

SOUTHWEST GAS CORPORATION

DOCKET NO. G-01551A-07-0504

DIRECT TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

March 28, 2008

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1 **INTRODUCTION**

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

3 A. Rodney L. Moore, Public Utilities Analyst V

4 Residential Utility Consumer Office

5 1110 West Washington Street, Suite 220

6 Phoenix, Arizona 85007.

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

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

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

15 A. The purpose of my testimony is to present RUCO's recommendations
16 regarding Southwest Gas Corporation's ("Company" or "SWG") application
17 for a determination of the current fair value of its utility plant and property
18 and for increases in its rates and charges based thereon for gas service.

19 The test year utilized by the Company in connection with the preparation
20 of this application is the 12-month period that ended April 30, 2007.

21

22

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 operating
5 income, rate base, the Company's overall revenue requirement and rate
6 design. My recommendations are based on these analyses. Procedures
7 performed include the in-house formulation and analysis of seven sets of
8 data requests, the review and analysis of Company responses to
9 Commission Staff data requests, conversations with Company personnel
10 and the review of prior ACC dockets related to SWG.

11
12 The Commission in Decision No. 68487, dated February 23, 2006,
13 approved the Company's present rates and charges for utility service.
14 The test year used in that proceeding was the 12-month period ending
15 August 31, 2004.

16
17 Q. What areas will you address in your testimony?

18 A. I will address issues related to rate base, operating income and revenue
19 requirements. RUCO's witness William A. Rigsby will provide an analysis
20 of the cost of capital as presented on Schedule RLM-19. RUCO's witness
21 Marylee Diaz Cortez will address rate design in her testimony to be filed
22 April 11, 2008. I will sponsor the rate design exhibits that will be filed with
23 the testimony of Ms. Diaz Cortez.

1 Q. Please identify the exhibits you are sponsoring.

2 A. I am sponsoring Schedules numbered RLM-1 through RLM-19.

3

4 **SUMMARY OF ADJUSTMENTS**

5 Q. Please summarize the adjustments to rate base, operating income and
6 revenue requirements addressed in your testimony.

7 A. My testimony addresses the following issues:

8 **Rate Base**

9 Fair Value Rate Base – This adjustment states the fair value rate base by
10 giving equal weighting (50/50 split) to RUCO’s adjusted original cost rate
11 base and RUCO’s calculation of the reconstruction cost new depreciated
12 rate base.

13 Construction Completed Not Classified - This adjustment includes the
14 value of retired plant associated with the completed construction not
15 classified recommended for rate base treatment.

16 Annualized Intangible Assets - This adjustment removes those assets,
17 which will be fully amortized shortly after the end of the test year and
18 includes those intangible assets that entered service shortly after the end
19 of the test year.

20 Retired Plant Associated With the Sale of the “TEP Bypass” - This
21 adjustment includes the value of retired plant associated with Tucson
22 Electric Power Company’s cancellation of gas transportation service
23 through the “TEP Bypass”, SWG’s corresponding normalization of test-

1 year revenue and the Company's acknowledgement of the upcoming sale
2 of these assets.

3 Accumulated Deferred Income Taxes Associated With Incentive
4 Compensation and the Supplemental Executive Retirement Plan - This is
5 a companion adjustment to recognize the deferred tax implications on
6 RUCO's operating income adjustments to the Company's incentive
7 compensation program and the supplemental executive retirement plan
8 discussed below.

9 Allowance For Working Capital – This adjustment is the difference in the
10 level of expense recommendations calculated by the Company and
11 RUCO.

12 **Operating Income**

13 Labor and Labor Loading Annualization Expense – This adjustment
14 reduces test-year operating expenses to reflect RUCO's recommended
15 level of annualized payroll and payroll taxes.

16 Injuries and Damages Expense – This adjustment reflects RUCO's
17 determination of an average annual level of expense.

18 Paiute Allocation Annualization Expense – This is a conforming
19 adjustment corresponding to the Company's acknowledgment of
20 omissions in the original filing expenses.

21 Depreciation and Amortization Annualization Expense - This adjustment
22 reflects depreciation and amortization expenses calculated on RUCO's
23 recommended gross plant in service.

1 Property Tax Expense - This adjustment reflects the appropriate level of
2 property tax expense given RUCO's recommended level of net plant in
3 service.

4 Unnecessary and/or Inappropriate Expenses – RUCO expanded the
5 scope of the Company's proposed adjustment to miscellaneous expense
6 adjustments and removed inappropriate expenditures not necessary in the
7 provisioning of gas service.

8 Management Incentive Program - This adjustment reflects RUCO's
9 determination to split the cost on a 50/50 basis for expenses associated
10 with employee incentive compensation.

11 Supplemental Executive Retirement Plan – This adjustment reflects
12 RUCO's determination to remove the cost of the supplemental executive
13 retirement plan.

14 Employee Recognition - This adjustment reflects RUCO's determination to
15 remove the costs of gifts and awards associated with employee
16 recognition.

17 Uncollectible Expense – This adjustment reduces test-year operating
18 expenses to reflect RUCO's recommended level of normalized
19 uncollectible expense.

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

22

23

1 RUCO's recommended increase in Fair Value Rate Base ("FVRB") based
2 on the equal weighting of a 50/50 split between Original Cost Rate Base
3 ("OCRB") and Reconstruction Cost New Depreciated Rate Base ("RCND")
4 is summarized on Schedule RLM-1:

	<u>SWG</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
5			
6	\$1,469,135,558	\$1,463,643,611	(\$5,491,947)

7 The detail supporting RUCO's recommended rate base is presented on
8 Schedules RLM-2, RLM-3, RLM-4, RLM-5 and RLM-6.

9

10 RUCO's recommended required operating income is shown on Schedule
11 RLM-1 as:

	<u>SWG</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
12			
13	\$103,457,659	\$96,226,345	(\$7,231,314)

14 Schedule RLM-1 presents the calculation of RUCO's recommended
15 revenue requirement.

16

17 **RATE BASE**

18 Fair Value Rate Base

19 Q. Please explain the basis for your determination of the fair value rate base
20 ("FVRB").

21 A. RUCO's determination of the FVRB consists of three elements. First, as
22 shown on RLM-2, the value of the OCRB was restated to reflect RUCO's
23 adjustment to the various rate base determinants. Second, as shown on

1 RLM-3, the value of the RCND was computed. Third, as shown of RLM-1,
2 the FVRB was computed on an equal weighted basis (50/50 split)
3 between RUCO's OCRB and RCND.

4

5 Q. Please elaborate on the first element of RUCO's FVRB determination.

6 A. The first element consists of adjustments to the OCRB. As shown on
7 RLM-4, RUCO made three adjustments to the OCRB, each of which is
8 discussed in detail below.

9

10 Q. Please elaborate on the second element of RUCO's FVRB determination.

11 A. The second element is the computation of the RCND. RUCO's RCND
12 was computed by multiplying RUCO's OCRB by the percentage difference
13 between the Company's OCRB and its RCND as filed.

14

15 Q. Please elaborate on the third element of RUCO's FVRB determination.

16 A. The third element is the computation of the FVRB. RUCO computed the
17 FVRB by calculating a 50/50 split between RUCO's OCRB and its RCND.

18

19 This adjustment to fair value rate base decreased the test-year rate base
20 by \$5,491,947.

21

22

23

1 Rate Base Adjustment No. 1 – Completed Construction Not Classified

2 Q. Please explain your adjustment to completed construction not classified
3 ("CCNC").

4 A. In response to RUCO data request 2.1, the Company acknowledged there
5 were corresponding plant retirements associated with the CCNC identified
6 in its Adjustment No. 17.

7
8 Therefore, my adjustment recognizes these plant retirements, because it
9 is necessary to match the test-year plant additions not classified with the
10 test-year retirements not classified.

11
12 Thus the adjustment reduces the gross plant in service by the value of the
13 retirements (\$66,377); however, the adjustment also reduces the
14 accumulated depreciation by an equal amount, which offsets any effect on
15 the rate base.

16
17 As shown on Schedule RLM-4 page 1, columns (D) and (E) and
18 supporting Schedule RLM-5, my adjustment decreases the adjusted rate
19 base by \$0. However, this adjustment has an effect on the test-year
20 depreciation expense, which is discussed later in my testimony on
21 operating income.

22
23

1 Rate Base Adjustment No. 2 – Annualized Intangible Assets

2 Q. Please explain the Company's proposed adjustment to annualize its test-
3 year intangible plant balances.

4 A. The Company's adjustment reflects construction expenditures made
5 before the end of the test year. However, the actual recording of this
6 construction activity into the plant accounts was made after the end of the
7 test year due to delays in entering the required information into the
8 Company's computer system.

9

10 Q. Do you agree with this adjustment?

11 A. No, not entirely. In response to Staff data requests 6.59 and 11.4, the
12 Company acknowledged it had over-estimated costs of certain intangible
13 plant additions in its original filing. My adjustment decreases the
14 Company's proposed estimates of intangible plant additions with the
15 actual plant additions.

16

17 These additional plant assets were system allocable miscellaneous
18 intangible items primarily related to computer software. RUCO accepts
19 the Company's recommendation to assign a three-year service life on
20 these intangible plant assets, which will be discussed later in my testimony
21 regarding operating income.

22

23

1 Thus the adjustment consists of determining the difference between the
2 estimated and actual costs, and adjusting SWG's rate base to reflect the
3 actual intangible plant additions.

4
5 As shown on Schedule RLM-4 page 2, column (E) and supporting
6 Schedule RLM-10, page 3, column (B), my adjustment decreases the
7 adjusted rate base by \$79,231.

8
9 Rate Base Adjustment No. 3 – Retired Plant Associated With the Sale of
10 the “TEP Bypass”

11 Q. Please explain your adjustment to retire plant associated with Tucson
12 Electric Power Company's (“TEP”) cancellation of gas service provided
13 through the “TEP bypass”.

14 A. In the testimony of Company witness Mr. Cattanach, he states SWG
15 annualized the test-year bills and volumes to reflect TEP's cancellation of
16 gas service pursuant to the “TEP bypass”. Moreover, in response to
17 RUCO data request 7.2, the Company acknowledged there was an
18 upcoming sale of the meters and pipes that service TEP planned for
19 March 31, 2008 to transfer ownership to TEP. Because SWG annualized
20 the end of test-year revenues based on end of test-year customer levels; it
21 is also appropriate to annualize rate base items, such as plant in service
22 and accumulated depreciation to reflect this adjusted customer level.

23

1 Therefore, my adjustment recognizes the plant that will be retired as a
2 result of the “TEP bypass”. This adjustment is necessary to match the
3 test-year plant balances with the test-year customer level.

4
5 Thus, this adjustment reduces the gross plant in service by the value of
6 the retirements (\$210,619); however, the adjustment also reduces the
7 accumulated depreciation by an equal amount, which offsets any effect on
8 the rate base.

9
10 As shown on Schedule RLM-4 page 1, columns (G) and (H), my
11 adjustment decreases the adjusted rate base by \$0. This adjustment
12 however has an effect on the test-year depreciation expense, which is
13 discussed later in my testimony on operating income.

14
15 Rate Base Adjustment No. 4 – Accumulated Deferred Income Taxes
16 Associated With Management Incentive Program and the Supplemental
17 Executive Retirement Plan

18 Q. Please explain your adjustment to accumulated deferred income tax
19 (“ADIT”).

20 A. In response to Staff data request 11.11, the Company identified the ADIT
21 associated with the management incentive program (“MIP”) and the
22 supplemental executive retirement plan (“SERP”).

