Service Date: March 25, 2016

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

IN THE MATTER OF the Investigation of the Montana Public Service Commission into whether Mountain Water Company's rates are Just and Reasonable.	)))))	REGULATORY DIVISION DOCKET NO. D2016.2.15

MOUNTAIN WATER COMPANY'S RESPONSES TO MCC-005 THROUGH MCC-007

Mountain Water Company ("Mountain Water"), by and through its undersigned counsel, hereby submits to the Montana Public Service Commission ("Commission") the following responses to the Montana Consumer Counsel's ("MCC") Data Requests MCC-005 through MCC-007.

Submitted this 25th day of March, 2016.

CROWLEY FLECK PLLP

Michael Green
John M. Semmens
CROWLEY FLECK PLLP
P. O. Box 797
Helena, MT 59624-0797
Telephone: (406) 449-416
Fax: (406) 449-5149
mgreen@crowleyfleck.com
jsemmens@crowleyfleck.com
ATTORNEYS FOR MOUNTAIN WATER CO.

MCC-005

Regarding: Rate Orders
Witness: John Kappes

Please provide complete copies of all rate orders for Liberty and/or APUC affiliates issued by regulatory authorities in the following states in 2014, 2015 and 2016: New Hampshire, Arkansas, Georgia, California, Texas, Arizona, Illinois, Iowa, Missouri and Massachusetts.

Response: Subject to and without waiving the previously-filed objections, which remain valid, copies of the following orders are attached as MCC-005 (MWC-F) in response to the substance of the request above:

New Hampshire
Orders by the New Hampshire Public Utilities Commission:

Order No. 25,797, Order Approving Settlement Agreement and Permanent Rates, DG 14-180 (June 26, 2015)

Order No. 25,638, Order Approving Settlement and Permanent Rates, DE 13-063 (Mar. 17, 2014)

Arkansas
Order No. 8 by the Arkansas Public Service Commission, Docket No. 14-020-U (Mar. 12, 2015)

Georgia
Orders by the Georgia Public Service Commission:

Order Approving Liberty's 2013 Gram Request and the 2012 RTU Request, Docket No. 34734 (May 30, 2014)

Order Approving Liberty's 2014 Gram Filing, Docket No. 34734 (Dec. 4, 2014)

Order Approving Liberty's Third Revised 2015 Gram Filing, Docket No. 34734 (Feb. 26, 2016)

California
Decisions by the Public Utilities Commission of the State of California:

Decision 15-11-030, Decision Approving Final Settlement Agreement, Resolving Disputed Issues, and Adopting the 2015, 2016, and 2017 Revenue Requirements for Apple Valley Ranchos Water Company, Application 14-01-002 (Nov. 19, 2015)

Decision 16-01-009, Decision Resolving Park Water Company's 2015 General Rate Case, Application 15-01-001 (Jan. 14, 2016)

Decision 16-02014, Order Correcting Errors in Decision 16-01-009, Application 15-01-001 (Feb. 19, 2016)

Arizona
Decision by the Arizona Corporation Commission, Docket No. 74437 (Apr. 18, 2014)

Illinois
Order by the Illinois Commerce Commission, 14-0371 (Feb. 11, 2015)

Missouri
Report and Order by the Missouri Public Service Commission, File No. GR-2014-0152 (Dec. 3, 2014)

Massachusetts
Order by the Massachusetts Department of Public Utilities, D.P.U. 15-75 (Feb. 10, 2016)

MCC-006

Regarding: Rate Cases
Witness: John Kappes

A news release dated March 10, 2016 and titled "Algonquin Power & Utilities Corp. Announces 2015 Fourth Quarter and Year End Financial Results", states "During 2015, the Distribution Group successfully completed several rate cases, representing a cumulative annual revenue increase of approximately U.S. $20.8 million." Please provide the Distribution Group's filings (including testimony and exhibits) in each of those cases and the Commission Orders resolving the cases.

Response: Subject to and without waiving the previously-filed objections, which remain valid, see the response to MCC-005 for orders providing information responsive to this request

MCC-007

Regarding: Financing
Witness Bill Killeen/John Kappes

In response to MCC-001 you state: "On March 9, 2016, Liberty Utilities Co. retired the Term Loan Agreement on its books through an infusion of equity. As such, the Term Loan Agreement is no longer on the books of Liberty Utilities Co." Please identify with specificity the Term Loan Agreement that was retired and the specific source of funds that was used to retire it. Also please fully explain Liberty's determination that the retirement of this Term Loan Agreement was the least cost financing option.

Response: The Term Loan Agreement that was retired was the short term facility described in MCC-001 in the amount of $215 million. By their very nature, short term facilities are intended to be utilized for short term financing needs and, as such, are retired from time to time. This retirement is a direct result of Liberty Utilities' intention to maintain its 55% equity to 45% debt ratio utilized to maintain its investment grade credit rating. The source of funds for the short term loan is equity from the parent of Liberty Utilities Co.

CERTIFICATE OF SERVICE BY MAIL

I hereby certify that on March 25, 2016, the foregoing was served via electronic and U.S. mail on:

John Kappes
President & General Manager
Mountain Water Company
1345 West Broadway
Missoula, MT 59802-2239
johnk@mtnwater.com

Jim Nugent
City Attorney
The City of Missoula
435 Ryman Street
Missoula, MT 59802
JNugent@ci.missoula.mt.us

Scott M. Stearns
Natasha Prinzing Jones
BOONE KARLBERG P.C
P.O. Box 9199
Missoula, MT 59807-9199
sstearns@boonekarlberg.com
npjones@boonekarlberg.com

Robert Nelson
Montana Consumer Counsel
Box 201703
Helena, MT 59620-1703
robnelson@mt.gov

Barbara Chillcott
Legal Director
Clark Fork Coalition
P.O. Box 7593
Missoula, MT 59801
barbara@clarkfork.org

Dennis R. Lopach, P.C.
4 Carriage Lane
Helena, MT 59601
dennis.lopach@gmail.com
ssnow@mt.gov

CROWLEY FLECK PLLP

RESPONSE NO. MCC-005

ATTACHMENT MCC-005 (MWC-F)

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 14-180

LIBERTY UTILIITES (ENERGYNORTH NATURAL GAS) CORP.
d/b/a LIBERTY UTILITIES

Petition for Permanent Rate Increase

Order Approving Settlement Agreement and Permanent Rates

O R D E R N O. 25,797

June 26, 2015

APPEARANCES: Sarah B. Knowlton, Esq., for Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities; Wayne R. Jortner, Esq., of the Office of Consumer Advocate, on behalf of residential ratepayers; and Alexander F. Speidel, Esq., and Michael J. Sheehan, Esq., for the Staff of the Public Utilities Commission.

In this Order, we approve a settlement agreement and grant Liberty authority to increase its delivery rates on July 1, 2015. Liberty's last general delivery rate increase was in 2011. The new delivery rates are between 17% and 26% higher than those in effect before Liberty filed this proceeding in July 2014, depending on customer class. This will cause the average customer's total annual bill, which includes the delivery rates approved here and the cost of gas not addressed in this order, to increase between 3.5% and 14.3%, again depending on customer class. The average residential heating customer will see a total bill approximately $150 per year higher than the July 2014 rates. Approximately $56 of that increase is already in effect through temporary rates.

I. PROCEDURAL HISTORY

On July 2, 2014, Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities (Liberty) filed a notice of intent to file rate schedules pursuant to RSA 378:3, signaling an upcoming request to increase its delivery rates. Liberty filed the proposed rate schedules with supporting testimony and exhibits on August 1, 2014. *See* Hearing Exhibit 1. Liberty sought a permanent delivery rate increase of $13,442,972 calculated on a rate base of $172,908,291, and requested approval for a $2,649,554 step increase in its delivery rates based on $16,660,624 in capital spending during the twelve months ending March 31, 2015. Hearing Exhibit 1 at Bates Page 87. The last delivery rate increase for the EnergyNorth natural gas franchise was approved in 2011. Order No. 25,202 (Mar. 10, 2011). Liberty also requested an $8.4 million temporary rate increase pursuant to RSA 378:27 to be in place while the Commission considered the permanent rate request. *Id.* at Bates Page 9. We suspended Liberty's proposed tariff pursuant to RSA 378:6 to further investigate the rate requests and other proposals in Liberty's filing. Order No. 25,711 (Aug. 28, 2014).

The Office of Consumer Advocate (OCA) notified the Commission that it would participate on behalf of residential customers consistent with RSA 363:28. Iberdrola USA Enterprises, Inc., and HotZero, LLC, filed petitions to intervene based on their interests in Liberty's then-pending request to acquire New Hampshire Gas in Docket No. DG 14-155. We granted their intervention petitions, but Iberdrola and HotZero did not participate further after approval of Liberty's purchase of New Hampshire Gas in Order No. 25,736 (Nov. 21, 2014).

Liberty and Commission Staff (Staff) reached a settlement agreement on temporary rates which provided for a $7,394,075 annual increase, effective December 1, 2014. We approved

that temporary rate in Order No. 25,737 (Nov. 21, 2014). The temporary rate agreement and order allow Liberty to reconcile any difference between temporary and permanent rates as if the permanent rates went into effect on November 1, 2014. Order No. 25,737 at 4.

The OCA and Staff engaged in discovery on Liberty's permanent rate request. Staff's Audit Division conducted a comprehensive audit of Liberty's books and records. Staff and the OCA hired experts to assist with rate design, rate of return, and other issues. Based on a number of findings in the Final Audit Report, the parties agreed to suspend the procedural schedule to further explore the audit issues. Those conversations evolved into settlement discussions leading to the *Stipulation and Settlement Agreement Regarding Permanent Rates* that is the subject of this order. See Hearing Exhibit 5 (Agreement);[1] *see* Transcript of May 26, 2015, hearing (Tr.) at 26-27 ("it was an evolving process that the audit report gave rise to"). Liberty, the OCA, and Staff represented that the Agreement resolves all outstanding issues in this docket and asked us to approve its terms. Agreement at 1, 8.

We held a public hearing to review the Agreement on May 26, 2015. Witnesses from Liberty (Steven E. Mullen), the OCA (James Brennan), and Staff (Stephen P. Frink and Amanda O. Noonan) testified in support of the Agreement. No witnesses or parties opposed the Agreement, although three ratepayers filed comments early in the docket asking us not to approve Liberty's request.

[1] The Agreement has eight Attachments. They will be separately cited, for example, as "Attachment 2."

II. THE SETTLEMENT AGREEMENT

A. Proposed Rate Changes.

The Agreement contains the following material terms, beginning with the details of the proposed permanent rate increases.[2] The parties agreed that Liberty should receive a $10.5 million increase in annual delivery revenues beginning July 1, 2015, reconcilable to November 1, 2014, and an additional $1.9 million step increase effective July 1, 2015, which is not reconcilable to an earlier date. Agreement at 3; Tr. at 9 (Mullen). The agreement contains the parties' assessment that the total permanent delivery rate increase of $12.4 million results in just and reasonable rates as required by RSA 378:7, RSA 378:27, and RSA 378:28. Agreement at 3.

The parties did not agree on an overall rate of return or on the elements that comprise the proposed $12.4 million increase. The parties nonetheless stated that the rate increase represents "a reasonable compromise of all issues related to the revenue requirement pending before the Commission for the purpose of permanent rates." Agreement at 3; Tr. at 9. The parties also stipulated that the Agreement is "consistent with the limitations on cost recovery" imposed in *National Grid USA*, Order No. 25,370 at 13, (May 30, 2012), which approved Liberty's acquisition of EnergyNorth. Agreement at 3; Tr. at 10-11.

The parties agreed to reduce the return on equity applicable to Liberty's Cast Iron/Bare Steel Program (CIBS) from 9.67% to 9.25%, and that Liberty will compute its CIBS revenue requirement using a capital structure of 50% debt - 50% equity. Agreement at 4; Tr. at 14, 31. We reviewed Liberty's FY 2015 CIBS costs in a separate proceeding, Docket No. 15-104. In a

[2] To the extent this summary conflicts with the terms of the Agreement, the Agreement's language controls.

companion order issued this date, we approved a $253,694 delivery rate increase to cover CIBS costs. Order No. 25,798 (June 26, 2015). The impact of the CIBS rate is included in the discussion below.

B. Implementation of Rate Changes.

The Agreement describes how Liberty will implement the rate changes. Liberty will collect the $12.4 million rate increase – the $10.5 million reconcilable permanent rate increase plus the $1.9 million step increase – through its permanent delivery rates and not its cost of gas rates. *Id.* at 4; Tr. at 12. The $12.4 million increase will be allocated to customer classes as described in Attachment 1, which allocation represents a move closer to rates that reflect each class's actual cost of service. Agreement at 4; Tr. at 12, 16.

Liberty will reconcile the difference between the $10.5 million permanent rate increase and the temporary rate increase as if the permanent rates went into effect November 1, 2014. Liberty will recoup the estimated difference of approximately $3,000,000, Attachment 2, over the 18 month period of July 1, 2015, to December 31, 2016, through a uniform per-therm charge included in the Local Distribution Adjustment Clause (LDAC) in Liberty's tariff. Agreement at 4-5; Tr. at 14-15. Liberty will also recoup its estimated rate case expenses of approximately $400,000, Attachment 3, over that same 18 month period through the LDAC charge. Agreement at 5; Tr. at 15. The recoupment and rate case expenses will be finalized and reconciled in the 2015 and 2016 winter cost of gas proceedings. Agreement at 5-6; Tr. at 15.

Attachment 8 includes Liberty's calculation of the expected bill impacts from these new rates and charges as compared to temporary rates. Hearing Exhibit 6, prepared and filed at our

request, Tr. at 37-39, compares the expected bill impacts to the rates that were in effect prior to filing this rate case. The difference between the delivery rates in effect before Liberty filed this case and the rates that will go into effect on July 1, 2015, is an increase ranging from 17% to 26%, depending on customer class. Exhibit 6 at 7 – 12 (line 67 on each page). This will cause the total annual bill (which includes the delivery rates approved here, the CIBS rate also approved today, and the cost of gas not addressed in this order) to increase between 3.5% and 14.3%, again depending on customer class. *Id.* (line 64). For an average residential heating customer, the expected increase in the total bill (both the delivery rate and the estimated cost of gas rate) is $149 per year, or 13.31%. Exhibit 6 at 8 (line 63). Such a customer will see a $93 yearly increase as of July 1, 2015, because approximately $56 of the annual rate increase is already in effect through temporary rates. Attachment 8 at 8 (line 63).

C. Other Issues Addressed in Agreement.

The Agreement contains administrative provisions not directly bearing on Liberty's rates. The parties agreed that Liberty's next request for an increase in delivery rates (other than the annual CIBS proceedings) will be based on "an historic test year of no earlier than twelve months ending December 31, 2016," Agreement at 4, Tr. at 17, which rate case will include a full review of Liberty's rate design, Agreement at 6. Liberty agreed to an audit by an independent consultant selected by the Commission. Agreement at 7-8. The audit will focus on Liberty's financial processes and customer service as detailed in Attachment 7. Tr. at 21-22.

The Agreement includes proposed changes to Liberty's so-called "soft off" policy. Agreement at 7; Attachment 6; Tr. at 18. A "soft off" is when one customer leaves and the

company does not physically turn off the gas (which would be a "hard" shut off) before another customer takes responsibility for an account. The gas consumed during this interim period (for pilot lights, unauthorized use, and the like) is "unaccounted for" gas, the cost of which is paid by other customers through the cost of gas rate. Liberty was not consistently doing hard shut-offs. Tr. at 19. The goal of the changes to the soft off policy is to reduce the amount of unaccounted for gas. Tr. at 19-20. The new policy limits "soft offs" to certain residential customers, requires hard shut-offs no later than 30 days after Liberty issues a final bill if a new customer does not appear, and permits hard shut-offs during the winter months. Tr. at 19-20; Attachment 6.

The parties agreed to postpone until the next rate case Liberty's amortization of a regulatory asset related to the value of Liberty's postretirement benefits other than pensions, or OPEBs. Agreement at 6; Tr. at 17. Liberty will continue to amortize the balance of the regulatory asset related to the "costs to achieve" the National Grid – Keyspan merger addressed in Docket No. DG 06-107. The amortization will be $409,200 per year with $181,327 included in the revenue requirement, which is consistent with Order No. 24,777 at 77-79 (July 12, 2007). Agreement at 6; Tr. at 17-18. Finally, the Agreement authorizes Liberty to remove language from its tariff that no longer applies to any customers or charges. Agreement at 7; Tr. at 20.

II. POSITION OF THE PARTIES AND STAFF

A. Liberty

Liberty requested that the Settlement be approved as filed. Tr. at 48. Mr. Mullen reviewed the terms of the Agreement and explained the points of disagreement that led to the absence of a rate of return and of detailed calculations that would explain the agreed rate

increases. Tr. at 7-23. Mr. Mullen testified that the $8.1 million cap on information technology investments established in the 2012 settlement and order approving Liberty's purchase of the EnergyNorth natural gas system "was a subject of discussion in this proceeding." Tr. at 10. Mr. Mullen explained that "there was a difference of opinion about the specific investments that were subject to the cap." *Id.* Mr. Mullen also noted that there was "a range of other issues, including return on equity, operation and maintenance expenses, rate design, and decoupling, to mention a few," that were disputed through the discovery process. Tr. at 11. Mr. Mullen testified that the final numbers in the Agreement represent an overall resolution or "liquidation" of these disputes and result in "a reasonable increase to annual distribution revenues going forward on July 1." Tr. at 9. Liberty confirmed that the proposed rate increases are consistent with limitations from prior settlement agreements and related orders. Tr. at 10-11, 17.

B. OCA

The OCA is a signatory to the Agreement and expressed its support for an order approving the Agreement. Tr. at 47-48. Mr. Brennan testified to OCA's active participation in the discovery process, its analysis of Liberty's rate proposals, and that the OCA "presented our analytical findings [and] proposed adjustments" to Liberty's rate requests. Tr. at 24. At the conclusion of that process, the OCA concluded that "the $10.5 million rate increase and $1.9 million step adjustment, on a liquidated basis … is a just and reasonable settlement and rate from the perspective of a residential ratepayer." *Id.*

C. Staff

Staff also expressed support for approval of the Agreement as filed. Tr. at 48. Mr. Frink testified that the Final Audit Report identified 34 issues which caused Staff to recommend suspension of the procedural schedule "to allow us additional time to examine those issues." Tr. at 27. The primary audit issue was that "Audit Staff was unable to tie some of the amounts that were in the filing with the Company's general ledger." *Id.* Liberty provided information during discovery that confirmed for Staff that the "numbers in the filing were … materially correct." Liberty also agreed to change its accounting processes to avoid the issue in the future. *Id.*

Staff had concerns about whether the filing included transition or transaction costs from the Liberty-National Grid acquisition, which were to be excluded from rates. Staff carefully examined Liberty's filing to ensure that it included no transition costs, and no information technology costs in excess of the $8.1 million cap approved in the National Grid settlement. Staff was concerned that Liberty's costs during the test year for this case may not accurately reflect its costs going forward because of the many services National Grid provided under its transition service agreements. Tr. at 28.

Staff was also concerned about Liberty's customer satisfaction survey that Staff received at about the same time as the Final Audit Report. Tr. at 28-29. The customer satisfaction survey was another requirement of the agreement and order approving Liberty's acquisition of EnergyNorth. The survey showed a "significant drop in customer satisfaction." Tr. at 29.

Staff testified that the Agreement reasonably addresses these financial and customer-related issues. The Agreement "provides a reasonable return [that is] limited enough that

[Liberty] is expected to file a rate case in 2017, based on a 2016 test year." Tr. at 29. The Agreement also provides for an "audit of the financial reporting/accounting and the customer service areas … by an independent third party." Tr. at 32-33. Ms. Noonan testified that in light of the "customer-impacting issues [that] continue to arise," the audit will provide an "independent look at those areas [and] identify[] areas for improvement [which] will be very valuable to Liberty and to its customers." Tr. at 33. The audit will also benefit Liberty's electric customers because both EnergyNorth and Granite State Electric use the same systems. Tr. at 34.[3]

Mr. Frink listed the other benefits of the Agreement. First, Staff expects Liberty to file its next rate case as soon as the Agreement allows, using a 2016 test year. A 2017 rate case based on a 2016 test year will "be free of any transition costs and more accurately project future operating costs as it will be strictly Liberty costs that will be incurred during that 12-month period." Tr. at 29-30. A rate case filed in 2017 will also allow Liberty to take advantage of improvements that result from the audit described above. Tr. at 30-31. Second, the CIBS revenue requirement will be lower in light of the reduced rate of return from 9.67% to 9.25%, "a fairly significant decrease that should benefit customers." Tr. at 31. Third, given that Staff expects Liberty to file a new rate case based on 2016 sales, Liberty is missing only one year under its desired decoupling program proposed in this docket, so there should be "no impact" on Liberty's energy efficiency programs. Tr. at 31-32. Finally, Mr. Frink agreed that the rates in

[3] To the extent Granite State Electric benefits from the audit, Staff testified that it will examine whether the audit costs should be shared. Tr. at 36.

the Agreement comply with the conditions from the settlement of the transition docket, No. DG 11-040. Tr. at 30.

III. COMMISSION ANALYSIS

We encourage parties to settle issues through negotiation and compromise because it is an opportunity for creative problem solving, allows the parties to reach a result in line with their expectations, and is often a better alternative to litigation. *Granite State Electric Co.*, Order No. 23,966 at 10 (May 8, 2002); *see* RSA 541-A:31, V(a) ("informal disposition may be made of any contested case … by stipulation [or] agreed settlement"). Even when all parties join a settlement, however, we must independently determine that the result comports with "applicable standards." *EnergyNorth Natural Gas, Inc. d/b/a National Grid NH*, Order No. 24,972 at 48 (May 29, 2009) ("we must scrutinize settlement agreements thoroughly regardless of whether a party appears at hearing to raise objections"). We conduct this analysis through a transparent process to ensure that a just and reasonable result has been reached. *Id.; see* N.H. Code Admin. Rules Puc 203.20(b) ("The commission shall approve a disposition of any contested case by stipulation [or] settlement … if it determines that the result is just and reasonable and serves the public interest"). The "applicable standard" governing the proposed settlement in this rate case is whether the resulting rates are "just and reasonable." RSA 378:7; *Liberty Utilities (Granite State Electric) Corp.*, Order No. 25,638 at 15 (Mar. 17, 2014). Therefore, we must review, consider, and ultimately judge the Agreement according to the just-and-reasonable-rates standard in order to "provide the public with the assurance that a just and reasonable result has been reached." *EnergyNorth Natural Gas*, Order No. 24,972 at 48.

The challenge in approving the Agreement in this docket is that the parties agreed to the $12.4 million increase in Liberty's revenue requirement without agreeing on a rate of return or on the underlying calculation that would support the stipulated revenue requirement. Such numbers are typically data points against which we measure the reasonableness of the proposed rates. *See, e.g., Liberty Utilities (Granite State Electric) Corp.*, Order No. 25,638 at 16 (the settlement provided for "an overall rate of return of 7.92%, based upon a return on equity of 9.55%, and the application of a capital structure of 55% equity and 45% debt. We find this rate of return, and return on equity, to be reasonable, and within the scope of recent precedent"). We conclude, however, that the following evidence in the record before us supports a finding that the Agreement will result in just and reasonable rates.

There is no dispute that Liberty was experiencing a revenue deficiency when it filed this case. Liberty stated that its return for the test year ending March 31, 2014, was 4.49%, which is substantially less than the 8.33% return that the Commission authorized Liberty to earn in its last delivery rate case. Exhibit 1 at 8 (Mullen/Gorman testimony); *see* Order No. 25,202 at 4 (Mar. 10, 2011). No party has challenged this fact. Liberty is thus eligible for rate relief in order to have an opportunity to earn a reasonable return.

The process leading up to a settlement is one relevant factor in determining whether we should approve the Agreement. *EnergyNorth Natural Gas*, Order No. 24,972 at 48. That parties involved in a settlement represented a diversity of interests who demonstrated the issues were diligently explored and negotiated at length, provides a basis for concluding that the results of the settlement are reasonable and in the public interest. *Public Service Company of New*

Hampshire, Order No. 25,123 at 29 (June 28, 2010). The Agreement is the product of extensive negotiation among parties of diverse interests. All parties opined in the Agreement and through testimony that the rates resulting from the Agreement are reasonable. Exhibit 5 at 3; Tr. at 9 (Mullen), 24 (Brennan), 29 (Frink).

Evidence pertaining to the specific rates proposed provides further support for the Agreement's reasonableness. Liberty agreed to an increase that is substantially less than originally requested and an even further discount from what Liberty claims an updated filing would support. Liberty originally sought a total $16 million increase and alleged that an updated filing would support an $18 million increase, but the Agreement provides for a $12.4 million increase. This is not a dispositive factor, but constitutes some evidence of the reasonableness of the agreed rate increase. *See Liberty Utilities (Granite State Electric) Corp.,* Order No. 25,638 at 15-16.

Liberty agreed to lower the rate of return applicable to its CIBS program from 9.67% to 9.25%. Liberty's CIBS work justifies an annual delivery rate increase to pay capital costs to replace leak-prone pipe. In the CIBS order issued today, we allow recovery of $3.1 million in such costs that Liberty incurred over the past year. Order No. 25,798 (June 26, 2015). That amount is consistent with the CIBS expenditures in recent years. Order No. 25,684 (June 27, 2014) ($2.65 million); Order No. 25,539 (June 2013) ($2.3 million). A nearly one-half percent reduction of Liberty's rate of return on those costs in future CIBS filings is a "fairly significant decrease that should benefit customers." Tr. at 31 (Frink).

Regarding the issues identified in the Final Audit Report and the concerns about the IT and transition costs related to Liberty's acquisition of EnergyNorth, Staff confirmed on further inspection during the pendency of this proceeding that the numbers in Liberty's filing were "materially correct". Tr. at 27 (Frink). Liberty agreed to accounting changes to avoid similar issues in the future. *Id.* Staff and the OCA also stated that the settlement agreement in the acquisition docket precluded recovery of any transition costs and limited IT costs to an $8.1 million cap. Tr. at 28 (Frink). Although Liberty offered different interpretations of what expenses were transition costs and whether the IT cap applied to certain costs, the parties ultimately agreed that "this Settlement is in accordance with the terms of [the acquisition] Settlement Agreement, in terms of … transition and transaction costs," Tr. 10 (Mullen), and that this Agreement "reflects the recovery limitations detailed in the acquisition Settlement," Tr. at 30 (Frink).

The last rate-related element that supports the Agreement's reasonableness is Liberty's agreement not to file another rate case until 2017 at the earliest, using a 2016 test year. This "stay out" provision represents a fair balance of the ratepayers' and Liberty's interests. The length of the stay-out provision provides ratepayers some benefit because Liberty cannot file another rate case using an earlier test year, but Liberty avoided a longer stay-out term. The rates approved in this order will remain in effect at least through early 2017, but not longer if Liberty can prove it is entitled to another rate increase. All parties benefit because a later test year will provide a "clean" test year that is free of all transition costs, that better illustrates Liberty's costs, and that will include the changes that arise from the audit discussed below. Tr. at 29-30.

The independent audit requirement supports our decision to approve the Agreement because it will contribute to Liberty's future success. Liberty agreed to an audit by an outside consultant chosen by the Commission who will examine Liberty's "financial reporting/accounting [and] customer service areas." Tr. at 32-33. The consultant will review the "effectiveness and efficiency" of the following: account creation and management; meter data management; billing processes; payments and collections processes; the call center; vendor relationships; corporate services/IT support and service; staffing; accounting; business planning; and property records. The consultant may broaden the scope of the audit if it "determine[s] a review of related areas is appropriate." Exhibit 5 at Bates Pages 24-26 (Attachment 7). We find that the audit is reasonable because, as "Liberty recognizes," "customer-impacting issues continue to arise." Tr. at 33 (Noonan); *see* Tr. at 21 ("the Company is still relatively new, and it's still growing, and its processes are still developing. [W]e acknowledge that there are areas that could use some improvement [and] we are just as anxious to get those areas looked at, find out what's working well, what areas could be improved") (Mullen). The audit will provide an "independent look at those areas, and identify[] areas for improvement, perhaps … a root cause analysis … of why things continue to happen … will be very valuable to Liberty and to its customers." Tr. at 33 (Noonan).

The Agreement covers other administrative issues as discussed above. Liberty will collect all of the rate increase through its permanent delivery rates and not through the cost of gas rates. Liberty will recoup the difference between temporary and permanent rates and the rate case expenses over 18 months. The rate design of this increase moves Liberty closer to true cost

of service rates, a movement we endorse. Liberty will tighten its soft-off policy, another change we support. Liberty will continue amortizing the "costs to achieve" a prior merger and will refrain from amortizing the value of its OPEBs. Liberty will also make minor tariff language changes. We find all these terms of the Agreement reasonable.

Finally, the Agreement avoids litigation of the issues on which the parties could not agree. The parties might have contested at a hearing the appropriate rate of return, whether certain charges were barred by prior settlement agreements, and accounting issues raised in the Final Audit Report, which litigation would likely have required expert testimony. This process is costly, time-consuming, and may not have resulted in a better outcome for any party. As stated earlier, we encourage negotiation and compromise because it allows for creative problem solving, yields results in line with the parties' expectations, and is often a better alternative to litigation.

We have approved settlements in the past where not all the numbers and calculations were in evidence. For example, in *Public Serv. Co. of N.H.*, Order No. 24,369 at 15 (Sept. 2, 2004), we approved a rate increase where the agreement "contain[ed] no explicit statement of what rate of return is being applied to PSNH." We approved a later PSNH rate case stating, "[w]hile the settlement agreement states that the parties did not agree on each element leading to that amount, they did agree that the amount was reasonable and appropriate." *Public Serv. Co. of N.H.*, Order No. 25,123 at 29 (June 28, 2010).

To conclude, the parties agreed that a total $12.4 million increase represents a reasonable increase to Liberty's permanent delivery rates. We concur. The increase is sufficient to bridge

the gap to the next rate case in which Liberty will be free from the transition issues described here, will have the benefit of the audit, and will have at least two more years of experience in managing its New Hampshire franchise. Accordingly, we approve the Agreement on permanent rates as filed by the parties as well as the other changes provided in the Agreement and as described above. Our approval of this Settlement Agreement does not limit our disposition of similar matters in future cases.

To facilitate the efficient administration of the Agreement, we authorize Liberty, the OCA, and Staff to modify the Agreement so long as any modification is mutually agreed upon and non-substantive, such as a clerical or ministerial amendment that involves timing or scheduling. The parties shall file any such modification with the Commission and provide a copy to all parties on the service list.

Based upon the foregoing, it is hereby

ORDERED, that the Settlement Agreement between Liberty, the OCA, and Staff is hereby APPROVED; and it is

FURTHER ORDERED, that commencing with service rendered on and after July 1, 2015, Liberty may implement an annual delivery service revenue increase of $10.5 million, reconciled with temporary rates as of November 1, 2014; and it is

FURTHER ORDERED, that Liberty may implement a $1.9 million step increase commencing with service rendered on and after July 1, 2015; and it is

FURTHER ORDERED, that the rate increases ordered above shall be collected and allocated as described in the Agreement; and it is

FURTHER ORDERED, that the CIBS rate of return shall be 9.25% and the CIBS revenue requirement shall assume a 50% debt -50 % equity capital structure beginning with the CIBS program for fiscal year 2016; and it is

FURTHER ORDERED, that Liberty may recoup the difference between permanent and temporary rates and its rate case expenses over 18 months through the LDAC charge as described in the Agreement; and it is

FURTHER ORDERED, that Liberty shall adopt the revised soft-off policy as set forth in Attachment 6; and it is

FURTHER ORDERED, that the Commission shall retain an independent consultant through a competitive bid process to audit Liberty as described in Attachment 7; and it is

FURTHER ORDERED, that Liberty shall file with the Commission properly annotated tariff pages consistent with the Agreement within 10 days of the date of this order, as required by N.H. Code Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-sixth day of June, 2015.

Martin P. Honigberg
Chairman

Robert R. Scott
Commissioner

Attested by:

Debra A. Howland
Executive Director

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 13-063

LIBERTY UTILITIES (GRANITE STATE ELECTRIC) CORP.
D/B/A LIBERTY UTILITIES

Petition for Permanent Rate Increase

Order Approving Settlement and Permanent Rates

O R D E R N O. 25,638

March 17, 2014

APPEARANCES: Sarah B. Knowlton, Esq. on behalf of Liberty Utilities Corp.; Hinckley, Allen & Snyder, LLP by Daniel M. Deschenes, Esq. on behalf of Mary Hitchcock Memorial Hospital and Dartmouth-Hitchcock; the Office of Consumer Advocate by Susan W. Chamberlin, Esq. on behalf of residential ratepayers; and Suzanne G. Amidon, Esq. on behalf of Commission Staff.

I. PROCEDURAL HISTORY

On February 27, 2013, Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities (Liberty or Company) filed a notice of intent to file rate schedules, followed on March 29, 2013 by a petition for a permanent rate increase of 18.04%, a step adjustment, and a request for temporary distribution rates. Liberty's filing included the direct testimony of the following officers and employees of Liberty: Victor Del Vecchio, ChristiAne Mason, Dr. Michael Schmidt, Mark Smith, Daniel Saad, Kurt Demmer, and William Sherry; as well as consultants Robert Hevert, a principle of Sussex Economic Advisors, LLC; Howard Gorman, President of HSG Group, Inc.; and Dane Watson, Alliance Consulting Group. The filing included exhibits in support of the proposed temporary and permanent rates, related supplemental information, and proposed temporary and permanent rate tariffs.

Pursuant to RSA 378:27, Liberty requested a temporary increase in annual distribution revenues of $9.2 million for effect with service rendered on and after July 1, 2013 and to continue until such time as the Commission issued a final determination regarding the Company's permanent rate proposal. The request for temporary rates represented an approximate increase of 37.0% over then-current distribution revenues, resulting in an increase in rates for residential and small commercial customers ranging from 4.5% to 11.1%.

For permanent rates, Liberty requested an increase of $14,168,940 in annual distribution revenues. In the filing, Liberty also proposed a number of revenue-related changes in its service including (1) a step increase to recover an annual revenue deficiency of approximately $1.2 million based on additional capital investment in service as of December 31, 2013, (2) approval of long-term reliability enhancement and vegetation management programs (REP/VMP), (3) the authority to use reconciling mechanisms for storm recovery, property tax recovery and pension recovery; (4) recovery of pre-staging costs associated with major storms, (5) changes to certain customer fees including the Company's service connection fee, and (6) changes to its line extension policy and related costs. In addition, due to low customer participation, Liberty proposed to end its GreenUp program that allowed customers to support green or renewable resources. Liberty also provided a discussion of its current efforts in evaluating LED lighting technology.

The Office of Consumer Advocate (OCA) filed a letter of participation in this proceeding on March 11, 2013, pursuant to RSA 363:28. On April 11, 2013, the Commission issued Order No. 25,490 suspending the tariffs and scheduling a prehearing conference and temporary rate hearing. On April 19, 2013, Mary Hitchcock Memorial Hospital and Dartmouth-Hitchcock

(Dartmouth-Hitchcock) filed a joint petition to intervene which the Commission granted at the prehearing conference on April 24, 2013.

Staff filed the direct testimony of Steven E. Mullen on temporary rates on May 24, 2013 and after discussions among the parties, Liberty, OCA and Staff filed a settlement agreement with respect to temporary rates.

Following the hearing on temporary rates, the Commission issued Order No. 25,531 (June 27, 2013) approving the settlement and granting Liberty a temporary distribution revenue increase of $6.5 million for effect with service rendered on and after July 1, 2013.

On October 16, 2013, Liberty filed a Corrected and Updated calculation of its revenue requirements for both permanent rates and the requested step adjustment. The filing included updated exhibits and schedules to reflect changes and corrections that Liberty had made to its initial filing in the course of discovery. In the updated filing, Liberty calculated its revenue deficiency for permanent rates to be $12,978,141, a decrease of $1,190,799 from the initial revenue deficiency of $14,168,940.

Liberty filed the joint direct testimony of Stephen R. Hall and Howard Gorman on October 25, 2013 Dartmouth-Hitchcock filed the direct testimony of Gail A. Dahlstrom on November 15, 2013. On the same date, Staff filed the direct testimony of Steven E. Mullen Leszek Stachow, Grant W. Siwinski, James J. Cunningham, Jr., and Al-Azad Iqbal. Discovery ensued, followed by settlement discussions.

Liberty filed a motion for protective order and confidential treatment on January 22, 2014. On January 23, 2014, Liberty filed a Stipulation and Settlement Agreement (Settlement) between Staff and the Company with a letter requesting a waiver of the filing requirements for settlement agreements pursuant to Puc 203.20 (e).

The Commission granted the waiver and the motion for protective order on January 28, 2014, at the merits hearing. Also on January 28, 2014, Liberty reported that the OCA had joined the Settlement.

II. POSITIONS OF THE PARTIES AND STAFF

A. Initial Filing

1. Liberty Utilities

It had been 15 years since the Company had a rate case before the Commission. Prior to July 2012, Granite State Electric Company was owned by National Grid. In July 2012, Liberty Energy NH, a subsidiary of Algonquin Power & Utilities Corp, acquired Granite State Electric Company.[1] The Company used calendar year 2012 as its test year in developing its permanent rate filing, and consequently, six months of the test year data was based on the records of National Grid.

Since 1996, the year of its last distribution rate increase, the Company made approximately $94 million in capital investments. In addition, many of the tariff charges assessed by Liberty are outdated, and the revenue from those tariff charges does not recover all of the Company's associated costs. According to Liberty, the Company has not recovered the costs associated with the remaining capital investments, all of which Liberty argued were prudently incurred and used and useful in the provision of service to the Company's customers. These investments, along with a significant increase in operations expenses and insufficient growth in sales volumes combined to drive the Company's need for a rate increase. Liberty's earned return on distribution investment, a negative 0.75%, represents serious erosion from its

[1] The transfer of ownership was the subject of DG 11-040 and included the transfer of GSEC's sister company, EnergyNorth Natural Gas. The transfer was effective on July 3, 2012. *See* Order No. 25,370 (May 30, 2012).

allowed return of 8.61%. Liberty argued that a rate increase is necessary to allow the Company to continue to operate in a safe and reliable manner.

Liberty initially requested a permanent increase of $14,168,940 in distribution revenues, representing an increase to overall revenues of 18.04%, and a step increase to recover an annual revenue deficiency of $1,250,467 based on additional capital spending of approximately $9.2 million for the period ending December 31, 2013. Subsequently, Liberty recalculated its revenue deficiency for permanent rates to be $12,978,141 and its revenue deficiency for the step adjustment to be $1,242,000.

In addition to the permanent revenue increase, the Company requested approval of the following elements in its rate structure: (1) a 10.5% return on equity (ROE), (2) a debt/equity ratio of 45% to 55%, (3) a cost of debt rate of 5.64%, and (4) the authority to use reconciling mechanisms for recovery of costs associated with storm restoration, property taxes, and pension costs. Liberty calculated that a 10.5% ROE together with the Company's proposed capital structure and cost of debt would produce an overall rate of return of 8.32%.

Liberty also proposed the following changes to its REP/VMP investment: (1) an increase to the base level of operation and maintenance (O&M) expense from $1,360,000 to $1,750,000, (2) the addition of new capital projects to the REP, (3) an increase in the annual REP capital investment target from $500,000 to $1,250,000, and (4) changes to the way that reliability metrics are reported. Liberty contended that the increase in the base level is consistent with recent funding, and will allow the Company to shorten trim cycles on feeders or portions thereof that have experienced aggressive tree growth. With regard to the reporting of metrics, Liberty proposed retaining the existing reliability target metrics for the System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI), but

requested authority to report each metric on a rolling five-year average basis to minimize the impact of uncontrollable factors, excluding the effect on performance by supply assets owned by others, and excluding planned and notified outages from its calculation of SAIDI.

With regard to storm recovery costs, Liberty requested authority to recover pre-staging costs for certain qualifying storms in a manner similar to that approved for Unitil Energy Systems, Inc. and Public Service Company of New Hampshire (PSNH). With this authority, Liberty would be entitled to recover through rates the costs of preparing for a forecasted major storm in the event that such a storm did not occur.

Among the miscellaneous terms and conditions of service addressed in Liberty's filing were changes in service connection and activation fees, service reconnection fees, service reconnection fees after hours, variance of bill adjustments due to meter tests, and a collection field visit fee. Liberty stated that the fees required updating to reflect the Company's current costs to provide the services. Liberty based the fee changes upon a survey of charges imposed by other utilities. Additionally, Liberty proposed changes to its line extension policies and charges by shifting from a model that requires a company engineer to develop a separate estimate of cost for each project to a standard cost-per-foot methodology.

The Company requested authority to end the GreenUp program. Liberty explained that the program was initiated to meet the requirements of RSA 374-F:3, V(f), but the level of participation did not attract a sufficient number of customers to warrant continuation of the program. Liberty further explained that customers would have other market opportunities to support renewable projects.

Finally, the Company requested authority to recover up to $300,000 in rate case expenses, plus $90,000 in costs associated with a depreciation study it conducted in preparation

of the rate case. The Company proposed to recover the total cost associated with the rate case over one year, through a rate case surcharge.

2. Dartmouth-Hitchcock

Dartmouth-Hitchcock estimated that the impact of Liberty's proposed increase on its electricity costs would be $605,000 per year and stated that such an increase would drastically increase Dartmouth-Hitchcock's operational costs. According to Ms. Dahlstrom, given the nature of the medical equipment used to provide necessary treatment, Dartmouth-Hitchcock cannot meaningfully reduce electricity consumption to reduce its electric service costs. Ms. Dahlstrom explained that Dartmouth-Hitchcock cannot pass this increased electric service cost on to its consumers, and consequently the increased cost must be directly absorbed by Dartmouth-Hitchcock.

Dartmouth-Hitchcock opined that Liberty's increases in distribution rates must be reasonable and gradual to avoid imposing undue hardship on Liberty's customers. Dartmouth-Hitchcock stated that its industry has been forced to revise its business model to operate profitably with less reimbursement and that Liberty should be similarly required to improve its business model so that it can operate profitably without causing rate shock to captive distribution consumers.

3. Staff

Staff filed testimony on the following issues: (1) Liberty's proposed revenue requirements, (2) the appropriate cost of capital and return on equity (ROE), (3) the Company's proposed tariff changes, (4) the REP/VMP proposal, and (5) depreciation, employee benefits, and related matters.

According to Staff, the test year used by Liberty in this instance involved costs from two different ownership and management organizations, and also included costs incurred as a result of National Grid's continued performance of some tasks for Liberty pursuant to certain Transition Service Agreements (TSAs). This hybrid test year presented challenges in verifying data provided by National Grid and Liberty. To ascertain the costs associated with Liberty's sole management of Granite State Electric Company, Staff recommended that Liberty file a rate case within the next two to three years using a "clean" test year that does not include costs associated with any TSAs. In addition, Staff suggested that Liberty track and analyze the costs associated with its proposed tariff changes to develop a basis for setting rates. Staff opposed the various reconciling mechanisms proposed by the Company.

Staff recommended a permanent increase to distribution service revenues of $8,254,359, an incremental increase of $1,754,359 above the level of revenues approved in the temporary rates portion of this proceeding. In addition, Staff recommended a step increase of $1,288,682 associated with Liberty's capital investment as of December 31, 2013. The Staff derived $1,288,682 after adjusting certain costs including vehicle costs, property taxes, the insurance percentage, depreciation rates, and cost of capital. With these corrections, Staff supported an annual revenue increase and an annual rate increase of $0.00139/kWh for effect with service rendered on and after April 1, 2014.

In arriving at the permanent increase to revenue requirement of $8,254,359, Staff made several adjustments to the calculations in Liberty's October 16, 2013, updated and corrected filing. Some of the adjustments included (1) the elimination of certain inflation factors and non-recurring labor costs from the calculation of the revenue requirement, (2) a downward adjustment of the REP/VMP to maintain base level O&M funding at current levels, (3) an

increase of $770,859 to the test year for Liberty's major storm cost reserve, (4) the removal of $84,553 from the test year based on Staff's adjustment of Liberty Utility and Algonquin's management costs, (5) removal of $79,282 which Liberty had used as an estimate of 2012 property taxes, (6) certain adjustments to late payment charges and bad debt expense, and (7) a recommendation that Liberty's rate case expense be removed from base rates and instead be recovered through a one-year surcharge to rates.

With regard to employee benefits and expenses, Staff recommended reductions of $178,160 in pension costs, $102,922 in other post-employment benefits costs, $32,641 for costs of a 401K thrift plan, $126,477 in workers compensation expenses, $80,158 in medical expenses, and $100,108 in other health care costs.

Liberty's proposed capital structure is reasonable and that the Company's proposed long- and short-term debt is appropriate. Staff differed with Liberty with regard to the development of the cost of equity estimation and argued that the Company's estimation of 10.50% was overstated. After adjusting Liberty's cost of equity models, Staff determined that the resulting ROE estimates ranged from 8.68% to 11.09%. According to Staff, a ROE of 9.55% would be reasonable and appropriate. Staff calculated that with a capital structure of 45% debt and 55% equity as proposed by Liberty, a cost of debt of 5.95% as proposed by Liberty, and a 9.55% return on equity as proposed by Staff, the Company's overall rate of return would be 7.92%.

Staff argued that Liberty has accumulated a $5,578,423 surplus in depreciation reserves when compared to booked amounts as a result of using booked depreciation accrual rates that were higher than they should have been. Staff also argued that the depreciation rates currently proposed by Liberty, and which result in a deficit of $3,160,175, were too high. Amortizing this imbalance over a short period is generally accepted. Staff recommended amortizing the

$5,578,423 surplus over five years, or at $1,115,686 per year. Staff recommended annual depreciation expense of $3,279,420, a reduction of $2,243,286 from Liberty's proposed amount of $5,522,706, and depreciation-related rate base adjustments that would increase rate base by a net of $233,077.

Staff supported Liberty's request to end its GreenUp program. With regard to miscellaneous charges and fees, there were several proposed tariff changes which Staff believed should be based upon cost studies, rather than being based upon surveys of rates charged by other utilities. These included service connection, reconnection, after-hours service to establish or reestablish service, collection field visits, and line extension charges. Staff recommended that the proposed rates be approved, and then set in the next full rate case based upon studies of actual cost. Similarly, Staff recommended that costs of optional interval data service, optional billing and data service, off-cycle meter reads for switch of supplier, and energy service cost reclassification adjustment fees be studied and set in Liberty's next rate case. Lastly, Staff argued that Liberty should revise its tariff language regarding line extensions to clearly inform customers and developers of their options under RSA 370:12, which allows power line extensions on private property to be constructed by third party contractors.

B. Settlement Agreement

The full terms of the Settlement are found at Hearing Exhibit 9, which consists of a 10 page settlement and 32 pages of attachments. Key terms are summarized below.

Under the Settlement, Liberty would receive an increase of $9.760 million to the test year distribution revenue level of $26.543 million, based on an overall rate of return of 7.92%, effective with service rendered on and after April 1, 2014. The overall rate of return is based on a cost of equity of 9.55%, a cost of long-term debt of 5.95%, and a capital structure of 55%

equity and 45% debt. This increase in the revenue requirement would be reconcilable to July 1, 2013, the effective date of the temporary rates approved in this docket.

Liberty would also be permitted to recover an estimated additional $1.115 million in annual revenue in the form of a step increase in rates for capital additions used and useful as of December 31, 2013. The amount of the step increase would be subject to a final audit by Staff, and would take effect with service rendered on and after April 1, 2014.

The parties to the Settlement agreed to the calculation of depreciation rates using specified service lives and net salvage rates. They also agreed that Liberty would amortize its pension deferred debt related to the acquisition of the Company from National Grid over the average remaining length of service for the Company's employees, or 10.52 years.

With regard to tariff changes, the parties agreed that Liberty would be authorized to adopt certain fees and to change its line extension policy. Pursuant to the Settlement, Liberty would be authorized to adopt the following fees: (1) service connection/activation fee ($20.00), (2) service reconnection fee ($35.00), (3) service reconnection fee after hours ($70.00), (4) variance of bill adjustment due to meter tests (plus or minus 2%), and (5) collection field visit fee ($20.00). Liberty agreed to track the costs associated with these services and to propose any appropriate changes as part of its next distribution rate case filing. With regard to the line extension policy set forth in Liberty's tariff, the parties agreed to a policy statement that describes customers' rights under RSA 370:12 to use private contractors in certain circumstances.

Temporary rates are lower than the permanent rates agreed to by the parties. The Settlement provides that Liberty shall recoup the difference of $2.445 million over a two-year period by increasing the annual distribution rate level by $1,222,500 for the two-year period ending April 1, 2016. An estimated $390,000 in rate case expense and the cost of the

depreciation study would be recovered in the same manner, by increasing the annual distribution rate level by $195,000 for the same two-year period. The exact amount of rate case costs to be recovered would be subject to an audit by Staff. Rate case expenses and the step increase would be recovered by applying an equal percentage increase to each component of rates for each rate class. The remaining rate increases would be recovered as specified in Exhibit E to the Settlement Agreement.

The Settlement permits the Company to continue its REP/VMP programs at current program funding. Beginning November 15, 2014, Liberty is to submit an REP/VMP plan for the following calendar year for review and comment by Staff. Each plan is to have a base O&M budget of $1,360,000 and an REP capital investment target of $1 million annually. For any year, if actual O&M spending is less than the base amount, the difference will be refunded to customers or credited for future O&M expenditures. If actual O&M spending is greater than the base amount, the difference shall be recovered through a uniform adjustment factor on a per kilowatt-hour basis over a twelve-month period, subject to Commission approval. REP capital investments are to be recovered through permanent increases to base distribution rates, subject to Commission approval. The parties agreed to changes in the reporting of SAIDI/SAIFI results.

With regard to Liberty's Storm Fund, the parties agreed to an annual funding amount of $1.5 million, $120,000 of which is currently included in distribution rates and reconciled through the storm recovery adjustment factor, and the remainder of which is included in the $9.760 million revenue increase agreed to in the Settlement. The monies in the Storm Fund shall be used for the recovery of costs associated with major storms experienced by the Company, which are defined as a severe weather event or events causing 30 concurrent troubles (interruption events occurring on either primary or secondary lines) and 15 percent of customers interrupted or

45 concurrent troubles. The Company shall be entitled to recover planning and preparation activities in advance of severe weather if the weather forecast for the event shows a Schneider Electric Event Index ("EII") level of 3 or greater with a high probability of occurrence. The activities for which the Company may seek recovery include pre-staging of crews, standby arrangements with external contractors, incremental compensation of employees, and other costs that may be incurred to prepare for a qualifying major storm.

Finally, the Settlement allows Liberty to discontinue its GreenUp program with 30 days prior notice to customers.

1. Liberty

According to Liberty, the Settlement Agreement does not address all the issues facing Liberty, and the Company will need to address such issues, including rate design, in its next rate case. While the effect of the Settlement would be to increase rates, the impact of rate increases would be mitigated by the temporary rate increase that took effect on July 1, 2013. The Company worked diligently to keep rate case expense as low as possible and believes that the cap of $390,000 for rate case expense and the depreciation study to be reasonable. Finally, Liberty requested that the Commission approve the Settlement in its entirety without any changes.

2. Dartmouth-Hitchcock

Dartmouth-Hitchcock neither joined nor provided testimony opposing the Settlement. Dartmouth-Hitchcock did, however, argue at hearing that the Commission should take into account the economy in deciding whether to approve an increase in rates and that any increase should be stepped to avoid rate shock.

3. Office of Consumer Advocate

The OCA did not file testimony; however, the OCA is a party to and supported the Settlement.

4. Staff

Staff stated that, pursuant to Commission rules, the Commission may approve a settlement agreement if the settlement agreement fairly resolves the areas of disagreement in a case and the results are just and reasonable. Staff opined that the Settlement, taken in its entirety, resolves all issues in dispute. Staff acknowledged that the Settlement results in increased rates, but given the fact that Liberty was under-earning and it has responsibility to provide safe and reliable electric service to customers, the resulting rates are reasonable. Staff recommended that the Commission approve the Settlement.

III. COMMISSION ANALYSIS

We begin our analysis by reviewing the Settlement, which represents a compromise and liquidation of all issues in this proceeding. Liberty was earning a return on distribution investments of approximately negative 0.75%, well below the Company's allowed return of 8.61% at the time of filing. Staff recommended that Liberty be permitted to increase its revenue requirement in order to have an opportunity to earn a reasonable rate of return and have the financial ability to properly deliver service and operate and maintain all aspects of providing that service. We find that the Company has demonstrated a need for a rate increase.

The Settlement increases the distribution rates for Liberty's customers. The Commission is authorized to fix rates after a hearing, upon determining that rates, fares and charges are just and reasonable. RSA 378:7. In circumstances where a utility seeks to increase rates, the utility bears the burden of proving the necessity of the increase pursuant to RSA 378:8. In determining

whether rates are just and reasonable, the Commission must balance the customers' interest in paying no higher rates than are required against the investors' interest in obtaining a reasonable return on their investment. *Eastman Sewer Company, Inc.*, 138 N.H. 221, 225 (1994). In this way, the Commission serves as arbiter between the interests of customers and those of regulated utilities. *See* RSA 363:17-a; *see also EnergyNorth Natural Gas, Inc. d/b/a National Grid NH*, Order No. 25,202 (March 10, 2011) at 17.

Pursuant to RSA 541-A:31, V(a), informal disposition may be made of any contested case at any time prior to the entry of a final decision or order, by stipulation, agreed settlement, consent order or default. N.H. Code Admin. Rules Puc 203.20(b) requires the Commission to determine, prior to approving disposition of a contested case by settlement, that the settlement results are just and reasonable and serve the public interest. In general, the Commission encourages parties to attempt to reach a settlement of issues through negotiation and compromise, as it is an opportunity for creative problem solving, allows the parties to reach a result more in line with their expectations, and is often a more expedient alternative to litigation. *EnergyNorth Natural Gas, Inc. d/b/a National Grid NH*, Order No. 25,202 (March 10, 2011) at 18. Even where all parties join a settlement agreement, however, the Commission cannot approve it without independently determining that the result comports with applicable standards. *Id*. As the instant Settlement pertains to a rate case, the underlying standard to be applied is whether the resulting rates are just and reasonable. RSA 378:7.

The Settlement calls for an overall revenue increase of $9.760 million plus a step increase of $1.115 million effective April 1, 2014. We compare these amounts to the revenue increase originally sought by Liberty (a revenue increase of $14,168,940 plus a step of approximately $1.2 million), and that originally recommended by Staff ($8,254,359 revenue increase plus a step

of $1,288,622) and understand that the amount of the revenue increase in the Settlement represents a negotiated amount that provides Liberty the revenues necessary to provide safe and reliable service. We find this to be an indication that the Settlement is reasonable and in the public interest. This increase provides for an overall rate of return of 7.92%, based upon a return on equity of 9.55%, and the application of a capital structure of 55% equity and 45% debt. We find this rate of return, and return on equity, to be reasonable, and within the scope of recent precedent. *See, e.g., EnergyNorth Natural Gas, Inc. d/b/a National Grid NH,* Order No. 25,202 (March 10, 2011) at 19 (approving a return on equity of 9.67 percent). With regard to Dartmouth-Hitchcock's argument that we should take the economy into account and step any rate increase to avoid rate shock, we find that moving from temporary rates to permanent rates has helped to mitigate the impact of the rate increase, and that the resulting increase is, on balance, just and reasonable.

We have carefully reviewed the Settlement's treatment of rate design, tariffed fees, line extension policy, pension expenses, effective date, recoupment mechanisms, and rate case recovery. We find that these provisions appropriately balance the interests of Liberty and its customers, and we approve these changes as stipulated in the Settlement as being just and reasonable and in the public interest. Although we approve Liberty's proposed changes to its line extension policy for the time being, we will, in the very near future, open a generic proceeding regarding line extension policies. Liberty Utilities will be a mandatory party in that proceeding. *See Public Service Co. of N.H.,* Order No. 25,637 (March 17, 2014) at 6. We may revisit our approval of Liberty's line extension policy at that time.

The Settlement calls for a Staff audit of the step increase and rate case expenses. The recovery of the step increase and audit expense shall be reconciled to the results of Staff audits.

Liberty shall file a final accounting of rate case and step increase expenses no later than March 31, 2014, to permit Staff to conduct the requisite audits.

To conclude, we approve the Settlement and incorporate its terms and conditions into this Order. To facilitate the efficient administration of the Settlement, we authorize the signatories to modify the Agreement so long as any modification is mutually agreed upon and non-substantive, such as a clerical or ministerial amendment that involves timing or scheduling. The signatories shall file any such modification with the Commission and provide a copy to all parties on the service list. The Commission will approve such requests, if appropriate, via secretarial letter without the need for notice or hearing.

Based upon the foregoing, it is hereby

ORDERED, that the Settlement Agreement regarding Permanent Rates between Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities, Staff, and Office of Consumer Advocate is hereby APPROVED; and it is

FURTHER ORDERED, that Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities is hereby authorized to begin recovery of the increased revenue requirements in base rates effective with service rendered on and after April 1, 2014; and it is

FURTHER ORDERED, that Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities is authorized to begin recovery of a step increase of $1.115 million effective with service rendered on and after April 1, 2014; and it is

FURTHER ORDERED, that subject to any results of a Staff audit, Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities is authorized to begin recovery of $390,000 in rate case expense beginning with service rendered as of April 1, 2014 through March 31, 2016; and it is

FURTHER ORDERED, that Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities is authorized to begin recovery of the $2.445 million difference between temporary and permanent rates beginning with service rendered as of April 1, 2014 through March 31, 2016; and it is

FURTHER ORDERED, that Liberty Utilities (Granite State Electric) Corp., d/b/a Liberty Utilities shall file all documentation relating to the step increase and rate case expenses no later than March 31, 2014; and it is

FURTHER ORDERED, that Liberty Utilities (Granite State Electric) Corp., d/b/a Liberty Utilities shall file tariffs conforming with this order within 15 days of the date of this Order in accordance with N.H. Code Admin. Rules Puc 1603.02(b).

By order of the Public Utilities Commission of New Hampshire this seventeenth day of March, 2014.

Amy L. Ignatius Chairman	Robert R. Scott Commissioner	Martin P. Honigberg Commissioner

Attested by:

Lori A. Davis
Assistant Secretary

ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (PINE BLUFF WATER), INC., FOR A GENERAL CHANGE OR MODIFICATION IN RATES, CHARGES, AND TARIFFS	)))))	DOCKET NO. 14-020-U ORDER NO. 8

ORDER

On July 2, 2014, Liberty Utilities (Pine Bluff Water), Inc. (Liberty) filed an Application with the Arkansas Public Service Commission (Commission) for a general change in the rates and charges applicable to its water system serving the City of Pine Bluff, Arkansas and adjacent territory (Application). Liberty sought a revenue increase of $2,536, 802.

On March 12, 2014, the Commission designated Administrative Law Judge Connie C. Griffin as Presiding Officer (PO) in the Docket. Written testimony was filed by SGA, the General Staff of the Commission (Staff), and the Arkansas Attorney General (Attorney General). No other party moved to intervene or participated in the Docket.

On February 11, 2015, Liberty, the Attorney General, and Staff filed a joint motion seeking approval of an agreement settling all issues and proposing a revenue increase of $1,086,752. The parties asked that the evidentiary hearing set for February 24 go forward as a hearing on the settlement agreement. The settlement agreement stated: "The Settling Parties agree that the new rates and tariffs should become effective for all bills rendered on or after March 15, 2015." Settlement Agreement at page 4, para. 5. The joint motion to approve the settlement agreement stated: "The Company requests, and the AG and Staff do not object, that the new rates and tariffs be implemented for all

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bills rendered on or after March 15, 2015, and the Settling Parties request that the Order Approving the Agreement be issued as expeditiously as possible to allow for this implementation." Joint Motion at page 2, para. 5.

The PO held an evidentiary hearing on the proposed settlement in Little Rock on February 24, 2015, and a public comment hearing in Pine Bluff on February 26, 2015. On March 6, 2015, the PO entered Order No. 7 approving the stipulation and settlement agreement as filed by the parties. On March 6, Liberty filed a motion with the Commission requesting that the Commission enter an order adopting the order of the PO as its own in time for the increased rates set forth in the settlement agreement and exhibits to go into effect by March 15, 2015. This motion was not joined by the other parties and the other parties have filed no responses to the motion.

The Commission is not required to grant expedited consideration and is not bound in its review of a proposed change in rates by a provision in a settlement agreement that a rate change should take effect on a particular date. Nevertheless, in the present circumstances, having reviewed the Application, the testimony filed by the parties, the parties' stipulation and settlement agreement, and the transcripts of the evidentiary hearing and the public comment hearing, the Commission finds that the PO's order is reasonable and well-supported and hereby adopts the order of the PO as its own final order.

BY ORDER OF THE COMMISSION.

This 12th day of March, 2015.

Ted J. Thomas, Chairman

Elana C. Wills, Commissioner

Lamar B. Davis, Commissioner

I hereby certify that this order, issued by the Arkansas Public Service Commission, has been served on all parties of record on this date by the following method:

___U.S. mail with postage prepaid using the mailing address of each party as indicated in the official docket file, or
X Electronic mail using the email address of each party as indicated in the official docket file.

Karen Shook (acting)
Michael Sappington, Secretary of the Commission

COMMISSIONERS:

CHUCK EATON, CHAIRMAN
H. DOUG EVERETT
TIM G. ECHOLS
LAUREN "BUBBA" McDONALD, JR.
STAN WISE

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EXECUTIVE SECRETARY
G.P.S.C.

DEBORAH K. FLANNAGAN
EXECUTIVE DIRECTOR

REECE McALISTER
EXECUTIVE SECRETARY

Georgia Public Service Commission

(404) 656-4501
(800) 282-5813

244 WASHINGTON STREET, S.W.
ATLANTA, GEORGIA 30334-9052

FAX: (404) 656-2341
www.psc.state.ga.us

DOCKET# 34734
DOCUMENT# 153620

DOCKET NO. 34734

IN RE: LIBERTY UTILITIES (PEACH STATE NATURAL GAS) ("LIBERTY") 2013 GEORGIA RATE ADJUSTMENT MECHANISM ("GRAM") REQUEST AND THE 2012 REVENUE TRUE UP ("RTU") REQUEST

ORDER APPROVING LIBERTY'S 2013 GRAM REQUEST AND THE 2012 RTU REQUEST

Background

On November 1, 2011, Atmos Energy Corporation ("Atmos") filed with the Georgia Public Service Commission ("Commission") an Application for an Order Approving an Alternative Form of Regulation, herein after referred to as Georgia Rate Adjustment Mechanism ("GRAM"). In support of its Application, the Company filed a Joint Stipulation that had been reached between Atmos and the Commission Staff ("Staff"). During the December 14, 2011 Administrative Session, the Commission approved the Joint Stipulation between Staff and the Company.

During the February 19, 2013 Administrative Session, the Commission approved the purchase of Atmos Energy Corporation's territory in Georgia by Liberty Utilities, doing business as, Peach Sate Natural Gas ("Liberty" or "Company"). The purchase was final on April 1, 2013.

On October 1, 2013, Liberty filed its 2013 GRAM request with 11 schedules and over 50 supporting workpapers. Liberty requested a $4.9 million rate increase. Based on discussions with Staff, on January 16, 2014, Liberty filed its First Revised 2013 GRAM. During January 30, 2014 Energy Committee, the Commission held the item. On March 11, 2014, the Staff met with representatives of Liberty to discuss the First Revised 2013 GRAM request and the 2012 Revenue True Up ("RTU") request. On March 20th, Liberty filed its Second Revised 2013 GRAM request and a separate filing for its 2012 RTU request.

2013 GRAM Timeline:

October 1, 2013:	Liberty Georgia files its 2013 GRAM request
November 12, 2013:	Staff issues its Fourth Set of Data Requests
December 12, 2013:	Liberty files responses to Fourth Set of Data Requests
December 18, 2013:	Staff and Liberty meet to discuss issues
January 8, 2014:	Staff and Liberty meet on outstanding issues from the prior meeting
January 16, 2014:	Liberty filed its First Revised 2013 GRAM Request
January 30, 2014:	2013 GRAM item held during Energy Committee
March 11, 2004:	The Staff and Liberty met to discuss 2013 GRAM & 2012 RTU.
March 20, 2014:	Liberty filed its Second Revised 2013 GRAM & 2012 RTU.
May 29, 2014:	Energy Committee: Staff presents recommendation
May 29, 2014:	Special Administrative Session: Commission Decision
June 1, 2014:	2013 GRAM & 2012 RTU rates go into effect

Staff's Analysis:

2013 GRAM

The Staff GRAM analysis team consisted of Bolin Killings, Alicia McBride, and Tony Wackerly. Liberty had filed 11 Schedules and over 50 Workpapers. The team divided the schedules for analysis based on the number of supporting workpapers. From an analysis perspective, the team reviewed the schedules and workpapers to ensure the calculations were correct and the numbers feeding into, and out of, the schedules and workpapers were correct and reviewed for any anomalies in the information. This process was followed in the October 1, 2013, January 16, 2014, and March 20, 2014 2013 GRAM filings. The Staff found all the filings, including the Second Revised 2013 GRAM request, to be whole and complete. Based on Liberty's Second Revised 2013 request, the Company requested a **$3,083,914** rate increase based on increased capital expenditures and reduced rate based of $15 million due to a reduced Accumulated Deferred Income Taxes ("ADIT") related to its April 1, 2012 purchase of the Georgia service territory from Atmos.

Based on the GRAM stipulation, the Return on Equity ("ROE") range was 10.50% to 10.90% with a target ROE of 10.70%. Since Liberty was found to be under-earning, the increase was based on the bottom of the ROE range, 10.50%. In **Table-1** below taken from Schedule-11, a comparison of the original 2013 GRAM Request, the First Revised 2013 GRAM Request, and the Second Revised 2013 GRAM request is provided.

Table-1: 2013 GRAM Request Schedule-11

Liberty Energy (Georgia) Corp.
Schedule 11
Calculation of Adjustment
Twelve Months Ending August 31, 2014

Line	Description	As Filed Adjusted for Lower Capital Additions & Rate Stabilization Mechanism	As Filed Adjusted to Reflect Lower Capital Additions	As Filed
1	Calculated Return (Sch 2)	6.11%	4.81%	4.70%
2	Adjustment ROE (band from 10.5%-10.9%)	10.50%	10.50%	10.50%
3	Difference (Ln 2- Ln 1)	4.39%	5.69%	5.80%
4	Equity portion of rate base	$42,891,601	$51,141,601	$51,757,619
5	Operating Income Deficiency (or Sufficiency)	$1,884,271	$2,907,655	$3,001,633
6	Income Expansion Factor	61.10%	61.10%	61.10%
7	Revenue Adjustment	$3,083,914	$4,758,847	$4,912,656
8	Difference between Filed and Capital Adjusted Revenues		$153,810	
9	**Difference between Adjusted Rate Base to Reflect Lower Capital Additions and RSM**	**$1,674,933**		
10	**Difference between Filed and Revenue after RSM**	**$1,828,742**		
	Revenue Check			
	Revenue Increase	$ 3,083,914		
	Carrying Costs on RSM	$ 1,674,933		
	Total	**$ 4,758,847**		
	Increase after Adjustment for Lower Capital Additions	**$ 4,758,847**		

Deferred Rate Base

In prior GRAM requests, ADIT was a reduction to jurisdictional rate base. As seen in **Table-2** below with the 2013 GRAM Request, Liberty had accrued an ADIT of $3.27 million compared to an Atmos ADIT of $25.8 million in the 2012 GRAM Request. During the March 11, 2014 meeting between Staff and Liberty, the following was agreed to stabilize rates and prevent rate shock: First, Liberty is authorized to defer $15 million in rate base for rate making purposes to stabilize rates and prevent rate shock; Second, Liberty is authorized to accrue carrying charges in the amount of $1,674,933 on the deferred rate base over the Rate Effective Period, June 1, 2014 through January 31, 2015, and obtain recovery of the carrying charges in a future GRAM request; and Third, Liberty is authorized recovery of the deferred rate base in a future GRAM request.

Table-2: Regulatory Asset

Liberty Energy (Georgia) Corp.
Regulatory Asset

Description		Regulatory Asset
Rate Stabilization Mechanism Rate Base		
Rate Base on which Regulatory Asset is Calculated		$ (15,000,000)
Debt Return	1.71%	(257,175)
Equity Return	5.78%	(866,250)
Income Taxes		(551,508)
Regulatory Asset at end of Year 1		(1,674,933)
Rate Base on which Regulatory Asset is Calculated after Year 1		$ (16,674,933)

2012 RTU

On March 20, 2014, Liberty filed its 2012 RTU. The filing indicated that Liberty under-collected revenues in the amount of $165,881 for the Rate Effective Period ("REP") of February 1, 2013 through January 31, 2014. With the delay in implanting the 2013 GRAM rates and the 2012 RTU rates, the collection period, or Rate Effective Period, was reduced to 10 months. The revised 2012 RTU under-collection was adjusted to **$151,459**. If the new 2013 GRAM rates and 2012 RTU rates go into effect on June 1, 2014, then the revised 2012 RTU Rate Effective Period will be June 1, 2014 through March 31, 2015. In **Table-3** below, the under-collection rate increase amount can be found.

Table-3: 2012 RTU Request Schedule-3

Liberty Utilities (Peach State Natural Gas) Corp.
SCHEDULE 3
Projected Billed Gross Margin and Calculation of Reconciliation Adjustment
2012 GRAM Filing

Line No.	Description		Total 2012 GRAM Rate Effective Period	
1	Total Gross Margin, including PRP Revenues and Special Contract		**$27,364,191**	1/
2	Pipeline Replacement Revenue		**5,514,346**	
3	Special Contract Revenue		**207,950**	
4	Projected Gross Margin subject to Reconciliation Adjustment		**21,641,895**	
5	Actual Billed Gross Margin subject to Reconciliation Adjustment		**21,476,014**	
6	Total Reconciliation Adjustment		**$165,881**	
7	Amount collected in April 2014		7,211	
8	Projected amount collected in May, 2014		7,211	
9	Remaining Balance to be collected June 2014 - April 2015		**$151,459**	
	1/ Workpaper 3-1			

2013 GRAM & 2012 RTU Rate Increase

The 2013 GRAM rates and the 2012 RTU rates were simultaneously approved for one effective rate for a total rate increase of **$3,235,373**.

Rate Impact

In **Table-4** below, the current rates are provided in Column-I as the 2012 GRAM/2011 RTU rates by rate class. In Column-II, the 2013 GRAM rates are provided by rate class. In Column-III, the 2012 RTU rate increase to the 2013 GRAM rates is provided by rate class. Column-IV provides the combined rate for the 2013 GRAM rates and the 2012 RTU rates by rate class. In Column-V, the variance is provided between the Column-IV and Column-I. In

Column-VI, the 2013 GRAM/2012 RTU rate monthly increase is provided. In Column-VII, the 2013 GRAM/2012 RTU rate annual increase is provided.

Table-4: 2013 GRAM & 2012 RTU Rate Impact

		Column-I	Column-II	Column-III	Column-IV	Column-V	Column-VI	Column-VII
Line	Liberty Tariff	2012 GRAM Rates After 2011 RTU Approval	2013 GRAM Rate Increase or (Decrease)	2012 RTU Rate Increase or (Decrease)	2013 GRAM Rates After 2012 RTU Approval	Rate Difference VI - I	2013 GRAM/2012 RTU Rate Monthly Increase or (Decrease)	2013 GRAM/2012 RTU Rate Annual Increase or (Decrease)
1	**810 Residential**							
2	Customer Charge	$12.37	$14.06	$0.19	$14.25	$1.88	$1.88	$22.56
3	Commodity Charge	$0.26	$0.30	$0.00	$0.30	$0.04	$1.59	$19.14
4	**Total**						**$3.47**	**$41.70**
5								
6	**820 General Service Commercial and Industrial**							
7	Customer Charge	$19.45	$22.00	$0.53	$22.53	$3.08	$3.08	$36.96
8	Commodity Charge	$0.16	$0.18	$0.00	$0.18	$0.02	$6.35	$76.17
9	**Total**						**$9.43**	**$113.13**
10								
11	**821 Public Authority**							
12	Customer Charge	$19.45	$22.00	$0.53	$22.53	$3.08	$3.08	$36.96
13	Commodity Charge	$0.16	$0.18	$0.00	$0.18	$0.02	$422.47	$5,069.66
14	**Total**						**$425.55**	**$5,106.62**
15								
16	**822 Res and Com HVAC**							
17	Customer Charge	$12.37	$14.06	$0.19	$14.25	$1.88		
18	Commodity Charge	$0.09	$0.11	$0.00	$0.11	$0.01		
19								
20	**830 Large Volume Service**							
21	Customer Charge	$44.65	$39.99	$20.27	$60.26	$15.61	$15.61	$187.32
22	Commodity Charge	$0.14	$0.16	$0.00	$0.16	$0.02	$329.43	$3,953.19
23	**Total**						**$345.04**	**$4,140.51**

		Column-I	Column-II	Column-III	Column-IV	Column-V	Column-VI	Column-VII
Line	Liberty Tariff	2012 GRAM Rates After 2011 RTU Approval	2013 GRAM Rate Increase or (Decrease)	2012 RTU Rate Increase or (Decrease)	2013 GRAM Rates After 2012 RTU Approval	Rate Difference VI - I	2013 GRAM/2012 RTU Rate Monthly Increase or (Decrease)	2013 GRAM/2012 RTU Rate Annual Increase or (Decrease)
	850 Optional Gas Service							
26	Customer Charge	$216.48	$217.12	$54.37	$271.49	$55.01	$55.01	$660.12
27	1 - 20,000 Ccf	$0.11	$0.13	$0.00	$0.13	$0.02	$298.04	$3,576.51
28	20,000 - 100,000 Ccf	$0.09	$0.11	$0.00	$0.11	$0.01	$444.59	$5,335.04
29	Over 100,000 Ccf	$0.08	$0.09	$0.00	$0.09	$0.01	$59.10	$709.18
30	Demand Volumes	$0.45	$0.52	$0.00	$0.52	$0.07	$0.00	$0.00
31	**Total**						**$856.74**	**$10,280.85**
32								
33	**860 Transportation**							
34	Customer Charge	$216.48	$217.12	$54.37	$271.49	$55.01	$55.01	$660.12
35	1 - 20,000 Ccf	$0.11	$0.13	$0.00	$0.13	$0.02	$326.37	$3,916.38
36	20,000 - 100,000 Ccf	$0.09	$0.11	$0.00	$0.11	$0.01	$576.40	$6,916.83
37	Over 100,000 Ccf	$0.08	$0.09	$0.00	$0.09	$0.01	$96.30	$1,155.61
38	**Total**						**$1,054.08**	**$12,648.94**
39								
40	**880 Economic Development (Based on 860 Rate)**							
41	Customer Charge	$216.48	$217.12	$54.37	$271.49	$55.01		
42	1 - 20,000 Ccf	$0.11	$0.13	$0.00	$0.13	$0.02		
43	20,000 - 100,000 Ccf	$0.09	$0.11	$0.00	$0.11	$0.01		
44	Over 100,000 Ccf	$0.08	$0.09	$0.00	$0.09	$0.01		
45								
46	**880 Economic Development Firm (Based on 830 Rate)**							
47	Customer Charge	$216.48	$217.12	$54.37	$271.49	$55.01		
48	Year 1	$0.08	$0.09	$0.00	$0.09	$0.01		
49	Year 2	$0.10	$0.11	$0.00	$0.11	$0.01		
50	Year 3	$0.11	$0.12	$0.00	$0.12	$0.02		
51	Year 4	$0.12	$0.14	$0.00	$0.14	$0.02		
52								

		Column-I	Column-II	Column-III	Column-IV	Column-V	Column-VI	Column-VII
Line	Liberty Tariff	2012 GRAM Rates After 2011 RTU Approval	2013 GRAM Rate Increase or (Decrease)	2012 RTU Rate Increase or (Decrease)	2013 GRAM Rates After 2012 RTU Approval	Rate Difference VI - I	2013 GRAM/2012 RTU Rate Monthly Increase or (Decrease)	2013 GRAM/2012 RTU Rate Annual Increase or (Decrease)
53	**Cogen 892**							
54	Customer Charge	$216.48	$217.12	$54.37	$271.49	$55.01	$55.01	$660.12
55	Commodity Charge	$0.14	$0.16	$0.00	$0.16	$0.02	$33.63	$403.56
56	**Total**						**$88.64**	**$1,063.68**
57								
58	**Lrg Tonnage 893**							
59	Customer Charge	$216.48	$217.12	$54.37	$271.49	$55.01	$55.01	$660.12
60	Commodity Charge	$0.12	$0.14	$0.00	$0.14	$0.02	$335.26	$4,023.07
61	**Total**						**$390.27**	**$4,683.19**

$40.70 Residential increased based on a typical Residential customer with an annual consumption of 509 CCF.
$105.08 Commercial increase based on a typical Commercial customer with an annual consumption of 2,936 CCF.
$963.22 Small Industrial increase based on a typical Small Industrial Customer with an annual consumption of 39,925 CCF.
$4,140.51 Large Industrial increase based on a typical Large Industrial Customer with an annual consumption of 199,656 CCF.
2012 GRAM Rate in effect for 10 months (June 2014 through March 2015)

2013 GRAM Revenue Calculation

As provided in the 2013 GRAM WP 4-4 Rate Calculation workpaper, Liberty estimated approximately $24,270,463 in target revenues that should be generated over the Rate Effective Period, June 1, 2014 through January 31, 2015, using the new rates. This dollar amount will be evaluated in the Company's 2014 RTU filing that will be filed on February 15, 2015.

Findings of Facts and Conclusions of Law

The Commission finds and concludes the Liberty's 2013 GRAM request and 2012 RTU request, both filed on March 20, 2014, to be accurate and reasonable. This will result in a combined rate increase totaling $3,253,373 to customers. The Commission finds and concludes that Liberty is authorized to defer $15 million in rate base for rate making purposes to stabilize rates and prevent rate shock. The Commission finds and concludes that Liberty is authorized to accrue carrying charges in the amount of $1,674,933 on the deferred rate base over the Rate Effective Period, June 1, 2014 through January 31, 2015, and obtain recovery of the carrying charges in a future GRAM request. The Commission finds and concludes that Liberty is authorized recovery on the deferred rate base in a future GRAM request. The Commission finds

and concludes that, after a full examination of the schedules and workpapers, it is appropriate to adopt the new rates proposed by Liberty in its 2013 GRAM request and its 2012 RTU request and is in compliance with the requirements of O.C.G.A. Section 46-2-23.1. The new rates will go into effect on June 1, 2014.

