIFA #2	1,545,436	96,744	6.26%	5.700%	1,455,280	91,101	6.26%	5.751%
3	K-MART	6,140	526	8.57%	0.031%	484	41	8.47%	0.003%
4	BVR/RC-3	13,849	1,011	7.30%	0.060%	9,854	719	7.30%	0.045%
5	BVR/RC-4	16,109	1,113	6.91%	0.066%	12,802	885	6.91%	0.056%
6	BVR-CCCI	7,035	504	7.16%	0.030%	5,645	404	7.16%	0.026%
7	TOTALS	<u>\$ 1,697,323</u>	<u>\$ 106,532</u>		<u>6.28%</u>	<u>\$ 1,584,033</u>	<u>\$ 99,248</u>		

8 **WEIGHTED COST OF DEBT**

6.27%

REFERENCES:

- COLUMN (A) LINES 1 THRU 6: COMPANY APPLICATION SCHEDULE D-2
- COLUMN (B) LINES 1 THRU 6: COMPANY APPLICATION SCHEDULE D-2
- COLUMN (C) LINES 1 THRU 6: COMPANY APPLICATION SCHEDULE D-2
- COLUMN (D) LINES 1 THRU 6: COLUMN (C) / COLUMN (B)
- COLUMN (E) LINES 1 THRU 6 : COLUMN (D) LINES 1 THRU 6 / LINE 7
- COLUMN (F) LINES 1 THRU 6: COMPANY APPLICATION SCHEDULE D-2
- COLUMN (G) LINES 1 THRU 6: COMPANY APPLICATION SCHEDULE D-2
- COLUMN (H) LINES 1 THRU 6: COLUMN (C) / COLUMN (B)
- COLUMN (I) LINES 1 THRU 6 : COLUMN (H) LINES 1 THRU 6 / LINE 7, LINE 8: SUM OF LINES 1 THRU 6

COST OF COMMON EQUITY CALCULATION

LINE
NO.

1	<u>DCF METHODOLOGY</u>		
2	DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.93%	SCHEDULE WAR-2, COLUMN (C), LINE 5
3	DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	<u>9.90%</u>	SCHEDULE WAR-2, COLUMN (C), LINE 13
4	AVERAGE OF DCF ESTIMATES	9.92%	(LINE 2 + LINE 3) ÷ 2
5	<u>CAPM METHODOLOGY</u>		
6	CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE	5.44%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5
7	CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE	5.13%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13
8	CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE	6.83%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5
9	CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE	<u>6.39%</u>	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13
10	AVERAGE OF CAPM ESTIMATES	5.95%	(SUM OF LINES 6 THRU 9) ÷ 4
11	AVERAGE OF DCF AND CAPM ESTIMATES	7.93%	(SUM OF LINES 4 AND 10) ÷ 2
12	FINAL COST OF COMMON EQUITY ESTIMATE	9.00%	TESTIMONY WAR

NORTHERN SUNRISE WATER COMPANY, INC. (STAND-ALONE)
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SCHEDULE #

WAR - 1

COST OF CAPITAL SUMMARY

**NORTHERN SUNRISE WATER COMPANY, INC. (STAND-ALONE)
 TEST YEAR ENDED MARCH 31, 2009
 COST OF CAPITAL SUMMARY**

**DOCKET NO. W-02465A-09-0411 ET AL.
 SUPPLEMENTAL SCHEDULE WAR - 1
 PAGE 1 OF 3**

WEIGHTED AVERAGE COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST RATE	(C) WEIGHTED COST RATE
1	Long-Term Debt	40.00%	6.26%	2.50%
2	Common Equity	60.00%	9.00%	5.40%
3	Total Capitalization	100.00%		
4	WEIGHTED AVERAGE COST OF CAPITAL			7.90%

REFERENCES:

COLUMN (A): TESTIMONY, WAR

COLUMN (B): TESTIMONY, WAR - SCHEDULE WAR-1, PAGE 2

COLUMN (C): COLUMN (A) x COLUMN (B)