23

1 Q. Have you removed the entire ADIT balance related to MIP and SERP from
2 rate base?

3 A. No. Since these two expenses have only been excluded from rates since
4 SWG's last rate case, I have only removed the ADIT that has accrued
5 since rates last went into effect through the end of the current test year. In
6 this manner I have properly matched the MIP and SERP expense
7 disallowances with the applicable ADIT accruals.

8
9 Furthermore, as shown on Schedule RLM-4, page 3, I have limited my
10 ADIT adjustment related to MIP to 50 percent, since this was the portion of
11 MIP expenses that was disallowed in SWG's prior rate order.

12
13 This is a companion adjustment to the MIP and SERP adjustments
14 discussed below.

15 As shown on Schedule RLM-2, column (B), line 8, and supporting
16 Schedule RLM-4, page 3, my adjustment decreases the adjusted rate
17 base by \$880,989.

18

19 Rate Base Adjustment No. 5 – Allowance For Working Capital

20 Q. What level of working capital is the Company requesting?

21 A. The Company is requesting a total working capital allowance of
22 \$5,681,932. This is comprised of cash working capital of (\$10,379,937),
23 materials and supplies of \$12,389,898, and prepayments of \$3,671,971.

1 Q. What is the basis of the Company's cash working capital request?

2 A. The Company's cash working capital request is based on the results of a
3 lead/lag study.

4

5 Q. Please explain cash working capital and how a lead/lag study is used to
6 measure cash working capital.

7 A. Cash working capital is the amount of cash needed by the Company to
8 pay for goods and services in advance of the receipt of the associated
9 revenues. The most accurate way to determine the necessary cash
10 working capital requirement is through a lead/lag study. A lead/lag study
11 measures the time between when service is rendered to customers and
12 when the associated cash revenues are collected from customers
13 (revenue lead/lag). The lead/lag study also measures the time between
14 when goods and services are consumed in the production of utility service
15 and when the utility makes payment for those goods and services
16 (expense lead/lag). If the average lag in the receipt of revenues exceeds
17 the average lag in payment of expenses, the utility has a positive cash
18 working capital requirement. If the lead/lag study reveals that the average
19 lag in the receipt of revenues is less than the average lag in the payment
20 of expenses, the utility has a negative cash working capital requirement.
21 In the first situation, stockholders must provide cash working capital to
22 span the timing difference. In the latter situation, customers are supplying
23 the cash working capital necessary to pay expenses through their earlier

1 payment of utility bills. The first situation requires an addition to rate base,
2 the latter situation requires a rate base reduction.

3

4 Q. Does the Company's cash working capital calculation reflect an accurate
5 and appropriate level of cash working capital?

6 A. No. The Company has made several errors in its calculation of cash
7 working capital.

8

9 Q. Please discuss these errors.

10 A. The Company-proposed interest lag of 84.65 days is incorrect because it
11 fails to include the interest expense related to its tax-deductible preferred
12 stock and fails to include the interest expense related to its customer
13 deposits. I have corrected both of these errors and recomputed an
14 interest expense lag of 83.80 days.

15

16 Q. Did you review the Company's other calculations of revenue and expense
17 lags?

18 A. Yes.

19

20 Q. Do you agree with all of the revenue and expense lags calculated by the
21 Company?

22 A. No. In addition to the interest lag, I believe the 7.5-day expense lag
23 calculated by the Company for Other O&M Expenses is understated.

1 Q. How did the Company calculate the Other O&M Expense lag?

2 A. The Company examined each test-year expense voucher that exceeded
3 \$10,000 and for each of these vouchers computed the lead/lag days
4 between the service period and the date of payment. The resultant 7.5-
5 day lag is the average of each of the individual test-year O&M expense
6 lags.

7
8 Q. Why do you believe the Other O&M Expenses lag is understated?

9 A. In response to a data request, the Company provided samples of the
10 vouchers it had included in its calculation of the Other O&M Expense lag.
11 My examination of these vouchers revealed that a number of the vouchers
12 included in the Other O&M Expense lag calculation were misclassified as
13 expenses, when in fact these expenditures were Prepayments.

14
15 The inclusion of these prepayments as expenses in the lead/lag
16 calculation has the effect of understating the true expense lag.

17
18 Q. What types of expenditures had the Company misclassified as expenses?

19 A. A number of large expenditures that the Company included in O&M
20 expense were payments for annual maintenance contracts, annual rental
21 payments, and extended warranties.

22

23

1 Under Generally Accepted Accounting Principles companies are required
2 to record expenditures that provide future benefit as Prepayments and to
3 amortize the expenditures over the period in which they provide benefit.

4

5 Q. What adjustment have you made?

6 A. I have removed those vouchers that represent Prepayments from the
7 Company's calculation of the Other O&M Expense lag. I also removed
8 two invoices for unnecessary expenses (\$17,200 as a sponsor for a golf
9 tournament and \$19,548 for an advertisement in "Restaurateur of
10 Arizona").

11

12 Q. Have you made any other adjustments to the Other O&M Expense lag?

13 A. Yes. In response to RUCO data request 6.1, the Company indicated that
14 it had made some errors in the compilation of the lag days for three
15 invoices. As shown on Schedule RLM-6, page 4, column (B), I have
16 corrected those errors.

17

18 Removal of the vouchers and correcting the lag days results in an
19 adjusted Other O&M Expense lag of 17.72 days.

20

21

22

23

1 Q. Are any other corrections and/or adjustments necessary to the Company's
2 lead/lag calculations?

3 A. Yes. As shown on Schedule RLM-6, page 2, column (B), I have adjusted
4 the expense levels included in the lead/lag study to reflect RUCO's
5 proposed level of expenses. This adjustment is necessary to synchronize
6 the lead/lag study with RUCO's pro-forma operating expenses.

7
8 Q. Did you review the other components the Company included in its working
9 capital request?

10 A. Yes. I reviewed the Materials and Supplies and Prepayment balances the
11 Company included in its working capital request.

12
13 Q. Are any adjustments necessary to these components?

14 A. Yes. The 13-month average Prepayment balance should be adjusted.
15 As just discussed above, the Company had misclassified several test-year
16 expenditures as O&M expenses, when in fact these expenditures were
17 Prepayments. I have removed these expenditures from the O&M
18 expenses included in the lead/lag study and I made a corresponding
19 adjustment to include these amounts in the test year Prepayments
20 balance (except for the two invoices deemed unnecessary - \$17,200 as a
21 sponsor for a golf tournament and \$19,548 for an advertisement in
22 "Restaurateur of Arizona").

23

1 As shown on Schedule RLM-6, page 5, I have transferred these
2 expenditures into the applicable month of the Prepayments account. I
3 have also reflected the effect on the Prepayment balance in each ensuing
4 month of the amortization of the prepayment.

5

6 This adjustment increases the 13-month average Prepayment balance by
7 \$4,013,462.

8

9 Q. Please summarize your adjustment to working capital?

10 A. RUCO recommends that the Company's cash working capital request be
11 adjusted to correct certain errors the Company made in its lead/lag study,
12 to reclassify certain test-year expenditures from O&M expense to
13 Prepayments, remove unnecessary expenditures and to synchronize with
14 RUCO's operating expense adjustments.

15

16 As shown on Schedule RLM-6, page 1, a decrease in the Company's
17 working capital request of \$4,507,854 is necessary.

18

19

20

21

22

23

1 **OPERATING INCOME**

2 Operating Income Summary

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

5 A. Yes. As shown on Schedule RLM-8, pages 1 through 2, columns (B)
6 through (Q), I analyzed the Company's sixteen adjustments to its historical
7 test-year operating income and made several adjustments to the operating
8 income as filed by the Company. My review, analysis and adjustments
9 are explained below.

10

11 SWG Operating Income Adjustment No. 1 – Labor and Labor Loading

12 Annualization Expense

13 Q. Please explain your adjustment to labor and labor loading expenses.

14 A. RUCO does not generally vary from the strict implementation of the
15 Historical Test-Year principle to avoid mismatches in the ratemaking
16 elements. Therefore, I disallowed the Company's proposed wage
17 increases to be effective in June 2008.

18

19 Q. Please explain your computation associated with your adjustment.

20 A. After an analysis of the Company's workpapers, I accepted SWG's values
21 and methodology utilized to annualize the labor and labor loading, which
22 included annualization of the test-year payroll plus a 3 percent post test-
23 year payroll increase. However, to adhere to the Historical Test-Year

1 principle I made one adjustment to the Company's formula. I adjusted the
2 Company's proposed wage increase to be effective in June 2008 to zero;
3 no other adjustments to the Company's calculation of the annualization of
4 the labor and labor loading expense were made.

5

6 Q. Why is RUCO disallowing the June 2008 wage increase?

7 A. The inclusion of the June 2008 wage increase has the effect of triple-
8 counting the increases in the salary and wage accounts - once for
9 annualization of the test-year salaries, a second time for the post test-year
10 2007 three percent increase, and a third time for the 2008 increase. The
11 Company's annualization adjustment to reflect estimated levels that will be
12 in effect in June 2008 creates a mismatch between rate base, revenues
13 and expenses at the end of the test year. If the Commission were to
14 authorize rate recovery of the June 2008 payroll increases, the Company
15 would be creating biased rates by picking and choosing which rate base,
16 expense and revenue items it will reflect on an actual, projected or
17 annualized basis. The Company's logic that the June 2008 wage
18 increases should be allowed because they will be known and measurable
19 prior to the hearing in this proceeding could be extended to all other
20 operating income elements, since the Company will have recorded data
21 through May 2008 by the time the hearing commences; yet SWG did not
22 request post test year treatment of any other rate base, expense, or
23 revenue items.

1 Q. Please explain the rationale of RUCO's recommendation to include the
2 within grade movement and general wage increase effective May 2007
3 and June 2007 respectively, in the context of RUCO's strict adherence to
4 the Historical Test-Year principle.

5 A. RUCO carefully analyzed the timeliness of the labor cost increases
6 effective May 2007 and June 2007. Since the increases occurred within
7 days of the end of the test year, RUCO will accept as reasonable the
8 allowance of such annual adjustments for ratemaking treatment. This is
9 reasonable because these annual increases do not accurately coincide
10 with the staggered test year used in this case. Had SWG choose a test
11 year ending two months later these wage increases would have
12 automatically been included in operating expenses.

13
14 As shown on Schedule RLM-8, column (B) and supporting Schedule RLM-
15 9, my adjustment decreases adjusted test-year expenses by \$2,613,490.

16
17 Operating Income Adjustment No. 2 – Injury and Damages Expenses

18 Q. Please explain your adjustment to injury and damages expenses.

19 A. This is a conforming adjustment corresponding to the Company's
20 responses to RUCO Data Request 2.5 and Staff Data Request 1.53,
21 which recognized a failure to acknowledge \$283,664 in expenses in the
22 Company's original filing.

23

1 Therefore, as shown on Schedule RLM-8, column (C), this adjustment
2 increased test-year expenses by \$283,664.

3

4 Operating Income Adjustment No. 3 – Pauite Allocation Annualization
5 Expense

6 Q. Please explain your adjustment to the Pauite allocation expense.

7 A. This is a conforming adjustment corresponding to the Company's
8 responses to RUCO Data Request 2.5 and Staff Data Request 1.85,
9 which acknowledged a failure to remove an aggregate \$17,702 in
10 expenses in the Company's original filing.

11

12 Therefore, as shown on Schedule RLM-8, column (D), this adjustment
13 decreased test-year expenses by \$17,702.

14

15 Operating Income Adjustment No. 4 – Depreciation and Amortization
16 Annualization Expense

17 Q. Please explain your adjustment to depreciation and amortization
18 expenses.

19 A. The adjustment is primarily attributable to RUCO's rate base adjustments.
20 RUCO agrees with the set of depreciation rates that SWG is proposing to
21 implement on a going-forward basis and to amortize the intangible plant
22 included in the annualization adjustment over a three-year period.