* * * * *

WHEREFORE, IT IS ORDERED, that the Commission approves Liberty's 2013 GRAM request and its 2012 RTU request and the new rates will go into effect on June 1, 2014.

ORDERED FURTHER, that the Commission approves Liberty's 2013 GRAM request for a rate increase totaling $3,083,914 based on an ROE of 10.50% and Liberty's 2012 RTU request for a rate increase of $151,459 for a total combined rate increase of $3,235,373.

ORDERED FURTHER, that Liberty is authorized to defer $15 million in rate base for rate making purposes to stabilize rates and prevent rate shock.

ORDERED FURTHER, that Liberty is authorized to accrue carrying charges in the amount of $1,674,933 on the deferred rate base over the Rate Effective Period, June 1, 2014 through January 31, 2015, and obtain recovery of the carrying charges in a future GRAM request.

ORDERED FURTHER, that Liberty is authorized recovery on the deferred rate base in a future GRAM request.

ORDERED FURTHER, that a motion for reconsideration, rehearing, oral argument, or any other motion shall not stay the effective date of this Order, unless otherwise ordered by the Commission.

ORDERED FURTHER, that jurisdiction over this matter is expressly retained for the purpose of entering such further Order or Orders as this Commission may deem just and proper.

The above by action of the Commission in Special Administrative Session on the 29th day of May, 2014.

Reece McAlister
Executive Secretary

5-30-14
Date

Chuck Eaton
Chairman

5/30/14
Date

CERTIFICATE OF SERVICE

DOCKET NO. 34734

IN RE: LIBERTY UTILITIES (PEACH STATE NATURAL GAS) ("LIBERTY") 2013 GEORGIA RATE ADJUSTMENT MECHANISM ("GRAM") REQUEST AND THE 2012 REVENUE TRUE UP ("RTU") REQUEST

I, the undersigned, do herewith certify that I have caused to be served the required copies of the enclosed Request to Liberty Utilities (Peach State Natural Gas) ("Liberty"). All parties are being provided an electronic copy.

Reece McAlister
Assistant Executive Secretary
Georgia Public Service Commission
244 Washington St., S. W.
Atlanta, GA 30334

Mark D. Caudill
Vice President MCR Performance
Solutions, LLC
3290 Commons Gate Bend
Berkley Lake, GA 30092-4946

Pete Lucas
Director, Regulatory and Government
Affairs
Liberty Utilities
2300 Victory Drive
Columbus, GA 31901

Respectfully submitted, this 29th day of
May, 2014

Tara Surratt
Utilities Analyst

COMMISSIONERS:

CHUCK EATON, CHAIRMAN
H. DOUG EVERETT
TIM G. ECHOLS
LAUREN "BUBBA" McDONALD, JR.
STAN WISE

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EXECUTIVE DIRECTOR

REECE McALISTER
EXECUTIVE SECRETARY

Georgia Public Service Commission

(404) 656-4501
(800) 282-5813

244 WASHINGTON STREET, S.W.
ATLANTA, GEORGIA 30334-9052

FAX: (404) 656-2341
www.psc.state.ga.us

DOCKET# 34734
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DOCKET NO. 34734

IN RE: LIBERTY UTILITIES CORPORATION (PEACH STATE NATURAL GAS) ("LIBERTY") 2014 GEORGIA RATE ADJUSTMENT MECHANISM ("GRAM") FILING

ORDER APPROVING LIBERTY'S 2014 GRAM FILING

Background

On November 1, 2011, Atmos Energy Corporation ("Atmos") filed with the Georgia Public Service Commission ("Commission") an Application for an Order Approving an Alternative Form of Regulation, herein after referred to as Georgia Rate Adjustment Mechanism ("GRAM"). In support of its Application, the Company filed a Joint Stipulation that had been reached between Atmos and the Commission Staff ("Staff"). During the December 14, 2011 Administrative Session, the Commission approved the Joint Stipulation between Staff and the Company. During the February 19, 2013 Administrative Session, the Commission approved the purchase of Atmos Energy Corporation's territory in Georgia by Liberty Utilities, doing business as, Peach Sate Natural Gas ("Liberty" or "Company"). The purchase was final on April 1, 2013.

2014 GRAM Filing

On October 1, 2014, Liberty filed its 2014 GRAM Filing with 11 schedules and 50 supporting workpapers. Liberty requested a $3,679,001 rate increase based on a total rate base of $91,855,500 for rate making purposes and an equity portion of rate base of $50,500,525. As part of the 2014 GRAM Filing, Liberty included the $15,000,000 in rate base not included during the 2013 GRAM Filing, but the $1,674,933 in carrying costs on that rate base was not included as part of the 2014 GRAM Filing. The $1,674,933 in carrying costs will generate additional carrying costs totaling $187,027 during the 2014 GRAM Rate Effective Period ending January 31, 2016. The total carrying costs that Liberty is authorized to include in the 2015 GRAM Filing is $1,861,959.

Staff's Analysis

The Staff GRAM analysis team reviewed the 2014 GRAM Filing that included 11 Schedules and over 50 Workpapers. The team divided the schedules for analysis based on the number of supporting workpapers. From an analysis perspective, the team reviewed the schedules and workpapers to ensure the calculations were correct. The initial review found the petition to be whole and complete. As the Staff began a more detailed review of the petition, it was found that Liberty intended to use a different rate design than used in prior GRAM petitions with an increased winter rate and reduced summer rate for the Residential class of customers and include the increase for all customers through the volumetric charges while maintaining the customer service charge for all customers at the approved 2013 GRAM Filing/2012 Revenue True Up approved levels.

On October 22, 2014, the Staff GRAM analysis team had a conference call with Liberty to express concerns about using an increased winter rate for the Residential class without using methods to determine customer impacts. The Staff also raised the concern that engaging in a different rate design other than approved during the 2009/2010 rate case (Docket No. 30442) and adopted as part of the Joint Stipulation was problematic. Liberty agreed to provide a revised 2014 GRAM Filing to reflect a rate designed approved in the Commission's final order in Docket No. 30442. Additionally, the Staff found that Liberty continued to use a repeated manual calculation in WP 5-1-3-1 used by Atmos to calculate bad debt for the 830 Large Volume Service. Liberty agreed to update the calculation in the revise 2014 GRAM Filing.

On November 7, 2014, Liberty filed its First Revised 2014 GRAM Filing with 11 schedules and 50 supporting workpapers. Liberty requested a $3,679,700 rate increase based on a total rate base of $91,855,514 for rate making purposes and an equity portion of rate base of $50,520,533. After the Staff reviewed the revised petition, it was found that Liberty made corrections as requested by the Staff related to rate design and provided changes to WP 4-2, WP 4-3, and WP 4-4, supporting Schedule-4. In **Table-1** below, the First Revised 2014 GRAM Filing provided for a rate increase by adjusting the Return on Equity ("ROE") band, 10.5% to 10.9%, to the bottom of the band, 10.5%. This allowed for an overall rate increase of $3,679,700. Liberty The Fist Revised 2014 GRAM Filing proposed rate increase that was $699 greater than the original request due to the revised calculation in WP 5-1-3-1 related to the 830 Large Volume Service. As part of the First Revised 2014 GRAM Filing, Liberty included the $15,000,000 in rate base not included during the 2013 GRAM Filing, but the $1,674,933 in carrying costs on that rate base was not included as part of the 2014 GRAM Filing. The $1,674,933 will generate additional carrying costs totaling $187,027 during the 2014 GRAM Rate Effective Period ending January 31, 2016. The total carrying costs that Liberty is authorized to include in the 2015 GRAM Filing is $1,861,959.

Table-1: 2014 GRAM Filing Schedule-11

Liberty Utilities (Peach State Natural Gas) Corp.
Schedule 11
Calculation of Adjustment
Twelve Months Ending August 31, 2015

Line	Description	Amount
1	Calculated Return (Sch 2)	6.05%
2	Adjustment ROE (band from 10.5%-10.9%)	10.50%
3	Difference (Ln 2- Ln 1)	4.45%
4	Equity portion of ratebase	$50,520,533
5	Operating Income Deficiency (or Sufficiency)	$2,248,297
6	Income Expansion Factor	61.10%
7	Revenue Adjustment	$3,679,700
	2014 GRAM Rate Increase	**$3,679,700**

Rate Impact

In **Table-2** below, the current rates are provided in Column-I as the 2013 GRAM/2012 Revenue True Up ("RTU") rates by rate class. In Column-II, the 2014 GRAM rates are provided by rate class. In Column-III, the 2012 RTU rate increase to the 2014 GRAM rates is provided by rate class. Column-IV provides the combined rate for the 2014 GRAM rates and the 2012 RTU rates by rate class. In Column-V, the variance is provided between the Column-IV and Column-I. In Column-VI, the 2014 GRAM/2012 RTU rate monthly increase is provided. In Column-VII, the 2014 GRAM/2012 RTU rate annual increase is provided.

Table-2: 2014 GRAM Rate Impact

		Column-I	Column-II	Column-III	Column-IV	Column-V	Column-VI	Column-VII
Line	**Liberty Tariff**	**2013 GRAM Rates After 2012 RTU Approval**	**2014 GRAM Rate Increase or (Decrease)**	**2012 RTU Rate Increase or (Decrease)**	**2014 GRAM Rates After 2012 RTU Approval**	**Rate Difference IV - I**	**2014 GRAM/2012 RTU Rate Monthly Increase or (Decrease)**	**2014 GRAM/2012 RTU Rate Annual Increase or (Decrease)**
1	**810 Residential**							
2	Customer Charge	$14.25	$16.20	$0.19	$16.39	$2.14	$2.14	$25.68
3	Commodity Charge	$0.30	$0.34		$0.34	$0.04	$1.72	$20.69
4	**Total**						**$3.86**	**$46.37**
5								
6	**820 General Service Commercial and Industrial**							
7	Customer Charge	$22.53	$25.35	$0.53	$25.88	$3.35	$3.35	$40.20
8	Commodity Charge	$0.18	$0.21		$0.21	$0.03	$7.54	$90.53
9	**Total**						**$10.89**	**$130.73**
10								
11	**821 Public Authority**							
12	Customer Charge	$22.53	$25.35	$0.53	$25.88	$3.35	$3.35	$40.20
13	Commodity Charge	$0.18	$0.21		$0.21	$0.03	$51.52	$618.27
14	**Total**						**$54.87**	**$658.47**
15								
16	**822 Res and Comm HVAC**							
17	Customer Charge	$14.25	$16.20	$0.19	$16.39	$2.14	$2.14	$25.68
18	Commodity Charge	$0.11	$0.12		$0.12	$0.01	$5.14	$61.66

		Column-I	Column-II	Column-III	Column-IV	Column-V	Column-VI	Column-VII
19	**Total**						**$7.28**	**$87.34**
20								
21	**830 Large Volume Service**							
22	Customer Charge	$60.26	$46.08	$20.27	$66.35	$6.09	$6.09	$73.08
23	Commodity Charge	$0.16	$0.18		$0.18	$0.02	$362.18	$4,346.20
24	**Total**						**$368.27**	**$4,419.28**
25								
26	**850 Optional Gas Service**							
27	Customer Charge	$271.49	$250.19	$54.37	$304.56	$33.07	$33.07	$396.84
28	1 - 20,000 Ccf	$0.13	$0.15		$0.15	$0.02	$303.74	$3,644.91
29	20,000 - 100,000 Ccf	$0.11	$0.12		$0.12	$0.01	$230.92	$2,771.01
30	Over 100,000 Ccf	$0.09	$0.11		$0.11	$0.02	$21.13	$253.57
31	Demand Volumes	$0.52	$0.60		$0.60	$0.08		
32	**Total**						**$588.86**	**$7,066.34**
33								
34	**860 Transportation**							
35	Customer Charge	$271.49	$250.19	$54.37	$304.56	$33.07	$33.07	$396.84
36	1 - 20,000 Ccf	$0.13	$0.15		$0.15	$0.02	$399.48	$4,793.76
37	20,000 - 100,000 Ccf	$0.11	$0.12		$0.12	$0.01	$480.80	$5,769.57
38	Over 100,000 Ccf	$0.09	$0.11		$0.11	$0.02	$196.51	$2,358.15
39	**Total**						**$1,109.86**	**$13,318.32**
40								

		Column-I	Column-II	Column-III	Column-IV	Column-V	Column-VI	Column-VII
41	**880 Economic Development (Based on 860 Rate)**							
42	Customer Charge	$271.49	$250.19	$54.37	$304.56	$33.07		
43	1 - 20,000 Ccf	$0.13	$0.15		$0.15	$0.02		
44	20,000 - 100,000 Ccf	$0.11	$0.12		$0.12	$0.01		
45	Over 100,000 Ccf	$0.09	$0.11		$0.11	$0.02		
46								
47	**880 Economic Development (Based on 830 Rate)**							
48	Customer Charge	$271.49	$250.19	$54.37	$304.56	$33.07		
49	Year 1	$0.09	$0.11		$0.11	$0.02		
50	Year 2	$0.11	$0.13		$0.13	$0.02		
51	Year 3	$0.12	$0.14		$0.14	$0.02		
52	Year 4	$0.14	$0.16		$0.16	$0.02		
53								

2014 GRAM Revenue Calculation

The 2014 GRAM Rate Effective Period is February 1, 2015 to January 31, 2016. The revenues collected during the 2014 GRAM Rate Effective Period will be used to support the $27,835,039 in target revenues calculated in Colum-A Row-62 of Workpaper 4-4. This dollar amount will be evaluated in Liberty's 2014 RTU filing that will be filed on February 15, 2016.

Findings of Facts and Conclusions of Law

The Commission finds and concludes the Liberty's First Revised 2014 GRAM Filing filed on November 7, 2014, to be accurate and reasonable for a rate increase totaling $3,679,700. The new rates will go into effect on February 1, 2015 as provided in WP 4-4 of the First Revised 2014 GRAM Filing and **Table-2** above in this order for a Rate Effective Period of February 1,

2015 to January 31, 2016 with projected revenues totaling $27,835,039. The $15,000,000 in rate base not included during the 2013 GRAM Filing accrued $1,674,933 in carrying costs that was not included as part of the 2014 GRAM Filing. The $1,674,933 will generate additional carrying costs totaling $187,027 during the 2014 GRAM Rate Effective Period ending January 31, 2016. The total carrying costs that Liberty is authorized to include in the 2015 GRAM Filing is $1,861,959.

* * * * *

WHEREFORE, IT IS ORDERED, that the Commission approves Liberty's First Revised 2014 GRAM Filing and the new rates will go into effect on February 1, 2015 as found in WP 4-4 and **Table-2** above.

ORDERED FURTHER, that the Commission approves Liberty's 2014 GRAM Filing for a rate increase totaling $3,679,700 based on an ROE of 10.50%.

ORDERED FURTHER, that the Commission authorizes Liberty to include carrying costs totaling $1,861,959 as part of the 2015 GRAM Filing.

ORDERED FURTHER, that a motion for reconsideration, rehearing, oral argument, or any other motion shall not stay the effective date of this Order, unless otherwise ordered by the Commission.

ORDERED FURTHER, that jurisdiction over this matter is expressly retained for the purpose of entering such further Order or Orders as this Commission may deem just and proper.

The above by action of the Commission in Special Administrative Session on the 2nd day of December, 2014.

Reece McAlister
Executive Secretary

12-4-14
Date

Chuck Eaton
Chairman

12/4/14
Date

CERTIFICATE OF SERVICE

DOCKET NO. 34734

IN RE: LIBERTY UTILITIES (PEACH STATE NATURAL GAS) ("LIBERTY") 2014 GEORGIA RATE ADJUSTMENT MECHANISM ("GRAM") FILING

I, the undersigned, do herewith certify that I have caused to be served the required copies of the enclosed Order Approving Liberty's 2014 GRAM Filing. All parties are being provided an electronic copy.

Reece McAlister
Assistant Executive Secretary
Georgia Public Service Commission
244 Washington St., S. W.
Atlanta, GA 30334

Mark D. Caudill
Vice President MCR Performance
Solutions, LLC
3290 Commons Gate Bend
Berkley Lake, GA 30092-4946

Chuck Rossi
Director – Finance & Administration
Liberty Utilities
2300 Victory Drive, Columbus, GA 31901

Respectfully submitted, this 8th day of
December, 2014

Janice Sears
Administrative Assistant

COMMISSIONERS:

CHUCK EATON, CHAIRMAN
LAUREN "BUBBA" McDONALD, JR.
TIM G. ECHOLS
H. DOUG EVERETT
STAN WISE

DOCKET# 34734
DOCUMENT# 162338

DEBORAH K. FLANNAGAN
EXECUTIVE DIRECTOR

REECE McALISTER
EXECUTIVE SECRETARY

Georgia Public Service Commission

(404) 656-4501
(800) 383-5813

244 WASHINGTON STREET, S.W.
ATLANTA, GEORGIA 30334-5701

FAX: (404) 656-2341
www.psc.state.ga.us

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FEB 26 2016
EXECUTIVE SECRETARY
G.P.S.C.

DOCKET NO. 34734

IN RE: LIBERTY UTILITIES CORPORATION (PEACH STATE NATURAL GAS) ("LIBERTY") 2015 GEORGIA RATE ADJUSTMENT MECHANISM ("GRAM") FILING

ORDER APPROVING LIBERTY'S THIRD REVISED 2015 GRAM FILING

Background

On December 27, 2011, the Commission approved a Stipulated Agreement between the Staff and Atmos Energy for an alternative form of ratemaking in accordance with O.C.G.A. 46-2-23.1. This regulatory alternative provides Atmos Energy to file annually to have its rates adjusted based on the Company's submission of financial and accounting data. The process is called the Georgia Rate Adjustment Mechanism or GRAM. On February 26, 2013, Liberty purchased the Atmos Energy assets in Georgia and inherited the GRAM process. The purchase was final on April 1, 2013.

2015 GRAM Filing

On October 1, 2015, Liberty filed its 2015 GRAM ("Original 2015 GRAM") asking for a rate increase of $3,385,934 based on an ROE of 8.74%. The 2015 GRAM consisted of 11 schedules and 48 workpapers. The Staff reviewed the materials and issued its Fifth and Sixth Data Requests to gather additional information. After several meetings to resolve issues, Liberty filed its First Revised 2015 GRAM on January 25, 2016. In response to additional issues raised by Staff, Liberty filed a Second Revised GRAM on January 29, 2016. Liberty then filed a Third Revised 2015 GRAM on February 4, 2016. The Third Revised 2015 GRAM called for a revenue requirement of $862,744 on an ROE of 10.50%. Though Liberty has a target ROE of 10.70%, the GRAM stipulation called for an ROE band of 10.5% - 10.90%. Since Liberty was earning below the band, rates were adjusted up to the bottom of the band. Additionally, Liberty had an

unrecovered amount of $1,862,785 from the 2013 and 2014 GRAM periods for a total revenue requirement and rate increase amount of $2,725,530. The projected revenues for the Rate Effective Period, March 1, 2016 – January 31, 2017, was $27,414,914.

Staff's Analysis

The Staff GRAM analysis team reviewed the Original 2015 GRAM fling that included 11 Schedules and over 48 Workpapers. Staff analysists reviewed the schedules and workpapers to ensure the calculations and methodologies were correct. The Staff found numerous issues that were first addressed as part of Staff's Fifth Set of Data requests. First, the Staff had an issue related to Schedule-4 where the historic revenues and projected revenues, using current 2014 rates, were not comparable. Liberty agreed to revised Schedule-4 to show the elimination non-comparable revenue data and show revenue data comparable between the historic and projected time period. Second, the Staff and Liberty were at odds on the methodologies used for the calculation of the inflation escalator factors for the following items.

WP 5-2 Other Post Retirement Benefits ("OPEB")
WP 5-3 Pension Account Plan ("PAP")
WP 5-4 General Inflation Factor
WP 5-5 Medical Inflation Factor

On page 8 of the December 27, 2011, Commission approved GRAM stipulation, it stated the following.

> In the future, Staff and the Company may mutually agree in writing to modifications to the form and/or content of the annual GRAM filings without a subsequent order from the Commission, and such agreed to modifications, if any, will govern future annual GRAM filings thereafter.

On January 19, 2016, the Staff and Liberty met and discussed updated methodologies for calculating the inflation escalators for OPEB, Pension, General Inflation, and Medical Inflation, and an agreement was reached. The updated methodologies can be found in Liberty's Third Revised 2015 GRAM Filing. Going forward and in all future GRAM annual filings, the updated inflation factor methodologies for OPEB, Pension, General Inflation, and Medical will be used.

The Third Revised 2015 GRAM contained the newest version that corrected the issues discussed above. The Third Revised 2015 GRAM provided $92,968,274 in rate base for ratemaking purposes or a decrease of $3,367,580 from the Original 2015 GRAM Filing. The majority of this decrease was related to an increase Accumulated Deferred Income Taxes ("ADIT") that can be found in WP 2-7. The resulting Return on Equity ("ROE") using existing rates was 9.47% or a 0.73% increase from the Original 2015 GRAM Filing. As found in Schedule-11, when the ROE is adjusted upward from 9.74% to 10.50%, bottom of the ROE range, the Operating Income Deficiency was $527,137, or a decrease of $403,507 from the Original 2015 GRAM. When the

$524,137 is expanded to account for income taxes, the income tax amount was $335,608 or a decrease of $256,898 from the Original 2015 GRAM. The Third Revised 2015 GRAM revenue requirement increase was $862,744 or a decrease of $660,404 from the Original 2015 GRAM Filing. Additionally, there were carrying costs that carried over from the 2013-2014 GRAM periods in the amount of $1,862,785. When added to the $862,744, the total Third Revised 2015 GRAM revenue requirement was $2,725,530. This can be found in Column-C Row-30 if Schedule-11. Please see **Table-1** below.

Table-1: 2015 GRAM Filing Schedule-11

Liberty Utilities (Peach State Natural Gas) Corp.
Schedule 11
Calculation of Adjustment
Twelve Months Ending August 31, 2016

Line No.	Description	Amount
1	Calculated Return (Schedule 2)	9.47%
2	Adjustment ROE (band from 10.5% - 10.9%)	10.50%
3	Difference (Line 2 - Line 1)	1.03%
4	Equity portion of rate base (Schedule 2)	$51,132,551
5	Operating Income Deficiency or (Sufficiency) (line 3 * line 4)	$527,137
6	Income Expansion Factor (Schedule 9)	163.67%
7	Revenue Adjustment (line 5 * line 6)	$862,744
8	Carrying Costs on RSM authorized in 2014 GRAM Order	$1,862,785
9	Proposed Revenue Adjustment (line 7 + line 8)	$2,725,530
10	Interest for one month deferral	$0
11	Revenue Adjustment	$2,725,530

Rate Impact

In **Table-2** below table taken from WP 4-5, it provides the Liberty rates based on the Third Revised 2015 GRAM the $2,725,530 increase in revenue requirement. The new rates and the projected revenues can be found in WP 4-2, WP 4-3, WP 4-4, and WP 4-5. The projected revenues over the 2015 GRAM Rate Effective Period, March 1, 2016 – January 31, 2017, have been projected at $27,414,914 as provided in WP 4-4 Column-Z Row-62.

Table-2: 2015 GRAM Rate Impact

		Column-I	Column-II	Column-III	Column-IV	Column-V	Column-VI	Column-VII
Line	Liberty Tariff	2014 GRAM Rates After 2013 RTU Approval	2015 GRAM Rates	2013 RTU Rates	2015 GRAM Rates Plus 2013 RTU Rates II + III	Rate Difference IV - I	2015 GRAM Rates Monthly Increase or (Decrease) in Avg Customer Cost	2015 GRAM Rates Annual Increase or (Decrease) in Avg Customer Cost
1	**810 Residential**							
2	Customer Charge	$17.38	$ 17.99	$1.18	$19.17	$1.79	$1.79	$21.48
3	Commodity Charge	$0.3413	$0.3790		$0.3790	$0.0377	$1.54	$18.44
4	**Total**						**$3.33**	**$39.92**
5								
6	**820 General Service Commercial and Industrial**							
7	Customer Charge	$28.58	$ 28.15	$3.23	$31.38	$2.80	$2.80	$33.60
8	Commodity Charge	$0.2101	$0.2333		$0.2333	$0.0232	$5.84	$70.10
9	**Total**						**$8.64**	**$103.70**
10								
11	**821 Public Authority**							
12	Customer Charge	$28.58	$ 28.15	$3.23	$31.38	$2.80	$2.80	$33.60
13	Commodity Charge	$0.2101	$0.2333		$0.2333	$0.0232	$36.22	$434.62
14	**Total**						**$39.02**	**$468.22**

15								
16	**822 Res and Comm HVAC**							
17	Customer Charge	$17.38	$17.99	$1.18	$19.17	$1.79	$1.79	$21.48
18	Commodity Charge	$0.1225	$0.1360		$0.1360	$0.0135	$2.95	$35.46
19	**Total**						**$4.74**	**$56.94**
20								
21	**830 Large Volume Service**							
22	Customer Charge	$162.66	$51.17	$116.58	$167.75	$5.09	$5.09	$61.08
23	Commodity Charge	$0.1799	$0.1998		$0.1998	$0.0199	$314.55	$3,774.62
24	**Total**						**$319.64**	**$3,835.70**
25								
26	**840 Large Volume Service for Compressed Natural Gas Service Providers**							
27	Customer Charge	na	$ 51.17	$ 116.58	$167.75	na	na	na
28	Commodity Charge	na	$0.1998		$0.1998	na	na	na
29	**Total**						**na**	**na**
30								
31	**850 Optional Gas Service**							
32	Customer Charge	$557.50	$277.81	$307.31	$585.12	$27.62	$27.62	$331.44
33	1 - 20,000 Ccf	$0.1473	$0.1636		$0.1636	$0.0163	$277.18	$3,326.22
34	20,000 - 100,000 Ccf	$0.1239	$0.1376		$0.1376	$0.0137	$445.11	$5,341.31
35	Over 100,000 Ccf	$0.1077	$0.1196		$0.1196	$0.0119	$56.70	$680.35
36	Demand Volumes	$0.6004	$0.6667		$0.6667	$0.0663		

37	**Total**						**$806.61**	**$9,679.32**
38								
39	**860 Transportation**							
40	Customer Charge	$557.50	$277.81	$307.31	$585.12	$27.62	$27.62	$331.44
41	1 - 20,000 Ccf	$0.1473	$0.1636		$0.1636	$0.0163	$325.97	$3,911.64
42	20,000 - 100,000 Ccf	$0.1239	$0.1376		$0.1376	$0.0137	$655.23	$7,862.76
43	Over 100,000 Ccf	$0.1077	$0.1196		$0.1196	$0.0119	$255.22	$3,062.67
44	**Total**						**$1,264.04**	**$15,168.50**
45								
46	**880 Economic Development (Based on 860 Rate)**							
47	Customer Charge	$557.50	$277.81	$307.31	$585.12	$27.62		
48	1 - 20,000 Ccf	$0.1473	$0.1636		$0.1636	$0.0163		
49	20,000 - 100,000 Ccf	$0.1239	$0.1376		$0.1376	$0.0137		
50	Over 100,000 Ccf	$0.1077	$0.1196		$0.1196	$0.0119		
51								
52	**880 Economic Development (Based on 830 Rate)**							
53	Customer Charge	$557.50	$277.81	$307.31	$585.12	$27.62		
54	Year 1	$0.1079	$0.1199		$0.1199	$0.0120		
55	Year 2	$0.1259	$0.1398		$0.1398	$0.0139		
56	Year 3	$0.1439	$0.1598		$0.1598	$0.0159		
57	Year 4	$0.1619	$0.1798		$0.1798	$0.0179		
58								

2015 GRAM Revenue Calculation

The 2015 GRAM Rate Effective Period is March 1, 2016, to January 31, 2017. The revenues collected during the 2015 GRAM Rate Effective Period will be used to support the $27,414,914 in target revenues calculated in Colum-Z Row-62 of Workpaper 4-4 of the Third Revised 2015 GRAM. This dollar amount will be evaluated in Liberty's 2015 Revenue True Up Filing to determine if Liberty achieved its target revenues.

Findings of Facts and Conclusions of Law

The Commission finds and concludes the Liberty's Third Revised 2015 GRAM Filing filed on February 4, 2016, to be accurate and reasonable for a rate increase totaling $2,725,530. The new rates will go into effect on March 1, 2016 as provided in WP 4-4 of the Third Revised 2015 GRAM Filing and **Table-2** above in this order for a Rate Effective Period of March 1, 2016 through January 31, 2017 with projected revenues totaling $27,414,914.

* * * * *

WHEREFORE, IT IS ORDERED, that the Commission approves Liberty's Third Revised 2015 GRAM Filing and the new rates will go into effect on March 1, 2016 as found in WP 4-5 and Table-**2** above.

ORDERED FURTHER, that the Commission approves Liberty's Third Revised 2015 GRAM and calculation of an Operating Income Deficiency totaling $527,137 based on an ROE of 10.50%. When expanded for income taxes, the revenue adjustment increases to $862,744, as provided in Schedule-11 of the Third Revised 2015 GRAM Filing.

ORDERED FURTHER, that the Commission approves carrying costs totaling $1,862,785 from the 2013-2014 GRAM periods to be collected as part of the Third Revised 2015 GRAM Filing.

ORDERED FURTHER, that the Commission approves a total revenue requirement of $2,725,530 provided in the Third Revised 2015 GRAM Filing.

ORDERED FURTHER, that the Commission approves Liberty's projected revenues of $27,414,914, as found in WP 4-4 of the Third Revised 2015 GRAM Filing, recovered over the 2015 GRAM Rate Effective Period and to be reviewed as part of the 2015 GRAM RTU Filing.

ORDERED FURTHER, that a motion for reconsideration, rehearing, oral argument, or any other motion shall not stay the effective date of this Order, unless otherwise ordered by the Commission.

ORDERED FURTHER, that jurisdiction over this matter is expressly retained for the purpose of entering such further Order or Orders as this Commission may deem just and proper.

The above by action of the Commission in Special Administrative Session on the 18th day of February, 2016.

Reece McAlister
Executive Secretary

2-25-16
Date

Chuck Eaton
Chairman

2/26/16
Date

CERTIFICATE OF SERVICE

DOCKET NO. 34734

IN RE: LIBERTY UTILITIES CORPORATION (PEACH STATE NATURAL GAS) ("LIBERTY") 2015 GEORGIA RATE ADJUSTMENT MECHANISM ("GRAM") FILING

I, the undersigned, do herewith certify that I have caused to be served the required copies of the enclosed Order Approving Liberty's Third Revised 2015 GRAM Filing. All parties are being provided an electronic copy.

Reece McAlister
Assistant Executive Secretary
Georgia Public Service Commission
244 Washington St., S. W.
Atlanta, GA 30334

Mark D. Caudill
Vice President MCR Performance
Solutions, LLC
3290 Commons Gate Bend
Berkley Lake, GA 30092-4946

Pete Bouxsein
Manager, Regulatory and Financial
Reporting
Liberty Utilities
2300 Victory Drive
Columbus, GA 31901

Respectfully submitted, this 1st day of
March, 2016

Janice Sears
Administrative Assistant

Decision 15-11-030 November 19, 2015

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Apple Valley Ranchos Water Company (U346W) for Authority to Increase Rates Charged for Water Service by $3,127,463 or 14.88% in 2015, $2,056,455 or 8.48% in 2016, and $2,160,731 or 8.19% in 2017.	Application 14-01-002 (Filed January 2, 2014)

DECISION APPROVING FINAL SETTLEMENT AGREEMENT, RESOLVING DISPUTED ISSUES, AND ADOPTING THE 2015, 2016, AND 2017 REVENUE REQUIREMENTS FOR APPLE VALLEY RANCHOS WATER COMPANY

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DECISION APPROVING FINAL SETTLEMENT AGREEMENT, RESOLVING DISPUTED ISSUES, AND ADOPTING THE 2015, 2016, AND 2017 REVENUE REQUIREMENTS FOR APPLE VALLEY RANCHOS WATER COMPANY

Summary

This decision authorizes revenue requirements for Apple Valley Ranchos Water Company for the years 2015, 2016, and 2017. Table 1 below illustrates the revenue requirements for test year 2015, as adopted. The substantial rate increase is largely due to a reduced sales forecast in order to comply with the Governor's mandatory reduction executive order. Pursuant to the Governor's Executive Order B-29-15 and the Commission's Resolution W-5421, Apple Valley Ranchos Water Company and its ratepayers must reduce water usage by 28 percent as compared to 2013 levels.

Table 1 – Revenue Requirements

	Proposed Revenue Requirement	Adopted Revenue Requirement	Proposed Percentage Increase (Rates)	Adopted Percentage Increase (Rates)
2015	$24,151,000	$ 22,370,000	35.36%	25.27%

Based on the adopted revenue requirements, a residential customer maintaining consumption at 16.45 per hundred cubic feet will see its monthly bill go up from $64.68 to $81.87 each month, which represents a $17.19 difference and a 26.58 percent increase. However, an average residential customer that achieves the conservation goals set by the Governor's Executive Order will see its monthly bill increase by $1.71 and 2.64 percent only.

This decision adopts the Final Settlement Agreement between Apple Valley Ranchos Water Company and the Office of Ratepayer Advocates as filed

on September 14, 2015. This decision also resolves all other disputed matters necessary to adopt the revenue requirement for 2015, 2016, and 2017.

In addition, this decision reviews the Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) revenue decoupling mechanisms pursuant to Decision (D.) 12-04-048. This decision finds that the WRAMs/MCBAs are achieving their stated purpose by severing the relationship between sales and revenue and removing most disincentives for Apple Valley Ranchos Water Company to implement conservation rates and conservation programs, and that overall water consumption by its ratepayers has been reduced.

The decision does not adopt any of the WRAM options set forth in D.12-04-048, because large WRAM balances result from inaccurate sales forecasts and none of the WRAM options address inaccurate/inflated forecasts. We anticipate a low risk of under-collections in the WRAM account during this General Rate Case after requiring a reduced sales forecast to comply with the Governor's Executive Order B-29-15.

This proceeding is closed.

1. Procedural History

On January 2, 2014, Apple Valley Ranchos Water Company (Ranchos) filed a General Rate Case (GRC) Application (A.) 14-01-002 requesting authority to increase its revenue requirement by $3,127,463 or 14.88 percent for 2015, $2,056,455 or 8.48 percent in 2016, and $2,160,731 or 8.19 percent in 2017. Ranchos is a Class A water company subject to the jurisdiction of this Commission and the current requirements of Decision (D.) 07-05-065, which adopted a revised Rate Case Plan for Class A water utilities (Rate Case Plan). The Office of Ratepayer Advocates (ORA) filed its protest to the Application on

February 10, 2014. The Town of Apple Valley (Town) filed a motion for party status on February 19, 2014, which was granted on February 20, 2014.

The assigned Administrative Law Judge (ALJ) conducted a prehearing conference (PHC) on April 1, 2014. On April 17, 2014, the assigned Commissioner issued a Scoping Memorandum and Ruling. On April 30, 2014, public participation hearings were held in Apple Valley.

Evidentiary hearings (EHs) on the litigated issues were held on June 16 and 17, 2014. Ranchos, ORA and the Town filed timely opening and reply briefs.

On August 8, 2014, ORA and Ranchos filed a joint motion requesting approval of a Settlement Agreement.

A Proposed Decision was mailed on April 1, 2015, which decided litigated issues between the parties, adopted the majority of the Settlement Agreement and modified the Mains Replacement Program settlement.

On May 1, 2015, pursuant to the terms of the Settlement Agreement, Ranchos and ORA rejected the Proposed Decision modifying the proposed Mains Replacement Program in their Settlement Agreement.

On May 4, 2015, Ranchos and ORA notified the Commission of an Amended Settlement Agreement. The Amended Settlement Agreement maintained the terms of the Settlement Agreement as to all issues except the Mains Replacement Program. The Amended Mains Replacement Program is a compromise between the original Settlement Agreement and the Commission proposed modification in the Proposed Decision. While not a party to the Amended Settlement Agreement, the Town was represented by counsel and participated in settlement negotiations.

On May 13, 2015, the assigned ALJ held an EH on the Amended Settlement Agreement concerning the Mains Replacement Program. The Amended Settlement Agreement was admitted into the evidentiary record, Ranchos and ORA presented witnesses in support of the Amended Mains Replacement Program, and the Town was given an opportunity to present witnesses and conduct cross examinations. Ranchos and ORA jointly moved for adoption of the Amended Settlement Agreement. The Town opposed the adoption of the Amended Settlement Agreement on the issue of the Mains Replacement Program only.

The Commission issued an interim decision (D.15-05-038) on May 27, 2015, rejecting the Settlement Agreement, adopting interim rates based on the Proposed Decision mailed on April 1, 2015, and reopened the record to address Governor Brown's Executive Order B-29-15 requiring mandatory water conservation measures.[1] In the interim decision, we declined to adopt the Amended Settlement Agreement to allow comments by the Town. We also held all litigated issues to be resolved in today's decision.

On June 19, 2015, the assigned Commissioner issued an Amended Scoping Memorandum requiring supplemental testimony from the parties and additional comments. We directed Ranchos and ORA to update their testimonies related to water consumption and sales forecast to comply with the Governor's Executive Order B-29-15 and the Commission's Resolution W-5041. We further directed parties to submit comments on the Amended Mains Replacement Program.

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[1] The Governor issued Executive Order B-29-15 on April 1, 2015, requiring a statewide 25 percent reduction in water usage as compared to 2013 levels. Pursuant to that Order, we issued Resolution W-5041 specifically directing Ranchos to achieve a 28 percent reduction in its water production from June 1, 2015, to February 15, 2016.

On June 24, 2015, Ranchos submitted its Supplemental Testimony with revised water sales forecast, as well as adjusted testimony on the following subjects to address the flow-through impacts of the changes in the water sales forecast.

- Water Production
- Revenue at Present Rates/Revenue at Proposed Rates
- Purchased Power
- Leased Water Rights
- Replenishment
- Uncollectibles
- Unaccounted for Water
- Franchise Requirements
- Working Cash/Rate Base
- State/Federal Income Taxes

Also on June 24, 2015, the Town filed its comments against adoption of the Amended Settlement Agreement. Ranchos and ORA filed timely reply comments in support of the Amended Settlement Agreement.

On July 3, 2015, ORA submitted its comments on Ranchos' Supplemental Testimony. ORA recommended, and Ranchos agreed to, revision of the sales forecast for private fire sale customers since there is unlikely to be a reduction in usage for that class. Ranchos and ORA agreed to corresponding changes to the forecasts of other customer classes in order to reach the mandated 28 percent reduction. Other than this revision, Ranchos and ORA are in agreement on Ranchos' Supplemental Testimony.

On September 1, 2015, the assigned ALJ issued an e-mail ruling requiring Ranchos and ORA to submit a Final Settlement Agreement and Joint Comparison

Exhibit reflecting changes/updates to both the Mains Replacement Program and the testimonies. Ranchos and ORA submitted their response on September 14, 2015.[2]

2. Standards of Review

2.1. General Standard of Review

Ranchos, as the applicant, bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair.

2.2. The Final Settlement Agreement

The Commission's Rules of Practice and Procedure (Rules) specifically address the standard of review on proposed settlements. Pursuant to Rule 12.1, not all parties to the proceeding need be parties to the settlement,[3] and the proposed settlement must be reasonable in light of the whole record, consistent with the law, and in the public interest.[4]

3. The Final Settlement Agreement

The majority of issues in this proceeding were settled between Ranchos and ORA. This decision adopts the Final Settlement Agreement as filed by Ranchos and ORA on September 14, 2015. The Town, while not a party to the

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[2] The Final Settlement Agreement is attached to this decision as Attachment A. The Joint Comparison Exhibit is attached to this decision as Attachment B.

[3] Rule 12.1(a) states in relevant part: Parties may, by written motion any time after the first PHC and within 30 days after the last day of hearing, propose settlements on the resolution of any material issue of law or fact or on a mutually agreeable outcome to the proceeding. Settlements need not be joined by all parties; however, settlements in applications must be signed by the applicant.

[4] Rule 12.1(d) states: The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

Final Settlement Agreement, was represented by counsel, participated in settlement discussions, and filed comments.

The settled issues we approve in this decision are:

- Water consumption and revenues;
- Operations and maintenance expenses;
- Administrative and general expenses;
- Taxes other than income;
- Income taxes;
- Utility plant in service;
- Depreciation rates, reserve, and depreciation expense;
- Rate base;
- Park Water Company general office;[5]
- Affiliate transactions;
- Rate design;
- Water quality;
- Memorandum and Balancing Accounts (without modification);
- Special requests;
- Continuation of WRAM/MCBA mechanism;
- Low-Income Ratepayer Assistance Program;
- Requests to the Commission; and
- Requests as a result of the Settlement.

The Final Settlement Agreement is mostly identical to the Settlement Agreement and the Amended Settlement Agreement. Substantive changes

[5] Apple Valley Water Company is a wholly owned subsidiary of Park Water Company and is therefore assessed a portion of Park Water Company's general office expenses.

consist of updates to comply with Governor's Executive Order B-29-15 and Commission's Resolution W-5241 and changes to Section 9.6 addressing the Mains Replacement Program. The Mains Replacement Program in the Final Settlement Agreement represents a compromise between the original settlement agreement and the Commission's Proposed Decision mailed on April 1, 2015.

The Town's comments against adoption of the Final Settlement Agreement center around two issues, namely the potential surcharges due to mandatory conservation, and the Mains Replacement Program.

3.1. Water Consumption and Revenues

ORA and Ranchos agreed to Ranchos' number of customers, consumption per customer, unaccounted for water, total water supply, and present rate revenues, as set forth in the table below. Ranchos updated its estimates of consumption per customer, total water supply and revenues to comply with the Governor's mandatory conservation executive order. The reduction in water sales and water production generates a proportional reduction in supply costs, but results in an increase in the tiered rates to achieve Ranchos' authorized revenue requirement.[6]

The Town, in its comments against adoption of the settlement, states that ratepayers would likely see significant surcharges if they are unable to reach the conservation target. While true, this is not a valid reason to reject the Final Settlement Agreement. The intent of conservation rate design is to send timely and effective price signals to the consumer, thereby incentivizing conservation.[7]

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[6] *See* Amended Supplemental Testimony of Apple Valley Ranchos Water Company at 9.

[7] *See* D.08-09-026 and D.12-09-004 authorizing Apple Valley Ranchos Water Company's conservation rate design.

If rates are kept artificially low, it would result in significant over-consumption, under-collections and surcharges being levied at a later date.

Table 2 Water Consumption and Revenues

Test Year 2015	Average Number of Customers	Settlement Agreement Consumption per customer	Final Consumption per Customer (Ccf)	Final Total Water Supply (Ccf)	Final Present Rate Revenues
Residential	18,015	197.42	151.70	2,732,949	$12,543,218
Commercial	1,364	585.02	476.41	649,824	$2,963.627
Industrial	2	641.00	485.84	972	$4,311
Public Authority	45	6,389.00	4.833.88	216,558	$776,019
Irrigation Pressure	166	1,606.23	1,333.24	221,318	$809,275
Private Fire Service	239	7.57	8.5	2032	$306,474
Public Authority Irrigation	5	5,364.92	4,514,97	22,575	$32,025
Irrigation Gravity	1	456,274.90	456,274.90	456,275	$196,700
Apple Valley Golf Course	1	126,540.00	117,077.45	117,077	$107,703
Temporary Construction	11	801.01	801.01	8,811	$65,564
Unaccounted For Water (Domestic)	N/A	N/A	N/A	253,539	N/A
Unaccounted For Water (Irrigation)	N/A	N/A	N/A	1,636,729	N/A
Miscellaneous Revenue	N/A	N/A	N/A	N/A	$46,693
Total Revenue					**$17,851,608**

We therefore find the updated sales forecast and resulting rate changes, as agreed to by Ranchos and ORA, to be reasonable in light of the record, consistent with the law, and in the public interest.

In order to foster ratepayer awareness, Ranchos is directed to explain the impact of Executive Order B-29-15 and Resolution W-5041 on water rates in its notice of rate increases to its ratepayers. Ranchos' notice must be reviewed and approved by the Commission's Public Advisor's Office.

3.2. Operations and Maintenance

In general, Ranchos' expense estimates were based on a five-year average of recorded expenses (2009–2013) escalated to the test year when such an average methodology was appropriate. The parties agreed that the 2013 data used is to include recorded 2013 updates. The parties also agree to use ORA's recommendation of a labor escalation factor of 1.5 percent for 2014, and 1.9 percent for Test Year 2015. The parties agree to use composite escalation factors of 2 percent for 2014, and 2 percent for Test Year 2015, based on the 60/40 weighting of the Non-Labor Index and the Compensation per Hour.

As for purchased power and replenishment assessments, chemical expenses, leased water rights, uncollectibles, and depreciation clearing, ORA and Ranchos agreed on the same methodologies and reached the same estimates after using updated 2013 recorded data and resolving total water supply and utility plant in service estimates. Moreover, ORA and Ranchos agreed to use Ranchos' five-year average methodology with certain exceptions for estimating operations–other, customer-other (excluding conservation), and maintenance–other. Due to reductions in water consumption and water supply pursuant to the Amended Scoping Memorandum, Ranchos' Supplemental

Testimony made corresponding changes to its operation and maintenance expenses that were reviewed and agreed to by ORA.

ORA and Ranchos agree to calculate payroll using ORA's proposed end-of-year 2014 pay rates with an increase of 2.6 percent for 2015. The payroll expenses for the escalation years 2016 and 2017 will be calculated according to the Escalation Year methodology in the Rate Case Plan. The table below summarizes the compromise.

Table 3 Payroll

Test Year 2015	Ranchos	ORA	Settlement/Final Agreement
Payroll Operations	$837,851	$823,965	$834,443
Payroll Customers	$506,633	$498,085	$504,509
Payroll Maintenance	$437,181	$429,856	$435,255
Payroll Clearings	$122,904	$120,856	$122,404
Total O&M Payroll	$1,904,569	$1,872,762	$1,896,611

With the above payroll compromise and updated 2013 recorded data, ORA and Ranchos reached the same estimate for clearings-other and payroll-clearings.

3.3. Administrative and General Expenses

ORA recommended 17 adjustments to Ranchos' initial administrative and general expense estimates. Two of those adjustments were due to the use of updated 2013 recorded data, while nine of the adjustments arose out of resolutions between Ranchos and ORA concerning the escalation factor, five-year average methodology, payroll estimates, and utility plant in service estimates. The table below summarizes the settlement on the recommended adjustments.

Table 4 Administrative and General Expenses

Test Year 2015	Ranchos	ORA	Final Settlement
Administrative & General Payroll	$1,616,364	$1,590,294	$1,609,905
Post-retirement Health and Life Benefit – Ranchos	$41,547	$35,597	$35,597
Medical Insurance - Ranchos	$605,868	$596,220	$605,964
Dental Insurance - Ranchos	$47,796	$46,332	$46,332
401(K) - Ranchos	$79,261	$69,720	$78,921
EAP/Wellness - Ranchos	$22,269	$5,351	$10,702
401(A) – Ranchos	$77,276	$56,632	$76,789
Irrigation Net Benefits Adjustment	$2,063	$2,030	$2,056
Insurance	$662,982	$644,088	$662,407
Uninsured Property Damage	$8,785	$8,717	$8,766
Regulatory Commission Expense	$162,304	$131,341	$159,307
Total Estimate for Outside Services	$261,181	$230,307	$244,353
Total Administrative and General – Other Expenses	$514,452	$451,471	$496,013
Administrative and General Transferred Credit	($637,345)	($184,846)	$357,202
Rents	$17,281	$16,711	$16,809
Depreciation Expense	$3,222,134	$3,001,600	$ 3,158,559

3.4. Taxes

ORA accepts Ranchos' methodology for calculating estimates for Ad Valorem Taxes, Payroll Taxes, Tax Depreciation, Interest Expense Deduction,

and the Qualified Production Activities Deduction. The original variations in estimates between the two parties were due to the use of estimates made prior to resolution.

In regard to ORA's recommendation concerning the American Taxpayer Relief Act of 2012, the parties have resolved this issue by excluding this recommendation because Ranchos does not elect to take the Bonus Depreciation for 2013 and regulatory agencies cannot impute bonus depreciation for ratemaking purposes when a utility has elected not to take it.

We accept income tax expenses as updated by Ranchos' supplemental testimony to reflect the reduction in revenues and expenses due to the projected reduction in its water production.

3.5. Utility Plant in Service

This section of the settlement resolves capital budgets, the construction of a new well, the deferred construction of a storage tank at the Bell Mountain tank site, the Mains Replacement Program, replacement vehicles, implementation of Power Plan software, and Customer Information System related projects.

For the General Office, Ranchos agreed to withdraw its request for the creation of an auto-import tool for new customers. As a result of the settlement, Ranchos withdrew its request to construct a new office building and will instead file a separate application for the new building at a different time. Similarly, Ranchos withdrew its request for the General Office Remodel from this proceeding and instead will request it in the Park Central Basin Test Year 2016 GRC application.

3.5.1. Mains Replacement Program

A major difference between the Settlement Agreement and the Final Settlement Agreement is Section 9.6 addressing the Mains Replacement Program

as shown in Table 5 below. Ranchos and ORA reached an alternative settlement on Ranchos' Main Replacement Program after jointly rejecting the Commission's modification. The final settlement is a compromise between their original settlement and the Commission's proposed modification.

Table 5: Mains Replacement Program

Year	AVR Original	ORA Original	Settlement Agreement	Proposed Decision	Final Settlement Agreement
2014	$4,985,153	$1,689,314	$4,985,153	$3,057,846	$3,637,258
2015	$5,791,591	$1,729,013	$5,291,591	$3,129,705	$4,095,036
2016	$6,007,083	$1,769,645	$5,507,083	$3,203,253	$4,610,396

In its comments, the Town alleges that the Amended Mains Replacement program is against the public interest because: (1) the settled estimate for the mains replacement exceeds Ranchos' historical level of spending; and (2) Ranchos has over-invested in mains replacement.

We find that Ranchos and ORA have provided sufficient evidence in the record to support the adoption of the Amended Mains Replacement Program. Mains replacements are needed to minimize liability, property damage, water loss and to maintain reliable service. When mains are replaced, they are often upsized to comply with local fire district ordinances. In the current GRC, Ranchos seeks to replace existing mains, improve fire flow capacity, fire hydrant spacing, water quality and accommodate work by others such as road construction.[8] Ranchos has approximately 465 miles of mains in its system and

[8] Settlement Agreement attached as Attachment A at 52.

has reduced its leak rates from around 750 leaks in 2007 to 511 leaks in 2012.[9] To reach the industry leak rate goal of 0.15 leaks per mile, per year as recommended by the American Water Works Association, Ranchos needs to reduce its leak rate to 69.75 leaks each year.

At the May 13, 2015 EH on the Mains Replacement Program, Mr. Rick Dalton from Ranchos testified that over the last 15 years, Ranchos replaced an average of 4.8 miles of mains each year. Although more costly than the historical average, the Mains Replacement Program contemplates a reduced main replacement rate of approximately 3.45 miles for 2014 and a slight increase for each succeeding year.[10] The increase in costs is due to the need to replace larger transmission pipes now versus smaller distribution pipes in the past. While the larger transmission pipes account for a lower number of leaks in the system, leaks/bursts in larger pipes results in substantially larger water loss from the system. This replacement rate is less than recommended by Ranchos' Asset Management Report.[11] The Mains Replacement Program represents a reasonable compromise of the parties' positions and balances the competing interests of infrastructure maintenance, upgrade, and providing quality water service to Apple Valley residents at affordable rates.

The Mains Replacement Program is also consistent with the law and in the public interest. The Commission has long recognized the importance of a properly maintained infrastructure to a water utility's ability to meet its mandate to deliver "clean, safe and reliable water to their customers at reasonable rates."

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[9] Exhibit A-1 at 63.

[10] *See* May 13, 2015 Transcript of EH in A.14-01-002.

[11] *See* Exhibit A-21 at 7.

In its 2010 Water Action Plan, we noted that Water infrastructure in California continues to need significant improvement. The CPUC will encourage financial incentives and direction for investment in infrastructure needed to improve water quality.

As such, we find the Mains Replacement Program, as contained in the Final Settlement Agreement to be reasonable in light of the record, consistent with the law, and in the public interest.

3.5.2. Depreciation Rates, Reserve, and Depreciation Expense

Ranchos and ORA's methodology for calculating depreciation reserve and expenses did not differ. Moreover, ORA accepted Ranchos' method for estimating depreciation rates.

3.6. Rate Base

Ranchos and ORA did not have methodological differences for calculating deferred income tax estimates. The actual differences in estimates were resolved once Ranchos corrected errors in its Application and the parties reached a resolution for utility plant estimates. ORA agreed to Ranchos' estimates for materials and supplies using the stipulated number of customers.

ORA and Ranchos had conflicting methodologies for deriving working cash estimates but settled on using a specific revenue lag, including in Operational Cash the unamortized portion of agreed upon rate case costs and studies included in the settlement and the stipulated and adopted expenses and utility plant in service estimates. The Amended Settlement Agreement is updated by the Supplemental Testimony to reflect changes in the sales forecast and associated reductions to the rate base.

3.7. Park Water Company General Office

This section of the settlement resolves estimates concerning Park Water Company General Office, which include payroll, maintenance, insurance, bank fees, outside services, board of directors' fees, taxes, and depreciation, among others. The resolution of each issue was achieved by one party accepting the position of another or by a compromise between the two positions.

3.8. Affiliate Transactions, Rate Design, and Water Quality

ORA does not contest Ranchos' methodology for estimating affiliate transactions and residential and non-residential rate design. ORA also found Ranchos to be in compliance with the State Water Resources Control Board's water quality regulations, federal drinking standards, and the Commission's General Order 103-A.

3.9. Memorandum and Balancing Accounts

ORA and Ranchos agree that Ranchos will continue using its accrual method accounting practice. The parties also agreed to the terms of recovery for seven of Ranchos' memorandum accounts and that five of the memorandum accounts will be closed. Ranchos also agreed to withdraw its request for a Hexavalent Chromium 6 Memorandum Account because the State Water Resources Control Board's regulation for Chromium 6 does not impact Ranchos' groundwater sources.

3.10. Special Requests

Ranchos requested two additional tariff charges for fire flow testing and restoration of service. ORA did not oppose Ranchos' fire flow testing tariff charge but did oppose restoration of service during after-hours and voluntary disconnection for non-emergency, voluntary disconnection after-hours

(non-regular hours). However, after settlement negotiations, the parties agreed that both tariff changes should be adopted and that the costs should be charged to those causing the expense, rather than distributed to all customers.

Ranchos proposed to increase the Supply Facilities Fee and Supplemental Water Acquisition Fee in Section C of its Rule No. 15, Main Extensions. The Supply Facilities Fee would increase from $900 to $1,000 for a 5/8-inch meter, with increases to large meter sizes based on the Commission's service charge ratios. Ranchos also proposed to increase the Supplemental Water Acquisition Fee from $5,000 to $7,000 per lot. After discussion during settlement negotiations, the parties agreed to updated fees that are reduced from Ranchos' original proposal.

3.11. WRAM/MCBA (without modification)

Ranchos proposed to continue its existing WRAM/MCBA with modifications. These modifications include adding the gravity irrigation system to the WRAM/MCBA mechanism and adding the costs of chemicals to the MCBA. ORA opposed Ranchos' requested modifications to the WRAM/MCBA. Although the parties disagree on Ranchos' proposed modifications to the WRAM/MCBA, they agree that the WRAM/MCBA mechanism is generally achieving its stated purpose of promoting conservation and that the Commission should authorize the continuance of the WRAM/MCBA. They also recommend that the Commission not adopt any of the five options as outlined in D.12-04-048. We resolve the disputed modifications in Section 4.7 of this decision and discuss our review of the WRAM/MCBA mechanism in Section 5 of this decision.

3.12. Low-Income Ratepayer Assistance Program

ORA does not oppose Ranchos' request to continue its existing low-income discount program known as California Alternate Rates for Water (CARW).

Ranchos proposes to continue its program by: (1) increasing the current monthly service charge discount of $6.69 by the average percent increase to rates authorized in this proceeding; (2) the continuation of a surcharge to offset the CARW discounts provided to qualifying customers; and, (3) recovering the under-collection recorded in the CARW Balancing Account as of December 31, 2013, in the amount of $425,758 through a 12-month temporary surcharge.

3.13. Discussion

Rule 12.1 requires that we evaluate each proposed settlement to determine whether it is reasonable in light of the whole record, consistent with the law, and in the public interest. The Final Settlement Agreement describes the settling parties' initial and settled positions, the settlement on each issue, and provides references to the evidentiary record addressing the particular issue. In addition, Ranchos and ORA also submitted a Final Joint Comparison Exhibit showing each party's starting positions and the final settlement.

3.13.1. The Final Settlement Agreement is Reasonable in Light of the Record

Ranchos, ORA and the Town began this proceeding with both similar and disparate positions and conclusions about the various issues involved in this GRC. Each party represented their respective interests in reviewing the testimony, reports, Minimum Data Requirements and data request responses and have been involved in discussions of the issues presented in the Application and are knowledgeable and experienced regarding these issues. The Parties conducted arm's length settlement negotiations throughout the proceeding. The Final Settlement Agreement balances the various interests affected in this proceeding and reflects appropriate compromises of the Parties' litigation positions, and is reasonable.

As discussed above, the Town filed comments against the settlement on only two issues: (1) Mains Replacement Program; and (2) potential surcharges against Ranchos ratepayers due to Resolution W-5041. Although the Town did not sponsor the proposed settlement, it was represented by counsel and participated in the negotiation process. Pursuant to Rule 12.1, not all parties to the proceeding need be parties to the settlement so long as the proposed settlement meets the Commission's criteria for settlement review. We find the Town's objections to have been sufficiently addressed by Ranchos and ORA in the record. We find the amended Mains Replacement Program to be a reasonable compromise between party positions and the Commission's proposed modification. Furthermore, the conservation rate structure resulting from the updated sales forecasts reflect the true cost of providing safe and reliable water service and serve to incentivize conservation as intended.

3.13.2. The Final Settlement Agreement is Consistent with the Law and Prior Commission Decisions

We are not aware of any statutory provisions or prior Commission decisions that would be contravened or compromised by the Amended Settlement Agreement. The issues resolved in the Final Settlement Agreement are within the scope of the proceeding, and will result in reasonable rates for Ranchos' customers reflecting the true cost of providing water service, thereby reducing the potential for future surcharges. As such, we find the proposed settlement to be consistent with the law.

3.13.3. The Final Settlement Agreement is in the Public Interest

The Final Settlement Agreement results in reasonable rates to Ranchos' customers while providing Ranchos adequate funding for the safe and reliable provision of water service to its customers.

The Commission has issued numerous decisions which endorsed settlements as an "appropriate method of alternative ratemaking" and express a strong public policy favoring settlement of disputes if they are fair and reasonable in light of the whole record.[12] Adoptions of reasonable settlements reduce the expense of litigation and conserve Commission resources, and allow parties to reduce the risk that litigation will produce unacceptable results.

In addition to conserving Commission resources and reducing litigation expense, the Commission has also reviewed other factors in assessing whether a settlement is in the public interest. We have looked at the extent to which discovery has been completed, the stage of the proceeding, whether the Parties had undertaken a thorough review of the issues, the experience of counsel, a governmental participant, the overall strength of applicant's case, and the relative risks and complexities of the litigation.[13] In the present case, prepared testimony has been served, extensive discovery has been completed, two rounds of EHs have been held and the parties have negotiated and re-negotiated their positions based on the Commission's proposed modification to their original settlement positions. The recommended revenue requirement is reasonable in light of the record and current drought conditions.

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[12] *See* D.88-12-083 at 221-223 and D.91-05-029 at 326.

[13] *See* D.00-09-037 citing Officers for Justice v. Civil Service Commission of the City and County of San Francisco (9th Cir. 1982) 688 F.2d 615, 625.

3.13.4. Conclusion

Based upon the record of this proceeding, we find the parties complied with Rule 12.1(a) by making the appropriate filings and noticing settlement conferences. Based upon our review of the settlement documents, we find that the settlement contains a statement of the factual and legal considerations adequate to advise the Commission of the scope of the settlement and of the grounds for its adoption; that the settlement was limited to the issues in this proceeding; and that the settlement included comparisons indicating the impact of the settlement in relation to the utility's application and issues the other parties contested in their prepared testimony, or would have contested in a hearing. We conclude, pursuant to Rule 12.1(d) that the settlement is reasonable in light of the whole record, consistent with the law and in the public interest.

4. Disputed Issues Resolved by this Decision

This decision also resolves the disputed issues between ORA and Ranchos not contained in the settlement agreement. The disputed items are:

- Conservation estimate;
- Conservation balancing account;
- Solar project memorandum account;
- Office remodel balancing account;
- Use of estimates in balancing accounts;
- Level payment plan;
- Sales reconciliation mechanism;
- Inclusion of gravity irrigation system in the WRAM/MCBA; and,
- The inclusion of chemicals in the MCBA.

Three issues between the Town, who is not a party to the Settlement Agreement, and Ranchos remain unsettled as well. They relate to 1) WRAM/MCBA Implementation Review; 2) Rate Design; and 3) Water Rate Comparison.

4.1. Conservation Estimates

This decision authorizes an aggregate conservation budget of $344,066 for the three-year GRC cycle. Ranchos will continue tracking its conservation expenses in a one-way balancing account subject to refund at the end of the GRC cycle. To ensure consistent spending while allowing flexibility, we allow Ranchos an annual 20 percent variance from its estimated conservation expenses of $112,425 for 2015, $114,674 for 2016 and $116,967 for 2017. Finally, spending on conservation-related public information and outreach shall continue to be subject to a $30,000 annual cap.

Ranchos requests removal of the one-way balancing account and an aggregate conservation budget of $350,902 for the three-year GRC cycle (2015-2017) based on its 2011 Water Use Efficiency Business Plan. ORA recommends the continuation of the one-way balancing account and a conservation budget of $67,817 for 2015, $69,445 for 2016, and $71,042 for 2017. ORA points to Ranchos' underspending its conservation budget in 2012 and 2013 as justification for reducing the conservation program budget.

While the Commission authorized an aggregate conservation cap for the 2012-2014 rate case cycle,[14] the cap was based on estimated annual spending in the areas of public information, high efficiency nozzle distribution, high

[14] Settlement Agreement attached as Attachment A to D.12-09-004 at 14.

efficiency toilet install, and the cash for grass turf removal program. The aggregate cap was intended to allow variances in annual spending, rather than an underspending of approximately 40 percent of the authorized amount.[15]

California's drought conditions warrant continuation, rather than reduction of conservation programs. The Commission adopts Ranchos recommendation of $ 344,066 for the three-year GRC cycle as long as Ranchos consistently spends the allotted amount over the three years. To promote efficient and consistent spending, we allow Ranchos an annual 20 percent variance from its estimated conservation expenses of $ 112,425 for 2015, $ 114,674 for 2016 and $ 116,967 for 2017. The 20 percent variance should be subject to carry over throughout the rate case cycle, consistent with accounting practices for balancing accounts. By granting $ 344,066 to be used consistently over three years, Ranchos is afforded flexibility in its conservation programs so that it can better handle increased customer participation and meet its conservation goals. If Ranchos fails to spend its conservation budget as directed by the Commission, the unspent funds must be refunded to ratepayers and any overspending must be absorbed by Ranchos shareholders.

We adopt ORA's recommendation to cap conservation-related public outreach at $30,000 annually, and decline Ranchos' request to remove the one-way balancing account subject to refund. Any unspent funds must be refunded to ratepayers via surcredits at the end of this GRC cycle. In consideration of Ranchos' conservation budget, requiring Ranchos to use a one-way balancing account enables the Commission to ensure that Ranchos

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[15] Ranchos spent $129,423 of its estimated $210,905 conservation budget in 2012 and 2013 and plans to spend all of its $81,452 underspent in 2014. *See* Exhibit O-1 at 3-7.

properly balances conservation program investments over the course of the rate case period.

4.2. Solar Project Memorandum Account

The Commission authorizes Ranchos to establish a memorandum account to track the costs associated with investigating the viability of installing an Alternating Current (AC) solar photovoltaic generation system at its office site. Any cost recovery of this memorandum account will be subject to a reasonableness review during Ranchos' next GRC.

Ranchos requests authorization to establish a memorandum account to track the costs, expenses, and capital costs associated with exploring the viability of installing an AC solar photovoltaic generation system on the grounds of its office site.

ORA opposes the authorization of a memorandum account because the details of Ranchos' program remains undefined, Ranchos has not conducted a cost-effectiveness analysis, the costs of such a project may result in significant rate increases to ratepayers, and Ranchos has not met the requirements of establishing a memorandum account under Standard Practice U-27-W.

While ORA's concerns have merit, the purpose of a memorandum account is to allow the company to enter into an action where it bears the full risk of future rate recovery based upon a later reasonableness review. Here, the account would be structured such that Ranchos bears the full risk of recovery because cost recovery is subject to a reasonableness review. Furthermore, Ranchos is only authorized to investigate the viability of solar installation, rather than actual construction. Therefore, the Commission preserves the ability to deny Ranchos recovery of costs when less expensive sources of power are available.

Moreover, the purpose of the account, to explore the viability of solar photovoltaic generation system at Ranchos' site, is consistent with Commission policy of encouraging the use of renewable energy to reduce power costs. Therefore, the Commission grants Ranchos the authority to establish a memorandum account to track the costs and expenses associated with investigating the viability of installing a solar photovoltaic generation system for its office site. To be clear, any actual installation and construction is not authorized by the memorandum account and will be subject to Commission review in another proceeding. Ranchos must file a Tier 2 Advice Letter incorporating the memorandum account into the preliminary statements in its tariff.

4.3. Office Remodel Balancing Account

The Commission denies Ranchos' request to recover at this time the costs tracked in its Office Remodel Balancing Account. D.12-09-004 authorized Ranchos to create a balancing account to track the revenue requirement associated with the office building modification that could be recovered "once the construction was completed," subject to a reasonableness review.[16] Therefore, because Ranchos' office reconfiguration has yet to be completed, Ranchos may not seek recovery of the costs tracked in the Office Remodel Balancing Account. Ranchos will be able to seek recovery of the balancing account when construction/remodel is completed for its office project.

[16] D.12-09-004 at 18.

4.4. Use of Estimates in Ranchos' WRAM/MCBA

The Commission denies ORA's recommendation that Ranchos be required to stop using the accrual method of accounting for recording costs in its WRAM/MCBA. Ranchos may rely on the accrual method of accounting and use estimates in its WRAM/MCBA calculations.

ORA asserts that neither D.08-09-026, which adopted Ranchos' WRAM/MCBA, nor D.08-02-036, which authorized Park Water Company's WRAM/MCBA and which is what Ranchos' WRAM/MCBA is modeled after, authorize the use of estimated costs instead of actual costs.[17] ORA argues that both decisions require the utility to track the difference between actual variable costs and adopted costs. ORA asserts that the appropriate time for Ranchos to file for recovery is after the accrued/estimated costs become actual costs and that by waiting to request recovery, ratepayers bear less risk of over-collection.[18] ORA also suggests that Ranchos' recording method is burdensome to the Commission and points to the California State Auditor's Report, which concluded that the Commission lacks adequate processes to provide sufficient oversight of utility balancing accounts to protect ratepayers from unfair rate increases.[19]

Ranchos relies on the accrual method because of the timing of the retroactive calculation methodology used by the Mojave Water Agency to

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[17] Reply Brief of the Office of Ratepayer Advocates (ORA Reply Brief), filed August 4, 2014 at 17.

[18] ORA Reply Brief at 18-19.

[19] ORA Reply Brief at 20.

administer leased water rights and the timing of the Mojave Basin water year.[20] Since the actual costs are not available when Ranchos is required to file for its WRAM/MCBA recovery, Ranchos necessarily estimates costs incurred. Also, Ranchos must use accrual accounting to comply with Generally Accepted Accounting Principles (GAAP) and with the Commission's Uniform System of Accounts for Water Companies (Class A). Furthermore, through the true-up process, Ranchos places the true-up adjustments in the time period for which they actually occurred, and calculates the interest in the balancing account on that basis.[21] Thus, ratepayers receive interest on any under- or over-estimating of the accruals that may occur.

4.5. Level Payment Plan

The Commission grants Ranchos and the Town's request for a Level Payment Plan that will give customers the option of paying for water service in equal bi-monthly payments based on their last 12 months average bill. At the end of the 12-month period, customers who elect the Level Payment Option will receive a settlement bill with a payment due or a credit balance. The Level Payment Plan is authorized as a pilot program subject to review during Ranchos' next GRC.

ORA asserts that Ranchos failed to provide costs associated with and mechanics of the plan and therefore failed to meet its burden to prove that costs are reasonable.[22] ORA assumes that low income customers have no significant

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[20] Opening Brief of Apple Valley Ranchos Water Company (Ranchos Opening Brief), filed July 21, 2014 at 17.

[21] Ranchos Opening Brief at 24.

[22] ORA Reply Brief at 21.

outdoor water use, therefore baseline water use should not differ dramatically in the winter versus the summer months. Also, ORA claims that the level payment plan potentially obscures the price signal sent by conservation rate design.[23]

The Town recommends the adoption of the plan because it provides customers with budgetary assistance and avoids rate shock associated with fluctuating water bills.[24]

Ranchos is not seeking any costs to implement the plan, and it points to significant fluctuations in seasonal demand in support of giving its customers the level payment option.[25] The Commission grants Ranchos' Level Payment Plan with the caveat that it will be subject to review during Ranchos' next GRC. The purpose of the plan is to assist households in budget planning and was requested by Ranchos' customers. By providing this option, Ranchos is being responsive to customers. Moreover, Ranchos is not requesting to recover costs or to track costs associated with the pilot program.[26] ORA's concerns regarding unforeseen amounts due to the end of year true-up can be minimized by the inclusion of actual usage information on each bill.[27] Also, the potential for obscuring conservation rate design price signals can be minimized via actual customer usage and cost information on ratepayers' bills. However, because of the valid concerns ORA raises, the Level Payment Plan must be implemented as a trial

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[23] ORA Reply Brief at 21.

[24] Reply Brief of the Town of Apple Valley (Town Reply Brief), filed on August 4, 2014 at 1.

[25] Reply Brief of Apple Valley Ranchos Water Company (Ranchos Reply Brief), filed August 4, 2014 at 19.

[26] Ranchos Reply Brief at 19.

[27] Ranchos Reply Brief at 21.

program only, subject to review. We also limit enrollment to customers who have had a minimum of 12 months usage history with Ranchos to ensure adequate usage history.

4.6. Sales Reconciliation Mechanism

The Commission denies Ranchos' request to implement a Sales Reconciliation Mechanism (SRM). Ranchos seeks to implement an SRM to decrease the high WRAM surcharges that result from the significant differences between adopted and actual sales forecasts that derive from over-estimated consumption.[28] Ranchos proposes that the SRM will adjust the adopted sales forecast in the two escalation years following the test year if total sales for the prior year are more than 5 percent above or below the adopted test year sales.[29] The SRM would provide an adjustment of 50 percent of the difference.[30]

While the proposed SRM would act to reduce the WRAM surcharges associated with a GRC, we agree with ORA and the Town that review and consideration of the proposed changes to the WRAM should occur in an industry-wide proceeding rather than adopted for a single utility.[31]

Furthermore, with an overall reduction of 28 percent in Ranchos' sales forecast/production as compared to 2013 figures, we find it unlikely that consumption would be overestimated in this GRC, or result in high WRAM surcharges.

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[28] Ranchos Opening Brief at 29.

[29] Ranchos Opening Brief at 29.

[30] Ranchos Opening Brief at 29.

[31] ORA Reply Brief at 22; Town Reply Brief at 2.

4.7. Modifications to the WRAM/MCBA Mechanism

Ranchos and ORA disagree on Ranchos' proposed modification to its existing WRAM/MCBA mechanisms, we resolve the disputed modifications to the WRAM/MCBA here.

4.7.1. The Gravity Irrigation System

Ranchos requests that the Commission add the gravity irrigation system to the WRAM/MCBA mechanism and eliminate the current Incremental Cost Balancing Account (ICBA).

ORA recommends denial of the request. According to ORA, commodity revenues and production costs for gravity irrigation should not be tracked in the WRAM/MCBA[32] because (1) to do so will not further the State's water conservation goals and (2) fluctuations in price are already tracked in the ICBA.[33] Due to the nature of the system (gravity and non-pressurized), Ranchos does not control the amount of water pumped into, and used by the single customer.

We agree with ORA's recommendation and deny Rancho's request to add the gravity irrigation system to the WRAM/MCBA mechanism. The WRAM/MCBA was created to remove the financial disincentive for utilities to promote conservation. The gravity irrigation system serves one customer, with a water supply contract which grants the right to pump and take from wells at no cost.[34] Granting WRAM/MCBA treatment to the system will not promote conservation, and production costs related to the irrigation system are already

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[32] Opening Brief of the Office of Ratepayer Advocates (ORA Opening Brief), filed July 21, 2014, at 21.

[33] ORA Reply Brief at 23.

[34] Apple Valley Ranchos Water Company Application, Exhibit B at 42-43.

being tracked in the ICBA. We see no reason to change the existing system and direct Ranchos to continue the ICBA.

4.7.2. Chemical Costs

We grant Ranchos' requests to add water treatment chemicals to the MCBA. We find water treatment chemicals to be part of the production costs intended to be captured by the MCBA and see no reason they should be excluded.

4.8. Rate Design

We reject the Town's proposal for a single quantity rate for commercial and residential customers.[35] Ranchos' rate design program includes increasing block rates designed to promote water conservation. Tiered rates for residential customers have been thoroughly studied in many Commission proceedings and adopted as part of the Commission's Water Action Plan.[36] While we are sympathetic to increasing water costs for Ranchos customers, we do not see single quantity rates as a viable option that would comply with the Commission's Water Action Plan. The Town's proposal is not adopted.

4.9. Water Rate Comparison

The Town presented a water rate comparison comparing Ranchos' rates to surrounding utilities and states that the cost of service for those utilities are significantly lower.[37] It recommends that the Commission authorize a study and

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[35] Exhibit T-2 (Rubin Direct) at 15-16.

[36] Water Action Plan (2005 and 2010 update); Conservation OII (Investigation 07-01-022, Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objections for Class A Water Utilities).

[37] Exhibit T-1 (Cron Direct) at 5.

report on measures Ranchos can implement … to become more efficient."[38] The study presented by the Town compared Ranchos' rates to public agencies which does not include all sources of revenue used by public agencies and municipal owned water systems to fund their water operations.[39]

The Town has presented insufficient evidence that Ranchos is operating inefficiently, and we deny its recommendation for a new study, which would have to be paid by Ranchos customers.

5. Review of Ranchos' Conservation Rate Pilot Program and the WRAM/MCBA Mechanisms

D.08-09-026 and D.12-09-004 authorized Ranchos' conservation rate pilot programs and the WRAM/MCBA decoupling mechanism. The WRAM tracks the difference between adopted and actual quantity revenue and is intended to remove the financial disincentive to promote conservation. The MCBA account captures the difference in production costs due to changes in unit price or in consumption.

Pursuant to the Scoping Memorandum, Ranchos and ORA submitted testimony to determine: (1) whether the WRAMs/MCBAs are achieving their stated purpose (i.e., whether Ranchos and its ratepayers are proportionally affected under conservation rates), and if not, what changes are needed to ensure the WRAMs/MCBAs achieve their stated purpose; (2) whether the WRAMs/MCBAs have removed disincentives for Ranchos to implement conservation rates and conservation programs; (3) whether cost savings resulting

[38] Opening Brief of the Town of Apple Valley, filed on July 21, 2014 at 18.

[39] Exhibit A-9 (Penna Rebuttal) at 13-14.

from conservation are passed on to ratepayers; and (4) whether overall water consumption by Ranchos ratepayers has been reduced.[40]

We find the WRAM/MCBA to be serving its intended purpose by removing financial disincentives for Ranchos to implement conservation rates and programs.[41] Ranchos adopted a three tier-block conservation rate design in 2009, and has implemented other conservation programs and customer conservation outreach since that time.[42]

Cost savings from conservation are being passed to ratepayers because savings associated with over-collections in items such as purchased water, purchase power, and taxes are being returned to ratepayers and increases in total costs in these items are also being passed through to the ratepayers.[43]

Finally, Ranchos customers have reduced overall water consumption since the implementation of conservation pricing and programs.[44] While it is likely that these programs have contributed to the reduction in consumption, it is unclear whether other factors such as the economy, the current drought, and weather have contributed to the downward trend in consumption.

On April 19, 2012, the Commission adopted D.12-04-048, addressing the schedule and process for Class A water companies with WRAM and MCBAs, to

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[40] *See* Scoping Memorandum at 3-4.

[41] Historically, the Commission has authorized but not guaranteed the revenues to be collected by rate-regulated utilities. However, the WRAM/MCBA mechanism effectively guarantees Ranchos' revenue requirement because Ranchos' may collect via WRAM surcharges the difference between its actual and authorized revenues.

[42] *See* Exhibit O-1 at 19-7.

[43] *See Ibid* at 19-8.

[44] *See* Exhibit A-5 at 3.

recover from or refund to customers the annual net balance in their WRAMs and MCBAs. Pursuant to D.12-04-048, Ranchos and ORA submitted testimony in this GRC on the following five WRAM alternatives.[45]

Option 1: Should the Commission adopt a Monterey-style WRAM rather than the existing full WRAM?[46]

Option 2: Should the Commission adopt a mechanism that bands the level of recovery, or refund, of account balances based on the relative size of the account balance.[47]

Option 3: Should the Commission place WRAM/MCBA surcharges only on higher tiered volumes of usage, thereby benefiting customers who have usage only in Tier 1 or have reduced their usage in the higher tier levels?

Option 4: Should the Commission eliminate the WRAM mechanism?