**NORTHERN SUNRISE WATER COMPANY, INC. (STAND-ALONE)
TEST YEAR ENDED MARCH 31, 2009
COST OF CAPITAL SUMMARY**

**DOCKET NO. W-02465A-09-0411 ET AL.
SUPPLEMENTAL SCHEDULE WAR - 1
PAGE 2 OF 3**

SAMPLE COMPANIES APPROXIMATE WEIGHTED COSTS OF DEBT

<u>LINE NO.</u>	<u>STOCK SYMBOL</u>	<u>COMPANY</u>	<u>WEIGHTED COSTS</u>
1	AWR	AMERICAN STATES WATER CO.	7.13%
2	CWT	CALIFORNIA WATER SERVICE GROUP	6.43%
3	WTR	AQUA AMERICA, INC.	6.03%
4	CTWS	CONNECTICUT WATER SERVICES, INC.	4.95%
5	MSEX	MIDDLESEX WATER COMPANY	5.52%
6	SJW	SJW CORP.	6.81%
7	YORW	YORK WATER COMPANY	6.92%
8	AVERAGE OF APPROXIMATE WEIGHTED COSTS OF DEBT (a)		6.26% AVERAGE OF LINES 1 THRU 8
9	RUCO RECOMMENDED COST OF DEBT		6.26%

REFERENCE:

MOST RECENT SEC 10-K FILINGS OR ANNUAL REPORTS

NOTE:

- (a) COSTS ARE APPROXIMATE AND DO NOT INCLUDE THE FOLLOWING:
DEBT ISSUES THAT DID NOT HAVE STATED YIELDS; AND
DEBT ISSUES WITH ZERO RATES OF INTEREST.
IN THE CASE OF ISSUES WITH VARIABLE RATES OF INTEREST THE HIGH END OF THE VARIABLE RANGE WAS USED.

COST OF COMMON EQUITY CALCULATION

LINE
NO.

1	<u>DCF METHODOLOGY</u>		
2	DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.93%	SCHEDULE WAR-2, COLUMN (C), LINE 5
3	DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	<u>9.90%</u>	SCHEDULE WAR-2, COLUMN (C), LINE 13
4	AVERAGE OF DCF ESTIMATES	9.92%	(LINE 2 + LINE 3) ÷ 2
5	<u>CAPM METHODOLOGY</u>		
6	CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE	5.44%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5
7	CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE	5.13%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13
8	CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE	6.83%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5
9	CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE	<u>6.39%</u>	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13
10	AVERAGE OF CAPM ESTIMATES	5.95%	(SUM OF LINES 6 THRU 9) ÷ 4
11	AVERAGE OF DCF AND CAPM ESTIMATES	7.93%	(SUM OF LINES 4 AND 10) ÷ 2
12	FINAL COST OF COMMON EQUITY ESTIMATE	9.00%	TESTIMONY WAR

**SOUTHERN SUNRISE WATER COMPANY, INC. (STAND-ALONE)
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SCHEDULE #

WAR - 1

COST OF CAPITAL SUMMARY

**SOUTHERN SUNRISE WATER COMPANY, INC. (STAND-ALONE)
TEST YEAR ENDED MARCH 31, 2009
COST OF CAPITAL SUMMARY**

**DOCKET NO. W-02465A-09-0411 ET AL.
SUPPLEMENTAL SCHEDULE WAR - 1
PAGE 1 OF 3**

WEIGHTED AVERAGE COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST RATE	(C) WEIGHTED COST RATE
1	Long-Term Debt	40.00%	6.26%	2.50%
2	Common Equity	60.00%	9.00%	5.40%
3	Total Capitalization	100.00%		
4	WEIGHTED AVERAGE COST OF CAPITAL			7.90%

REFERENCES:

COLUMN (A): TESTIMONY, WAR

COLUMN (B): TESTIMONY, WAR - SCHEDULE WAR-1, PAGE 2

COLUMN (C): COLUMN (A) x COLUMN (B)

**SOUTHERN SUNRISE WATER COMPANY, INC. (STAND-ALONE)
 TEST YEAR ENDED MARCH 31, 2009
 COST OF CAPITAL SUMMARY**

**DOCKET NO. W-02465A-09-0411 ET AL.
 SUPPLEMENTAL SCHEDULE WAR - 1
 PAGE 2 OF 3**

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REFERENCE:
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COST OF COMMON EQUITY CALCULATION

LINE
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