23

1 As shown on Schedule RLM-8, column (E) and supporting Schedule RLM-
2 10, pages 1 through 3, my adjustment decreases adjusted test-year
3 expenses by \$58,204.

4

5 Operating Income Adjustment No. 5 – Property Tax Expense

6 Q. Do you agree with SWG's methodology for computing gas utility property
7 taxes?

8 A. Yes. I have used the same methodology to compute RUCO's
9 recommended level of property taxes. The difference in the amount I
10 calculated versus the Company is solely a result of our respective levels of
11 recommended net plant in service.

12

13 As shown on Schedule RLM-8, column (F) and supporting Schedule RLM-
14 11, RUCO and the Company, at the time of this filing, are in agreement on
15 the level of test-year net plant in service; therefore, the adjustment
16 increases adjusted test-year expenses by \$0.

17

18

19

20

21

22

23

1 Operating Income Adjustment No. 6 – Disallowance of Inappropriate
2 and/or Unnecessary Expenses

3 Q. Please explain your analysis of the various operating expense accounts
4 that result in your removal of inappropriate or unnecessary costs for the
5 provisioning of gas service.

6 A. After review of all the journal entries in various FERC accounts and the
7 Company's response to RUCO Data Request 5.1, I determined there were
8 numerous expenditures that were questionable, inappropriate, extravagant
9 and/or unnecessary.

10
11 Therefore, as summarized on Schedule RLM-12, I have made an
12 adjustment to remove test-year expenses related to payments to
13 chambers of commerce, non-profit organizations, donations, club
14 memberships, gifts, awards, extravagant corporate events, advertising
15 and for various meals, lodging and refreshments, which are not necessary
16 in the provisioning of gas service. The back-up documentation denoting
17 each individual expense removed is recorded in Revised Exhibit A: FERC
18 Account Code 880, pages 1 to 18, FERC Account 921, pages 1 to 14,
19 FERC Account 923, page 1, and FERC Account 930, page 1.

20
21 RUCO provided SWG with a copy of the original Exhibit A in a data
22 request to the Company. SWG concurred with RUCO in certain
23 transactions and withdrew its request for recovery. The Company also

1 responded with comments as to the appropriateness and necessity of
2 each expense. After analyzing the Company's response, RUCO removed
3 \$312,932 from the \$517,302 test-year expenses submitted on the original
4 Exhibit A.

5
6 However, of the questionable invoices originally submitted by RUCO on
7 Exhibit A there still remain expenditures that are questionable,
8 inappropriate, extravagant and/or unnecessary and that the Company
9 deems as appropriate charges for recovery from customers in rates. Such
10 "appropriate charges" include:

- 11 1. Massages for \$2,160;
- 12 2. Gift certificates to theaters, restaurants and shopping malls for
13 \$18,230;
- 14 3. Water, ice, coffee, beverages and refreshments for Company
15 offices for \$66,422;
- 16 4. Breakfast, lunch and dinners for meetings for \$71,358;
- 17 5. Management off-site meetings at the Crowne Plaza Hotel, J W
18 Marriott Starr Pass Resort and Spa, Orange Tree Golf Resort for
19 \$8,835; and
- 20 6. One Board of Directors' Meeting at the Southern Highlands Golf
21 Course (Company adjusted) for \$5,365. (SWG agreed to remove
22 \$3,107.51 itemized as beverages).

1 As shown on Schedule RLM-8, column (G) and supporting Schedule
2 RLM-12, this adjustment decreased test-year expenses by \$204,370.

3

4 Operating Income Adjustment No. 7 – Management Incentive Program

5 Q. Please provide an explanation for RUCO’s adjustment to the management
6 incentive program (“MIP”) expenses.

7 A. After reviewing the Commission’s position on MIP expense as authorized
8 in the recent UNS Gas rate case (Decision No. 70011, dated November
9 27, 2007); RUCO recommends a 50/50 sharing as a reasonable balancing
10 of the interests between ratepayers and shareholders. The MIP is
11 comprised of elements that relate to the Company’s financial performance
12 and cost containment goals, matters that primarily benefit shareholders;
13 plus elements based on meeting customer service goals, which offers
14 opportunity for the Company’s customers to benefit from improved
15 performance.

16

17 Therefore, I split the MIP expense level on a 50/50 basis.

18

19 As shown on Schedule RLM-8, column (H) and supporting Schedule RLM-
20 13, this adjustment decreased test-year expenses by \$1,905,048.

21

22

23

1 Operating Income Adjustment No. 8 – Supplemental Executive Retirement
2 Plan

3 Q. Please explain the basis for the adjustment you made to Supplemental
4 Executive Retirement Plan (“SERP”) expenses.

5 A. The SERP is a retirement plan that is provided to a small select group of
6 high-ranking officers of the Company. The high-ranking officers who are
7 covered under the SERP receive these benefits in addition to the regular
8 retirement plan.

9
10 Q. Should ratepayers be required to pay the cost of supplemental benefits for
11 the high-ranking officers of the Company?

12 A. No. The cost of supplemental benefits for high-ranking officers is not a
13 necessary cost of providing electric service. These individuals are already
14 fairly compensated for their work and are provided with a wide array of
15 benefits including a medical plan, dental plan, life insurance, long term
16 disability, paid absence time, and a retirement plan. If the Company feels
17 it is necessary to provide additional perks to a select group of employees it
18 should do so at its own expense.

19
20 Q. In recent ACC Decisions did the Commissioners determine whether SERP
21 expenses were recoverable?

22 A. Yes. Recently, the Commission agreed with RUCO that SERP expenses
23 should not be the burden of ratepayers. In Southwest Gas’ latest rate

1 case, (Decision No. 68487, dated February 23, 2006) the Commission
2 agreed with RUCO that SERP should be excluded from operating
3 expenses. In Arizona Public Service's most recent rate case, (Decision
4 No. 69663, dated June 28, 2007), the Commission voted to disallow
5 SERP. Moreover, the Commission voted to disallow SERP in the UNS
6 Gas rate case (Decision No. 70011, dated November 27,2007). There is
7 no reason to depart from this precedent; therefore, RUCO recommends
8 the removal of the test-year cost of the SERP from operating expenses.

9
10 As shown on Schedule RLM-8, column (I) and supporting Schedule RLM-
11 14, this adjustment decreased test-year expenses by \$1,940,914.

12
13 Operating Income Adjustment No. 9 – Employee Recognition

14 Q. Please explain the basis for your adjustment to operating expenses for the
15 removal of costs associated with employee recognition.

16 A. As previously explained in Operating Expense Adjustment No. 6, RUCO
17 believes it is inappropriate to burden ratepayers with expenses related to
18 payments to chambers of commerce, non-profit organizations, donations,
19 club memberships, gifts, awards, extravagant corporate events,
20 advertising and for various meals, lodging and refreshments, which are
21 not necessary in the provisioning of gas service.

22
23

1 Therefore, in the Company's responses to RUCO data request 2.4 and
2 Staff Data Request 1.42, SWG acknowledged \$54,174 was recorded in
3 the test-year general ledger for employee recognition, this amount
4 included expenses for such things as gift certificates to theaters,
5 restaurants and shopping malls, etc.. The Company's response also
6 states that no portion of the \$54,174 has been removed in any other
7 adjustment.

8
9 As shown on Schedule RLM-8, column (J), this adjustment decreased
10 test-year expenses by \$54,174.

11
12 Operating Income Adjustment No. 10 – Uncollectible Expense

13 Q. Please explain the basis for your adjustment to operating expenses for the
14 decrease in the uncollectible expense.

15 A. Through discovery I reviewed and analyzed three years of expenses
16 recorded in FERC account 904 – uncollectible accounts from 2004
17 through 2006.

18
19 My analysis indicated this expense was sufficiently volatile to recommend
20 a test year adjustment to acknowledge the wide variation in annual costs
21 and to provide recovery of a normalized level of uncollectibles.

22
23

1 My adjustment to the test year uncollectible expense in the instant case
2 consisted of two elements. First, I calculated the annual three-year
3 average of the ratio of the yearly uncollectible expense to that year's
4 revenue for 2004 through 2006. Second, I multiplied this computed
5 average ratio by RUCO's adjusted test-year revenue.

6
7 As shown on Schedule RLM-8, column (K) and supporting Schedule RLM-
8 15, this adjustment decreased test-year expenses by \$752,652.

9

10 Operating Income Adjustment No. 11 – Gain On The Sale Of Property

11 Q. Please explain your adjustment to operating expenses for the equity
12 realized from the Company's sale of property.

13 A. In its response to Staff data request 9.1, the Company acknowledged it is
14 appropriate to share the gain on the disposition of assets with the
15 ratepayers on a 50/50 basis. Therefore, my adjustment reflects a 50
16 percent share of the net proceeds realized from the sale of land and
17 structures identified through discovery.

18

19 Historically, the Commission has determined similar adjustments should
20 be amortized over a multi-year period; so to be consistent with the
21 Commission's decision and other adjustments in this case, the gain has
22 been amortized over a three-year period.

23

1 As shown on Schedule RLM-8, column (L) and supporting Schedule RLM-
2 16, this adjustment decreased test-year expenses by \$69,699.

3
4 Operating Income Adjustment No. 12 – Income Tax Expense – This
5 adjustment reflects income tax expenses calculated on RUCO’s
6 recommended revenues and expenses.

7 As shown on Schedule RLM-8, column (Q) and supporting Schedule
8 RLM-17, this adjustment increased test-year expenses by \$3,118,244.

9

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

11 Q. Please explain your contribution to RUCO’s recommended rate designs.

12 A. I was responsible for producing an accurate set of bill determinants (i.e.
13 test-year customer bill counts and therms consumed). I am in agreement
14 with the bill determinants normalized by the Company. My recommended
15 bill determinants are an integral part of the rate design presented on
16 Schedule RLM-19, pages 1 through 4, to be filed on April 11, 2008.

17

18 Ms. Marylee Diaz Cortez will discuss RUCO’s proposed rate design and
19 structure in her testimony.

20

21

22

23

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

3 A. Yes, I have. Proof that my recommended rate design will produce the
4 recommended required revenue as illustrated, is presented also on
5 Schedule RLM-19.

6

7 **COST OF CAPITAL**

8 Q. Is RUCO proposing any adjustments to the Company proposed cost of
9 capital?

10 A. Yes, as shown on RLM-18, this adjustment decreases the Company's cost
11 of common equity and therefore its weighted cost of capital by 62 basis
12 points from 9.45 to 8.83 percent to reflect current market conditions.