Option 5: Should the Commission move all customer classes to increasing block rate design and extend the WRAM/MCBA mechanisms to these classes?

D.12-04-048 set forth the five Options as possible ways to address large WRAM balances. From 2009-2012, Ranchos has filed advice letters each year

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[45] *See* Exhibit A-5 David Morse's testimony on WRAM/MCBA and Exhibit O-1, ORA's Report on the Results of Operations at Chapter 19.

[46] The Monterey-style WRAM is not a revenue decoupling mechanism as such, it is rather a revenue adjustment mechanism that allows the utility to true-up the revenue it actually recovers under its conservation rate design with the revenue it would have collected if it had an equivalent uniform rate design at actual sales levels.

[47] For example, an annual WRAM/MCBA under-collection/over-collection less than 5 percent of the last authorized revenue requirement would be amortized to provide 100 percent recovery/refund, balances between 5-10 percent would be amortized to provide only 90 percent recovery/refund, and balances over 10 percent would be amortized to provide only 80 percent recovery/refund.

seeking recovery of substantial WRAM under-collections ranging from 14 percent to 37 percent of the forecasted revenues.[48] Ranchos believes this to be the result of grossly inflated forecasting,[49] while ORA believes the cause to be unclear and possibly related to weather, economy, the drought and community participation.[50] Since none of the five options outlined above address inaccurate sales forecasts (i.e., large differences between actual and forecasted consumption), regardless of the underlying cause, this decision will not adopt any of them at this time.

Options 1, 2, or 4 should not be adopted because they would tie sales to revenues, and, as a result, could discourage Ranchos from continuing its conservation rates and programs.

Option 3 should not be adopted because it would result in even larger surcharges being borne by customers that exceed Tier 1 usage.

Option 5 should not be adopted because non-residential customers of Ranchos do not have discernable consumption patterns that can be used to design increasing block rates. Ranchos' residential sales represent about 71 percent of commodity sales and are already under the three-tiered block rate design. The non-residential class consists of business (15.8 percent), industrial (0.02 percent), public authority (5.3 percent), private fire (0.03 percent), temporary construction (0.3 percent) and other irrigation classes.[51] The

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[48] *See* Exhibit A-5 at 4.

[49] *See Ibid*.

[50] *See* Exhibit O-1 at 19-6.

[51] *See* Exhibit A-5 at 16.

non-residential class has a dispersed pattern of usage and an equitable increasing block rate design would be nearly impossible.

We note here Ranchos has been directed to reduce its sales forecast to 75 percent of 2013 consumption to comply with the Governor's Executive Order B-29-15. With such reduction in the forecasted consumption, we do not anticipate further under-collections in the WRAM accounts during this GRC cycle.

6. Comments on Proposed Decision

The proposed decision of ALJ Tsen in this matter was mailed to the parties in accordance with Pub. Util. Code § 311 and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. On November 5, 2015, comments were filed by Ranchos, ORA and Town. Reply comments were filed by Ranchos on November 10, 2015.

Ranchos argues that a sales reconciliation mechanism should be adopted. Ranchos identified errors in certain numbers used in the decision, and recommended that several attachments be included the decision. ORA comments that amounts already recorded in the Office Remodel Balancing Account should be removed and the account should be closed. ORA also identified errors in certain numbers used in the decision. Town commented that the Mains Replacement Program should be rejected.

The comments have been considered and appropriate changes have been made.

7. Assignment of Proceeding

Carla J. Peterman is the assigned Commissioner and ALJ S. Pat Tsen is the Presiding ALJ in this proceeding.

Findings of Fact

1. Ranchos is a Class A Water Company subject to the Commission's jurisdiction.

2. There is an adequate record composed of all filed and served documents.

3. On August 8, 2014, Ranchos and ORA filed a motion to adopt a settlement agreement on various issues.

4. On April 1, 2015, the Commission mailed a proposed decision modifying a portion of the settlement agreement.

5. On May 1, 2015, Ranchos and ORA rejected the Commission modification to their settlement agreement.

6. On May 13, 2015, Ranchos and ORA jointly filed an Amended Settlement Agreement.

7. Pursuant to an Amended Scoping Memorandum, Ranchos and ORA submitted supplemental testimony to address the effects of the Governor's Executive Order B-29-15 and Commission Resolution W-5041. Compliance with the Governor's Executive Order B-29-15 and Commission's Resolution W-5041 necessitates further water rate increases to satisfy Ranchos' authorized revenue requirement.

8. On September 14, 2015, Ranchos and ORA submitted a Final Settlement Agreement and Joint Comparison Exhibit. These documents contain the amended Mains Replacement Program and updates made to comply with the Governor's Executive Order B-29-15 and Commission's Resolution W-5041.

9. The Final Settlement Agreement resolves most of the contested issues between Ranchos and ORA including: Water Consumption and Revenues; Customer Service; Operations and Maintenance; Administrative and General Expenses; Taxes Other Than Income; Income Taxes; Utility Plant in Service;

Depreciation Rates; Reserve, and Depreciation Expense; Rate Base; Park Water Company General Office; Affiliate Transactions; Rate Design; Water Quality; Memorandum and Balancing Accounts; Special Requests for New Tariffs; Fire Flow Tests; Interest Rates Applied to Customer Deposits and Recognition of Future Offset; WRAM/MCBA; and The Low Income Program.

10. While the Town of Apple Valley is not a party to the Final Settlement Agreement, it was represented by counsel and participated in the settlement negotiations.

11. The Final Settlement Agreement represents a reasonable compromise of Ranchos and ORA's litigation positions and is supported by the record of the proceeding.

12. The Final Settlement Agreement does not contravene any statutory provisions or prior Commission Decisions.

13. The Final Settlement Agreement, if adopted, will reduce litigation expenses, conserve Commission resources, and provide Ranchos' customers with safe and clean water at reasonable rates.

14. A robust conservation program, with consistent annual spending, would better promote California's conservation goals.

15. A conservation program balancing account protects ratepayers and ensures refund of any unspent funds.

16. A Solar Project Memorandum account allows Ranchos the opportunity to recover costs it spends in exploring the feasibility of solar technology.

17. Ranchos will be able to recover the balance in its Office Remodel Balancing Account if and when construction is complete in a subsequent general rate case.

18. The use of estimates in Ranchos' WRAM/MCBA is in accordance with GAAP and was adopted by the Commission in past decisions.

19. Ranchos should update its WRAM/MCBA account using actual costs as soon as they become available to true-up the estimates.

20. An optional Level Payment Plan pilot, established based on past 12 months' usage would assist Ranchos' customers in household budgeting.

21. The Level Payment Plan Pilot should be reviewed by the Commission at the next GRC.

22. Adding the Gravity Irrigation System to WRAM/MCBA would not promote conservation.

23. Production costs for the Gravity Irrigation System is properly tracked in the Incremental Cost Balancing Account.

24. Water treatment chemicals should reasonably be included in the MCBA as part of production costs.

25. Ranchos customers have reduced overall water consumption under water conservation programs.

26. Since the implementation of its conservation rate pilot program in 2009, Ranchos actual sales have been below the adopted level every year.

27. Large WRAM balances result from inaccurate sales forecasts that over-estimate consumption.

Conclusions of Law

1. Rule 12.1(d) provides that the Commission will not approve settlements, uncontested unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

2. The Final Settlement Agreement is reasonable in light of the whole record, consistent with the law, and in the public interest and should be adopted.

3. Ranchos should be required to provide notice of the adopted rate increase to its customers.

4. Ranchos' notice of rate increase should be reviewed and approved by the Commission's Public Advisor's Office.

5. Ranchos' request for an aggregate conservation budget of $344,066 should be approved with an annual variance of 20 percent from its estimated conservation expenses of $112,425 for 2015, $114,674 for 2016 and $116,967 for 2017. The 20 percent variance should be subject to carry-over throughout the rate case cycle, consistent with accounting practices for balancing accounts.

6. Conservation spending on outreach and public information should be capped at $30,000 annually.

7. Ranchos' conservation expenses should continue to be tracked in a one-way balancing account.

8. Ranchos should be allowed to establish a Solar Project Memorandum Account.

9. Ranchos should not be allowed to recover the costs tracked in its Office Remodel Balancing Account until construction on its office building is complete.

10. Ranchos may be allowed to rely on the accrual method of accounting and use estimates in its WRAM/MCBA calculations.

11. Ranchos should update its WRAM/MCBA to account for actual costs as soon as they become available to true-up the estimates.

12. Ranchos should be allowed to establish a Level Payment Plan for ratepayers with a minimum of 12 months payment history.

13. Ranchos should not be allowed to implement a Sales Reconciliation Mechanism.

14. Ranchos should not be allowed to include its Gravity Irrigation System to the WRAM/MCBA mechanism and eliminate the current Incremental Costs Balancing Account.

15. Ranchos should be allowed to add water treatment chemicals to the MCBA.

16. Tiered block rates should be continued as a part of the Commission's Water Action Plan.

17. The Town's request for a study on how Ranchos can be run more efficiently should be denied.

18. The WRAMs/MCBAs established for Ranchos are functioning as intended because the WRAMs/MCBAs have severed the relationship between sales and revenues and, as a result, have removed financial disincentives for Ranchos to implement conservation rates and conservation programs.

19. The cost savings resulting from conservation are being passed on to ratepayers because cost savings associated with purchased water, purchased power, and pump taxes (i.e. MCBA over-collections) are being properly returned to ratepayers; and increases in total costs associated with these items are passed through to ratepayers.

20. It is not possible at this time to determine how much of the reduction in water consumption is the result of conservation rates and conservation programs, and how much is due to other factors such as weather or economic conditions.

21. Large WRAM under-collections are the result of overestimated sales forecasts but overestimated sales forecasts result from underestimating reductions in consumption from factors such as weather, the economy, drought declarations, or conservation rates.

22. Because the WRAMs/MCBAs established for Ranchos are functioning as intended, none of the WRAM Options set forth in D.12-04-048 should be adopted at this time.

23. None of the WRAM Options address the inaccurate forecasts that are resulting in large WRAM balances.

24. Adoption of WRAM Options 1, 2, or 4 would tie sales to revenues, and, as a result, would discourage Ranchos from offering conservation rates and conservation programs, and undermine efforts to reduce water consumption in the state.

25. WRAM Option 3, the proposal to limit the WRAM surcharge to higher tier usage customers, should not be adopted because they would result in even larger WRAM surcharges on customers that exceed Tier 1 usage.

26. WRAM Option 5 should not be adopted because, except for non-residential customers, all customer classes currently have a WRAM, and non-residential customers have such disparate usage patterns it is not feasible to design an equitable increasing block rate for that class.

O R D E R

IT IS ORDERED that:

1. The Final Settlement Agreement between Apple Valley Ranchos Water Company and the Office of Ratepayer Advocates is adopted without modification. The Final Settlement Agreement is attached as Attachment A to this decision. The Joint Comparison Exhibit is attached as Attachment B to this decision.

2. Apple Valley Ranchos Water Company shall provide notice to its customers of the adopted rate increase.

3. The Public Advisor's Office shall review Apple Valley Ranchos Water Company's notice to customers to ensure it includes an explanation of the Governor's Executive Order B-29-15 and its effect on the water rates.

4. Within sixty days of the adoption of this decision, Apple Valley Ranchos Water Company is authorized to file a Tier 2 Advice Letter to recover the difference between the interim rates and final rates from its customers in all districts. The difference between the interim and final rates based on the revenue requirement adopted here, shall be recovered over the balance of the rate case cycle.

5. For escalation years 2016 and 2017, Apple Valley Ranchos Water Company shall file Tier 2 Advice Letters in conformance with General Order 96-B proposing new revenue requirement and corresponding revised tariff schedules. The filing shall include rate procedures set forth in the Commission's Rate Case Plan (Decision 07-05-062) for Class A Water Utilities, and shall include appropriate supporting work papers. The revised tariff schedule shall take effect no earlier than January 1, 2016, and January 1, 2017, respectively, and shall apply to service rendered on and after their effective dates. The proposed revisions to revenue requirements and rates shall be reviewed by the Commission's Division of Water and Audits. The Division of Water and Audits shall inform the Commission if it finds that the revised rates do not conform to the Rate Case Plan, this order, or other Commission Decisions, and if so, reject the filing.

6. Apple Valley Ranchos Water Company is authorized an aggregate conservation budget of $344,066, with $112,425 for 2015, $114,674 for 2016 and $116,967 for 2017.

7. The conservation budget shall be allowed a 20 percent annual variance, subject to carry over throughout the rate case cycle, consistent with accounting practices for balancing accounts.

8. Conservation expenses for public information and outreach shall be capped at $30,000 annually.

9. Apple Valley Ranchos Water Company shall continue to track its conservation expenses in a one-way capped balancing account.

10. Within thirty days of the adoption of this decision, Apple Valley Ranchos Water Company shall be authorized to establish a Solar Project Memorandum Account by filing a Tier 2 Advice Letter to add the memorandum account to the Preliminary Statement in its tariff.

11. Apple Valley Ranchos Water Company shall not be allowed to recover the costs tracked in its Office Remodel Balancing Account until construction on its office building is complete.

12. Apple Valley Ranchos Water Company may rely on the accrual method of accounting and use estimates in its Water Revenue Adjustment Mechanism/Modified Cost Balancing Account calculations. Apple Valley Ranchos Water Company must update the Water Revenue Adjustment Mechanism/Modified Cost Balancing Account balance to account for actual costs as soon as they become available to true-up the estimates.

13. Apple Valley Ranchos Water Company shall establish a pilot Level Payment Plan for ratepayers with a minimum of 12 months payment history. Apple Valley Ranchos Water Company shall file a Tier 2 advice letter to add the option of the Level Payment Plan to its Tariff Rule No. 9, Rendering and Payment of Bills, as authorized by this decision no later than 30 days prior to this option being made available to customers.

14. Apple Valley Ranchos Water Company's pilot Level Payment Plan shall be subject to Commission review during the next general rate case.

15. Apple Valley Ranchos Water Company is authorized to add the cost of water treatment chemicals to the Modified Cost Balancing Account.

16. Application 14-01-002 is closed.

This order is effective today.

Dated November 19, 2015, at San Francisco, California.

MICHAEL PICKER
President
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
CARLA J. PETERMAN
LIANE M. RANDOLPH
Commissioners

ATTACHMENT A

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of Apple Valley Ranchos Water Company (U 346 W) for Authority to Increase Rates Charged for Water Service by $3,127,463 or 14.88% in 2015, $2,056,455 or 8.48% in 2016, and $2,160,731 or 8.19% in 2017.	)	APPLICATION NO. 14-01-002

FINAL AMENDED SETTLEMENT AGREEMENT BETWEEN APPLE VALLEY RANCHOS WATER COMPANY AND THE OFFICE OF RATEPAYER ADVOCATES

Joseph P. Como
Acting Director
Office of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2381
Fax: (415) 703-1758
E-mail: joc@cpuc.ca.gov

Edward N. Jackson
Representative
Director of Revenue Requirements
Park Water Company
9750 Washburn Road
P. O. Box 7002
Downey, CA 90241
Phone: (562) 923-0711
Fax: (562) 861-5902
E-mail: ed.jackson@parkwater.com

September 10, 2015

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of Apple Valley Ranchos Water Company (U 346 W) for Authority to Increase Rates Charged for Water Service by $3,127,463 or 14.88% in 2015, $2,056,455 or 8.48% in 2016, and $2,160,731 or 8.19% in 2017.	)	APPLICATION NO. 14-01-002

FINAL AMENDED SETTLEMENT AGREEMENT

Pursuant to ALJ S. Pat Tsen's September 1, 2015 "Email Ruling Requiring Additional Information," directing Apple Valley Ranchos Water Company and the Office of Ratepayer Advocates to file and serve a Final Amended Settlement Agreement and an Amended Joint Comparison Exhibit, Apple Valley Ranchos Water Company and the Office of Ratepayer Advocates hereby file and serve this Final Amended Settlement Agreement and attached Amended Joint Comparison Exhibit (attached hereto as Exhibit A).

I. GENERAL PROVISIONS

1.1 This Final Amended Settlement Agreement ("Final Amended Settlement") is entered into by and between Apple Valley Ranchos Water Company ("AVR") and the Office of Ratepayer Advocates ("ORA") of the California Public Utilities Commission ("Commission"). AVR and ORA are referred to jointly herein as the "Parties" or singularly as a "Party."

1.2 This Final Amended Settlement shall become effective and binding on the Parties as of the date it is fully executed by all Parties ("Effective Date"). The Final Amended Settlement will not, however, resolve the issues before the Commission in Application 14-01-002 unless, and until, it is adopted by the Commission.

1.3 This Final Amended Settlement resolves most of the outstanding issues raised by ORA that are currently before the Commission in Application 14-01-002, except for the following issues, which the Parties litigated in hearings before the Commission: (1) Conservation expense

proposed by AVR and the Conservation Balancing Account proposed by ORA; (2) the use of estimates in Balancing Accounts; (3) the Office Remodel Balancing Account; (4) the Solar Project Memorandum Account; (5) the Level Payment Plan; (6) the Sales Reconciliation Mechanism; and (7) the inclusion of the irrigation system in the WRAM/MCBA. The unresolved issues are identified in the Parties' Briefs as Conservation Estimates, Conservation Balancing Account, Solar Project Memorandum Account, Office Remodel Balancing Account, Use of Estimates, Level Payment Plan, Sales Reconciliation Mechanism, Irrigation (Commodity Revenues & Production Costs), Incremental Cost Balancing Account, and Chemical Costs. This Final Amended Settlement does not address the issues raised by the Town of Apple Valley ("Town"), including the issues addressed in the Parties' briefs under the headings "Rate Design" and "Water Rate Comparison." The Parties are in agreement on the Rate Design and Water Rate Comparison issues raised by the Town and have briefed their respective positions on these issues.

1.4 The Parties agree that (except as otherwise stated herein) the Parties' adoption of this Final Amended Settlement should not be construed as an admission or waiver by any Party regarding any fact, matter of law, or issue thereof that pertains to the subject of this Final Amended Settlement. In accordance with the Commission's Rules of Practice and Procedure ("Rule"), Rule 12.5, the Parties intend that the Commission's adoption of this Final Amended Settlement be binding on each Party, including its legal successors, predecessors, assigns, partners, joint ventures, shareholders, members, representatives, agents, attorneys, parent or subsidiary companies, affiliates, officers, directors, and/or employees. Adoption of this Final Amended Settlement does not constitute approval of, or establish precedent regarding, any principle in any future proceeding. Nor does adoption of this Final Amended Settlement bind any Party with respect to a future proceeding except with respect to the terms and conditions set forth herein, including as provided in Sections 1.19 and 1.22.

1.5 The Parties agree that no Party to this Final Amended Settlement, or any Parties' legal successors, predecessors, assigns, partners, joint ventures, shareholders, members, representatives, agents, attorneys, parent or subsidiary companies, affiliates, officers, directors, and/or employees thereof, assumes any personal liability as a result of this Final Amended Settlement.

1.6 The Parties agree that the Commission has primary jurisdiction over any interpretation, enforcement, or remedy pertaining to this Final Amended Settlement. No Party may bring an action pertaining to this Final Amended Settlement in any local, State, or Federal court, or administrative agency, without having first exhausted its administrative remedies at the Commission.

1.7 If any Party fails to perform its respective obligations under this Final Amended Settlement, the other Party may come before the Commission to pursue any applicable remedy, including enforcement.

1.8 The Parties agree that this Final Amended Settlement is an integrated agreement and the provisions of the Final Amended Settlement are not severable. Therefore, if the Commission rejects, conditions or purports to modify any term or portion of this Final Amended Settlement, the Parties shall convene a conference within fifteen (15) days thereof and engage in good faith negotiations to determine whether some or all of the remainder of the Final Amended Settlement is acceptable to the Parties. In the event an agreement is reached, all Parties must consent in writing to any changes or the Final Amended Settlement is void. If the Parties cannot agree to resolve any issue raised by the Commission's actions within thirty (30) days of their conference, this Final Amended Settlement shall be deemed to be rescinded, the Parties shall be released from any obligation, representation, or condition set forth in this Final Amended Settlement, including their obligation to support this Final Amended Settlement, and the Parties shall be restored to their positions prior to having entered into this Final Amended Settlement. Following any rescission of this Final Amended Settlement, the Parties may pursue any action they deem appropriate.

1.9 The Parties acknowledge and stipulate that they are agreeing to this Final Amended Settlement freely, voluntarily, and without any fraud, duress, or undue influence by any other Party. Each Party hereby states that it has read and fully understands its rights, privileges, and duties under this Final Amended Settlement, including each Party's right to discuss this Final Amended Settlement with its legal counsel, and has exercised those rights, privileges, and duties to the extent deemed necessary.

1.10 The Parties have determined that this Final Amended Settlement is in their best interests, and more cost-effective than undertaking the expenses, delays, and uncertainties of further litigation. In executing this Final Amended Settlement, each Party declares that the terms and

conditions herein are reasonable, consistent with the law, and in the public interest. Therefore, the Parties jointly request that the Commission accept and adopt this Final Amended Settlement in its entirety and without modification or condition, as reasonable, consistent with the law, and in the public interest.

1.11 The Parties agree to support this Final Amended Settlement and use their best efforts to secure the Commission's approval of this Final Amended Settlement in its entirety and without condition or modification.

1.12 The Parties agree to defend this Final Amended Settlement and its implementation before the Commission if the Commission's adoption or implementation of this Final Amended Settlement is opposed by anyone else.

1.13 Each Party hereto agrees without further consideration to execute and deliver such other documents and take such other actions as may be necessary to achieve the purposes of this Final Amended Settlement, including, without limitation, furnishing such additional information, documents, and/or testimony as the Commission may require (with due regard for confidentiality) in issuing an order adopting this Final Amended Settlement.

1.14 The Parties acknowledge and agree that this Final Amended Settlement has been jointly negotiated and drafted. The language of this Final Amended Settlement shall be construed as a whole according to its fair meaning and not in favor of or against any Party.

1.15 This Final Amended Settlement constitutes the entire agreement and understanding between the Parties as to the subject of this Final Amended Settlement, and supersedes any prior agreements, commitments, representations, or discussions between the Parties.

1.16 This Final Amended Settlement may not be amended or modified without the express written and signed consent of each Party hereto.

1.17 No Party has relied or relies upon any statement, promise, or representation by any other Party, except as specifically set forth in this Final Amended Settlement. Each Party expressly assumes the risk of any mistake of law or fact made by such Party or its authorized representative.

1.18 This Final Amended Settlement and each covenant and condition set forth herein shall be binding upon the respective Parties hereto.

1.19 This Final Amended Settlement may be executed in counterparts by each Party hereto with the same effect as if all Parties had signed one and the same document. Any such

counterpart shall be deemed to be an original and shall together constitute one and the same Settlement.

1.20 This Final Amended Settlement is comprised of this Final Amended Settlement document itself and the Parties' Amended Joint Comparison Exhibit, attached hereto as Exhibit A.

1.21 Each Party to this Final Amended Settlement represents that his or her signature to this Final Amended Settlement binds his or her respective Party to the terms of this Final Amended Settlement.

1.22 This Final Amended Settlement shall be governed by the laws of the State of California as to all matters, including validity, construction, effect, performance, and remedy.

II. FACTUAL BACKGROUND

2.1 AVR, a California corporation, is a Class A Public Utility Water Company regulated by the Commission providing regulated water service in and near the Town of Apple Valley in San Bernardino County, California. AVR is a wholly-owned subsidiary of Park Water Company ("Park'), a California Corporation. AVR's office is located in Apple Valley, California. AVR has two "systems" – the Irrigation system and the Domestic system. The Irrigation System consists of a small gravity irrigation system that serves non-potable (un-treated) water from an irrigation well with return flow to the Mojave River and has a single customer. All other customers are part of the Domestic system, which is a pressurized potable water system.

2.2 On January 2, 2014, AVR filed a General Rate Case ("GRC") Application ("Application") requesting authority to increase its rates by $3,127,463 or 14.88% in 2015, $2,056,455 or 8.48% in 2016; and $2,160,731 or 8.19% in 2017. Concurrent with the filing of the Application, AVR supported its Application with prepared testimony and exhibits, its Revenue Requirements Report for Test Year 2015, its General Office Report for Test Year 2015, its Urban Water Management Report, and Minimum Data Requirements ("MDR"), all of which were served on January 2, 2014. ORA filed a timely protest to the application on February 10, 2014, and AVR filed a timely response.

2.3 On February 19, 2014, the Town of Apple Valley filed a motion for party status, which was granted on February 20, 2014. A prehearing conference was held on April 1, 2014, by ALJ S. Pat Tsen. In response to ALJ Tsen's April 4, 2014 Ruling for Comments on the Division of

Water and Audits Preliminary Report on AVR's Water Quality, ORA served its comments on April 11, 2014. On April 17, 2014, the Commission issued the Scoping Memo and Ruling in this proceeding. Public Participation Hearings were held on April 30, 2014, at the Town of Apple Valley Conference Center in Apple Valley, California. On May 9, 2014, ORA served its Report on the Results of Operations, and on May 19, 2014, ORA served its Amended Report on the Results of Operations ("ORA Amended Report").

2.4 The Parties engaged in informal settlement negotiations beginning on June 4, 2014. As a result of those negotiations, which continued through June 17, 2014, ORA and AVR reached a settlement on most of the issues raised in ORA's Amended Report and agreed upon the terms and conditions comprising the original Settlement. While the Town participated in the settlement discussions, it was not a party to the settlement.

2.5 Evidentiary hearings on the unresolved issues were held on June 16 and 17, 2014. At the hearings, AVR's, ORA's, and the Town's testimony and reports were marked as exhibits and entered into the record along with additional exhibits introduced at the hearings. Additionally, after the conclusion of the hearings, per the direction of ALJ Tsen, AVR submitted several late filed exhibits and both AVR and ORA filed motions to seal confidential versions of exhibits containing confidential information, which were granted by ALJ Tsen.

2.6 On July 21, 2014 and August 4, 2014, ORA, AVR, and the Town filed their Opening Briefs and Reply Briefs, respectively.

2.7 On August 8, 2014, the Parties filed their Joint Motion to Approve Settlement ("Joint Motion") along with their original Settlement Agreement and Joint Comparison Exhibit. On September 8, 2014, the Town filed its Comments to the Joint Motion. On September 22, 2014, the Parties filed their Joint Reply Comments of Apple Valley Ranchos Company and the Office of the Ratepayer Advocates in Support of Joint Motion to Approve Settlement.

2.8 On January 8, 2015, ALJ Tsen issued an email ruling requiring AVR to submit additional information relating to AVR's main replacement projects. On January 15, 2015, AVR filed its Response to Administrative Law Judge's Ruling.

2.9 On April 1, 2015, ALJ Tsen issued her Proposed Decision ("PD"), in which she decided the disputed/litigated issues and partially approved the original Settlement Agreement. Specifically, the PD proposed to approve the original Settlement Agreement, with the exception

of the Parties' resolution of the Main Replacement Program, for which the PD proposed the following modified amounts: $3,057,846 in 2014, $3,129,705 in 2015, and $3,203,253 in 2016.

2.10 On April 21, 2015 and April 27, 2015, the Parties filed their Comments to the PD and Reply Comments, respectively.

2.11 On April 24, 2015, ALJ Tsen issued the Presiding Officer's Ruling Setting Evidentiary Hearings and Scheduling the Remainder of the Proceeding ("April 24 Ruling"). The April 24 Ruling provided, *inter alia*: (1) by May, 1, 2015, the parties were to notify the Commission as to whether the parties would accept the PD's modification to the original Settlement Agreement; (2) if the parties declined to accept the PD's modification to the original Settlement Agreement, by May 4, 2015, the parties were to file a Joint Case Management Statement updating the Commission on the settled and disputed issues in this proceeding and providing a list of witnesses; (3) Evidentiary hearings were scheduled for May 11-15, 2015; and (4) Opening Briefs and Reply Briefs were to be filed and served on May 29, 2015 and June 12, 2015, respectively.

2.12 On April 30, 2015, in response to a joint request by all parties, ALJ Tsen held a conference call to address the parties' questions regarding the April 24 Ruling. On May 1, 2015, the Parties informed ALJ Tsen that they respectfully declined the modification of the original Settlement Agreement proposed in the PD. On May 4, 2015, the Parties and the Town filed their Joint Case Management Statement informing the Commission that, *inter alia*: (1) ORA and AVR agreed to maintain the terms of the original Settlement Agreement as to all issues other than the Main Replacement Program; (2) ORA and AVR had reached agreement on a revised resolution on the Main Replacement Program; (3) the Town contested the revised resolution of the Main Replacement Program; and (4) all parties waived evidentiary hearings and agreed to brief the Main Replacement Program issue based on the existing record .

2.13 On May 5, 2015, ALJ Tsen issued the Presiding Officer's Ruling Setting a Reasonableness Hearing on the Proposed Amended Settlement Agreement Between Apple Valley Ranchos Water Company and the Office of Ratepayer Advocates. Pursuant to the ruling, the Parties were ordered to submit their amended settlement agreement by May 11, 2015 and a reasonableness hearing was scheduled for May 13-14, 2015.

2.14 On May 11, 2015, the Parties submitted their Amendment to Settlement Agreement Between Apple Valley Ranchos Water Company and the Office of Ratepayer Advocates ("Amendment to Settlement Agreement"), pursuant to which the Parties amended their original

Settlement Agreement by modifying Section 9.16 of the original Settlement Agreement by proposing a revised settlement on the issue of AVR's Main Replacement Program.

2.15 On May 13, 2015, the Parties and the Town participated in a reasonableness hearing during which AVR's and ORA's witnesses were examined by ALJ Tsen and the Town.

2.16 On May 15, 2015, ALJ Tsen issued her Email Ruling Requiring Parties' Joint Response on Water Consumption Forecasts. Per the email ruling, the Parties and the Town were directed to meet and confer and submit a list of testimony topics that would need to be adjusted to meet the 28% reduction in production mandated by the Commission's Resolution W-5041. On May 20, 2015, the Parties and the Town submitted their joint list of testimony topics that would need to be adjusted to address Resolution W-5041.

2.17 On May 27, 2015, the Commission issued its Interim Decision Rejecting Settlement and Adopting Interim Rates for Apple Valley Ranchos Water Company ("Interim Decision"), D. 15-05-038. Pursuant to the Interim Decision, the Commission: (1) rejected the Parties' original Settlement Agreement; (2) authorized AVR to implement interim rates on June 1, 2015 based on the April 1, 2015 PD, which authorized an 11.56% rate increase; and (3) noted that the Commission would issue a new scoping memo to address the Commission's Resolution W-5041, which directed water utilities to achieve the reduction in water use mandated by the Governor's Executive Order B-29-15.

2.18 On June 19, 2015, Commissioner Carla Peterman issued her Ruling Amending Scope and Schedule ("Amended Scoping Memo"). Pursuant to the Amended Scoping Memo: (1) on June 24, 2015, AVR served its Supplemental Testimony setting forth its revised sales forecast and related costs and flow-through effects of the revised sales forecast; (2) on June 30, 2015, AVR served its Amended Supplemental Testimony to correct an error in its original Supplemental Testimony; and (3) on July 3, 2015, ORA served its Supplemental Testimony in which it agreed with AVR's Amended Supplemental Testimony, with one correction to which AVR agreed. The Town did not serve any supplemental testimony.

2.19 On June 29, 2015, ALJ Tsen issued her Email Ruling Requiring Joint Case Management Statement and Cross Examination Schedule pursuant to which the Parties and the Town were directed to submit a Joint Case Management Statement, by close of business on July 6, 2015, on whether evidentiary hearings will be necessary and, if so, a tentative cross-examination schedule. On July 6, 2015, the Parties and the Town submitted their Joint Case Management Statement:

(1) informing the Commission of the parties' conclusion that there was no need for the evidentiary hearings that had been scheduled for July 9-10, 2015; and (2) requesting permission for AVR to serve, on or before July 10, 2015, corrected calculations resulting from the correction noted in ORA's Supplemental Testimony and related flow-through impacts.

2.20 On July 6, 2015, ALJ Tsen issued her Email Ruling Removing Evidentiary Hearing from Calendar: (1) taking off calendar the evidentiary hearings scheduled for July 9-10, 2015; (2) taking off schedule the opening and reply briefs scheduled to be filed on July 21, 2015 and July 28, 2015, respectively; and (3) directing AVR to serve corrected calculations by the close of business on July 10, 2015. On July 10, 2015, pursuant to ALJ Tsen's July 6, 2015 e-mail ruling, AVR served its "Corrected Amended Supplemental Testimony."

2.21 On August 26, 2015, ALJ Tsen directed the Parties to file a joint motion to move the supplemental testimony served by the Parties into the record in this proceeding. On August 27, 2015, the Parties and the Town submitted their Joint Motion for Admission of Supplemental Testimony. On September 1, 2015, ALJ Tsen issued her email ruling granting the Joint Motion for Admission of Supplemental Testimony, pursuant to which ALJ Tsen marked AVR's and ORA's Supplemental Testimony (Exhibits A-31 and O-9, respectively) and admitted the exhibits into the evidentiary record.

2.22 On September 1, 2015, ALJ Tsen issued her Email Ruling Requiring Additional Information, pursuant to which ALJ Tsen directed the Parties to submit a Final Amended Settlement Agreement and Joint Comparison Exhibit to include the amended settlement of the Main Replacement Program (reflected in the Amendment to Settlement Agreement) and the Parties' Supplemental Testimony (Exhibits A-31 and O-9).

2.23 Pursuant to ALJ Tsen's September 1, 2015 Email Ruling, the Parties submit this Final Amended Settlement Agreement and accompanying Amended Joint Comparison Exhibit.

2.24 The Parties' amended settlement on AVR's Main Replacement Program and the Parties' revised positions on consumption per customer based on AVR's and ORA's Supplemental Testimony (Exhibits A-31 and O-9, respectively) are reflected in this agreement in addition to the Parties' original positions and agreements on those issues. The Parties have no disagreements as to the flow-through effects resulting from either the amended settlement on AVR's Main Replacement Program or the revised resolution of consumption per customer arising from the Parties' supplemental testimony. For all other expense or capital-related items

where there is a flow-through effect, those flow-through effects have been incorporated into the amounts reflected in this Final Amended Settlement Agreement.

III. TERMS AND CONDITIONS OF THE FINAL AMENDED SETTLEMENT

3.0 WATER CONSUMPTION AND REVENUES

3.1 Number of Customers

AVR WATER REQUEST:

In accordance with D.04-06-018, AVR forecasted customer growth based on a five-year historical average (2008 – 2012) for Residential, Commercial (Business), Industrial, Public Authority Irrigation, Gravity Irrigation, and Apple Valley Golf Course customers. For Residential customers, in addition to the results of the five-year growth, AVR's estimate reflects 100 additional customers due to a planned development in Jess Ranch.

ORA POSITION:

For Residential and Commercial customers, there were no issues concerning the methodology used to forecast the number of customers except that ORA forecasted customer growth based on the five-year historical average (2009 – 2013) and projected the additional customer growth for the planned development in Jess Ranch beginning in Test Year 2015. There were no issues concerning the number of customers for Industrial, Public Authority, Public Authority – Irrigation, Gravity Irrigation, and Apple Valley Golf Course.

RESOLUTION:

ORA and AVR agree to update the number of customers to reflect the actual number of customers as of year-end 2013 and to adjust the methodology to remove double-counting between the five-year average and the projected additional residential customer growth from planned development. ORA and AVR agree on the number of customers, as set forth in the table below.

Test Year 2015

Average Number of Customers	AVR Original	ORA Original	Difference	Settlement
Residential	17,979	18,008	(29)	18,015
Commercial	1,364	1,384	(20)	1,364
Industrial	2	2	0	2
Public Authority	45	45	0	45
Irrigation Pressure	175	166	9	166
Private Fire Service	272	240	32	239
Public Authority Irrigation	5	5	0	5
Irrigation Gravity	1	1	0	1
Apple Valley Golf Course	1	1	0	1
Temporary Construction	5	9	(4)	11
Total Metered Customers	19,853	19,861	(8)	19,849

Escalation Year 2016

Average Number of Customers	AVR Original	ORA Original	Difference	Settlement
Residential	18,121	18,203	(82)	18,165
Commercial	1,373	1,397	(24)	1,375
Industrial	2	2	0	2
Public Authority	46	45	1	46
Irrigation Pressure	180	169	11	169
Private Fire Service	289	248	41	247
Public Authority Irrigation	5	5	0	5
Irrigation Gravity	1	1	0	1
Apple Valley Golf Course	1	1	0	1
Temporary Construction	9	9	0	11
Total Metered Customers	20,027	20,080	(53)	20,032

Escalation Year 2017

Average Number of Customers	AVR Original	ORA Original	Difference	Settlement
Residential	18,263	18,398	(135)	18,315
Commercial	1,382	1,410	(28)	1,386
Industrial	2	2	0	2
Public Authority	46	46	0	46
Irrigation Pressure	185	172	13	171
Private Fire Service	306	256	50	255
Public Authority Irrigation	5	5	0	5
Irrigation Gravity	1	1	0	1
Apple Valley Golf Course	1	1	0	1
Temporary Construction	9	9	0	11
Total Metered Customers	20,200	20,300	(100)	20,192

REFERENCES: AVR Exh. A-1, p. 20; ORA Exh. O–1, pp. 2-2 – 2-3.

3.2 Consumption Per Customer

AVR WATER ORIGINAL REQUEST:

For the Residential, Commercial, and Gravity Irrigation customers, AVR forecasted sales based on the 2012 recorded consumption per customer with an annual decrease of 1.5% because the New Committee Method sales forecasting methodology overstated the effects of the drastic drop in unit consumption experienced from 2007 – 2011. For the Industrial, Pressure Irrigation, and Temporary Construction customers, AVR forecasted sales based on a recorded five-year average (2008 – 2012) of total sales. For Public Authority and Public Authority-Irrigation customers, AVR forecasted sales based on the New Committee Method. For Private Service customers, AVR forecasted sales based on the three-year average (2010 – 2012). For the Apple Valley Golf Course, AVR forecasted sales based on the four-year average (2009 – 2012) of water sales.

ORA ORIGINAL POSITION:

ORA finds AVR's methodology reasonable based on the circumstances presented in this case and accepted AVR's proposed 1.5% annual decrease for the Residential and Commercial customer classes starting from the 2013 recorded consumption. For the Industrial, Public Authority, Private Fire, Public Authority Irrigation, Pressure Irrigation, Apple Valley Golf Course, and Temporary Construction customer classes, ORA recommends the use of the five-year average unit consumption (2009-2013).

ORIGINAL RESOLUTION:

The Parties agree that the use of the Basic Procedure of the New Committee Method as outlined in the rate case plan for Class A water utilities should not be used for Residential and Commercial customers in this GRC because the methodology provides results that are unreasonably lower than current unit consumption levels. The Parties believe that use of the 1.5% annual reduction provides a reasonable estimate of future water sales. Based on further discussions, settlement negotiations, and review of AVR's rebuttal testimony, the Parties agree to the customer unit consumption as set forth in the table below.

Test Year 2015 and Escalation Years 2016 and 2017

Consumption per Customer (Ccf)	AVR Original	ORA Original	Difference	Settlement
Residential	199.13	197.42	1.71	197.42
Commercial	592.76	581.52	11.24	585.02
Industrial	630.60	641.00	(10.40)	641.00
Public Authority	6,389.00	6,389.00	00.00	6,389.10
Irrigation Pressure	1,681.00	1,606.00	75.00	1,606.23
Private Fire Service	7.99	6.84	1.15	7.57
Public Authority Irrigation	5,365.00	5,365.00	00.00	5,364.92
Irrigation Gravity	456,275.00	443,715.00	12,560.00	456,274.90
Apple Valley Golf Course	122,164.00	126,540.00	(4,376.00)	126,540.00
Temporary Construction	991.25	784.04	207.21	801.01

REFERENCES: AVR Exh. A-1, p. 22; ORA Exh. O-1, pp. 2-3 – 2-5.

REVISED CONSUMPTION PER CUSTOMER – SUPPLEMENTAL TESTIMONY

AVR REVISED REQUEST – SUPPLEMENTAL TESTIMONY:

AVR, in its Supplemental Testimony (served, amended and corrected as described above in Section 2.19), proposed revised estimates of consumption per customer consistent with the Commission's Resolution W-5041, which directed water utilities to achieve the reduction in water use mandated by the Governor's Executive Order B-29-15 and the 28% reduction in AVR's water production from June 1, 2015 through February 28, 2016, compared to the production for the period June 1, 2013 through February 28, 2014, mandated by the SWRCB's emergency water conservation regulations.

For Test Year 2015, AVR recast sales by applying the target reduction of 28% to the recorded 2013 sales for June – December, to reflect the timing of the implementation of the SWRCB regulation in June 1, 2015, and the expected reduction from the same months in 2013. For 2015, the recorded 2015 sales for January through May were available and were therefore used to determine the total projected sales for Test Year 2015. This methodology was used for all customer classes with the exception of Gravity Irrigation Service (non-potable water), which is exempt from the mandated reductions, and private fire (for which the Parties do not forecast any reductions from recent usage); for these customer classes, no change was proposed from the forecasts in the original settlement. After determination of the water sales by customer class, that amount was divided by the average number of customers to develop the average consumption per customer.

For Escalation Years 2016 and 2017, AVR recast the sales, for all customer classes with the exception of Gravity Irrigation Service (non-potable water) and private fire, by applying the target reduction of 28% to the recorded sales for the period of June 2013–May 2014, to reflect the timing of the implementation of the SWRCB regulation in June 1, 2015, and the expected reduction from the same months in the period from June 2013 – February 2014. The additional three months of March-May of 2014 were added to the base period from which the 28% reduction was measured in order to provide for an estimate for a full year of consumption.

Therefore, the forecasts for 2016 and 2017 are fully reflective of the SWRCB's mandated 28% reduction, resulting in further reduction to sales and production compared to Test Year 2015.

ORA REVISED POSITION – SUPPLEMENTAL TESTIMONY:

ORA, in its supplemental testimony, finds AVR's methodology for its revised consumption per customer estimates reasonable and agrees with AVR's estimates subject to correction of an inadvertent reduction AVR applied to Private Fire Service estimated consumption for 2015, and resultant adjustment of other customer classes to achieve the overall 28% reduction, that was inconsistent with AVR's stated methodology.

REVISED RESOLUTION:

AVR agreed to correct the calculation error pointed out by ORA and incorporated the correction in its Corrected Amended Supplemental Testimony. With this correction, the Parties agree with the consumption per customer estimates as set forth in the tables below.

Test Year 2015

Consumption per Customer (Ccf)	AVR Original	ORA Original	Difference	Amended Settlement
Residential	199.13	197.42	1.71	151.70
Commercial	592.76	581.52	11.24	476.41
Industrial	630.60	641.00	(10.40)	485.84
Public Authority	6,389.00	6,389.00	00.00	4,833,88
Irrigation Pressure	1,681.00	1,606.00	75.00	1,333.24
Private Fire Service	7.99	6.84	1.15	8.50
Public Authority Irrigation	5,365.00	5,365.00	00.00	4,514.97
Irrigation Gravity	456,275.00	443,715.00	12,560.00	456,274.90
Apple Valley Golf Course	122,164.00	126,540.00	(4,376.00)	117,077.45
Temporary Construction	991.25	784.04	207.21	801.01

Escalation Years 2016 and 2017

Consumption per Customer (Ccf)	AVR Original	ORA Original	Difference	Amended Settlement
Residential	199.13	197.42	1.71	139.84
Commercial	592.76	581.52	11.24	459.94
Industrial	630.60	641.00	(10.40)	394.09
Public Authority	6,389.00	6,389.00	00.00	4,512.24
Irrigation Pressure	1,681.00	1,606.00	75.00	1,231.16
Private Fire Service	7.99	6.84	1.15	8.50
Public Authority Irrigation	5,365.00	5,365.00	00.00	3,863.03
Irrigation Gravity	456,275.00	443,715.00	12,560.00	456,274.90
Apple Valley Golf Course	122,164.00	126,540.00	(4,376.00)	113,021.15
Temporary Construction	991.25	784.04	207.21	801.01

REFERENCES: AVR Exh. A-31, pp. 4-8; ORA Exh. O-9, pp. 1-3

3.3 Unaccounted for Water (Domestic System)

AVR WATER REQUEST:

AVR requests unaccounted for water of 7.0% based on the latest information available at the time AVR's application was prepared.

ORA POSITION:

ORA recommends unaccounted for water of 5.1% based on the updated, most recent two-year recorded average (2012 – 2013).

RESOLUTION:

ORA and AVR agree that, while AVR's unaccounted for water has decreased from AVR's previous GRC, the annual unaccounted for water continues to vary slightly each year. ORA and AVR agree to use AVR's recommendation in its rebuttal for unaccounted for water estimate of 6.0% as set forth in the tables below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Unaccounted For Water	7.0%	5.1%	1.90%	6.0%

Escalation Year 2016

	AVR Original	ORA Original	Difference	Settlement
Unaccounted For Water	7.0%	5.1%	1.90%	6.0%

Escalation Year 2017

	AVR Original	ORA Original	Difference	Settlement
Unaccounted For Water	7.0%	5.1%	1.90%	6.0%

REFERENCES: AVR Exh. A-1, p. 58; ORA Exh. O-1, Ch. 2, Table 2-4.

3.4 Unaccounted for Water (Irrigation System)

AVR WATER REQUEST:

AVR requests unaccounted for water of 79.6% based on the latest information available at the time AVR's application was prepared.

ORA POSITION:

ORA recommends unaccounted for water of 76.5% based on the updated, most recent two-year recorded average (2012 – 2013).

RESOLUTION:

The Parties agree that the loss of water experienced by the Irrigation system results from evaporation and seepage in the lake and return flow to the river, and is largely weather-related. The Parties agree that a longer-term average would be more appropriate for the estimate for the Irrigation system. ORA and AVR agree to use AVR's recommended 5-year (2009 – 2013)

average in its rebuttal for unaccounted for water estimate of 78.2% as set forth in the tables below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Unaccounted For Water	79.6%	76.5%	3.1%	78.2%

Escalation Year 2016

	AVR Original	ORA Original	Difference	Settlement
Unaccounted For Water	79.6%	76.5%	3.1%	78.2%

Escalation Year 2017

	AVR Original	ORA Original	Difference	Settlement
Unaccounted For Water	79.6%	76.5%	3.1%	78.2%

REFERENCES: AVR Exh. A-1, p. 59; ORA Exh. O-1, Ch. 2, Table 2-4.

3.5 Total Water Supply

AVR WATER REQUEST:

The total water supply represents the sum of water sales and unaccounted for water.

ORA RECOMMENDATION:

ORA finds AVR's methodology of total water supply to be reasonable. The original differences between AVR's and ORA's estimates resulted from different estimates of customers, consumption per customer, and unaccounted for water.

RESOLUTION:

With the resolution of customers (Section 3.1), consumption per customer (Section 3.2), and unaccounted for water (Section 3.3), there is no difference in the estimates of total water supply. The Parties agree on the total water supply as set forth in the tables below.

Test Year 2015

Total Water Supply (Ccf)	AVR Original	ORA Original	Difference	Amended Settlement
Residential	3,580,135	3,555,152	24,982.6	2,732,949
Commercial	808,526	804,828	3,698	649,824
Industrial	1,261	1,282	(20.8)	972
Public Authority	288,783	288,783	00.0	216,558
Irrigation Pressure	294,175	266,596	27,579.0	221,318
Private Fire Service	2,173	1,642	531	2,032
Public Authority Irrigation	26,825	26,825	00.0	22,575
Apple Valley Golf Course	122,164	126,540	(4,376.0)	117,077
Temporary Construction	8,921	7,056	1,864.9	8,811
Total Domestic Sales	5,132,964	5,078,703	54,260	3,972,116
Unaccounted for Water (settled) (6%)	386,352	272,933	113,418	253,539
Irrigation Gravity	456,275	443,715	12,560	456,275
Unaccounted for Water (settled) (78.2%)	1,780,367	1,444,433	335,933	1,636,729
Total Water Supply	7,755,957	7,239,785	516,171	6,318,659

Escalation Year 2016

Total Water Supply (Ccf)	AVR Original	ORA Original	Difference	Amended Settlement
Residential	3,608,411	3,593,649	14,761.8	2,540,216
Commercial	813,861	812,387	1,473.8	632,415
Industrial	1,261	1,282	(20.8)	788
Public Authority	291,338	287,505	3,833.4	203,953
Irrigation Pressure	302,580	271,414	31,166.0	208,066
Private Fire Service	2,309	1,696	612.8	2,100
Public Authority Irrigation	26,825	26,825	00.00	19,315
Apple Valley Golf Course	122,164	126,540	(4,376.0)	113,021
Temporary Construction	8,921	7,056	1,864.9	8,811
Total Domestic Sales	5,177,671	5,128,355	49,316	3,728,685
Unaccounted for Water (settled) (6%)	389,717	275,602	114,115	238,001
Irrigation Gravity	456,275	443,715	12,560	456,275
Unaccounted for Water (settled) (78.2%)	1,780,367	1,444,434	335,933	1,636,729
Total Water Supply	7,804,030	7,292,105.	511,924	6,059,690

Escalation Year 2017

Total Water Supply (Ccf)	AVR Original	ORA Original	Difference	Amended Settlement
Residential	3,636,687	3,632,146	4,541.1	2,561,192
Commercial	819,196	819,947	(751.2)	637,474
Industrial	1,261	1,282	(20.8)	788
Public Authority	293,894	291,338	2,555	205,758

Irrigation Pressure	310,985	276,232	34,753.0	210,528
Private Fire Service	2,445	1,751	693	2,168
Public Authority Irrigation	26,825	26,825	00.00	19,315
Apple Valley Golf Course	122,164	126,540	(4,376.0)	113,021
Temporary Construction	8,921	7,056	1,864	8,811
Total Domestic Sales	5,222,379	5,183,118	39,260	3,759,056
Unaccounted for Water (settled) (6%)	393,082	278,545	114,537	239,940
Irrigation Gravity	456,275	443,715	12,560	456,274
Unaccounted for Water (settled) (78.2%)	1,780,367	1,444,434	335,933	1,636,729
Total Water Supply	7,852,103	7,349,811	502,291	6,091,999

REFERENCES: AVR Exh A.-1, p. 58 - 59; ORA Exh. O-1, Appendix A-8 – A-9. AVR Exh. A-31, pp. 5-7; ORA Exh. O-9, pp. 2-3.

3.6 Present Rate Revenues

AVR WATER REQUEST:

Revenue at present rates consists of Service Charge Revenue, Commodity Charge Revenue, and Miscellaneous Revenue. Service Charge Revenue is based on the number of customers multiplied by the appropriate tariff. Commodity Charge Revenue is calculated by multiplying the number of customers by their applicable water use and appropriate tariff.

ORA POSITION:

ORA finds AVR's methodology to be reasonable and recommends the use of the methodology to estimate operating revenues at present rates.

RESOLUTION:

With the resolution of the customer issue (Section 3.1) and the resultant change in total water

supply (Section 3.5) the Parties agree on the present rate revenues as set forth in the table below. The Parties further agree to increase the Miscellaneous Revenue to $17,000 (from $1,700) consistent with the agreement on Affiliated Transactions (Section 13.0).

Test Year 2015

Metered Revenues ($)	AVR Original	ORA Original	Difference	Amended Settlement
Residential	14,826,176	14,767,410	58,765.8	12,543,218
Commercial	3,399,105	3,406,266	(7,160)	2,963,627
Industrial	5,105	5,162	(57)	4,311
Public Authority	975,827	967,191	8,635.6	776,019
Private Fire	348,790	307,756	41,034.2	306,474
Public Authority Irrigation	35,268	35,268	00.00	32,025
Irrigation Pressure	1,020,145	933,518	86,627	809,275
Gravity Irrigation	196,700	192,380	4,320	196,700
Apple Valley Golf Course	112,084	115,854	(3,769)	107,703
Temporary Construction	57,644	52,526	5,117	65,564
Miscellaneous Revenue	46,693	46,693	00.00	46,693
Total Revenue	21,023,537	20,830,023	43,353	17,851,608

REFERENCES: AVR Exh. A-1, Ch. III, Table III-4, p. 35; ORA Exh. O-1, Appendix A-10. AVR Exh. A-31, p. 9; ORA Exh. O-9, p. 4.

4.0 CUSTOMER SERVICE

ORA RECOMMENDATION:

Based upon its review of AVR's application and responses to data requests, ORA finds AVR's customer service to be acceptable.

AVR WATER RESPONSE:

AVR agrees with ORA's findings.

RESOLUTION:

The Parties recommend that the Commission find AVR's customer service to be satisfactory.

REFERENCES: AVR Exh. A-1, pp. 11 -12.; ORA Exh. O-1, Ch. 11.

5.0 OPERATIONS AND MAINTENANCE

5.1 Expense Estimating Methodology

AVR WATER REQUEST:

In general, AVR's expense estimates were based on a five-year average of recorded expenses (2009 – 2013) escalated to the test year. The 2013 data used by AVR were partially estimated because that was the most current data available to AVR at the time its application was prepared. AVR provided ORA with an update of the recorded 2013 data and an updated five-year average of recorded expense (2009 – 2013) from which ORA's estimates are based.

ORA POSITION:

Where appropriate, ORA's estimates are based on a five-year average of recorded expense (2009 – 2013) that includes recorded year 2013 data.

RESOLUTION:

AVR agrees with ORA's use of the updated averages in those areas where a five-year average is the most reasonable way of estimating costs. The Parties agree to use the updated information for recorded year 2013 when a five-year average methodology is used to estimate expenses.

REFERENCES: AVR Exh. A-1, p. 40; ORA Exh. O-1, pp. 3-1 – 3-2.

5.2 Escalation Factors

AVR WATER REQUEST:

AVR proposed labor escalation factors of 3.0% for 2014 and 3.0% for Test Year 2015. AVR proposed non-labor escalation factors of 3.0% for 2014 and 3.0% for Test Year 2015.

ORA POSITION:

For labor, ORA used the Labor Index as provided by ORA's ECOS memorandum dated March

25, 2014, resulting in an escalation factor of 1.7% for 2014 and 1.7% for 2015. ORA used a 60/40 weighting of the Non-Labor Index and the Compensation Per Hour Index resulting in a composite escalation factor of 2.0% for 2014 and 2.3% for Test Year 2015.

RESOLUTION:

The Parties agree to use the latest ORA memorandum, which is the June 17, 2014 memorandum. The Parties agree to use a labor escalation factor of 1.5% for 2014 and 1.9% for Test Year 2015. The Parties agree to use composite escalation factors of 2.00% for 2014 and 2.00% for Test Year 2015 based on the 60/40 weighting of the Non-Labor Index and the Compensation Per Hour Index as provided by ORA's ECOS memorandum.

Year 2014

	AVR Original	ORA Original	Difference	Settlement
Labor	3%	1.5%	1.5%	1.5%
Composite	3%	2.0%	1.0%	2.0%
CPI	3%	1.5%	1.5%	1.5%

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Labor	3%	1.3%	1.7%	1.9%
Composite	3%	2.3%	0.7%	2.0%
CPI	3%	1.3%	1.7%	1.9%

REFERENCES: AVR Exh. A-1, p. 35, p. 40; ORA Exh. O-1, pp. 3-1 – 3-2.

5.3 O&M Payroll Expense

AVR WATER REQUEST:

AVR's payroll estimate for 2014 is based on employees' hourly rates in effect at the end of 2013 with the estimated 2014 COLA increase and estimates of merit and promotional salary

adjustments to be granted and overtime during 2014. The payroll estimate for Test Year 2015 is similarly estimated beginning with the hourly rates expected at the end of year 2014.

ORA POSITION:

ORA used the same methodology as AVR to estimate the payroll expense except that ORA recommends elimination of AVR's proposed merit increase budget for 2015.

RESOLUTION:

ORA and AVR agree to the payroll costs set forth in the tables below. Without reaching any specific agreement on the issues of COLA and merit budget, the Parties agree to calculate payroll using ORA's proposed end-of-year 2014 pay rates with an increase of 2.6% for 2015. The Parties disagree on the issue of merit salary adjustments and agree to the payroll expense as set forth in the table below. The Parties agree that payroll expense for the escalation years 2016 and 2017 will be calculated according to the Escalation Year methodology in the Rate Case Plan.

	AVR Original	ORA Original	Difference	Settlement
Payroll Operations	$837,851	$823,965	$13,886	$834,443
Payroll Customers	$506,633	$498,085	$8,548	$504,509
Payroll Maintenance	$437,181	$429,856	$7,325	$435,255
Payroll Clearings	$ 122,904	$120,856	$2,048	$122,404
Total O & M Payroll	$1,904,569	$1,872,762	$31,807	$1,896,611

REFERENCES: AVR Exh. A-1, pp. 35-39, AVR Exh. A-2, pp. 2, AVR Exh. A-17, 5-8,; ORA Exh. O-1, pp. 4-2 – 4-7.

5.4 Purchased Power

AVR WATER REQUEST:

AVR requests $1,030,017 for Test Year 2015 in purchased power expense based on its proposed production in Test Year 2015 and the unit cost of pumping based on a three-year average (2010 – 2012) of kilowatt hour per cubic foot pumped for each well and booster pump.

ORA POSITION:

ORA finds AVR's purchased power estimating methodology reasonable. Differences in the Parties' original estimates were a function of the Parties' different estimates of total production, which resulted from the difference in customers (Section 3.1), consumption (Section 3.2) and unaccounted for water (Section 3.3).

RESOLUTION:

With the resolution of the total water supply (Section 3.5), ORA and AVR agree on purchased power as set forth below.

Test Year 2015

	AVR Original	ORA Original	Difference	Amended Settlement
Purchased Power	$1,030,017	$1,010,269	$5,313	$877,660

Escalation Year 2016

	AVR Original	ORA Original	Difference	Amended Settlement
Purchased Power	$1,035,678	$1,016,436	$19,242	$847,160

Escalation Year 2017

	AVR Original	ORA Original	Difference	Amended Settlement
Purchased Power	$1,041,340	$1,023,227	$18,113	$850,965

REFERENCES: AVR Exh. A-1, p. 45; ORA Exh. O-1, p 3-3. AVR Exh. A-31, p. 10; ORA Exh. O-9, p. 4.

5.5 Replenishment Assessment

AVR WATER REQUEST:

AVR requests $104,984 for Test Year 2015 in replenishment assessments (Administrative

Assessment, Biological Assessment, and the Makeup Assessment) based on its proposed production in Test Year 2015 and the current unit costs per acre-foot rates.

ORA POSITION:

ORA finds AVR's replenishment assessment methodology reasonable. The Parties used the same methodology and the same per acre-foot rates. The difference in the Parties' original estimates were a function of the Parties' different estimates of total water supply (Section 3.5) resulting from the difference in customers, consumption and unaccounted for water.

RESOLUTION:

The Parties agree that the Replenishment Assessment should be based on an estimate of total water production and the uncontested per acre-foot rates. ORA and AVR agree on replenishment assessment as set forth below.

Test Year 2015

	AVR Original	ORA Original	Difference	Amended Settlement
Admin/Biological	$55,244	$53,567	$1,677	$42,295
Makeup	$49,740	$49,740	$0	$49,740
Total Replenishment	$104,984	$103,307	$1,677	$92,035

Escalation Year 2016

	AVR Original	ORA Original	Difference	Amended Settlement
Admin/Biological	$55,725	$54,090	$1,635	$39,703
Makeup	$49,740	$49,740	$0	$49,740
Total Replenishment	$105,465	$103,830	$1,635	$89,443

Escalation Year 2017

	AVR Original	ORA Original	Difference	Amended Settlement
Admin/Biological	$56,206	$54,526	$1,680	$40,027
Makeup	$49,740	$49,740	$0	$49,740
Total Replenishment	$105,946	$104,226	$1,720	$89,767

REFERENCES: AVR Exh. A-1, pp 46-47, Table IV-C, p. 56; ORA Exh. O-1, p. 33-34. AVR Exh. A-31, p. 11; ORA Exh. O-9, p. 4

5.6 Leased Water Rights

AVR WATER REQUEST:

AVR requests $963,849 for Test Year 2015 in leased water rights based on AVR's proposed production of 11,271 acre-feet less the adjusted free production allowance of 8,751 acre-feet and based on the current lease rate of $382.50 per acre-foot.

ORA POSITION:

ORA found AVR's estimate of leased water rights expense acceptable. The Parties used the same methodology and the same per acre-foot rate to calculate the Leased Water Rights expense.

RESOLUTION:

The Parties agree that the Leased Water Rights expense should be based on an estimate of total water production less the adjusted Free Production Allowance and the uncontested per acre-foot rates. ORA and AVR agree on Leased Water Right expense as set forth below.

Test Year 2015

	AVR Original	ORA Original	Difference	Amended Settlement
Leased Water Rights	$963,849	$834,735	$29,215	$0

Escalation Year 2016

	AVR Original	ORA Original	Difference	Amended Settlement
Leased Water Rights	$1,007,055	$875,663	$131,392	$0

Escalation Year 2017

	AVR Original	ORA Original	Difference	Amended Settlement
Leased Water Rights	$1,044,620	$908,175	$136,445	$0

REFERENCES: AVR Exh. A-1, pp. 47-48; ORA Exh. 1, pp. 3-3 – 3-4. AVR Exh. A-31, p. 12; ORA Exh. O-9, p. 5

5.7 Chemicals

AVR WATER REQUEST:

AVR requests chemicals expense of $21,954 for Test Year 2015 based on the five-year average of recorded expense.

ORA POSITION:

ORA finds AVR's methodology to estimate chemicals reasonable. There are no methodological differences between ORA's and AVR's estimates of chemicals. The original differences between ORA and AVR's estimates result from ORA's use of the updated recorded information for 2013.

RESOLUTION:

Based on the agreement on estimating methodology (Section 5.1) and escalation factors (Section 5.2) ORA and AVR agree on chemicals, as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Chemicals	$ 21,954	$20,959	$995	$21,771

REFERENCES: AVR Exh. A-1 p 54; ORA Exh. O-1, p. 3-4.

5.8 Operations Other

AVR WATER REQUEST:

AVR requests $157,300 for Test Year 2015 for the expense category of Operations – Other based on the five-year average (2009 – 2013) of recorded expenses with the exception of the Groundskeeping-Pump Miscellaneous and Water Treatment Laboratory Costs sub-accounts, where AVR used specific expense estimates. For Groundskeeping-Pump Miscellaneous, AVR's estimates were based on the recorded 2013 costs escalated to Test Year 2015 to reflect current activity levels. For water quality laboratory expense, AVR's estimate is based on a three-year average of the required testing requirements for 2015, 2016 and 2017.

ORA POSITION:

ORA's estimate is based on the five-year average of recorded expenses for all line items in this expense category.

RESOLUTION:

After further discussion, settlement negotiations, and review of AVR's rebuttal testimony, the Parties agree to use AVR's application amounts for Groundskeeping-Pump Miscellaneous and Water Treatment Laboratory Costs. The other expenses in this expense category are subject to the agreement on the expense estimating methodology (Section 5.1) and escalation factors (Section 5.2) as shown in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Groundskeeping-Pump Misc.	$6,103	$1,765	$4,338	$6,044
Water Treatment Laboratory	$54,847	$50,497	$3,990	$54,847
Other	$96,710	$106,731	($10,021)	$94,271
Total Operations Other	$157,300	$158,993	($3,831)	$155,162

REFERENCES: AVR Exh. A-1, p. 40; ORA Exh. O-1, pp. 3-2 – 3-3.

5.9 Customer Other (excluding conservation)

AVR WATER REQUEST:

AVR requests $245,009 for Test Year 2015 for the expense category of Customer – Other based on the five-year average (2009 – 2013) of recorded expenses with the exception of the Customer-Billing & Related, Data Services, and Collection Agency sub-accounts, where AVR used specific expense estimates to reflect current activity levels.

ORA POSITION:

ORA's estimate is based on the five-year average of recorded expenses for all line items in this expense category.

RESOLUTION:

After further discussion, settlement negotiations, and review of AVR's rebuttal testimony, the Parties agree to use AVR's application amounts for Customer-Billing & Related, Data Services, and Collection Agency. The other expenses in this expense category are subject to the agreement on the expense estimating methodology (Section 5.1) and escalation factors (Section 5.2) as shown in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Customer-Billing & Related	$80,262	$67,636	$12,626	$79,482
Data Services	$1,306	$991	$315	$1,293
Collection Agency	$8,372	$6,337	$2,035	$8,291
Other	$155,069	$130,987	$24,082	$148,883
Total Customers Other	$245,009	$205,951	$39,058	$237,949

REFERENCES: AVR Exh. A-1, p. 40; ORA Exh. O-1, p. 3-5.

5.10 Uncollectibles

AVR WATER REQUEST:

AVR's estimate is based on a five-year average of recorded uncollectible expense (2007 – 2012).

ORA POSITION:

ORA finds AVR's methodology reasonable and recommends that the Commission adopt AVR's estimated uncollectible percentage (0.48%). There are no methodological differences between the Parties' estimate of uncollectible expense. The original differences between AVR's and ORA's estimates resulted from different estimates of revenues.

RESOLUTION:

The Parties agree to calculate the uncollectible expense consistent with the resolution of all issues (e.g., revenue, expense, utility plant).

REFERENCES: AVR Exh. A-1, p. 42; ORA Exh. O-1, p. 3-6.

5.11 Maintenance Other

AVR WATER REQUEST:

AVR requests $620,993 for Test Year 2015 for the expense category of Maintenance – Other based on the five-year average (2009 – 2013) of recorded expenses with the exception of the Paint/Coat-Pump Mt Str/Imp, Paint/Coat-T&D Mt Hydrants, and Other-T&D Mt. Meters, where AVR used specific expense estimates to reflect current activity levels.

ORA POSITION:

ORA's estimate is based on the five-year average of recorded expenses for all line items in this expense category and different escalation factors.

RESOLUTION:

The Parties agree to use AVR's application amounts for Paint/Coat-Pump Mt Str/Imp, Paint/Coat-T&D Mt Hydrants, and Other-T&D Mt. Meters. The other expenses in this expense category are subject to the agreement on the expense estimating methodology (Section 5.1) and escalation factors (Section 5.2) as shown in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Maintenance Other	$620,993	$664,999	$44,006	$617,036

REFERENCE: AVR Exh. A-1, p. 41; ORA Exh. O-1, p. 3-5.

5.12 Depreciation Clearing

AVR WATER REQUEST:

AVR requests $264,177 for Test Year 2015 for depreciation clearing based on its proposed depreciation rates (Section 10.1) and projected balances of utility plant in service.

ORA POSITION:

ORA finds AVR's methodology acceptable. There are no methodological differences between the Parties' estimates. The original differences between AVR's and ORA's estimates resulted from different estimates of utility plant in service. With the resolution of utility plant in service (Section 9.0), there is no difference between the Parties' estimates.

RESOLUTION:

The Parties agree to the depreciation clearing expense, as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Depreciation Clearings	$264,177	$239,800	$ 24,377	$241,905

REFERENCES: AVR Exh. A-1, Ch. VII, p. 108; ORA Exh. O-1, p. 3-5.

5.13 Clearings Other

AVR WATER REQUEST:

AVR requests $217,979 for Test Year 2015 for Clearings – Other based on its projected payroll costs and the five-year average (2009 – 2013) of recorded expenses.

ORA POSITION:

ORA finds AVR's methodology acceptable. There are no methodological differences between ORA and AVR. The original differences between ORA's and AVR's estimates resulted from different estimates of payroll and the use of recorded data from 2013.

RESOLUTION:

With the resolution on escalation factors (Section 5.2), expense estimating methodology (Section 5.1), and payroll (Section 5.3) the Parties agree Clearings Others, as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Clearings Other	$217,979	$207,612	$10,367	$206,287

REFERENCES: AVR Exh. A-1, p. 41; ORA Exh. O-1, pp. 3-5 – 3-6.

5.14 Payroll Clearings

AVR WATER REQUEST:

AVR requests $122,904 for Test Year 2015 for Payroll – Clearings based on its projected payroll costs.

ORA POSITION:

ORA finds AVR's methodology acceptable. There are no methodological differences between ORA and AVR. The original differences between ORA's and AVR's estimates resulted from different estimates of payroll.

RESOLUTION:

With the resolution on the payroll (Section 5.3) the Parties agree on Clearings Others, as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Payroll Clearings	$122,904	$120,856	$2,048	$122,404

REFERENCES: AVR Exh. A-1, p. 41; ORA Exh. O-1, p. 4-7.

6.0 ADMINISTRATIVE AND GENERAL

6.1 Payroll

AVR WATER REQUEST:

The contested issues are the same as identified in Section 5.3 above (O&M Payroll). The PTO, Holiday, etc. portions of those employee's payroll is included in A&G payroll. The Parties agreement on A&G payroll is based upon the reasons provided in Section 5.3.

RESOLUTION:

The resolution is the same as identified and explained in Section 5.3. ORA and AVR agree on payroll as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
A & G Payroll	$1,616,364	$1,590,294	$26,070	$1,609,905

REFERENCES: AVR Exh. A-1, pp. 35-39; ORA Exh. O-1, pp. 4-1 – 4-7.

6.2 PBOP

AVR/PARK WATER REQUEST:

AVR requests $41,547 in Post-retirement Health and Life Benefits (PBOP) for Test Year 2015 based on the allowable tax deductible contributions to the VEBA and 401(h) plans according to the actuarial valuation of AVR's Post-retirement Benefits by its outside actuary. For plan year 2014, AVR has modified the PBOP plan such that the benefit offered to retirees 65 and over will be limited to a Medical Reimbursement Account. The same methodology was used to calculate Park's General Office estimate of $52,732 for Test Year 2015.

ORA POSITION:

ORA finds AVR's methodology to estimate PBOP acceptable. ORA's estimate reflects corrections to AVR's application request for the key employee component of PBOP provided by AVR in response to discovery requests. ORA recommends $35,597 for AVR and $61,301 for Park's General Office.

RESOLUTION:

After discussions, settlement negotiations, and review of AVR's rebuttal testimony, the Parties agree to use the amounts in ORA's testimony as shown in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
PBOP – AVR	$41,547	$35,597	$5,950	$35,597
PBOP – Park	$52,732	$61,301	($8,569)	$61,301

REFERENCES: AVR Exh A.-1, pp. 51, AVR Exh. A-2,-8, pp. 5-13; ORA Exh.-1, pp. 5-3 – 5-4.

6.3 Medical Insurance

AVR/PARK WATER REQUEST:

AVR requests $605,868 for Test Year 2015 in Medical insurance premiums based on the projected premiums to be in effect as of January 1, 2014, projected premium increase of 7.25%

for 2015 and the projected payroll for the Test Year. The increase in premium for 2015 is based on the projected increase in medical costs used by AVR's outside actuaries for calculation of AVR's Postretirement Health and Life Benefits 2013 Actuarial Valuation. The same methodology was used to calculate Park's General Office estimate of $428,136 for Test Year 2015.

ORA POSITION:

ORA recommends $596,220 in Medical Insurance for AVR and $421,440 for Park's General Office for Test Year 2015 based on the actual premiums in effect as of January 1, 2014, and escalated that amount using a 5.5% inflation factor from the March 2014 Global Insight U.S. Economic Outlook (Health Insurance Benefits).

RESOLUTION:

After discussions, settlement negotiations, and review of AVR's rebuttal testimony, the Parties agree to use the amounts below using the agreed to escalation factor of 7.25%.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Medical Insurance - AVR	$605,868	$596,220	$12,648	$605,964
Medical Insurance - Park	$428,136	$421,440	$6,696	$428,304

REFERENCES: AVR Exh. A-1, pp. 50, AVR Exh. A-2-8, pp. 5-13; ORA Exh.-1, p. 5-4.

6.4 Dental Insurance

AVR/PARK WATER REQUEST:

AVR requests $47,796 for Test Year 2015 in Dental insurance premiums based on the projected premiums to be in effect as of January 1, 2014, projected premium increase of 5.0% for 2015 and the projected payroll for the Test Year. The increase in premium for 2015 is based on the projected increase in dental costs used by AVR's outside actuaries for calculation of AVR's Postretirement Health and Life Benefits 2013 Actuarial Valuation. The same methodology was used to calculate Park's General Office estimate of $29,916 for Test Year 2015.

ORA POSITION:

ORA finds the methodology used by AVR to calculate the Dental Insurance reasonable.

RESOLUTION:

After discussions, settlement negotiations, and review of AVR's rebuttal testimony, the Parties agree to use the amounts below based on ORA's estimates.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Dental Insurance - AVR	$47,796	$46,332	$1,464	$46,332
Dental Insurance - Park	$29,916	$28,908	$1,008	$28,908

REFERENCES: AVR Exh. A-1, p. 50, AVR Exh. A-11, pp. 8-3 - 5; ORA Exh.-1, p. 5-4.

6.5 401(K) Plan

AVR/PARK WATER REQUEST:

AVR requests $79,261 for Test Year 2015 based on the actual employee's elections to be in effect on January 1, 2014 and the projected payroll for Test Year 2015. The same methodology was used to calculate Park's General Office estimate of $134,672 for Test Year 2015.

ORA POSITION:

ORA recommends $69,720 in 401(K) expense for AVR and $113,421 for Park in Test Year 2015 based on the five-year (2009 – 2013) average of recorded expenses.

RESOLUTION:

As a result of further discussions and settlement negotiations, the Parties agree to recalculate the test year expense using the methodology contained in AVR's application, using AVR's estimated participation levels and incorporating the stipulated payroll.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
401(K) - AVR	$79,261	$69,720	$9,541	$78,927
401(K) – Park	$134,672	$113,421	$20,691	$134,112

REFERENCES: AVR Exh. A-1, pp. 51, AVR Exh. A-11, pp. 5-6; ORA Exh.-1, pp. 5-4 – 5-5.

6.6 EAP/Wellness Program

AVR/PARK WATER REQUEST:

AVR requests $22,269 for Test Year 2015 based on its budgeted amount for its new Wellness program. The same methodology was used to calculate Park's General Office estimate of $11,495 for Test Year 2015.

ORA POSITION:

ORA recommends $5,351 in EAP/Wellness expense for AVR and $4,224 for Park based on the five-year (2009 – 2013) recorded average of expenses.

RESOLUTION:

After further discussion, settlement negotiations, and review of AVR's rebuttal testimony, the Parties agree to the amounts in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
EAP/Wellness - AVR	$22,269	$5,351	$16,918	$10,702
EAP/Wellness - Park	$11,495	$4,224	$7,271	$8,448

REFERENCES: AVR Exh. A-2, pp. 10-11 AVR Exh. A-19, pp. 5-9; ORA Exh.-1, pp. 5-5 – 5-6.

6.7 Defined Contribution 401(A) Plan

AVR/PARK WATER REQUEST:

AVR requests $77,276 for Test Year 2015 for the defined contribution 401(A) plan based on the number of employees eligible for the plan, the projected cost per employee, and the projected increase of 3% for both 2014 and Test Year 2015. The same methodology was used to calculate Park's General Office estimate of $51,517 for Test Year 2015.

ORA POSITION:

ORA recommends $56,632 in 401 (A) expense for AVR and $29,745 for Park based on the five-year (2009 – 2013) recorded average of expenses.

RESOLUTION:

After further discussions, settlement negotiations, and review of AVR's rebuttal testimony, the Parties agree to recalculate the test year expense using the methodology contained in AVR's application incorporating the stipulated payroll expense.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
401(A) – AVR	$77,276	$56,632	$20,644	$76,789
401(A) – Park	$51,517	$29,745	$21,772	$51,193

REFERENCES: AVR Exh. A-1, p. 51, AVR Exh. A-11, pp. 7-8; ORA Exh. O-1, p. 5-6.

6.8 Irrigation Net Benefits Adjustment

AVR WATER REQUEST:

AVR requests $2,063 for Test Year 2015 of Irrigation Net Benefits Adjustment based on the projected payroll and applicable payroll burden rate for the Irrigation system.

ORA POSITION:

ORA finds AVR's methodology to estimate the Irrigation Net Benefits Adjustment acceptable.

There are no methodological differences between ORA and AVR.

RESOLUTION:

With the resolution of payroll (Section 5.3), the Parties agree to the Irrigation Net Benefits Adjustment as shown below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Net Benefits Adjustment	$2,063	$2,030	$33	$2,056

REFERENCES: AVR Exh. A-1, p. 49; ORA Exh.-1, p. 5-6.

6.9 Insurance

AVR WATER REQUEST:

AVR requests $662,982 for Test Year 2015 in total insurance expense based on the projected premiums and projected payroll for the test year.

ORA POSITION:

ORA finds AVR's methodology acceptable. There are no methodological differences between ORA and AVR. The original differences between ORA and AVR are due to differences in the estimates of payroll. With the resolution of payroll (Section 5.3) there are no longer any differences in the Parties' position.

RESOLUTION:

Based on settlement discussions and review of AVR's rebuttal testimony, the Parties agree to use AVR's application amounts, adjusted to reflect the settlement on payroll, except that the expense category of Workers' Compensation Insurance will be recalculated using a 10% increase in premium.

Test Year 2013

	AVR Original	ORA Original	Difference	Settlement
Insurance	$662,982	$644,088	$18,894	$662,407

REFERENCES: AVR Exh. A-1, pp. 49-50, AVR Exh. A-11, pp. 2-3; ORA Exh. O-1, p. 3-11.

6.10 Uninsured Property Damage

AVR WATER REQUEST:

AVR requests $8,785 based on the five-year (2009 – 2013) average of recorded expenses.

ORA POSITION:

ORA found AVR's methodology for estimating uninsured property damage expense to be reasonable. There are no methodological differences between the Parties except that ORA used the updated recorded information for 2013.

RESOLUTION:

As a result of the agreement on the expense estimating methodology (Section 5.1) and escalation factors (Section 5.2), the Parties agree on the uninsured property damage expense as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Uninsured Property Damage	$ 8,785	$8,717	$ 68	$8,766

6.11 Regulatory Commission Expense

AVR WATER REQUEST:

AVR requests total regulatory commission expense of $486,911 amortized over three years, resulting in an annual expense of $162,304. AVR's estimate of regulatory commission expense

is based on the actual recorded costs of AVR's prior general rate case (Test Year 2012) and one-third of the total costs incurred in the current base year 2013 cost of capital proceeding (D.13-05-027), escalated to current-year dollars. In addition, Park projects $16,500 of customer notices associated with the low-income data sharing program, $50,796 for the Asset Management Report associated with main replacements, $8,765 for WRAM and Sales Adjustment Mechanism testimony and $15,187 for a total compensation study required by D.12-09-004.