13 This adjustment is fully explained in the testimony of RUCO witness
14 William A. Rigsby.

15

16 Q. Does this conclude your direct testimony?

17 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

TABLE OF CONTENTS TO RUCO SCHEDULES

LINE NO.	SCH. NO.	PAGE NO.	TITLE
1	RLM-1	1 & 2	REVENUE REQUIREMENT
2	RLM-2	1	RATE BASE - ORIGINAL COST
3	RLM-3	1	RATE BASE - RECONSTRUCTED COST NEW DEPRECIATED
4	RLM-4	1 & 2	SUMMARY OF TEST-YEAR PLANT ADJUSTMENTS
5	RLM-5	1 & 2	RATE BASE ADJUSTMENT NO. 1 - COMPLETED CONSTRUCTION NOT CLASSIFIED
6	TESTIMONY, RLM		RATE BASE ADJUSTMENT NO. 2 - MISCELLANEOUS INTANGIBLE PLANT
7	TESTIMONY, RLM		RATE BASE ADJUSTMENT NO. 3 - RETIRED TEP BYPASS PLANT
8	RLM-4	3	RATE BASE ADJUSTMENT NO. 4 - ADIT ASSOCIATED WITH MIP AND SERP
9	RLM-6	1 TO 5	RATE BASE ADJUSTMENT NO. 5 - CALCULATION OF WORKING CAPITAL
10	RLM-7	1	OPERATING INCOME
11	RLM-8	1 & 2	SUMMARY OF OPERATING INCOME ADJUSTMENTS
12	RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 1 - LABOR ANNUALIZATION
13	TESTIMONY, RLM		OPERATING INCOME ADJUSTMENT NO. 2 - INJURIES AND DAMAGES EXPENSES
14	TESTIMONY, RLM		OPERATING INCOME ADJUSTMENT NO. 3 - PAIUTE ALLOCATION ANNUALIZATION
15	RLM-10	1 & 2	OPERATING INCOME ADJUSTMENT NO. 4 - ANNUALIZED DEPRECIATION AND AMORTIZATION EXPENSE
16	RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 5 - PROPERTY TAX
17	RLM-12	1	OPERATING INCOME ADJUSTMENT NO. 6 - UNNECESSARY/INAPPROPRIATE EXPENSES
18	RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 7 - MANAGEMENT INCENTIVE PROGRAM
19	RLM-14	1	OPERATING INCOME ADJUSTMENT NO. 8 - SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN
20	TESTIMONY, RLM		OPERATING INCOME ADJUSTMENT NO. 9 - EMPLOYEE RECOGNITION
21	RLM-15	1	OPERATING INCOME ADJUSTMENT NO. 10 - UNCOLLECTIBLE EXPENSE
22	RLM-16	1	OPERATING INCOME ADJUSTMENT NO. 11 - GAIN ON SALE OF PROPERTY
23	RLM-17	1	INCOME TAX CALCULATION
24	RLM-18	1	COST OF CAPITAL
25	RLM-19	1 TO 4	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE (FILED SEPERATELY)

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY RCND	(C) COMPANY FAIR VALUE	(D) RUCO ORIGINAL COST	(E) RUCO RCND	(F) RUCO FAIR VALUE
1	Adjusted Rate Base	\$ 1,094,790,046	\$ 1,843,481,069	\$ 1,469,135,558	\$ 1,089,321,967	\$ 1,837,965,254	\$ 1,463,643,611
2	Adjusted Operating Income (Loss)	\$ 73,180,098	\$ 73,180,098	\$ 73,180,098	\$ 77,394,464	\$ 77,394,464	\$ 77,394,464
3	Current Rate Of Return (Line 2 / Line 1)	6.68%	3.97%	4.98%	7.10%	4.21%	5.29%
4	Required Operating Income (Line 5 X Line 1)	\$ 103,457,659	\$ 103,457,659	\$ 103,457,659	\$ 96,226,345	\$ 96,226,345	\$ 96,226,345
5	Required Rate Of Return	9.45%	5.61%	7.04%	8.83%	5.24%	6.57%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 30,277,561	\$ 30,277,561	\$ 30,277,561	\$ 18,831,882	\$ 18,831,882	\$ 18,831,882
7	Gross Revenue Conversion Factor (Schedule RLM-1, Page 2)	1.6586	1.6586	1.6586	1.6619	1.6619	1.6619
8	Increase In Gross Revenue Requirement (Line 7 X Line 6)	\$ 50,219,828	\$ 50,219,828	\$ 50,219,828	\$ 31,296,285	\$ 31,296,285	\$ 31,296,285
9	Adjusted Test Year Revenue	\$ 399,234,678	\$ 399,234,678	\$ 399,234,678	\$ 399,234,678	\$ 399,234,678	\$ 399,234,678
10	Proposed Annual Revenue Requirement (Line 8 + Line 9)	\$ 449,454,506	\$ 449,454,506	\$ 449,454,506	\$ 430,530,964	\$ 430,530,964	\$ 430,530,964
11	Required Percentage Increase In Revenue (Line 8 / Line 9)	12.58%	12.58%	12.58%	7.84%	7.84%	7.84%
12	Rate Of Return On Common Equity	11.25%	11.25%	11.25%	9.88%	9.88%	9.88%

References:

Columns (A) Thru (C): Company Schedule A-1, C-1 And D-1
Columns (D) Thru (F): Schedules RLM-2, RLM-5, RLM-6 And RLM-18

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	REFERENCE	(A)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:			
1	Revenue		1.0000
2	Less: Uncollectibles	Adjusted 3-Yr Average Uncollectible Expense (See RLM-15)	0.0022
3	Subtotal	Line 1 - Line 2	0.9978
4	Less: Combined Federal And State Tax Rate	Line 14	39.60%
5	Subtotal	Line 3 - Line 4	0.6017
6	Revenue Conversion Factor	Line 1 / Line 5	1.6619
CALCULATION OF EFFECTIVE TAX RATE:			
7	Arizona Taxable Income		1.0000
8	Arizona State Income Tax Rate		0.0697
9	Federal Taxable Income	Line 7 - Line 8	0.9303
10	Applicable Federal Income Tax Rate	Tax Table	35.17%
11	Effective Federal Income Tax Rate	Line 9 X Line 10	0.3272
12	Subtotal	Line 8 + Line 11	0.3969
13	Revenue Less Uncollectibles	Line 3	0.9978
14	Combined Federal And State Income Tax Rate	Line 12 X Line 13	39.60%

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY FILED AS OCRB	(B) RUCO OCRB ADJUSTMENTS	REF.	(C) RUCO ADJUSTED AS OCRB
1	Gas Plant In Service	\$ 2,053,847,890	\$ (356,233)	(1)	\$ 2,053,491,657
	Less:				
2	Accumulated Depreciation And Amortization	752,275,563	(276,996)	(1)	751,998,567
3	Net Gas Plant In Service (Line 1 - Line 2)	<u>\$ 1,301,572,327</u>	<u>\$ (79,237)</u>		<u>\$ 1,301,493,090</u>
	Additions:				
4	Allowance For Working Capital (RLM-6, Page 1)	\$ 5,681,932	\$ (4,507,854)	(2)	\$ 1,174,078
5	Total Additions (Line 4)	<u>\$ 5,681,932</u>	<u>\$ (4,507,854)</u>		<u>\$ 1,174,078</u>
	Deductions:				
6	Customer Advances In Aid Of Construction	\$ (37,910,017)	\$ -		\$ (37,910,017)
7	Customer Deposits	(31,921,898)	-		(31,921,898)
8	Deferred Income Taxes	(142,632,297)	(880,989)	(3)	(143,513,286)
9	Total Deductions (Sum Of Lines 6, 7 & 8)	<u>\$ (212,464,212)</u>	<u>\$ (880,989)</u>		<u>\$ (213,345,201)</u>
10	TOTAL ORIGINAL COST RATE BASE (Sum Of Lines 3, 5 & 9)	<u>\$ 1,094,790,047</u>	<u>\$ (5,468,080)</u>		<u>\$ 1,089,321,967</u>

References:

Column (A): Company Schedule B-1

Column (B): References:

(1) Schedule RLM-4, Page 1

(2) Schedule RLM-6, Page 1

(3) Schedule RLM-3, Page 3

Column (C): Column (A) + Column (B)

RATE BASE - RECONSTRUCTED COST NEW DEPRECIATED

LINE NO.	DESCRIPTION	(A) COMPANY FILED AS RCND	(B) RUCO RCND ADJUSTMENTS	(C) RUCO ADJUSTED AS RCND
1	Gas Plant In Service	\$ 3,224,193,614	\$ (559,226)	\$ 3,223,634,388
	Less:			
2	Accumulated Depreciation And Amortization	1,173,930,265	(432,254)	1,173,498,011
3	Net Gas Plant In Service (Line 1 - Line 2)	<u>\$ 2,050,263,349</u>	<u>\$ (126,972)</u>	<u>\$ 2,050,136,377</u>
	Additions:			
4	Allowance For Working Capital	\$ 5,681,932	\$ (4,507,854)	\$ 1,174,078
5	Total Additions (Line 4)	<u>\$ 5,681,932</u>	<u>\$ (4,507,854)</u>	<u>\$ 1,174,078</u>
	Deductions:			
6	Customer Advances In Aid Of Construction	\$ (37,910,017)	\$ -	\$ (37,910,017)
7	Customer Deposits	(31,921,898)	-	(31,921,898)
8	Deferred Income Taxes	(142,632,297)	(880,989)	(143,513,286)
9	Total Deductions (Sum Lines 6, 7 & 8)	<u>\$ (212,464,212)</u>	<u>\$ (880,989)</u>	<u>\$ (213,345,201)</u>
10	TOTAL RCND RATE BASE	<u>\$ 1,843,481,069</u>	<u>\$ (5,515,815)</u>	<u>\$ 1,837,965,254</u>

References:

- Column (A): Company Schedule B-1
- Column (B): Column (C) - Column (A)
- Column (C): OCRB (RLM-2, Column (C)) X Same Ratio As The Company's RCND Is To Its OCRB (144.84%)

EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 1
"DIRECT" TEST-YEAR PLANT SCHEDULES
YEAR ENDED APRIL 30, 2007

LINE NO.	ACCT NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
			DEP RATE	COMPANY TEST YEAR AS FILED TOTAL PLANT VALUE	ACCUMULATED DEPRECIATION	ADJUSTMENT NO. 1 RETIREMENTS CCNC PLANT	ADJUSTMENT NO. 1 ACC. DEP.	ADJ. NO. 2 SYS. ALLOC. ONLY	ADJUSTMENT NO. 3 RETIREMENTS "TEP BYPASS" PLANT	ADJUSTMENT NO. 3 ACC.DEP	TOTAL PLANT VALUE	RUCO AS ADJUSTED ACCUMULATED DEPRECIATION	NET PLANT VALUE
Intangible Plant:													
1	301.0	Organization	Amor'd	\$ 42,653	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,653	\$ -	\$ 42,653
2	302.0	Franchises & Consents	Amor'd	1,877,392	663,783	-	-	-	-	-	1,877,392	663,783	1,213,609
3	303.0	Miscellaneous Intangible	Amor'd	1,957,665	1,950,332	-	-	-	-	-	1,957,665	1,950,332	7,333
4		Total Intangible Plant		<u>\$ 3,877,710</u>	<u>\$ 2,614,115</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,877,710</u>	<u>\$ 2,614,115</u>	<u>\$ 1,263,595</u>
Distribution Plant:													
5	374.1	Land & Land Rights	N/A	\$ 1,084,811	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,084,811	\$ -	\$ 1,084,811
6	374.2	Rights Of Way	2.17%	1,064,064	324,955	-	-	-	-	-	1,064,064	324,955	739,109
7	375.0	Structures	0.39%	110,557	64,023	-	-	-	-	-	110,557	64,023	46,534
8	376.0	Mains	3.82%	984,805,304	355,501,160	(22,897)	(22,897)	-	(28,526)	(28,526)	984,753,881	355,449,737	629,304,144
9	378.0	Measuring & Regulating Station	4.12%	32,754,093	3,128,320	(41,047)	(41,047)	-	-	-	32,713,046	3,087,273	29,625,773
10	380.0	Services	5.30%	605,265,994	284,242,868	(1,288)	(1,288)	-	-	-	605,264,706	284,241,580	321,023,126
11	381.0	Meters	1.98%	226,663,229	30,494,483	-	-	-	-	-	226,663,229	30,494,483	196,168,746
12	385.0	Industrial Measuring & Reg. Station	4.31%	7,567,081	3,321,866	(1,145)	(1,145)	-	(182,093)	(182,093)	7,383,843	3,138,628	4,245,215
13	387.0	Other Equipment	5.26%	462,730	560,209	-	-	-	-	-	462,730	560,209	(97,479)
14		Total Distribution Plant		<u>\$ 1,859,777,863</u>	<u>\$ 677,637,884</u>	<u>\$ (66,377)</u>	<u>\$ (66,377)</u>	<u>\$ -</u>	<u>\$ (210,619)</u>	<u>\$ (210,619)</u>	<u>\$ 1,859,500,867</u>	<u>\$ 677,360,888</u>	<u>\$ 1,182,139,979</u>
General Plant:													
15	389.0	Land & Land Rights	N/A	\$ 8,418,416	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,418,416	\$ -	\$ 8,418,416
16	390.1	Structures	1.84%	26,092,410	7,802,105	-	-	-	-	-	26,092,410	7,802,105	18,290,305
17	390.2	Structures - Leasehold Improv'ts	Amor'd	986,219	717,875	-	-	-	-	-	986,219	717,875	268,344
18	391.0	Office Furniture And Equipment	2.73%	5,655,651	920,003	-	-	-	-	-	5,655,651	920,003	4,735,648
19	391.1	Computer Equipment	14.87%	8,563,368	(861,384)	-	-	-	-	-	8,563,368	(861,384)	9,424,752
20	392.1	Transportation Equipment	7.65%	31,153,543	3,183,715	-	-	-	-	-	31,153,543	3,183,715	27,969,828
21	393.0	Stores Equipment	2.08%	542,520	26,553	-	-	-	-	-	542,520	26,553	515,967
22	394.0	Tools, Shop And Garage Equip.	2.17%	5,225,024	(3,434,620)	-	-	-	-	-	5,225,024	(3,434,620)	8,659,644
23	395.0	Laboratory Equipment	3.93%	279,065	(272,649)	-	-	-	-	-	279,065	(272,649)	551,714
24	396.0	Power Operated Equipment	3.88%	4,309,295	892,513	-	-	-	-	-	4,309,295	892,513	3,416,782
25	397.0	Communication Equipment	8.88%	2,658,259	2,623,207	-	-	-	-	-	2,658,259	2,623,207	35,052
26	397.2	Telemetering Equipment	6.19%	789,376	229,416	-	-	-	-	-	789,376	229,416	559,960
27	398.0	Miscellaneous Equipment	4.53%	892,348	18,215	-	-	-	-	-	892,348	18,215	874,133
28		Total General Plant		<u>\$ 95,565,494</u>	<u>\$ 11,844,949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,565,494</u>	<u>\$ 11,844,949</u>	<u>\$ 83,720,545</u>
29		TOTAL DIRECT PLANT		<u>\$ 1,959,221,068</u>	<u>\$ 692,096,947</u>	<u>\$ (66,377)</u>	<u>\$ (66,377)</u>	<u>\$ -</u>	<u>\$ (210,619)</u>	<u>\$ (210,619)</u>	<u>\$ 1,958,944,072</u>	<u>\$ 691,819,951</u>	<u>\$ 1,267,124,121</u>
30		Allocated Plant (See RLM-4, Page 2, Line 31)		94,626,822	60,178,616	-	-	(79,237)	-	-	94,547,585	60,178,616	34,368,969
31		TOTAL PLANT		<u>\$ 2,053,847,890</u>	<u>\$ 752,275,563</u>	<u>\$ (66,377)</u>	<u>\$ (66,377)</u>	<u>\$ (79,237)</u>	<u>\$ (210,619)</u>	<u>\$ (210,619)</u>	<u>\$ 2,053,491,657</u>	<u>\$ 751,998,567</u>	<u>\$ 1,301,493,090</u>
32		Direct Plant As Per Company		\$ 1,959,221,068	\$ 692,096,947	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,959,221,068	\$ 692,096,947	1,267,124,121
		Common Plant As Per Company		94,626,822	60,178,616	-	-	-	-	-	94,626,822	60,178,616	34,448,206
33		Difference		<u>\$ -</u>	<u>\$ -</u>	<u>\$ (66,377)</u>	<u>\$ (66,377)</u>	<u>\$ (79,237)</u>	<u>\$ (210,619)</u>	<u>\$ (210,619)</u>	<u>\$ (356,233)</u>	<u>\$ (276,996)</u>	<u>\$ (79,237)</u>

References:

- Columns (A) (B) (C): Company Workpapers
- Column (D): Retirements Associated With CCNC (See RLM-5)
- Column (E): Accumulated Depreciation Associated CCNC (See Testimony, RLM)
- Columns (F): System Allocable Adjustment Only (See RLM-4, Page 2)
- Column (G): Retirements Associated With The Sale Of The TEP Bypass (See Testimony, RLM)
- Column (H): Accumulated Depreciation Associated With The Sale Of The TEP Bypass (See Testimony, RLM)
- Column (I): Sum Of Cols. (B), (D) & (G)
- Column (J): Sum Of Cols. (C), (E) & (H)
- Column (K): Column (I) - Column (J)

EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 2
"SYSTEM ALLOCABLE" TEST-YEAR PLANT SCHEDULES
YEAR ENDED APRIL 30, 2007

LINE NO.	ACCT NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
			DEP RATE	TOTAL PLANT VALUE	ACCUMULATED DEPRECIATION	DIRECT ADJMT ONLY	ADJ. NO. 1 ADJ. NO. 2 INTANGIBLES RLM-10, PG 3,	TOTAL PLANT VALUE	ACCUMULATED DEPRECIATION	NET PLANT VALUE
Intangible Plant:										
1	301.0	Organization	0.00%	\$ 61,816	\$ -	\$ -	\$ -	\$ 61,816	\$ -	\$ 61,816
2	302.0	Franchises & Consents	Amor'd	-	-	-	-	-	-	-
3	303.0	Miscellaneous Intangible	Amor'd	113,344,261	80,931,738	-	(139,748)	113,204,513	80,931,738	32,272,775
4		Total Intangible Plant		<u>\$ 113,406,077</u>	<u>\$ 80,931,738</u>	<u>\$ -</u>	<u>\$ (139,748)</u>	<u>\$ 113,266,329</u>	<u>\$ 80,931,738</u>	<u>\$ 32,334,591</u>
Distribution Plant:										
5	374.1	Land & Land Rights	N/A	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	374.2	Rights Of Way	N/A	-	-	-	-	-	-	-
7	375.0	Structures	N/A	-	-	-	-	-	-	-
8	376.0	Mains	N/A	-	-	-	-	-	-	-
9	378.0	Measuring & Regulating Station	N/A	-	-	-	-	-	-	-
10	380.0	Services	N/A	-	-	-	-	-	-	-
11	381.0	Meters	N/A	-	-	-	-	-	-	-
12	385.0	Industrial Measuring & Reg. Station	N/A	-	-	-	-	-	-	-
13	387.0	Other Equipment	N/A	-	-	-	-	-	-	-
14		Total Distribution Plant		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General Plant:										
15	389.0	Land & Land Rights	0.00%	\$ 391,307	\$ -	\$ -	\$ -	\$ 391,307	\$ -	\$ 391,307
16	390.1	Structures	2.50%	13,961,544	3,733,837	-	-	13,961,544	3,733,837	10,227,707
17	390.2	Structures - Leasehold Improv'ts	Amor'd	4,232,644	3,118,764	-	-	4,232,644	3,118,764	1,113,880
18	391.0	Office Furniture And Equipment	8.16%	9,441,847	1,264,958	-	-	9,441,847	1,264,958	8,176,889
19	391.1	Computer Equipment	16.15%	14,791,422	12,836,794	-	-	14,791,422	12,836,794	1,954,628
20	392.1	Trans. Equip. - Light Vehicles	7.20%	3,495,826	646,045	-	-	3,495,826	646,045	2,849,781
21	393.0	Trans. Equip. - Heavy Vehicles	7.20%	86,303	(37,694)	-	-	86,303	(37,694)	123,997
22	394.0	Stores Equipment	16.03%	24,106	5,299	-	-	24,106	5,299	18,807
23	395.0	Tools, Shop And Garage Equip.	11.16%	232,096	(24,943)	-	-	232,096	(24,943)	257,039
24	396.0	Laboratory Equipment	4.77%	281,078	75,601	-	-	281,078	75,601	205,477
25	397.0	Communication Equipment	8.51%	5,376,875	3,611,659	-	-	5,376,875	3,611,659	1,765,216
26	397.2	Telemetering Equipment	40.23%	286,958	27,661	-	-	286,958	27,661	259,297
27	398.0	Miscellaneous Equipment	11.09%	882,254	(54,592)	-	-	882,254	(54,592)	936,846
28		Total General Plant		<u>\$ 53,484,260</u>	<u>\$ 25,203,389</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,484,260</u>	<u>\$ 25,203,389</u>	<u>\$ 28,280,871</u>
29		TOTAL ALLOCABLE PLANT		<u>\$ 166,890,337</u>	<u>\$ 106,135,127</u>	<u>\$ -</u>	<u>\$ (139,748)</u>	<u>\$ 166,750,589</u>	<u>\$ 106,135,127</u>	<u>\$ 60,615,462</u>
30		Allocation Factor		56.70%	56.70%	56.70%	56.70%	56.70%	56.70%	56.70%
31		TOTAL ALLOCATE PLANT		<u>\$ 94,626,822</u>	<u>\$ 60,178,616</u>	<u>\$ -</u>	<u>\$ (79,237)</u>	<u>\$ 94,547,585</u>	<u>\$ 60,178,616</u>	<u>\$ 34,368,967</u>

References: Columns (A) (B) (C): Company Workpapers
Column (D): Direct Plant Adjustment Only (See RLM-4, Page1)
Columns (E): Company Response To Staff Data Request 11.4 (See RLM-10, Page 3, Column (B))

Column (F): Sum Of Cols. (B) & (D)
Column (G): Sum Of Cols. (C) & (D)
Column (H): Column (F) - Column (G)

**EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 4
ACCUMULATED DEFERRED INCOME TAX (ADIT) ASSOCIATED WITH MIP AND SERP**

LINE NO	DESCRIPTION	(A)	(B)	(C)	REFERENCE
		ADIT ASSOCIATED WITH MIP ACCT 20701371	ADIT ASSOCIATED WITH MIP ACCT 24201371	ADIT ASSOCIATED WITH SERP ACCT 24201387	
1	Deferred Income Tax Asset (Liability) April 30, 2007	\$ 406,289	\$ 1,775,833	\$ 7,804,183	Co. Response To Staff DR 11-11
2	April 30, 2006	631,459	497,556	7,449,748	Co. Response To Staff DR 11-11
3	Test-Year ADIT	<u>\$ 225,170</u>	<u>\$ (1,278,277)</u>	<u>\$ (354,435)</u>	Sum Lines 1 And 2
4	Total ADIT Associated With MIP		\$ (1,053,107)		Sum Columns (A) & (B), Line 3
5	RUCO Adjustment To Split MIP 50% - Ratepayers & Shareholders		50.00%		See RLM Testimony & RLM-13
6	RUCO Adjusted MIP		<u>\$ (526,554)</u>		Line 4 X Line 5
7	RUCO Adjusted SERP			<u>\$ (354,435)</u>	Line 3, Column (C)
8	Total Adjustment To Test-Year ADIT			<u>\$ (880,989)</u>	Sum Line 6 And 7
9	RUCO Adjustment (See RLM-2, Column (B), Line 8)			<u>\$ (880,989)</u>	Line 8