ORA POSITION:

ORA found AVR's methodology for estimating regulatory commission expense to be reasonable except that ORA disallowed the outside consulting costs associated with the WRAM and Sales Adjustment Mechanism, Asset Management Report for main replacements, and the Total Compensation Study.

RESOLUTION:

As a result of additional discussions, settlement negotiations and review of AVR's rebuttal testimony, the Parties agree to recalculate the test year expense using the methodology contained in AVR's application. The Parties agree to the regulatory commission expense as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Regulatory Commission Expense	$162,304	$131,341	$30,963	$159,307

REFERENCES: AVR Exh. A-1 p. 52, AVR Exh. A-16, pp. 3-6; ORA Exh. O-1, p. 3-12.

6.12 Franchise Requirements

AVR WATER REQUEST:

AVR's estimate is based on a five-year average of recorded franchise expense (2007 – 2012).

ORA POSITION:

ORA finds AVR's methodology reasonable and recommends that the Commission adopt AVR's estimated franchise requirements (0.97%). There are no methodological differences between the Parties' estimate of franchise expense. The original differences between AVR's and ORA's estimates resulted from different estimates of revenues.

RESOLUTION:

The Parties agree to calculate the franchise requirements consistent with the resolution of all issues (e.g., revenue, expense, utility plant).

REFERENCES: AVR Exh. A-1, p. 53; ORA Exh. O-1, p. 3-13.

6.13 Outside Services

AVR WATER REQUEST:

AVR requests $261,181 for Test Year 2015 for outside – services based on a five-year average of recorded expenses (2009 – 2013) except for the sub-accounts of Safety Consulting and Other General Consulting where specific estimates were added to the five-year average of recorded expenses. For Safety Consulting, AVR requests to conduct an Arc Flash Hazard Assessment, a Vulnerability/Mitigation Study for natural disasters, and a Water Supply Evaluation. For Other General Consulting, AVR requests to utilize Public Relations consultants for the development of customer messaging and also proposed to conduct a 360 Leadership Feedback review for its supervisors and managers to improve performance.

ORA POSITION:

ORA recommends $230,307 for Test Year 2015 based on the five-year average of recorded expenses (2009 – 2013), with the exception of the expense category of Insurance consulting that was based on the two-year average of recorded expenses (2012 – 2013) and the removal of studies and assessments requested by AVR. ORA disallows the Arc Flash Hazard Assessment, the Vulnerability/Mitigation Study, and the Water Supply Evaluation portions from Safety Consulting and the Public Relations Consulting and 360 degree leadership Feedback from the Other General Consulting.

RESOLUTION:

After further discussions, settlement negotiations and review of AVR's rebuttal testimony, the Parties agree to include AVR's application amount for Safety Consulting with the exception of Water Supply Evaluation ($7,000), which AVR agrees with ORA's recommendation to remove. For Other General Consulting, AVR agrees with ORA's recommendation to remove the outside services cost associated Public Relations Consulting ($3,500) and 360 Leadership Feedback ($12,000). The Parties agree on the outside services expense as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Audit/ Income Tax	$86,820	$85,833	$987	$85,893
Legal	$49,942	$47,707	$2,235	$47,983
Safety	$15,667	$0	$15,667	$13,333
Water Quality	$4,365	$2,468	$1,897	$2,482
Benefits	$2,102	$2,012	$0	$2,024
Insurance	$46,972	$46,383	$589	$46,470
Other General	$55,313	$45,903	$9,410	$46,168
Total	$261,181	$230,307	$30,874	$244,353

REFERENCES: AVR Exh. A-1, pp. 51-52, AVR Exh A.-12, pp. 12-13, AVR Exh. A-19, pp. 2-4, AVR Exh. A-9, pp 4-7; ORA Exh. O-1, pp. 3-13 – 3-15.

6.14 A&G Other

AVR WATER REQUEST:

AVR requests $514,452 for Test Year 2015 for the expense category of A&G Other. AVR's estimate is based on five-year average of recorded expenses (2009 – 2013) except for Temporary Labor, Leased Lines, Travel, Lodging and Miscellaneous, Meals and Entertainment, Registration, Other Administrative General, Company Membership, Emergency Preparedness Supplies, and the Corporate A&G Allocation where AVR used budgeted amounts to reflect current activity levels.

ORA POSITION:

ORA's estimate of $451,471 is based on a five-year average of recorded expense (2009 – 2013) using the updated recorded information for 2013 with the exception of Temporary Labor and Leased Lines where ORA accepts AVR's specific expense estimates. ORA recommends disallowance of the cellular expense of $2,802 associated with AVR changing carriers from Nextel to Verizon in 2012. ORA recommends disallowance of the company membership of $4,271 associated with Apple Valley Chamber of Commerce, Costco, High Desert Employer Advisory Council, and the Climate Action Registry. ORA recommends the disallowance of $25,000 associated with the ESRI Enterprise Advantage Program. ORA recommends disallowance of $1,498 associated with the Emergency Preparedness Supplies.

ORA finds Park's methodology for the Corporate A&G allocation reasonable. There are no methodological differences between AVR's and ORA's estimates. The original differences between AVR's and ORA's estimates resulted from different estimates of payroll. With the resolution of the payroll there is no longer any difference between the Parties' positions.

RESOLUTION:

After further discussion, settlement negotiations, and review of AVR's rebuttal testimony, the Parties agree to the amounts shown in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Nextel	$2,886	$0	$2,886	$2,835
Travel	$24,280	$18,280	$6,000	$23,455
Meals	$20,801	$14,401	$6,400	$17,842
Registration	$22,297	$19,715	$2,582	$20,846
Other Admin General	$69,831	$36,755	$33,076	$65,169
Company Membership	$61,477	$57,206	$4,271	$57,179
Emergency Kits	$1,504	$0	$1,504	$1,489
A&G Allocation	$41,970	$41,302	$ 668	$ 41,827

	AVR Original	ORA Original	Difference	Settlement
Other	269,406	263,812	5,594	$265,371
Total	$514,452	$451,471	$62,981	$496,013

REFERENCES: AVR Exh. A-1, pp. 52-53, AVR Exh. A-12, pp. 13-17; ORA Exh. O-1, pp. 3-15 – 3-18.

6.15 A&G Transferred

AVR WATER REQUEST:

AVR requests ($637,345) for Test Year 2015 for the A&G transferred credit based on in its proposed capital expenditures.

ORA POSITION:

ORA accepts the methodology used by AVR in its application. There are no methodological differences between ORA and AVR. The original differences between AVR's and ORA's estimates resulted from different estimates of capital expenditures.

RESOLUTION:

The Parties agree to the amounts shown in the below table incorporating the adopted plant additions as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Amended Settlement
A&G Transferred Credit	($637,345)	($184,846)	($452,499)	($357,202)

Escalation Year 2016

	AVR Original	ORA Original	Difference	Amended Settlement
A&G Transferred Credit	($675,196)	($184,121)	($491,075)	($383,602)

Escalation Year 2017

	AVR Original	ORA Original	Difference	Amended Settlement
A&G Transferred Credit	($713,048)	($183,397)	($529,651)	($410,002)

REFERENCES: AVR Exh A.-1, Ch. IV, Table IV-B; ORA Exh. O-1, p. 3-18.

6.16 Rents

AVR WATER REQUEST:

AVR requests $17,281 for Test Year 2015 for rents based on the five-year average of recorded expense.

ORA POSITION:

ORA finds AVR's methodology to estimate rents reasonable. There are no methodological differences between ORA's and AVR's estimates of rents. The original differences between ORA and AVR's estimates result from ORA's use of the updated recorded information for 2013.

RESOLUTION:

Based on the agreement on estimating methodology (Section 5.1) and escalation factors (Section 5.2) ORA and AVR agree on rents as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Rents	$17,281	$16,711	$570	$16,809

REFERENCES: AVR Exh. A-1, p. 49; ORA Exh. O-1, p. 3-18.

6.17 Depreciation Expense

AVR WATER REQUEST:

AVR's estimate of depreciation expense for Test Year 2015 is based on its proposed depreciation rates and capital expenditures.

ORA POSITION:

ORA accepts AVR's proposed depreciation rates in its Application. There are no methodological differences between AVR and ORA. The original differences between AVR's and ORA's estimates of depreciation expense resulted from different estimates of utility plant in service.

RESOLUTION:

The Parties agree to calculate depreciation expense incorporating the adopting plant additions as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Amended Settlement
Depreciation Expense	$3,222,134	$3,001,600	$220,534	$3,158,559

Escalation Year 2016

	AVR Original	ORA Original	Difference	Amended Settlement
Depreciation Expense	$3,573,499	$3,096,979	$476,520	$3,355,226

REFERENCES: AVR Exh. A-1, Ch. VII, p. 105; ORA Exh. O-1, Appendix A-20.

7.0 TAXES OTHER THAN INCOME

7.1 Ad Valorem Taxes

AVR WATER REQUEST:

AVR's estimates of ad valorem taxes are based on the methodology used by the San Bernardino County Tax Assessor's Office.

ORA POSITION:

ORA accepts AVR's methodology for estimating ad valorem taxes. The original differences between AVR's and ORA's estimates resulted from differences in estimates of utility plant in service. With the settlement agreement on utility plant in service there is no longer any difference in the Parties' positions.

RESOLUTION:

The Parties agree to estimates of the ad valorem tax as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Amended Settlement
Ad Valorem Taxes	$573,538	$570,700	$2,838	$578,256

Escalation Year 2016

	AVR Original	ORA Original	Difference	Amended Settlement
Ad Valorem Taxes	$674,453	$586,300	$88,153	$633,594

Escalation Year 2017

	AVR Original	ORA Original	Difference	Amended Settlement
Ad Valorem Taxes	$809,053	$601,900	$207,153	$688,933

REFERENCES: AVR Exh. A-1, p. 60, AVR Exh. A-2, p. 8; ORA Exh. O-1, p. 6-2.

7.2 Payroll Taxes

AVR WATER REQUEST:

AVR requests $255,673 for Test Year 2015 for payroll taxes based on AVR's projections of payroll tax rates and limits.

ORA POSITION:

ORA accepts AVR's methodology. The original differences between AVR's and ORA's estimates resulted from the differences in the estimates of payroll, and a calculation error in ORA's schedule.

RESOLUTION:

With the settlement on payroll (Section 5.3) there is no longer any difference in the Parties' positions. ORA and AVR agree to the estimates of payroll taxes as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Payroll Taxes	$255,673	$ 264,600	$68,927	$254,736

REFERENCES: AVR Exh. A-1, p. 60, AVR Exh. A-12, p. 18; ORA Exh. O-1, pp. 6-1 – 6-2.

8.0 INCOME TAXES

8.1 Tax Depreciation

AVR WATER REQUEST:

AVR estimates Federal Tax Deprecation of $3,301,715 and State Tax Depreciation of $3,368,641 for Test Year 2015 based on AVR's actual ratemaking depreciation methodology and AVR's proposed plant additions.

ORA POSITION:

ORA accepts the methodology proposed by AVR in its application. There are no methodological differences between ORA's and AVR's estimates of the ratemaking tax depreciation deduction. The original differences between ORA's and AVR's estimates result from the different estimates of plant additions and corrections to ORA's schedule.

RESOLUTION:

The Parties agree that tax depreciation should be calculated using the methodology used in AVR and ORA's estimates consistent with the adopted utility plant as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Amended Settlement
Federal Tax Depreciation	$3,301,715	$3,261,100	$56,592	$3,398,090
State Tax Depreciation	$3,368,641	$3,186,500	$9,843	$3,271,958

Test Year 2016

	AVR Original	ORA Original	Difference	Amended Settlement
Federal Tax Depreciation	$3,767,375	$3,326,262	$441,113	$3,531,468
State Tax Depreciation	$3,727,058	$3,286,996	$440,062	$3,451,050

REFERENCES: AVR Exh. A-1, pp. 122-123; ORA Exh. O-1, Appendix A-17.

8.2 Interest Expense Deduction

AVR WATER REQUEST:

AVR estimates the interest expense deduction of $2,052,076 for Test Year 2015 based on AVR's authorized weighted cost of long-term debt multiplied by the projected rate base for the test year.

ORA POSITION:

ORA finds AVR's methodology reasonable. There are no methodological differences between the Parties' estimates of the interest expense deduction. The original differences between ORA's and AVR's estimates result from different estimates of rate base.

RESOLUTION:

The Parties agree that the interest expense deduction should be calculated using the methodology used in AVR's and ORA's estimates consistent with the adopted rate base as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Interest Expense	$2,052,076	$1,747,600	$304,476	$1,906,916

Escalation Year 2016

	AVR Original	ORA Original	Difference	Settlement
Interest Expense	$2,436,576	$1,835,500	$601,076	$2,080,432

Escalation Year 2017

	AVR Original	ORA Original	Difference	Settlement
Interest Expense	$2,821,047	$1,923,484	$897,563	$2,253,918

REFERENCES: AVR Exh. A-1, p. 123; ORA Exh. O-1, Appendix A-16.

8.3 Qualified Production Activities Deduction

AVR WATER REQUEST:

AVR estimates the Qualified Production Activities Deduction based on the methodology prescribed by Internal Revenue Code Section 199.

ORA POSITION:

ORA accepts the methodology used by AVR in its Application. The original differences between AVR's and ORA's estimates resulted from the differences in estimates of revenue requirements.

RESOLUTION:

The Parties agree to calculate this income tax deduction based upon the methodology used for preparing AVR's most recent federal tax return (including percentages to determine applicable revenues and deductions). The Parties agree that the QPD tax deduction should be estimated by

taking 9% of the production-related portion (37.81%) of AVR's Federal Taxable Income ((Fed. Taxable Income) x .3781 x .09).

REFERENCES: AVR Exh. A-1, p. 123; ORA Exh. O-1, p. 7-5

8.4 ORA Recommendation on American Taxpayer Relief Act of 2012

ORA RECOMMENDATION:

ORA recommends that the effects of the American Taxpayer Relief Act of 2012 (2012 ATRA) related to Bonus Depreciation be incorporated into the computation of regulated taxable income and deferred taxes for the years 2012-2015 and that any revenue requirement impact of the Bonus depreciation in 2013 be captured in the Tax Memorandum Account established by Resolution L-411A. ORA states that it understands that AVR does not oppose this methodology.

AVR WATER POSITION:

AVR opposes this methodology because AVR has not elected to take Bonus Depreciation for 2013 pursuant to 2012 ATRA, so there are no impacts to be incorporated, and the language in 2012 ATRA clarifies that it is a violation of the IRS normalization rules for a regulatory agency to impute bonus depreciation for ratemaking purposes when a utility has elected not to take it. AVR also disagrees that impacts of the 2012 ATRA should be tracked in the memorandum account established by Resolution L-411A because that memorandum account was specifically established to track the impacts of the 2010 Tax Act.

RESOLUTION:

ORA concurs that the inclusion of this recommendation in its final report for AVR was inadvertent and unintended.

REFERENCES: ORA Exh. O-1, p. 7-2; AVR Exh. A-16, p. 12.

9.0 UTILITY PLANT IN SERVICE

9.1 Capital Budgets

AVR WATER REQUEST:

AVR requested total capital budgets of $7,864,013 for 2014, $13,397,801 for 2015, and $14,129,120 for 2016.

ORA POSITION:

ORA recommended capital budgets of $4,319,405 for 2014, $3,895,335 for 2015, and $3,816,548 for 2016.

RESOLUTION:

ORA and AVR have resolved their differences regarding plant additions for 2014, 2015, and 2016. ORA and AVR agree to a capital budget of $7,685,201 for 2014, $8,597,801 for 2015, and $8,852,335 for 2016 as described in more detail below.

REFERENCES: AVR Exh. A-1, p. 63; ORA Exh. O-1, p. 8-3.

9.2 New Well #35

AVR REQUEST:

AVR requests $1,102,546 in 2015 and $1,102,546 in 2016 to construct a new well. The necessity for a new well to meet water system demands was documented in the AVR Technical Report 2013 Update–Analysis of Source and Storage Capacity AVR, Exhibit A-20. The report includes documentation of demands and their variations in the past, estimates of future demands, pumping capacities, well down times, and issues associated with the aging wells in the water system and concludes that a new well is required for the Main Pressure Zone prior to summer of 2016.

ORA POSITION:

ORA recommends that AVR defer the construction of this well because customer usage has been declining in recent years due to conservation and economic conditions.

RESOLUTION:

After further discussion, settlement negotiations, and review of AVR's rebuttal testimony, ORA and AVR agree to AVR's proposal to construct a new well. The construction of this well will

allow AVR to be less dependent on older wells, which are less efficient. AVR estimates annual energy savings of approximately $24,000 (or 160,000 kwhrs) once Well #35 goes into production. Savings in energy costs due to increased efficiency will be captured in AVR's MCBA. The Parties agree on the costs as set forth in the table below.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Well #35	$1,102,546	$0	$1,102,546	$1,102,546

Test Year 2016

	AVR Original	ORA Original	Difference	Settlement
Well #35	$1,102,546	$0	$1,102,546	$1,102,546

REFERENCES: AVR Exh. A-1, pp. 87-88, AVR Exh. A-18, pp. 2-6, AVR Exh. A-20; ORA Exh. 1, pp. 8-3 – 8-12.

9.3 Storage Tank Bell Mountain Pressure Zone

AVR REQUEST:

AVR requests $2,300,000 for a new 1.5 million gallon tank at the Bell Mountain tank site in 2015. The project was proposed to solve existing operational issues, seismic concerns over the existing tank, and improve both fire flow capabilities and water quality as discussed in AVR Exhibit A-22, North Apple Valley Water System Improvement Plan (Improvement Plan)..

ORA POSITION:

ORA recommends disallowance of the Storage Tank for the Bell Mountain Pressure Zone because the operational issues identified by AVR's Improvement Plan do not warrant the construction of a new reservoir.

RESOLUTION:

After further discussions and settlement negotiations, AVR agrees to defer construction of the storage tank.

Test Year 2015

Tank Bell Mountain	AVR Original	ORA Original	Difference	Settlement
Total	$2,300,000	$0	$2,300,000	$0

REFERENCES: AVR Exh. A-1, pp. 80-81, AVR Exh. A-18, pp. 6-10; ORA Exh. 1, pp. 8-12 – 8-19

9.4 Storage Tank Stoddard Pressure Zone

AVR REQUEST:

AVR requests $2,300,000 for new 1.5 million gallon tank at the Stoddard tank site in 2016. The project was proposed to solve seismic concerns and fire flow capacity with the existing tank and to add greater system reliability in the Stoddard Zone as discussed in AVR Exhibit A-22, North Apple Valley Water System Improvement Plan.

ORA POSITION:

ORA recommends disallowance of the Storage Tank for the Bell Mountain Pressure Zone because the operational issues identified in AVR's Improvement Plan do not warrant the construction of a new reservoir.

RESOLUTION:

After further discussions and settlement negotiations, AVR agrees to defer the construction of the storage tank.

Test Year 2016

Tank Stoddard	AVR Original	ORA Original	Difference	Settlement
Total	$2,300,000	$0	$2,300,000	$0

REFERENCES: AVR Exh. A-1, pp. 80- 81, AVR Exh. A-18, pp. 6 – 11, AVR Exh. A-23; ORA Exh. O-1, pp. 8-19 – 8-25.

9.5 New Office Building

AVR REQUEST:

AVR requests $225,890 in 2014, $2,000,000 in 2015, and $1,821,753 in 2016 to construct a new office building to expand employee office space, meeting room space, and training space to meet the needs of providing service to its customers.

ORA POSITION:

ORA recommends disallowance of the costs of the new office building including the associated costs of new office furniture and equipment because AVR failed to explore other alternatives for obtaining the additional office space for its employees and perform the necessary cost benefit analyses to justify the construction of a new office building at the existing location.

RESOLUTION:

As a result of further discussions and settlement negotiations, ORA and AVR agree that AVR will withdraw its request for a new office building from this proceeding, without prejudice. The Parties agree that AVR be permitted to file a separate application for the new Office Building project to include the costs of office furniture and equipment for a determination by the Commission of the necessity of building a new building (as opposed to leasing additional office space) with the necessary showing and request that, upon such determination the Commission authorize AVR, after completion of such construction, to file a rate base offset advice letter.

Year 2014

New Office Building	AVR Original	ORA Original	Difference	Settlement
Total	$225,890	$0	$225,890	$0

Test Year 2015

New Office Building	AVR Original	ORA Original	Difference	Settlement
Total	$2,000,000	$0	$2,000,000	$0

Test Year 2016

New Office Building	AVR Original	ORA Original	Difference	Settlement
Total	$1,821,753	$0	$1,821,753	$0

REFERENCES: AVR Exh A.-1, pp. 94 - 95, AVR Exh. A-9, pp. 7-13; ORA Exh. O-1, pp. 8-25 – 8-30.

9.6 Main Replacement Program

AVR REQUEST:

AVR requests $4,985,153 for main replacements in 2014, $5,791,591 in 2015, and $6,007,083 in 2016. AVR also requests $200,000 per year in 2014, 2015, and 2016 for emergency main replacements. AVR's requested replacement of existing aged and undersize mains are based on the needs for transmission and maintaining a reliable water distribution system discussed in the Asset Management Study for Water Mains Report (KANEW analysis), AVR Exhibit A-21 and the Water Transmission Main Study, AVR Exhibit A-23. AVR's main replacement program also takes into consideration the need for improved fire flow capacity, improved fire hydrant spacing, improved water quality and work by others such as road construction.

ORA POSITION:

ORA disagrees with AVR's estimates of main replacements because the data provided by AVR does not substantiate such an aggressive main replacement program. ORA recommends $1,689,314 in 2014, $1,729,013 in 2015, and $1,769,645 in 2016. ORA's estimates are based on a five-year average of recorded expenditures (2009 – 2013) escalated to the test year.

ORIGINAL RESOLUTION:

As a result of further discussions, settlement negotiations, and review of AVR's rebuttal

testimony, ORA and AVR agree to main replacement program in this GRC of $4,985,153 in 2014, $5,291,591 in 2015, and $5,507,083 in 2016. This budget will allow AVR to replace the problematic steel mains which have a higher rate of leak than mains of other materials with the benefits of minimizing liability, property damage, customer complaints, and unaccounted for water; and will allow AVR to improve transmission capacity to minimize pumping costs, meet peak demands and provide adequate fire flow capacity.

Year 2014

	AVR Original	ORA Original	Difference	Settlement
Main Replacements	$4,985,153	$1,689,314	$3,295,839	$4,985,153

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Main Replacements	$5,791,591	$1,729,013	$4,062,578	$5,291,591

Test Year 2016

	AVR Original	ORA Original	Difference	Settlement
Main Replacements	$6,007,083	$1,769,645	$4,237,438	$5,507,083

REFERENCES: AVR Exh. A-1, pp. 63-80, Exh. A-18, pp. 11-15, AVR Exh. A-21, AVR Exh. A-23; ORA Exh.O-1, pp. 8-30 – 8-40.

REVISED SETTLEMENT ON MAIN REPLACEMENTS

ORA and AVR (the "Parties"), while continuing to believe their original settlement to be reasonable, propose this alternate revised settlement on the issue of AVR's Main Replacements to address the concerns in the PD regarding rate impact and the balancing of competing interests.

The Parties do not believe that setting the capital expenditures for main replacements over the test period at the average of the 2012-2013 level – resulting in a decrease in expenditures (in real dollars) – is the appropriate balance between rate impact and the need to replace aging and undersized mains. The Parties believe that maintenance of infrastructure

reliability requires some increase from actual expenditures in 2013 for AVR to make progress in reducing the leaks in its system in a timely manner. The Parties therefore propose that the Commission adopt capital expenditures for main replacements for this test period in the amounts of $3,637,248 for 2014, $4,095,036 for 2015, and $4,610,396 for 2016.[1] The Parties estimate that this will allow for the replacement of approximately 3.45 miles, 3.79 miles, and 4.17 miles of pipelines in 2014-2016 respectively.[2]

Year	AVR Original	ORA Original	Original Settlement	Proposed Decision	Rev. Settlement	Rev. Settlement Approx. Miles
2014	$4,985,153	$1,689,314	$4,985,153	$3,057,846	$3,637,248	3.45 miles
2015	$5,791,591	$1,729,013	$5,291,591	$3,129,705	$4,095,036	3.79 miles
2016	$6,007,083	$1,769,645	$5,507,083	$3,203,253	$4,610,396	4.17 miles

The Parties believe that this more gradual increase in pipeline replacement rate addresses the Commission's desire to moderate the rate impact, while still providing an increase in main replacements to address the high level of leaks and other replacement needs in AVR's system.

BASIS FOR REVISED SETTLEMENT

In agreeing to the foregoing revised settlement, the Parties reviewed and considered the full evidentiary record in this Proceeding, including the following facts and considerations:

A. Asset Management Study on Mains ("AM Study")

1. The issues initially noted in ORA's Report regarding the AM Study were addressed in AVR's Rebuttal Testimony:

a. The PD (page 15) references an erroneous statement from ORA's Report. ORA's testimony stated that it appeared that the AM Study used service lives for Plastic and Steel pipelines taken from the average figures for the Southern part of

[1]/ Specific expenditures are not adopted for 2017 under the Rate Case Plan since the rate base for 2017 is determined by the attrition-year procedure.

[2]/ These estimates are derived by dividing the proposed expenditures for each of the estimated years by a cost per mile based on the normalized 5-year average (2009-2013) of historic main replacement cost per mile, normalized to that estimated year, using the Engineering News Record Construction Cost Index.

the United States from the AWWA Buried No Longer ("BNL") Report.[3] The AM Study, however, states: "We used those values in the study conducted for AVRWC when data was not sufficient or non-conclusive (for DIP and PLASTIC). Otherwise EULs [Effective Useful Lives] were calculated using the history of leaks (leaks), replacement, and characteristics of the inventory."[4] The service lives for Steel pipe used in the AM Study were based entirely on actual AVR data and the AWWA values were used only for Plastic and Ductile Iron pipe ("DIP").

b. The AM Study's use of the AWWA service life for the Southern area for Plastic and DIP was based on actual AVR data and actual AVR data best fit the AWWA values for the Southern area.[5]

c. As all of the DIP is of relatively recent vintage (average age of 8 years), the AM Study did not find a need to replace the DIP at this time and AVR is not planning to do so.[6] With the exception of projects required by the Town for street repair (*see* Other Needs below), all of the projects proposed by AVR in this Proceeding are to replace steel pipe.[7] Therefore, any uncertainty that may be caused by use of the AWWA service life value for Plastic and DIP is essentially moot for the purpose of this Proceeding.

d. ORA's concern that the AM Study inflated leak rates by including leaks not associated with any pipelines[8] was addressed in AVR's Rebuttal. The AM Study included only pipeline and leak data that had absolutely no anomalies and had a positive correlation between the leak and the pipe. The AM Study included data for leaks that were not positively connected to a specific pipe and the AM Study assigned these leaks to a pipe category based on the actual distribution of

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3/ Ex. O-1, at 8-32.
4/ Ex. A-21, at 14.
5/ Ex. A-18, at 13-14.
6/ Ex. A-21, at 6.
7/ Ex. A-1, at 64, 68-79.
8/ Ex. O-1, at 8-33.

leaks that were positively connected to a pipe. The expert consultant assured AVR this was the appropriate methodology.[9]

2. The AM Study recommends replacements of approximately 10 miles per year until 2018, 8 miles per year through 2025, and then a decline to 6 miles per year by 2043.[10] This recommendation is based on balancing cost considerations against the goal of reducing the leak rate to an industry standard leak rate goal. The recommendation does not achieve that leak rate goal, but brings the system leak rate to about twice the goal leak rate by 2043. To moderate rate impact, in its Application, AVR originally proposed replacements of between 5.17 and 6.6 miles per year and agreed to a further reduction in the original Settlement Agreement.

3. The PD's modification to the settlement provides for main replacements at less than 3 miles per year, assuming a cost per mile based on a normalized 5-year average of historic main replacement cost (2009-2013), normalized to estimated years using the Engineering News Record Construction Cost Index.

4. The AM Study's "raw Needs" scenario recommends 8.5 miles of replacement per year in 2014, gradually decreasing to around 6 miles per year over 30 years. The AM Study notes that this schedule will not result in sufficient reduction in leaks.[11]

5. The AM Study determines an effective useful life for the Steel6 category of pipe of 50 years, finds that it is at the end of its useful life, and recommends that it be replaced within the next five years. As AVR's system has approximately 20 miles of Steel6 pipe, the Steel6 pipe category alone would require almost 4 miles of replacement per year.[12]

6. AVR's system has 108 miles of Steel5 category pipe, with an average age of 47 years (as of the date of the AM Study) but with portions up to 70 years old. Segments of pipe in this category were found to demonstrably leak at age 45, with the worst leaking in the group installed prior to 1962. The AM Study determined an effective useful life of 80 years for this category of pipe.[13] This 108 miles of Steel5 pipe should be replaced over

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[9]/ Ex. A-18, at 14.

[10]/ Ex. A-21, at 7.

[11]/ Ex. A-21, at 5.

[12]/ Ex. A-21, at 4, 7, 33.

[13]/ Ex. A-21, at 28.

the next 30-40 years and a significant backlog will build up if AVR does not start replacing the worst of this pipe category.

7. AVR has over 460 miles of pipe in its system. Assuming a 100 year useful life, the replacement rate should be 1.0% – or 4.6 miles per year. ORA notes that the national average rate is 0.5%, effectively assuming a life of 200 years.[14] It is also noted that, as result of this national average replacement rate, in 2013, the American Society of Civil Engineers gave water infrastructure a grade of D, down from B- in 1988.[15]

B. Other Requirements

1. Street Repair. In 2015, AVR is required to replace pipe due to Town construction projects. These projects, required by the Town, are not replacing old leaky pipe and the money spent on these projects will not accomplish the furtherance of AVR's main replacement program.[16]

a. AVR must replace plastic pipe due to a Town storm drain and street reconstruction project (Yucca Loma Road – Storm Drain Conflicts) estimated at $263,167; and

b. AVR must replace steel pipe that is not the oldest steel pipe (installed in 1969), estimated at $318,269, because the Town is improving the intersection at Highway 18 and Apple Valley Road by changing the street finish surface grade and adding storm drain facilities.

2. Transmission Capacity. ORA's Report contended that the need for additional transmission capacity was due to growth and that reduced demand should mitigate the need for additional transmission capacity.[17] As AVR explained in its Rebuttal, over the years, due to over-drafting of the basin that led to the adjudication, water quality and quantity away from the Mojave River has declined. This caused AVR to abandon wells in those areas of the system away from the river and to drill new wells fairly close to the river.

The need for additional transmission capacity to transmit water from the wells

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14/ Ex. O-1, at 8-34.

15/ Ex. A-21, at 10.

16/ Ex. A-1, at 74-75.

17/ Ex. O-1, at 8-36 to 8-38.

concentrated along the river to other parts of the system is due to the fact that the mains installed in past years near the river were sized to meet localized needs for transmission capacity but do not meet current needs to transmit water from a concentration of wells in one area to the rest of the system. Transmission capacity is still necessary, despite reduced customer demand, to fill tanks in a timely manner after peak demands and to address the need for improved fire flow capacity.[18]

3. Balancing: As explained in its Rebuttal, AVR needs to incorporate and balance these other requirements into its plans for main replacements. AVR cannot focus entirely and exclusively on replacement of the mains that are leaking the most. Severity of leaks, consequences of failure, damage to others, safety, and criticality of service interruption must also be taken into account, as well as opportunities to address both leaks and the need for improved transmission capacity and fire flow capacity in a cost-effective manner.[19]

9.7 Vehicle 08-06 and Dump Truck

AVR REQUEST:

AVR requests $40,023 in 2016 for a replacement vehicle due to the age of the vehicle (10 years old) the projected mileage (over 120,000 miles). AVR also requests $137,115 in 2016 to replace a dump truck due to age (20 years old) and mileage (over 120,000 miles).

ORA POSITION:

ORA recommends disallowance of the replacement vehicle for unit 08-06. ORA found AVR's request for a replacement dump truck reasonable but removed it in error.

RESOLUTION:

After discussion and review of AVR's rebuttal testimony ORA agrees to use AVR's recommendation for a new replacement vehicle.

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[18]/ Ex. A-18, at 15.
[19]/ Ex. A-18, at 15.

Test Year 2016

Vehicles	AVR Original	ORA Original	Difference	Settlement
Unit 08-06	$40,023	$0	$40,023	$40,023
Dump Truck	$137,115	$0	$137,115	$137,115

REFERENCES: AVR Exh.A-1, pp. 97-98, AVR Exh. A-9, pp. 12 -13; ORA Exh.-1, p. 8-40.

9.8 General Office Building Renovation

PARK WATER REQUEST:

Park requests $1,510,000 in 2014 and $1,772,739 in 2015 to renovate and remodel its office building that is shared by Park's General Office and Park's Central Basin Operating Division to meet current fire and building codes, current seismic requirements, current American with Disabilities Act requirements, and develop better spatial working relationships for employees to promote collaboration, interdepartmental communications, and maximize daily operations.

ORA POSITION:

ORA recommends disallowance of the Main Office Remodel Project because AVR failed to provide adequate justification in its request to remodel the office. Specifically AVR's showing did not include a cost benefit analysis of the options available for reorganizing its office space .

RESOLUTION:

As a result of further discussion and settlement negotiations, ORA and Park agree that Park will withdraw its request for the Office Remodel from this proceeding, without prejudice. The Parties agree that Park may request the Office Remodel project in the Park Central Basin Test Year 2016 GRC application. The Parties further agree that Park be permitted to request a General Office rate base allocation to Central Basin that reflects the proposed Office Remodel project in the Park Central Basin Test Year 2016 GRC application.

REFERENCES: AVR Exh. A-2, p. 23-28, AVR Exh. A-14; ORA Exh. O-1, pp. 8-47 – 8-51.

9.9 General Office PowerPlan Software

PARK WATER REQUEST:

Park proposes implementation of Power Plan software in the amount of $1,400,000 in 2014 in order to address the following issues faced by the Company:

1. The capital intensive nature of the business requires a more sophisticated capability than is available within the current software used by the Company.
2. Migration of a portion of income tax return related activities from an outside accounting firm to being performed in-house.
3. Expansion of the company's capabilities for calculating the income tax provision for financial statement purposes.
4. Expansion and improvement of the Company's capability to prepare and track financial forecasts.

ORA POSITION:

ORA recommended disallowance of this project because AVR did not provide the information to show that PowerPlan is an economically feasible software available to the company. ORA instead recommended an additional position be added to General Office staff.

RESOLUTION:

After further discussions, settlement discussions, and review of AVR's rebuttal testimony, ORA agrees to AVR's request for Power Plan as shown in the table below.

Year 2014

	AVR Original	ORA Original	Difference	Settlement
Power Plan Software	$1,400,000	0	$1,400,000	$1,400,000

REFERENCES: AVR Exh. A-2, pp. 20-29, AVR Exh. A-11, pp. 11-16; ORA Exh.-1, pp. 8-43 – 8-47.

9.10 General Office CIS/JDE Software

PARK WATER REQUEST:

Park requests $96,000 in 2014, $77,000 in 2015, and $135,000 in 2016 for CIS (Customer Information System) related projects to improve customer service including CIS Infinity Mobile, CIS Data Sharing, CIS E-Billing, and JD Edwards (JDE) projects to improve operational efficiencies including JDE Requisition Self Service, JDE Sourcing JDE Core Tools and JDE One View, and JDE Safety Module.

ORA POSITION:

ORA recommends disallowance of Park's proposed projects based on Park's lack of showing of the benefits of these projects.

RESOLUTION:

Based on further discussion and settlement negotiations and review of Park's rebuttal testimony, ORA and Park agree to Park's estimates for CIS/JDE software.

Year 2014

	AVR Original	ORA Original	Difference	Settlement
CIS/JDE Software	$106,00	$96,000	$10,000	$96,000

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
CIS/JDE Software	$77,000	$0	$77,000	$77,000

Test Year 2016

	AVR Original	ORA Original	Difference	Settlement
CIS/JDE Software	$135,000	$113,000	$22,000	$135,000

REFERENCES: AVR Exh. A-2 pp. 31 - 34, AVR Exh. A-17, pp. 8-11; ORA Exh.-1, p. 8-43.

9.11 General Office Import Tool

PARK WATER REQUEST:

Park requests $10,000 in 2014 for the creation of auto-import tool for new customers.

ORA POSITION:

ORA recommends disallowance of the project because AVR failed to show that the project provides a benefit to existing customers.

RESOLUTION:

Based on further discussion and settlement negotiations, Park agrees to ORA's recommendation.

Year 2014

	AVR Original	ORA Original	Difference	Settlement
Import Tool	$10,000	$0	$10,000	$0

REFERENCES: AVR Exh. A-21, pp. 30 - 31; ORA Exh.O-1, pp. 8-42 – 8-43.

10.0 DEPRECIATION RATES, RESERVE, AND DEPRECIATION EXPENSE

10.1 Depreciation Rates

AVR WATER REQUEST:

AVR proposed new depreciation rates based on a remaining life study completed in accordance with Standard Practice U-4, using plant and reserve balances as of January 1, 2012.

ORA POSITION:

ORA finds the depreciation rates proposed by AVR reasonable and recommends the Commission adopt AVR's proposed depreciation rates.

RESOLUTION:

The Parties' agree to use the depreciation rates as set forth in the tables below.

	Depreciation Rates - Domestic	Present	Proposed
311	Structures & Improvement	1.71%	1.19%
315	Wells	2.67%	2.62%
317	Source Of Supply - Other	2.55%	2.48%
321	Pumping - Struct. & Improv.	3.33%	3.31%
324	Other Pumping Equip.	3.80%	3.75%
332	Water Treatment Equip.	4.20%	3.28%
342	T&D Reservoirs & Tanks	1.97%	1.97%
343	T & D Mains	2.41%	2.40%
345	Services	2.59%	2.57%
346	Meters	2.82%	2.83%
348	Hydrants	2.29%	2.28%
371	Gen. Plant Struct. & Improv.	2.88%	2.83%
372	Office Furniture & Equip.	7.96%	8.01%
373	Transportation Equipment	14.83%	11.10%
375	Tools & Shop Equipment	5.94%	5.91%
376	Laboratory Equipment	1.17%	0.00%
377	Power Operated Equipment	5.41%	4.73%
378	Communication Equipment	8.41%	8.35%
372	Computer Equipment-Pc	13.16%	12.41%
372	Computer Equipment-Mis/Sftwr	9.95%	10.47%
372	Other Tangible Property	4.00%	4.00%

Depreciation Rates - Irrigation		Present	Proposed
315	Wells & Springs	1.26%	1.61%
	Pumping Plant		
321	Pumping Struct/Improve.	2.97%	2.78%
324	Pumping Equipment	4.09%	3.95%
	Transmission & Distribution Plant		

343	T & D Mains	2.38%	2.31%
345	T & D Services	2.48%	2.48%
346	T & D Meters	3.26%	3.22%

REFERENCES: AVR Exh.-1, Ch. VII, Table VII.-A, p. 110; ORA Exh. O-1, p. 8-1.

10.2 Depreciation Reserve and Depreciation Expense

AVR WATER REQUEST:

AVR requested depreciation expense and reserve based on its proposed depreciation rates and proposed utility plant.

ORA POSITION:

There are no methodological differences between AVR and ORA. There was no issue regarding the depreciation rates proposed by AVR. Differences in the Parties' original depreciation reserve and depreciation expense estimates resulted from differences in the utility plant estimates.

RESOLUTION:

The Parties agree that the depreciation expense and depreciation reserve should be calculated using the depreciation rates proposed in AVR's application and the stipulated balances of plant in service incorporating stipulated adjustment and additions as set forth in the table below.

Test Year 2015 – Domestic

Depreciation Reserve & Expense	AVR	ORA	Difference	Amended Settlement
Beginning Year Balance	$33,273,910	$33,318,434	44,524)	33,345,096
Annual Accrual Charged To:				
Clearing Accounts	$264,177	$239,834	$24,343	$241,905
Contributions	$143,499	$143,163	$336	$143,163

Depreciation Reserve & Expense	AVR	ORA	Difference	Amended Settlement
Depreciation Expense	$3,167,947	$3,001,583	$166,364	$3,104,313
Other				
Total	$3,575,623	$3,384,580	$191,043	$3,489,381
Retirements & Adjustments				
Net Retirements	$783,420	$739,318	$44,102	$785,963
Adjustments	$0	$0	$0	$0
Total	$783,420	$739,318	$44,102	$785,963
Net Additions	$2,792,202	$2,645,262	$146,940	$2,703,418
End Of Year Balance	$36,066,112	$35,963,696	$102,416	$36,048,514
Average Balance	$34,670,011	$34,641,065	$28,946	$34,696,805
Statistics				
Average Depreciable Plant	$121,242,787	$113,918,270	$7,324,517	$117,921,338
Accrual As % Of Plant	2.95%	2.79%	0.16%	2.96%

Test Year 2016 – Domestic

Depreciation Reserve & Expense	AVR	ORA	Difference	Amended Settlement
Beginning Year Balance	$30,066,112	$35,963,695	($5,897,583)	36,048,514
Annual Accrual Charged To:				

Clearing Accounts	$272,769	$238,748	$34,021	250,497
Contributions	$142,856	$142,520	$336	142,520
Depreciation Expense	$3,519,595	$3,095,980	$423,615	3,301,063
Other				
Total	$3,935,220	$3,477,248	$457,972	3,694,081
Retirements & Adjustments				
Net Retirements	$1,749,324	$1,445,787	$303,537	1,505,831
Adjustments	$0	$0	$0	0
Total	$1,749,324	$1,445,787	$303,537	1,505,831
Net Additions	$2,185,897	$2,031,460	$154,437	2,188,250
End Of Year Balance	$38,252,009	$37,995,156	$256,853	38,236,764
Average Balance	$37,159,061	$36,979,425	$179,636	37,142,639
Statistics				
Average Depreciable Plant	$134,003,294	$116,735,224	$17,268,070	124,589,237
Accrual As % Of Plant	2.94 %	2.98%	(0.04)%	2.97%

Test Year 2015 – Irrigation

Depreciation Reserve & Expense	AVR	ORA	Difference	Settlement
Beginning Year Balance	$228,491	$228,490	$1	$228,490
Annual Accrual Charged To:				
Clearing Accounts	$0	$0	$0	$0
Contributions	$1,231	$1,231	$0	$1,231
Depreciation Expense	$11,958	$11,958	$0	$11,958
Other				
Total	$13,189	$13,189	$0	$13,189
Retirements & Adjustments				
Net Retirements	$0	$0	$0	$0
Adjustments	$0	$0	$0	$0
Total	$0	$0	$0	$0
Net Additions	$13,189	$13,189	$0	$13,189
End Of Year Balance	$241,680	$241,679	$1	$241,679
Average Balance	$235,085	$235,085	$0	$235,085
Statistics				
Average Depreciable Plant	$524,308	$524,308	$0	$524,308
Accrual As % Of Plant	2.52%	2.52%	0%	2.52%

Test Year 2016 – Irrigation

Depreciation Reserve & Expense	AVR	ORA	Difference	Settlement
Beginning Year Balance	$241,680	$241,679	$1	$241,679
Annual Accrual Charged To:				
Clearing Accounts	$0	$0	$0	$0
Contributions	$1,231	$1,231	$0	$1,231
Depreciation Expense	$11,958	$13,189	$0	$11,958
Other				
Total	$13,189	$13,189	$0	$13,189
Retirements & Adjustments				
Net Retirements	$0	$0	$0	0
Adjustments	$0	$0	$0	0
Total	$0	$0	$0	0
Net Additions	$13,189	$13,189	$0	$13,189
End Of Year Balance	$254,869	$254,868	$1	$254,868
Average Balance	$248,274	$248,274	$0	$248,274
Statistics				
Average Depreciable Plant	$524,308	$524,308	$0	$524,308
Accrual As % Of Plant	2.52 %	2.52 %	0%	2.52%

REFERENCES: AVR Exh. A-1 pp 113-114.; ORA Exh. O-1 Appendix A-20 – A21.

11.0 RATE BASE

11.1 Materials and Supplies

AVR WATER REQUEST:

AVR requests $336,749 in materials and supplies based on the percentage of average customers estimated for Test Year 2015. The percentage applied to the customer estimates is calculated from the recorded relationship between materials and supplies and customers and is the five-year recorded average (2008 – 2012).

ORA POSITION: ORA agrees with AVR's estimates.

RESOLUTION:

The Parties agree to use the methodology used in AVR and ORA's estimates for materials and supplies. The Parties further agree that materials and supplies should be calculated using the stipulated number of customers and agree to the amounts shown in the below table.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Materials/Supplies	$336,749	$336,749	$0.00	$336,674

Test Year 2016

	AVR Original	ORA Original	Difference	Settlement
Materials/Supplies	$339,690	$339,696	$0.00	$339,598

REFERENCES: AVR Exh. A-1, p. 113; ORA Exh. O-1, p. 10-1.

11.2 Deferred Income Tax

AVR WATER REQUEST:

AVR estimated $11,429,252 in deferred income taxes for Test Year 2015 based on the normalization of tax benefits derived from accelerated depreciation, ACRS and MACRS,

allowed for Federal Income Tax calculation and incorporating AVR's estimates of utility plant in service.

ORA POSITION:

There are no methodological differences between AVR and ORA. There was no issue regarding the tax rates proposed by AVR. Differences in the Parties' original deferred income tax estimates resulted from ORA's use of the deferred income taxes from AVR's recorded 2013 Update, which included correction of an error for 2013 in AVR's application, and differences in the utility plant estimates.

RESOLUTION:

The Parties agree to use AVR's methodology to calculate the deferred taxes. The Parties further agree that deferred taxes will incorporate the settlement on utility plant issues and agree to the amounts shown in the below table.

Test Year 2015 – Domestic

	AVR Original	ORA Original	Difference	Amended Settlement
Deferred Income Tax	$11,429,252	$10,416,222	$1,013,030	$10,450,795

Test Year 2016 – Domestic

	AVR Original	ORA Original	Difference	Amended Settlement
Deferred Income Tax	$11,425,944	$10,350,935	$1,075,009	$10,409,852

Test Year 2015 – Irrigation

	AVR Original	ORA Original	Difference	Amended Settlement
Deferred Income Tax	$69,609	$68,794	$812	$68,621

Test Year 2016 – Irrigation

	AVR Original	ORA Original	Difference	Amended Settlement
Deferred Income Tax	$66,433	$65,652	$782	$65,467

REFERENCES: AVR Exh. A-1, p. 116; ORA Exh. O-1, p. 10-1.

11.3 Working Cash

AVR WATER REQUEST:

AVR requests working cash estimates of $2,675,990 for Test Year 2015 and $2,740,588 for Test Year 2016 based on the methodology prescribed in Standard Practice U-16.

ORA POSITION:

ORA recommends working cash estimates of $2,389,807 for Test year 2015 and $2,406,861 for Test Year 2016 based on adjustments to AVR's application amounts to remove the average unamortized balance of various study costs from the operational cash, and exclusion of the WRAM adjustment for revenue lag.

RESOLUTION:

Aside from the methodological differences described above, the differences in the Parties' original working cash estimates resulted from differences in revenues, expense and utility plant used in the total working cash calculation. The Parties agree to remove the WRAM adjustment for revenue lag proposed by AVR and use a revenue lag of 56.34 days for 2015 and 2016. The Parties agree to include in Operational Cash the unamortized portion of agreed upon rate case costs (the regulatory commission expense, excluding the low-income customer notices) and the unamortized portions of studies include in the settlement (Arc Flash and Vulnerability /Mitigation studies). The Parties agree that working cash should be calculated using the stipulated and adopted expenses and utility plant in service consistent with the Commission's Standard Practice U-16.

REFERENCES: AVR Exh. A-1, pp. 113 - 115, AVR Exh A-16, pp. 7-8; ORA Exh. O-1 pp. 10-1 –10-4.

12.0 PARK WATER COMPANY ("PARK") GENERAL OFFICE

All dollar amounts provided in Section 12 of this Settlement are prior to allocation to AVR – Domestic or AVR – Irrigation. Pensions and Benefits expenses for Park are discussed in Section 6.0.

12.1 Payroll

PARK REQUEST:

Park's payroll estimate for 2014 is based on employees' hourly rates in effect at the end of 2013 with the estimated 2014 COLA increase and estimates of merit and promotional salary adjustments to be granted and overtime during 2014. The payroll estimate for Test Year 2015 is similarly estimated beginning with the hourly rates expected at the end of year 2014.

ORA POSITION:

ORA used the same methodology as Park to estimate the payroll expense. ORA further recommends to eliminate Park's proposed merit increase budget for 2015. In addition, ORA proposed that an additional staffing position in lieu of Park's acquisition of Power Plan.

RESOLUTION:

The issue of the merit increase that is identical to the comments in Section 4.3, the basis for the settlement will not be repeated as the Settlement provides for a consistent resolution on those issues in this category as well. With the settlement of the issue on Power Plan, the settlement of General Office payroll does not include an additional staffing position. The Parties agree to calculate the stipulated payroll expense as set forth in the table below.

Test Year 2015

	Park Original	ORA Original	Difference	Settlement
Payroll	$4,120,781	$4,191,647	$70,866	$4,103,420

REFERENCES: AVR Exh. A-2, pp. 5 – 8; ORA Exh. O-1, pp. 4-7 – 4-10.

12.2 Maintenance Other Expense

PARK REQUEST:

Park requests $576,768 for the expense category of maintenance other expense for Test Year 2015. This category of expense includes both hardware and software related maintenance contracts. Park requests $374,538 for Test Year 2015 for software maintenance within this category of expenses based on planned maintenance contracts associated with the software utilized by Park's computer system. Additionally Park's requested amount includes the maintenance contracts associated with the proposed software applications for Power Plan in the amount of $76,234 and for JD Edwards modules totaling $26,749.

ORA POSITION:

ORA recommends $431,089 based on the five-year (2009 – 2013) average of recorded expenses. For the hardware maintenance expense and General Plant P/R Burden & other, ORA agrees with Park's estimation for Test Year 2015. For the software maintenance contracts ORA recommends $231,298 which includes a disallowance of the maintenance contracts associated with Park's proposed new software applications, Power Plan and JD Edwards modules.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to $561,206 for Maintenance-Other expense for Test Year 2015 based on Park's updated estimate of $356,361 in annual maintenance expenses for computer software, including proposed computer software maintenance expenses for Powerplan and JD Edwards modules provided in response to ORA's discovery request and consistent with the settlement reached on the utility plant in service on the Power Plan and JD Edwards modules.

Test Year 2015

	Park Original	ORA Original	Difference	Settlement
Maintenance-Other	$576,768	$431,089	$145,679	$561,206

REFERENCES: AVR Exh. A-1, p. 10, AVR Exh. A-12, p. 20; ORA Exh. O-1, pp. 12-4 -12-5.

12.3 Clearings-Other Expense

PARK REQUEST:

Park requests $31,646 for Test Year 2015 for Clearings Other expense based on the five-year average (2009 – 2013) of recorded costs.

ORA POSITION:

ORA finds AVR's methodology to estimate Clearings Other reasonable. There are no methodological differences between ORA's and AVR's estimates. The original differences between ORA and AVR's estimates result from ORA's use of the updated recorded expense for 2013.

RESOLUTION:

Based on the agreement on estimating methodology (Section 5.1) and escalation factors (Section 5.2) ORA and AVR agree on Clearings-Other, as set forth in the table below.

Test Year 2015

	Park Original	ORA Original	Difference	Settlement
Clearings Other	$31,646	$30,497	$1,149	$30,617

REFERENCES: AVR Exh. A-1, p. A-2, p. 10, AVR Exh. A-12, p. 20; ORA Exh. O-1, p. 12-5.

12.4 Insurance

PARK REQUEST:

Park requests $172,547 for Test Year 2015 for Insurance expense based on the actual premiums in effect for the 2013 – 2014 policy year and projected increases of 3% for policy years 2014 – 2015 and 2015 – 2016.

ORA POSITION:

ORA finds AVR's methodology to estimate Insurance reasonable. There are no methodological differences between ORA's and AVR's estimates. The original differences between ORA and

AVR's estimates result from ORA's use of the updated recorded expense for 2013.

RESOLUTION:

After further discussion, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to Insurance of $176,376 for Test Year 2015, which incorporates a 10% increase in workers' compensation insurance.

Test Year 2015

	Park Original	ORA Original	Difference	Settlement
Insurance	$172,547	$171,843	$704	$176,376

REFERENCES: AVR Exh. A-1, p. 13; ORA Exh. O-1, p. 12-5

12.5 Outside Services

PARK REQUEST:

Park requests $723,559 for the expense category of Outside Services for Test Year 2015 based on the five-year average (2009 – 2013) of recorded expenses and the projected cost of a operational efficiency study.

ORA POSITION:

ORA recommends $581,407 based on the five-year average (2009 – 2013) of recorded expenses but used the updated 2013 expenses and removes consulting fee incurred in 2012 for W.H. Wheeler. ORA also removes the estimated expense of $100,000 associated with AVR's proposed Operational Efficiency Study because the project was not supported with detailed documentation.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree on the amounts for Outside Services as reflected in the table below. Park agrees to

ORA's recommended disallowance of the Operational Efficiency Study and ORA agrees to include all the recorded expenses in the estimation of Test Year 2015.

Test Year 2015

	Park Original	ORA Original	Difference	Settlement
Audit and Income Tax	$130,048	$114,172	$15,876	$128,659
Legal	$135,008	$131,551	$3,457	$132,762
Safety	$3,100	$3,005	$95	$3,022
Benefits Consulting	$114,901	$116,106	($1,205)	$116,794
Actuarial Consulting	$121,981	$112,444	$9,537	$113,110
Insurance	$11,536	$11,346	$190	$11,413
Other General	$206,985	$92,783	$114,202	$106,985
Total Outside Service	$723,559	$581,407	$142,152	$612,745

REFERENCES: AVR Exh. A-1, pp. 11 – 12, AVR Exh. A-12, pp. 20 – 22; ORA Exh. O-1, pp. 12-5 – 12-8.

12.6 Corporate A&G Allocation

PARK REQUEST:

Park estimates the Corporate A&G Allocation, a deduction to the General Office expenses, as a percentage of the of the General Office payroll charged to other divisions on selected A&G expense accounts.

ORA POSITION:

ORA finds Park's methodology to estimate the Corporate A&G Allocation reasonable. There are no differences between ORA's and Park's estimates.

RESOLUTION:

With the resolution of the payroll issue, there is no longer any different in the Parties' positions. The Parties agree to use the Corporate A&G Allocation as shown in the table below.

Test Year 2015

	Park Original	ORA Original	Difference	Settlement
Corporate A&G Alloc.	($136,272)	($136,272)	$0.00	($135,770)

REFERENCES: AVR Exh. A-1, p. 10; ORA Exh. O-1, p. 12-9.

12.7 Bank Fees

PARK REQUEST:

Park requests Bank Fees of $22,017 based on the five-year (2009 – 2013) average of recorded expenses.

ORA POSITION:

ORA accepts Park's methodology except that ORA made adjustments to the recorded 2012 historical expenses to remove the costs associated with a credit limit renewal fee of $25,000.

RESOLUTION:

After further discussion and settlement negotiations, the Parties agree on $21,689 for Bank Fees which is based on the unadjusted five-year average of recorded expenses and incorporates the settlement agreement on estimating methodology (Section 5.1) and escalation factors (Section 5.2).

Test Year 2015

	Park Original	ORA Original	Difference	Settlement
Bank Fees	$22,017	$16,532	$5,485	$21,689

REFERENCES: AVR Exh. A-2, p. 10, AVR Exh. A-12, p. 23; ORA Exh. O-1, p. 12-9.

12.8 Board of Directors Fees

PARK REQUEST:

Park requests Board of Director Fees of $111,240 for Test Year 2015 based on the settlement agreement adopted by the Commission in A.11-01-001 ($100,000 in 2012 dollars) and adjusted for inflation to Test Year 2015.

ORA POSITION:

ORA recommends $100,000 for Test Year 2015 based on ORA's interpretation of the settlement agreement in A.11-01-001.

RESOLUTION:

After further discussion, settlement negotiations, and review of AVR's rebuttal testimony, the Parties agree to Board of Director Fees of $108,000 for Test Year 2015.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Board of Director Fees	$111,240	$100,000	$11,240	$108,000

REFERENCES: AVR Exh. A-1, p. 12, AVR Exh. A-12, p. 23; ORA Exh. O-1, p. 12-9.

12.9 Travel, Lodging & Miscellaneous

PARK REQUEST:

Park requests $100,466 for Travel, Lodging & Miscellaneous based on the two-year average of recorded expenses (2012 – 2013) to reflect current activity levels commensurate with the change in ownership of Park. This expense category is reflective of the change in activity resulting from increased travel to Park's Board of Director meetings and company participation in the National Association of Water Companies and California Water Association.

ORA POSITION:

ORA recommends $50,233 (50% of Park's estimate) for an equal sharing of Park's forecasted expense between Park and ratepayers on the basis that the expenses in this category is increased more substantially after the acquisition of Park Water Company by the Western Water Holdings.

RESOLUTION:

After further discussion and settlement negotiations, the Parties agree to $75,350 for Travel, Lodging & Miscellaneous for Test Year 2015.

Test Year 2015

	AVR Original	ORA Original	Difference	Settlement
Travel, Lodging, Misc.	$100,466	$50,233	$50,233	$75,350

REFERENCES: AVR Exh. A-2, p. 11, AVR Exh. A-12, pp. 23 – 24; ORA Exh. O-1, pp. 12-10 – 12-12.

12.10 Allocation Factors

PARK REQUEST:

Park used the most current allocation factors available at the time the application was prepared. The allocation factors were calculated pursuant to the Commission's four-factor allocation methodology.

ORA POSITION:

ORA used the updated allocation factors in use during 2014.

RESOLUTION:

Park accepts ORA's recommendation to use the allocation factors in use during 2014. The basis for the settlement is identical to the comments in Section 4.01.12 and will not be repeated here.

Test Year 2015

	Park Original	ORA Original	Difference	Settlement
Allocation Factor AVR – Domestic	29.52%	29.29%	0.23%	29.29%
Allocation Factor AVR – Irrigation	0.17%	0.19%	(0.02%)	0.19%

REFERENCES: AVR Exh. A-2, p. 3; ORA Exh. O-1, p. 12-3.

12.11 Administrative Expense Transferred

PARK REQUEST:

Park estimates the Administrative Expenses Transferred, credit to the General Office A&G expenses, as a percentage of capital expenditures.

ORA POSITION:

ORA finds Park's methodology to estimate the administrative expense transferred reasonable. There are no differences between ORA's and Park's estimates.

RESOLUTION:

The Parties agree to calculate the administrative expense transferred based on the stipulated balances of plant in service incorporating stipulated adjustments, additions, and retirements.

Test Year 2015

	Park Original	ORA Original	Difference	Settlement
Administrative Expense Transferred	$17,639	$17,639	$0	$17,639

REFERENCES: AVR Exh. A-12, p. 17: ORA Exh. O-1, p. 12-13.

12.12 Payroll Taxes

PARK REQUEST:

Park requests $226,584 for payroll taxes based on Park's projections of payroll tax rates and limits.

ORA POSITION:

ORA accepts Park's methodology. The original differences between Park's and ORA's estimates resulted from the issues and the differences in the estimates of payroll.

RESOLUTION:

With the settlement on payroll (Section 5.3), there is no longer any difference in the Parties' positions. ORA and Park agree to the estimates of payroll taxes as set forth in the table below.

Test Year 2015

	Park Original	ORA Original	Difference	Settlement
Payroll Tax	$226,584	$224,731	$1,853	$226,132

REFERENCES: AVR Exh. A-2, p. 15; ORA-1, p. 12-12.

12.13 Ad Valorem Tax

PARK REQUEST:

Park's estimate for ad valorem taxes are based on the methodology used by the Los Angeles County Tax Assessor's Office.

ORA POSITION:

ORA accepts AVR's methodology for estimating ad valorem taxes.

RESOLUTION:

There are no methodological differences between ORA and Park. The Parties agree to use the uncontested methodology used in Park's application.

Test Year 2015

	Park Original	ORA Original	Difference	Settlement
Ad Valorem Tax	$28,591	$28,591	$0	$28,591

REFERENCES: AVR Exh. A-2, p. 13; ORA Exh. O-1, p. 12-12.

12.14 Depreciation Rates

PARK REQUEST:

Park proposed new depreciation rates based on a remaining life study completed in accordance with Standard Practice U-4, using plant and reserve balances as of January 1, 2012.

ORA POSITION:

ORA finds the depreciation rates proposed by Park reasonable and recommends the Commission adopt Park's proposed depreciation rates.

RESOLUTION:

The Parties agree to use the depreciation rates as set forth in the table below.

	Description	Present	Proposed
372	Office Furniture and Equip	5.72%	20.17%
373	Transportation Equip	14.95%	5.51%
375	Laboratory Equip	0.00%	0.00%
376	Communication Equip	10.83%	12.04%
372	Computer Equip – System	11.35%	11.59%
372	Computer Equip – Desktops	10.07%	10.96%
372	Computer Equip – Software	1.77%	0.95%

REFERENCES: AVR Exh. A-2, p. 19; ORA Exh. O-1, p. 9-5.

12.15 Depreciation Reserve and Depreciation Expense

PARK REQUEST:

Park requested depreciation expense and reserve based on its proposed depreciation rates and proposed utility plant.

ORA POSITION:

There are no methodological differences between Park and ORA. There was no issue regarding the depreciation rates proposed by Park. Differences in the Parties' original depreciation reserve and depreciation expense estimates resulted from differences in the utility plant estimates.

RESOLUTION:

The Parties agree that the depreciation expense and depreciation reserve should be calculated using the depreciation rates proposed in AVR's application and the stipulated balances of plant in service incorporating stipulated adjustment and additions as set forth in the table below.

Test Year 2015-General Office

Depreciation Reserve & Expense	AVR	ORA	Difference	Settlement
Beginning Year Balance	$6,441,003	$6,353,655	$87,348	$6,366,067
Annual Accrual Charged To:				
Clearing Accounts	$0	$0	$0	$0
Contributions	$0	$0	$0	$0
Depreciation Expense	$306,254	$288,411	$17,843	$302,077
Other				
Total	$306,254	$288,411	$17,843	$302,077
Retirements & Adjustments				

Depreciation Reserve & Expense	AVR	ORA	Difference	Settlement
Net Retirements	$74,976	$74,976	$0	$74,976
Adjustments	$12,525	$12,525	$0	$0
Total	$87,501	$87,501	$0	$74,976
Net Additions	$218,753	$200,910	$17,843	$227,101
End Of Year Balance	$6,659,471	$6,554,565	$104,906	$6,593,168
Average Balance	$6,550,237	$6,454,110	$96,127	$6,479,618

Test Year 2016 – General Office

Depreciation Reserve & Expense	AVR	ORA	Difference	Settlement
Beginning Year Balance	$6,659,471	$6,554,565	$104,906	$6,593,168
Annual Accrual Charged To:				
Clearing Accounts	$0	$0	$0	$0
Contributions	$0	$0	$0	$0
Depreciation Expense	$343,535	$306,729	$36,806	320,864
Other				
Total	$343,535	$306,729	$36,806	$320,864
Retirements & Adjustments				
Net Retirements	$74,976	$74,976	$0	$74,976

Adjustments	$501	$501	$0	$501
Total	$75,477	$75,477	$0	$75,477
Net Additions	$268,058	$231,252	$36,806	$245,387
End Of Year Balance	$6,927,183	$6,785,817	$141,366	$6,838,556
Average Balance	$6,793,327	$6,670,191	$123,136	$6,715,862

REFERENCES: AVR Exh. A-2, p. 38; ORA Exh. O-1, p. 9-1.

13.0 AFFILIATE TRANSACTIONS

ORA RECOMMENDATION:

Based upon its review of AVR's application, and responses to data requests, ORA finds AVR's affiliated transactions to be reasonable and acceptable. AVR should allocate all revenues from contracts with HomeServe pursuant to D.12-01-042. ORA finds that the contract with Nextel is in the process of being terminated and will not be in effect during Test Year 2015.

AVR RESPONSE:

AVR agrees with ORA's findings.

RESOLUTION:

The Parties agree to incorporate $17,000, rather than $1,700, associated with the HomeServe contract in the Miscellaneous Revenues (Section 3.6).

REFERENCES: AVR Application, pp. 7 – 8; ORA Exh. O-1, p. 13-3.

14.0 RATE DESIGN

14.1 Residential and Non-Residential

AVR WATER REQUEST:

AVR requests continuation of the current conservation rate design program that includes

increasing block rates of three tiers for residential customers. AVR requests that the breakpoints be adjusted to reflect more recent consumption patterns. Due to the different characteristics of its non-residential customers, AVR recommends retaining the single quantity conservation rate for non-residential customers. The rate design uses the California Urban Water Conservation Council ("CUWCC") BMP 11 on conservation rates by using the threshold guideline of having more than 70% of its revenue generated by the commodity charge.

ORA POSITION:

ORA finds AVR's methodology acceptable and recommends that the Commission adopt the rate design contained in AVR's application.

RESOLUTION:

The Parties agree that the rate design described above should be applied to the adopted revenue requirement to determine the adopted rates. The Parties agree to correct the referencing error in AVR's bill tabulation used for the residential rate design. The Parties agree that this agreement is contingent upon AVR being authorized a full decoupling WRAM/MCBA over the period that this rate design is in effect.

REFERENCES: AVR Exh.-1; ORA Exh. O-1, Chapter 12.

14.2 Gravity Irrigation

AVR WATER REQUEST:

AVR prepared a new cost of service study from which to base rates for Gravity Irrigation service.

ORA POSITION:

ORA finds AVR's methodology acceptable and recommends AVR continue to submit updated cost of service study and that the Commission adopt the rate design contained in AVR's application.

RESOLUTION:

The Parties agree for the Gravity Irrigation customer to use the same service charges adopted for potable water service and a single quantity rate design. The quantity charge will be based on a cost of service study performed for this single customer based on the finalized consumption and expenses for the Gravity Irrigation customer.

REFERENCES: AVR Exh.-1; ORA Exh. O-1, Chapter 16.

15.0 WATER QUALITY

ORA RECOMMENDATION:

Based on review of information provided by AVR and the California Department of Public Health ("CDPH"), ORA recommends that the Commission find that AVR is incompliance with CDPH water quality regulations, federal drinking water standards, and the Commission's General Order 103-A.

AVR RESPONSE:

AVR agrees with ORA's recommendation.

RESOLUTION:

The Parties recommend that the Commission find AVR is in compliance with all applicable federal and state drinking water standards including General Order 103-A.

REFERENCES: AVR Exh. A-1, Chapter X; ORA Exh. O-1, Chapter 17.

16.0 MEMORANDUM AND BALANCING ACCOUNTS

16.1 Booking Recovery to Memorandum Accounts

ORA RECOMMENDATION:

ORA recommends that AVR change its actual accounting methods to avoid recording memorandum account balances on its balance sheet until those amounts are approved for recovery by the Commission.

AVR RESPONSE:

AVR's accounting treatment of memorandum accounts is in compliance with generally accepted accounting principles (GAAP).

RESOLUTION:

After further discussion and settlement negotiations, the Parties agree that no change is necessary in AVR's actual accounting practices, and the Parties agree that AVR will not use this accounting treatment as justification in favor of a particular disposition of the given amounts in an informal or formal Commission proceeding. This is not intended to prohibit AVR from referencing the regulatory treatment that has been applied to an amount.

REFERENCES: AVR Exh. A-11, pp. 8 - 11 ; ORA Exh. O-1, pp. 14-5 – 14-6.

16.2 Incremental Cost Balancing Account (ICBA) – Irrigation System

ORA RECOMMENDATION:

ORA recommends that AVR not be permitted to recover the balance recorded in the ICBA at this time because the account balances are estimated.

AVR RESPONSE:

AVR is not requesting recovery of the balance recorded in the ICBA – Irrigation system at this time.

RESOLUTION:

After further discussion, settlement negotiations, and review of AVR's rebuttal testimony, the Parties agree that AVR is not requesting recovery of the balance recorded in the ICBA for the Irrigation system.

REFERENCES: AVR Exh. A-1; ORA Exh. O-1, pp. 14-9 – 14-10.

16.3 Employee and Retiree Health Care Balancing Account

AVR WATER REQUEST:

AVR requests that it be permitted to file an advice letter requesting to refund the balance recorded in the Employee and Retiree Health Care Balancing Account after 2014 recorded data becomes available and a final balance at December 31, 2014 is calculated and recorded in the account.

ORA POSITION:

ORA recommends that the over-collected balance of $285,653 recorded in the Employee and Retiree Health Care Balancing Account as of December 31, 2013, be refunded through a sur-credit authorized in this proceeding.

RESOLUTION:

After discussion, settlement negotiations, and review of AVR's rebuttal testimony, the Parties agree that AVR will file an advice letter no later than March 31, 2015 to refund the balance recorded in the account as of December 31, 2014. The Parties also agree that the account should continue to the next general rate case.

REFERENCES: AVR Exh. A-1, p. 134; ORA Exh. O-1, pp. 14-11 – 14-12.

16.4 Pension Expense Balancing Account

AVR WATER REQUEST:

AVR requests that it be permitted to file an advice letter requesting to refund the balance recorded in the Pension Expense Balancing Account after 2014 recorded data becomes available and a final balance at December 31, 2014 is calculated and recorded in the account.

ORA POSITION:

ORA recommends that the over-collected balance of $22,427 recorded in the Pension Expense Balancing Account as of December 31, 2013 be refunded through a surcredit authorized in this proceeding.

RESOLUTION:

After discussion, settlement negotiations, and review of AVR's rebuttal testimony, the Parties agree that AVR will file an advice letter no later than March 31, 2015 to refund the balance recorded in the account as of December 31, 2014. The Parties also agree that the account should continue to the next general rate case.

REFERENCES: AVR Exh. A-1, pp. 134 - 135; ORA Exh. O-1,pp. 14-12 – 14-13.

16.5 Conservation Memorandum Account

AVR WATER REQUEST:

AVR requests that the Commission authorize the recovery of the balance recorded in the Conservation (BMP) Memorandum Account for the period of January 1, 2011 through December 31, 2011 in the amount of $77,384.

ORA POSITION:

ORA finds AVR's request for recovery of the balance recorded in the Conservation Memorandum Account to be reasonable.

RESOLUTION:

The Parties agree that the Commission should authorize the recovery of the under-collection recorded in the Conservation Memorandum Account in the amount of $77,384. The Parties further agree that this account be closed.

REFERENCES: AVR Exh. A-1, p. 135; ORA Exh. O-1,pp. 14-13 – 14-14.

16.6 Outside Services Memorandum Account

AVR WATER REQUEST:

AVR requests that the Commission authorize the recovery of the balance recorded in the Outside Services Memorandum Account for the period of January 1, 2011 through December 31, 2011 in the amount of $2,006.

ORA POSITION:

ORA finds AVR's request for recovery of the balance recorded in the Outside Services Memorandum Account to be reasonable.

RESOLUTION:

The Parties agree that the Commission should authorize the recovery of the under-collection recorded in the Outside Services Memorandum Account in the amount of $2,006. The Parties further agree that the account be closed.

REFERENCES: AVR Exh. A-1, p. 135; ORA Exh. O-1, pp. 14-14 – 14-15.

16.7 Pressure Reducing Memorandum Account

AVR WATER REQUEST:

AVR requests that the Commission close the Pressure Reducing Valve Memorandum Account because it has not recorded any costs in the account since its inception. AVR has determined that because of the water system's operational characteristics, pressure reducing valve technology will not work in the AVR service area.

ORA POSITION:

ORA finds AVR's request to be reasonable.

RESOLUTION:

The Parties agree that the Commission should authorize the closing of the Pressure Reducing Valve Memorandum Account.

REFERENCES: AVR Exh. A-1, p 136; ORA Exh. O-1, pp. 14-15 – 14-16.

16.8 Credit Card Memorandum Account

AVR WATER REQUEST:

AVR requests that the Commission authorize the refund of the over-collected balance recorded in the Credit Card Memorandum Account estimated at December 31, 2014.

ORA POSITION:

ORA finds AVR's request to be reasonable.

RESOLUTION:

Based on discussion, review of AVR's rebuttal testimony, and review of workpapers, the Parties agree that the Commission authorize the refund of the over-collected balance recorded in the Credit Card Memorandum Account in the amount of $4,148.42. The Parties further agree that this account be closed.

REFERENCES: AVR Exh. A-1, p. 136; ORA Exh. O-1, pp. 14-20 – 14-21.

16.9 2010 Tax Memorandum Account

AVR WATER REQUEST:

AVR requests authorization to file an advice letter to refund the balance recorded in the 2010 Tax Act Memorandum Account from April 14, 2011 through December 31, 2014 after the account is terminated at the conclusion of this rate case cycle (December 31, 2014) and the final balance has been determined.

ORA POSITION:

ORA recommends that the Commission order an audit of the 2010 Tax Act Memorandum Account and AVR would file a subsequent advice letter requesting refund of the balance recorded in the account based on the results of the audit.

RESOLUTION:

After discussions, settlement negotiations, and review of AVR's rebuttal testimony, the Parties agree that the impacts of the 2010 Tax Act on 2015 and subsequent years are incorporated into rates in this proceeding, that the 2010 Tax Act Memorandum Account should terminate at the end of December 31, 2014 (or whatever other time that rates from this proceeding become effective, and that AVR will file an advice letter by April 30, 2015 to refund the over-collected balance recorded in the 2010 Tax Memorandum Account. The Parties further agree than an audit separate from the audit conducted in associated with the advice letter filing is unnecessary.

REFERENCES: AVR Exh. A-1, p. 136; ORA Exh. O-1,pp. 14-21 – 14-23.

16.10 Chromium 6 Memorandum Account

AVR WATER REQUEST:

AVR requests Commission authorization to establish a Hexavalent Chromium (Chromium 6) Memorandum Account to track the unknown costs of water treatment or remediation costs associated with the loss of groundwater sources that would result from a new MCL for Chromium 6.

ORA POSITION:

ORA recommends that AVR's request to establish a Chromium 6 Memorandum Account be denied based on its review of the impacts of the MCL on AVR's groundwater sources.

RESOLUTION:

The Parties agree that as a result of the California Department of Public Health setting the MCL for Chromium 6 at 10 ppb, there is no impact on AVR's groundwater sources. The Parties agree to ORA's recommendation and AVR will withdrawal its request for a Chromium 6 Memorandum Account.

REFERENCES: AVR Exh. A-1, p. 136; ORA Exh. O-1,pp. 14-24 – 14-26.

17.0 SPECIAL REQUESTS

17.1 New Tariff Charges

17.2 Fire Flow Test

AVR WATER REQUEST:

AVR requests a tariff for fire flow testing, which includes the entire process of scheduling, physical testing, modeling, and reporting fire flow and system pressure checks as requested by companies, groups or individuals, not as a part of a new subdivision or development.

ORA POSITION:

ORA supports this request.

RESOLUTION:

ORA and AVR agree that fire flow testing is a cost that should be charged to those causing the expense, rather than distributed to all customers. ORA and AVR agree that AVR will implement a tariff for fire flow testing of $60 per fire flow test, which includes the entire process of scheduling, physical testing, modeling, and reporting fire flow and system pressure checks as requested by companies, groups or individuals, not as a part of a new subdivision or development.

REFERENCES: AVR Exh. A-1,p. 145, AVR Exh. A-2, pp. 15-16; ORA Exh. O-1, pp. 15-2 – 15-3.

17.3 Restoration of Service

AVR WATER REQUEST:

AVR proposes a new tariff charge for restoration of service during after-hours and voluntary disconnection for non-emergency, voluntary disconnection after-hours (non-regular hours).

ORA POSITION:

ORA opposes this request.

RESOLUTION:

After further discussion during settlement negotiations, AVR and ORA agree that a tariff charge for restoration of service applicable to non-emergency, after-hours is a cost that should be charged to those customers causing the expense, rather than distributed to all customers. ORA and AVR agree that AVR will implement such a tariff charge for restoration of service of $150.

REFERENCES: AVR Exh. A-1, p. 144; ORA Exh. O-1, pp. 15-3 – 15-4.

17.4 Other Rates and Fees (Advances)

AVR WATER REQUEST:

AVR proposes to update the Supply Facilities Fee and Supplemental Water Acquisition Fee charged as advances in Section C of AVR's Rule No. 15, Main Extensions. The Supply

Facilities Fee would increase from $900 to $1,000 for a 5/8-inch meter, with increases to larger meter sizes based on the Commission's service charge ratios. AVR proposes to update the Supplemental Water Acquisition Fee from $5,000 to $7,000 per lot.

ORA POSITION:

ORA did not comment on this request.

RESOLUTION:

After further discussion during settlement negotiations, the Parties agree to the updated fees facilities and supplemental water acquisition as shown below.

11.02.4 Other Rates and Fees (advances) Proposed:

Supply Facilities Fees

Service Size	Facilities Fee
⅝-inch	$ 1,000.00
¾-inch	$ 1,500.00
1-inch	$ 2,500.00
1 ½-inch	$ 5,000.00
2-inch	$ 8,000.00
3-inch	$ 15,000.00
4-inch	$ 25,000.00
6-inch	$ 50,000.00
Service Size	Facilities Fee
8-inch	$ 80,000.00
10-inch	$145,000.00

Supplemental Water Acquisition Fees

Residential developments	$5,500 per lot
Commercial, Industrial, or other developments	$5,500 per equivalent average residential water use based on the water use of similar business or facility.

REFERENCES: AVR Exh. A-1, p. 144.

17.5 Interest Rates Applied to Customer Deposits

AVR WATER REQUEST:

AVR requests to change the interest on customer deposits in Rule No. 7 from seven percent per annum to the average monthly 90-day commercial paper rate per month.

ORA POSITION:

ORA supports this request because customer deposits and the interest earned on the deposits have no impact on ratemaking and the current seven percent rate does not reflect current market conditions.

RESOLUTION:

ORA and AVR agree that AVR will revise the interest earned on customer deposits from 7% to the 90-day commercial paper rate. ORA and AVR recognize that the Commission previously authorized a similar treatment for Park Water Company in D.13-09-005.

REFERENCES: AVR Exh. A-1, p. 145; ORA Exh. O-1, pp. 15-5 – 15-6.

17.6 Recognition of Future Offset

AVR WATER REQUEST:

AVR anticipates the filing of leased water and purchased power expense offset advice letters subsequent to the filing of this GRC application but prior to the Test Year. AVR requests that the Commission recognize any subsequent offsets prior to the issuance of a final decision in this GRC.

ORA POSITION:

ORA supports this request.

RESOLUTION:

The Parties agree that any expense offsets be recognized prior to the issuance of a final decision in the proceeding.

REFERENCES: AVR Application, p. 13; ORA Exh. O-1, p.15-6.

18.0 WRAM/MCBA

AVR WATER REQUEST:

AVR requests Commission authorization to continue its existing Water Revenue Adjustment Mechanism ("WRAM")/Modified Production Cost Balancing Account ("MCBA") with some minor modifications. AVR proposes to add the commodity revenues for the irrigation system to the WRAM balancing account. AVR's MCBA captures variations in production costs (purchased power, replenishment assessments, and leased water rights) due to either changes in unit price or changes in the consumption. AVR requests that the production costs of chemicals be included in the supply cost captured by the MCBA. AVR also requests to add the irrigation system water production costs in the MCBA.

ORA POSITION:

ORA opposes AVR's requests to modify the WRAM/MCBA.

RESOLUTION:

The Parties agree that the Commission should authorize the continuance of the WRAM/MCBA. The Parties disagree on AVR's proposed modifications to the WRAM/MCBA, which are outlined in Section 1.3. The Parties further believe that the resolution of the consumption per customer issue will result in reasonable estimate of water sales during the rate case cycle (2015 – 2017). This will minimize and eliminate the potential for large WRAM surcharges that result from significant difference between actual and adopted sales forecasts.

REFERENCES: AVR Exh. A-1 pp. 133 – 134; ORA Exh. O-1, pp.19-1 – 19-2.

19.0 LOW INCOME PROGRAM (CARW)

AVR WATER REQUEST:

AVR proposes to continue its existing low-income discount program known as California Alternate Rates for Water ("CARW"). AVR requests continuing this program by increasing the current monthly service charge discount of $6.69 by the average percentage increase to rates

authorized in this proceeding. AVR also proposes the continuation of a surcharge to offset the CARW discounts provided to qualifying customers. AVR requests the Commission authorize the recovery of the under-collection recorded in the CARW Balancing Account as of December 31, 2013 in the amount of $425,758 through a 12-month temporary surcharge.

ORA POSITION:

ORA finds AVR's request acceptable and recommends that the Commission adopt AVR's requested changes to the CARW program identified in AVR's application.

RESOLUTION:

The Parties agree that qualifying customers would receive a monthly CARW discount using the methodology described above. Non-qualifying customers, excluding customers receiving non-metered fire sprinkler service, reclaimed water service, construction and other temporary meter service and customers that receive a CARW credit, would be subject to a monthly surcharge using the methodology described above.

The Parties agree that the Commission should authorize the recovery of the under-collection recorded in the CARW Revenue Reallocation Balancing Account in the amount of $425,758.

The Parties further agree that the CARW Balancing Account continues to be necessary to track the balance of collected surcharges and discounts.

REFERENCES: AVR Exh. A-1, pp. 15-16; ORA Exh. O-1, pp. 18-1 – 18-5.

20.0 REQUESTS TO THE COMMISSION

As a result of this Settlement, the Commission should act to resolve AVR's requests in this proceeding. The Parties are providing a list of these requests under paragraph 21.0 below in an effort to ensure the Commission takes notice of necessary findings and orders arising from this proceeding.

21.0 REQUESTS AS A RESULT OF THE SETTLEMENT

21.1 The Parties request that the Commission authorize a change in AVR's tariff fees pursuant to Sections 16.1.1, 16.1.2, and 16.1.3 effective January 1, 2015. AVR's interest on deposits would be the average monthly 90-day commercial paper rate. AVR's reconnection fee (outside of regular business hours) and voluntary disconnection charge (outside of regular business hours) would be $150. AVR's fee for requested fire-flow tests would be $60 per fire-flow test.

21.2 The Parties request that the Commission authorize a change in AVR's CARW discount (for qualifying customers) and the surcharge (for non-qualifying customers) pursuant to Section 19.0.

21.3 The Parties request that the Commission authorize the continuance of the existing Water Revenue Adjustment Mechanism and Modified Cost Balancing Accounts pursuant to Section 18.

21.4 The Parties request that the Commission authorize recovery of the under-collected balance in AVR's Conservation (BMP) Memorandum Account ($77,384 as of December 31, 2013) pursuant to Section 16.5.

21.5 The Parties request that the Commission authorize recovery of the under-collected balance in AVR's Outside Services Memorandum Account ($2,006 as of December 31, 2013) pursuant to Section 16.6.

21.6 The Parties request that the Commission authorize the refund of the over-collected balance in the AVR's Credit Card Balancing Account ($4,148.42 as of December 31, 2014) pursuant to Section 16.8.

21.7 The Parties request that the Commission authorize recovery of the under-collected balance in AVR's CARW Revenue Reallocation Balancing Account ($425,758 as of December 31, 2013) pursuant to Section 19.0.

21.8 The Parties request that the Commission make a finding that AVR meets all applicable water quality standards. This finding would be based upon ORA's review of water quality testimony and information provided by AVR.

21.9 The Parties request that the Commission make a finding that AVR is in compliance with the Real Property Subject to the Water Infrastructure Improvement Act of 1996.

21.10 The Parties request that the Commission order the filing of advice letters to implement increases for escalation years 2016 and 2017.

21.11 The Parties request that the Commission find that AVR's contract with HomeServe, that is subject to the Excess Capacity Decision (D.00-07-018) and Non-Tariffed Products & Services Rules in D.10-10-019 (Appendix A, Rule X) for unregulated transactions is properly reflected in AVR's revenue requirement.

21.12 The Parties request that the Commission authorize and implement all other agreements of the Parties contained in the Final Amended Settlement.

22.0 FURTHER TERMS AND CONDITIONS OF THE SETTLEMENT

22.0 Rule 12.1(d) requires that a Settlement be "reasonable in light of the whole record, consistent with the law, and in the public interest." The Final Amended Settlement between the Parties in this proceeding satisfies the criteria in Rule 12.1(d). The Commission should approve, and adopt this Final Amended Settlement, which is supported by ORA and AVR.

22.1 The Final Amended Settlement is Reasonable

The Final Amended Settlement, taken as a whole, provides a reasonable resolution of the issues settled in this Proceeding. The reasonableness of the Final Amended Settlement is supported by ORA's reports and testimony, and by the testimony, reports, and rebuttal testimony of AVR. In addition, the parties considered the affordability of the rates, letters to the Commission, the financial health of AVR and the Commission's Water Action Plan. The parties fully reached a reasonable compromise on the various issues that were in contention. The settlement negotiations were accomplished at arm's length over the course of numerous weeks.

22.2 The Final Amended Settlement is Lawful

The Parties are aware of no statutory provisions or prior Commission decision that would be

contravened or compromised by the Final Amended Settlement. The issues resolved in the Settlement are clearly within the scope of the proceeding. Moreover, the Settlement, if adopted, would result in just and reasonable rates to AVR's customers.

22.3 The Final Amended Settlement Serves the Public Interest

The Final Amended Settlement is in the public interest. The Commission has explained that a settlement which "commands broad support among participants fairly reflective of the affected interest" and "does not contain terms which contravene statutory provisions or prior Commission decisions" well serves the public interest. *Re San Diego Gas & Elec.*, D.92-12-019, 46 CPUC 2d at 552. In this proceeding, the Parties fairly represent the affected parties' interests. AVR provides water service to the customers in its service territory in San Bernardino County, and ORA is statutorily mandated with representing ratepayers in California, including those ratepayers not directly at issue in this proceeding.

The principal public interest affected in this proceeding is the delivery of safe, reliable water service at reasonable rates. The Final Amended Settlement advances these interests. In addition, Commission approval of the Final Amended Settlement will provide speedy resolution of contested issues, which will conserve Commission resources.

22.4 The Final Amended Settlement Conveys Sufficient Information

The Parties believe that the Final Amended Settlement conveys sufficient information for the Commission to discharge its future regulatory obligations. Thus, taken as a whole, the Final Amended Settlement will satisfy the Commission's standards for approving a settlement presented to it.

23.0 CONCLUSION

The Parties mutually believe that, based on the terms and conditions set forth above, this Final Amended Settlement is reasonable, consistent with the law, and in the public interest.

OFFICE OF RATEPAYER ADVOCATES

By:_____
Joseph P. Como
Acting Director

California Public Utilities Commission
Office of Ratepayer Advocates
505 Van Ness Avenue
San Francisco, CA 94102

Dated: September 10, 2015

APPLE VALLEY RANCHOS WATER COMPANY

By:_____
Edward N. Jackson
Project Manager

Representative for
Apple Valley Ranchos Water Company
21760 Ottawa Road
Apple Valley, CA 92307

Dated: September 10, 2015

(END OF ATTACHMENT A)

ATTACHMENT B

EXHIBIT A

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of Apple Valley Ranchos Water Company (U 346 W) for Authority to Increase Rates Charged for Water Service by $3,127,463 or 14.88% in 2015, $2,056,455 or 8.48% in 2016, and $2,160,731 or 8.19% in 2017.	A.14-01-002 (Filed January 2, 2014)

AMENDED JOINT COMPARISON EXHIBIT OF THE APPLE VALLEY RANCHOS WATER COMPANY AND THE OFFICE OF RATEPAYER ADVOCATES

Yoke Chan
Project Coordinator
Office of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-1909
Fax: (415) 703-1345
E-mail: yoke.chan@cpuc.ca.gov

Edward N. Jackson
Representative
Director of Revenue Requirements
Park Water Company
9750 Washburn Road
P. O. Box 7002
Downey, CA 90241
Phone: (562) 923-0711
Fax: (562) 861-5902
E-mail: ed.jackson@parkwater.com

September 10, 2015

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AMENDED JOINT COMPARISON EXHIBIT OF THE APPLE VALLEY RANCHOS WATER COMPANY AND THE OFFICE OF RATEPAYER ADVOCATES

INTRODUCTION

This comparison exhibit, sponsored jointly by Apple Valley Ranchos Water Company ("AVR") and the Office of Ratepayer Advocates ("ORA") (collectively, the "Parties"), sets forth the original estimates of both Parties as well as the settlement amounts.

Both AVR and ORA have revised their estimates of the 2015 revenue requirements to reflect corrections and stipulations. Estimates of individual items may have been revised up or down but, overall, the revised positions of both parties represent a $1,781,000 decrease to the 2015 revenue requirement of $24,151,000 requested in AVR's Application.

As a result of the Parties' initial settlement (filed August 8, 2014), AVR's requested 2015 revenue requirement was reduced to $23,599,000; and AVR's requested rate increase decreased from 14.88% to 13.53% while ORA's increased from 7.97% to 13.29% (the difference was due to the unresolved Conservation Expense issue).

The Parties' amended settlement on AVR's Main Replacement Program resulted in a further decrease of AVR's requested 2015 revenue requirement to $23,330,000, resulting in a further decrease to AVR's requested rate increase to 12.24%. In response to Commissioner Carla Peterman's June 19, 2015 Ruling Amending Scope and Schedule, the Parties submitted supplemental testimony consistent with the Commission's Resolution W-5041, the Governor's Executive Order B-29-15, and the 28% reduction in AVR's water production mandated by the State Water Resource Control Board's ("SWRCB") emergency water conservation regulations. Incorporation of the revised consumption per customer estimates and flow-through effects, based

on the Parties' agreements in their filed supplemental testimony, results in a significant further decrease to the 2015 revenue requirement: $22,370,000 requested by AVR and $22,325,000 proposed by ORA. The significant reduction in sales, however, causes an increase to the resulting rate increase necessary to generate the revenue requirement: 25.31% requested by AVR and 25.06% proposed by ORA.

Included in this comparison exhibit are summary of earnings tables at present rate revenues (2015) and at AVR's and ORA's proposed rate of return (2015) providing the results of AVR's and ORA's revised estimates as well as the differences between AVR and ORA by category. Income tax tables are similarly provided at present rate revenues (2015) and at AVR's and ORA's proposed rate of return (2015). Rate base tables are provided for years 2015 and 2016. Tables are also provided for customers and water sales for years 2015, 2016, and 2017.

The differences between AVR's and ORA's original and final estimates are due to the Parties' corrections, stipulations, and resolution of customers, sales, revenues, expense, tax and capital items through additional discussions held after the issuance of ORA's Amended Report on the Results of Operations, the amended resolution of AVR's Main Replacement Program, as well as consideration of the Parties' respective Supplemental Testimony.

The Parties have reached agreement on the majority of revenue, expense, tax, and capital items as described in the Final Amended Settlement Agreement. There are, however, a number of categories where agreement was reached on methodology but the Parties have remaining differences in their respective estimates due to the impact of the unresolved issues. The Parties were unable to reach agreement on the issues of: (1) Conservation expense proposed by AVR and the Conservation Balancing Account proposed by ORA; (2) the use of estimates in Balancing Accounts; (3) the Office Remodel Balancing Account; (4) the Solar Project Memorandum Account; (5) the Level Payment Plan; (6) the Sales Reconciliation Mechanism; and (7) the inclusion of the irrigation system in the WRAM/MCBA. The unresolved issues are identified in the Parties' Briefs as Conservation Estimates, Conservation Balancing Account, Solar Project Memorandum Account, Office Remodel Balancing Account, Use of Estimates, Level Payment Plan, Sales Reconciliation Mechanism, Irrigation (Commodity Revenues & Production Costs), Incremental Cost Balancing Account, and Chemical Costs. The comparison exhibit does not address the issues raised by the Town of Apple Valley ("Town"), including the issues addressed in the Parties' briefs under the headings "Rate Design" and "Water Rate

Comparison." The Parties are in agreement on the Rate Design and Water Rate Comparison issues raised by the Town and have briefed their respective positions on these issues.

TABLE A-1
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC & IRRIGATION
2015 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES
2015 @ PRESENT RATES
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATING REVENUES	20,783.4	17,804.9	0.0	17,804.9	20,976.8
DEFERRED REVENUES	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS REVENUE	46.7	46.7	0.0	46.7	46.7
TOTAL REVENUES	20,830.1	17,851.6	0.0	17,851.6	21,023.5
OPERATIONS & MAINTENANCE					
PAYROLL-OPERATIONS	827.0	837.5	0.0	837.5	840.9
OPERATIONS-OTHER	159.0	155.2	0.0	155.2	157.3
PURCHASED WATER-POTABLE	0.0	0.0	0.0	0.0	0.0
PURCHASED POWER	1,097.5	971.9	0.0	971.9	1,125.6
LEASED WATER RIGHTS	834.7	0.0	0.0	0.0	963.8
REPLENISHMENT	109.8	101.6	0.0	101.6	114.9
CHEMICALS	21.9	21.8	0.0	21.8	22.0
PAYROLL-CUSTOMERS	498.1	504.5	0.0	504.5	506.6
CUSTOMERS-OTHER	273.8	305.8	44.6	350.4	358.5
UNCOLLECTIBLES	99.1	84.7	0.0	84.7	100.0
PAYROLL-MAINTENANCE	429.9	435.3	0.0	435.3	437.2
MAINTENANCE-OTHER	667.2	619.2	0.0	619.2	623.1
PAYROLL-CLEARINGS	120.9	122.4	0.0	122.4	122.9
DEPRECIATION-CLEARINGS	239.8	241.9	0.0	241.9	264.2
CLEARINGS-OTHER	210.7	209.4	0.0	209.4	221.1
SUB-TOTAL O & M	5,589.4	4,611.1	44.6	4,655.7	5,858.1
ADMINISTRATIVE & GENERAL					
A & G PAYROLL	1,590.3	1,609.9	0.0	1,609.9	1,616.4
EMPLOYEE BENEFITS	1,299.2	1,342.9	0.0	1,342.9	1,361.8
INSURANCE	645.4	663.7	0.0	663.7	664.3
UNINSURED PROPERTY DAMAGE	8.7	8.8	0.0	8.8	8.8
REG. COMM. EXPENSE	131.3	159.3	0.0	159.3	162.3
FRANCHISE REQUIREMENTS	200.2	171.3	0.0	171.3	202.0
OUTSIDE SERVICES	234.9	248.9	0.0	248.9	265.3
A & G - OTHER	451.7	496.3	0.0	496.3	514.7
A & G TRANSFERRED CREDIT	(184.8)	(357.2)	0.0	(357.2)	(637.3)
RENTS	16.7	16.8	0.0	16.8	17.3
GENERAL OFFICE ALLOCATION	2,102.7	2,129.3	0.0	2,129.3	2,196.2
AVR ALLOCATION	(0.0)	0.0	0.0	0.0	0.0
SUB-TOTAL A & G	6,496.3	6,489.9	0.0	6,489.9	6,371.8
OTHER TAXES					
[1] PROPERTY TAXES	582.6	590.1	0.0	590.1	585.4
[1] PAYROLL TAXES	331.1	321.6	0.0	321.6	323.2
SUB-TOTAL OTHER TAXES	913.6	911.7	0.0	911.7	908.7
[1] DEPRECIATION	3,169.4	3,262.3	0.0	3,262.3	3,399.1
CA INCOME TAXES	255.0	52.7	0.0	52.7	216.3
FEDERAL INCOME TAXES	839.3	152.3	(13.4)	138.9	756.2
TOTAL EXPENSES	17,262.9	15,480.0	31.2	15,511.2	17,510.1
NET REVENUE	3,567.1	2,371.6	(31.2)	2,340.4	3,513.4
TOTAL RATE BASE	49,851.7	54,418.5	1.0	54,419.5	58,578.3
RATE OF RETURN	7.16%	4.36%	-0.1%	4.30%	6.00%

[1] DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM AVR'S GENERAL OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

TABLE A-2
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC & IRRIGATION
2015 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES
2015 @ PROPOSED RATES
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATING REVENUES	22,439.4	22,259.0	45.0	22,304.0	24,100.3
DEFERRED REVENUES	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS REVENUE	50.7	66.0	0.0	66.0	50.7
TOTAL REVENUES	22,490.1	22,325.0	45.0	22,370.0	24,151.0
OPERATIONS & MAINTENANCE					
PAYROLL-OPERATIONS	827.0	837.5	0.0	837.5	840.9
OPERATIONS-OTHER	159.0	155.2	0.0	155.2	157.3
PURCHASED WATER-POTABLE	0.0	0.0	0.0	0.0	0.0
PURCHASED POWER	1,097.5	971.9	0.0	971.9	1,125.6
LEASED WATER RIGHTS	834.7	0.0	0.0	0.0	963.8
REPLENISHMENT	109.8	101.6	0.0	101.6	114.9
CHEMICALS	21.9	21.8	0.0	21.8	22.0
PAYROLL-CUSTOMERS	498.1	504.5	0.0	504.5	506.6
CUSTOMERS-OTHER	273.8	305.8	44.6	350.4	358.5
UNCOLLECTIBLES	114.1	106.1	0.2	106.3	114.9
PAYROLL-MAINTENANCE	429.9	435.3	0.0	435.3	437.2
MAINTENANCE-OTHER	667.2	619.2	0.0	619.2	623.1
PAYROLL-CLEARINGS	120.9	122.4	0.0	122.4	122.9
DEPRECIATION-CLEARINGS	239.8	241.9	0.0	241.9	264.2
CLEARINGS-OTHER	210.7	209.4	0.0	209.4	221.1
SUB-TOTAL O & M	5,604.4	4,632.5	44.8	4,677.3	5,873.0
ADMINISTRATIVE & GENERAL					
A & G PAYROLL	1,590.3	1,609.9	0.0	1,609.9	1,616.4
EMPLOYEE BENEFITS	1,299.2	1,342.9	0.0	1,342.9	1,361.8
INSURANCE	645.4	663.7	0.0	663.7	664.3
UNINSURED PROPERTY DAMAGE	8.7	8.8	0.0	8.8	8.8
REG. COMM. EXPENSE	131.3	159.3	0.0	159.3	162.3
FRANCHISE REQUIREMENTS	230.7	214.4	0.4	214.9	232.1
OUTSIDE SERVICES	234.9	248.9	0.0	248.9	265.3
A & G - OTHER	451.7	496.3	0.0	496.3	514.7
A & G TRANSFERRED CREDIT	(184.8)	(357.2)	0.0	(357.2)	(637.3)
RENTS	16.7	16.8	0.0	16.8	17.3
GENERAL OFFICE ALLOCATION	2,102.7	2,129.3	0.0	2,129.3	2,196.2
AVR ALLOCATION	(0.0)	0.0	0.0	0.0	0.0
SUB-TOTAL A & G	6,526.8	6,533.1	0.4	6,533.5	6,401.9
OTHER TAXES					
[1] PROPERTY TAXES	582.6	590.1	0.0	590.1	585.4
[1] PAYROLL TAXES	331.1	321.6	0.0	321.6	323.2
SUB-TOTAL OTHER TAXES	913.6	911.7	0.0	911.7	908.7
[1] DEPRECIATION	3,169.4	3,262.3	0.0	3,262.3	3,399.1
CA INCOME TAXES	399.6	446.9	(0.0)	446.9	489.3
FEDERAL INCOME TAXES	1,376.5	1,600.3	1.2	1,601.5	1,768.6
[2]TOTAL EXPENSES	17,968.4	17,386.7	46.4	17,433.2	18,840.5
NET REVENUE	4,521.7	4,938.3	(1.4)	4,936.8	5,310.5
TOTAL RATE BASE	49,851.7	54,418.5	1.0	54,419.5	58,578.3
RATE OF RETURN	9.07%	9.07%	0.0%	9.07%	9.07%
DOLLAR INCREASE	1,660.0	4,473.4	45.0	4,518.4	3,127.5
% INCREASE	7.97%	25.06%	0.3%	25.31%	14.88%

[1] DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM AVR'S GENERAL OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

[2] ORA'S ORIGINAL TOTAL EXPENSES IS ADJUSTED TO REFLECT ORA'S REPORT.

TABLE A-3
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC
2015 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES
2015 @ PRESENT RATES
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATING REVENUES	20,591.0	17,608.2	0.0	17,608.2	20,780.1
DEFERRED REVENUES	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS REVENUE	46.7	46.7	0.0	46.7	46.7
TOTAL REVENUES	20,637.7	17,654.9	0.0	17,654.9	20,826.8
OPERATIONS & MAINTENANCE					
PAYROLL-OPERATIONS	824.0	834.4	0.0	834.4	837.9
OPERATIONS-OTHER	159.0	155.2	0.0	155.2	157.3
PURCHASED WATER-POTABLE	0.0	0.0	0.0	0.0	0.0
PURCHASED POWER	1,010.3	877.7	0.0	877.7	1,030.0
LEASED WATER RIGHTS	834.7	0.0	0.0	0.0	963.8
REPLENISHMENT	103.3	92.0	0.0	92.0	105.0
CHEMICALS	21.9	21.8	0.0	21.8	22.0
PAYROLL-CUSTOMERS	498.1	504.5	0.0	504.5	506.6
CUSTOMERS-OTHER	273.8	305.8	44.6	350.4	358.5
UNCOLLECTIBLES	99.1	84.7	0.0	84.7	100.0
PAYROLL-MAINTENANCE	429.9	435.3	0.0	435.3	437.2
MAINTENANCE-OTHER	665.0	617.0	0.0	617.0	621.0
PAYROLL-CLEARINGS	120.9	122.4	0.0	122.4	122.9
DEPRECIATION-CLEARINGS	239.8	241.9	0.0	241.9	264.2
CLEARINGS-OTHER	207.6	206.3	0.0	206.3	218.0
SUB-TOTAL O & M	5,487.2	4,499.0	44.6	4,543.6	5,744.3
ADMINISTRATIVE & GENERAL					
A & G PAYROLL	1,590.3	1,609.9	0.0	1,609.9	1,616.4
EMPLOYEE BENEFITS	1,297.2	1,340.8	0.0	1,340.8	1,359.8
INSURANCE	644.1	662.4	0.0	662.4	663.0
UNINSURED PROPERTY DAMAGE	8.7	8.8	0.0	8.8	8.8
REG. COMM. EXPENSE	131.3	159.3	0.0	159.3	162.3
FRANCHISE REQUIREMENTS	200.2	171.3	0.0	171.3	202.0
OUTSIDE SERVICES	230.3	244.4	0.0	244.4	261.2
A & G - OTHER	451.5	496.0	0.0	496.0	514.5
A & G TRANSFERRED CREDIT	(184.8)	(357.2)	0.0	(357.2)	(637.3)
RENTS	16.7	16.8	0.0	16.8	17.3
GENERAL OFFICE ALLOCATION	2,089.2	2,115.6	0.0	2,115.6	2,183.7
AVR ALLOCATION	(26.7)	(27.6)	0.0	(27.6)	(27.9)
SUB-TOTAL A & G	6,447.9	6,440.4	0.0	6,440.4	6,323.6
OTHER TAXES					
[1] PROPERTY TAXES	579.1	586.6	0.0	586.6	582.0
[1] PAYROLL TAXES	330.4	320.9	0.0	320.9	322.6
SUB-TOTAL OTHER TAXES	909.5	907.6	0.0	907.6	904.5
[1] DEPRECIATION	3,154.2	3,247.0	0.0	3,247.0	3,383.4
CA INCOME TAXES	253.9	56.6	(3.9)	52.7	216.3
FEDERAL INCOME TAXES	835.3	150.4	(13.4)	137.0	754.5
TOTAL EXPENSES	17,088.1	15,301.0	27.3	15,328.3	17,326.6
NET REVENUE	3,549.6	2,353.9	(27.3)	2,326.6	3,500.3
TOTAL RATE BASE	49,568.7	54,133.7	1.0	54,134.8	58,294.1
RATE OF RETURN	7.16%	4.35%	-0.1%	4.30%	6.00%

[1] DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM AVR'S GENERAL OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

TABLE A-4
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC
2015 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES
2015 @ PROPOSED RATES
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATING REVENUES	22,232.9	22,040.8	45.0	22,085.8	23,881.2
DEFERRED REVENUES	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS REVENUE	50.7	66.0	0.0	66.0	50.7
TOTAL REVENUES	22,283.5	22,106.7	45.0	22,151.7	23,931.9
OPERATIONS & MAINTENANCE					
PAYROLL-OPERATIONS	824.0	834.4	0.0	834.4	837.9
OPERATIONS-OTHER	159.0	155.2	0.0	155.2	157.3
PURCHASED WATER-POTABLE	0.0	0.0	0.0	0.0	0.0
PURCHASED POWER	1,010.3	877.7	0.0	877.7	1,030.0
LEASED WATER RIGHTS	834.7	0.0	0.0	0.0	963.8
REPLENISHMENT	103.3	92.0	0.0	92.0	105.0
CHEMICALS	21.9	21.8	0.0	21.8	22.0
PAYROLL-CUSTOMERS	498.1	504.5	0.0	504.5	506.6
CUSTOMERS-OTHER	273.8	305.8	44.6	350.4	358.5
UNCOLLECTIBLES	114.1	106.1	0.2	106.3	114.9
PAYROLL-MAINTENANCE	429.9	435.3	0.0	435.3	437.2
MAINTENANCE-OTHER	665.0	617.0	0.0	617.0	621.0
PAYROLL-CLEARINGS	120.9	122.4	0.0	122.4	122.9
DEPRECIATION-CLEARINGS	239.8	241.9	0.0	241.9	264.2
CLEARINGS-OTHER	207.6	206.3	0.0	206.3	218.0
SUB-TOTAL O & M	5,502.2	4,520.3	44.8	4,565.2	5,759.2
ADMINISTRATIVE & GENERAL					
A & G PAYROLL	1,590.3	1,609.9	0.0	1,609.9	1,616.4
EMPLOYEE BENEFITS	1,297.2	1,340.8	0.0	1,340.8	1,359.8
INSURANCE	644.1	662.4	0.0	662.4	663.0
UNINSURED PROPERTY DAMAGE	8.7	8.8	0.0	8.8	8.8
REG. COMM. EXPENSE	131.3	159.3	0.0	159.3	162.3
FRANCHISE REQUIREMENTS	230.7	214.4	0.4	214.9	232.1
OUTSIDE SERVICES	230.3	244.4	0.0	244.4	261.2
A & G - OTHER	451.5	496.0	0.0	496.0	514.5
A & G TRANSFERRED CREDIT	(184.8)	(357.2)	0.0	(357.2)	(637.3)
RENTS	16.7	16.8	0.0	16.8	17.3
GENERAL OFFICE ALLOCATION	2,089.2	2,115.6	0.0	2,115.6	2,183.7
AVR ALLOCATION	(26.7)	(27.6)	0.0	(27.6)	(27.9)
SUB-TOTAL A & G	6,478.4	6,483.6	0.4	6,484.0	6,353.7
OTHER TAXES					
[1] PROPERTY TAXES	579.1	586.6	0.0	586.6	582.0
[1] PAYROLL TAXES	330.4	320.9	0.0	320.9	322.6
SUB-TOTAL OTHER TAXES	909.5	907.6	0.0	907.6	904.5
[1] DEPRECIATION	3,154.2	3,247.0	0.0	3,247.0	3,383.4
CA INCOME TAXES	397.2	444.5	(0.0)	444.4	486.8
FEDERAL INCOME TAXES	1,368.0	1,591.3	1.2	1,592.5	1,759.5
[2]TOTAL EXPENSES	17,787.7	17,194.3	46.4	17,240.7	18,647.1
NET REVENUE	4,495.8	4,912.5	(1.4)	4,911.0	5,284.7
TOTAL RATE BASE	49,568.7	54,133.7	1.0	54,134.8	58,294.1
RATE OF RETURN	9.07%	9.07%	0.0%	9.07%	9.07%
DOLLAR INCREASE	1,645.8	4,451.8	45.0	4,496.8	3,105.0
% INCREASE	7.97%	25.22%	0.3%	25.47%	14.91%

[1] DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM AVR'S GENERAL OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

[2] ORA'S ORIGINAL TOTAL EXPENSES IS ADJUSTED TO REFLECT ORA'S REPORT.

TABLE A-5
APPLE VALLEY RANCHOS WATER CO. - IRRIGATION
2015 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES
2015 @ PRESENT RATES
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATING REVENUES	192.4	196.7	0.0	196.7	196.7
DEFERRED REVENUES	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS REVENUE	0.0	0.0	0.0	0.0	0.0
TOTAL REVENUES	192.4	196.7	0.0	196.7	196.7
OPERATIONS & MAINTENANCE					
PAYROLL-OPERATIONS	3.0	3.0	0.0	3.0	3.0
OPERATIONS-OTHER	0.0	0.0	0.0	0.0	0.0
PURCHASED POWER	87.2	94.3	0.0	94.3	95.6
REPLENISHMENT CHARGES	6.5	9.6	0.0	9.6	9.9
CHEMICALS	0.0	0.0	0.0	0.0	0.0
UNCOLLECTIBLES	0.0	0.0	0.0	0.0	0.0
PAYROLL-MAINTENANCE	0.0	0.0	0.0	0.0	0.0
MAINTENANCE-OTHER	2.2	2.2	0.0	2.2	2.1
PAYROLL-CLEARINGS	0.0	0.0	0.0	0.0	0.0
CLEARINGS-OTHER	3.1	3.1	0.0	3.1	3.2
SUB-TOTAL O & M	102.1	112.2	0.0	112.2	113.8
ADMINISTRATIVE & GENERAL					
PAYROLL	0.0	0.0	0.0	0.0	0.0
EMPLOYEE BENEFITS	2.0	2.1	0.0	2.1	2.1
INSURANCE	1.3	1.3	0.0	1.3	1.3
FRANCHISE REQUIREMENTS	0.0	0.0	0.0	0.0	0.0
OUTSIDE SERVICES	4.6	4.6	0.0	4.6	4.1
OFFICE SUPPLIES	0.0	0.0	0.0	0.0	0.0
A & G - OTHER	0.2	0.2	0.0	0.2	0.2
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0
RENTS	0.0	0.0	0.0	0.0	0.0
GENERAL OFFICE ALLOCATION	13.6	13.7	0.0	13.7	12.6
AVR ALLOCATION	26.7	27.6	0.0	27.6	27.9
SUB-TOTAL A & G	48.3	49.5	0.0	49.5	48.2
OTHER TAXES					
[1] PROPERTY TAXES	3.5	3.5	0.0	3.5	3.5
[1] PAYROLL TAXES	0.7	0.7	0.0	0.7	0.7
SUB-TOTAL OTHER TAXES	4.1	4.2	0.0	4.2	4.1
[1] DEPRECIATION	15.2	15.2	0.0	15.2	15.6
CA INCOME TAXES	1.1	0.5	(0.0)	0.5	0.5
FEDERAL INCOME TAXES	4.0	1.9	(0.0)	1.9	1.8
TOTAL EXPENSES	174.8	183.5	(0.0)	183.5	184.0
NET REVENUE	17.5	13.2	0.0	13.2	12.7
TOTAL RATE BASE	283.0	284.8	0.0	284.8	284.2
RATE OF RETURN	6.20%	4.65%	0.0%	4.65%	4.46%

[1] DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM AVR'S GENERAL OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

TABLE A-6
APPLE VALLEY RANCHOS WATER CO. - IRRIGATION
2015 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES
2015 @ PROPOSED RATES
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATING REVENUES	206.5	218.3	0.0	218.3	219.2
DEFERRED REVENUES	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS REVENUE	0.0	0.0	0.0	0.0	0.0
TOTAL REVENUES	206.5	218.3	0.0	218.3	219.2
OPERATIONS & MAINTENANCE					
PAYROLL-OPERATIONS	3.0	3.0	0.0	3.0	3.0
OPERATIONS-OTHER	0.0	0.0	0.0	0.0	0.0
PURCHASED WATER	0.0	0.0	0.0	0.0	0.0
PURCHASED POWER	87.2	94.3	0.0	94.3	95.6
REPLENISHMENT CHARGES	6.5	9.6	0.0	9.6	9.9
CHEMICALS	0.0	0.0	0.0	0.0	0.0
UNCOLLECTIBLES	0.0	0.0	0.0	0.0	0.0
PAYROLL-MAINTENANCE	0.0	0.0	0.0	0.0	0.0
MAINTENANCE-OTHER	2.2	2.2	0.0	2.2	2.1
PAYROLL-CLEARINGS	0.0	0.0	0.0	0.0	0.0
CLEARINGS-OTHER	3.1	3.1	0.0	3.1	3.2
SUB-TOTAL O & M	102.1	112.2	0.0	112.2	113.8
ADMINISTRATIVE & GENERAL					
PAYROLL	0.0	0.0	0.0	0.0	0.0
EMPLOYEE BENEFITS	2.0	2.1	0.0	2.1	2.1
INSURANCE	1.3	1.3	0.0	1.3	1.3
FRANCHISE REQUIREMENTS	0.0	0.0	0.0	0.0	0.0
OUTSIDE SERVICES	4.6	4.6	0.0	4.6	4.1
OFFICE SUPPLIES	0.0	0.0	0.0	0.0	0.0
A & G - OTHER	0.2	0.2	0.0	0.2	0.2
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0
RENTS	0.0	0.0	0.0	0.0	0.0
GENERAL OFFICE ALLOCATION	13.6	13.7	0.0	13.7	12.6
AVR ALLOCATION	26.7	27.6	0.0	27.6	27.9
SUB-TOTAL A & G	48.3	49.5	0.0	49.5	48.2
OTHER TAXES					
[1] PROPERTY TAXES	3.5	3.5	0.0	3.5	3.5
[1] PAYROLL TAXES	0.7	0.7	0.0	0.7	0.7
SUB-TOTAL OTHER TAXES	4.1	4.2	0.0	4.2	4.1
[1] DEPRECIATION	15.2	15.2	0.0	15.2	15.6
CA INCOME TAXES	2.4	2.4	(0.0)	2.4	2.5
FEDERAL INCOME TAXES	8.5	9.0	(0.0)	9.0	9.2
TOTAL EXPENSES	180.9	192.5	(0.0)	192.5	193.4
NET REVENUE	25.7	25.8	0.0	25.8	25.8
TOTAL RATE BASE	283.0	284.8	0.0	284.8	284.2
RATE OF RETURN	9.07%	9.07%	0.0%	9.07%	9.07%
DOLLAR INCREASE	14.2	21.6	0.0	21.6	22.5
% INCREASE	7.36%	10.97%	0.0%	10.97%	11.41%

[1] DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM AVR'S GENERAL OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

TABLE B - 1
APPLE VALLEY RANCHOS WATER CO.
WATER SALES PER AVERAGE CUSTOMER
TEST YEAR 2015
(CCF/ CUSTOMER)

	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential	197.42	151.70	0.0	151.70	199.13
Commercial	581.52	476.41	0.0	476.41	592.76
Industrial	641.00	485.84	0.0	485.84	630.60
Public Authority	6,389.00	4,833.88	0.0	4,833.88	6,389.00
Private Fire Service	6.84	8.50	0.0	8.50	7.99
Irrigation - Public Authority	5,365.00	4,514.97	0.0	4,514.97	5,365.00
Irrigation - Pressure	1,606.00	1,333.24	0.0	1,333.24	1,681.00
Irrigation - Gravity	443,715.00	456,274.90	0.0	456,274.90	456,275.00
Apple Valley Golf Course	126,540.00	117,077.45	0.0	117,077.45	122,164.00
Temporary Construction	784.04	801.01	0.0	801.01	991.25

TABLE B - 2
APPLE VALLEY RANCHOS WATER CO.
WATER SALES PER AVERAGE CUSTOMER
ESCALATION YEAR 2016
(CCF/CUSTOMER)

	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential	197.42	139.84	0.0	139.84	199.13
Commercial	581.52	459.94	0.0	459.94	592.76
Industrial	641.00	394.09	0.0	394.09	630.60
Public Authority	6,389.00	4,512.24	0.0	4,512.24	6,389.00
Private Fire Service	6.84	8.50	0.0	8.50	7.99
Irrigation - Public Authority	5,365.00	3,863.03	0.0	3,863.03	5,365.00
Irrigation - Pressure	1,606.00	1,231.16	0.0	1,231.16	1,681.00
Irrigation - Gravity	443,715.00	456,274.90	0.0	456,274.90	456,275.00
Apple Valley Golf Course	126,540.00	113,021.15	0.0	113,021.15	122,164.00
Temporary Construction	784.04	801.01	0.0	801.01	991.25

TABLE B - 3
APPLE VALLEY RANCHOS WATER CO.
WATER SALES PER AVERAGE CUSTOMER
ESCALATION YEAR 2017
(CCF/CUSTOMER)

	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential	197.42	139.84	0.0	139.84	199.13
Commercial	581.52	459.94	0.0	459.94	592.76
Industrial	641.00	394.09	0.0	394.09	630.60
Public Authority	6,389.00	4,512.24	0.0	4,512.24	6,389.00
Private Fire Service	6.84	8.50	0.0	8.50	7.99
Irrigation - Public Authority	5,365.00	3,863.03	0.0	3,863.03	5,365.00
Irrigation - Pressure	1,606.00	1,231.16	0.0	1,231.16	1,681.00
Irrigation - Gravity	443,715.00	456,274.90	0.0	456,274.90	456,275.00
Apple Valley Golf Course	126,540.00	113,021.15	0.0	113,021.15	122,164.00
Temporary Construction	784.04	801.01	0.0	801.01	991.25

TABLE C - 1
APPLE VALLEY RANCHOS WATER CO.
AVERAGE NUMBER OF CUSTOMERS
TEST YEAR 2015

NUMBER OF CUSTOMERS	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential	18,008	18,015	0.0	18,015	17,979
Commercial	1,384	1,364	0.0	1,364	1,364
Industrial	2	2	0.0	2	2
Public Authority	45	45	0.0	45	45
Private Fire Service	240	239	0.0	239	272
Irrigation - Public Authority	5	5	0.0	5	5
Irrigation - Pressure	166	166	0.0	166	175
Irrigation - Gravity	1	1	0.0	1	1
Apple Valley Golf Course	1	1	0.0	1	1
Temporary Construction	9	11	0.0	11	9

TABLE C - 2
APPLE VALLEY RANCHOS WATER CO.
AVERAGE NUMBER OF CUSTOMERS
ESCALATION YEAR 2016

NUMBER OF CUSTOMERS	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential	18,203	18,165	0.0	18,165	18,121
Commercial	1,397	1,375	0.0	1,375	1,373
Industrial	2	2	0.0	2	2
Public Authority	45	45	0.0	45	46
Private Fire Service	248	247	0.0	247	289
Irrigation - Public Authority	5	5	0.0	5	5
Irrigation - Pressure	169	169	0.0	169	180
Irrigation - Gravity	1	1	0.0	1	1
Apple Valley Golf Course	1	1	0.0	1	1
Temporary Construction	9	11	0.0	11	9

TABLE C - 3
APPLE VALLEY RANCHOS WATER CO.
AVERAGE NUMBER OF CUSTOMERS
ESCALATION YEAR 2017

NUMBER OF CUSTOMERS	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential	18,398	18,315	0.0	18,315	18,263
Commercial	1,410	1,386	0.0	1,386	1,382
Industrial	2	2	0.0	2	2
Public Authority	46	46	0.0	46	46
Private Fire Service	256	255	0.0	255	306
Irrigation - Public Authority	5	5	0.0	5	5
Irrigation - Pressure	172	171	0.0	171	185
Irrigation - Gravity	1	1	0.0	1	1
Apple Valley Golf Course	1	1	0.0	1	1
Temporary Construction	9	11	0.0	11	9

TABLE D - 1
APPLE VALLEY RANCHOS RANCHOS WATER CO. - DOMESTIC
TOTAL SALES & SUPPLY
TEST YEAR 2015

METER SALES (CCF)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential	3,555,152	2,732,949	0.0	2,732,949	3,580,135
Commercial	804,828	649,824	0.0	649,824	808,526
Industrial	1,282	972	0.0	972	1,261
Public Authority	288,783	216,558	0.0	216,558	288,783
Private Fire Service	1,642	2,032	0.0	2,032	2,173
Irrigation - Public Authority	26,825	22,575	0.0	22,575	26,825
Irrigation - Pressure	266,596	221,318	0.0	221,318	294,175
Apple Valley Golf Course	126,540	117,077	0.0	117,077	122,164
Temporary Construction	7,056	8,811	0.0	8,811	8,921
TOTAL SALES	5,078,703	3,972,116	0.0	3,972,116	5,132,964
TOTAL PRODUCTION (CCF)	5,351,637	5,395,167	0.0	5,395,167	5,518,049
TOTAL PRODUCTION (AF)	12,288	12,388	0.0	12,388	12,671

TABLE D - 2
APPLE VALLEY RANCHOS RANCHOS WATER CO. - DOMESTIC
TOTAL SALES & SUPPLY
ESCALATION YEAR 2016

METER SALES (CCF)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential	3,593,649	2,540,216	0.0	2,540,216	3,608,411
Commercial	812,387	632,415	0.0	632,415	813,861
Industrial	1,282	788	0.0	788	1,261
Public Authority	287,505	203,953	0.0	203,953	291,338
Private Fire Service	1,696	2,100	0.0	2,100	2,309
Irrigation - Public Authority	26,825	19,315	0.0	19,315	26,825
Irrigation - Pressure	271,414	208,066	0.0	208,066	302,580
Apple Valley Golf Course	126,540	113,021	0.0	113,021	122,164
Temporary Construction	7,056	8,811	0.0	8,811	8,921
TOTAL SALES	5,128,355	3,728,685	0.0	3,728,685	5,177,671
TOTAL PRODUCTION (CCF)	5,403,957	5,441,415	0.0	5,441,415	5,566,110
TOTAL PRODUCTION (AF)	12,409	12,495	0.0	12,495	12,781

TABLE D - 3
APPLE VALLEY RANCHOS RANCHOS WATER CO. - DOMESTIC
TOTAL SALES & SUPPLY
ESCALATION YEAR 2017

METER SALES (CCF)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential	3,632,146	2,561,192	0.0	2,561,192	3,636,687
Commercial	819,947	637,474	0.0	637,474	819,196
Industrial	1,282	788	0.0	788	1,261
Public Authority	291,338	205,758	0.0	205,758	293,894
Private Fire Service	1,751	2,168	0.0	2,168	2,445
Irrigation - Public Authority	26,825	19,315	0.0	19,315	26,825
Irrigation - Pressure	276,232	210,528	0.0	210,528	310,985
Apple Valley Golf Course	126,540	113,021	0.0	113,021	122,164
Temporary Construction	7,056	8,811	0.0	8,811	8,921
TOTAL SALES	5,183,118	3,759,056	0.0	3,759,056	5,222,379
TOTAL PRODUCTION (CCF)	5,512,690	5,485,955	0.0	5,485,955	5,554,447
TOTAL PRODUCTION (AF)	12,658	12,597	0.0	12,597	12,754

TABLE D - 4
APPLE VALLEY RANCHOS RANCHOS WATER CO. - IRRIGATION
TOTAL SALES & SUPPLY
TEST YEAR 2015

METER SALES (CCF)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Irrigation - Gravity	443,715	456,275	0.0	456,275	456,275
TOTAL SALES	443,715	456,275	0.0	456,275	456,275
TOTAL PRODUCTION (CCF)	1,888,149	2,092,524	0.0	2,092,524	2,240,522
TOTAL PRODUCTION (AF)	4,336	4,805	0.0	4,805	5,145

TABLE D - 5
APPLE VALLEY RANCHOS RANCHOS WATER CO. - IRRIGATION
TOTAL SALES & SUPPLY
ESCALATION YEAR 2016

METER SALES (CCF)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Irrigation - Gravity	443,715	456,275	0.0	456,275	456,275
TOTAL SALES	443,715	456,275	0.0	456,275	456,275
TOTAL PRODUCTION (CCF)	1,888,149	2,092,524	0.0	2,092,524	2,240,522
TOTAL PRODUCTION (AF)	4,336	4,805	0.0	4,805	5,145

TABLE D - 6
APPLE VALLEY RANCHOS RANCHOS WATER CO. - IRRIGATION
TOTAL SALES & SUPPLY
ESCALATION YEAR 2017

METER SALES (CCF)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Irrigation - Gravity	443,715	456,275	0.0	456,275	456,275
TOTAL SALES	443,715	456,275	0.0	456,275	456,275
TOTAL PRODUCTION (CCF)	471,929	2,092,524	0.0	2,092,524	2,240,522
TOTAL PRODUCTION (AF)	1,084	4,805	0.0	4,805	5,145

TABLE E - 1
APPLE VALLEY RANCHOS
OPERATING REVENUES AT PRESENT RATES
TEST YEAR 2015

METERED REVENUES ($)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential	14,767,410	12,543,218	0.0	12,543,218	14,826,176
Commercial	3,406,266	2,963,627	0.0	2,963,627	3,399,105
Industrial	5,162	4,311	0.0	4,311	5,105
Public Authority	967,191	776,019	0.0	776,019	975,827
Private Fire Service	307,756	306,474	0.0	306,474	348,790
Irrigation - Public Authority	35,268	32,025	0.0	32,025	35,268
Irrigation - Pressure	933,518	809,275	0.0	809,275	1,020,145
Irrigation - Gravity	192,380	196,700	0.0	196,700	196,700
Apple Valley Golf Course	115,854	107,703	0.0	107,703	112,084
Temporary Construction	52,526	65,564	0.0	65,564	57,644
Miscellaneous Revenue	46,693	46,693	0.0	46,693	46,693
TOTAL REVENUE	20,830,023	17,851,607	0.0	17,851,607	21,023,537

TABLE E - 2
APPLE VALLEY RANCHOS
OPERATING REVENUES AT PROPOSED RATES
TEST YEAR 2015

METERED REVENUES ($)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential	15,944,950	15,672,447	0.0	15,672,447	17,076,657
Commercial	3,677,878	3,670,478	0.0	3,670,478	3,862,095
Industrial	5,574	5,374	0.0	5,374	5,822
Public Authority	1,044,314	1,022,793	0.0	1,022,793	1,134,727
Private Fire Service	332,297	384,406	0.0	384,406	400,841
Irrigation - Public Authority	38,080	38,673	0.0	38,673	39,645
Irrigation - Pressure	1,007,956	1,060,615	0.0	1,060,615	1,182,720
Irrigation - Gravity	206,530	218,321	0.0	218,321	219,224
Apple Valley Golf Course	125,092	150,855	0.0	150,855	132,711
Temporary Construction	56,715	73,804	0.0	73,804	63,299
Miscellaneous Revenue	50,666	65,966	0.0	65,966	50,666
TOTAL REVENUE	22,490,051	22,363,733	0.0	22,363,733	24,168,407

TABLE F-1
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC
OPERATION & MAINTENANCE EXPENSES
TEST YEAR 2015
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATIONS & MAINTENANCE					
PAYROLL-OPERATIONS	824.0	834.4	0.0	834.4	837.9
OPERATIONS-OTHER	159.0	155.2	0.0	155.2	157.3
PURCHASED WATER-POTABLE	0.0	0.0	0.0	0.0	0.0
PURCHASED POWER	1,010.3	877.7	0.0	877.7	1,030.0
LEASED WATER RIGHTS	834.7	0.0	0.0	0.0	963.8
REPLENISHMENT	103.3	92.0	0.0	92.0	105.0
CHEMICALS	21.9	21.8	0.0	21.8	22.0
PAYROLL-CUSTOMERS	498.1	504.5	0.0	504.5	506.6
CUSTOMERS-OTHER	273.8	305.8	44.6	350.4	358.5
UNCOLLECTIBLES	114.1	106.1	0.2	106.3	114.9
PAYROLL-MAINTENANCE	429.9	435.3	0.0	435.3	437.2
MAINTENANCE-OTHER	665.0	617.0	0.0	617.0	621.0
PAYROLL-CLEARINGS	120.9	122.4	0.0	122.4	122.9
DEPRECIATION-CLEARINGS	239.8	241.9	0.0	241.9	264.2
CLEARINGS-OTHER	207.6	206.3	0.0	206.3	218.0
TOTAL O & M EXPENSES	5,502.2	4,520.3	44.8	4,565.2	5,759.2

TABLE F-2
APPLE VALLEY RANCHOS RANCHOS WATER CO. - IRRIGATION
OPERATION & MAINTENANCE EXPENSES
TEST YEAR 2015
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATIONS & MAINTENANCE					
PAYROLL-OPERATIONS	3.0	3.0	0.0	3.0	3.0
OPERATIONS-OTHER	0.0	0.0	0.0	0.0	0.0
PURCHASED WATER	0.0	0.0	0.0	0.0	0.0
PURCHASED POWER	87.2	94.3	0.0	94.3	95.6
REPLENISHMENT CHARGES	6.5	9.6	0.0	9.6	9.9
CHEMICALS	0.0	0.0	0.0	0.0	0.0
UNCOLLECTIBLES	0.0	0.0	0.0	0.0	0.0
PAYROLL-MAINTENANCE	0.0	0.0	0.0	0.0	0.0
MAINTENANCE-OTHER	2.2	2.2	0.0	2.2	2.1
PAYROLL-CLEARINGS	0.0	0.0	0.0	0.0	0.0
CLEARINGS-OTHER	3.1	3.1	0.0	3.1	3.2
TOTAL O & M EXPENSES	102.1	112.2	0.0	112.2	113.8

TABLE G-1
APPLE VALLEY RANCHOS RANCHOS WATER CO. - DOMESTIC
ADMINISTRATIVE & GENERAL EXPENSES
TEST YEAR 2015
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
ADMINISTRATIVE & GENERAL					
A & G PAYROLL	1,590.3	1,609.9	0.0	1,609.9	1,616.4
EMPLOYEE BENEFITS	1,297.2	1,340.8	0.0	1,340.8	1,359.8
INSURANCE	644.1	662.4	0.0	662.4	663.0
UNINSURED PROPERTY DAMAGE	8.7	8.8	0.0	8.8	8.8
REG. COMM. EXPENSE	131.3	159.3	0.0	159.3	162.3
FRANCHISE REQUIREMENTS	230.7	214.4	0.4	214.9	232.1
OUTSIDE SERVICES	230.3	244.4	0.0	244.4	261.2
A & G - OTHER	451.5	496.0	0.0	496.0	514.5
A & G TRANSFERRED CREDIT	(184.8)	(357.2)	0.0	(357.2)	(637.3)
RENTS	16.7	16.8	0.0	16.8	17.3
[1] GENERAL OFFICE ALLOCATION	2,089.2	2,115.6	0.0	2,115.6	2,183.7
AVR ALLOCATION	(26.7)	(27.6)	0.0	(27.6)	(27.9)
TOTAL A & G EXPENSES	6,478.4	6,483.6	0.4	6,484.0	6,353.7

[1] Excludes G.O. allocated payroll taxes, ad valorem tax, and depreciation expense.

TABLE G-2
APPLE VALLEY RANCHOS RANCHOS WATER CO. - IRRIGATION
ADMINISTRATIVE & GENERAL EXPENSES
TEST YEAR 2015
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
ADMINISTRATIVE & GENERAL					
PAYROLL	0.0	0.0	0.0	0.0	0.0
PAYROLL-BENEFITS	2.0	2.1	0.0	2.1	2.1
INSURANCE	1.3	1.3	0.0	1.3	1.3
FRANCISE REQTS	0.0	0.0	0.0	0.0	0.0
OUTSIDE SERVICES	4.6	4.6	0.0	4.6	4.1
OFFICE SUPPLIES	0.0	0.0	0.0	0.0	0.0
A & G - OTHER	0.2	0.2	0.0	0.2	0.2
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0
RENTS	0.0	0.0	0.0	0.0	0.0
[1] GENERAL OFFICE ALLOCATION	13.6	13.7	0.0	13.7	12.6
AVR ALLOCATION	26.7	27.6	0.0	27.6	27.9
TOTAL A & G EXPENSES	48.3	49.5	0.0	49.5	48.2

[1] Excludes G.O. allocated payroll taxes, ad valorem tax, and depreciation expense.

TABLE H-1
APPLE VALLEY RANCHOS RANCHOS WATER CO. - DOMESTIC
TAXES OTHER THAN INCOME
TEST YEAR 2015
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
PAYROLL TAXES					
APPLE VALLEY RANCHOS	264.6	254.7	0.0	254.7	255.7
G.O. ALLOCATION	65.8	66.2	0.0	66.2	66.9
TOTAL	330.4	320.9	0.0	320.9	322.6
AD VALOREM TAXES					
APPLE VALLEY RANCHOS	570.7	578.3	0.0	578.3	573.5
G.O. ALLOCATION	8.4	8.4	0.0	8.4	8.4
TOTAL	579.1	586.6	0.0	586.6	582.0
TOTAL TAXES OTHER THAN INCOME	909.5	907.6	0.0	907.6	904.5

TABLE H-2
APPLE VALLEY RANCHOS RANCHOS WATER CO. - IRRIGATION
TAXES OTHER THAN INCOME
TEST YEAR 2015
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
PAYROLL TAXES					
APPLE VALLEY-IRRIGATION	0.3	0.3	0.0	0.3	0.3
G.O. ALLOCATION	0.4	0.4	0.0	0.4	0.4
TOTAL	0.7	0.7	0.0	0.7	0.7
AD VALOREM TAXES					
APPLE VALLEY-IRRIGATION	3.5	3.4	0.0	3.4	3.4
G.O. ALLOCATION	0.0	0.1	0.0	0.1	0.0
TOTAL	3.5	3.5	0.0	3.5	3.5
TOTAL TAXES OTHER THAN INCOME	4.2	4.2	0.0	4.2	4.1

TABLE I-1
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC
INCOME TAXES @ PRESENT RATES
TEST YEAR 2015
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATING REVENUES	20,637.7	17,654.9	0	17,654.9	20,826.8
EXPENSE					
OPERATIONS & MAINTENANCE	5,388.1	4,414.2	45	4,458.8	5,644.4
UNCOLLECTIBLES	99.1	84.7	0	84.7	100.0
ADMINISTRATIVE & GENERAL	6,247.7	6,269.1	0	6,269.1	6,121.5
FRANCHISE REQUIREMENTS	200.2	171.3	0	171.3	202.0
PROPERTY TAXES	579.1	586.6	0	586.6	582.0
PAYROLL TAXES	330.4	320.9	0	320.9	322.6
MEALS ADJUSTMENT	(12.8)	(11.5)	0	(11.5)	(12.8)
TOTAL	12,831.9	11,835.4	45	11,880.0	12,959.6
INCOME BEFORE TAXES	7,805.8	5,819.5	(45)	5,774.9	7,867.2
CA CORP-FRANCHISE TAX (CCFT)					
CA TAX DEPRECIATION	3,186.5	3,272.0	0	3,272.0	3,368.6
INTEREST	1,747.6	1,906.9	0	1,906.9	2,052.1
TOTAL	4,934.1	5,178.8	0	5,178.9	5,420.7
TAXABLE INCOME FOR CCFT	2,871.8	640.7	(45)	596.0	2,446.5
CCFT RATE	8.84%	8.84%	0.00%	8.84%	8.84%
CALIFORNIA INCOME TAX	253.9	56.6	(4)	52.7	216.3
FEDERAL INCOME TAX					
FED. TAX DEPRECIATION	3,261.1	3,398.1	0	3,398.1	3,301.7
CA TAX	253.9	56.6	(4)	52.7	216.3
INTEREST	1,747.6	1,906.9	0	1,906.9	2,052.1
QUALIFIED PROD. DEDUCTION	86.5	15.6	(1)	14.2	78.2
TOTAL	5,349.1	5,377.2	(5)	5,371.9	5,648.2
FIT TAXABLE INCOME	2,456.8	442.3	(39)	403.0	2,219.0
FIT RATE	34.00%	34.00%	0.00%	34.00%	34.00%
FEDERAL INCOME TAX	835.3	150.4	(13)	137.0	754.5
INVESTMENT TAX CREDIT	0.0	0.0	0	0.0	0.0
NET FEDERAL INCOME TAX	835.3	150.4	(13)	137.0	754.5

TABLE I-2
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC
INCOME TAXES @ PROPOSED RATES
TEST YEAR 2015
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATING REVENUES	22,283.5	22,106.7	45	22,151.7	23,931.9
EXPENSE					
OPERATIONS & MAINTENANCE	5,381.0	4,414.2	45	4,458.8	5,644.4
UNCOLLECTIBLES	114.1	106.1	0	106.3	114.9
ADMINISTRATIVE & GENERAL	6,233.2	6,269.1	0	6,269.1	6,121.5
FRANCHISE REQUIREMENTS	230.7	214.4	0	214.9	232.1
PROPERTY TAXES	579.1	586.6	0	586.6	582.0
PAYROLL TAXES	330.4	320.9	0	320.9	322.6
MEALS ADJUSTMENT	(12.8)	(11.5)	0	(11.5)	(12.8)
TOTAL	12,855.7	11,900.0	45	11,945.2	13,004.6
INCOME BEFORE TAXES	9,427.8	10,206.8	(0)	10,206.5	10,927.2
CA CORP-FRANCHISE TAX (CCFT)					
CA TAX DEPRECIATION	3,186.5	3,272.0	0	3,272.0	3,368.6
INTEREST	1,747.6	1,906.9	0	1,906.9	2,052.1
TOTAL	4,934.1	5,178.8	0	5,178.9	5,420.7
TAXABLE INCOME FOR CCFT	4,493.8	5,027.9	(0)	5,027.6	5,506.5
CCFT RATE	8.84%	8.84%	0.00%	8.84%	8.84%
CALIFORNIA INCOME TAX	397.2	444.5	(0)	444.4	486.8
FEDERAL INCOME TAX					
FED. TAX DEPRECIATION	3,261.1	3,398.1	0	3,398.1	3,301.7
CA TAX	253.9	56.6	(4)	52.7	216.3
INTEREST	1,747.6	1,906.9	0	1,906.9	2,052.1
QUALIFIED PROD. DEDUCTION	141.7	164.9	0	165.0	182.3
TOTAL	5,404.3	5,526.5	(4)	5,522.7	5,752.4
FIT TAXABLE INCOME	4,023.6	4,680.3	4	4,683.8	5,174.9
FIT RATE	34.00%	34.00%	0.00%	34.00%	34.00%
FEDERAL INCOME TAX	1,368.0	1,591.3	1	1,592.5	1,759.5
INVESTMENT TAX CREDIT	0.0	0.0	0	0.0	0.0
NET FEDERAL INCOME TAX	1,368.0	1,591.3	1	1,592.5	1,759.5

TABLE I-3
APPLE VALLEY RANCHOS WATER CO. - IRRIGATION
INCOME TAXES @ PRESENT RATES
TEST YEAR 2015
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATING REVENUES	192.4	196.7	0	196.7	196.7
EXPENSE					
OPERATIONS & MAINTENANCE	102.1	112.2	0	112.2	113.8
UNCOLLECTIBLES	0.0	0.0	0	0.0	0.0
ADMINISTRATIVE & GENERAL	48.3	49.5	0	49.5	48.2
FRANCHISE REQUIREMENTS	0.0	0.0	0	0.0	0.0
PROPERTY TAXES	3.5	3.5	0	3.5	3.5
PAYROLL TAXES	0.7	0.7	0	0.7	0.7
MEALS ADJUSTMENT	(0.1)	(0.1)	0	(0.1)	(0.1)
TOTAL	154.5	165.8	0	165.8	166.0
INCOME BEFORE TAXES	37.9	30.9	0	30.9	30.7
CA CORP-FRANCHISE TAX (CCFT)					
CA TAX DEPRECIATION	15.2	15.1	0	15.1	15.2
INTEREST	9.9	9.9	0	9.9	9.9
TOTAL	25.1	25.0	0	25.0	25.1
TAXABLE INCOME FOR CCFT	12.8	5.9	(0)	5.9	5.6
CCFT RATE	8.84%	8.84%	0.00%	8.84%	8.84%
CALIFORNIA INCOME TAX	1.1	0.5	(0)	0.5	0.5
FEDERAL INCOME TAX					
FED. TAX DEPRECIATION	14.9	14.8	0	14.8	14.9
CA TAX	1.1	0.5	(0)	0.5	0.5
INTEREST	9.9	9.9	0	9.9	9.9
QUALIFIED PROD. DEDUCTION	0.4	0.2	(0)	0.2	0.2
TOTAL	26.3	25.4	0	25.4	25.5
FIT TAXABLE INCOME	11.6	5.5	(0)	5.5	5.2
FIT RATE	34.00%	34.00%	0.00%	34.00%	34.00%
FEDERAL INCOME TAX	4.0	1.9	(0)	1.9	1.8
INVESTMENT TAX CREDIT	0.0	0.0	0	0.0	0.0
NET FEDERAL INCOME TAX	4.0	1.9	(0)	1.9	1.8

TABLE I-4
APPLE VALLEY RANCHOS WATER CO. - IRRIGATION
INCOME TAXES @ PROPOSED RATES
TEST YEAR 2015
(Dollars in Thousands)

	ORA			AVR	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATING REVENUES	206.5	218.3	0	218.3	219.2
EXPENSE					
OPERATIONS & MAINTENANCE	102.2	112.2	0	112.2	113.8
UNCOLLECTIBLES	0.0	0.0	0	0.0	0.0
ADMINISTRATIVE & GENERAL	48.5	49.5	0	49.5	48.2
FRANCHISE REQUIREMENTS	0.0	0.0	0	0.0	0.0
PROPERTY TAXES	3.5	3.5	0	3.5	3.5
PAYROLL TAXES	0.7	0.7	0	0.7	0.7
MEALS ADJUSTMENT	(0.1)	(0.1)	0	(0.1)	(0.1)
TOTAL	154.7	165.8	0	165.8	166.0
INCOME BEFORE TAXES	51.8	52.5	0	52.5	53.1
CA CORP-FRANCHISE TAX (CCFT)					
CA TAX DEPRECIATION	15.2	15.1	0	15.1	15.2
INTEREST	9.9	9.9	0	9.9	9.9
TOTAL	25.1	25.0	0	25.0	25.1
TAXABLE INCOME FOR CCFT	26.7	27.5	(0)	27.5	28.0
CCFT RATE	8.84%	8.84%	0.00%	8.84%	8.84%
CALIFORNIA INCOME TAX	2.4	2.4	(0)	2.4	2.5
FEDERAL INCOME TAX					
FED. TAX DEPRECIATION	14.9	14.8	0	14.8	14.9
CA TAX	1.1	0.5	(0)	0.5	0.5
INTEREST	9.9	9.9	0	9.9	9.9
QUALIFIED PROD. DEDUCTION	0.9	0.9	(0)	0.9	0.9
TOTAL	26.8	26.2	0	26.2	26.2
FIT TAXABLE INCOME	25.0	26.3	(0)	26.3	26.9
FIT RATE	34.00%	34.00%	0.00%	34.00%	34.00%
FEDERAL INCOME TAX	8.5	9.0	(0)	9.0	9.2
INVESTMENT TAX CREDIT	0.0	0.0	0	0.0	0.0
NET FEDERAL INCOME TAX	8.5	9.0	(0)	9.0	9.2

TABLE J - 1
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC

PLANT IN SERVICE
TEST YEAR 2015

PLANT IN SERVICE ($)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Plant in Service - BOY	120,628,589	122,845,240	0.0	122,845,240	124,134,371
Additions					
Gross Additions	3,921,768	7,541,247	0.0	7,541,247	11,424,235
Retirements of Plant	693,918	740,562	0.0	740,562	738,019
Net Additions	3,227,850	6,800,684	0.0	6,800,684	10,686,215
CWIP - BOY	47,078	47,078	0.0	47,078	490,837
CWIP - EOY	47,078	47,078	0.0	47,078	2,490,837
AVERAGE- CWIP	47,078	47,078	0.0	47,078	1,490,837
Plant in Service - EOY	123,856,440	129,645,924	0.0	129,645,924	134,820,587
Average Utility Plant	122,242,514	126,245,582	0.0	126,245,582	129,477,479

TABLE J - 2
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC

PLANT IN SERVICE
ESCALATION YEAR 2016

PLANT IN SERVICE ($)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Plant in Service - BOY	123,856,440	129,645,924	0.0	129,645,924	134,820,587
Additions					
Gross Additions	3,953,626	8,142,726	0.0	8,142,726	16,709,958
Retirements of Plant	1,547,568	1,607,612	0.0	1,607,612	1,875,159
Net Additions	2,406,058	6,535,114	0.0	6,535,114	14,834,798
CWIP - BOY	47,078	47,078	0.0	47,078	2,490,837
CWIP - EOY	0	0	0.0	0	0
AVERAGE- CWIP	23,539	23,539	0.0	23,539	1,245,419
Plant in Service - EOY	126,262,497	136,181,038	0.0	136,181,038	149,655,385
Average Utility Plant	125,059,468	132,913,481	0.0	132,913,481	142,237,986

TABLE J - 3
APPLE VALLEY RANCHOS WATER CO. - IRRIGATION

PLANT IN SERVICE
TEST YEAR 2015

PLANT IN SERVICE ($)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Plant in Service - BOY	595,813	595,813	0.0	595,813	595,813
Additions					
Gross Additions	0	0	0.0	0	0
Retirements of Plant	0	0	0.0	0	0
Net Additions	0	0	0.0	0	0
CWIP - BOY	0	0	0.0	0	0
CWIP - EOY	0	0	0.0	0	0
AVERAGE- CWIP	0	0	0.0	0	0
Plant in Service - EOY	595,813	595,813	0.0	595,813	595,813
Average Utility Plant	595,813	595,813	0.0	595,813	595,813

TABLE J - 4
APPLE VALLEY RANCHOS WATER CO. - IRRIGATION

PLANT IN SERVICE
ESCALATION YEAR 2016

PLANT IN SERVICE ($)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Plant in Service - BOY	595,813	595,813	0.0	595,813	595,813
Additions					
Gross Additions	0	0	0.0	0	0
Retirements of Plant	0	0	0.0	0	0
Net Additions	0	0	0.0	0	0
CWIP - BOY	0	0	0.0	0	0
CWIP - EOY	0	0	0.0	0	0
AVERAGE- CWIP	0	0	0.0	0	0
Plant in Service - EOY	595,813	595,813	0.0	595,813	595,813
Average Utility Plant	595,813	595,813	0.0	595,813	595,813

TABLE K - 1
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC

DEPRECIATION RESERVE & EXPENSE
TEST YEAR 2015

DEPRECIATION RESERVE ($)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
BEGINNING YEAR BALANCE	33,318,435	33,345,097	0.0	33,345,097	33,273,911
ANNUAL ACCRUAL CHARGED TO:					
CLEARING ACCOUNTS	239,834	241,905	0.0	241,905	264,177
CONTRIBUTIONS	143,163	143,163	0.0	143,163	143,499
DEPRECIATION EXPENSE	3,001,583	3,104,313	0.0	3,104,313	3,167,947
OTHER					
TOTAL	3,384,580	3,489,381	0.0	3,489,381	3,575,623
RETIREMENTS & ADJUSTMENTS					
NET RETIREMENTS	693,918	740,562	0.0	740,562	738,019
ADJUSTMENTS	45,401	45,401	0.0	45,401	45,401
TOTAL	739,318	785,963	0.0	785,963	783,420
NET ADDITIONS	2,645,261	2,703,418	0.0	2,703,418	2,792,202
END OF YEAR BALANCE	35,963,696	36,048,515	0.0	36,048,515	36,066,114
AVERAGE BALANCE	34,641,066	34,696,806	0.0	34,696,806	34,670,012

TABLE K - 2
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC

DEPRECIATION RESERVE & EXPENSE
ESCALATION YEAR 2016

DEPRECIATION RESERVE ($)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
BEGINNING YEAR BALANCE	35,963,696	36,048,515	0.0	36,048,515	36,066,114
ANNUAL ACCRUAL CHARGED TO:					
CLEARING ACCOUNTS	238,748	250,497	0.0	250,497	272,769
CONTRIBUTIONS	142,520	142,520	0.0	142,520	142,856
DEPRECIATION EXPENSE	3,095,980	3,301,063	0.0	3,301,063	3,519,595
OTHER					
TOTAL	3,477,248	3,694,081	0.0	3,694,081	3,935,220
RETIREMENTS & ADJUSTMENTS					
NET RETIREMENTS	1,547,568	1,607,612	0.0	1,607,612	1,875,159
ADJUSTMENTS	-101,781	-101,781	0.0	-101,781	-125,836
TOTAL	1,445,787	1,505,831	0.0	1,505,831	1,749,324
NET ADDITIONS	2,031,460	2,188,250	0.0	2,188,250	2,185,897
END OF YEAR BALANCE	37,995,157	38,236,765	0.0	38,236,765	38,252,010
AVERAGE BALANCE	36,979,427	37,142,640	0.0	37,142,640	37,159,062

TABLE K - 3
APPLE VALLEY RANCHOS WATER CO. - IRRIGATION

DEPRECIATION RESERVE & EXPENSE
TEST YEAR 2015

DEPRECIATION RESERVE ($)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
BEGINNING YEAR BALANCE	228,490	228,490	0.0	228,490	228,491
ANNUAL ACCRUAL CHARGED TO:					
CLEARING ACCOUNTS	0	0	0.0	0	0
CONTRIBUTIONS	1,231	1,231	0.0	1,231	1,231
DEPRECIATION EXPENSE	11,958	11,958	0.0	11,958	11,958
OTHER					
TOTAL	13,189	13,189	0.0	13,189	13,189
RETIREMENTS & ADJUSTMENTS					
NET RETIREMENTS	0	0	0.0	0	0
ADJUSTMENTS	0	0	0.0	0	0
TOTAL	0	0	0.0	0	0
NET ADDITIONS	13,189	13,189	0.0	13,189	13,189
END OF YEAR BALANCE	241,679	241,679	0.0	241,679	241,680
AVERAGE BALANCE	235,085	235,085	0.0	235,085	235,085

TABLE K - 4
APPLE VALLEY RANCHOS WATER CO. - IRRIGATION

DEPRECIATION RESERVE & EXPENSE
ESCALATION YEAR 2016

DEPRECIATION RESERVE ($)	ORA			AVR	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
BEGINNING YEAR BALANCE	241,679	241,679	0.0	241,679	241,680
ANNUAL ACCRUAL CHARGED TO:					
CLEARING ACCOUNTS	0	0	0.0	0	0
CONTRIBUTIONS	1,231	1,231	0.0	1,231	1,231
DEPRECIATION EXPENSE	11,958	11,958	0.0	11,958	11,958
OTHER					
TOTAL	13,189	13,189	0.0	13,189	13,189
RETIREMENTS & ADJUSTMENTS					
NET RETIREMENTS	0	0	0.0	0	0
ADJUSTMENTS	0	0	0.0	0	0
TOTAL	0	0	0.0	0	0
NET ADDITIONS	13,189	13,189	0.0	13,189	13,189
END OF YEAR BALANCE	254,868	254,868	0.0	254,868	254,869
AVERAGE BALANCE	248,274	248,274	0.0	248,274	248,274

TABLE L - 1
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC
AVERAGE RATE BASE SUMMARY
TEST YEAR 2015

AVERAGE RATEBASE ($)	ORA			AVR	
DESCRIPTION	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
PLANT IN SERVICE	122,215,200	126,217,676	0.0	126,217,676	129,448,308
WORK IN PROGRESS	47,078	47,078	0.0	47,078	1,490,837
MATERIALS & SUPPLIES	336,657	336,674	0.0	336,674	336,749
WORKING CASH	1,572,453	1,865,479	1,017.3	1,866,497	2,137,173
SUBTOTAL	124,171,388	128,466,907	1,017.3	128,467,924	133,413,067
LESS:					
DEPRECIATION RESERVE	34,625,500	34,681,200	0.0	34,681,200	34,654,995
ADVANCES	28,171,300	28,171,263	0.0	28,171,263	28,265,767
CONTRIBUTIONS	2,051,703	2,051,703	0.0	2,051,703	2,045,801
UNAMORTIZED ITC	44,488	44,488	0.0	44,488	44,488
DEFERRED INCOME TAX	10,416,222	10,450,795	0.0	10,450,795	11,429,252
SUBTOTAL	75,309,213	75,399,449	0.0	75,399,449	76,440,304
PLUS:					
METHOD 5 ADJUSTMENT	777	777	0.0	777	777
RESOURCES ADJUSTMENT					
NET DISTRICT RATE BASE	48,862,952	53,068,235	1,017.3	53,069,252	56,973,540
GENERAL OFFICE ALLOCATION	705,719	1,065,506	0.0	1,065,506	1,355,965
TOTAL RATE BASE	49,568,672	54,133,741	1,017.3	54,134,758	58,329,505
INTEREST CALCULATION					
AVG RATE BASE	49,568,672	54,133,741	1,017.3	54,134,758	58,329,505
X WEIGHTED COST OF DEBT	3.49%	3.49%	0.00%	3.49%	3.49%
INTEREST EXPENSE	1,729,947	1,889,268	35.5	1,889,303	2,035,700
ADD INTEREST FOR ADVANCES	17,613	17,613	0.0	17,613	17,613
TOTAL INTEREST DEDUCTION	1,747,560	1,906,881	35.5	1,906,916	2,053,313

TABLE L - 2
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC
AVERAGE RATE BASE SUMMARY
TEST YEAR 2016

AVERAGE RATEBASE ($)	ORA			AVR	
DESCRIPTION	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
PLANT IN SERVICE	125,032,072	132,885,202	0.0	132,885,202	142,202,208
WORK IN PROGRESS	23,539	23,539	0.0	23,539	1,245,419
MATERIALS & SUPPLIES	339,598	339,598	0.0	339,598	339,690
WORKING CASH	1,555,466	1,823,909	977.3	1,824,886	2,290,660
SUBTOTAL	126,950,676	135,072,249	977.3	135,073,226	146,077,976
LESS:					
DEPRECIATION RESERVE	36,963,324	37,126,505	0.0	37,126,505	37,143,688
ADVANCES	27,550,551	27,550,551	0.0	27,550,551	27,641,847
CONTRIBUTIONS	1,948,861	1,948,861	0.0	1,948,861	1,942,623
UNAMORTIZED ITC	39,650	39,650	0.0	39,650	39,650
DEFERRED INCOME TAX	10,350,935	10,409,852	0.0	10,409,852	11,425,944
SUBTOTAL	76,853,321	77,075,420	0.0	77,075,420	78,193,752
PLUS:					
METHOD 5 ADJUSTMENT	732	732	0.0	732	732
RESOURCES ADJUSTMENT					
NET DISTRICT RATE BASE	50,098,086	57,997,561	977.3	57,998,538	67,884,956
GENERAL OFFICE ALLOCATION	719,184	1,057,721	0.0	1,057,721	1,483,021
[1]TOTAL RATE BASE	52,039,200	59,055,282	977.3	59,056,259	69,367,977
INTEREST CALCULATION					
AVG RATE BASE	52,039,200	59,055,282	0.0	59,055,282	69,367,977
X WEIGHTED COST OF DEBT	3.49%	3.49%	0.00%	3.49%	3.49%
INTEREST EXPENSE	1,816,168	2,061,029	0.0	2,061,029	2,420,942
ADD INTEREST FOR ADVANCES	19,368	19,368	0.0	19,368	19,368
TOTAL INTEREST DEDUCTION	1,835,536	2,080,398	0.0	2,080,398	2,440,311

[1] ORA'S ORIGINAL TOTAL RATE BASE IS ADJUSTED TO REFLECT ORA'S REPORT.