EXPLANATION OF SWG TEST-YEAR RATE BASE ADJUSTMENT NO. 1 - CONT'D
COMPLETED CONSTRUCTION NOT CLASSIFIED

LINE NO.	ACCT. NO.	DESCRIPTION	(A) CONST. WK ORDER	(B) RETIRE'T WK ORDER	(C) IN-SER. DATE	(D) ACTUAL CONST. COST	(E) ACTUAL RETIRE'T COST
ARIZONA DIRECT							
Intangible Plant							
1	303	Miscellaneous Intangible				\$ -	\$ -
2		Total Intangible				\$ -	\$ -
Distribution							
3	374	Land and Land Rights				\$ 733,126	\$ -
Mains							
4	376	Franchise Replacements				\$ 527,574	\$ -
5	376	Regular Replacement				190,569	-
6	376	Pressure Reinforcement				121,747	-
7	376	Cathodic Protection				171,752	-
8	376	High Pressure Dist.				518,422	-
9		Total Acct 376				\$ 1,530,064	\$ (22,897)
10	378	Regulator Station				\$ 325,675	\$ (41,047)
11	380	Services				-	(1,288)
12	385	Regulator Station-Lrg				117,130	(1,145)
13		Total Distribution Plant				\$ 2,705,995	\$ (66,377)
General							
14	390.1	Structures and Improve.				\$ 27,443	\$ -
15	391	Office Furniture & Equip.				215,492	-
16	392	Transportation Equip.				27,184	-
17	391.1	Computer Equipment				-	-
18		Total General Plant				\$ 270,120	\$ -
19		SUBTOTAL ARIZONA DIRECT CCNC PLANT				\$ 2,976,115	\$ (66,377)
SYSTEM ALLOCATE PLANT							
Intangible Plant							
20	303	Miscellaneous Intangible				\$ 1,696,000	\$ -
21		Total Intangible				\$ 1,696,000	\$ -
General							
22	390.1	Structures and Improve.				\$ 265,254	\$ -
23	391	Office Furniture & Equip.				28,258	-
24	392	Transportation Equip.				-	-
25	391.1	Computer Equipment				432,587	-
26		Total General Plant				\$ 726,099	\$ -
27		SUBTOTAL SYSTEM ALLOCATE CCNC PLANT				\$ 2,422,099	\$ -
28		Allocation Factor (Arizona 4-Factor)				56.70%	56.70%
29		SUBTOTAL AMOUNT ALLOCATED TO ARIZONA CCNC PLANT				\$ 1,373,330	\$ -
30		TOTAL CCNC PLANT				\$ 4,349,445	\$ (66,377)
31		RUCO RECOMMENDED TOTAL CCNC PLANT				\$ 4,349,445	\$ (66,377)
32		Company As Filed				4,349,445	-
33		RUCO ADJUSTMENT TO ARIZONA DIRECT CCNC				\$ -	\$ (66,377)

Reference

Columns (A) (B): Company Response To RUCO Date Request No. 1.17 And 2.1

**EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 5
SUMMARY OF THE ALLOWANCE FOR WORKING CAPITAL**

			(A)
LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
1	Cash Working Capital Per SWG	SWG SCH. B-5, Page 1	\$ (10,379,937)
2	Cash Working Capital Per RUCO	RLM-6, Page 2, Line 14	(15,229,282)
3	Adjustment	Line 2 - Line 1	<u>\$ (4,849,345)</u>
4	Materials And Supplies Per SWG	SWG SCH. B-5, Page 1	\$ 12,389,898
5	Materials And Supplies Per RUCO	SWG SCH. B-5, Page 1	12,389,898
6	Adjustment	Line 5 - Line 4	<u>\$ -</u>
7	Prepayments Per SWG	SWG SCH. B-5, Page 1	\$ 3,671,971
8	Prepayments Per RUCO	RLM-6, Page 5, Line 15	4,013,462
9	Adjustment	Line 8 - Line 7	<u>\$ 341,491</u>
10	Total Adjustment	Sum Lines 3, 6, & 9	<u><u>\$ (4,507,854)</u></u>

EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 5 - CONT'D
ALLOWANCE FOR WORKING CAPITAL
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
1	Cost Of Gas	\$ 540,064,385	\$ -	\$ 540,064,385	42.30	\$ 22,842,405,297
2	Labor Cost	117,038,570	(6,513,626)	110,524,944	12.33	1,363,305,727
3	Provision For Uncollectible Accts	2,977,729	(752,652)	2,225,077	120.00	267,009,303
4	Other O & M	54,826,860	(8,127)	54,818,733	17.72	971,137,425
	Total O & M Expenses	<u>\$ 714,907,544</u>	<u>\$ (7,274,405)</u>	<u>\$ 707,633,139</u>	<u>35.96</u>	<u>\$ 25,443,857,753</u>
5	Interest	\$ 48,035,008	1,675,397	\$ 49,710,405	82.73	\$ 4,112,541,775
6	Taxes Other Than Income Taxes	33,124,880	-	33,124,880	185.34	6,139,365,177
7	Income Taxes	21,699,571	9,975,295	31,674,866	37.00	1,171,970,019
8	Revenue Taxes	97,747,450	3,201,610	100,949,060	51.75	5,224,113,855
9	Total Operating Expenses	<u>\$ 915,514,453</u>	<u>\$ 4,376,287</u>	<u>\$ 923,092,350</u>	<u>45.60</u>	<u>\$ 42,091,848,579</u>
10	Revenue Lag				39.53	Co. Workpapers
11					<u>(6.07)</u>	Line 10 - Line 9
12	Number Of Days In Test Period	365	Test Year			
13	Average Daily Operating Expenses	\$ 2,508,259	Col. (A) Line 9 / Line 12			
14	Net Difference Rev - Exp Lag	(6.07)	Col. (D) Line 11			
15	Cash Working Capital	<u>\$ (15,229,282)</u>	Col. (A), Line 13 X Line 14			

EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 5 - CONT'D
ALLOWANCE FOR WORKING CAPITAL
CALCULATION OF PREFERRED EQUITY LAG

LINE NO.	MID-POINT OF SERVICE PERIOD	(A) PAYMENT DATE	(B) PERCENT PAYMENT	(C) (LEAD)/LAG DAYS	(D) DOLLARS DAYS
1	7/1/2006	3/31/2006	25.00%	(92)	(23.00)
2	7/1/2006	6/30/2006	25.00%	(1)	(0.25)
3	7/1/2006	9/30/2006	25.00%	91	22.75
4	7/1/2006	12/31/2006	25.00%	183	45.75
5	Totals		<u>100.00%</u>		<u>45.25</u>
6	Preferred Equity Lag			<u><u>45.25</u></u>	

EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 5 - CONT'D
ALLOWANCE FOR WORKING CAPITAL
CALCULATION OF OTHER O & M LAG

LINE NO.	MONTH	(A)	(B)	(C)
		COST	LAG DAYS	DOLLAR DAYS
1	May 2006	\$ 2,596,715	0.22	\$ 566,253
2	June	2,611,117	35.16	91,799,499
3	July	2,546,481	18.55	47,227,421
4	August	2,460,510	36.74	90,404,740
5	September	2,021,521	35.60	71,973,470
6	October	3,018,228	52.99	159,935,937
7	November	2,733,777	45.29	123,820,351
8	December	3,394,550	(6.46)	(21,943,520)
9	January 2007	5,019,712	(2.82)	(14,168,034)
10	February	5,258,382	9.77	51,397,591
11	March	4,466,924	29.44	131,524,579
12	April	2,608,462	(17.75)	(46,306,652)
13	Total	<u>\$ 38,736,380</u>	<u>17.72</u>	<u>\$ 686,231,635</u>

**EXPLANATION OF TEST-YEAR RATE BASE ADJUSTMENT NO. 5 - CONT'D
ALLOWANCE FOR WORKING CAPITAL
CALCULATION OF ADJUSTED PREPAYMENTS**

LINE NO.	MONTH	(A) BALANCE	(B) DEBITS	(C) CREDITS	(D) ADJUSTED BALANCE
1	April 2006	\$ 5,367,019	\$ -	\$ -	\$ 5,367,019
2	May	4,571,452	18,221	-	4,589,673
3	June	3,756,402	-	1,518	3,773,104
4	July	5,219,958	22,000	1,518	5,257,142
5	August	9,299,535	195,806	3,352	9,529,173
6	September	8,623,454	15,186	19,669	8,848,609
7	October	7,836,438	66,720	20,934	8,107,379
8	November	6,430,014	128,656	26,494	6,803,117
9	December	9,144,710	163,132	37,216	9,643,729
10	January 2007	8,343,687	112,506	50,810	8,904,402
11	February	7,723,320	126,085	60,186	8,349,935
12	March	6,044,664	76,149	70,693	6,676,735
13	April	<u>5,600,962</u>	13,396	77,038	<u>6,169,390</u>
14	Total	\$ 87,961,615			\$ 92,019,406
15	13 Month Average	\$ 6,766,278		56.70%	<u><u>\$ 4,013,462</u></u>

References:

- Column (A): Company Schedule B-5, Page 4
- Column (B): Company Schedule B-5, Workpaper Sheets 30 - 59
- Column (C): Column (B) Prior Months Accruals / 12 Months
- Column (D): Column (D) Prior Month + Column (B) Current Month - Column (C) Current Month + Column (A) Current Month - Column (A) Prior Month

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'TMENTS	(C) RUCO TEST YEAR AS ADJUSTED	(D) RUCO PROPOSED CHANGES	(E) RUCO AS RECOMMENDED
1	Revenues	\$ 399,234,678	\$ -	\$ 399,234,678	\$ 31,296,285	\$ 430,530,964
2	Gas Cost	-	-	-	-	-
3	TOTAL MARGIN	<u>\$ 399,234,678</u>	<u>\$ -</u>	<u>\$ 399,234,678</u>	<u>\$ 31,296,285</u>	<u>\$ 430,530,964</u>
	EXPENSES:					
4	Other Gas Supply	\$ 701,601	\$ (25,254)	\$ 676,347	\$ -	\$ 676,347
5	Distribution	89,528,455	(2,467,490)	87,060,965	-	87,060,965
6	Customer Accounts	38,730,909	(1,811,510)	36,919,399	-	36,919,399
7	Customer Information	1,126,796	(20,117)	1,106,679	-	1,106,679
8	Sales	-	-	-	-	-
	Administrative & General					
9	Direct	4,009,539	(290,519)	3,719,020	-	3,719,020
10	System Allocable	52,937,155	(2,659,515)	50,277,640	-	50,277,640
	Depreciation & Amortization					
11	Direct	80,956,247	(11,621)	80,944,625	-	80,944,625
12	System Allocable	6,646,938	(46,583)	6,600,356	-	6,600,356
13	Regulatory Amortizations	284,528	-	284,528	-	284,528
14	Other Taxes	33,124,880	-	33,124,880	-	33,124,880
15	Interest On Cust. Deposits	1,915,314	-	1,915,314	-	1,915,314
16	Income Taxes	16,092,218	3,118,244	19,210,462	12,464,404	31,674,866
17	TOTAL EXPENSES	<u>\$ 326,054,578</u>	<u>\$ (4,214,365)</u>	<u>\$ 321,840,214</u>	<u>\$ 12,464,404</u>	<u>\$ 334,304,618</u>
		\$ (2)				
18	NET INCOME (LOSS)	<u>\$ 73,180,098</u>		<u>\$ 77,394,464</u>		<u>\$ 96,226,345</u>

References:

- Column (A): Company Schedule C-1
- Column (B): Testimony, RLM And Schedule RLM-8
- Column (C): Column (A) + Column (B)
- Column (D): Testimony, RLM And Schedule RLM-1, Pages 1 & 2
- Column (E): Column (C) + Column (D)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
LABOR AND LABOR LOADING ADJUSTMENT**