TABLE L - 3
APPLE VALLEY RANCHOS WATER CO. - IRRIGATION
AVERAGE RATE BASE SUMMARY
TEST YEAR 2015

AVERAGE RATEBASE ($)	ORA			AVR	
DESCRIPTION	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
PLANT IN SERVICE	623,133	623,720	0.0	623,720	624,984
WORK IN PROGRESS	0	0	0.0	0	0
MATERIALS & SUPPLIES	0	0	0.0	0	0
WORKING CASH	14,199	12,394	6.8	12,401	14,199
SUBTOTAL	637,332	636,114	6.8	636,121	639,183
LESS:					
DEPRECIATION RESERVE	250,671	250,689	0.0	250,689	250,101
ADVANCES	0	0	0.0	0	0
CONTRIBUTIONS	38,954	38,954	0.0	38,954	38,938
UNAMORTIZED ITC	0	0	0.0	0	0
DEFERRED INCOME TAX	68,794	68,621	0.0	68,621	69,606
SUBTOTAL	358,420	358,264	0.0	358,264	358,645
PLUS:					
METHOD 5 ADJUSTMENT					
RESOURCES ADJUSTMENT					
NET DISTRICT RATE BASE	278,912	277,849	6.8	277,856	280,539
GENERAL OFFICE ALLOCATION	4,064	6,912	0.0	6,912	3,654
TOTAL RATE BASE	282,976	284,761	6.8	284,768	284,193
INTEREST CALCULATION					
AVG RATE BASE	282,976	284,761	6.8	284,768	284,193
X WEIGHTED COST OF DEBT	3.49%	3.49%	0.00%	3.49%	3.49%
INTEREST EXPENSE	9,876	9,938	0.2	9,938	9,918
ADD INTEREST FOR ADVANCES	0	0	0.0	0	0
TOTAL INTEREST DEDUCTION	9,876	9,938	0.2	9,938	9,918

TABLE L - 4
APPLE VALLEY RANCHOS WATER CO. - IRRIGATION
AVERAGE RATE BASE SUMMARY
TEST YEAR 2016

AVERAGE RATEBASE ($)	ORA			AVR	
DESCRIPTION	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
PLANT IN SERVICE	623,209	624,092	0.0	624,092	631,592
WORK IN PROGRESS	0	0	0.0	0	0
MATERIALS & SUPPLIES	0	0	0.0	0	0
WORKING CASH	15,219	12,118	6.5	12,124	15,219
SUBTOTAL	638,428	636,210	6.5	636,217	646,811
LESS:					
DEPRECIATION RESERVE	264,375	264,408	0.0	264,408	263,647
ADVANCES	0	0	0.0	0	0
CONTRIBUTIONS	37,723	37,723	0.0	37,723	37,706
UNAMORTIZED ITC	0	0	0.0	0	0
DEFERRED INCOME TAX	65,652	65,467	0.0	65,467	66,433
SUBTOTAL	367,750	367,598	0.0	367,598	367,786
PLUS:					
METHOD 5 ADJUSTMENT					
RESOURCES ADJUSTMENT					
NET DISTRICT RATE BASE	270,678	268,612	6.5	268,618	279,024
GENERAL OFFICE ALLOCATION	4,142	6,861	0.0	6,861	3,654
TOTAL RATE BASE	274,820	275,473	6.5	275,480	282,678
INTEREST CALCULATION					
AVG RATE BASE	274,820	275,473	0.0	275,473	282,678
X WEIGHTED COST OF DEBT	3.49%	3.49%	0.00%	3.49%	3.49%
INTEREST EXPENSE	9,591	9,614	0.0	9,614	9,865
ADD INTEREST FOR ADVANCES	0	0	0.0	0	0
TOTAL INTEREST DEDUCTION	9,591	9,614	0.0	9,614	9,865

(END OF ATTACHMENT B)

ATTACHMENT C

SCHEDULE NO. 1

RESIDENTIAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to residential metered water service.

TERRITORY

Town of Apple Valley and vicinity, San Bernardino County.

RATES

Quantity Rates:

Tier 1 First 12 100 cu. ft.	$ 3.512
Tier 2 Over 12 through 24 100 cu. ft.	$ 4.066
Tier 3 All over 24 100 cu ft.	$ 4.621

Service Charge:

	Per Meter Per Month
For 5/8 x ¾-inch meter	$ 21.63
For ¾-inch meter	32.45
For 1-inch meter	54.08
For 1 ½-inch meter	108.15
For 2-inch meter	173.04
For 3-inch meter	324.45
For 4-inch meter	540.75
For 6-inch meter	1,081.50
For 8-inch meter	1,730.40
For 10-inch meter	3,136.35

This Service Charge is a readiness-to-serve charge which is applicable to all metered services and to which is to be added the monthly charge computed at the Quantity Rates.

SPECIAL CONDITIONS

1. A late charge will be imposed per Schedule No. LC.
2. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the Company, service to subsequent tenants in that unit will, at the Company's option, be furnished on the account of the landlord or property owner.
3. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
4. As authorized by the California Public Utility Commission, an amount of $0.245 per Ccf is to be added to the quantity rate for a period of 18 months, beginning on the effective date of Advice Letter 190-W-A. This surcharge will recover the under-collection in the WRAM and MCBA as of December 31, 2013.
5. As authorized by the California Public Utilities Commission, an amount of $0.287 per Ccf is to be added to the quantity rate for a period of 18 months, beginning on the effective date of Advice Letter 196-W. This surcharge will recover the under-collection in the WRAM and MCBA Balancing Accounts as of December 31, 2014.

SCHEDULE NO. 2

GRAVITY IRRIGATION SERVICE

APPLICABILITY

Applicable to all water service from the Company's gravity irrigation system.

TERRITORY

Within the entire service area of the Company.

RATES

Quantity Rates:
All water delivered per 100 cu. ft. ..... $ 0.396

Service Charge:	Per Meter Per Month
For 5/8 x ¾-inch meter	$ 21.63
For ¾-inch meter	32.45
For 1-inch meter	54.08
For 1 ½-inch meter	108.15
For 2-inch meter	173.04
For 3-inch meter	324.45
For 4-inch meter	540.75
For 6-inch meter	1,081.50
For 8-inch meter	1,730.40
For 10-inch meter	3,136.35

SPECIAL CONDITIONS

1. Service under this schedule is limited to lands not developed for residential use.
2. All outlets for this water shall be protected by signs stating: NON-POTABLE WATER-NOT FOR HUMAN CONSUMPTION.
3. A late charge will be imposed per Schedule LC.
4. All bills are subject to the Public Utilities Commission Reimbursement Fee set for on Schedule No. UF.

SCHEDULE No. 3

NON-RESIDENTIAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all non-residential metered water service.

TERRITORY

Town of Apple Valley and vicinity, San Bernardino County.

RATES

Quantity Rates:

All water delivered per 100 cu. ft. ..... $ 3.928

Service Charge:	Per Meter Per Month
For 5/8 x ¾-inch meter	$ 21.63
For ¾-inch meter	32.45
For 1-inch meter	54.08
For 1 ½-inch meter	108.15
For 2-inch meter	173.04
For 3-inch meter	324.45
For 4-inch meter	540.75
For 6-inch meter	1,081.50
For 8-inch meter	1,730.40
For 10-inch meter	3,136.35

SPECIAL CONDITIONS

1. A late charge will be imposed per Schedule No. LC.
2. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the Company, service to subsequent tenants in that unit will, at the Company's option, be furnished on the account of the landlord or property owner.
3. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
4. As authorized by the California Public Utility Commission, an amount of $0.245 per Ccf is to be added to the quantity rate for a period of 18 months, beginning on the effective date of Advice Letter 190-W-A. This surcharge will recover the under-collection in the WRAM and MCBA as of December 31, 2013.
5. As authorized by the California Public Utilities Commission, an amount of $0.287 per Ccf is to be added to the quantity rate for a period of 18 months, beginning on the effective date of Advice Letter 196-W. This surcharge will recover the under-collection in the WRAM and MCBA Balancing Accounts as of December 31, 2014.

Schedule No. 4

NON-METERED FIRE SERVICE

APPLICABILITY

Applicable only for water service to privately-owned fire-hydrant and fire-sprinkler systems where water is to be used only for the purpose of fire suppression or for periodic system testing.

TERRITORY

Town of Apple Valley and vicinity, San Bernardino County.

RATES

Size of Service	Per Service Per Month
2-inch	$44.60
3-inch	66.94
4-inch	89.12
6-inch	133.44
8-inch	178.05
10-inch	214.91
12-inch	250.97

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility with the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be two (2) inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
4. Service hereunder is for private fire systems which are regularly inspected by the local fire protection agency having jurisdiction and to which no connection for other than fire suppression purposes shall be made. Service shall be installed according to specifications of the utility and shall be maintained to the satisfaction of the utility. The utility will install the detector meter listed by the Underwriters Laboratories, Inc. or other device to indicate unauthorized use, leakage, or waste of water. The cost of such installation and the cost of the meter or other device shall be paid by the applicant.
5. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

SCHEDULE NO. 5

FIRE FLOW TESTING CHARGE

APPLICABILITY

Applicable to all fire flow tests performed or witnessed using utility personnel.

TERRITORY

This fee applies to tests performed within all service areas of Town of Apple Valley and vicinity, San Bernardino County as delineated in the service area maps included in the tariff schedules.

RATES

Per Fire Flow Test Performed	$60.00

SPECIAL CONDITIONS

1. Applicants must complete and submit Apple Valley Ranchos Water Company's Fire Flow Test Application.

SCHEDULE NO. CARW

CALIFORNIA ALTERNATIVE RATES FOR WATER

APPLICABILITY

Applicable to residential domestic service to CARW households accommodation with a 1-inch or smaller meter, where the customer meets all the Special Conditions of this rate schedule.

TERRITORY

Town of Apple Valley and vicinity, San Bernardino County.

RATES

Quantity Rate:

Customers will be charged per 100 cubic feet of water delivered at the quantity rate reflected in Schedule No. 1, Residential General Metered Service.

Service Charge

Customers will be charged a monthly service charge at the applicable mere size rate reflected in Schedule No. 1, Residential General Metered Service. Customers will receive a monthly CARW Credit of $8.38 prorated based on days of service, if service is not provided for a full month.

SPECIAL CONDITIONS

1. CARW Household: A CARW Household is a household where the total gross income from all sources is less than or equal to the maximum household income levels for the CARE programs approved by the Commission as reflected on Form No. 13, California Alternative Rates for Water (CARW) Application. Total gross income shall include income from all sources, both taxable and non-taxable. Persons who are claimed as a dependent on another person's income tax return (other than your spouse) are not eligible for this program.

SCHEDULE NO. CARW-SC

CALIFORNIA ALTERNATIVE RATES FOR WATER

APPLICABILITY

Applicable to all metered water service, excluding Non-Metered Fire Service, Gravity Irrigation Service and customers that receive a CARW credit.

TERRITORY

Town of Apple Valley and vicinity, San Bernardino County.

SPECIAL CONDITIONS

1. A surcharge of $0.69 per month is applicable to all metered customers, excluding customers receiving Non-Metered Fire Sprinkler Service, Gravity Irrigation Service, and customers that receive a CARW credit. The surcharge offsets CARW credits and CARW program costs and will be applied to each customer's bill.

RULE NO. 7
(continued)

DEPOSITS

E. Interest on Deposits

1. Interest on deposits held will be paid by the utility at the average monthly 90-day commercial paper rate during which the customer has paid bills for service within an average period of 15 days after presentation, and for additional time thereafter up to the date of refund; provided, however, that no interest shall accrue after mailing to the customer or the customer's last known address the refund or a notice that the refund is payable.

2. No interest will be paid if service is discontinued within the initial 12-month period.

RULE NO. 11
(Continued)

DISCONTINUANCE AND RESTORATION OF SERVICE

B. 4. For Unsafe Apparatus of Where Service is Detrimental or Damaging to the Utility or its Customers

If an unsafe or hazardous condition is found to exist on the customer's premises, or if the use of water thereon by apparatus, appliances, equipment or otherwise is found to be detrimental or damaging to the utility or its customers, the service may be shut off without notice. The utility will notify the customer immediately of the reasons for the discontinuance and the corrective action to be taken by the customer before service can be restored.

5. For Fraudulent Use of Service

When the utility has discovered that a customer has obtained service by fraudulent means, or has diverted the water service for unauthorized use, the service to that customer may be discontinued without notice. The utility will not restore service to such customer until that customer has complied with all filed rules and reasonable requirements of the utility and the utility has been reimbursed for the full amount of the service rendered and the actual cost to the utility incurred by reason of the fraudulent use.

C. Restoration of Service

1. Reconnection Charge

Where service has been discontinued for violation of these rules or for Nonpayment of bills, the utility may charge $30.00 for reconnection of service during regular working hours or $150.00 for reconnection of service at other than regular working hours when the customer has requested that the reconnection be made at other than regular working hours.

2. To Be Made During Regular Working Hours

The utility will endeavor to make reconnections during regular working hours on the day of the request, if conditions permit, otherwise reconnection will be made on the regular working day following the day the request is made.

RULE NO. 11
(Continued)

DISCONTINUANCE AND RESTORATION OF SERVICE

C. 3. To Be Made At Other Than Regular Working Hours

When a customer has requested that the reconnection be made at other than regular working hours, the utility will reasonably endeavor to so make the reconnection if practicable under the circumstances upon payment of a fee of $150.00 per reconnection.

4. Wrongful Discontinuance

A service wrongfully discontinued by the utility must be restored without charge for the restoration to the customer within 24 hours.

D. Refusal to Serve

1. Conditions for Refusal

The utility may refuse to serve an applicant for service under the following conditions:

a. If the applicant fails to comply with any of the rules as filed with the Public Utilities Commission.

b. If the intended use of the service is of such a nature that it will be detrimental or injurious to existing customers.

c. If, in the judgment of the utility, the applicant's installation for utilizing the service is unsafe or hazardous, or of such nature that satisfactory service cannot be rendered.

d. Where service has been discontinued for fraudulent use, the utility will not serve an applicant until it has determined that all conditions of fraudulent use or practice has been corrected.

2. Notification to Customers

When an applicant is refused service under the provisions of this rule, the utility will notify the applicant promptly of the reason for the refusal to service and of the right of applicant to appeal the utility's decision to the Public Utilities Commission.

RULE NO. 15
(continued)

MAIN EXTENSIONS

C. 1. c. In lieu of providing the advances in accordance with Sections C.1.a. and C.1.b., the applicant for a main extension shall be permitted, if qualified in the judgment of the utility, to construct and install the facilities himself, or arrange for their installation pursuant to competitive bidding procedures initiated by him and limited to the qualified bidders. The cost, including the cost of inspection and supervision by the utility, shall be paid directly by applicant. The applicant shall provide the utility with a statement of actual construction cost in reasonable detail. The amount to be treated as an advance subject to refund shall be the lesser of (1) the actual cost, or (2) the price quoted in the utility's detailed cost estimate. The installation shall be in accordance with the plans and specifications submitted by the utility pursuant to Section A.5.b.

d. If, in the opinion of the utility it appears that a proposed main extension will not, within a reasonable period, develop sufficient revenue to make the extension self-supporting, or if for some other reason it appears to the utility that a main extension contract would place an excessive burden on customers, the utility may require nonrefundable contributions of plant facilities from developers in lieu of a main extension contract.

If an applicant for a main extension contract who is asked to contribute the facilities believes such request to be unreasonable, such applicant may refer the matter to the Commission for determination, as provided for in Section A.8. of this rule.

e. A special facilities fee for water supply will be included in the advance in lieu of any domestic water supply requirement covered under Section C.1.b. The fees are shown below.

Service Size	Facilities Fee
⅝-inch	$ 1,000.00
¾-inch	$ 1,500.00
1-inch	$ 2,500.00
1 ½-inch	$ 5,000.00
2-inch	$ 8,000.00
3-inch	$ 15,000.00
4-inch	$ 25,000.00
6-inch	$ 50,000.00
8-inch	$ 80,000.00
10-inch	$ 145,000.00

This fee is applicable to all subdivisions requiring a main extension except those extensions serving four or fewer residential lots or equivalent single-family dwelling units. The fee shall apply to every connection by all individuals or entities that apply for more than five connections in an 18-month period.

RULE NO. 15
(continued)

MAIN EXTENSIONS

C 1. f. A Supplemental Water Acquisition Fee will be charged to all applicants for a main extension to serve a new subdivision, tract, housing project, industrial development, commercial building, or shopping center as a refundable advance in order to address issues of long-term availability and cost of water supply. The purpose of the Supplemental Water Acquisition Fee will be to fund AVR's pre-purchase of Replacement Water from the Mojave Water Agency (MWA), or for AVR to acquire water rights should they become readily available. Pre-purchased Replacement Water purchased from MWA will be capitalized by AVR and amortized to expense over a 40–year period consistent with the life of the advance contract. The Supplemental Water Acquisition Fee will be calculated as follows:*

Residential developments	$5,500 per lot
Commercial, Industrial, or other developments	$5,500 per equivalent average residential water use based on the water use of a similar business or facility.

Applicants will have the option to either: 1) pay the entire fee at the time of completion of the main extension at the current rate; or 2) pay the fee for each lot, or equivalent, at the time the meter is set, subject to whatever changes to the rate or nature of the fee are in effect at that time.

*Development for which use of water rights is provided for under the Water Supply Agreement between AVR and Jess Ranch Water Company are exempt from this fee.

(END OF ATTACHMENT C)

FORM NO. 14
Fire Flow Test Application

APPLE VALLEY RANCHOS WATER COMPANY
FIRE FLOW TEST APPLICATION

Apple Valley Ranchos Water Company (AVR) charges $60.00 for each fire flow test that is performed or witnessed by AVR personnel. Discounts for multiple tests being requested are not available. The $60.00 is due in advance of AVR performing or witnessing the fire flow test.

This section is to be completed by the Applicant.

Print Applicant or Contact First and Last Name, Include Company Name if Applicable.

Print Applicant or Contact Mailing Address: Street or P.O. Box.

Print Applicant or Contact City, State, and Zip Code.

Print Applicant or Contact Phone Number.

Print Address/Location where Fire Flow Test is Requested.

Check the appropriate box below and provide the information needed to indicate how the test results are to be sent by AVR. **Please note that some local fire agencies require original signed forms, in which case the test results will be sent in the mail.**

☐ Mailing Address _____

☐ Email Address _____

☐ Fax Number _____

Signature _____ Date _____

Return the completed form and fee to:

Apple Valley Ranchos Water Company
21760 Ottawa Road
Apple Valley, CA 92307

Please make check or money order payable to **Apple Valley Ranchos Water Company**.

This section to be completed by Apple Valley Ranchos Water Company

Number of Fire Flow Tests: ☐ 1 ☐ 2 ☐ 3 ☐ Other

Amount and date received: _____

AVR personnel receiving the fire flow test fee: _____

Date completed documents sent to applicant: _____

AVR personnel sending completed documents: _____

Other: _____

ATTACHMENT D

APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC
TEST YEAR 2015
SUMMARY OF EARNINGS
(Dollars In Thousands)

	ADOPTED	
	AT PRESENT RATES	AT AUTHORIZED ROR
OPERATING REVENUES	17,608.2	22,085.8
DEFERRED REVENUES		
MISCELLANEOUS REVENUES	46.7	66.0
TOTAL REVENUES	17,654.9	22,151.7
OPERATIONS & MAINTENANCE		
PAYROLL-OPERATIONS	834.4	834.4
OPERATIONS-OTHER	155.2	155.2
PURCHASED WATER	0.0	0.0
PURCHASED POWER	877.7	877.7
LEASED WATER RIGHTS	0.0	0.0
REPLENISHMENT CHARGES	92.0	92.0
CHEMICALS	21.8	21.8
PAYROLL-CUSTOMER	504.5	504.5
CUSTOMERS-OTHER	350.4	350.4
UNCOLLECTIBLES	84.7	106.3
PAYROLL-MAINTENANCE	435.3	435.3
MAINTENANCE-OTHER	617.0	617.0
PAYROLL-CLEARINGS	122.4	122.4
DEPRECIATION-CLEARINGS	241.9	241.9
CLEARINGS-OTHER	206.3	206.3
SUBTOTAL O & M	4,543.6	4,565.2
ADMINISTRATIVE & GENERAL		
A & G PAYROLL	1,609.9	1,609.9
EMPLOYEE BENEFITS	1,340.8	1,340.8
INSURANCE	662.4	662.4
UNINSURED PROP. DAMAGE	8.8	8.8
REG. COMM. EXPENSE	159.3	159.3
FRANCHISE REQUIREMENTS	171.3	214.9
OUTSIDE SERVICES	244.4	244.4
A & G - OTHER	496.0	496.0
A & G TRANSFERRED CREDIT	(357.2)	(357.2)
RENTS	16.8	16.8
GENERAL OFFICE ALLOCATION	2,115.6	2,115.6
AVR ALLOCATION	(27.6)	(27.6)
SUBTOTAL A & G	6,440.4	6,484.0
OTHER TAXES		
[1] PROPERTY TAXES	586.6	586.6
[1] PAYROLL TAXES	320.9	320.9
SUBTOTAL OTHER TAXES	907.6	907.6
[1] DEPRECIATION	3,247.0	3,247.0
CA INCOME TAXES	52.7	444.4
FEDERAL INCOME TAXES	137.0	1,592.5
TOTAL EXPENSE	15,328.3	17,240.7
NET REVENUES	2,326.6	4,911.0
RATE BASE	54,134.8	54,134.8
RATE OF RETURN	4.30%	9.07%

[1] DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM PARK'S MAIN OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

ATTACHMENT E

APPLE VALLEY RANCHOS WATER COMPANY
COMPARISON OF RATES
TEST YEAR 2015

USAGE	PRESENT	ADOPTED	INCREASE	PERCENT
0	22.84	21.63	-1.21	-5.30%
10	47.62	56.75	9.13	19.17%
12.64 (Adopted AVG)	54.16	66.38	12.21	22.55%
16.45 (Prior AVG)	64.68	81.87	17.19	26.57%
20	74.57	96.30	21.73	29.14%
30	103.69	140.29	36.60	35.30%
40	134.67	186.50	51.83	38.49%

Note: Based on Monthly Charges According to Schedule No. 1
Residential Metered Comparison based on 5/8 x 3/4-inch meter
Rates do not include CPUC fees or surcharges that may appear on customer bills

ATTACHMENT F

APPLE VALLEY RANCHOS WATER COMPANY-DOMESTIC
ADOPTED QUANTITIES

Net-to-Gross Multiplier		1.73949		
Uncollectible Rate		0.48%		
Franchise Fee		0.97%		
Federal Tax Rate		34.00%		
State Tax Rate		8.84%		
		2015	**2016**	**2017**
Water Consumption (KCcf)				
Domestic Water Sales		3,972.1	3,728.7	3,759.1
Unaccounted Water	6%	253.5	238.0	239.9
Total Water Production		4,225.7	3,966.7	3,999.0
Replenishment Charges				
Administrative/Biological Assessment (A.F.)		9,701	9,106	9,180
Cost per A.F.		$4.36	$4.36	$4.36
Total Admin./Bio. Cost ($)		$42,295	$39,703	$40,027
Make-Up Assessment (A.F.)		829	829	829
Cost per A.F.		$60.00	$60.00	$60.00
Total Make-Up Cost ($)		$49,740	$49,740	$49,740
Total Replenishment Cost		$92,035	$89,443	$89,767
Leased Water Rights				
Leased Water Rights (A.F.		0	0	0
Cost per A.F.		$382.50	$382.50	$382.50
Total Leased Water Rights Cost		$0	$0	$0
Purchased Power				
Electric				
Total Cost ($)		$875,203	$844,854	$848,641
Total Kilowatts (kWhs)		6,864,882	6,444,165	6,496,654
Cost/Kilowatt Hour		$0.12749	$0.13110	$0.13063
Gas				
Total Cost ($)		$2,456	$2,306	$2,325
Total Therms		2,144	2,012	2,029
Cost/Therm		$1.14577	$1.14577	$1.14577
Group Pension Expense*				
AVR		$522,678		
GO (Non-Allocated)		$837,160		
Medical Insurance*				
AVR		$605,964		
GO (Non-Allocated)		$428,304		
Dental Insurance*				
AVR		$46,332		
GO (Non-Allocated)		$28,908		
PBOP Expense*				
AVR		$35,597		
GO (Non-Allocated)		$61,301		
Conservation Expense				
AVR		$112,425	$114,674	$116,967

*2016 & 2017 are subject to Escalation Year Increase.

APPLE VALLEY RANCHOS WATER COMPANY-DOMESTIC
ADOPTED QUANTITIES
(Dollars in Thousands)

	2015	2016
Utility Plant In Service		
Beginning Of Year Balance	122,845.2	129,645.9
Additions	7,541.2	8,142.7
Retirements	740.6	1,607.6
End Of Year Balance	129,645.9	136,181.0
Average Balance	126,245.6	132,913.5
Depreciation Reserve		
Beginning Of Year Balance	33,345.1	36,048.5
Annual Accrual	3,489.4	3,694.1
Net Retirements	786.0	1,505.8
End Of Year Balance	36,048.5	38,236.8
Average Balance	34,696.8	37,142.6

Note: Unadjusted for General Plant Adjustments.

APPLE VALLEY RANCHOS WATER COMPANY-DOMESTIC
ADOPTED QUANTITIES
(Dollars in Thousands)

RATE BASE SUMMARY	2015	2016
AVERAGE BALANCES		
PLANT IN SERVICE	126,217.7	132,885.2
WORK IN PROGRESS	47.1	23.5
MATERIALS & SUPPLIES	336.7	339.6
WORKING CASH	1,866.5	1,824.9
SUBTOTAL	128,467.9	135,073.2
LESS:		
DEPRECIATION RESERVE	34,681.2	37,126.5
ADVANCES	28,171.3	27,550.6
CONTRIBUTIONS	2,051.7	1,948.9
UNAMORTIZED ITC	44.5	39.7
DEFERRED INCOME TAX	10,450.8	10,409.9
SUBTOTAL	75,399.4	77,075.4
PLUS:		
METHOD 5 ADJUSTMENT	0.8	0.7
NET DISTRICT RATE BASE	53,069.3	57,998.5
MAIN OFFICE ALLOCATION	1,065.5	1,057.7
TOTAL RATE BASE	54,134.8	59,056.3

APPLE VALLEY RANCHOS WATER COMPANY-DOMESTIC
ADOPTED QUANTITIES
TEST YEAR 2015
(Dollars in Thousands)

INCOME TAX CALCULATIONS	PRESENT RATES	AT AUTHORIZED RATE OF RETURN
OPERATING REVENUES	17,654.9	22,151.7
EXPENSES		
OPERATIONS & MAINTENANCE	4,458.8	4,458.8
UNCOLLECTIBLES	84.7	106.3
ADMINISTRATIVE & GENERAL	6,269.1	6,269.1
FRANCHISE FEES	171.3	214.9
AD VALOREM TAXES	586.6	586.6
PAYROLL TAXES	320.9	320.9
MEALS ADJUSTMENT	-11.5	-11.5
SUBTOTAL	11,880.0	11,945.2
INCOME BEFORE TAXES	5,774.9	10,206.5
DEDUCTIONS		
CA TAX DEPRECIATION	3,272.0	3,272.0
INTEREST	1,906.9	1,906.9
TOTAL	5,178.9	5,178.9
TAXABLE INCOME FOR CCFT	596.0	5,027.6
CCFT RATE	8.84%	8.84%
CCFT	52.7	444.4
DEDUCTIONS		
FED. TAX DEPRECIATION	3,398.1	3,398.1
INTEREST	52.7	52.7
CA TAX	1,906.9	1,906.9
QUALIFIED PROD. DEDUCTION	14.2	165.0
TOTAL	5,371.9	5,522.7
FIT TAXABLE INCOME	403.0	4,683.8
FIT RATE	34.00%	34.00%
FIT (BEFORE ADJUSTMENT)	137.0	1,592.5
PRORATED ADJUSTMENT		
INVESTMENT TAX CREDIT	0.0	0.0
NET FEDERAL INCOME TAX	137.0	1,592.5

APPLE VALLEY RANCHOS WATER COMPANY-DOMESTIC
ADOPTED QUANTITIES

	2015	2016	2017
Number of Customers			
Residential	18,015	18,165	18,315
Commercial	1,364	1,375	1,386
Industrial	2	2	2
Public Authority	45	45	46
Private Fire Service	239	247	255
Irrigation - Public Authority	5	5	5
Irrigation - Pressure	166	169	171
Temporary Construction	11	11	11
Apple Valley Golf Course	1	1	1
Total	19,848	20,020	20,192

Water Sales (Ccfs)	2015	2016	2017
Residential	2,732,949	2,540,216	2,561,192
Commercial	649,824	632,415	637,474
Industrial	972	788	788
Public Authority	216,558	203,953	205,758
Private Fire Service	2,032	2,100	2,168
Irrigation - Public Authority	22,575	19,315	19,315
Irrigation - Pressure	221,318	208,066	210,528
Temporary Construction	8,811	8,811	8,811
Apple Valley Golf Course	117,077	113,021	113,021
Total	3,972,116	3,728,685	3,759,056
	253,539	238,001	239,940

Consumption per Customer (Ccf per Customer)	2015	2016	2017
Residential	151.70	139.84	139.84
Commercial	476.41	459.94	459.94
Industrial	485.84	394.09	394.09
Public Authority	4,833.88	4,512.24	4,512.24
Private Fire Service	8.50	8.50	8.50
Irrigation - Public Authority	4,514.97	3,863.03	3,863.03
Irrigation - Pressure	1,333.24	1,231.16	1,231.16
Temporary Construction	801.01	801.01	801.01
Apple Valley Golf Course	117,077.45	113,021.15	113,021.15

(END OF ATTACHMENT F)

ATTACHMENT G

APPLE VALLEY RANCHOS WATER COMPANY - IRRIGATION
TEST YEAR 2015
SUMMARY OF EARNINGS
(Dollars In Thousands)

	ADOPTED	
	AT PRESENT RATES	AT AUTHORIZED ROR
OPERATING REVENUES	196.7	218.3
DEFERRED REVENUES	0.0	0.0
TOTAL REVENUES	196.7	218.3
OPERATIONS & MAINTENANCE		
PAYROLL-OPERATIONS	3.0	3.0
OPERATIONS-OTHER	0.0	0.0
PURCHASED POWER	94.3	94.3
LEASED WATER RIGHTS	0.0	0.0
REPLENISHMENT CHARGES	9.6	9.6
UNCOLLECTIBLES	0.0	0.0
PAYROLL-MAINTENANCE	0.0	0.0
MAINTENANCE-OTHER	2.2	2.2
CLEARINGS-OTHER	3.1	3.1
SUBTOTAL O & M	112.2	112.2
ADMINISTRATIVE & GENERAL		
A & G PAYROLL	0.0	0.0
EMPLOYEE BENEFITS	2.1	2.1
INSURANCE	1.3	1.3
REG. COMM. EXPENSE	0.0	0.0
FRANCHISE REQUIREMENTS	0.0	0.0
OUTSIDE SERVICES	4.6	4.6
A & G - OTHER	0.2	0.2
GENERAL OFFICE ALLOCATION	13.7	13.7
AVR ALLOCATION	27.6	27.6
SUBTOTAL A & G	49.5	49.5
OTHER TAXES		
[1] PROPERTY TAXES	3.5	3.5
[1] PAYROLL TAXES	0.7	0.7
SUB-TOTAL OTHER TAXES	4.2	4.2
[1] DEPRECIATION	15.2	15.2
CA INCOME TAXES	0.5	2.4
FEDERAL INCOME TAXES	1.9	9.0
TOTAL EXPENSE	183.5	192.5
NET REVENUES	13.2	25.8
RATE BASE	284.8	284.8
RATE OF RETURN	4.65%	9.07%

[1] DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM PARK'S MAIN OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

APPLE VALLEY RANCHOS WATER COMPANY - IRRIGATION
ADOPTED QUANTITIES

Net-to-Gross Multiplier		1.71476		
Uncollectible Rate		0.00%		
Franchise Fee		0.00%		
Federal Tax Rate		34.00%		
State Tax Rate		8.84%		
		2015	**2016**	**2017**
Water Consumption (Ccf)				
Water Sales		456.3	456.3	456.3
Unaccounted Water	78.2%	1,636.7	1,636.7	1,636.7
Total Water Production		2,093.0	2,093.0	2,093.0
Replenishment Charges				
Biological Assessment (A.F.)		4,805	4,805	4,805
Cost per A.F.		$0.81	$0.81	$0.81
Total Biological Assessment Cost		$3,892	$3,892	$3,892
Make-Up Assessment				
Make-Up Assessment (A.F.)		95	95	95
Cost per A.F.		$60.00	$60.00	$60.00
Total Make-Up Assessment Cost		$5,700	$5,700	$5,700
Total Replenishment Charges		$9,592	$9,592	$9,592
Purchased Power				
Electric				
Total Cost		$94,280	$94,280	$94,280
Kilowatt Hours		1,092,233	1,092,233	1,092,233
Cost/Kilowatt Hour		$0.08632	$0.08632	$0.08632

APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION
ADOPTED QUANTITIES
(Dollars in Thousands)

Utility Plant In Service	2015	2016
Beginning Of Year Balance	595.8	595.8
Additions	0	0
Retirements	0	0
End Of Year Balance	595.8	595.8
Average Balance	595.8	595.8
Depreciation Reserve		
Beginning Of Year Balance	228.5	241.7
Annual Accrual	13.2	13.2
Net Retirements	0.0	0.0
End Of Year Balance	241.7	254.9
Average Balance	235.1	248.3

Note: Unadjusted for General Plant Adjustments.

APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION
ADOPTED QUANTITIES
(Dollars in Thousands)

	2015	2016
RATE BASE SUMMARY		
AVERAGE BALANCES		
PLANT IN SERVICE	623.7	624.1
WORK IN PROGRESS	0.0	0.0
WORKING CASH	12.4	12.1
SUBTOTAL	636.1	636.2
LESS:		
DEPRECIATION RESERVE	250.7	264.4
ADVANCES	0.0	0.0
CONTRIBUTIONS	39.0	37.7
UNAMORTIZED ITC	0.0	0.0
DEFERRED INCOME TAX	68.6	65.5
SUBTOTAL	358.3	367.6
PLUS:		
METHOD 5 ADJUSTMENT		
NET DISTRICT RATE BASE	277.9	268.6
MAIN OFFICE ALLOCATION	6.9	6.9
TOTAL RATE BASE	284.8	275.5

APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION
ADOPTED QUANTITIES
TEST YEAR 2015
(Dollars in Thousands)

INCOME TAX CALCULATIONS	PRESENT RATES	AT AUTHORIZED RATE OF RETURN
OPERATING REVENUES	196.7	218.3
EXPENSES		
OPERATIONS & MAINTENANCE	112.2	112.2
UNCOLLECTIBLES	0.0	0.0
ADMINISTRATIVE & GENERAL	49.5	49.5
FRANCHISE FEES	0.0	0.0
AD VALOREM TAXES	3.5	3.5
PAYROLL TAXES	0.7	0.7
MEALS ADJUSTMENT	(0.1)	(0.1)
SUBTOTAL	165.8	165.8
INCOME BEFORE TAXES	30.9	52.5
CA. CORP - FRANCHISE TAX (CCFT)		
CA TAX DEPRECIATION	15.1	15.1
INTEREST	9.9	9.9
	25.0	25.0
TAXABLE INCOME FOR CCFT	5.9	27.5
CCFT RATE	8.84%	8.84%
CA INCOME TAX	0.5	2.4
FEDERAL INCOME TAX (FIT)		
FED. TAX DEPRECIATION	14.8	14.8
CA TAX	0.5	0.5
INTEREST	9.9	9.9
QUALIFIED PROD. DEDUCTION	0.2	0.9
TOTAL	25.4	26.2
FIT TAXABLE INCOME	5.5	26.3
FIT RATE	34.00%	34.00%
FIT (BEFORE ADJUSTMENT)	1.9	9.0
INVESTMENT TAX CREDIT	0.0	0.0
NET FEDERAL INCOME TAX	1.9	9.0

APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION
ADOPTED QUANTITIES

	2015	2016	2017
Number of Customers			
Gravity Irrigation	1	1	1
Water Sales (Ccfs)			
Gravity Irrigation	456,275	456,275	456,275
Consumption per Customer (Ccf per Customer)			
Gravity Irrigation	456,275	456,275	456,275

GENERAL OFFICE
TEST YEAR 2015
SUMMARY OF OPERATING EXPENSES
(Dollars In Thousands)

	2015
PAYROLL-CUSTOMERS	4.6
PAYROLL-MAINTENANCE	34.0
MAINTENANCE-OTHER	561.2
PAYROLL-CLEARINGS	20.4
DEPRECIATION-CLEARINGS	8.7
CLEARINGS-OTHER	30.6
A & G PAYROLL	4,044.5
EMPLOYEE BENEFITS	1,225.9
INSURANCE	176.4
UNINSURED PROPERTY DAMAGE	0.0
REG. COMM. EXPENSE	0.0
OUTSIDE SERVICES	612.7
A & G - OTHER	529.4
A & G TRANSFERRED CREDIT	(17.6)
PROPERTY TAXES	28.6
PAYROLL TAXES	226.1
DEPRECIATION	302.1
WWH ADJ	(4.0)
GRAND TOTAL	7,783.5
ALLOCATION TO AVR - DOMESTIC	29.29%
PROPERTY TAXES	8.4
PAYROLL TAXES	66.2
DEPRECIATION	88.5
A & G EXPENSES	2,115.6
	2,278.6
ALLOCATION TO AVR - IRRIGATION (.19%)	0.19%
PROPERTY TAXES	0.1
PAYROLL TAXES	0.4
DEPRECIATION	0.6
A & G EXPENSES	13.7
	14.8

PAGE 2 OF 2

GENERAL OFFICE

RATE BASE SUMMARY

		2015	2016
END-OF-YEAR BALANCES			
PLANT IN SERVICE		11,206.6	11,521.0
CWIP		0.0	0.0
SUBTOTAL		11,206.6	11,521.0
LESS:			
DEPRECIATION RESERVE		6,593.2	6,838.6
DEFERRED INCOME TAX		1,000.9	1,072.5
SUBTOTAL		7,594.1	7,911.1
NET MAIN OFFICE RATE BASE	3,663.1	3,612.5	3,609.9
WEIGHTED AVERAGE RATEBASE		3,637.8	3,611.2
FOUR FACTOR ALLOCATION			
DOMESTIC	29.29%	1,065.5	1,057.7
IRRIGATION	0.19%	6.9	6.9

(END OF ATTACHMENT H)

Decision 16-01-009 January 14, 2016

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Park Water Company (U314W) for Authority to Increase Rates Charged for Water Service by $2,918,800 or 8.72% in 2016, $2,422,093 or 6.63% in 2017, and $1,598,099 or 4.08% in 2018.	Application 15-01-001 (Filed January 2, 2015)

DECISION RESOLVING PARK WATER COMPANY'S 2015 GENERAL RATE CASE

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Exhibit A - Settlement Agreement Between Park Water Company and the Office of Ratepayer Advocates

Exhibit B – Joint Comparison Exhibit of Park Water Company and the Office of Ratepayer Advocates

Exhibit C – Appendices A - E

DECISION RESOLVING PARK WATER COMPANY'S 2015 GENERAL RATE CASE

Summary

This decision resolves the Park Water Company 2015 general rate case by granting the joint motion for adoption of a partial settlement between Park and the Commission's Office of Ratepayer Advocates, and authorizing a revenue requirement for Park for the years 2016, 2017 and 2018. It also resolves the litigated issues and sets the California Alternative Rates for Water Credit and Surcharge, and denies Park Water Company's requests to establish a Sales Reconciliation Mechanism and a Perchlorate Memorandum Account. A revenue requirement of $33,288,500 is adopted for 2016, which represents a 6.18 percent increase over current rates. The impact on the average residential customer will be an increase in rates of $5.91 per month for 2016. The proceeding is closed.

1. Procedural Background

On January 2, 2015, Park Water Company (Park) filed its general rate case (GRC) Application (A.)15-01-001. The Commission's Office of Ratepayer Advocates (ORA) filed a timely protest to this Application on February 5, 2015. A prehearing conference (PHC) was held March 25, 2015 in the Commission's San Francisco courtroom, with Park and ORA present. The scoping memo of the assigned Commissioner and Administrative Law Judge (ALJ) was issued on April 10, 2015, setting out the scope and schedule of the proceeding.

On April 29, 2015, public participation hearings (PPHs) were held at 2:00 p.m. and 7:00 p.m. in Bellflower. At the 2:00 p.m. hearing, 38 people attended and 17 spoke; at the 7:00 p.m. hearing, 37 people attended and 10 spoke. All speakers at both PPHs expressed opposition to any rate hikes. Many said they are on moderate or fixed incomes, and Park's rates are significantly

higher than the rates of their neighbors who are served by a municipal water utility. Several speakers expressed frustration that due to the drought they are being asked to use less water but pay more for it. In addition, three people submitted written comments to the Public Advisor's Office. One expressed opposition to any rate hike, concern about Park's water quality, and opposition to paying the California Alternative Rates for Water (CARW) surcharge. The second expressed opposition to any rate hike and noted that Golden State Water, which serves a neighboring area, was asking for a small decrease in rates in its GRC for the first year, and increases of approximately three percent in their second and third years. This customer also expressed frustration that it would be charged more for using too little or too much water. The third commenter suggested that those who use water during the day should be charged more, and those who use water in the early morning or late at night should be charged less.

Although the comments received during the PPHs and in written correspondence are not accorded the weight of testimony received during evidentiary hearings, the public comments helped to highlight the issues of greatest concern to customers.

On May 6, 2015, ORA served its Report on the Results of Operations (ORA Report). On May 22, 2015, Park served its rebuttal testimony. An evidentiary hearing was held on June 9, 2015 in Los Angeles. The parties reached a tentative settlement on all but three issues, one of which -- Park's request to establish a perchlorate memorandum account -- was the subject of the evidentiary hearing. The remaining issues, the amounts of the CARW credit and CARW surcharge, and Park's request to implement a Sales Reconciliation Mechanism, were briefed by the parties.

Opening briefs were filed by the parties on July 13, 2015. Reply briefs were filed on August 4, 2015. The parties filed a joint motion to approve a settlement agreement and the required comparison exhibit on August 14, 2015.

On July 13, 2015, Park filed an unopposed motion for interim rate relief pursuant to Code § 455.2, to allow Park to continue charging rates currently authorized in its tariff, and to track the difference between the authorized interim rates and the final rates authorized in this decision in the event the Commission is unable to issue a final decision on Park's application in time to have the new rates effective on January 1, 2016. On October 27, 2015, the assigned ALJ issued a ruling granting Park's motion, and directing Park to file a Tier 1 Advice letter with the Commission implementing the interim rates, and establishing a Memorandum Account to track the authorized interim rates for a later true-up with the rates authorized in this decision in the event a final decision on this GRC is not in effect in time for new rates to be effective January 1, 2016.

2. Overview of the Settlement

Park and ORA, the only parties to the proceeding, settled all but three of the issues in this GRC.[1] The settled issues we approve are identified below, as explained in more detail in the motion to adopt the settlement agreement:

- Water Consumption and Revenues
- Customer Service
- Operations and Maintenance
- Administrative and General Expense

[1] The settlement agreement between Park and ORA can be found at http://docs.cpuc.ca.gov/SearchRes.aspx?DocFormat=ALL&DocID=154225571, a copy of which is attached hereto as Exhibit A.

- Taxes (other than income)
- Income Taxes
- Utility Plant in Service
- Depreciation Rates, Reserve and Depreciation Expense
- Rate Base
- Miscellaneous Revenues
- Rate Design - residential and non-residential
- Water Quality
- Memorandum and Balancing Accounts
- Special Requests
- Water Revenue Adjustment Mechanism/Modified Cost Balancing Account
- Low-Income Program (CARW)

The parties' specific agreements as a result of the settlement are:[2]

- Continue the existing Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Accounts (MCBA) pursuant to Section 18;
- Authorize recovery of the under-collected balance in Park's California Alternative Rates for Water (CARW) Revenue Reallocation Balancing Account ($526,141 as of December 31, 2014) pursuant to Section 19.0;
- Authorize recovery of the under-collected balance in Park's Cost of Capital Memorandum Account ($28,093 as of December 31, 2014) pursuant to Section 16.5;
- Authorize recovery of the under-collected balance in Park's Low-Income Customer Data Sharing Cost Memorandum

[2] The joint comparison exhibit showing the respective positions of the parties on various issues is attached hereto as Exhibit B.

Account ($17,989 as of December 31, 2014) pursuant to Section 16.3;

- Authorize the refund of the over-collected balance in Park's Credit Card Balancing Account (estimate of $5,183 as of December 31, 2015) pursuant to Section 16.4;
- Make a finding that Park meets all applicable water quality standards based upon ORA's review of water quality testimony and information provided by Park;
- Make a finding that Park is in compliance with the Real Property Subject to the Water Infrastructure Improvement Act of 1996;
- Order the filing of advice letters to implement increases for Escalation Years 2017 and 2018;
- Find that Park's third party contracts with HomeServe and Park's maintenance contracts with Central Basin Municipal Water District, that are subject to the Excess Capacity Decision (D.) 00-07-018 and Non-Tariffed Products & Services Rules in D.10-10-019 (Appendix A, Rule X) for unregulated transactions, are properly reflected in Park's revenue requirement;
- Authorize and implement all other agreements of the Parties contained in the Settlement; and
- Adopt a net-to-gross multiplier of 1.782332 for this GRC cycle.

3. The Settlement

As the applicant, Park bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair. In order for the Commission to consider whether a proposed settlement is in the public interest, the Commission must be convinced the parties had a thorough understanding of the application and all of the underlying assumptions and data included in the record. The

requirements for adopting a settlement are set forth in Rule 12.1(a) of the Commission's Rules of Practice and Procedure,[3] which states:

> Parties may, by written motion any time after the first prehearing conference and within 30 days after the last day of hearing, propose settlements on the resolution of any material issue of law or fact or on a mutually agreeable outcome to the proceeding. Settlements need not be joined by all parties; however, settlements in applications must be signed by the applicant….
>
> When a settlement pertains to a proceeding under a Rate Case Plan or other proceeding in which a comparison exhibit would ordinarily be filed, the motion must be supported by a comparison exhibit indicating the impact of the settlement in relation to the utility's application and, if the participating staff supports the settlement, in relation to the issues staff contested, or would have contested, in a hearing.

Rule 12.1(d) provides that:

> The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

Rule 12.5 limits the future applicability of a settlement:

> Commission adoption of a settlement is binding on all parties to the proceeding in which the settlement is proposed. Unless the Commission expressly provides otherwise, such adoption does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or in any future proceeding.

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[3] All referenced Rules are the Commission's Rules of Practice and Procedure. http://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&DocID=154622266

We must find whether the settlement complies with Rule 12.1(d), which requires a settlement to be "reasonable in light of the whole record, consistent with law, and in the public interest."

The record consists of all filed documents, served and filed testimony, the proposed settlement and the motion for its adoption. The settlement resolves nearly all issues in this GRC and in the ORA Report of Operations.

Park represents the utility and its shareholders, while ORA represents the interests of ratepayers. The settlement is the result of extensive and vigorous negotiations. The parties to the settlement have a thorough understanding of the issues and all of the underlying assumptions and data, and could therefore make informed decisions in the settlement process.

The Commission could have resolved the issues in favor of either of the parties. Accordingly, the settling parties have balanced a variety of issues of importance to them and have agreed to the settlement as a reasonable means by which to resolve the issues. For the reasons discussed above, the settlement is reasonable in light of the record as a whole.

There are no terms within the settlement agreement that would bind the Commission in the future or violate existing law. Therefore, we find the settlement consistent with the law.

There is a public policy favoring the settlement of disputes to avoid costly and protracted litigation.[4] The settlement satisfies this public policy preference for the following reasons:

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[4] Decision (D.) 88-12-083, 30 CPUC 2d 189, 221.

a. The sponsors of the settlement represent the interests of Park and its shareholders as well as Park's customers, the ratepayers.

b. The settlement serves the public interest by resolving competing concerns in a collaborative and cooperative manner.

c. By reaching agreement, the parties avoid the costs and uncertainties of further litigation in this proceeding, and eliminate the possible litigation costs for rehearing and appeal. Approval of the settlement provides speedy and complete resolution of the issues.

d. The settlement meets the applicable settlement standards of Rule 12.1(d), should be accorded the same deference the Commission accords settlements generally, and should be adopted.

Adoption of the settlement is binding on all parties to the proceeding. However, pursuant to Rule 12.5, the settlement does not bind or otherwise impose a precedent in this or any future proceeding.

The settling parties addressed and resolved the issues identified in the proceeding.[5] The settlement terms ensure customers have access to a safe and reliable water supply at a reasonable cost,[6] and Park and its shareholders will receive a reasonable rate of return on their investments. We therefore conclude that the settlement is in the public interest.

4. Litigated Issues

The Settlement Agreement between Park and ORA did not resolve three issues which we resolve in this decision. On the litigated issues, we adopt Park's

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[5] The joint comparison exhibit showing the positions of the parties on various issues is attached hereto as Exhibit B.

[6] A revenue calculation and rate table showing the impact of Park's approved revenue requirement for 2016 on the average residential customer is attached hereto as Exhibit C.

recommendation raising the CARW credit and surcharge by the same percentage as the revenue requirement increase for each year, and adopt ORA's recommendations that we decline to authorize the establishment of a Sales Reconciliation Mechanism or a Perchlorate Memorandum Account.

a. CARW Credit and Surcharge

Park's Low-Income Ratepayer Assistance Program, known as California Alternative Rates for Water (CARW), was authorized by the Commission in D.06-10-036 and became effective on January 1, 2007. The CARW program currently authorized for Park consists of a $6.65 per month credit for qualifying customers who meet the income eligibility requirements established annually by the Commission. The eligibility income guidelines are based on the Commission guidelines established for the California Alternate Rates for Energy (CARE).[7] Customers already enrolled in Southern California Edison's or the Gas Company's CARE programs are automatically eligible for Park's CARW program. Pursuant to the Commission's guidelines, customers self-certify their eligibility for the CARW program through completion of Park's CARW program application. Park's CARW program is limited to residential domestic service with a 1-inch or smaller meter. The CARW program is funded by a surcharge applicable to all metered customers, except customers receiving a CARW credit, non-metered fire service, or reclaimed water service.[8]

Park's Position

Park initially requested authorization to raise the CARW credit and surcharge by the overall percentage increase in the revenue requirement

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[7] Exh. P-1 (Revenue Requirements Report) at 18

[8] Exh. P-1 at 18

originally requested in this proceeding, from the current $6.65 per month credit to $8.02 per month, which is approximately seven percent of an average residential customer bill.

As a result of D.11-05-020 (adopting rules and guidelines regarding the sharing of utility data pertaining to low-income ratepayers), the number of CARW program enrollees increased from 2,084 in 2011, to 12,616 in 2014, which is approximately 45 percent of Park's residential customer base.

Park further requests the Commission authorize the recovery of the under-collection recorded in the CARW Balancing Account, as of December 31, 2014, in the amount of $526,141, through a 12-month temporary surcharge.

ORA's Position

The Commission should deny Park's request to modify the CARW credit amount, and maintain Park's current credit of $6.65 per month. Since the number of participants in the CARW program has increased fivefold over the last three years, ORA is concerned with the burden this surcharge places on those paying it. Thus, ORA recommends leaving unchanged the $6.65 per month credit provided to eligible customers.

Discussion

We will adopt a compromise by granting an increase in the CARW credit by the same percentage (6.18 percent) as the increased revenue requirement. As a result, the current CARW credit amount of $6.65 per month for qualifying households will be increased to $7.06 per month in 2016, an increase of $0.41 per month. The CARW surcharge will increase to $7.12 per month. The CARW credits and surcharges for 2017 and 2018 will be adjusted by the same percentage as the revenue requirement adjustments for each of these years. We also will

approve Park's request to recover funds from the under-collection in the CARW Balancing Account as of December 31, 2014.

We acknowledge ORA's concerns about the affordability of any increased CARW surcharge for those customers who are paying for the subsidy. Park's service area is comprised of mostly working-class residents with below-average median household incomes of $42,953 for customers living in the City of Compton, and $49,637 for those living in the City of Bellflower. By contrast, the median income in California was reported as $61,094 for the same period.[9]

Park's recommendation would result in a slight benefit to its lowest income ratepayers who qualify for the credit, and ORA's recommendation would result in a slight benefit to Park's ratepayers who pay the surcharge.

b. Sales Reconciliation Mechanism

In 2008, the Commission first adopted the regulatory mechanism known as the Water Revenue Adjustment Mechanism (WRAM) and the Modified Cost Balancing Account (MCBA). In adopting the WRAM/MCBA mechanisms, the Commission sought to achieve three primary goals:

1) To sever the relationship between sales and revenue to remove the disincentive to implement conservation rates and conservation programs;
2) To ensure cost savings are passed on to ratepayers; and
3) To reduce overall water consumption.

[9] US Census Bureau, American Fact Finder S1903 Median Income in the Past 12 Months (In 2013 Inflation Adjusted Dollars).

The WRAMs and MCBAs are designed to ensure that the utilities and ratepayers are proportionally affected when conservation rates are implemented.[10]

Since this pilot program was implemented in 2009, however, an unanticipated issue has arisen due to high WRAM balances that have resulted in high WRAM surcharges. As the Commission has recognized, although the WRAM/MCBA mechanism is working, high WRAM balances have resulted due to "inaccurate sales forecasts that over-estimate consumption."[11]

Park's Position

Park seeks authorization to implement a Sales Reconciliation Mechanism (SRM) to minimize the impacts associated with significant discrepancies between forecasted and actual consumption, including the substantial rate shock from high surcharges resulting from large WRAM under-collections. [12]

Specifically, the purpose of the SRM is to adjust the adopted sales forecast in the two escalation years following the test year if total sales for the prior year are more than five percent above or below the adopted test year sales. The SRM would provide for an adjustment of 50 percent of the difference.[13] If the difference between actual and forecasted use during the prior year is not significant – less than the proposed five percent threshold level – there would be no adjustments to the forecast.

Park contends that the SRM will:

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[10] D.08-02-036 at 25-26.

[11] D.13-05-011 at 80.

[12] Ex. A-16A (David Morse Direct Testimony Re SRM in A.14-01-002), at 2.

[13] Ex. P-16A, at 3.

(1) Improve the accuracy of the sales forecasts adopted in this proceeding;

(2) Reduce the potential for large balances in the WRAM balancing account;

(3) Reduce WRAM/MCBA balances and the resultant surcharges in the two GRC escalation years (2017 and 2018);

(4) Preserve the Commission's rate design by adjusting the residential rates within each tier rather than through surcharges;

(5) Reduce sales related increases in subsequent GRCs (a key rate design objective is to avoid unnecessarily large adjustments in rates);

(6) Potentially eliminate the need for Park to file an advice letter in the spring to amortize WRAM/MCBA balances; and

(7) Reduce the likelihood of intertemporal inequity by reducing or eliminating surcharges or surcredits.[14]

ORA's Position

ORA strongly opposes Park's request to implement an SRM, arguing that it would allow Park to adjust rates between test years, deviating from Commission precedent and undermining the general principles outlined in the Revised Rate Case Plan for Class A water utilities.

Park also requested an SRM when it filed its GRC application for its Apple Valley Rancho (AVR) district. In Decision (D.) 15-05-038, the Commission agreed with ORA's position and stated that revisions to the ratemaking process should be addressed in an industry-wide proceeding rather than for a single utility.[15]

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[14] Ex. P-16A, at 6-7.

[15] D.15-05-038, O-1, p. 12-14 and Exhibit O-3.

The Commission denied a similar request by California American Water Company's (Cal-Am) in its most recent GRC. ORA argues that in maintaining precedent and protecting ratepayers from rate increases outside the rate cycle, the Commission should deny Park's request in this proceeding.

ORA does, however, support Park's request to recover the under-collection recorded in the CARW Balancing Account as of December 31, 2014, in the amount of $526,141, through a 12-month temporary surcharge.

Discussion

We agree with ORA's position and deny Park's request to adopt the requested Sales Reconciliation Mechanism at this time. To date, the Commission has only adopted a Sales Reconciliation Mechanism for one Class A water utility, California American Water Company, in its most recent GRC (A.12-07-007). That SRM was adopted in light of the current historic drought as part of a pilot program for the second and third escalation years (2015 and 2016)[16].

c. Perchlorate Memorandum Account

Perchlorate is a contaminant that has been designated an "acute health risk" by the federal Environmental Protection Agency (EPA) and the State of California, meaning that perchlorate can have an immediate negative effect on health.[17] Based on new research regarding the negative health impact of perchlorate, including its effect on infants, in February, 2015, the California EPA Office of Environmental Health Hazard Assessment lowered the public health

[16] D.14-08-011, Ordering Paragraph 43, at p. 111.

[17] Tr., at 195:9-26.

goal (PHG)[18] for perchlorate in drinking water from 6 parts per billion (ppb) to 1 ppb. Although a PHG is not an enforceable regulatory standard, it is the starting point for the Division of Drinking Water (DDW) of the California State Water Resources Control Board in reviewing and evaluating the potential regulation of a contaminant, including the maximum contaminant level (MCL) for drinking water.[19]

The DDW is currently conducting a survey to determine the feasibility of reducing the detection limit for reporting (DLR) from the current 4 ppb to 0.5 ppb and reducing the MCL from 6 ppb to 1 ppb.[20] DDW will take the data from the survey to undertake a cost-benefit analysis in developing a revised MCL for perchlorate.[21] DDW is expected to issue its proposed regulations lowering the perchlorate MCL within approximately two years (June 2017), with the final regulations issued approximately six months thereafter (December 2017).[22]

Park's Position

Park requests authorization to establish a memorandum account to track costs to comply with the anticipated change in the regulations governing the maximum amount of perchlorate allowed in drinking water. Given that perchlorate is an acute health risk and that the PHG has been lowered to 1 ppb, Park anticipates that the MCL will be lowered from the current 6 ppb, at least to

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[18] The PHG is based entirely on the health effect of a contaminant. (Ex. P-1, at 146; Tr., at 196:12-18.)

[19] Ex. O-1, at 12-10 to 12-11; Tr. 196:21-24.

[20] Ex. P-10 (Jeanne-Marie Bruno Rebuttal Testimony), at 16; Tr., at 162:20-163:5, 198:5-24.

[21] Tr., at 198:5-24.

[22] Tr., at 201:3-12, 203:16-204:2, 206:2-7.

4 ppb and possibly to the PHG level of 1 ppb.[23] As DDW regulations that change the MCL of a contaminant take effect immediately, Park must be in compliance with DDW's anticipated final regulation lowering the MCL for perchlorate to at least 4 ppb by the end of 2017.[24]

Authorization to establish the memorandum account is sought in this GRC proceeding because Park anticipates that it will take two to four years for Park to put in place new wells to replace one to three wells that will likely be impacted by the new regulations. Putting the memorandum account in place now – instead of waiting until the next GRC or via a Tier 2 advice letter after final regulations are issued – will minimize the time required for Park to put new wells in place. This would benefit ratepayers by minimizing the period during which Park will be forced to purchase more expensive imported water, assuming it is available, to replace the water supply that will be lost when wells will be taken out of service due to high perchlorate levels.

Regardless of whether DDW lowers the MCL for perchlorate, Park anticipates incurring costs associated with perchlorate shortly. During the next 12 months – approximately June 2015 to June 2016 – Park will be forced to incur monitoring costs as well as laboratory and labor costs associated with sampling.[25] When DDW issues its proposed regulations, Park will determine which of its wells would be impacted if the proposed MCL becomes the final

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[23] Tr., at 199:21-24.

[24] Ex. P-1, at 147; Tr., at 199:21-24.

[25] Tr., at 200:6-26.

MCL.[26] If the MCL is lowered to 4 ppb, one of Park's wells (Well 4B) will be affected while three of Park's wells (Wells 28B, 46C, and 4B) will be affected if the MCL is lowered to 1 ppb.[27]

Additionally, if the new well has water quality issues, e.g., perchlorate or other contaminants like manganese or chemicals, Park may be required to build a treatment facility for the new well, which would add another eight months to a year before this new well could be brought into service.[28] Depending on the final MCL set by the DDW, Park expects to lose and need to find replacement for pumping capacity of between 709 and 3009 GPM until new replacement wells can be built and start pumping.

ORA's Position

ORA contends Park did not substantiate its request for establishment of a Perchlorate Memorandum Account and provided contradictory testimony in support of their position in its application and testimony during hearing regarding whether a final rule would be implemented during this rate cycle, and therefore Park's request should be denied, and Park should be directed to address this in its next GRC.

Discussion

We agree with ORA's position and deny Park's request to establish a Perchlorate Memorandum Account at this time because the MCL has not yet been lowered and any costs which may be incurred are speculative at this time.

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[26] As Park's witness Gary Lynch testified, "I've never seen a proposed MCL altered - be altered when it became final." (Tr., at 203:8-9.)

[27] Tr., at 210:28-211:13.

[28] Tr., at 215:25-216:14.

In the event Park finds it necessary to incur specific and quantifiable costs directly resulting from a new water quality standard being set, and before any such costs are actually incurred, Park may file a petition to modify this Decision in that regard, or file a new application to establish such an account.

5. Categorization and Need for Hearing

On January 15, 2015, the Commission adopted Resolution ALJ 176-3349 which preliminarily categorized this proceeding as ratesetting and preliminarily determined that hearings are necessary. On April 10, 2015, a Scoping Memo and Ruling was issued which confirmed the categorization as ratesetting and that evidentiary hearings are necessary.

6. Comments on Proposed Decision

The proposed decision in this matter was mailed to the parties in accordance with § 311 of the Public Utilities Code and comments are allowed pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed by Park Water Company on December 14, 2015. The comments have been considered and appropriate changes have been made.

7. Assignment of Proceeding

Liane M. Randolph is the assigned Commissioner and Dan H. Burcham is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Park Water Company (Park) is a Class A water utility subject to the Commission's jurisdiction.
2. Park filed its Application on January 2, 2015.
3. On February 5, 2015, the Commission's Office of Ratepayer Advocates (ORA) filed a timely protest. Evidentiary hearings were held on June 9, 2015 in the Commission's Los Angeles courtroom.

4. On August 14, 2015, Park and ORA filed a joint motion to adopt a settlement agreement on all but three issues in this GRC.

5. The record of the proceeding is comprised of the application, testimony of the parties and all other filings.

6. The parties to the settlement adopted by this decision have a thorough understanding of the issues and the underlying assumptions and data and could therefore make informed decisions in the settlement process.

7. The settlement is a balance between the original positions of the parties and their positions as otherwise posed in the prepared testimony of the parties.

8. A revenue requirement of $33,288,500 is justified for 2016, which represents a 6.18 percent increase over current rates.

9. Park has a residual under-collected balance of $28,093 remaining in its Cost of Capital Memorandum Account for the period ending December 31, 2014.

10. Park has an under-collected balance in its Low-Income Customer Data Sharing Cost Memorandum Account of $17,989 for the period ending December 31, 2014.

11. Park has a residual over-collected balance in its Credit Card Balancing Account of approximately $5,183 for the period ending December 31, 2014.

12. A CARW credit in the amount of $7.06 per month per residential customer is reasonable and appropriate.

13. Park has an under-collection recorded in the CARW Revenue Reallocation Balancing Account as of December 31, 2014, in the amount of $526,141.

14. A CARW surcharge of $7.12 per month will allow Park to recover the under-collected balance in the CARW Revenue Reallocation Balancing Account as of December 31, 2014, in 12 months, and collect the authorized surcharge for the test year of the current rate case cycle.

15. Park meets all currently applicable water quality standards.

16. Park is in compliance with the Real Property Subject to the Water Infrastructure Improvement Act of 1996.

17. Park's third-party contracts with HomeServe and its maintenance contracts with Central Basin Municipal Water District, which are subject to the Excess Capacity Decision (D.00-07-018) and Non-Tariffed Products & Services Rules in D.10-10-019 (Appendix A, Rule X) for unregulated transactions, are properly reflected in Park's revenue requirement.

18. A net-to-gross multiplier of 1.782332 is appropriate for this rate case cycle.

19. The establishment of a Sales Reconciliation Mechanism is inappropriate because it would allow for an increase in rates between rate case cycles, contrary to the principles of the Rate Case Plan for Class A water utilities.

20. The establishment of a Perchlorate Memorandum Account is premature at this time because new water quality standards have not been set, and any costs which may be incurred as the result of new water quality standards are speculative at this time.

Conclusions of Law

1. The Applicant alone bears the burden of proof to show that its requests are reasonable.

2. Rule 12.1(d) provides that the Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

3. The settlement is reasonable in light of the record as a whole because it fairly balances the interests of the utility and ratepayers.

4. The settlement is consistent with the law because it does not contravene or compromise any statutory provisions or prior Commission decisions.

5. The settlement is in the public interest because it will ensure safe, reliable water service for customers and a reasonable return on investment for shareholders.

6. Adoption of the settlement is binding on all parties to the proceeding. However, pursuant to Rule 12.5, the settlement does not bind or otherwise impose a precedent in this or any future proceeding.

7. Park's Water Revenue Adjustment Mechanism (WRAM) and Modified Production Cost Balancing Account (MCBA) should be continued with minor modifications as identified in the settlement agreement.

8. Park should be granted a revenue requirement of $33,288,500 for 2016.

9. Park should be permitted to recover the under-collected balance of $526,141 in its CARW Revenue Reallocation Balancing Account for the period ending December 31, 2014, through a 12-month temporary surcharge, and thereafter close the account.

10. Park should be permitted to recover the under-collected balance of $28,093 in its Cost of Capital Memorandum Account for the period ending December 31, 2014, through a 12-month temporary surcharge, and thereafter close the account.

11. Park should be permitted to recover the under-collected balance of $17,989 in its Low-Income Customer Data Sharing Cost Memorandum Account for the period ending December 31, 2014, through a 12-month temporary surcharge, and thereafter close the account.

12. A CARW credit of $7.06 per month should be approved.

13. A CARW surcharge on $7.12 per month should be approved to collect the under-collected balance in the CARW Revenue Reallocation Balancing Account

as of December 31, 2014, in 12 months, and collect the authorized surcharge for the test year of the current rate case cycle.

14. The residual over-collected balance of approximately $5,183 for the period ending December 31, 2014, in Park's Credit Card Balancing Account should be refunded to affected customers.

15. Park's request to establish a Sales Reconciliation Mechanism is not appropriate at this time and should be denied.

16. Park's request to establish a Perchlorate Memorandum Account is not appropriate at this time and should be denied.

17. Park meets all currently applicable water quality standards.

18. Park should file advice letters to implement increases in rates for escalation years 2017 and 2018 pursuant to the terms of this decision.

19. Agreements of the parties contained in the settlement.

20. The Commission should adopt a net-to-gross multiplier of 1.782332 for this rate case cycle.

O R D E R

IT IS ORDERED that:

1. The joint motion of Park Water Company (Park) and the Office of Ratepayer Advocates to adopt the August 14, 2015 settlement is granted. The settlement agreement attached as Exhibit A is adopted.

2. A revenue requirement of $33,288,500 for 2016 is adopted.

3. Park shall file a Tier 1 advice letter to implement increases in rates for escalation years 2017 and 2018.

4. Park Water Company is authorized to continue its Water Revenue Adjustment Mechanism (WRAM) and Modified Production Cost Balancing Account (MCBA), with the following adjustments:

a. Commodity revenues for reclaimed water customers shall not be added to the WRAM.

b. Purchased water reclaimed expenses shall not be added to the MCBA.

c. Leased water rights shall be added to the MCBA for this rate cycle only, subject to a reasonableness review based on market conditions.

d. The cost of chemicals shall be added to the MCBA.

Park Water Company is authorized and directed to file a Tier 1 advice letter to update the description of the WRAM/MCBA in Park's Preliminary statement as described in this Ordering Paragraph.

5. Park Water Company is authorized to continue to track California Alternative Rates for Water (CARW) credits and surcharges in a CARW Revenue Reallocation Balancing Account, and may file a Tier 1 advice letter requesting to amortize that account by adjusting the CARW surcharge whenever the balance in the account exceeds two percent of the last authorized revenue requirement.

6. Park Water Company is authorized to recover the under-collected balance of $28,093 remaining in the Cost of Capital Memorandum Account for the period ending December 31, 2014, through a 12-month temporary surcharge, and thereafter close the account.

7. Park Water Company is authorized to recover the under-collected balance of $17,989 in its Low-Income Customer Data Sharing Cost Memorandum Account for the period ending December 31, 2014, through a 12-month temporary surcharge, and thereafter close the account.

8. Park Water Company is authorized to refund to affected customers the over-collected balance in its Credit Card Balancing Account of approximately $5,183 for the period ending December 31, 2014, and thereafter close the account.

9. A CARW credit for qualifying single family residential customers in the amount of $7.06 per month is approved. This credit may be adjusted at the same time and by the same percentage as rates are adjusted for escalation years 2017 and 2018 by filing a Tier 1 advice letter. Park Water Company is authorized to use its CARW Revenue Reallocation Balancing Account to track the balance of collected surcharges and credits.

10. The monthly CARW surcharge is increased to $7.12. This amount incorporates the $526,141 under-collection in the CARW Revenue Reallocation Balancing Account as of December 31, 2014; thus there is no need for Park Water Company to file a separate advice letter to recover this under-collection. This surcharge, less the amount collected to recover the under-collected balance as of December 31, 2014, may be adjusted at the same time and by the same percentage as rates are adjusted for escalation years 2017 and 2018 by filing a Tier 1 advice letter. Park's request to establish a Sales Reconciliation Mechanism is denied.

11. Park's request to establish a Perchlorate Memorandum Account is denied. In the event Park finds it necessary to incur specific and quantifiable costs directly resulting from a new water quality standard being set, and before any such costs are incurred, Park may file a petition to modify this Decision in that regard, or file a new application to establish such an account.

12. Application 15-01-001 is closed.

This order is effective today.

Dated January 14, 2016, at San Francisco, California.

MICHAEL PICKER
President
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
CARLA J. PETERMAN
LIANE M. RANDOLPH
Commissioners

EXHIBIT A

SETTLEMENT AGREEMENT BETWEEN PARK WATER COMPANY AND THE OFFICE OF RATEPAYER ADVOCATES

FILED
8-14-15
04:59 PM

EXHIBIT A

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of Park Water Company (U 314 W) for Authority to Increase Rates Charged for Water Service by $2,918,800 or 8.72% in 2016, $2,422,093 or 6.63% in 2017, and $1,598,099 or 4.08% in 2018.	)	APPLICATION NO. 15-01-001

SETTLEMENT AGREEMENT BETWEEN PARK
WATER COMPANY AND THE OFFICE OF RATEPAYER ADVOCATES

Joseph P. Como
Acting Director
Office of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2381
Fax: (415) 703-1758
E-mail: joc@cpuc.ca.gov

Edward N. Jackson
Director of Revenue Requirements
Park Water Company
9750 Washburn Road
P. O. Box 7002
Downey, CA 90241
Phone: (562) 923-0711
Fax: (562) 861-5902
E-mail: ed.jackson@parkwater.com

August 14, 2015

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of Park Water Company (U 314 W) for Authority to Increase Rates Charged for Water Service by $2,918,800 or 8.72% in 2016, $2,422,093 or 6.63% in 2017, and $1,598,099 or 4.08% in 2018.	)	APPLICATION NO. 15-01-001

SETTLEMENT AGREEMENT

I. GENERAL PROVISIONS

1.1 This Settlement Agreement ("Settlement") is entered into by and between Park Water Company ("Park") and the Office of Ratepayer Advocates ("ORA") of the California Public Utilities Commission ("Commission"). Park and ORA are referred to jointly herein as the "Parties" or singularly as a "Party."

1.2 This Settlement shall become effective and binding on the Parties as of the date it is fully executed by all Parties ("Effective Date"). The Settlement will not, however, resolve the issues before the Commission in Application 15-01-001 unless, and until, it is adopted by the Commission.

1.3 This Settlement resolves all of the outstanding issues raised by ORA that are currently before the Commission in Application 15-01-001, except for the following issues, which the Parties litigated in hearings before the Commission: (1) the level of the California Alternative Rates for Water ("CARW) Service Charge Discount and the CARW Surcharge proposed by Park; (2) the Sales Reconciliation Mechanism; and (3) the Perchlorate Memorandum Account. The unresolved issues are identified in the Parties' Briefs as Low-Income Assistance Program (CARW), Sales Reconciliation Mechanism, and Perchlorate Memorandum Account.

1.4 The Parties agree that (except as otherwise stated herein) the Parties' adoption of this Settlement should not be construed as an admission or waiver by any Party regarding any fact, matter of law, or issue thereof that pertains to the subject of this Settlement. In accordance with the Commission's Rules of Practice and Procedure ("Rule") 12.5, the Parties intend that the

Commission's adoption of this Settlement be binding on each Party, including its legal successors, predecessors, assigns, partners, joint ventures, shareholders, members, representatives, agents, attorneys, parent or subsidiary companies, affiliates, officers, directors, and/or employees. Adoption of this Settlement does not constitute approval of, or establish precedent regarding, any principle in any future proceeding. Nor does adoption of this Settlement bind any Party with respect to a future proceeding except with respect to the terms and conditions set forth herein, including as provided in Sections 1.19 and 1.22.

1.5 The Parties agree that no Party to this Settlement, or any Parties' legal successors, predecessors, assigns, partners, joint ventures, shareholders, members, representatives, agents, attorneys, parent or subsidiary companies, affiliates, officers, directors, and/or employees thereof, assumes any personal liability as a result of this Settlement.

1.6 The Parties agree that the Commission has primary jurisdiction over any interpretation, enforcement, or remedy pertaining to this Settlement. No Party may bring an action pertaining to this Settlement in any local, State, or Federal court, or administrative agency, without having first exhausted its administrative remedies at the Commission.

1.7 If any Party fails to perform its respective obligations under this Settlement, the other Party may come before the Commission to pursue any applicable remedy, including enforcement.

1.8 The Parties agree that this Settlement is an integrated agreement and the provisions of the Settlement are not severable. Therefore, if the Commission rejects, conditions, or purports to modify any term or portion of this Settlement, the Parties shall convene a conference within fifteen (15) days thereof and engage in good faith negotiations to determine whether some or all of the remainder of the Settlement is acceptable to the Parties. In the event an agreement is reached, all Parties must consent in writing to any changes or the Settlement is void. If the Parties cannot agree to resolve any issue raised by the Commission's actions within thirty (30) days of their conference, this Settlement shall be deemed to be rescinded, the Parties shall be released from any obligation, representation, or condition set forth in this Settlement, including their obligation to support this Settlement, and the Parties shall be restored to their positions prior to having entered into this Settlement. Following any rescission of this Settlement, the Parties may pursue any action they deem appropriate.

1.9 The Parties acknowledge and stipulate that they are agreeing to this Settlement freely,

voluntarily, and without any fraud, duress, or undue influence by any other Party. Each Party hereby states that it has read and fully understands its rights, privileges, and duties under this Settlement, including each Party's right to discuss this Settlement with its legal counsel, and has exercised those rights, privileges, and duties to the extent deemed necessary.

1.10 The Parties have determined that this Settlement is in their best interests, and more cost-effective than undertaking the expenses, delays, and uncertainties of further litigation. In executing this Settlement, each Party declares that the terms and conditions herein are reasonable, consistent with the law, and in the public interest. Therefore, the Parties jointly request that the Commission accept and adopt this Settlement in its entirety and without modification or condition, as reasonable, consistent with the law, and in the public interest.

1.11 The Parties agree that, on or before August 14, 2015, they will jointly file this Settlement for Commission approval by joint motion under Commission Rule 12.1(a). In their joint motion, the Parties will ask that the Commission expeditiously consider and approve this Settlement in its entirety and without condition or modification.

1.12 The Parties agree to support this Settlement and use their best efforts to secure the Commission's approval of this Settlement in its entirety and without condition or modification.

1.13 The Parties agree to defend this Settlement and its implementation before the Commission if the Commission's adoption or implementation of this Settlement is opposed by anyone else.

1.14 Each Party hereto agrees without further consideration to execute and deliver such other documents and take such other actions as may be necessary to achieve the purposes of this Settlement, including, without limitation, furnishing such additional information, documents, and/or testimony as the Commission may require (with due regard for confidentiality) in issuing an order adopting this Settlement.

1.15 The Parties acknowledge and agree that this Settlement has been jointly negotiated and drafted. The language of this Settlement shall be construed as a whole according to its fair meaning and not in favor of or against any Party.

1.16 This Settlement constitutes the entire agreement and understanding between the Parties as to the subject of this Settlement, and supersedes any prior agreements, commitments, representations, or discussions between the Parties.

1.17 This Settlement may not be amended or modified without the express written and signed

consent of each Party hereto.

1.18 No Party has relied or relies upon any statement, promise, or representation by any other Party, except as specifically set forth in this Settlement. Each Party expressly assumes the risk of any mistake of law or fact made by such Party or its authorized representative.

1.19 This Settlement and each covenant and condition set forth herein shall be binding upon the respective Parties hereto.

1.20 This Settlement may be executed in counterparts by each Party hereto with the same effect as if all Parties had signed one and the same document. Any such counterpart shall be deemed to be an original and shall together constitute one and the same Settlement.

1.21 This Settlement is comprised of this Settlement document itself and the Parties' Joint Comparison Exhibit.

1.22 Each Party to this Settlement represents that his or her signature to this Settlement binds his or her respective Party to the terms of this Settlement.

1.23 This Settlement shall be governed by the laws of the State of California as to all matters, including validity, construction, effect, performance, and remedy.

II. FACTUAL BACKGROUND

2.1 Park, a California corporation, is a Class A Public Utility Water Company regulated by the Commission providing regulated water service in and surrounding the cities of Artesia, Bellflower, Norwalk, Compton, Lynwood and Santa Fe Springs in Los Angeles County, California. Park's office is located in Downey, California. Park has three separate "systems" – the Bellflower/Norwalk, Lynwood/Rancho Dominguez, and Compton/Willowbrook systems, which together comprise its Central Basin Division.

2.2 On January 2, 2015, Park filed a General Rate Case ("GRC") Application ("Application") requesting authority to increase its rates by $2,918,800 or 8.72% in 2016; $2,422,093 or 6.63% in 2017; and $1,598,099 or 4.08% in 2018. Concurrent with the filing of the Application, Park supported its Application with prepared testimony and exhibits, its Revenue Requirements Report for Test Year 2016, its General Office Report for Test Year 2016, its Urban Water Management Report, and Minimum Data Requirements ("MDR"), all of which were served on January 2, 2015. ORA filed a timely protest to the application on February 5, 2015, and Park

filed a timely response.