LINE NO.	DESCRIPTION	(A)	(B)	(C)
		COMPANY LABOR & LABOR LOADING ADJUSTMENT	RUCO LABOR & LABOR LOADING AS ADJUSTED	RUCO LABOR & LABOR LOADING ADJUSTMENT
1	Other Gas Supply	\$ 16,522	\$ 1,452	\$ (15,070)
2	Distribution	1,539,648	175,380	(1,364,268)
3	Customer Accounts	694,914	75,208	(619,707)
4	Customer Information	13,313	1,402	(11,910)
5	Sales	-	-	-
Administrative & General				
6	Direct	24,518	2,803	(21,716)
7	System Allocable	578,837	(1,982)	(580,819)
8	TOTAL	<u>\$ 2,867,752</u>	<u>\$ 254,262</u>	<u>\$ (2,613,490)</u>
9	RUCO ADJUSTMENT TO LABOR AND LABOR LOADING (See RLM-7, Page 1, Col (B))			<u>\$ (2,613,490)</u>

References:

- Column (A): Company WP's C-2, Column (d)
- Column (B): See RUCO WP's Labor & Loading Adj. # 1 (Deficiency / C-2 Adjustments / Column (d))
- Column (C): Column (B) - Column (A)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4
DIRECT PLANT TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCT. NO.		(A) TOTAL PLANT VALUE	(B) CO. PROPOSED DEPRECIATION RATE	(C) TEST YEAR DEPRECIATION EXPENSE
		Intangible Plant:			
1	301	Organization	\$ 42,653	Amortized	\$ -
2	302	Franchises & Consents	1,877,392	Amortized	61,015
3	303	Miscellaneous Intangible	1,957,665	Amortized	12,594
4		Total Intangible Plant	<u>\$ 3,877,710</u>		<u>\$ 73,609</u>
		Distribution Plant:			
5	374.1	Land & Land Rights	\$ 1,084,811	NA	\$ -
6	374.2	Rights Of Way	1,064,064	2.17%	23,051
7	375	Structures	110,557	0.39%	431
8	376	Mains	984,753,881	3.82%	37,617,598
9	378	Measuring & Regulating Station	32,713,046	4.12%	1,347,777
10	380	Services	605,264,706	5.30%	32,079,029
11	381	Meters	226,663,229	1.98%	4,487,932
12	385	Industrial Measuring & Regulating Station	7,383,843	4.31%	318,244
13	387	Other Equipment	462,730	5.26%	24,340
14		Total Distribution Plant	<u>\$ 1,859,500,867</u>		<u>\$ 75,898,402</u>
		General Plant:			
15	389	Land & Land Rights	\$ 8,418,416	NA	\$ -
16	390.1	Structures	26,092,410	1.84%	480,100
17	390.2	Structures - Leasehold Improvements	986,219	Amortized	53,321
18	391	Office Furniture And Equipment	5,655,651	2.73%	154,399
19	391.1	Computer Equipment	8,563,368	14.87%	1,273,373
20	392.1	Transportation Equipment	31,153,543	7.65%	2,383,246
21	393	Stores Equipment	542,520	2.08%	11,284
22	394	Tools, Shop And Garage Equipment	5,225,024	2.17%	113,383
23	395	Laboratory Equipment	279,065	3.93%	10,967
24	396	Power Operated Equipment	4,309,295	3.88%	167,201
25	397	Communication Equipment	2,658,259	8.88%	236,053
26	397.2	Telemetering Equipment	789,376	6.19%	48,862
27	398	Miscellaneous Equipment	892,348	4.53%	40,423
28		Total General Plant	<u>\$ 95,565,494</u>		<u>\$ 4,972,614</u>
29		Total Direct Plant, Depreciation And Amortization	\$ 1,958,944,071		\$ 80,817,695
30		Total Amortization - Limited Term Gas Plant			126,930
31		Total Depreciation and Amortization			<u>\$ 80,944,625</u>
32		Company As Filed	1,959,221,067		80,956,247
33		Difference	<u>(276,996)</u>		<u>\$ (11,621)</u>
34		RUCO ADJUSTMENT TO TEST YEAR DIRECT DEPRECIATION EXPENSE (See RLM-8, Page 1, Column (E))			<u>\$ (11,621)</u>

References:

- Column (A): RLM-4, Page 1, Column (M)
- Column (B): Company Workpapers
- Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4 - CONT'D
SYSTEM ALLOCABLE PLANT TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	ACCT. NO.		(A) TOTAL PLANT VALUE	(B) CO. PROPOSED DEPRECIATION RATE	(C) TEST YEAR DEPRECIATION EXPENSE
		Intangible Plant:			
1	301.0	Organization	\$ 61,816	0.00%	\$ -
2	302.0	Franchises & Consents	-	Amortized	-
3	303.0	Miscellaneous Intangible	113,204,513	Amortized	# 7,058,485
4		Total Intangible Plant	<u>\$ 113,266,329</u>		<u>\$ 7,058,485</u>
		Distribution Plant:			
5	374.1	Land & Land Rights	\$ -	0.00%	\$ -
6	374.2	Rights Of Way	-	0.00%	-
7	375.0	Structures	-	0.00%	-
8	376.0	Mains	-	0.00%	-
9	378.0	Measuring & Regulating Station	-	0.00%	-
10	380.0	Services	-	0.00%	-
11	381.0	Meters	-	0.00%	-
12	385.0	Industrial Measuring & Regulating Station	-	0.00%	-
13	387.0	Other Equipment	-	0.00%	-
14		Total Distribution Plant	<u>\$ -</u>		<u>\$ -</u>
		General Plant:			
15	389.0	Land & Land Rights	\$ 391,307	0.00%	\$ -
16	390.1	Structures	13,961,544	2.50%	348,983
17	390.2	Structures - Leasehold Improvements	4,232,644	Amortized	184,348
18	391.0	Office Furniture And Equipment	9,441,847	8.16%	770,455
19	391.1	Computer Equipment	14,791,422	16.15%	2,388,755
20	392.1	Transportation Equipment	3,495,826	7.20%	251,699
21	393.0	Stores Equipment	86,303	7.20%	6,214
22	394.0	Tools, Shop And Garage Equipment	24,106	16.03%	3,864
23	395.0	Laboratory Equipment	232,096	11.16%	25,902
24	396.0	Power Operated Equipment	281,078	4.77%	13,407
25	397.0	Communication Equipment	5,376,875	8.51%	457,594
26	397.2	Telemetry Equipment	286,958	40.23%	115,443
27	398.0	Miscellaneous Equipment	882,254	11.09%	97,845
28		Total General Plant	<u>\$ 53,484,260</u>		<u>\$ 4,664,510</u>
29		Total System Allocable Plant, Depreciation And Amortization	\$ 166,750,589		\$ 4,480,162
30		Total Amortization - Limited Term Gas Plant (See RLM-10, Page 3 For Clarification)			7,160,677
31		Total Depreciation and Amortization			<u>\$ 11,640,839</u>
32		Company As Filed	\$ 166,890,337		\$ 11,722,995
33		Difference	<u>\$ (139,748)</u>		<u>\$ (82,156)</u>
34		Allocation Factor	56.70%		56.70%
35		TOTALS	<u>\$ (79,237)</u>		<u>\$ (46,583)</u>
36		RUCO ADJUSTMENT TO TEST YEAR SYSTEM ALLOCATED DEPRECIATION (See RLM-8, Page 1, Column (E))			<u>\$ (46,583)</u>

References:

- Column (A): RLM-4, Page 2, Column (M)
- Column (B): Company Workpapers
- Column (C): Column (A) X Column (B) Plus Further Clarification RLM-10, Page 3

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4 - CONT'D
ANNUALIZATION SYSTEM ALLOCABLE PLANT DEPRECIATION AND AMORTIZATION

LINE NO.	DESCRIPTION	(A) ESTIMATED CWIP INTANGIBLES	(B) ADJMT TO INTANGIBLES	(C) ACTUAL PIS INTANGIBLES	(D) ANNUALIZED PROVISION	(E) REFERENCE
Projects in CWIP Which Closed Before 12/31/07 (Per Co. Response To STF 11.4)						
1	Autocad Map 3D 2007	\$ 180,000	\$ (51,871)	\$ 128,129	\$ 42,710	
2	Pi Data Access	24,000	1,900	25,900	8,633	
3	Receivables Software	105,000	(28,916)	76,084	25,361	
4	Load Balancer	38,000	(219)	37,781	12,594	
5	MacKinney VS/Cobol License	10,500	(10,500)	-	-	
6	Citrix Presentation License	83,000	(372)	82,628	27,543	
7	San Lefthand Network Expan	15,500	(11)	15,489	5,163	
8	EMRS/LMR Software Module	430,000	(430,000)	-	-	
9	EMRS Software	350,000	(350,000)	-	-	
10	Oracle UPK Licenses	250,000	(60,602)	189,398	63,133	
11	Oracle PUI Licenses	210,000	(37,600)	172,400	57,467	
Revised List Of Projects in CWIP Which Closed Before 12/31/07 (Per Co. Supplement Response To STF 6.49)						
12	Comm Vault Licenses	-	10,419	10,419	3,473	
13	ACD Reporting License	-	20,678	20,678	6,893	
14	Powerbroker License	-	10,926	10,926	3,642	
15	Tivoli Workload Scheduler	-	110,638	110,638	36,879	
16	Powerbroker License	-	11,960	11,960	3,987	
17	Trident OS/EM Licenses	-	55,300	55,300	18,433	
18	MAPX GIS Software	-	35,030	35,030	11,677	
19	Oracle Internet Licenses	-	49,177	49,177	16,392	
20	HP Licenses	-	54,728	54,728	18,243	
21	Ops Mgr Server Licenses	-	61,285	61,285	20,428	
22	WMS Test Project	-	301,580	301,580	100,527	
23	TOTALS	\$ 1,696,000	\$ (246,470)	\$ 1,449,530	\$ 483,177	Sum Of Lines 1 Thru 22
24	RUCO System Allocable Adjustment		\$ (246,470)			Line 23, Column (B)
25	Arizona 4-Factor		56.70%			Co. W/P Dep-Amort Adjmt
26	RUCO Allocated Arizona Rate Base Adjustment		\$ (139,748)			Line 24 X Line 25
27	RUCO RB Adjmt No. 2 (See RLM-4, Pg 2, Col (E))		\$ (139,748)			Line 26
28	RUCO Adjusted Amort. CWIP Transferred To PIS			\$ 483,177		Line 23, Column (D)
29	Recorded Amort. Intangible Plant			6,493,152		Co. W/P Dep-Amort Adjmt
30	Recorded Amort. Leasehold Improvements			184,348		Co. W/P Dep-Amort Adjmt
31	RUCO Adjusted Dep/Amort Expense			\$ 7,160,677		Sum Of Lines 28 Thru 30
32	Recorded Dep/Amort Expense			7,560,997		Co. W/P Dep-Amort Adjmt
33	RUCO Adjusted Total System Allocable Amortization			(400,320)		Line 31 - Line 32
34	Recorded Total System Allocable Depreciation			186,182		Co. W/P Dep-Amort Adjmt
35	RUCO Adjusted Total System Allocable Dep/Amort			(214,138)		Line 33 + Line 34
36	Arizona 4-Factor			56.70%		Co. W/P Dep-Amort Adjmt
37	RUCO Adjusted System Allocated Dep/Amort			(121,416)		Line 35 X Line 36
38	Company Adjusted System Allocated Dep/Amort			(74,834)		Co. Adjmt No. 14
39	Difference In Adjusted System Allocated Dep/Amort			(46,582)		Line 37 - Line 38
40	RUCO Adjustment (See RLM-8, Pages 1 & 2, Column (M))			(46,582)		Line 39

References:

- Column (A): Company Workpapers "Dep-Amort Adjustment"
- Column (B): Column (C) - Column (A)
- Column (C): Company Response To Staff Data Request 11.4 And Response To Staff Dr 6.49
- Column (D): Column (C) Amortized Over Three Years

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	(A)	(B)
Calculation Of The Company's Full Cash Value:			
1	Net Plant In Service		\$ 1,267,124,121
ADD:			
2	Materials And Supplies (RLM-6, Page 1, Line 5)	\$ 12,389,898	
3	Total (Line 2)		\$ 12,389,898
SUBTRACT:			
4	Original Cost New Balance Of Transportation Equipment (Company Workpapers)	\$ 27,969,828	
5	Land Rights (Company Workpapers)	\$ 1,823,920	
6	Total (Line 2)		\$ (29,793,748)
7	COMPANY'S FULL CASH VALUE (Sum Of Lines 1, 3, & 6)		<u>\$ 1,249,720,271</u>
Calculation Of The Company's Tax Liability:			
MULTIPLY: Company Full Cash Value By Valuation Assessment Ratio And Then By Property Tax Rates:			
8	Assessment Ratio (Per House Bill 2779)		23.0%
9	Assessed Value (Line 7 X Line 8)	\$ 287,435,662	
Property Tax Rates:			
10	Primary Tax Rate (2004 Tax Notice - Co.'s Data Response - "Property Tax")		11.52%
11	Secondary Tax Rate (2004 Tax Notice - Co.'s Data Response - "Property Tax")		0.00%
12	Estimated Tax Rate Liability (Line 10 + Line 11)		11.52%
13	COMPANY'S TAX LIABILITY - Based On Full Cash Value (Line 12 X Line 13)		<u>\$ 33,112,588</u>
14	Test Year Adjusted Property Tax Expense Per Company's Filing (Co. Sch. C-2, Adj No. 15))	\$ 33,112,588	
15	Increase (Decrease) In Property Tax Expense (Line 13 - Line 14)	\$ -	
16	RUCO ADJUSTMENT TO PROPERTY TAX EXPENSE (See RLM-8, Page 1, Column (F))		<u>\$ -</u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		ALLOCABLE TOTAL	RUCO ADJUSTMENTS ALLOC'N FACTOR	ARIZONA TOTAL	RUCO AS ADJUSTED
1	Arizona Direct Accounts 880 - Other Expenses	(110,809)	100.00%	(110,809)	
2	Sub Total Arizona Direct Accounts	<u>\$ (110,809)</u>			<u>\$ (110,809)</u>
3	System Allocable Accounts To Arizona 921 - Office Supplies And Expenses	\$ (148,689)	56.70%	\$ (84,306)	
4	930 - Miscellaneous General Expenses	(16,322)	56.70%	(9,254)	
5	Sub Total Administrative And General Expense:	<u>\$ (165,010)</u>		<u>\$ (93,561)</u>	
6	Sub Total System Allocable Accounts To Arizona	<u>\$ (165,010)</u>			<u>\$ (93,561)</u>
7	TOTAL				<u>(204,370)</u>
8	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (See RLM-8, Page 1, Column (G))				<u>\$ (204,370)</u>

References:

- Column (A): Workpapers Exhibit A (880) Pages 1 To 18, (921) Pages 1 To 14, (923) Page 1, And (930) Page 1
- Column (B): Company Workpapers
- Column (C): Column (A) X Column (B)
- Column (D): Sums Of Column (C)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MANAGEMENT INCENTIVE PROGRAM**

LINE NO	DESCRIPTION	(A) ALLOCABLE TOTAL	(B) ALLOCN FACTOR	(C) ARIZONA TOTAL	(D) RUCO AS ADJUSTED
	Arizona Direct Accounts				
1	Exempt Special Incentive	-	100.00%	-	
2	Service Planning Quality Incentive Award	290,004	100.00%	290,004	
3	Sub Total Arizona Direct Accounts	<u>\$ 290,004</u>		<u>\$ 290,004</u>	
4	Allocation Factor At A 50/50 Split			-50.00%	<u>\$ (145,002)</u>
	System Allocable Accounts To Arizona				
5	Management Incdentive Plan	\$ 5,919,502	56.70%	\$ 3,356,358	
6	Exempt Special Incentive	151,250	56.70%	85,759	
7	Service Planning Quality Incentive Award	137,522	56.70%	77,975	
8	Sub Total Administrative And General Expense:	<u>\$ 6,208,274</u>		<u>\$ 3,520,091</u>	
9	Allocation Factor At A 50/50 Split			-50.00%	
10	Sub Total System Allocable Accounts To Arizona:	<u>\$ 6,208,274</u>			<u>\$ (1,760,046)</u>
11	TOTAL				<u>(1,905,048)</u>
12	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (See RLM-8, Page 1, Column (H))				<u>\$ (1,905,048)</u>

References:

- Column (A): Company Response To Staff Data Request 1.78
- Column (B): Company Workpapers
- Column (C): Column (A) X Column (B)
- Column (D): Sums Of Column (C)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 8
SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN**

LINE NO	DESCRIPTION	(A) COMPANY AS FILED	(B)	(C)	(D) RUCO ADJUSTMENT
	ALLOCATIONS:	WP C-2, Adj #3, Sh 8, L 11			Distributed Total RUCO DR 14-1.a
1	Arizona	\$ 1,395,781			\$ (1,395,781)
2	Corporate Direct	54,102			(54,102)
3	Other Jurisdictions	1,041,113			-
4	System Allocable	866,016			(866,016)
5	Total (Sum Of Lines 1, 2, 3 & 4)	<u>\$ 3,357,012</u>			<u>\$ (2,694,668)</u>
	FUNCTIONALIZATION:				
		DISTRIBUTION PERCENTAGE See NOTE A	DISTRIBUTION Of Col (D), Line 1	ALLOCATION FACTOR	RUCO ADJUSTMENT RLM-8, Pg 2, Col (H)
6	Other Gas Supply	0.73%	\$ (10,184)	100.00%	\$ (10,184)
7	Distribution	67.99%	(949,044)	100.00%	(949,044)
8	Customer Accounts	30.69%	(428,347)	100.00%	(428,347)
9	Customer Information	0.59%	(8,206)	100.00%	(8,206)
10	SUBTOTAL Sum Of Lines 6 Thru 9)	<u>100.00%</u>	<u>(1,395,781)</u>		<u>\$ (1,395,781)</u>
	Administrative & General		DISTRIBUTION Of Col (D), L 2 & L4		
11	Direct		(54,102)	100.00%	(54,102)
12	System Allocable		(866,016)	56.70%	(491,031)
13	TOTAL (Sum Of Lines 10, 12 & 13) (See RLM-8, Pg 2, Col (H))				<u>\$ (1,940,914)</u>

NOTE A

To Determine The Distribution Ratio Of Arizona Direct SERP
By Allocating Expenses At The Same Percentage As Labor Loading In SWG's Adjustment No. 3

	Operating Expenses	SWG ADJ'MT NO.3 SWG SCH. C-2	DISTRIBUTION PERCENTAGE
14	Other Gas Supply	\$ 16,522	0.73%
15	Distribution	1,539,648	67.99%
16	Customer Accounts	694,914	30.69%
17	Customer Information	13,313	0.59%
18	SUBTOTAL	<u>\$ 2,264,397</u>	<u>100.00%</u>
	Administrative & General		
19	Direct	\$ 24,518	
20	System Allocable	578,837	
21	SUBTOTAL	<u>\$ 603,355</u>	
22	TOTAL	<u>\$ 2,867,752</u>	

**OPERATING INCOME ADJUSTMENT NO. 10
NORMALIZATION OF THE UNCOLLECTIBLE EXPENSE**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
		UNCOLLECTIBLES COMPANY DATA RUCO D.R. 1.12	OPERT'G REVENUES COMPANY DATA E-2 & 2004 A. R.	RATIO OF UNCL'TIBLES TO REV COLUMN (A) / (B)	RUCO ADJUSTMENT
1	2004 Year-End	1,355,278	\$ 693,070,359	0.00196	
2	2005 Year-End	1,447,967	748,627,816	0.00193	
3	2006 Year-End	2,538,849	895,549,006	0.00283	
4	Three Year Ratio Total (Sum Of Lines 1 Thru 3)			0.00672	
5	RUCO Adjusted Ratio Uncollectible Expense To Revenue - 3-Yr Average (Ln 4 / 3 Yrs)			0.00224	
6	RUCO Adjusted TY Rev. (Sch. RLM-7, Col. (C), Ln 1 + Gas Costs Of \$593,424,664)		\$ 992,659,342		
7	RUCO Adjusted Uncollectible Expense (Ln 5 X Ln 6)		\$ 2,225,077		
8	Company Recorded Uncollectible Expense (Per Co. W. P.'s)		\$ 2,977,729		
9	Difference (Ln 7 - Ln 8)				\$ (752,652)
10	RUCO Adjustment (Line 9) (See RLM-8, Pages 1 & 2, Column (K))				\$ (752,652)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 11
GAIN ON SALE OF PROPERTY**

(A)

LINE NO	DESCRIPTION	RUCO AS ADJUSTED
1	Gain On Sale Of Property (Per Co. Response To Staff Data Request 1.96)	\$ 418,196
2	Sharing Percentage Between Ratepayers And Shareholders	50.00%
3	Ratepayers Portion Of The Gain (Line 1 X Line 2)	<u>\$ 209,098</u>
4	Amortization Period	3 Years
5	Decrease In Test-Year Operating Expenses (Line 3 / Line 4)	<u>\$ (69,699)</u>
6	RUCO Adjustment (Line 5) (See RLM-8, Pages 1 & 2, Column L)	<u><u>\$ (69,699)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Schedule RLM-6, Column (C), Line 18 + Line 16	\$ 96,604,926
LESS:			
2	Arizona State Tax	Line 11	(3,401,069)
3	Interest Expense	Note (A) Line 21	(47,795,091)
4	Federal Taxable Income	Sum Of Lines 1, 2 & 3	\$ 45,408,766
5	Federal Tax Rate	Schedule RLM-1, Page 2, Column (A), Line 10	35.17%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ 15,972,492</u>
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 96,604,926
LESS:			
8	Interest Expense	Note (A) Line 21	(47,795,091)
9	State Taxable Income	Line 7 + Line 8	\$ 48,809,835
10	State Tax Rate	Tax Rate	6.9680%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ 3,401,069</u>
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 15,972,492
13	State Income Tax Expense	Line 11	3,401,069
14	South Georgia Amortization	Company Schedule C-1, Sheet 17, Column (C), Line 8 + Line 18	365,253
15	Investment Tax Credit	Company Schedule C-1, Sheet 17, Column (C), Line 19	(528,352)
16	Total Income Tax Expense Per RUCO	Sum Of Lines 12, 13, 14 & 15	<u>\$ 19,210,462</u>
17	Total Income Tax Expense Per Company Filing (Schedule C-1)		16,092,218
18	RUCO ADJUSTMENT TO INCOME TAX EXPENSE (See RLM 7, Page 2, Column (Q))	Line 16 - Line 17	<u>\$ 3,118,244</u>
NOTE (A):			
Interest Synchronization:			
19	Adjusted Rate Base (Schedule RLM-2, Column (C), Line 10)	\$ 1,089,321,967	
20	Weighted Cost Of Debt (Schedule RLM-18, Column (F), Line 1 + Line 2)	4.39%	
21	Interest Expense (Line 19 X Line 20)	<u>\$ 47,795,091</u>	

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST
1	Long-term Debt	51.00%	7.96%	4.06%
2	Preferred Stock	4.00%	8.20%	0.33%
3	Common Equity	45.00%	9.88%	4.45%
4	TOTAL CAPITAL	100.00%		
5	WEIGHTED COST OF CAPITAL			8.83%

References:

- Column (A): Company Schedule D-1
- Column (B): Testimony, WAR
- Column (C): Column (A) X Column (B)
- Column (C) Line 5: Sum Of Column (C) Lines 1 Thru 3