2.3 A prehearing conference was held on March 25, 2015 before Administrative Law Judge ("ALJ") Dan H. Burcham. On April 10, 2015, the Commission issued the Scoping Memo and Ruling in this proceeding. The Commission held a Public Participation Hearing on April 29, 2015, at the Bellflower City Hall Council Chambers in Bellflower, California. On May 6, 2015, ORA served its Report on the Results of Operations. On May 22, 2015, Park served its rebuttal testimony.

2.4 The Parties engaged in extensive settlement negotiations beginning on May 28, 2015. As a result of those negotiations, which continued through June 8, 2015, including a mediation with ALJ Katherine MacDonald, ORA and Park reached a settlement on most of the issues raised in ORA's Report and agreed upon the terms and conditions comprising the Settlement, set forth below.

2.5 Evidentiary hearings on the unresolved issues were held on June 9, 2015. At the hearings, Park's and ORA's testimony and reports were marked as exhibits and entered into the record. On July 13, 2015, Park filed its Motion for Interim Rates, which remains pending. On the same day, the Parties filed their respective Opening Briefs on the three unsettled issues. On August 4, 2015, the Parties filed their respective Reply Briefs. Accordingly, all briefing has been completed at this time.

III. TERMS AND CONDITIONS OF THE SETTLEMENT

3.0 WATER CONSUMPTION AND REVENUES

3.1 Number of Customers

PARK WATER REQUEST:

In accordance with the Rate Case Plan (D.04-06-018), Park forecasted customer growth based on a five-year historical average for all customer classes. In instances where the calculated average was negative, zero growth was assumed.

ORA POSITION:

ORA agrees with Park's method of forecasting customers using a five-year average of the change in the number of customers by customer class as directed in the Rate Case Plan.

RESOLUTION:

ORA and Park agree on the number of customers, as set forth in the tables below.

Test Year 2016

Average Number of Customers	Park Original	ORA Original	Difference	Settlement
Residential (Bi-Monthly)	25,239	25,239	0	25,239
Business (Bi-Monthly)	1,645	1,645	0	1,645
Business (Monthly)	49	49	0	49
Industrial (Bi-Monthly)	3	3	0	3
Industrial (Monthly)	2	2	0	2
Public Authority (Bi-Monthly/Monthly)	199	199	0	199
Private Fire Service (Bi-Monthly)	64	64	0	64
Private Fire Service (Monthly)	130	130	0	130
Fire Hydrant (Bi-Monthly)	11	11	0	11
Temporary (Bi-Monthly)	0	0	0	0
Temporary (Monthly)	13	13	0	13
Irrigation-Reclaimed (Monthly)	25	25	0	25
Total Metered Customers	27,380	27,380	0	27,380

Escalation Year 2017

Average Number of Customers	Park Original	ORA Original	Difference	Settlement
Residential (Bi-Monthly)	25,275	25,275	0	25,275
Business (Bi-Monthly)	1,645	1,645	0	1,645
Business (Monthly)	51	51	0	51
Industrial (Bi-Monthly)	3	3	0	3
Industrial (Monthly)	2	2	0	2
Public Authority (Bi-Monthly/Monthly)	200	200	0	200
Private Fire Service (Bi-Monthly)	64	64	0	64
Private Fire Service (Monthly)	133	133	0	133
Fire Hydrant (Bi-Monthly)	11	11	0	11
Temporary (Bi-Monthly)	0	0	0	0
Temporary (Monthly)	14	14	0	14
Irrigation-Reclaimed (Monthly)	25	25	0	25

Average Number of Customers	Park Original	ORA Original	Difference	Settlement
Total Metered Customers	27,423	27,423	0	27,423

Escalation Year 2018

Average Number of Customers	Park Original	ORA Original	Difference	Settlement
Residential (Bi-Monthly)	25,311	25,311	0	25,311
Business (Bi-Monthly)	1,645	1,645	0	1,645
Business (Monthly)	53	53	0	53
Industrial (Bi-Monthly)	3	3	0	3
Industrial (Monthly)	2	2	0	2
Public Authority (Bi-Monthly/Monthly)	201	201	0	201
Private Fire Service (Bi-Monthly)	64	64	0	64
Private Fire Service (Monthly)	136	136	0	136
Fire Hydrant (Bi-Monthly)	11	11	0	11
Temporary (Bi-Monthly)	0	0	0	0
Temporary (Monthly)	15	15	0	15
Irrigation-Reclaimed (Monthly)	25	25	0	25
Total Metered Customers	27,466	27,466	0	27,466

REFERENCES: Park Exh. P-1, Ch. 3, Table III-1; ORA Exh. O-1, Ch. 2, Table 2-2.

3.2 Consumption Per Customer

PARK WATER REQUEST:

For the Residential, Business and Irrigation-Reclaimed customer classes, Park forecasted sales based on the 2013 recorded consumption per customer with an annual decrease of 1.5% because the New Committee Method sales forecasting methodology overstated the effects of the drastic drop in unit consumption that occurred between 2007 - 2011. For the Industrial and Private Fire Service customer classes, Park forecasted sales based on a recorded three-year average (2011-2013) of total sales. For Public Authority customers, Park forecasted sales based on recorded 2013 total sales. For Temporary Construction customers, Park forecasted sales based on the five-year average (2009-2013) of total sales.

ORA POSITION:

With the exception of the Residential, Business, and Irrigation-Reclaimed customer classes, ORA finds the estimates proposed by Park to be reasonable based on the circumstances presented in this case and recommends the Commission adopt Park's estimates of water sales per customer. For the Residential, Business and Reclaimed-Irrigation customer classes, ORA recommends using the recorded 2014 unit consumption.

RESOLUTION:

The Parties agree that the Basic Procedure of the New Committee Method as outlined in the Rate Case Plan for Class A water utilities should not be used for the Residential and Business customers in this GRC because the methodology provides results that are unreasonably lower than current unit consumption levels. The Parties agree to use Park's estimates for the Industrial, Private Fire, Public Authority, and Temporary Construction customer classes. The Parties agree to use ORA's estimates for the Residential, Business, and Irrigation-Reclaimed customer classes. The Parties agree to the customer unit consumption as set forth in the table below.

Test Year 2016 and Escalation Years 2017 and 2018

Consumption per Customer (Ccf)	Park Original	ORA Original	Difference	Settlement
Residential (Bi-Monthly)	127.76	126.57	(1.19)	126.57
Business (Bi-Monthly)	511.04	511.61	0.57	511.61
Business (Monthly)	6,284.12	5,767.65	(516.47)	5,767.65
Industrial (Bi-Monthly)	5,353.00	5,353.00	0.00	5,353.00
Industrial (Monthly)	10,817.17	10,817.17	0.00	10,817.17
Public Authority (Bi-Monthly/Monthly)	1,445.88	1,445.88	0.00	1,445.88
Private Fire Service (Bi-Monthly)	2.82	2.82	0.00	2.82
Private Fire Service (Monthly)	11.60	11.60	0.00	11.60
Fire Hydrant (Bi-Monthly)	0.00	0.00	0.00	0.00
Temporary (Bi-Monthly)	0	0	0	0
Temporary (Monthly)	1,372.22	1,372.22	0.00	1,372.22
Irrigation-Reclaimed (Monthly)	5,503.20	5,316.68	(186.52)	5,316.68

REFERENCES: Park Exh. P-1, Ch. 3, Table III-3; ORA Exh. O-1, Ch. 2, Table 2-3.

3.3 Unaccounted for Water

PARK WATER REQUEST:

Park requests unaccounted for water of 3.86% based on the latest information available at the time Park's application was prepared.

ORA POSITION:

ORA recommends unaccounted for water of 1.55% based on the recorded 2014 data.

RESOLUTION:

ORA and Park agree that, while Park's unaccounted for water has decreased from Park's previous GRC, the annual unaccounted for water continues to vary slightly each year. Based on further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to use unaccounted for water estimate of 2.50% as set forth in the tables below.

Unaccounted For Water

	Park Original	ORA Original	Difference	Settlement
Test Year 2016	3.86%	1.55%	(2.31%)	2.50%
Escalation Year 2017	3.86%	1.55%	(2.31%)	2.50%
Escalation Year 2018	3.86%	1.55%	(2.31%)	2.50%

REFERENCES: Park Exh. P-1, p. 12, 60; ORA Exh. O-1, Ch. 2, p. 2-6.

3.4 Total Water Supply

PARK WATER REQUEST:

The total water supply represents the sum of water sales and unaccounted for water.

ORA RECOMMENDATION:

ORA finds Park's methodology of total water supply to be reasonable. The original differences between Park's and ORA's estimates resulted from different estimates of consumption per customer and unaccounted for water.

RESOLUTION:

With the resolution of consumption per customer (Section 3.2) and unaccounted for water (Section 3.3), there is no difference in the total water supply. The Parties agree on the total water supply as set forth in the tables below.

Test Year 2016

Total Water Supply (Ccf)	Park Original	ORA Original	Difference	Settlement
Residential (Bi-Monthly)	3,224,514	3,194,441	(30,073)	3,194,441
Business (Bi-Monthly)	840,655	841,601	946	841,601
Business (Monthly)	307,922	282,615	(25,307)	282,615
Industrial (Bi-Monthly)	16,059	16,059	0	16,059
Industrial (Monthly)	21,634	21,634	0	21,634
Public Authority (Bi-Monthly/Monthly)	287,729	287,729	0	287,729
Private Fire Service (Bi-Monthly)	180	180	0	180
Private Fire Service (Monthly)	1,509	1,509	0	1,509
Fire Hydrant (Bi-Monthly)	0	0	0	0
Temporary (Bi-Monthly)	0	0	0	0
Temporary (Monthly)	17,839	17,839	0	17,839
Irrigation-Reclaimed (Monthly)	137,580	132,917	(4,663)	132,917
TOTAL	4,855,621	4,796,524	(59,097)	4,796,524

Escalation Year 2017

Total Water Supply (Ccf)	Park Original	ORA Original	Difference	Settlement
Residential (Bi-Monthly)	3,229,113	3,198,997	(30,116)	3,198,997
Business (Bi-Monthly)	840,655	841,601	946	841,601
Business (Monthly)	320,490	294,150	(26,340)	294,150
Industrial (Bi-Monthly)	16,059	16,059	0	16,059
Industrial (Monthly)	21,634	21,634	0	21,634
Public Authority (Bi-Monthly/Monthly)	289,175	289,175	0	289,175
Private Fire Service (Bi-Monthly)	180	180	0	180
Private Fire Service (Monthly)	1,543	1,543	0	1,543

Fire Hydrant (Bi-Monthly)	0	0	0	0
Temporary (Bi-Monthly)	0	0	0	0
Temporary (Monthly)	19,211	19,211	0	19,211
Irrigation-Reclaimed (Monthly)	137,580	132,917	(4,663)	132,917
TOTAL	4,875,641	4,815,469	(60,172)	4,815,469

Escalation Year 2018

Total Water Supply (Ccf)	**Park Original**	**ORA Original**	**Difference**	**Settlement**
Residential (Bi-Monthly)	3,233,712	3,203,554	(30,158)	3,203,554
Business (Bi-Monthly)	840,655	841,601	946	841,601
Business (Monthly)	333,059	305,686	(27,373)	305,686
Industrial (Bi-Monthly)	16,059	16,059	0	16,059
Industrial (Monthly)	21,634	21,634	0	21,634
Public Authority (Bi-Monthly/Monthly)	290,621	290,621	0	290,621
Private Fire Service (Bi-Monthly)	180	180	0	180
Private Fire Service (Monthly)	1,578	1,578	0	1,578
Fire Hydrant (Bi-Monthly)	0	0	0	0
Temporary (Bi-Monthly)	0	0	0	0
Temporary (Monthly)	20,583	20,583	0	20,583
Irrigation-Reclaimed (Monthly)	137,580	132,917	(4,663)	132,917
TOTAL	4,895,662	4,834,414	(61,248)	4,834,414

REFERENCES: Park Exh. P-1, Ch. 3, Table III-2; ORA Exh. O-1, Ch. 2, Table 2-4.

3.5 Present Rate Revenues

PARK WATER REQUEST:

Revenue at present rates consists of Operating Revenue and Miscellaneous Revenue. Operating Revenue consists of Service Charge Revenue and Commodity Charge Revenue. Service Charge Revenue is based on the number of customers multiplied by the appropriate tariff and Commodity Charge Revenue is calculated by multiplying the number of customers by their applicable water use and appropriate tariff. Miscellaneous Revenue consists of revenues from Late Fees, Reconnection Fees and other charges, and the portion of revenues allocated to ratepayers from Non-Tariffed Products and Services (NTPS) activities.

ORA POSITION:

ORA finds Park's methodology for calculation of present rate revenues derived from Operating Revenue to be reasonable and recommends that Commission adopt Park's estimate of operating revenues at present rates. As discussed in Section 13 below, ORA took issue with Park's estimates of Miscellaneous Revenue.

RESOLUTION:

The issues associated with Miscellaneous Revenue have been resolved as discussed in Section 13. With that resolution and the resolution of the consumption per customer (Section 3.2) and the resultant change in total water supply (Section 3.4) the Parties agree on the present rate revenues as set forth in table below.

Test Year 2016

Metered Revenues ($)	Park Original	ORA Original	Difference	Settlement
Residential (Bi-Monthly)	$22,595,192	$22,442,210	($152,982)	$22,442,210
Business (Bi-Monthly)	$5,532,925	$5,537,807	$4,882	$5,537,807
Business (Monthly)	$1,852,372	$1,721,787	($130,585)	$1,721,787
Industrial (Bi-Monthly)	$93,783	$93,783	0	$93,783
Industrial (Monthly)	$121,339	$121,339	0	$121,339
Public Authority (Bi-Monthly/Monthly)	$1,921,691	$1,921,691	0	$1,921,691
Private Fire Service (Bi-Monthly)	$53,992	$53,992	0	$53,992
Private Fire Service (Monthly)	$120,425	$120,425	0	$120,425
Fire Hydrant (Bi-Monthly)	$7,661	$7,661	0	$7,661
Temporary (Bi-Monthly)	$0	$0	0	$ 0
Temporary (Monthly)	$139,363	$139,363	0	$139,363
Irrigation-Reclaimed (Monthly)	$657,921	$638,472	($19,449)	$638,472
Miscellaneous Revenue	$390,674	$497,631	$106,957	$490,000
Total Revenue	$33,487,338	$33,296,161	($191,177)	$33,288,530

REFERENCES: Park Exh. P-1, Ch. 3, Table III-4; ORA Exh. O-1, Ch. 2, Table 2-1.

4.0 CUSTOMER SERVICE

ORA RECOMMENDATION:

Based upon its review of Park's application and responses to data requests, ORA finds Park's customer service to be acceptable.

PARK WATER RESPONSE:

Park agrees with ORA's findings.

RESOLUTION:

The Parties recommend that the Commission find Park's customer service to be satisfactory.

REFERENCES: Park Exh. P-1, pp. 13 -14; ORA Exh. O-1, Ch. 10.

5.0 OPERATIONS AND MAINTENANCE

5.1 Expense Estimating Methodology

PARK WATER REQUEST:

In general, and in those areas where a five-year average is the most reasonable way of estimating costs, Park's expense estimates were based on a five-year average of recorded expenses (2010 – 2014) escalated to the Test Year. The 2014 data used by Park were partially estimated because that was the most current data available to Park at the time its application was prepared. Park provided ORA with an update of the recorded 2014 data and an updated five-year average of recorded expense (2010 – 2014) from which ORA's estimates are based.

ORA POSITION:

Where ORA's estimates are based on historic amounts or averages that include 2014 data, ORA incorporated the updated recorded year 2014 data.

RESOLUTION:

Park agrees with ORA's use of the updated averages in those areas where Park and ORA otherwise agree on an estimating methodology which makes use of recorded 2014 data. The Parties agree to use the updated information for recorded year 2014 where applicable and agree

to the resultant estimate absent other methodological differences.

REFERENCES: Park Exh. P-1, pp. 42 - 51; ORA Exh. O-1, pp. 3-15 – 3-17.

5.2 Escalation Factors

PARK WATER REQUEST:

Park proposed labor escalation factors of 2.0% for 2015 and 2.0% for Test Year 2016. Park proposed non-labor escalation factors of 3.0% for 2015 and 3.0% for Test Year 2016.

ORA POSITION:

ORA proposed the use of the most current memorandum published by ORA's Energy Cost of Service Branch ("ECSB") available at the time the Joint Comparison Exhibit is prepared. ORA highlighted Park's deviation from what ORA believes to be a GRC practice of using the escalation memos. Rather than utilizing a memo that would ultimately be updated, ORA accepted Park's non-labor escalation factor of 3% as a placeholder. For labor escalation, ORA used the 5-year recorded average (2010 – 2014) of Park's labor escalation factor as an interim proxy. Mathematically, the labor escalation factor of 1.44% was modeled for 2015 and 2016. ORA utilized these proxies in order to focus on differences that were not attributable to the application of different escalation factors.

RESOLUTION:

After further discussions and settlement negotiations, the Parties agree to use a labor escalation factor of 1.4% for 2015 and 2.0% for Test Year 2016. For non-labor escalation, the Parties agree to use the latest ORA ECSB memorandum, which is the April 14, 2015 memorandum. The Parties agree to use composite escalation factors of 0.32% for 2015 and 2.48% for Test Year 2016 based on the 60/40 weighting of the Non-Labor Index and the Compensation Per Hour Index as provided by ORA's ECSB memorandum.

Year 2015

	Park Original	ORA Original*	Difference	Settlement
Labor	2.0%	1.44%	(0.56%)	1.4%
Composite	3.0%	3.0%	N/A	0.32%

Test Year 2016

	Park Original	ORA Original*	Difference	Settlement
Labor	2.0%	1.44%	(0.56%)	2.0%
Composite	3.0%	3.0%	N/A	2.48%

* ORA is not supporting a 3% non-labor factor; it is using it as a placeholder until the ECSB factor is determined.

REFERENCES: Park Exh. P-1, pp. 42-43, 51; ORA Exh. O-1, pp. 3-3 – 3-7.

5.3 O&M Payroll Expense

PARK WATER REQUEST:

Park's payroll estimate for 2015 is based on employees' hourly rates in effect at the end of 2014 with the estimated 2015 COLA increase of 2.0% and merit increase of 1.0% and promotional salary adjustments to be granted plus overtime during 2015. The payroll estimate for Test Year 2016 is similarly estimated beginning with the hourly rates expected at the end of year 2015, estimated 2016 COLA increase of 2.0% and merit of 1.0% and promotional salary adjustments to be granted plus overtime during 2016. For the Test Year 2016 payroll expense, Park has included the costs associated with the proposed position of Water Quality/Operations Engineer and Excellence Awards of $21,768 (based on a five-year escalated average, 2010 – 2014).

ORA POSITION:

ORA accepts Park's methodology to estimate the payroll expense but proposes adjustments to the result. First, ORA proposes a 1.22% merit percentage increase based upon historical information and zero allowance for excellence awards because ORA believed documentation was inadequate. ORA also recommends disallowance of the costs associated with the position of Water Quality/Operations Engineer. ORA further recommends a downward salary adjustment of $44,587, from $97,989 to $53,402, for the position of Production Technician based on ORA's interpretation of the same position authorized by the Commission in D.13-09-005. Lastly, ORA recommends an overall vacancy adjustment (4.66% reduction) of the total payroll expense based upon historical data.

RESOLUTION:

Based on further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to the payroll costs set forth in the tables below. The Parties agree to include Excellence Awards as requested in Park's Application. The Parties agree that the position of Water Quality/Operations Engineer is necessary and should be authorized. For the position of Production Technician, the Parties agree to a total salary of $81,684 (including overtime and standby pay) for Test Year 2016. The Parties further agree that ORA's proposed 4.66% vacancy adjustment to the total overall payroll expense is overstated for Park and the Parties agree to address the vacancy adjustment issue with a downward adjustment of $22,000 to the temporary labor expense account, rather than an adjustment to payroll expense. The Parties agree to calculate payroll for 2015 using Park's recorded 2015 COLA increase (1.4%) and merit adjustment (1.5%). For 2016 the Parties agree to a COLA increase of 2%, based on the agreed-upon labor escalation factor, and merit adjustment of 0.9%. The Parties agree that payroll expense for Escalation Years 2017 and 2018 will be calculated pursuant to the Escalation Year methodology in the Rate Case Plan (D.04-06-018).

Test Year 2016	Park Original	ORA Original	Difference	Settlement
Payroll Operations	$1,232,821	$1,026,641	($206,180)	$1,217,235
Payroll Customers	$790,167	$748,000	($42,167)	$788,851
Payroll Maintenance	$421,078	$376,239	($44,839)	$420,463
Payroll Clearings	$ 157,695	$149,345	($8,350)	$157,452
Total O & M Payroll	$2,601,761	$2,300,225	($301,536)	$2,584,001

REFERENCES: Park Exh. P-1, pp. 40-42, 51; Park Exh. P-7, pp. 2-7, Appendix A; Park Exh. P-8, pp. 4–5; Park Exh. P-10, pp. 5-11, Park Exh. P-13, pp. 2-7, ORA Exh. O-1, pp. 3-4 – 3-9, 4-3, 4-4.

5.4 Purchased Water-Potable

PARK WATER REQUEST:

Park requests $7,628,298 for Test Year 2016 in purchased water-potable expense based on its projections of total water supply less projected groundwater pumping and based on the current rate of $1,062 per acre-foot. Park's estimated total groundwater pumping assumes that Park's

request for new wells and purchase of groundwater pumping rights are authorized by the Commission.

Park purchases water from Central Basin Municipal Water District. Central Basin Municipal Water District ("CBMWD") charges minimum flow violations when the flow through any Metropolitan connection falls below 10 percent; CBMWD charges Park as though the full 10 percent was delivered. Park makes every effort to keep this penalty charge to a minimum but about 42 acre-feet is charged due to unavoidable operational conditions, which is the basis of Park's request of $50,976 for the potable water expenses due to minimum flows.

ORA POSITION:

ORA finds Park's purchased water-potable estimating methodology reasonable. However, ORA's calculation of purchased water contained calculation errors. Part of the differences in the Parties' original estimates was due to the Parties' different estimates of total production, which resulted from the difference in consumption per customer (Section 3.2), unaccounted for water (Section 3.3), and calculation errors.

RESOLUTION:

The Parties agree to use the same methodology used in Park's Application to estimate the purchased water-potable. With the resolution of the issues of consumption per customer (Section 3.2), unaccounted for water (Section 3.3), total water supply (Section 3.3), the Compton-East well (Section 9.7), and the correction of errors, the Parties agree to the purchased water-potable costs as set forth in the tables below. The agreed-upon estimate for purchased water potable expense for 2018 is higher than the original estimates of either party and reflects a greater amount of purchased water, not reflected in either party's estimate, due to elimination of increased groundwater use resulting from the agreement to defer the Compton-East well.

Test Year 2016

Purchased Water-Potable	Park Original	ORA Original	Difference	Settlement
Usage Cost	$7,504,535	$7,417,719	($86,816)	$7,201,092
Monthly Service Charge	$62,100	$62,100	$0	$62,100
Monthly Capacity Charge	$10,687	$10,687	$0	$10,687

Min Flow Violation	$50,976	$50,976	$0	$50,976
Total	$7,628,298	$7,541,481	($86,816)	$7,324,855

Escalation Year 2017

Purchased Water-Potable	Park Original	ORA Original	Difference	Settlement
Usage Cost	$6,918,107	$6,827,434	($90,673)	$6,611,264
Monthly Service Charge	$62,100	$62,100	$0	$62,100
Monthly Capacity Charge	$10,687	$10,687	$0	$10,687
Min Flow Violation	$50,976	$50,976	$0	$50,976
Total	$7,041,870	$6,951,197	($90,673)	$6,735,026

Escalation Year 2018

Purchased Water-Potable	Park Original	ORA Original	Difference	Settlement
Usage Cost	$5,906,879	$5,812,349	($94,530)	$6,446,235
Monthly Service Charge	$62,100	$62,100	$0	$62,100
Monthly Capacity Charge	$10,687	$10,687	$0	$10,687
Min Flow Violation	$50,976	$50,976	$0	$50,976
Total	$6,030,642	$5,936,112	($94,530)	$6,569,998

REFERENCE: Park Exh. P-1, p. 48, Park Exh. P-8, pp. 5-6; ORA Exh. O-1, pp. 2-6, 3-10.

5.5 Purchased Water – Reclaimed

PARK WATER REQUEST:

Park requests $190,299 in purchased water-reclaimed for Test Year 2016 based on the total water supply of 149,091 Ccf and the current rate of $556 per acre-foot.

ORA POSITION:

ORA recommends $169,655 in purchased water- reclaimed for Test Year 2016 based on the total water supply of 132,917 Ccf and the current rate of $556 per acre-foot.

RESOLUTION:

With the resolution of the issue of consumption per customer (Section 3.2) Park agrees to use the amount recommended in ORA's Report. ORA and Park agree on purchased water-reclaimed, as set forth in the table below.

Test Year 2016, Escalation Years 2017 & 2018

	Park Original	ORA Original	Difference	Settlement
Purchased Water-Reclaimed	$190,299	$169,655	($20,644)	$169,655

REFERENCE: Park Exh. P-1, p. 48, Park Exh. P-8, pp. 5-6; ORA Exh. O-1, pp. 3-9 – 3-10.

5.6 Purchased Power

PARK WATER REQUEST:

Park requests $396,004 for Test Year 2016 in purchased power expense based on pumping of 4,200 acre-feet in Test Year 2016 and the unit cost of pumping based on a three-year average (2011 – 2013) of kilowatt hour per cubic foot pumped for each well and booster pump. Park's proposal to increase groundwater pumping to 4,800 acre-feet for Escalation Year 2017 and 5,800 acre-feet for 2018 assumes that Park's request for new wells and purchase of groundwater pumping water rights are authorized by the Commission.

ORA POSITION:

ORA finds Park's purchased power estimating methodology reasonable and recommends that the Commission adopt Park's estimated purchased power expense.

RESOLUTION:

The Parties agree that the purchase power expense should be calculated consistent with the resolution of the total water supply (Section 3.5) and capital projects (Section 9). ORA and Park agree to groundwater pumping of 4,200, 4,800, and 5,000 acre-feet for Test Year 2016 and Escalation Years 2017 and 2018, respectively. The Parties agree on purchased power as set forth below.

Purchased Power

	Park Original	ORA Original	Difference	Settlement
Test Year 2016	$396,004	$396,004	$0	$396,004
Escalation Year 2017	$431,631	$431,631	$0	$431,631
Escalation Year 2018	$491,008	$491,008	$0	$443,506

REFERENCE: Park Exh. P-1, pp. 49-51, Park Exh. P-8, p. 6, ORA Exh. O-1, p. 3-10.

5.7 Replenishment Assessment

PARK WATER REQUEST:

Park requests $1,127,009 in replenishment assessments (pumped taxes) for Test Year 2016 based on Park's proposed ground water pumping of 4,800 acre-feet in Test Year 2016 and based on the current rate of $268 per acre-foot. Park's proposal to increase groundwater pumping to 4,800 acre-feet for Escalation Year 2017 and 5,800 acre-feet for 2018 assumes that Park's request for new wells, reservoir, and groundwater pumping rights are authorized by the Commission.

ORA POSITION:

ORA finds Park's replenishment assessment estimates reasonable and recommends that the Commission adopt Park's estimates of replenishment assessment.

RESOLUTION:

The Parties agree that the replenishment assessment expense should be calculated consistent with the resolution of the total water supply (Section 3.5) and capital projects (Section 9). The Parties agree on the replenishment assessment as set forth below.

Replenishment Assessment

	Park Original	ORA Original	Difference	Settlement
Test Year 2016	$1,127,009	$1,127,009	$0	$1,127,009
Escalation Year 2017	$1,287,809	$1,287,809	$0	$1,287,809
Escalation Year 2018	$1,555,809	$1,555,809	$0	$1,341,409

REFERENCE: Park Exh. P-1, pp. 48-51, Park Exh. P-8, p. 7, ORA Exh. O-1, p. 3-10.

5.8 Leased Water Rights

PARK WATER REQUEST:

Park requests $554,130 in leased water rights for Test Year 2016 based on Park's proposed ground water pumping of 4,200 acre-feet, less the total projected ground water pumping rights of 827.3 acre-feet, and based on the projected average lease rate of $164.30. Park's proposal to increase groundwater pumping to 4,800 acre-feet for Escalation Year 2017 and 5,800 acre-feet for Escalation Year 2018 assumes that Park's request for new wells, reservoir, and purchase of

new groundwater pumping rights are authorized by the Commission. Park proposes total groundwater pumping rights of 889.8 acre-feet for Escalation Year 2017 and 2018. Park projected average leased water rights rate of $190.52/AF and $225.36/AF for Escalation Years 2017 and 2018, respectively.

ORA POSITION:

ORA agrees with Park's proposed groundwater pumping of 4,200, 4,800, and 5,800 acre-feet for Test Year 2016, and Escalation Years 2017 and 2018, respectively. ORA also agrees with Park's estimated groundwater pumping rights of 827.3 acre-feet for Test Year 2016 and 889.8 acre-feet for Escalation Years 2017 and 2018. However, ORA disagrees with Park's average leased water rate projections. ORA recommends average leased water rights rate of $146.88 for Test Year 2016, $155.55 for Escalation Year 2017, and $167.02 for Escalation Year 2018.

RESOLUTION:

The Parties agree that the Leased Water Rights expense should be calculated consistent with the resolution of the total water supply (Section 3.5) and capital projects (Section 9). ORA and Park agree to groundwater pumping of 4,200, 4,800, and 5,000 acre-feet for Test Year 2016, and Escalation Years 2017 and 2018, respectively; groundwater pumping rights of 764.8 acre-feet for Test Year 2016 and 796.1 acre-feet for Escalation Years 2017 and 2018, respectively; average leased water rights rate of $163.68, $186.78, and $214.75 for Test Year 2016, Escalation Year 2017, and Escalation Year 2018, respectively. The Parties agree on Leased Water Right expense as set forth below.

Leased Water Rights

	Park Original	ORA Original	Difference	Settlement
Test Year 2016	$554,130	$495,370	($58,760)	$562,277
Escalation Year 2017	$744,990	$608,251	($136,739)	$747,872
Escalation Year 2018	$881,219	$653,097	($228,122)	$859,864

REFERENCE: Park Exh. P-1, p. 48-51, Park Exh. P-8, pp. 7-8, ORA Exh. O-1, pp. 3-10 – 3-12.

5.9 Chemicals

PARK WATER REQUEST:

Park requests chemicals expense of $88,623 for Test Year 2016 based on the annualized 2014 expense escalated to the Test Year. Park's estimated chemical expense also includes an adjustment for the proposed increase in groundwater pumping.

ORA POSITION:

ORA finds Park's methodology reasonable. There are no methodological differences between ORA's and Park's estimates of chemicals. The original differences between ORA and Park's estimates resulted from ORA's use of the updated recorded information for 2014.

RESOLUTION:

ORA and Park agree on chemicals, as set forth in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Chemicals	$ 88,623	$78,832	($9,791)	$75,646

REFERENCES: Park Exh. P-1 p. 49, ORA Exh. O-1, p. 3-10.

5.10 Operations Other

PARK WATER REQUEST:

Park requests $292,205 for Test Year 2016 for the expense category of Operations – Other based on the five-year average (2010 – 2014) of recorded expenses with the exception of the following accounts, where Park used specific expense estimates to reflect current activity levels: after-hours answering service, Account No. 7717.603; Oth-Pump Op Misc Exp, Account No. 7717.626; Oth-Wtr Tr Op Labor/Exp, Account No. 7717.642; Suppl/Parts-Wtr Sup/Parts-Wtr Tr Op Lb/Ex, Account No. 7762.642; Suppl/Parts-Wtr Tr Misc Exp, Account No. 7762.643; Suppl/Parts-T&D Lines Exp, Account No. 7762.662; and Uniforms, Account No. 7780.

ORA POSITION:

ORA finds Park's methodology reasonable. The original differences between ORA and Park's estimates resulted from ORA's use of the updated recorded information for 2014.

RESOLUTION:

The Parties agree that the other expenses in this expense category are subject to the agreement on the expense estimating methodology (Section 5.1) and escalation factors (Section 5.2) as shown in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Operations-other	$ 292,205	$291,826	($379)	$288,612

REFERENCES: Park Exh. P-1, pp. 43-44.

5.11 Customer Other (excluding conservation)

PARK WATER REQUEST:

Park requests $316,412 for Test Year 2016 for the expense category of Customer – Other based on the five-year average (2010 – 2014) of recorded expenses with the exception of the Customer-Billing & Related (Account No. 7060.1), Other Cust Serv/Info Expense (Account No. 7717.907), Other Inst/GW Advertise (Account No. 7717.9301), Suppl/Parts-Cust Acct Rec/C (Account No. 7762.903), Suppl/Parts-Sales Promotion (Account No. 7762.910), and Collection Agency (Account No. 7810) sub-accounts, where Park used specific expense estimates to reflect current activity levels.

ORA POSITION:

ORA agrees with Park on the majority of the expense sub-accounts in this expense category except for Other Inst/GW Advertise, Suppl/Parts-Sales Promotion, and Collection Agency sub-accounts. For sub-account Other Inst/GW Advertise and Suppl/Parts-Sales Promotion, ORA's estimates were based on a five-year recorded escalated average (2010-2014). For sub-account Collection Agency, ORA based its estimates on the recorded 2014 expense. The original difference between Park's and ORA's estimates resulted from ORA's use of the updated data for

recorded year 2014 (since ORA used Park's escalation factors for comparison purposes).

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to estimates for this category of expense as shown below, which includes the impact of the agreement on the expense estimating methodology (Section 5.1) and escalation factors (Section 5.2).

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Other Inst/GW Advertise	$9,336	$6,254	($3,082)	$7,795
Suppl/Parts-Sales Promotion	$8,240	$1,853	($6,387)	$4,927
Collection Agency	$15,255	$13,671	($1,584)	$14,811
Other	$283,581	$284,435	$854	$253,601
Total Customers Other (excluding conservation)	$316,412	$306,213	($10,199)	$281,134

REFERENCES: Park Exh. P-1, pp. 44-46; ORA Exh. O-1, pp. 3-14 – 3-16.

5.12 Conservation

5.12.1 Budget Request

PARK WATER REQUEST:

Park proposed an increase in its conservation budget as compared to the current authorized amount. Park requests $585,091, $588,519, and $591,490 for Test Year 2016, and Escalation Years 2017 and 2018, respectively, based on its new Water Use Efficiency Plan. Park's request is based on the conservation programs necessary for compliance with Commission Decision 11-05-004 (Conservation OII), the Urban Water Management Planning Act, AB 1420, SBX7-7, the Governor's Drought Emergency Orders, and the Best Management Practices ("BMPs"). As a signatory to the Memorandum of Understanding regarding Urban Water Conservation in California ("MOU"), Park is required to meet the BMPs.

ORA POSITION:

Because Park is currently in compliance with SBX7-7 and the Governor's emergency drought

mandates, ORA recommends $291,128 for Test Year 2016 and recommends that the expense for 2017 and 2018 be subject to the Escalation Year methodology pursuant to the Rate Case Plan.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to the conservation expense budget as shown below. Park agrees with ORA's recommendation for Escalation Years 2017 and 2018.

Test Year 2016

	Park Original	**ORA Original**	**Difference**	**Settlement**
Conservation Expense Budget	$585,091	$291,128	($293,963)	$425,000

R**EFERENCES: Park Exh. P-1, p. 45; Park Exh. P-15; ORA Exh. O-1, pp. 3-12 – 3-14**.

5.12.2 One-Way Balancing Account

After discussions and settlement negotiations, the Parties agree that Park's conservation expenses continue to be subject to a one-way balancing account that tracks actual and authorized conservation expense. The Parties further agree that because conservation costs may not be incurred evenly throughout the rate cycle that the cap will cover the entire rate cycle versus a yearly cap. The cap is $425,000 for Test Year 2016 plus any additional grants that Park is able to secure (securing grants will allow an increase to the cap and additional spending). In the event that Park does not spend the amount of the cap during this rate case cycle, Park would refund to customers any unspent amount in its next rate case.

5.13 Uncollectibles

PARK WATER REQUEST:

Park's estimate is based on a five-year average of recorded uncollectible expense (2009 – 2013). Park applies the rate of 0.57% to Park's total proposed revenue requirement (operating revenues plus miscellaneous revenues) to project its uncollectible expense. The category of Miscellaneous Revenues consists of fire flow fees, reconnection fees, late fees, and Non-Tariffed Products & Services ("NTPS").

ORA POSITION:

ORA applied Park's proposed rate of 0.57% to its proposed operating revenues, rather than total revenues, to project its uncollectible expense. The original differences between Park's and ORA's estimates resulted from different estimates of revenues.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony the Parties agree to recalculate the uncollectible percentage based on revenues excluding the Miscellaneous Revenues. The new uncollectible rate is 0.58% and will be applied to the total revenues less NTPS revenue. The Parties agree to the uncollectible expense as set forth in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Uncollectible Expense	$207,515	$190,494	($17,021)	$203,974

REFERENCES: Park Exh. P-1, p. 48; Park Exh. P-11, pp. 2-4; ORA Exh. O-1, pp. 3-16 – 3-17.

5.14 Maintenance Other

PARK WATER REQUEST:

Park requests $645,117 for Test Year 2016 for the expense category of Maintenance – Other based on the five-year average (2010 – 2014) of recorded expenses with the exception of Paint/Coat-T&D Mt Distrb Reser (Account No. 7716.672), Oth-Wtr Tr Mt Equip (Account No. 7717.652, Oth-T&D Mt Mains (Account No. 7717.673), Oth-T&D Mt Hydrants (Account No. 7717.677, Inventory-T&D Mt Mains (Account 7761.673), Inventory-T&D Mt Hydrants (Account No. 7761.677), Suppl/Parts-T&D Mt Hydrants (Account No. 7762.677), and Gen'l Plant-PR Burden (Account No. 8805.2), where Park used specific expense estimates to reflect current activity levels.

ORA POSITION:

ORA finds Park's methodology acceptable. There are no methodological differences between the

Parties' estimates of Maintenance Other except for the sub-account Gen'l Plant-PR Burden (the difference is the flow-through of payroll issues as described in Section 5.3). The original differences between Park's and ORA's estimates resulted from ORA's use of the updated data for recorded year 2014 (since ORA used Park's escalation factors for comparison purposes). With the resolution of expense estimating methodology (Section 5.1), escalation factors (Section 5.2) and payroll (Section 5.3), there is no difference between Parties' estimates.

RESOLUTION:

The Parties agree to estimates for this expense category, which include the impact of the agreement on the expense estimating methodology (Section 5.1), escalation factors (Section 5.2), and payroll (Section 5.3) as shown in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Paint/Coat-T&D Mt Distrb Reser	$80,825	$80,825	$0	$80,825
Oth-Wtr Tr Mt Equip	$29,238	$24,213	($5,025)	$23,473
Oth-T&D Mt Mains	$91,093	$91,093	$0	$90,633
Oth-T&D Mt Hydrants	$25,921	$23,767	($2,154)	$23,033
Inventory-T&D Mt Mains	$7,045	$7,045	$0	$7,010
Inventory-T&D Mt Hydrants	$11,765	$11,353	($412)	$10,999
Suppl/Parts-T&D Mt Hydrants	$10,800	$7,169	($3,631)	$6,947
Gen'l Plant-PR Burden	($26,830)	($26,629)	($201)	($26,774)
Other Expense	$415,260	$410,004	($5,256)	$397,274
Total Maintenance Other	$645,117	$628,840	($16,277)	$613,420

R**EFERENCE: Park Exh. P-1, pp. 46-47, ORA Exh. O-1, p. 3-9.**

5.15 Depreciation Clearing

PARK WATER REQUEST:

Park requests $109,324 for Test Year 2016 for depreciation clearing based on its proposed depreciation rates (Section 10.1) and projected balances of utility plant in service.

ORA POSITION:

ORA finds Park's methodology acceptable. There are no methodological differences between the Parties' estimates. The original differences between Park's and ORA's estimates resulted from different estimates of utility plant in service. With the resolution of utility plant in service (Section 9.0), there is no difference between the Parties' estimates.

RESOLUTION:

The Parties agree to the depreciation clearing expense, as set forth in the tables below.

Depreciation Clearings

	Park Original	ORA Original	Difference	Settlement
Test Year 2016	$109,324	$111,447	$2,123	$110,642
Escalation Year 2017	$112,391	$111,447	($944)	$112,156

REFERENCES: Park Exh. P-1, Ch. VII, p. 128-129; ORA Exh. O-1, p. 5-36.

5.16 Clearings Other

PARK WATER REQUEST:

Park requests $304,833 for Test Year 2016 for Clearings – Other based on its projected payroll costs and the five-year average (2010 – 2014) of recorded expenses.

ORA POSITION:

ORA finds Park's methodology acceptable. There are no methodological differences between ORA and Park. The original differences between ORA's and Park's estimates resulted from different estimates of payroll and the use of recorded data from 2014.

RESOLUTION:

With the resolution on escalation factors (Section 5.2), expense estimating methodology (Section 5.1), and payroll (Section 5.3) the Parties agree to Clearings Others expense, as set forth in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Clearings Other	$304,833	$304,230	($603)	$299,418

REFERENCES: Park Exh. P-1, p. 47-48; Park Exh. P-8, p. 3-4; ORA Exh. O-1 p. 3-9.

6.0 ADMINISTRATIVE AND GENERAL

6.1 Payroll

PARK WATER REQUEST:

The contested issues are the same as identified in Section 5.3 above (O&M Payroll). The PTO, Holiday, etc. portions of those employees' payroll is included in A&G payroll. The Parties agreement on A&G payroll is based upon the reasons provided in Section 5.3.

RESOLUTION:

The resolution is the same as identified and explained in Section 5.3. ORA and Park agree on payroll as set forth in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
A & G Payroll	$2,135,723	$1,972,923	($162,800)	$2,128,912

REFERENCES: Park Exh. P-1, pp. 40-42; Park Exh. P-7, pp. 2–7, Appendix A; Park Exh. P-8, pp. 4–5; Park Exh. P-10, pp. 5-11, Park Exh. P-13, pp. 2-7; ORA Exh. O-1, pp. 3-4 – 3-9, 3-17 – 3-18.

6.2 PBOP

PARK WATER REQUEST:

Park requests $80,000 in Post-retirement Health and Life Benefits ("PBOP") for Test Year 2016 based on the allowable tax deductible contributions to the Voluntary Employee Beneficiary Association ("VEBA") and 401(h) plans according to the actuarial valuation of Park's Post-retirement Benefits by its outside actuary. For plan year 2014, Park has modified the PBOP plan such that the benefit offered to retirees 65 and over will be limited to a Medical Reimbursement

Account.

ORA POSITION:

ORA finds Park's methodology to estimate PBOP acceptable. ORA's estimate reflects a vacancy adjustment as described in Section 5.3. ORA recommends $76,272 for Test Year 2016.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to use the amount in Park's Application as shown in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
PBOP	$80,000	$76,272	($3,928)	$80,000

REFERENCES: Park Exh. P-1, pp. 52-54; Park Exh. P-7, pp. 7-11, Appendix A; Park Exh. P-8, pp. 4–5; ORA Exh. O-1, pp. 3-5, 3-18, 3-20.

6.3 Medical Insurance

PARK WATER REQUEST:

Park requests $600,732 for Test Year 2016 in Medical Insurance premiums based on the projected premiums to be in effect as of January 1, 2015, projected premium increase of 7% for 2016, and the projected payroll for the Test Year. The increase in premium for 2016 is based on the projected increase in medical costs used by Park's outside actuaries for calculation of Park's Post-Retirement Health and Life Benefits 2014 Actuarial Valuation.

ORA POSITION:

ORA recommends $546,481 in Medical Insurance for Test Year 2016 based on the actual premiums in effect as of January 1, 2014, and projected premium increases of 4% for 2015 and 5.1% for 2016 using the inflation factors from the January 2015 Global Insight U.S. Economic Outlook (Health Insurance Benefits) and the projected payroll for the Test Year. ORA's estimate also reflects a vacancy adjustment as described in Section 5.3.

RESOLUTION:

After further discussions and settlement negotiations, Park agrees to use ORA's recommended premium increase of 4% for 2015 and 5.1% for 2016, applied to the premiums in effect as of January 1, 2014. The Parties also agree to reflect the high deductible premiums elections made by three positions in calculating the Test Year medical insurance expense. For Escalation Years 2017 and 2018, the Parties agree to escalation factors of 5% and 4.3%, respectively. With the resolution of payroll issues described in Section 5.3, the Parties agree to the medical expense as shown in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Medical Insurance	$600,732	$546,481	($54,251)	$605,322

REFERENCES: Park Exh. P-1, pp. 52-54; Park Exh. P-7, pp. 7-11, Appendix A; Park Exh. P-8, pp. 4-5; ORA Exh. O-1, pp. 3-5, 3-18, 3-19.

6.4 Dental Insurance

PARK WATER REQUEST:

Park requests $54,804 for Test Year 2016 in Dental Insurance premiums based on the projected premiums to be in effect as of January 1, 2015, projected premium increase of 4.75% for 2016, and the projected payroll for the Test Year. The increase in premium for 2016 is based on the projected increase in dental costs used by Park's outside actuaries for calculation of Park's Post-Retirement Health and Life Benefits 2014 Actuarial Valuation.

ORA POSITION:

ORA recommends $48,681 in Dental Insurance for Test Year 2016 based on the actual premiums in effect as of January 1, 2014, and projected premium increases of 4% for 2015 and 5.1% using the inflation factors from the January 2015 Global Insight U.S. Economic Outlook (Health Insurance Benefits), and the projected payroll for the Test Year. ORA's estimate also reflects a vacancy adjustment as described in Section 5.3.

RESOLUTION:

After further discussions and settlement negotiations, Park agrees to use ORA's recommended premium increase of 4% for 2015 and 5.1% for 2016, applied to the premiums in effect as of January 1, 2014. For Escalation Years 2017 and 2018, the Parties agree to escalation factors of 5% and 4.3%, respectively. With the resolution of payroll issues described in Section 5.3, the Parties agree to the dental expense as shown in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Dental Insurance	$54,804	$48,681	($6,123)	$51,672

REFERENCES: Park Exh. P-1, pp. 52-54; Park Exh. P-7, pp. 7-11, Appendix A; Park Exh. P-8, pp. 4–5; ORA Exh. O-1, pp. 3-5, 3-18 - 3-19.

6.5 Life Insurance

PARK WATER REQUEST:

Park requests $12,168 in Life Insurance expense for Test Year 2016 based on the rate of $0.15 per $1,000 of payroll and the projected payroll for the Test Year.

ORA POSITION:

ORA finds Park's methodology and rates reasonable. The difference between the Parties' original estimates is the result of the payroll issues and vacancy adjustment as described in Section 5.3.

RESOLUTION:

With the resolution of payroll issues described in Section 5.3, the Parties agree to the Life Insurance expense as shown in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Life Insurance	$12,168	$11,002	($1,166)	$12,101

REFERENCES: Park Exh. P-1, pp. 52-54; Park Exh. P-7, pp. 7-11, Appendix A; Park Exh. P-8, pp. 4–5; ORA Exh. O-1, pp. 3-5, 3-18.

6.6 Accident D & D Insurance

PARK WATER REQUEST:

Park requests $1,785 for Test Year 2016 in Accident Insurance expense based on the rate of $0.22 per $1,000 of payroll and the projected payroll for the Test Year.

ORA POSITION:

ORA finds Park's methodology and rates reasonable. The differences between the Parties' original estimates is the result of payroll issues and vacancy adjustment as described in Section 5.3.

RESOLUTION:

With the resolution of payroll issues described in Section 5.3, the Parties agree to the Accidental Insurance expense as shown in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Accident D & D Ins.	$1,785	$1,614	($171)	$1,775

REFERENCES: Park Exh. P-1, pp. 52-54; Park Exh. P-7, pp. 7-11, Appendix A; Park Exh. P-8, pp. 4–5; ORA Exh. O-1, pp. 3-5, 3-18.

6.7 Disability-Long Term

PARK WATER REQUEST:

Park requests $15,396 for Test Year 2016 in Disability Insurance expense based on the rate of $0.34 per $100 of payroll and the projected payroll for the Test Year.

ORA POSITION:

ORA finds Park's methodology and rates reasonable. The differences between the Parties' original estimates are the result of payroll issues, including the vacancy adjustment described in Section 5.3.

RESOLUTION:

With the resolution of payroll issues described in Section 5.3, the Parties agree to the Disability Insurance expense as shown in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Disability-Long Term	$15,396	$13,855	($1,541)	$15,313

REFERENCES: Park Exh. P-1, pp. 52-54; Park Exh. P-7, pp. 7-11, Appendix A; Park Exh. P-8, pp. 4–5; ORA Exh. O-1, pp. 3-5, 3-18.

6.8 401(K) Plan

PARK WATER REQUEST:

Park requests $120,094 in 401(k) expense for Test Year 2016 based on the actual employee's elections to be in effect on January 1, 2015 and the projected payroll for Test Year 2016.

ORA POSITION:

ORA finds Park's methodology reasonable. ORA recommends $107,334 in 401(k) expense for Test Year 2016. The differences between the Parties' original estimates were the result of the payroll issues, including the vacancy adjustment described in Section 5.3.

RESOLUTION:

As a result of further discussions and settlement negotiations, the Parties agree to recalculate the Test Year expense using the methodology contained in Park's Application, using Park's estimated participation levels and incorporating the stipulated payroll.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
401(k)	$120,094	$107,334	($12,760)	$119,387

REFERENCES: Park Exh. P-1, pp. 52-54; Park Exh. P-7, pp. 7-11, Appendix A; Park Exh. P-8, pp. 4–5; ORA Exh. O-1, pp. 3-5, 3-18.

6.9 Group Pension

PARK WATER REQUEST:

Park requests $890,241 in Group Pension expense for Test Year 2016 based on an actuarial valuation by Park's outside actuary. Park requests that a new balancing account be established to track the difference between adopted pension expense included in rates and the actual expense incurred.

ORA POSITION:

ORA's estimate was based on the 2014 recorded amount and increased using the 2.8% inflation factor from the January 2015 Global Insight U.S. Economic Outlook. ORA recommends $746,384 in Group Pension expense for Test Year 2016. ORA's estimate reflects a vacancy adjustment as described in Section 5.3. ORA disagrees with Park's request to establish a Group Pension Balancing Account.

RESOLUTION:

As a result of further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to the Group Pension expense as forth in the table below. ORA agrees with Park's recommendation to establish a new Group Pension Balancing Account (Section 16.9).

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Group Pension	$890,241	$746,384	($143,857)	$822,094

REFERENCES: Park Exh. P-1, pp. 52-54; Park Exh. P-7, pp. 7-11, Appendix A; Park Exh. P-8, pp. 4–5; ORA Exh. O-1, pp. 3-19, 12-19 – 12-20.

6.10 Employee Benefits - Service Awards, Educational Assistance, EAP/Wellness Program, Other

PARK WATER REQUEST:

Park's estimate for the Service Awards, Educational Assistance, EAP/wellness program, and Other expense is based on the 5-year year recorded escalated average (2010 – 2014).

ORA POSITION:

ORA finds Park methodology reasonable. The differences between the Parties' original estimates were due to ORA's use of the 2014 recorded data (since ORA used Park's escalation for comparison purposes) and the payroll vacancy adjustment as described in Section 5.3.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to the expense for these sub-accounts as shown below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Service Awards	$3,217	$3,072	($145)	$3,141
Educational Assistance	$4,361	$4,158	($203)	$4,252
EAP/Wellness	$5,469	$5,473	$4	$5,596
Other	$35,979	$32,999	($2,980)	$33,744
Total	$49,026	$45,701	($3,325)	$46,733

REFERENCES: Park Exh. P-1, pp. 52-54; Park Exh. P-7, pp. 7-11, Appendix A; Park Exh. P-8, pp. 4-5; ORA Exh. O-1, pp. 3-5, 3-18 - 3-20.

6.11 Defined Contribution 401(A) Expense

PARK WATER REQUEST:

Park requests $76,268 for Test Year 2016 for the Defined Contribution 401(A) plan based on the number of employees eligible for the plan, the projected cost per employee, and projected increases of 3% for both 2015 and Test Year 2016.

ORA POSITION:

ORA finds Park's methodology reasonable. ORA recommends $69,552. The original differences between Park and ORA are due to the differences in the estimates of the number of employees eligible for the plan due to ORA's recommended disallowance of the position of Water Quality/Operations Engineer and vacancy adjustment (Section 5.3).

RESOLUTION:

With the resolution of payroll (Section 5.3), the Parties agree to use Park's application Amount as shown below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
401(A) Expense	$76,268	$69,552	($6,716)	$76,268

REFERENCES: Park Exh. P-1, pp. 52-54; Park Exh. P-7, pp. 7-11, Appendix A; Park Exh. P-8, pp. 4–5; ORA Exh. O-1, pp. 3-5, 3-18.

6.12 Net Benefit Adjustment

PARK WATER REQUEST:

Park requests $11,051 for Test Year 2016 of Net Benefits Adjustment based on the projected payroll and applicable payroll burden rate.

ORA POSITION:

ORA finds Park's methodology to estimate Net Benefits Adjustment acceptable. There are no methodological differences between ORA and Park. The differences between Parties' original estimates were the result of payroll issues and the vacancy adjustment as described in Section 5.3.

RESOLUTION:

With the resolution of payroll (Section 5.3), the Parties agree to the Net Benefits Adjustment as shown below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Net Benefits Adjustment	$11,051	$10,567	($484)	$11,180

REFERENCES: Park Exh. P-1, pp. 52-54; Park Exh. P-7, pp. 7-11, Appendix A; Park Exh. P-8, pp. 4–5; ORA Exh. O-1, pp. 3-5, 3-18.

6.13 Insurance

PARK WATER REQUEST:

Park requests $820,733 for Test Year 2016 in total Insurance expense based on the projected premiums and projected payroll for the Test Year. Park's Insurance estimate contained calculation errors identified during discovery.

ORA POSITION:

ORA finds Park's methodology acceptable. There are no methodological differences between ORA and Park. The original differences between ORA and Park are due to differences in the estimates of payroll and vacancy adjustment as described in Section 5.3, and ORA's use of 2014 recorded data. With the resolution of payroll issues (Section 5.3), there are no longer any differences in the Parties' position.

RESOLUTION:

Based on further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to use the corrected amounts Park provided to ORA during discovery, adjusted to reflect the settlement on payroll.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Insurance	$820,733	$737,830	($82,903)	$813,113

REFERENCES: Park Exh. P-1, pp. 55; Park Exh. P-7, pp. 9-10, Appendix A; Park Exh. P-8, pp. 4–5; ORA Exh. O-1, pp. 3-17, 3-20 – 3-21.

6.14 Regulatory Commission Expense

PARK WATER REQUEST:

Park requests total Regulatory Commission expense of $525,081 amortized over three years, resulting in an annual expense of $175,027, based on the estimated costs of the current rate case. Park's estimate of Regulatory Commission expense is based on the actual recorded costs of Park's subsidiary Apple Valley Ranchos ("AVR") in the Test Year 2012 rate case plus two-thirds of the total costs incurred in the current base year 2013 cost of capital proceeding (D.13-05-027).

In addition, Park includes $53,215 in recorded costs associated with the Asset Management Report and $34,660 for the Water Use Efficiency Plan.

ORA POSITION:

ORA recommends switching Park from the historic practice of estimating Regulatory Commission expense as the amortization of the estimated deferred costs of the current rate case over the rate period that rate case covers to a methodology using a prospective approach of estimating the costs of the next rate case, which will occur during the rate cycle. ORA further recommends that there should not be a catch-up provision, that no amortization of the costs associated with the current rate case proceeding be included in the authorized expense. In addition, ORA disallowed the outside consulting costs associated with the Asset Management Report and the Water Use Efficiency Plan.

RESOLUTION:

As a result of additional discussions, settlement negotiations, and review of Park's rebuttal testimony, ORA agrees to Park's request to include the costs associated with the Asset Management Report and Water Use Efficiency Plan in Regulatory Commission expense. Park agrees with ORA's recommendation of switching to the prospective methodology and ORA agrees with Park to include a catch-up provision for the costs of the current proceeding. The Parties agree that the estimated costs of the current proceeding, $488,720, will be amortized over six years, for an annual amortization of $81,453, with the unamortized portion included in the fixed portion of working cash. The amortization is not subject to escalation for the Escalation Years. The Parties agree to $178,800 as the estimate for the projected Regulatory Commission expense under ORA's proposed prospective methodology, which will be subject to escalation in the Escalation Years. The Parties agree to the Regulatory Commission expense as set forth in the tables below.

Test Year 2016

	Park Original	**ORA Original**	**Difference**	**Settlement**
Regulatory Commission Expense	$175,027	$125,765	($49,262)	$260,253

Working Cash - Unamortized Average Balance

	2016	2017	2018	2019	2020	2021
Regulatory Commission Expense	$444,599	$363,146	$281,693	$200,239	$118,786	$37,333

REFERENCES: Park Exh. P-1, pp. 56-57, Park Exh. P-12, pp. 2-8; ORA Exh. O-1, p. 3-21.

6.15 Franchise Requirements

PARK WATER REQUEST:

Park's estimate is based on a five-year average of recorded franchise expense (2009 – 2013).

ORA POSITION:

ORA finds Park's methodology reasonable and recommends that the Commission adopt Park's estimated Franchise Requirements (0.38%). There are no methodological differences between the Parties' estimate of franchise expense. The original differences between Park's and ORA's estimates resulted from different estimates of revenues.

RESOLUTION:

The Parties agree to calculate the Franchise Requirements consistent with the resolution of all issues (e.g., revenue, expense, utility plant). The Parties agree to the Franchise Requirements as set forth in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Franchise Requirements	$138,343	$128,887	($9,456)	$134,316

REFERENCES: Park Exh. P-1, p. 57; ORA Exh. O-1, p. 3-17.

6.16 Outside Services

PARK WATER REQUEST:

Park requests $206,261 for Test Year 2016 for Outside Services based on a five-year average of recorded expenses (2010 – 2014) except for the sub-accounts of Safety Consulting (Account No.

7200.11) and Insurance Consulting (Account No. 7200.17), where Park used specific estimates to reflect current activity levels.

ORA POSITION:

ORA finds Park's methodology acceptable. There are no methodological differences between ORA and Park. The original differences between ORA and Park are due to differences in ORA's use of 2014 recorded data (since ORA used Park's escalation factors for comparison purposes).

RESOLUTION:

The Parties agree on the Outside Services expense as set forth in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Safety Consulting	$15,216	$12,853	($2,363)	$12,591
Insurance Consulting	$48,418	$48,101	($317)	$46,895
Other	$142,627	$143,745	$1,118	$140,140
Total	$206,261	$204,699	($1,562)	$199,626

REFERENCES: Park Exh. P-1, pp. 54-55; ORA Exh. O-1, p. 3-17.

6.17 A&G Other

PARK WATER REQUEST:

Park requests $451,250 for Test Year 2016 for the expense category of A&G Other. Park's estimate is based on five-year average of recorded expenses (2010 – 2014) except for Cellular (Account No. 7011.1), Telemetry (Account No. 7011.2), All Other (Account No. 7011.9), Registration (Account No. 7040.1), and Corporate A & G Allocation (Account No. 7690), where Park used budgeted amounts to reflect current activity levels.

ORA POSITION:

ORA finds Park's methodology reasonable. There are no methodological differences between Park's and ORA's estimates. The original differences between Park's and ORA's estimates resulted from different estimates of payroll and ORA's use of recorded 2014 data.

RESOLUTION:

With the resolution of the payroll (Section 5.3) and escalation factors (Section 5.2), there are no longer any differences between the Parties' positions. The Parties agree to the amounts shown in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Cellular	$32,277	$33,136	$859	$32,168
Telemetry	$35,020	$35,020	$0	$34,843
All Other	$51,587	$52,228	$641	$50,669
Registration	$20,547	$20,447	($100)	$19,840
Corporate A&G Allocation	$76,734	$76,191	($543)	$76,612
Other	$235,085	$228,492	($6,593)	$221,410
Total	$451,250	$445,514	($5,736)	$435,543

REFERENCES: Park Exh. P-1, pp. 55-56; ORA Exh. O-1, p. 3-17.

6.18 A&G Transferred

PARK WATER REQUEST:

Park requests $725,986 for Test Year 2016 for the A&G Transferred Credit based on in its proposed capital expenditures.

ORA POSITION:

ORA accepts the methodology used by Park in its Application. There are no methodological differences between ORA and Park. The original differences between Park's and ORA's estimates resulted from different estimates of capital expenditures.

RESOLUTION:

The Parties agree to the amounts shown in the below table incorporating the stipulated plant additions (Section 9) as set forth in the table below.

A&G Transferred Credit

	Park Original	ORA Original	Difference	Settlement
Test Year 2016	($725,986)	($480,611)	$245,375	($592,090)
Escalation Year 2017	($730,552)	($362,116)	$368,436	($593,813)

REFERENCES: Park Exh P.-1, Ch. IV, Table IV-B; ORA Exh. O-1, p. 3-17.

6.19 General Office Allocation

PARK WATER REQUEST:

Park's estimate of the General Office Allocation is based on the Settlement Agreement filed in A.14-01-002 for Park's AVR subsidiary. The 2016 expense estimates were calculated by escalating the 2015 expense amounts using the escalation methodology adopted by D.07-05-062.

ORA POSITION:

ORA accepts the methodology used by Park in its Application.

RESOLUTION:

The Parties agree to the amounts as set forth in the table below. The Settlement amount is slightly lower than the original amounts due to the resolution of the issue on escalation factors (Section 5.2).

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
General Office Allocation	$3,110,653	$3,110,653	$0	$3,084,372

REFERENCES: Park Exh. P-2, p. 6; ORA Exh. O-1, p. 3-26.

6.20 Depreciation Expense

PARK WATER REQUEST:

Park's estimate of Depreciation expense is based on its proposed depreciation rates and capital expenditures.

ORA POSITION:

ORA accepts Park's proposed depreciation rates in its Application. There are no methodological differences between Park and ORA. The original differences between Park's and ORA's estimate of Depreciation expense resulted from different estimates of utility plant in service.

RESOLUTION:

The Parties agree to calculate depreciation expense incorporating the stipulated plant additions (Section 9) as set forth in the tables below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Net Depreciation Expense	$2,114,669	$2,037,779	($76,890)	$2,057,999
Amortization - Limited Term Plant	$1,674	$1,674	$0	$1,674
General Office Allocation	$145,244	$145,313	$69	$145,313
Total Net Depreciation Expense	$2,261,588	$2,184,766	($76,822)	$2,204,986

Test Year 2017

	Park Original	ORA Original	Difference	Settlement
Net Depreciation Expense	$2,606,509	$2,226,512	($379,997)	$2,487,962
Amortization - Limited Term Plant	$1,674	$1,674	$0	$1,674
General Office Allocation	$145,244	$145,313	$69	$145,313
Total Net Depreciation Expense	$2,753,427	$2,373,499	($379,928)	$2,634,949

REFERENCES: Park Exh. P-1, p. 128-132; ORA Exh. O-1, Ch. 6.

7.0 TAXES OTHER THAN INCOME

7.1 Ad Valorem Taxes

PARK WATER REQUEST:

Park's estimates of Ad Valorem taxes are based on the methodology used by the Los Angeles County Tax Assessor's Office.

ORA POSITION:

ORA accepts Park's methodology for estimating Ad Valorem taxes. The original differences between Park's and ORA's estimates resulted from differences in estimates of utility plant in service.

RESOLUTION:

With the resolution of the utility plant in service there is no longer any difference in the Parties' positions. The Parties agree to estimates of the Ad Valorem tax as set forth in the tables below.

Ad Valorem Taxes

	Park Original	ORA Original	Difference	Settlement
Test Year 2016	$754,047	$719,594	($34,453)	$742,204
Escalation Year 2017	$882,536	$787,934	($94,602)	$834,504
Escalation Year 2018	$1,022,403	$851,036	($171,367)	$943,830

REFERENCES: Park Exh. P-1, p. 62; ORA Exh. O-1, p. 8-1.

7.2 Payroll Taxes

PARK WATER REQUEST:

Park requests $427,532 for Test Year 2016 for Payroll taxes based on Park's projections of payroll tax rates and limits.

ORA POSITION:

ORA accepts Park's methodology but disagrees with Park's FICA limit. The original differences between Park's and ORA's estimates resulted from the differences in the estimates of payroll as described in Section 5.3 and FICA limit.

RESOLUTION:

ORA and Park agree to a FICA limit of $121,050 for 2016. With the settlement on payroll (Section 5.3), there is no longer any difference in the Parties' positions. ORA and Park agree to the estimates of payroll taxes as set forth in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Payroll Taxes	$427,532	$ 395,493	($32,039)	$424,458

REFERENCES: Park Exh. P-1, p. 62; ORA Exh. O-1, p. 8-1.

7.3 Taxes - Other

PARK WATER REQUEST:

Park's estimate for the Taxes-Other expense is based on the 5-year recorded escalated average (2010 – 2014).

ORA POSITION:

ORA accepts the methodology used by Park in its application.

RESOLUTION:

The Parties agree to estimates for this expense category, which include the impact of the agreement on the expense estimating methodology (Section 5.1) and escalation factors (Section 5.2), as set forth in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Taxes-Other	$61,773	$61,773	$0	$59,502

8.0 INCOME TAXES

8.1 Tax Depreciation

PARK WATER REQUEST:

Park estimates Federal Tax Deprecation of $2,285,886 and State Tax Depreciation of $3,020,270 for Test Year 2016 based on Park's actual ratemaking depreciation methodology and Park's proposed plant additions.

ORA POSITION:

ORA accepts the methodology proposed by Park in its Application. There are no

methodological differences between ORA's and Park's estimates of the ratemaking tax depreciation deduction. The original differences between ORA's and Park's estimates resulted from the different estimates of utility plant additions and calculation errors contained in ORA's estimate.

RESOLUTION:

The Parties agree that tax depreciation should be calculated using the methodology used in Park's Application consistent with the stipulated utility plant (Section 9) as set forth in the tables below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Federal Tax Depreciation	$2,285,886	$2,285,886	$0	$2,209,037
State Tax Depreciation	$3,020,270	$3,020,270	$0	$2,868,986

Test Year 2017

	Park Original	ORA Original	Difference	Settlement
Federal Tax Depreciation	$2,626,887	$3,561,194	$934,307	$2,499,382
State Tax Depreciation	$3,561,194	$3,561,194	$0	$3,313,143

REFERENCES: Park Exh. P-1, p. 141, Table IX-A; ORA Exh. O-1, p. 9-2.

8.2 Interest Expense Deduction

PARK WATER REQUEST:

Park estimates the Interest Expense Deduction of $2,584,592 for Test Year 2016 based on Park's authorized weighted cost of long-term debt multiplied by the projected rate base for the Test Year.

ORA POSITION:

ORA finds Park's methodology reasonable. There are no methodological differences between the Parties' estimates of the interest expense deduction. The original differences between ORA's and Park's estimates result from different estimates of rate base.

RESOLUTION:

The Parties agree that the Interest Expense Deduction should be calculated using the methodology used in Park's and ORA's estimates, consistent with the stipulated rate base, as set forth in the tables below.

Interest Expense

	Park Original	ORA Original	Difference	Settlement
Test Year 2016	$2,584,592	$2,294,662	($289,930)	$2,461,148
Escalation Year 2017	$3,048,240	$2,487,228	($561,012)	$2,789,190

REFERENCES: Park Exh. P-1, p. 142, Table IX-A; ORA Exh. O-1, Table 9-1.

8.3 Qualified Production Activities Deduction

PARK WATER REQUEST:

Park estimates the Qualified Production Activities Deduction ("QPD") based on the methodology prescribed by Internal Revenue Code Section 199.

ORA POSITION:

ORA accepts the methodology used by Park in its Application. The original differences between Park and ORA resulted from the differences in the estimates of revenue requirement and ORA's use of the updated 2014 QPD percentage.

RESOLUTION:

The Parties agree to calculate the Qualified Production Activities Deduction based upon the methodology used for preparing Park's most recent federal tax return (including percentages to determine applicable revenues and deductions). The Parties agree that the QPD tax deduction should be estimated by taking 9% of the production-related portion (15.41%) of Park's Federal Taxable Income ((Fed. Taxable Income) x .1541 x .09). The Parties agree to the QPD tax deduction as set forth in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Qualified Production Deduction	$82,473	$78,659	($3,814)	$89,281

REFERENCES: Park Exh. P-1, p. 142, Table IX-A; ORA Exh. O-1, p. 9-3, Table 9-1.

9.0 UTILITY PLANT IN SERVICE

9.1 Capital Budgets

PARK WATER REQUEST:

Park requested total capital budgets of $15,048,700 for 2015, $15,095,700 for 2016, and $15,191,600 for 2017.

ORA POSITION:

ORA recommended capital budgets of $9,348,361 for 2015, $9,942,828 for 2016, and $7,454,440 for 2017.

RESOLUTION:

As a result of discussions, settlement negotiations, and review of Park's rebuttal testimony, ORA and Park have resolved their differences regarding plant additions for 2015, 2016, and 2017. ORA and Park agree to capital budgets of $12,271,523 for 2015, $12,283,887 for 2016, and $12,320,080 for 2017.

REFERENCES: Park Exh. P-1, Ch. VI; ORA Exh. O-1, Ch. 5.

9.2 Compton East Reservoir and Booster Pump Station

PARK WATER REQUEST:

Park requests $150,000 in 2015, $1,600,000 in 2016 and $1,378,000 in 2017 for the construction of the Compton East Reservoir and companion Booster Pump Station. The project was proposed to reduce water supply costs by increasing groundwater pumping and decreasing the purchase of imported water, and to increase service reliability from planned and emergency interruptions in imported water service deliveries.

ORA POSITION:

ORA recommends disallowance of the project because Park failed to submit detailed designs on alternative project options.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal, ORA and Park agree to Park's proposal for the Compton East Reservoir and Booster Pump Station. The construction of the Compton East Reservoir will allow Park to increase groundwater pumping and decrease the purchase of imported water. This project will also help Park improve water system reliability.

Compton East Reservoir and Booster Pump Station

	Park Original	ORA Original	Difference	Settlement
Year 2015	$150,000	$0	($150,000)	$150,000
Test Year 2016	$1,600,000	$0	($1,600,000)	$1,600,000
Test Year 2017	$1,378,000	$0	($1,378,000)	$1,378,000

REFERENCES: Park Exh. P-1, Ch. VI, p. 64; ORA Exh. O-1, Ch. 5, p. 5-4.

9.3 T&D Main Replacements

PARK WATER REQUEST:

Park requests T&D main extensions of $570,700 in 2015 and $313,900 in 2017. Park also requests T&D main replacements of $5,970,300 for 2015, $5,656,300 for 2016, and $6,539,400 for 2017. Park's requested replacement of aged and undersized mains are based on the needs for transmission capacity and maintaining a reliable distribution system as discussed in the Asset Management for Water Mains Report, KANEW Analysis for Water Mains Report, and the Park Water Company Asset Management - InfraPlan Report. Park's main replacement program also takes into consideration the consequences of pipeline failure, the need for additional fire flow capacity, improved fire hydrant spacing, and improved water quality.

ORA POSITION:

ORA disagrees with Park's estimates of main replacements because ORA believes that Park's main replacement program is too ambitious and will have too much rate impact. ORA recommends $4,000,000 for new and replacement mains annually for years 2015 – 2017.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, ORA and Park agree to T&D main replacements of $5,200,000 for 2015, $3,100,000 for 2016, and $6,300,000 for 2017 and a T&D main extension of $884,600 for 2017 as set forth in the tables below.

Year 2015

	Park Original	ORA Original	Difference	Settlement
Main Extension	$570,700			
Main Replacements	$5,970,300			$5,200,000
Total T&D Mains	$6,541,000	$4,000,000	($2,541,000)	$5,200,000

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Main Extension	$0			
Main Replacements	$5,656,300			$3,100,000
Total T&D Mains	$5,656,300	$4,000,000	($1,656,300)	$3,100,000

Test Year 2017

	Park Original	ORA Original	Difference	Settlement
Main Extension	$313,900			$884,600
Main Replacements	$6,539,400			$6,300,000
Total T&D Mains	$6,853,300	$4,000,000	($2,853,300)	$7,184,600

REFERENCES: Park Exh. P-1, Ch. VI, p. 68; ORA Exh. O-1, Ch. 5, p. 5-9.

9.4 Valves

PARK WATER REQUEST:

Park requests replacement valves of $100,100 for 2015, $101,100 for 2016, and $102,200 for

2017. Park requests new valves of $56,300 for 2015, $56,800 for 2016, and $57,400 for 2017. Park's estimates are based on 25 replacement valves and 14 new valves per year.

ORA POSITION:

ORA accepts Park's unit cost estimate for valves and accepts Park's estimate for new valve installations. ORA recommends replacement valves of $76,095 in 2015, $76,855 in 2016, and $77,634 in 2017. ORA's estimates are based on 19 replacement valves and 14 new valves per year.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to the total valve estimates (replacement and new) as set forth in the tables below.

Valves

	Park Original	ORA Original	Difference	Settlement
Year 2015	$156,400	$132,395	($24,005)	$144,400
Test Year 2016	$157,900	$133,655	($24,245)	$145,775
Test Year 2017	$159,600	$135,034	($24,566)	$147,315

REFERENCES: Park Exh. P-1, Ch. VI, p. 75; ORA Exh. O-1, Ch. 5, p. 5-25.

9.5 Hydrants

PARK WATER REQUEST:

Park requests $176,000 for replacement hydrants in 2015, $178,000 in 2016, and $179,700 in 2017. Park requests $30,900 for new hydrants in 2015, $31,200 in 2016, and $31,600 in 2017. Park's estimates are based on 22 replacement hydrants and 4 new hydrants per year.

ORA POSITION:

ORA accepts Park's estimate of unit costs for hydrants. ORA recommends $88,099 for replacement hydrants in 2012, $88,979 in 2013, and $89,870 in 2014. ORA accepts Park's request for new hydrants. ORA's estimates for replacement hydrants are based on 11 replacement hydrants instead of the 22 Park requested.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to the total hydrant estimates (replacement and new) as set forth in the tables below.

Hydrants

	Park Original	ORA Original	Difference	Settlement
Year 2015	$207,100	$118,999	($88,101)	$163,050
Test Year 2016	$209,200	$120,179	($89,021)	$164,685
Test Year 2017	$211,300	$121,470	($89,830)	$166,385

REFERENCES: Park Exh. P-1, Ch. VI, p. 75; ORA Exh. O-1, Ch. 5, p. 5-26.

9.6 Land for Reservoir, Booster Station, and Future Groundwater Well-Compton East

PARK WATER REQUEST:

Park requests $1,000,000 in 2015 to purchase land for the Compton East Reservoir, Booster Pump Station, and future groundwater Well projects.

ORA POSITION:

ORA disagrees with Park's proposed Compton East Reservoir, Booster Pump Station, and new Well and therefore recommends disallowance of Park's proposed land purchase.

RESOLUTION:

Consistent with the resolution of the Compton East Reservoir and Booster Pump Station issues (Section 9.2), the Parties agree to Park's proposal for land purchase as set forth by the table below.

Year 2015	Park Original	ORA Original	Difference	Settlement
Land for Reservoir, Booster Station, and Future Groundwater Well	$1,000,000	$0	($1,000,000)	$1,000,000

REFERENCES: Park Exh. P-1, Ch. VI, p .80; ORA Exh. O-1, Ch. 5, p. 5-31.

9.7 Groundwater Well-Compton East

PARK WATER REQUEST:

Park requests $1,550,000 in 2017 for drilling and construction of a new groundwater well in the Compton East system.

ORA POSITION:

ORA recommends disallowance of the Compton East Groundwater well because ORA believes the operational conditions do not warrant the construction of a new well at this time.

RESOLUTION:

After further discussions, settlement negotiations, Park agrees to defer the construction of the Compton East Groundwater Well.

Year 2017

	Park Original	ORA Original	Difference	Settlement
Compton East Groundwater Well	$1,550,000	$0	($1,550,000)	$0

REFERENCES: Park Exh. P-1, Ch. VI, p. 122; ORA Exh. O-1, Ch. 5, p. 5-31.

9.8 Pumping Equipment

PARK WATER REQUEST:

Park requests $200,000 annually in 2015, 2016, and 2017 for pumping equipment.

ORA POSITION:

ORA recommends $133,880 in 2015, $135,219 in 2016, and $135,571 in 2017 for pumping equipment.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, ORA and Park agree to use the estimates for pumping equipment as set forth by the tables below.

Pumping Equipment

	Park Original	ORA Original	Difference	Settlement
Year 2015	$200,000	$133,880	($66,120)	$166,940
Test Year 2016	$200,000	$135,219	($64,781)	$167,605
Test Year 2017	$200,000	$136,571	($63,429)	$167,785

REFERENCES: Park Exh. P-1, Ch. VI, p. 80-81; ORA Exh. O-1, Ch. 5, p. 5-31.

9.9 Groundwater Well Compton West, Well 12C Project

PARK WATER REQUEST:

Park requests $1,408,000 in 2015 and $1,000,000 in 2016 for new Well 12C in the Compton West system. Park's cost estimate was based on the recorded costs of Well 19C.

ORA POSITION:

ORA agrees with the necessity of this project, but disagrees with Park's proposed cost estimate. ORA recommends $1,132,598 in 2015 and $804,402 in 2016 for Well 12C. ORA's cost estimate was based on the estimated cost for Well 13D authorized in Park's Test Year 2013 rate case. ORA also recommends a hard cap on the total project cost.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to estimates of $1,358,000 in 2015, and $990,000 in 2016 for the construction of Well 12C as set forth in the table below. In lieu of a hard cap, the Parties agree that Park will provide specific testimony in the next GRC supporting any cost variances 5% or greater than the total authorized project costs.

Well 12C

	Park Original	ORA Original	Difference	Settlement
Year 2015	$1,408,000	$1,132,598	($275,402)	$1,358,000
Test Year 2016	$1,000,000	$804,402	($195,598)	$990,000

REFERENCES: Park Exh. P-1, Ch. VI, p. 81; ORA Exh. O-1, Ch. 5, p. 5-15.

9.10 Miscellaneous Site Improvements

PARK WATER REQUEST:

Park requests $100,000 annually in 2015, 2016, and 2017 for miscellaneous site improvements based on the proposed increase in groundwater pumping.

ORA POSITION:

ORA recommends $38,775 in 2015, $39,163 in 2016, and $39,554 in 2017 for miscellaneous site improvements based on a five-year recorded average (2010 – 2014) of capital expenditures.

RESOLUTION:

After further discussions, settlement negotiations, Park agrees to use ORA's recommendation for miscellaneous site improvements as set forth in the table below.

Miscellaneous Site Improvements

	Park Original	ORA Original	Difference	Settlement
Year 2015	$100,000	$38,775	($61,225)	$38,775
Test Year 2016	$100,000	$39,163	($60,837)	$39,163
Test Year 2017	$100,000	$39,554	($60,446)	$39,554

REFERENCES: Park Exh. P-1, Ch. VI, p. 81; ORA Exh. O-1, Ch. 5, p. 5-29.

9.11 Water Treatment

PARK WATER REQUEST:

Park requests $136,300 in 2015, $137,000 in 2016, and $137,700 in 2017 for Water Treatment equipment based on its proposed increase in groundwater pumping.

ORA POSITION:

ORA recommends $129,194 in 2015, $130,486 in 2016, and $131,791 in 2017 for Water Treatment equipment based on a five-year average (2010 – 2014) of capital expenditures.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to use $132,745 in 2015, $133,640 in 2016, and $134,745 in 2017 for Water Treatment equipment as set forth in the tables below.

Water Treatment

	Park Original	ORA Original	Difference	Settlement
Year 2015	$136,300	$129,194	($7,106)	$132,745
Test Year 2016	$137,000	$130,486	($6,514)	$133,640
Test Year 2017	$137,700	$131,791	($5,909)	$134,745

REFERENCES: Park Exh. P-1, Ch. VI, p. 81; ORA Exh. O-1, Ch. 5, p. 5-30.

9.12 Water Rights

PARK WATER REQUEST:

Park requests $1,000,000 annually in 2015, 2016, and 2017 for the purchase of new water rights to secure the ability to pump more groundwater in a tightening leased water rights market and allow for the capacity to store groundwater for future drought conditions.

ORA POSITION:

ORA recommended disallowance for this project, in part, because Park spent more than double the authorized amount for the purchase of water rights in the previous rate case.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to cost estimates for the purchase of water rights as set forth by the tables below.

Water Rights

	Park Original	ORA Original	Difference	Settlement
Year 2015	$1,000,000	$0	($1,000,000)	$500,000
Test Year 2016	$1,000,000	$0	($1,000,000)	$500,000
Test Year 2017	$1,000,000	$0	($1,000,000)	$500,000

REFERENCES: Park Exh. P-1, Ch. VI, p. 84-86; ORA Exh. O-1, Ch. 5, p. 5-13.

9.13 Bellflower/Norwalk Replacement Groundwater Well

PARK WATER REQUEST:

Park requests $650,000 in 2015 for the purchase of land for the Bellflower/Norwalk Replacement Groundwater Well. Park also requests $1,550,000 in 2016 and $1,550,000 in 2017 for the drilling and construction of the replacement well.

ORA POSITION:

ORA agrees with Park's proposal for the Bellflower/Norwalk Replacement Groundwater Well and recommends it be authorized by the Commission with a hard cap on the total project cost.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, ORA and Park agree to use Park's estimates for the Bellflower/Norwalk Replacement Groundwater Well as set forth by the tables below. In lieu of a hard cap, the Parties agree that Park will provide specific testimony in the next GRC supporting any cost variance 5% or greater than the total authorized project cost.

Year 2015

Bellflower/Norwalk Well	Park Original	ORA Original	Difference	Settlement
Land Purchase	$650,000	$650,000	$0	$650,000
Drill & Casing	$0	$0	$0	$0
Structure & Equipping	$0	$0	$0	$0

Test Year 2016

Bellflower/Norwalk Well	Park Original	ORA Original	Difference	Settlement
Land Purchase	$0	$0	$0	$0
Drill & Casing	$1,550,000	$1,550,000	$0	$1,550,000
Structure & Equipping	$0	$0	$0	$0

Test Year 2017

Bellflower/Norwalk Well	Park Original	ORA Original	Difference	Settlement
Land Purchase	$0	$0	$0	$0
Drill & Casing	$0	$0	$0	$0
Structure & Equipping	$1,550,000	$1,550,000	$0	$1,550,000

REFERENCES: Park Exh. P-1, Ch. VI, p. 86; ORA Exh. O-1, Ch. 5, p. 5-18.

9.14 Building Remodel

PARK WATER REQUEST:

Park requests $1,300,000 in 2015 and $1,300,000 in 2016 for remodeling Park's office building. Park also requests $200,000 in 2015, $250,000 in 2016, and $5,000 in 2017 for related furniture and office equipment.

ORA POSITION:

ORA agrees with Park's proposals for the building remodel capital project and furniture/office equipment and further recommends the adoption of hard caps on the total project cost.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to use Park's estimates for the building remodel and furniture/office equipment as set forth by the tables below. In lieu of hard caps, the Parties agree that Park will provide specific testimony in the next GRC supporting any cost variances 5% or greater than the total authorized project costs.

Year 2015

	Park Original	ORA Original	Difference	Settlement
Building Remodel	$1,300,000	$1,300,000	$0	$711,765
Furniture and Office Equipment	$200,000	$200,000	$0	$200,000

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Building Remodel	$1,300,000	$1,300,000	$0	$1,888,235
Furniture and Office Equipment	$250,000	$250,000	$0	$250,000

Test Year 2017

	Park Original	ORA Original	Difference	Settlement
Furniture and Office Equipment	$5,000	$5,000	$0	$5,000

REFERENCES: Park Exh. P-1, Ch. VI, p. 93; ORA Exh. O-1, Ch. 5, p. 5-19.

9.15 Vehicles

PARK WATER REQUEST:

Park requests $84,500 in 2015, $66,300 in 2016, and $77,600 in 2017 for vehicles and related equipment. Park's estimate is based on six new vehicles at Park's estimated unit cost including related equipment.

ORA POSITION:

ORA recommends $32,600 in 2015, $32,600 in 2016, and $6,900 in 2017 for vehicles and related equipment. ORA's estimate is based on two new vehicles at ORA's estimated unit costs including related equipment.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree to estimates for purchasing vehicles and related equipment as set forth by the table below. The settlement amounts are based on ORA's recommendation for two new vehicles using Park's estimated unit costs and related equipment.

Year 2015

	Park Original	ORA Original	Difference	Settlement
Vehicles	$77,700	$25,800	($51,900)	$30,418
Light Bars	$6,800	$6,800	$0	$6,800
Total	$84,500	$32,600	($51,900)	$37,218

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Vehicles	$59,500	$25,800	($33,700)	$30,722
Light Bars	$6,800	$6,800	$0	$6,800
Total	$66,300	$32,600	($33,700)	$37,522

Test Year 2017

	Park Original	ORA Original	Difference	Settlement
Vehicles	$70,700	$0	($70,700)	$0
Light Bars	$6,900	$6,900	$0	$6,900
Total	$77,600	$6,900	($70,700)	$6,900

REFERENCES: Park Exh. P-1, Ch. VI, p.104; ORA Exh. O-1, Ch. 5, p. 5-23.

9.16 Cost of Removal

PARK WATER REQUEST:

Park requests $888,400 in 2015, $874,800 in 2016, and $393,900 in 2017 for the cost of removal.

ORA POSITION:

ORA recommends $452,920 in 2015, $452,924 in 2016, and $452,920 in 2017 for the cost of removal.

RESOLUTION:

Based on the stipulated capital projects, the Parties agree to the cost of removal estimates as set forth in the table below.

Cost of Removal

	Park Original	ORA Original	Difference	Settlement
Year 2015	$888,400	$452,920	($435,480)	$803,400
Test Year 2016	$874,800	$452,924	($421,880)	$711,300
Test Year 2017	$393,900	$452,920	$59,020	$164,600

REFERENCES: Park Exh. P-1, Ch. VI, p. 104; ORA Exh. O-1, Ch. 5, p. 5-32.

9.17 Real Property Subject to Water Infrastructure Improvement Act of 1996

PARK WATER REQUEST:

Park requests that Pump Lot 13-C with a total original cost of $3,185.72 be transferred to non-utility property in the year-end 2014 accounting as this property is determined to be no longer used and useful. Park requests Commission acknowledgement that Park is in compliance with the Infrastructure Improvement Act.

ORA RESPONSE:

ORA did not issue testimony regarding the Water Infrastructure Improvement Act of 1996.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree that the Commission should find that Park is in compliance with the real property subject to the Water Infrastructure Improvement Act of 1996.

REFERENCES: Park Exh. P-1, pp–.126.

9.18 Potential Water Supply – City of Bellflower

ORA RECOMMENDATION:

As a result of a comment received at the Public Participation Hearings, ORA learned that the City of Bellflower may have excess capacity that could be available to Park. Based on Park's responses to ORA's discovery requests, it is not economically feasible for Park to incorporate this excess capacity into Park's supply at this time. Park identified several reasons why it is more cost effective for Park to replace the wells in its Bellflower-Norwalk system rather than enter into an agreement with the City of Bellflower to purchase water. Some of the reasons identified by Park included the limited availability of supply during peak demands, hydraulic constraints, capital improvements required, wheeling charges from Bellflower-Somerset Mutual Water Company, and the terms of the contract proposed by the City of Bellflower.

PARK WATER RESPONSE:

Park did not issue testimony regarding the excess capacity from the City of Bellflower's well.

RESOLUTION:

After further discussions and settlement negotiations, the Parties agree that Park will reexamine whether or not it is economically feasible to purchase water from the City of Bellflower. This would involve an assessment of whether conditions have changed regarding the firm capacity and seasonal availability of water from the City of Bellflower, the City of Bellflower's ability to commit capacity for an extended period of time consistent with the life of the additional facilities that Park would need to install in order to utilize that capacity, and the feasibility for Park to incorporate this excess capacity into Park's supply mix. Park agrees to provide an update to the Commission in its next GRC application.

REFERENCES: ORA Exh. O-1, pp. 5-33 – 5-37.

10.0 DEPRECIATION RATES, RESERVE, AND DEPRECIATION EXPENSE

10.1 Depreciation Rates

PARK WATER REQUEST:

Park proposed new depreciation rates based on a remaining life study completed in accordance with Standard Practice U-4, using plant and reserve balances as of January 1, 2014.

ORA RESPONSE:

ORA finds the depreciation rates proposed by Park reasonable and recommends the Commission adopt Park's proposed depreciation rates.

RESOLUTION:

The Parties agree to use the depreciation rates as set forth in the table below.

Depreciation Rates	Present	Proposed
Wells	3.71%	2.23%
Source Of Supply - Other	2.16%	2.13%

Depreciation Rates	Present	Proposed
Pumping - Struct. & Improv.	3.99%	3.82%
Electric Pump. Equip.	4.12%	4.13%
Water Treatment Equip.	5.06%	5.12%
T&D Reservoirs & Tanks	2.05%	2.09%
T & D Mains	2.28%	1.91%
Services	2.54%	2.56%
Meters	2.84%	3.09%
Hydrants	2.28%	2.25%
Gen. Plant Struct. & Improv.	2.57%	1.94%
Office Furniture & Equip.	6.11%	6.54%
Transportation Equipment	7.78%	2.12%
Stores Equipment	4.01%	3.55%
Tools & Shop Equipment	5.51%	4.97%
Laboratory Equipment	4.42%	6.78%
Power Operated Equipment	6.61%	8.35%
Communication Equipment	7.76%	7.56%
Computer Equipment-Pc	11.98%	10.95%
Computer Equipment-Mis/Sftwr	8.92%	9.55%
Computer Mapping Equipment	3.35%	0.54%
Other Tangible Property	4.00%	4.00%

REFERENCES: Park Exh. P-1, Table VII-A; ORA Exh. O-1, Ch. 6.

10.2 Depreciation Reserve

PARK WATER REQUEST:

Park requested depreciation expense and reserve based on its proposed depreciation rates and proposed utility plant. In developing the proposed depreciation rates, Park revised the remaining life assumptions for services and water mains from 40 to 50 years and from 50 to 60 years, respectively.

ORA POSITION:

There are no methodological differences between Park and ORA. There was no issue regarding the depreciation rates or revisions to the remaining life study proposed by Park. Differences in

the Parties' original depreciation reserve and depreciation expense estimates resulted from differences in the utility plant estimates.

RESOLUTION:

The Parties agree that the depreciation expense and Depreciation Reserve should be calculated using the depreciation rates proposed in Park's Application and the stipulated balances of plant in service incorporating stipulated adjustment and additions as set forth in the table below.

Test Year 2016

	Park Original	**ORA Original**	**Difference**	**Settlement**
Depreciation Reserve & Expense				
Beginning Year Balance	$21,920,314	$21,067,835	($852,479)	$21,096,041
Annual Accrual Charged To:				
Clearing Accounts	$109,324	$110,541	$1,217	$110,642
Contributions	$300,175	$299,675	($500)	$299,675
Depreciation Expense	$2,139,342	$2,058,176	($81,166)	$2,078,396
Other				
Total	$2,548,841	$2,468,392	($80,449)	$2,488,713
Retirements & Adjustments				
Net Retirements	$1,124,888	$2,054,888	$930,000	$2,054,888
Adjustments	$73,761	$166,761	$93,000	$166,761
Total	$1,198,649	$2,221,649	$1,023,000	$2,221,649
Net Additions	$1,350,193	$246,744	$1,103,449	$267,064
End Of Year Balance	$23,270,506	$21,314,579	($1,955,927)	$21,363,105
Average Balance	$22,595,410	$21,191,207	($1,404,203)	$21,229,573
Statistics				

	Park Original	ORA Original	Difference	Settlement
Average Depreciable Plant	$118,555,047	$107,101,612	($11,453,435)	$112,008,596
Accrual As % Of Plant	2.15%	2.30%		2.22%

Escalation Year 2017

	Park Original	ORA Original	Difference	Settlement
Depreciation Reserve & Expense				
Beginning Year Balance	$23,270,506	$21,314,579	($1,955,927)	$21,363,105
Annual Accrual Charged To:				
Clearing Accounts	$112,391	$111,954	($437)	$112,156
Contributions	$301,669	$301,170	($499)	$ 301,170
Depreciation Expense	$2,620,743	$2,373,499	($247,244)	$2,493,514
Other				
Total	$3,034,804	$2,786,623	($248,181)	$2,906,840
Retirements & Adjustments				
Net Retirements	$623,803	$623,803	$0	$623,803
Adjustments	$6,908	$6,908	$0	$6,908
Total	$630,712	$630,712	$0	$630,712
Net Additions	$2,404,092	$ 2,155,911	($248,181)	$2,276,128
End Of Year Balance	$25,674,599	$23,470,490	($2,204,109)	$23,639,233
Average Balance	$24,472,553	$22,392,534	($2,080,019)	$22,501,169
Statistics				
Average Depreciable Plant	$136,832,624	$116,386,176	($20,446,448)	$126,770,565
Accrual As % Of Plant	2.22%	2.39%		2.29%

REFERENCES: Park Exh. P-1, Table VII-C; ORA Exh. O-1, Ch. 6, Tables 6-1 & 6-2.

11.0 RATE BASE

11.1 Materials and Supplies

PARK WATER REQUEST:

Park requests $196,210 in materials and supplies based on the recorded 2013 data calculated by the 3% non-labor escalation factor to Test Year 2016.

ORA POSITION:

ORA agrees with Park's methodology. The original differences between the Parties' positions are the result of ORA's use of recorded 2014 data. Since Park agrees with ORA's use of recorded 2014 data and with the resolution of escalation factors (Section 5.2), there are no more differences between the Parties' positions.

RESOLUTION:

The Parties agree to materials and supplies as shown in the tables below.

Materials/Supplies

	Park Original	ORA Original	Difference	Settlement
Test Year 2016	$196,210	$194,248	($1,962)	$188,709
Escalation Year 2017	$202,097	$200,076	($2,021)	$193,810

REFERENCES: Park Exh. P-1, Table VIII-A; ORA Exh. O-1, Ch. 7, Table 7-1.

11.2 Deferred Income Tax

PARK WATER REQUEST:

Park estimated $6,866,281 in deferred income taxes for Test Year 2016 based on the normalization of tax benefits derived from accelerated depreciation, Accelerated Cost Recovery System ("ACRS") and Modified Accelerated Cost Recovery System ("MACRS"), allowed for Federal Income Tax calculation and incorporating Park's estimates of utility plant in service. The calculation of the deferred tax reserve incorporates the impact of Bonus Depreciation allowed by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 and the Internal Revenue Service ("IRS") Repair Regulations (U.S. Treasury Department regulations issued on December 23, 2011 (T.D. 9564), and IRS related guidance issued in March 2012)

implemented for taxable years beginning on or after January 1, 2014, allowing some costs which are normally capitalized to be treated as repair or expense items for tax purposes. Because Park has not yet filed its 2014 return and not yet finalized its methodology for determining the costs which could be expensed for tax purposes, Park estimated them at 3% of the 25-year tax life plant for both the tax repair catch-up and future plant adjustments.

ORA POSITION:

There are no methodological differences between Park and ORA. There was no issue regarding the tax rates proposed by Park. Differences in the Parties' original deferred income tax estimates resulted from ORA's use of the deferred income taxes from Park's update for recorded 2014 data and differences in the utility plant estimates.

RESOLUTION:

The Parties agree to use Park's methodology to calculate the deferred taxes. The Parties agree Park's projected tax repairs and any differences in revenue requirement due to differences between the estimated and actual methodology for determining tax repairs will be recorded in the Tangible Property Regulations Consequences Memorandum Account. The Parties further agree that the deferred taxes will incorporate the settlement on utility plant issues and agree to the amounts shown in the below tables.

Deferred Income Tax

	Park Original	ORA Original	Difference	Settlement
Test Year 2016	$6,866,281	$6,773,971	($92,310)	$6,807,979
Escalation Year 2017	$7,186,687	$6,984,247	($202,440)	$7,072,207

REFERENCES: Park Exh. P-1, p. 137, Table VIII-A; ORA Exh. O-1, Table 7-1.

<u>11.3 Working Cash</u>

PARK WATER REQUEST:

Park's Application requests working cash estimates of $2,474,564 for Test Year 2016 and $4,141,888 for Test Year 2017 based on the methodology prescribed in Standard Practice U-16 (in Rebuttal, Park corrected an error in the calculation of the 2017 revenue lag day resulting in a

correction of the 2017 working cash allowance to $2,540,386, based on Park's original application estimates of expenses and capital).

ORA POSITION:

ORA recommends working cash estimates of $2,212,412 for Test Year 2016 and $1,956,374 for Test Year 2017 based on adjustments to Park's Application amounts to exclude depreciation expense and production expenses (purchased power, purchased water, and replenishment) from the lead-lag study and the WRAM adjustment for revenue lag in 2017.

RESOLUTION:

Aside from the methodological differences described above, the differences in the Parties' original working cash estimates resulted from differences in revenues, expense and utility plant used in the total working cash calculation, and correction of Park's error in the 2017 revenue lag day calculation and ORA's inconsistency between its expense estimates and the amounts used for those expense categories in the lead-lag study. ORA agrees to include depreciation expense and production expenses in the lead – lag study and agrees with Park's corrected proposed WRAM adjustment for revenue lag in 2017. The Parties agree to include in Operational Cash the unamortized portion of agreed upon rate case costs (Section 6.14). The Parties agree that working cash should be calculated using adopted expenses and utility plant in service consistent with the Commission's Standard Practice U-16. The Parties further agree to the working cash as set forth in the tables below.

Working Cash

	Park Original	ORA Original	Difference	Settlement
Test Year 2016	$2,474,564	$2,212,412	($262,152)	$2,484,097
Escalation Year 2017	$4,141,888	$1,956,374	($2,185,514)	$2,619,576

REFERENCES: Park Exh. P-1, pp. 134-135, Park Exh P-12, pp. 9-17; ORA Exh. O-1, pp. 7-1 – 7-4.

13.0 MISCELLANEOUS REVENUES

13.1 Non-Tariffed Products & Services (NTPS)

PARK WATER REQUEST:

Park estimated NTPS revenues of $93,509 for 2016, 2017, and 2018 based on contracts with HomeServe and CBMWD (the Rio Hondo System). Park's estimates were based on a 3-year average and based on the contracts contemplated to be in effect during 2016, 2017, and 2018 at the time the Application was prepared.

ORA POSITION:

ORA recommends NTPS revenues of $186,066 for 2016, 2017, and 2018. ORA's estimates also include contracts entered into after the Application was filed, CBMWD (Century system renewal) and the City of Bell Gardens. ORA proposes the same estimate for 2016 be used for 2017 and 2018 without averaging. ORA also proposes a difference in the accounting for incremental costs.

RESOLUTION:

After much discussion, the Parties agree to an estimate for the total Miscellaneous Revenue for 2016, 2017, and 2018 of $490,000. Assuming use of ORA's estimates for Late Fees and Miscellaneous Service Revenues (Fire flow and Reconnection Fees) as reflected below, the NTPS revenues for 2016, 2017, and 2018 is $178,434. The Parties agree to NTPS revenues of $178,434 for 2016, 2017, and 2018 as set forth in the tables below.

NTPS Revenues

	Park Original	ORA Original	Difference	Settlement
Test Year 2016	$93,509	$186,066	$92,557	$178,434
Escalation Year 2017	$93,509	$148,295	$54,786	$178,434
Escalation Year 2017	$93,509	$148,295	$54,786	$178,434

REFERENCES: Park Exh. P-1, pp. 163-164, Park Exh P-12, pp. 17-19; ORA Exh. O-1, pp. 13-1 – 13-4.

<u>13.2 Misc. Service Revenues (Fire Flow and Reconnection Fees)</u>

PARK WATER REQUEST:

Park estimated Misc. Service Revenue based on a 9-month annualized for 2014.

ORA POSITION:

ORA recommends Misc. Service Revenue of $178,043 based on the updated 2014 data.

RESOLUTION:

Park agrees with ORA's use of the updated 2014 data. The Parties agree to misc. service revenue as set forth in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Misc. Service Revenues	$182,242	$178,043	($4,199)	$178,043

REFERENCES: Park Exh. P-1, pp. 163-164; ORA Exh. O-1 p. 13-5.

13.3 Late Fees

PARK WATER REQUEST:

Park estimated late fees of $113,922 for 2016 based on a 5-year recorded average (2009-2013).

ORA POSITION:

ORA recommends $133,524 based on 3-year recorded average (2012-2014).

RESOLUTION:

After further discussions and settlement negotiations, Park agrees with ORA's recommended use of the 3-year recorded average. The Parties agree to the late fees as set forth in the table below.

Test Year 2016

	Park Original	ORA Original	Difference	Settlement
Late Fees	$113,922	$133,524	$19,602	$133,524

REFERENCES: Park Exh. P-1, pp. 163-164; ORA Exh. O-1 p. 13-2.

14.0 RATE DESIGN

14.1 Residential and Non-Residential

PARK WATER REQUEST:

Park requests continuation of the current conservation rate design program that includes increasing block rates of three tiers for residential customers. Park requests that the breakpoints be adjusted to reflect more recent consumption patterns. Due to the different characteristics of its non-residential customers, Park recommends retaining the single quantity conservation rate for non-residential customers. The rate design uses the California Urban Water Conservation Council ("CUWCC") BMP 11 on conservation rates by using the threshold guideline of having more than 70% of its revenue generated by the commodity charge. The residential rate design is set such that 75% of revenue comes from the quantity charge.

ORA POSITION:

ORA finds Park's methodology acceptable and recommends that the Commission adopt the rate design contained in Park's application.

RESOLUTION:

The Parties agree that the rate design described above should be applied to the adopted revenue requirement to determine the adopted rates. The Parties agree that this agreement is contingent upon Park being authorized a full decoupling WRAM/MCBA over the period that this rate design is in effect.

REFERENCES: Park Exh.P-1, Chapter XII; ORA Exh. O-1, Chapter 14.

15.0 WATER QUALITY

ORA RECOMMENDATION:

Based on review of information provided by Park and the California Department of Public Health ("CDPH"), ORA recommends that the Commission find that Park is in compliance with CDPH water quality regulations, federal drinking water standards, and the Commission's General Order 103-A.

PARK WATER RESPONSE:

Park agrees with ORA's recommendation.

RESOLUTION:

The Parties recommend that the Commission find Park is in compliance with all applicable federal and state drinking water standards including General Order 103-A.

REFERENCES: Park Exh. P-1, Chapter X; ORA Exh. O-1, Chapter 10.

16.0 MEMORANDUM AND BALANCING ACCOUNTS

16.1 Tangible Property Regulations Consequences Memorandum Account

PARK WATER REQUEST:

Park requests that the Commission authorize the refund of the over-collected balance recorded in the Tangible Property Regulations Consequences Memorandum Account estimated at $14,000 as of December 31, 2014. Park further requests Commission authorization to close the account as of January 1, 2016, the effective date of the Test Year 2016 rate case cycle, as the estimated impact of these regulations has been incorporated in the calculation of Park's requested revenue requirement in this proceeding.

ORA POSITION:

ORA agrees with Park's request to refund the balance recorded in the account but recommends that the account remain open to allow Park to record potential customer benefits that are unknown at this time because Park has yet to file its 2014 federal income tax return ,which will contain the determination of the Section 48(a) catch up provision.

RESOLUTION:

After further discussions, settlement negotiations, and review of ORA's testimony, the Parties agree that the balance recorded in the Tangible Property Regulations Consequences Memorandum Account should be refunded to customers after the final balance is determined. The Parties agree that the account should remain open through this rate cycle (2016 – 2018) to track differences in revenue requirement due to differences between the estimated and actual methodology for determining the tax impact of the Repair Regulations.

REFERENCES: Park Exh. P-1, p. 155-156; ORA Exh. O-1, Ch. 11.

16.2 Income Tax Repair Regulations Implementation Memorandum Account

PARK WATER REQUEST:

Park requests that the Commission authorize the recovery of the under-collected balance recorded in the Income Tax Repair Regulations Implementation Memorandum Account. The Income Tax Repair Regulations Implementation Memorandum Account records the costs of initial implementation of the Repair Regulations, including outside services. Park also requests that the Commission close this account on January 1, 2016, the effective date of the Test Year 2016 rate case cycle, since Park anticipates that all implementation costs would have been incurred by that time.

ORA POSITION:

ORA finds Park's request to be reasonable.

RESOLUTION:

After discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree that the Income Tax Repair Regulations Implementation Memorandum Account should terminate at the end of December 31, 2015 (or whatever other time that rates from this proceeding become effective) and that the Commission should authorize Park to file a Tier 2 advice letter to recover the under-collected balance recorded in the Income Tax Repair Regulations Implementation Memorandum Account.

REFERENCES: Park Exh. P-1, p. 156; ORA Exh. O-1, Ch. 11.

16.3 Low-Income Customer Data Sharing Cost Memorandum Account

PARK WATER REQUEST:

Park requests that the Commission authorize recovery of the balance recorded in the Low-Income Customer Data Sharing Memorandum Account. The under-collected balance recorded in the account through December 31, 2014 is $17,989. The costs associated with the maintenance of Park's low-income sharing are not included in Park's 2015 adopted rates, therefore, Park requests that the recovery include the recorded 2015 costs.

ORA POSITION:

ORA finds Park's request to be reasonable. ORA further recommends that the account be closed.

RESOLUTION:

After discussion, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree that the Commission should authorize Park to file a Tier 2 advice letter in the first quarter of 2016, after the 2015 recorded information is available, to recover the balance recorded in the Low-Income Customer Data Sharing Memorandum Account and that the account be closed thereafter.

REFERENCES: Park Exh. P-1, p. 156; ORA Exh. O-1, Ch. 11.

16.4 Credit Card Memorandum Account

PARK WATER REQUEST:

Park requests that the Commission authorize the refund of the over-collected balance recorded in the Credit Card Memorandum Account estimated at $5,183 at December 31, 2015 through a one-time surcredit. Park further proposes that the Commission authorize the closing of the account. The account was authorized by the Commission in Resolution W-4936, which requires disposition of the amounts recorded in the account in this GRC proceeding and allows for the balance to be estimated through December 31, 2015.

ORA POSITION:

ORA finds Park's request to be reasonable.

RESOLUTION:

Based on discussions, review of Park's rebuttal testimony, and review of workpapers, the Parties agree that the Commission should authorize Park to file a Tier 1 advice letter to the refund the over-collected balance recorded in the Credit Card Memorandum Account in the amount of $5,183 and that the account be closed thereafter.

REFERENCES: Park Exh. P-1, p. 157; ORA Exh. O-1, Ch. 11.

16.5 Conservation Expense One-Way Balancing Account

PARK WATER REQUEST:

Park requests that ORA defer audit of the Conservation Expense One-Way Balancing Account until after the completion of the 2013-2015 rate cycle, when Park files an advice letter requesting the resolution of the account authorized for the period.

ORA POSITION:

ORA supports Park's recommendation because the account covers the current rate case cycle (2013 – 2015). At the end of the three-year rate cycle (December 31, 2015), if the cumulative balance in the account is positive (meaning the actual conservation expenses did not exceed the authorized conservation expense), Park would refund the net positive balance to its customers. Conversely, if the amount of the cumulative balance is negative at the end of 2015, then that balance shall not be recovered from customers.

RESOLUTION:

The Parties agree that Park will file a Tier 2 advice letter by April 30, 2016 proposing resolution of the One-Way Conservation Expense Balancing Account. At that time, ORA will conduct an audit of the 2013 – 2015 expenses recorded in the account.

REFERENCES: Park Exh. P-1, p. 156-157; ORA Exh. O-1, Ch. 11.

16.6 Military Family Relief Program ("MFRP") Memorandum Account

ORA RECOMMENDATION:

ORA recommends that the Commission authorize the closing of the MFRP Memorandum Account because there has been no activity recorded in the account since its inception. ORA believes that the purpose, circumstances, and conditions under which the memorandum account was originally established no longer exist.

PARK WATER RESPONSE:

Park did not issue testimony regarding the MFRP Memorandum Account.

RESOLUTION:

After further discussions, settlement negotiations, and review of ORA's testimony, the Parties agree that the Commission should authorize the closing of the MFRP Memorandum Account. The Parties agree that Park should be authorized to file a Tier 1 advice letter to remove the MFRP Memorandum Account from Park's Preliminary Statement.

REFERENCES: ORA Exh. O-1, pp. 11-9 – 11-10.

16.7 Cost of Capital Memorandum Account

PARK WATER REQUEST:

Park requests that the Commission authorize recovery of the residual balance remaining in the Cost of Capital Memorandum Account through a one-time surcharge and that the account be closed. The under-collected balance recorded in the account through December 31, 2014 is $28,093.

ORA POSITION:

ORA finds Park's request to be reasonable.

RESOLUTION:

After discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree that the Commission should authorize Park to file a Tier 1 advice letter to recover the residual balance remaining in the Cost of Capital Memorandum Account through a one-time surcharge of $28,093 recorded through December 31, 2014, and that the account be closed thereafter.

REFERENCES: Park Exh. P-8, pp. 16-17; ORA Exh. O-1, pp. 11-13.

16.8 Employee and Retiree Health Care Balancing Account

PARK WATER REQUEST:

Park requests that the Commission authorize a new balancing account to track the difference between adopted employee and retiree healthcare expenses included in rates in this proceeding

and the actual expenses incurred. Park is seeking this account because of the large size of the expense, the volatility of the expense, and the fact that it is outside of Park's control. Park is seeking similar treatment previously afforded to other utilities regulated by the Commission, including its subsidiary, Apple Valley Ranchos Water Company.

ORA POSITION:

ORA opposes Park's request to establish an Employee and Retiree Health Care Balancing Account on the basis of its review of the justification provided by Park.

RESOLUTION:

After further discussions, settlement negotiations, review of Park's rebuttal testimony, and based on the Parties agreement regarding medical and dental expenses for 2017 and 2018, the Parties agree to ORA's recommendation and Park will withdrawal its request for an Employee and Retiree Healthcare Balancing Account.

REFERENCES: Park Exh. P-1, p. 154-155; Park Exh. P-7, pp. 11-13; ORA Exh. O-1, pp. 12-18 – 12-19.

16.9 Group Pension Expense Balancing Account

PARK WATER REQUEST:

Park requests that the Commission authorize a new balancing account to track the difference between adopted pension expenses included in rates in this proceeding and the actual expenses incurred. Park is seeking this account because of the projected increase in pension expense. Market conditions impact actual asset returns and the appropriate discount factor used by actuaries in determining the pension expense. These market conditions are outside of Park's control. A balancing account ensures that neither customers nor Park are harmed or benefitted by changing market conditions. Park is seeking similar treatment afforded to other water and energy utilities regulated by the Commission, including its subsidiary Apple Valley Ranchos Water Company (D.12-09-004). The amounts to be recorded in the account would be limited to the difference between Park's recorded expense, as determined by an independent actuarial firm, consistent with SFAS (Statement of Financial Accounting Standards) 87 accounting and ERISA

(The Employee Retirement Income Security Act of 1974) standards, and Park's recovery of costs for ratemaking purposes.

ORA POSITION:

ORA opposes Park's request to establish a Group Pension Balancing Account on the basis of its review of the justification provided by Park.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree that the Commission should authorize the establishment of the Group Pension Expense Balancing Account. The Parties agree that Park should be authorized to file a Tier 1 advice letter to establish the Group Pension Expense Balancing Account.

REFERENCES: Park Exh. P-1, p. 154; Park Exh. P-7, pp. 15 – 17; ORA Exh. O-1, Ch. 12.

17.0 SPECIAL REQUESTS

17.1 Level Payment Plan

PARK WATER REQUEST:

Park requests Commission authorization to offer a level payment plan option to allow customers to pay for water service in equal bi-monthly payments based on their last 12 months average bill, or a representative bill in their consumption history is shorter than that. At the end of the 12-month period, customers would receive a settlement bill with payment due or a credit balance. Park requests to offer a level payment plan similar to the program approved by the Commission for Southern California Edison.

ORA POSITION:

ORA opposes Park's request to establish a Level Payment Plan program on the basis of its review of the justification provided by Park.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the

Parties agree that the Commission should authorize Park to file a Tier 2 advice letter to implement the Level Payment Plan ("LPP") as a pilot program. The advice letter will include a discussion of the procedures for how customers may remove themselves, or be removed from, the program such as the following:

- A customer may end enrollment in the LPP by informing Park by phone, or by submitting a form in person, by mail, or by email.
- Park may end a customer's enrollment in the LPP as follows: After a bill becomes delinquent, the next customer bill will provide notice of the delinquency, and a warning that a continued failure to pay will result in water shut-off and removal from the LPP program. If the customer fails to pay within 10 days of the notice, Park will include the same warning with its standard termination letter for nonpayment.
- If water is turned back on, the customer's next bill will indicate that the customer was removed from the LPP due to non-payment, and that they may not re-enroll unless their account is in good standing for at least 12 consecutive months (12 monthly cycles or 6 bi-monthly cycles).

The accounts of customers who enroll in the LPP will be electronically tagged with a special identifier. For program evaluation purposes, Park agrees to monitor the success of the LPP program and provide a report in its next GRC. The report will include enrollment rates, water consumption, bill delinquencies, and service shutoffs. The report will also discuss major incremental costs incurred to initiate and maintain the program, and major costs savings that could be attributed to the program. Park will also discuss whether further adjustments to the program may make it more cost effective.

The Parties also agree that the program is subject to suspension if drought conditions require Park to implement Stage 2 (or higher) of Schedule 14.1, Water Shortage Contingency Plan.

REFERENCES: Park Application, p. 13; ORA Exh. O-1, Ch. 11.

17.2 Recognition of Future Offset

PARK WATER REQUEST:

Park anticipates the filing of leased water and purchased power expense offset advice letters subsequent to the filing of this GRC Application but prior to the Test Year. Park requests that

the Commission recognize any subsequent offsets prior to the issuance of a final decision in this GRC.

ORA POSITION:

ORA supports this request.

RESOLUTION:

The Parties agree that any expense offsets be recognized prior to the issuance of a final decision in the proceeding.

REFERENCES: Park Application, p. 13; ORA Exh. O-1, Ch. 12.

18.0 WATER REVENUE ADJUSTMENT MECHANISM ("WRAM")/MODIFIED COST BALANCING ACCOUNT ("MCBA")

PARK WATER REQUEST:

Park requests Commission authorization to continue its existing Water Revenue Adjustment Mechanism ("WRAM")/Modified Production Cost Balancing Account ("MCBA") with some minor modifications. Park proposes to add the commodity revenues for the reclaimed water customer class to the WRAM balancing account. Park's MCBA captures variations in production costs (purchased water – potable, purchased power, and replenishment assessments) due to either changes in unit price or changes in the consumption. Park requests that the production costs of purchased water – reclaimed and leased water rights be included in the supply cost captured by the MCBA. Park also requests to add chemical costs in the MCBA.

ORA POSITION:

ORA opposes Park's requests to modify the WRAM/MCBA.

RESOLUTION:

After further discussions, settlement negotiations, and review of Park's rebuttal testimony, the Parties agree that the Commission should authorize the continuance of the WRAM/MCBA. The Parties agree with ORA's recommendation not to add the commodity revenues for reclaimed

water customers to the WRAM and the purchased water-reclaimed expenses to the MCBA. The Parties agree to include Park's request to add leased water rights to the MCBA for this rate case cycle only, subject to a reasonableness review based on market conditions. The Parties further agree to include Park's request to add chemicals to the MCBA. The Parties agree that the Commission should authorize Park to file a Tier 1 advice letter to update the description of the WRAM/MCBA in Park's Preliminary Statement as described herein.

REFERENCES: Park Exh. P-1, p. 152-153; Park Exh. P-8, p.p 19 – 21; ORA Exh. O-1, Ch. 12.

19.0 LOW INCOME PROGRAM (CARW)

PARK WATER REQUEST:

Park proposes to continue its existing low-income discount program known as California Alternate Rates for Water ("CARW"). Park requests continuing this program by increasing the current monthly service charge discount of $6.69 by the average percentage increase to rates authorized in this proceeding. Park also proposes the continuation of a surcharge to offset the CARW discounts provided to qualifying customers. Park requests the Commission authorize the recovery of the under-collection recorded in the CARW Balancing Account as of December 31, 2014 in the amount of $526,141 through a 12-month temporary surcharge.

ORA POSITION:

ORA disagrees with Park's proposed modifications to the CARW program. ORA recommends that the CARW discount and surcharge remain at the current authorized level for years 2016 – 2018. ORA agrees with Park's request to recover the under-collected balance recorded in the CARW Revenue Reallocation Balancing Account.

RESOLUTION:

The Parties agree that the Commission should authorize the continuance of the CARW Program. The Parties disagree on Park's proposed modifications to the discount and surcharge, which are outlined in Section 1.3.

The Parties agree that the Commission should authorize Park to file a Tier 1 advice letter to recover the under-collection recorded in the CARW Revenue Reallocation Balancing Account as of December 31, 2014 in the amount of $526,141. The Parties further agree that the CARW Balancing Account continues to be necessary to track the balance of collected surcharges and discounts.

REFERENCES: Park Exh. P-1, pp. 18-20, 153-154; Park Exh. P-8, pp. 17-18; ORA Exh. O-1, Ch. 12.

20.0 REQUESTS TO THE COMMISSION

As a result of this Settlement, the Commission should act to resolve Park's requests in this proceeding. The Parties are providing a list of these requests under paragraph 21.0 below in an effort to ensure the Commission takes notice of necessary findings and orders arising from this proceeding.

21.0 REQUESTS AS A RESULT OF THE SETTLEMENT

21.1 The Parties request that the Commission authorize the continuance of the existing Water Revenue Adjustment Mechanism and Modified Cost Balancing Accounts pursuant to Section 18.

21.2 The Parties request that the Commission authorize recovery of the under-collected balance in Park's Low-Income Customer Data Sharing Cost Memorandum Account ($17,989 as of December 31, 2014) pursuant to Section 16.3.

21.3 The Parties request that the Commission authorize recovery of the under-collected balance in Park's Cost of Capital Memorandum Account ($28,093 as of December 31, 2014) pursuant to Section 16.5.

21.4 The Parties request that the Commission authorize the refund of the over-collected balance in the Park's Credit Card Balancing Account (estimate of $5,183 as of December 31, 2015) pursuant to Section 16.4.

21.5 The Parties request that the Commission authorize recovery of the under-collected balance in Park's CARW Revenue Reallocation Balancing Account ($526,141 as of December 31, 2014) pursuant to Section 19.0.

21.6 The Parties request that the Commission make a finding that Park meets all applicable

water quality standards. This finding would be based upon ORA's review of water quality testimony and information provided by Park.

21.7 The Parties request that the Commission make a finding that Park is in compliance with the Real Property Subject to the Water Infrastructure Improvement Act of 1996.

21.8 The Parties request that the Commission order the filing of advice letters to implement increases for Escalation Years 2017 and 2018.

21.9 The Parties request that the Commission find that Park's third party contracts with HomeServe and Park's maintenance contracts with Central Basin Municipal Water District, that are subject to the Excess Capacity Decision (D.00-07-018) and Non-Tariffed Products & Services Rules in D.10-10-019 (Appendix A, Rule X) for unregulated transactions is properly reflected in Park's revenue requirement.

21.10 The Parties request that the Commission authorize and implement all other agreements of the Parties contained in the Settlement.

21.11 The Parties request that the Commission adopt a net-to-gross multiplier of 1.782332 for this rate case cycle.

22.0 FURTHER TERMS AND CONDITIONS OF THE SETTLEMENT

Rule 12.1(d) requires that a Settlement be "reasonable in light of the whole record, consistent with the law, and in the public interest." The Settlement between the Parties in this proceeding satisfies the criteria in Rule 12.1(d). The Commission should approve, and adopt this Settlement, which is supported by ORA and Park.

22.1 The Settlement is Reasonable

The Settlement, taken as a whole, provides a reasonable resolution of the issues settled in this proceeding. The reasonableness of the Settlement is supported by ORA's reports and testimony, and by the testimony, reports, and rebuttal testimony of Park. In addition, the parties considered the affordability of the rates, letters to the Commission, the financial health of Park and the Commission's Water Action Plan. The parties fully reached a reasonable compromise on the various issues that were in contention. The settlement negotiations were accomplished at arm's length over the course of numerous weeks.

22.2 The Settlement is Lawful

The Parties are aware of no statutory provisions or prior Commission decision that would be

contravened or compromised by the Settlement. The issues resolved in the Settlement are clearly within the scope of the proceeding. Moreover, the Settlement, if adopted, would result in just and reasonable rates to Park's customers.

22.3 The Settlement Serves the Public Interest

The Settlement is in the public interest. The Commission has explained that a settlement which "commands broad support among participants fairly reflective of the affected interest" and "does not contain terms which contravene statutory provisions or prior Commission decisions" well serves the public interest. *Re San Diego Gas & Elec.*, D.92-12-019, 46 CPUC 2d at 552. In this proceeding, the Parties fairly represent the affected parties' interests. Park provides water service to the customers in its service territory in San Bernardino County, and ORA is statutorily mandated with representing ratepayers in California, including those ratepayers not directly at issue in this proceeding.

The principal public interest affected in this proceeding is the delivery of safe, reliable water service at reasonable rates. The Settlement advances these interests. In addition, Commission approval of the Settlement will provide speedy resolution of contested issues, which will conserve Commission resources.

22.4 The Settlement Conveys Sufficient Information

The Parties believe that the Settlement conveys sufficient information for the Commission to discharge its future regulatory obligations. Thus, taken as a whole, the Settlement will satisfy the Commission's standards for approving a settlement presented to it.

23.0 CONCLUSION

The Parties mutually believe that, based on the terms and conditions set forth above, this Settlement is reasonable, consistent with the law, and in the public interest.

* * * * * *Signature Page Follows* * * * * *

OFFICE OF RATEPAYER ADVOCATES

By:_____

Joseph P. Como
Acting Director

California Public Utilities Commission
Office of Ratepayer Advocates
505 Van Ness Avenue
San Francisco, CA 94102

Dated: August 14, 2015

PARK WATER COMPANY

By:_____

Edward N. Jackson
Project Manager

Park Water Company
9750 Washburn Road
Downey, CA 90241

Dated: August 14, 2015

(End of Exhibit A)

EXHIBIT B

JOINT COMPARISON EXHIBIT OF PARK WATER COMPANY AND THE OFFICE OF RATEPAYER ADVOCATES

FILED
8-14-15
04:59 PM

EXHIBIT B

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Park Water Company (U 314 W) for Authority to Increase Rates Charged for Water Service by $2,918,800 or 8.72% in 2016, $2,422,093 or 6.63% in 2017, and $1,598,099 or 4.08% in 2018.	A.15-01-001 (Filed January 2, 2015)

JOINT COMPARISON EXHIBIT OF PARK WATER COMPANY AND THE OFFICE OF RATEPAYER ADVOCATES

Victor Chan
Project Manager
Office of Ratepayer Advocates
California Public Utilities Commission
320 West 4th Street, Suite 500
Los Angeles, CA 90013
Phone: (213) 576-7048
Fax: (213) 576-7007
victor.chan@cpuc.ca.gov

Edward N. Jackson
Project Manager
Director of Revenue Requirements
Park Water Company
9750 Washburn Road
P. O. Box 7002
Downey, CA 90241
Phone: (562) 923-0711
Fax: (562) 861-5902
E-mail: ed.jackson@parkwater.com

August 14, 2015

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JOINT COMPARISON EXHIBIT OF PARK WATER COMPANY AND THE OFFICE OF RATEPAYER ADVOCATES

INTRODUCTION

This comparison exhibit, sponsored jointly by Park Water Company (Park) and the Office of Ratepayer Advocates (ORA), sets forth the original estimates of both Parties as well as the settlement amounts.

Both Park and ORA have revised their estimates of the 2016 revenue requirements to reflect corrections and stipulations. Estimates of individual items may have been revised up or down but overall Park's request has decreased from 8.72% to 6.18% and ORA's has increased from 1.87% to 6.18%.

Included in this comparison exhibit are summary of earnings tables at present rate revenues (2016) and at Park's and ORA's proposed rate of return (2016) providing the results of Park's and ORA's revised estimates as well as the differences between Park and ORA by category. Income tax tables are similarly provided at present rate revenues (2016) and at Park's and ORA's proposed rate of return (2016). Rate base tables are provided for years 2016 and 2017. Tables are also provided for customers and water sales for years 2016, 2017, and 2018.

The differences between Park's and ORA's original and final estimates are due to the Parties' corrections, stipulations, and resolution of customers, sales, revenues, expense, tax, and capital items through additional discussions held after the issuance of ORA's Results of Operations Report. Details of the settlement estimates are contained in the Joint Motion of Park and ORA to Approve Settlement Agreement and Settlement Agreement dated August 14, 2015.

The Parties have reached agreement on all revenue, expense, tax, and capital items as described in the Settlement Agreement.

TABLE A1
PARK WATER COMPANY - CENTRAL BASIN DIVISION
2016 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES
2016 @ PRESENT RATES
(Dollars in Thousands)

	ORA			PARK	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATING REVENUES	32,798.5	32,798.5	0.0	32,798.5	33,096.7
DEFERRED REVENUES	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS REVENUE	(497.6)	(490.0)	0.0	(490.0)	(390.7)
TOTAL REVENUES	33,296.2	33,288.5	0.0	33,288.5	33,487.3
OPERATIONS & MAINTENANCE					
PAYROLL-OPERATIONS	1,026.6	1,217.2	0.0	1,217.2	1,232.8
OPERATIONS-OTHER	291.8	288.6	0.0	288.6	292.2
PURCHASED WATER-POTABLE	7,541.5	7,324.9	0.0	7,324.9	7,628.3
PURCHASED WATER-RECLAIMED	169.7	169.7	0.0	169.7	190.3
PURCHASED POWER	396.0	396.0	0.0	396.0	396.0
LEASED WATER RIGHTS	495.4	562.3	0.0	562.3	554.1
REPLENISHMENT	1,127.0	1,127.0	0.0	1,127.0	1,127.0
CHEMICALS	78.8	75.6	0.0	75.6	88.6
PAYROLL-CUSTOMERS	748.0	788.9	0.0	788.9	790.2
CUSTOMERS-OTHER	597.3	706.1	0.0	706.1	901.5
UNCOLLECTIBLES	187.0	192.0	0.0	192.0	190.9
PAYROLL-MAINTENANCE	376.2	420.5	0.0	420.5	421.1
MAINTENANCE-OTHER	628.8	613.4	0.0	613.4	645.1
PAYROLL-CLEARINGS	149.3	157.5	0.0	157.5	157.7
DEPRECIATION-CLEARINGS	111.4	110.6	0.0	110.6	109.3
CLEARINGS-OTHER	304.2	299.4	0.0	299.4	304.8
SUB-TOTAL O & M	14,229.2	14,449.7	0.0	14,449.7	15,030.0
ADMINISTRATIVE & GENERAL					
A & G PAYROLL	1,972.9	2,128.9	0.0	2,128.9	2,135.7
EMPLOYEE BENEFITS	1,677.4	1,841.8	0.0	1,841.8	1,911.6
INSURANCE	737.8	813.1	0.0	813.1	820.7
UNINSURED PROPERTY DAMAGE	0.0	0.0	0.0	0.0	0.0
REG. COMM. EXPENSE	145.7	260.3	0.0	260.3	175.0
FRANCHISE REQUIREMENTS	126.5	126.5	0.0	126.5	127.3
OUTSIDE SERVICES	204.7	199.6	0.0	199.6	206.3
A & G - OTHER	445.5	435.5	0.0	435.5	451.2
A & G TRANSFERRED CREDIT	(480.6)	(592.1)	0.0	(592.1)	(726.0)
RENTS	0.0	0.0	0.0	0.0	0.0
GENERAL OFFICE ALLOCATION	3,110.7	3,084.4	0.0	3,084.4	3,110.7
SUB-TOTAL A & G	7,940.7	8,298.1	0.0	8,298.1	8,212.5
OTHER TAXES					
[1] PROPERTY TAXES	719.6	742.2	0.0	742.2	754.0
TAXES-OTHER	61.8	59.5	0.0	59.5	61.8
[1] PAYROLL TAXES	395.5	424.5	0.0	424.5	427.5
SUB-TOTAL OTHER TAXES	1,176.9	1,226.2	0.0	1,226.2	1,243.4
[1] DEPRECIATION	2,184.8	2,205.0	0.0	2,205.0	2,261.6
CA INCOME TAXES	419.1	362.6	0.0	362.6	310.6
FEDERAL INCOME TAXES	1,738.0	1,511.4	0.0	1,511.4	1,354.4
TOTAL EXPENSES	27,688.6	28,053.0	0.0	28,053.0	28,412.4
NET REVENUE	5,607.5	5,235.6	0.0	5,235.6	5,075.0
TOTAL RATE BASE	65,681.6	70,452.0	0.0	70,452.0	73,989.1
RATE OF RETURN	8.54%	7.43%	0.0%	7.43%	6.86%

[1] DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM PARKS GENERAL OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

TABLE A2
PARK WATER COMPANY - CENTRAL BASIN DIVISION
2016 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES
2016 @ PROPOSED RATES
(Dollars in Thousands)

	ORA			PARK	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATING REVENUES	33,420.0	34,856.3	0.0	34,856.3	36,015.5
DEFERRED REVENUES					
MISCELLANEOUS REVENUE	(497.6)	(490.0)	0.0	(490.0)	(390.7)
TOTAL REVENUES	33,917.6	35,346.3	0.0	35,346.3	36,406.1
OPERATIONS & MAINTENANCE					
PAYROLL-OPERATIONS	1,026.6	1,217.2	0.0	1,217.2	1,232.8
OPERATIONS-OTHER	291.8	288.6	0.0	288.6	292.2
PURCHASED WATER-POTABLE	7,541.5	7,324.9	0.0	7,324.9	7,628.3
PURCHASED WATER-RECLAIMED	169.7	169.7	0.0	169.7	190.3
PURCHASED POWER	396.0	396.0	0.0	396.0	396.0
LEASED WATER RIGHTS	495.4	562.3	0.0	562.3	554.1
REPLENISHMENT	1,127.0	1,127.0	0.0	1,127.0	1,127.0
CHEMICALS	78.8	75.6	0.0	75.6	88.6
PAYROLL-CUSTOMERS	748.0	788.9	0.0	788.9	790.2
CUSTOMERS-OTHER	597.3	706.1	0.0	706.1	901.5
UNCOLLECTIBLES	190.5	204.0	0.0	204.0	207.5
PAYROLL-MAINTENANCE	376.2	420.5	0.0	420.5	421.1
MAINTENANCE-OTHER	628.8	613.4	0.0	613.4	645.1
PAYROLL-CLEARINGS	149.3	157.5	0.0	157.5	157.7
DEPRECIATION-CLEARINGS	111.4	110.6	0.0	110.6	109.3
CLEARINGS-OTHER	304.2	299.4	0.0	299.4	304.8
SUB-TOTAL O & M	14,232.8	14,461.6	0.0	14,461.6	15,046.6
ADMINISTRATIVE & GENERAL					
A & G PAYROLL	1,972.9	2,128.9	0.0	2,128.9	2,135.7
EMPLOYEE BENEFITS	1,677.4	1,841.8	0.0	1,841.8	1,911.6
INSURANCE	737.8	813.1	0.0	813.1	820.7
UNINSURED PROPERTY DAMAGE	0.0	0.0	0.0	0.0	0.0
REG. COMM. EXPENSE	145.7	260.3	0.0	260.3	175.0
FRANCHISE REQUIREMENTS	128.9	134.3	0.0	134.3	138.3
OUTSIDE SERVICES	204.7	199.6	0.0	199.6	206.3
A & G - OTHER	445.5	435.5	0.0	435.5	451.2
A & G TRANSFERRED CREDIT	(480.6)	(592.1)	0.0	(592.1)	(726.0)
RENTS	0.0	0.0	0.0	0.0	0.0
GENERAL OFFICE ALLOCATION	3,110.7	3,084.4	0.0	3,084.4	3,110.7
SUB-TOTAL A & G	7,943.1	8,305.9	0.0	8,305.9	8,223.6
OTHER TAXES					
[1] PROPERTY TAXES	719.6	742.2	0.0	742.2	754.0
TAXES-OTHER	61.8	59.5	0.0	59.5	61.8
[1] PAYROLL TAXES	395.5	424.5	0.0	424.5	427.5
SUB-TOTAL OTHER TAXES	1,176.9	1,226.2	0.0	1,226.2	1,243.4
[1] DEPRECIATION	2,184.8	2,205.0	0.0	2,205.0	2,261.6
CA INCOME TAXES	473.5	542.8	0.0	542.8	566.2
FEDERAL INCOME TAXES	1,950.5	2,214.8	0.0	2,214.8	2,354.0
TOTAL EXPENSES	27,961.4	28,956.3	0.0	28,956.3	29,695.3
NET REVENUE	5,956.2	6,390.0	0.0	6,390.0	6,710.8
TOTAL RATE BASE	65,681.6	70,452.0	0.0	70,452.0	73,989.1
RATE OF RETURN	9.07%	9.07%	0.0%	9.07%	9.07%
DOLLAR INCREASE	621.5	2,057.8		2,057.8	2,918.8
% INCREASE	1.87%	6.18%		6.18%	8.72%

[1] DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM PARKS GENERAL OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

TABLE B - 1
PARK WATER COMPANY
WATER SALES PER AVERAGE CUSTOMER
TEST YEAR 2016
(CCF)

	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential Bi-Monthly	126.6	126.6	0.0	126.6	127.8
Business Bi-Monthly	511.6	511.6	0.0	511.6	511.0
Business Monthly	5,767.7	5,767.7	0.0	5,767.7	6,284.1
Industrial Bi-Monthly	5,353.0	5,353.0	0.0	5,353.0	5,353.0
Industrial Monthly	10,817.2	10,817.2	0.0	10,817.2	10,817.2
Public Authority	1,445.9	1,445.9	0.0	1,445.9	1,445.9
Private Fire Service Bi-Monthly	2.8	2.8	0.0	2.8	2.8
Private Fire Service Monthly	11.6	11.6	0.0	11.6	11.6
Fire Hydrant Bi-Monthly	0.0	0.0	0.0	0.0	0.0
Temporary Bi-Monthly	0.0	0.0	0.0	0.0	0.0
Temporary Monthly	1,372.2	1,372.2	0.0	1,372.2	1,372.2
Irrigation-Reclaimed Monthly	5,316.7	5,316.7	0.0	5,316.7	5,503.2

TABLE B - 2
PARK WATER COMPANY
WATER SALES PER AVERAGE CUSTOMER
ESCALATION YEAR 2017
(CCF)

	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential Bi-Monthly	126.6	126.6	0.0	126.6	127.8
Business Bi-Monthly	511.6	511.6	0.0	511.6	511.0
Business Monthly	5,767.7	5,767.7	0.0	5,767.7	6,284.1
Industrial Bi-Monthly	5,353.0	5,353.0	0.0	5,353.0	5,353.0
Industrial Monthly	10,817.2	10,817.2	0.0	10,817.2	10,817.2
Public Authority	1,445.9	1,445.9	0.0	1,445.9	1,445.9
Private Fire Service Bi-Monthly	2.8	2.8	0.0	2.8	2.8
Private Fire Service Monthly	11.6	11.6	0.0	11.6	11.6
Fire Hydrant Bi-Monthly	0.0	0.0	0.0	0.0	0.0
Temporary Bi-Monthly	0.0	0.0	0.0	0.0	0.0
Temporary Monthly	1,372.2	1,372.2	0.0	1,372.2	1,372.2
Irrigation-Reclaimed Monthly	5,316.7	5,316.7	0.0	5,316.7	5,503.2

TABLE B - 6
PARK WATER COMPANY
WATER SALES PER AVERAGE CUSTOMER
ESCALATION YEAR 2018
(CCF)

	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential Bi-Monthly	126.6	126.6	0.0	126.6	127.8
Business Bi-Monthly	511.6	511.6	0.0	511.6	511.0
Business Monthly	5,767.7	5,767.7	0.0	5,767.7	6,284.1
Industrial Bi-Monthly	5,353.0	5,353.0	0.0	5,353.0	5,353.0
Industrial Monthly	10,817.2	10,817.2	0.0	10,817.2	10,817.2
Public Authority	1,445.9	1,445.9	0.0	1,445.9	1,445.9
Private Fire Service Bi-Monthly	2.8	2.8	0.0	2.8	2.8
Private Fire Service Monthly	11.6	11.6	0.0	11.6	11.6
Fire Hydrant Bi-Monthly	0.0	0.0	0.0	0.0	0.0
Temporary Bi-Monthly	0.0	0.0	0.0	0.0	0.0
Temporary Monthly	1,372.2	1,372.2	0.0	1,372.2	1,372.2
Irrigation-Reclaimed Monthly	5,316.7	5,316.7	0.0	5,316.7	5,503.2

TABLE C - 1
PARK WATER COMPANY AVERAGE
NUMBER OF CUSTOMERS
TEST YEAR 2016

NUMBER OF CUSTOMERS	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential Bi-Monthly	25,239	25,239	0.0	25,239	25,239
Business Bi-Monthly	1,645	1,645	0.0	1,645	1,645
Business Monthly	49	49	0.0	49	49
Industrial Bi-Monthly	3	3	0.0	3	3
Industrial Monthly	2	2	0.0	2	2
Public Authority	199	199	0.0	199	199
Private Fire Service Bi-Monthly	64	64	0.0	64	64
Private Fire Service Monthly	130	130	0.0	130	130
Fire Hydrant Bi-Monthly	11	11	0.0	11	11
Temporary Bi-Monthly	0	0	0.0	0	0
Temporary Monthly	13	13	0.0	13	13
Total - Potable	27,355	27,355	0.0	27,355	27,355
Irrigation-Reclaimed Monthly	25	25	0.0	25	25
GRAND TOTAL	27,380	27,380	0.0	27,380	27,380

TABLE C - 2
PARK WATER COMPANY AVERAGE
NUMBER OF CUSTOMERS
ESCALATION YEAR 2017

NUMBER OF CUSTOMERS	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential Bi-Monthly	25,275	25,275	0.0	25,275	25,275
Business Bi-Monthly	1,645	1,645	0.0	1,645	1,645
Business Monthly	51	51	0.0	51	51
Industrial Bi-Monthly	3	3	0.0	3	3
Industrial Monthly	2	2	0.0	2	2
Public Authority	200	200	0.0	200	200
Private Fire Service Bi-Monthly	64	64	0.0	64	64
Private Fire Service Monthly	133	133	0.0	133	133
Fire Hydrant Bi-Monthly	11	11	0.0	11	11
Temporary Bi-Monthly	0	0	0.0	0	0
Temporary Monthly	14	14	0.0	14	14
Total - Potable	27,398	27,398	0.0	27,398	27,398
Irrigation-Reclaimed Monthly	25	25	0.0	25	25
GRAND TOTAL	27,423	27,423	0.0	27,423	27,423

TABLE C - 9
PARK WATER COMPANY AVERAGE
NUMBER OF CUSTOMERS
ESCALATION YEAR 2018

NUMBER OF CUSTOMERS	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential Bi-Monthly	25,311	25,311	0.0	25,311	25,311
Business Bi-Monthly	1,645	1,645	0.0	1,645	1,645
Business Monthly	53	53	0.0	53	53
Industrial Bi-Monthly	3	3	0.0	3	3
Industrial Monthly	2	2	0.0	2	2
Public Authority	201	201	0.0	201	201
Private Fire Service Bi-Monthly	64	64	0.0	64	64
Private Fire Service Monthly	136	136	0.0	136	136
Fire Hydrant Bi-Monthly	11	11	0.0	11	11
Temporary Bi-Monthly	0	0	0.0	0	0
Temporary Monthly	15	15	0.0	15	15
Total - Potable	27,441	27,441	0.0	27,441	27,441
Irrigation-Reclaimed Monthly	25	25	0.0	25	25
GRAND TOTAL	27,466	27,466	0.0	27,466	27,466

TABLE D - 1
PARK WATER COMPANY
TOTAL SALES & SUPPLY
TEST YEAR 2016

METER SALES (CCF)	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential Bi-Monthly	3,194,441	3,194,441	0.0	3,194,441	3,224,514
Business Bi-Monthly	841,601	841,601	0.0	841,601	840,655
Business Monthly	282,615	282,615	0.0	282,615	307,922
Industrial Bi-Monthly	16,059	16,059	0.0	16,059	16,059
Industrial Monthly	21,634	21,634	0.0	21,634	21,634
Public Authority	287,729	287,729	0.0	287,729	287,729
Private Fire Service Bi-Monthly	180	180	0.0	180	180
Private Fire Service Monthly	1,509	1,509	0.0	1,509	1,509
Fire Hydrant Bi-Monthly	0	0	0.0	0	0
Temporary Bi-Monthly	0	0	0.0	0	0
Temporary Monthly	17,839	17,839	0.0	17,839	17,839
Total - Potable	4,663,607	4,663,607	0.0	4,663,607	4,718,041
Irrigation-Reclaimed Monthly	132,917	132,917	0.0	132,917	137,580
GRAND TOTAL	4,796,524	4,796,524	0.0	4,796,524	4,855,621

PRODUCTION (AF)					
Purchased Water	6,984.67	6,780.69	0.0	6,780.69	7,066.42
Pumped Water	4,200.00	4,200.00	0.0	4,200.00	4,200.00
TOTAL PRODUCTION	11,184.67	10,980.69	0.0	10,980.69	11,266.42

TABLE D - 2
PARK WATER COMPANY
TOTAL SALES & SUPPLY
ESCALATION YEAR 2017

METER SALES (CCF)	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential Bi-Monthly	3,198,997	3,198,997	0.0	3,198,997	3,229,113
Business Bi-Monthly	841,601	841,601	0.0	841,601	840,655
Business Monthly	294,150	294,150	0.0	294,150	320,490
Industrial Bi-Monthly	16,059	16,059	0.0	16,059	16,059
Industrial Monthly	21,634	21,634	0.0	21,634	21,634
Public Authority	289,175	289,175	0.0	289,175	289,175
Private Fire Service Bi-Monthly	180	180	0.0	180	180
Private Fire Service Monthly	1,543	1,543	0.0	1,543	1,543
Fire Hydrant Bi-Monthly	0	0	0.0	0	0
Temporary Bi-Monthly	0	0	0.0	0	0
Temporary Monthly	19,211	19,211	0.0	19,211	19,211
Total - Potable	4,682,552	4,682,552	0.0	4,682,552	4,738,062
Irrigation-Reclaimed Monthly	132,917	132,917	0.0	132,917	137,580
GRAND TOTAL	4,815,469	4,815,469	0.0	4,815,469	4,875,641

PRODUCTION (AF)					
Purchased Water	6,428.85	6,225.30	0.0	6,225.30	6,514.23
Pumped Water	4,800.00	4,800.00	0.0	4,800.00	4,800.00
TOTAL PRODUCTION	11,228.85	11,025.30	0.0	11,025.30	11,314.23

TABLE D - 3
PARK WATER COMPANY
TOTAL SALES & SUPPLY
ESCALATION YEAR 2018

METER SALES (CCF)	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential Bi-Monthly	3,203,554	3,203,554	0.0	3,203,554	3,233,712
Business Bi-Monthly	841,601	841,601	0.0	841,601	840,655
Business Monthly	305,686	305,686	0.0	305,686	333,059
Industrial Bi-Monthly	16,059	16,059	0.0	16,059	16,059
Industrial Monthly	21,634	21,634	0.0	21,634	21,634
Public Authority	290,621	290,621	0.0	290,621	290,621
Private Fire Service Bi-Monthly	180	180	0.0	180	180
Private Fire Service Monthly	1,578	1,578	0.0	1,578	1,578
Fire Hydrant Bi-Monthly	0	0	0.0	0	0
Temporary Bi-Monthly	0	0	0.0	0	0
Temporary Monthly	20,583	20,583	0.0	20,583	20,583
Total - Potable	4,701,497	4,701,497	0.0	4,701,497	4,758,082
Irrigation-Reclaimed Monthly	132,917	132,917	0.0	132,917	137,580
GRAND TOTAL	4,834,414	4,834,414	0.0	4,834,414	4,895,662

PRODUCTION (AF)					
Purchased Water	5,473.02	6,069.90	0.0	6,069.90	5,562.03
Pumped Water	5,800.00	5,000.00	0.0	5,000.00	5,800.00
TOTAL PRODUCTION	11,273.02	11,069.90	0.0	11,069.90	11,362.03

TABLE E - 1
PARK WATER COMPANY OPERATING
REVENUES AT PRESENT RATES TEST YEAR
2016

METERED REVENUES ($)	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential Bi-Monthly	22,442,210	22,442,210	0.0	22,442,210	22,595,192
Business Bi-Monthly	5,537,807	5,537,807	0.0	5,537,807	5,532,925
Business Monthly	1,721,787	1,721,787	0.0	1,721,787	1,852,372
Industrial Bi-Monthly	93,783	93,783	0.0	93,783	93,783
Industrial Monthly	121,339	121,339	0.0	121,339	121,339
Public Authority	1,921,691	1,921,691	0.0	1,921,691	1,921,691
Private Fire Service Bi-Monthly	53,992	53,992	0.0	53,992	53,992
Private Fire Service Monthly	120,425	120,425	0.0	120,425	120,425
Fire Hydrant Bi-Monthly	7,661	7,661	0.0	7,661	7,661
Temporary Bi-Monthly	0	0	0.0	0	0
Temporary Monthly	139,363	139,363	0.0	139,363	139,363
Irrigation-Reclaimed Monthly	638,472	638,472	0.0	638,472	657,921
Miscellaneous Revenue	497,631	490,000	0.0	490,000	390,674
TOTAL REVENUE	33,296,161	33,288,530	0.0	33,288,530	33,487,338

TABLE E - 2
PARK WATER COMPANY OPERATING
REVENUES AT PROPOSED RATES TEST YEAR
2016

METERED REVENUES ($)	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Residential Bi-Monthly	22,841,189	23,822,754	0.0	23,822,754	24,563,083
Business Bi-Monthly	5,665,870	5,905,221	0.0	5,905,221	6,037,455
Business Monthly	1,765,746	1,840,259	0.0	1,840,259	2,025,015
Industrial Bi-Monthly	96,309	100,371	0.0	100,371	102,590
Industrial Monthly	124,776	130,035	0.0	130,035	132,854
Public Authority	1,965,277	2,048,315	0.0	2,048,315	2,096,319
Private Fire Service Bi-Monthly	54,155	56,482	0.0	56,482	58,346
Private Fire Service Monthly	120,953	126,146	0.0	126,146	130,232
Fire Hydrant Bi-Monthly	7,680	8,010	0.0	8,010	8,276
Temporary Bi-Monthly	0	0	0.0	0	0
Temporary Monthly	141,925	147,934	0.0	147,934	151,600
Irrigation-Reclaimed Monthly	636,427	669,777	0.0	669,777	708,910
Miscellaneous Revenue	497,631	490,000	0.0	490,000	390,674
TOTAL REVENUE	33,917,938	35,345,304	0.0	35,345,304	36,405,355

TABLE F-1
PARK WATER COMPANY - CENTRAL BASIN DIVISION
OPERATION & MAINTENANCE EXPENSES
TEST YEAR 2016
(Dollars in Thousands)

	ORA			PARK	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATIONS & MAINTENANCE					
PAYROLL-OPERATIONS	1,026.6	1,217.2	0.0	1,217.2	1,232.8
OPERATIONS-OTHER	291.8	288.6	0.0	288.6	292.2
PURCHASED WATER-POTABLE	7,541.5	7,324.9	0.0	7,324.9	7,628.3
PURCHASED WATER-RECLAIMED	169.7	169.7	0.0	169.7	190.3
PURCHASED POWER	396.0	396.0	0.0	396.0	396.0
LEASED WATER RIGHTS	495.4	562.3	0.0	562.3	554.1
REPLENISHMENT	1,127.0	1,127.0	0.0	1,127.0	1,127.0
CHEMICALS	78.8	75.6	0.0	75.6	88.6
PAYROLL-CUSTOMERS	748.0	788.9	0.0	788.9	790.2
CUSTOMERS-OTHER	597.3	706.1	0.0	706.1	901.5
UNCOLLECTIBLES	190.5	204.0	0.0	204.0	207.5
PAYROLL-MAINTENANCE	376.2	420.5	0.0	420.5	421.1
MAINTENANCE-OTHER	628.8	613.4	0.0	613.4	645.1
PAYROLL-CLEARINGS	149.3	157.5	0.0	157.5	157.7
DEPRECIATION-CLEARINGS	111.4	110.6	0.0	110.6	109.3
CLEARINGS-OTHER	304.2	299.4	0.0	299.4	304.8
TOTAL O & M EXPENSES	14,232.8	14,461.6	0.0	14,461.6	15,046.6

TABLE G-1
PARK WATER COMPANY - CENTRAL BASIN DIVISION
ADMINISTRATIVE & GENERAL EXPENSES
TEST YEAR 2016
(Dollars in Thousands)

	ORA			PARK	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
ADMINISTRATIVE & GENERAL					
A & G PAYROLL	1,972.9	2,128.9	0.0	2,128.9	2,135.7
EMPLOYEE BENEFITS	1,677.4	1,841.8	0.0	1,841.8	1,911.6
INSURANCE	737.8	813.1	0.0	813.1	820.7
UNINSURED PROPERTY DAMAGE	0.0	0.0	0.0	0.0	0.0
REG. COMM. EXPENSE	145.7	260.3	0.0	260.3	175.0
FRANCHISE REQUIREMENTS	128.9	134.3	0.0	134.3	138.3
OUTSIDE SERVICES	204.7	199.6	0.0	199.6	206.3
A & G - OTHER	445.5	435.5	0.0	435.5	451.2
A & G TRANSFERRED CREDIT	(480.6)	(592.1)	0.0	(592.1)	(726.0)
RENTS	0.0	0.0	0.0	0.0	0.0
[1] GENERAL OFFICE ALLOCATION	3,110.7	3,084.4	0.0	3,084.4	3,110.7
TOTAL A & G EXPENSES	7,943.1	8,305.9	0.0	8,305.9	8,223.6

[1] Excludes G.O. allocated payroll taxes, ad valorem tax, and depreciation expense.

TABLE H-1
PARK WATER COMPANY - CENTRAL BASIN DIVISION
TAXES OTHER THAN INCOME
TEST YEAR 2016
(Dollars in Thousands)

	ORA			PARK	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
PAYROLL TAXES					
CENTRAL BASIN	298.2	328.1	0.0	328.1	330.2
G.O. ALLOCATION	97.3	96.4	0.0	96.4	97.3
TOTAL	395.5	424.5	0.0	424.5	427.5
AD VALOREM TAXES					
CENTRAL BASIN	719.6	729.5	0.0	729.5	741.3
G.O. ALLOCATION	12.7	12.7	0.0	12.7	12.7
TOTAL	732.3	742.2	0.0	742.2	754.0
TAXES - OTHER	61.8	59.5	0.0	59.5	61.8
TOTAL TAXES OTHER THAN INCOME	1,189.6	1,226.2	0.0	1,226.2	1,243.4

TABLE I-1
PARK WATER COMPANY - CENTRAL BASIN DIVISION
INCOME TAXES @ PRESENT RATES
TEST YEAR 2016
(Dollars in Thousands)

	ORA			PARK	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATING REVENUES	33,296.2	33,288.5	0	33,288.5	33,487.3
EXPENSE					
OPERATIONS & MAINTENANCE	13,930.8	14,147.0	0	14,147.0	14,729.8
UNCOLLECTIBLES	187.0	192.0	0	192.0	190.9
ADMINISTRATIVE & GENERAL	7,814.2	8,171.6	0	8,171.6	8,085.2
FRANCHISE REQUIREMENTS	126.5	126.5	0	126.5	127.3
PROPERTY TAXES	732.3	742.2	0	742.2	754.0
TAXES-OTHER	61.8	59.5		59.5	61.8
PAYROLL TAXES	395.5	424.5	0	424.5	427.5
MEALS ADJUSTMENT	(7.5)	(7.0)	0	(7.0)	(7.5)
TOTAL	23,240.6	23,856.3	0	23,856.3	24,369.0
INCOME BEFORE TAXES	10,055.6	9,432.3	0	9,432.3	9,118.3
CA CORP-FRANCHISE TAX (CCFT)					
CA TAX DEPRECIATION	3,020.3	2,869.0	0	2,869.0	3,020.3
INTEREST	2,294.7	2,461.1	0	2,461.1	2,584.6
TOTAL	5,314.9	5,330.1	0	5,330.1	5,604.9
TAXABLE INCOME FOR CCFT	4,740.7	4,102.1	0	4,102.1	3,513.5
CCFT RATE	8.84%	8.84%	0.00%	8.84%	8.84%
CALIFORNIA INCOME TAX	419.1	362.6	0	362.6	310.6
FEDERAL INCOME TAX					
FED. TAX DEPRECIATION	2,285.9	2,209.0	0	2,209.0	2,285.9
CA TAX	419.1	362.6	0	362.6	310.6
INTEREST	2,294.7	2,461.1	0	2,461.1	2,584.6
QUALIFIED PROD. DEDUCTION	70.1	61.0	0	61.0	47.6
TOTAL	5,069.7	5,093.8	0	5,093.8	5,228.6
FIT TAXABLE INCOME	4,985.9	4,338.4	0	4,338.4	3,889.7
FIT RATE	35.00%	35.00%	0.00%	35.00%	35.00%
FEDERAL INCOME TAX	1,745.0	1,518.4	0	1,518.4	1,361.4
INVESTMENT TAX CREDIT	7.0	7.0	0	7.0	7.0
NET FEDERAL INCOME TAX	1,738.0	1,511.4	0	1,511.4	1,354.4

TABLE I-2
PARK WATER COMPANY - CENTRAL BASIN DIVISION
INCOME TAXES @ PROPOSED RATES
TEST YEAR 2016
(Dollars in Thousands)

	ORA			PARK	
	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
OPERATING REVENUES	33,917.6	35,346.3	0	35,346.3	36,406.1
EXPENSE					
OPERATIONS & MAINTENANCE	13,930.8	14,147.0	0	14,147.0	14,729.8
UNCOLLECTIBLES	190.5	204.0	0	204.0	207.5
ADMINISTRATIVE & GENERAL	7,814.2	8,171.6	0	8,171.6	8,085.2
FRANCHISE REQUIREMENTS	128.9	134.3	0	134.3	138.3
PROPERTY TAXES	732.3	742.2	0	742.2	754.0
TAXES-OTHER	61.8	59.5		59.5	61.8
PAYROLL TAXES	395.5	424.5	0	424.5	427.5
MEALS ADJUSTMENT	(7.5)	(7.0)	0	(7.0)	(7.5)
TOTAL	23,246.5	23,876.0	0	23,876.0	24,396.7
INCOME BEFORE TAXES	10,671.2	11,470.3	0	11,470.3	12,009.4
CA CORP-FRANCHISE TAX (CCFT)					
CA TAX DEPRECIATION	3,020.3	2,869.0	0	2,869.0	3,020.3
INTEREST	2,294.7	2,461.1	0	2,461.1	2,584.6
TOTAL	5,314.9	5,330.1	0	5,330.1	5,604.9
TAXABLE INCOME FOR CCFT	5,356.2	6,140.2	0	6,140.2	6,404.5
CCFT RATE	8.84%	8.84%	0.00%	8.84%	8.84%
CALIFORNIA INCOME TAX	469.8	542.8	0	542.8	566.2
FEDERAL INCOME TAX					
FED. TAX DEPRECIATION	2,285.9	2,209.0	0	2,209.0	2,285.9
CA TAX	419.1	362.6	0	362.6	310.6
INTEREST	2,294.7	2,461.1	0	2,461.1	2,584.6
QUALIFIED PROD. DEDUCTION	78.7	89.3	0	89.3	82.5
TOTAL	5,078.3	5,122.1	0	5,122.1	5,263.5
FIT TAXABLE INCOME	5,592.9	6,348.2	0	6,348.2	6,745.9
FIT RATE	35.00%	35.00%	0.00%	35.00%	35.00%
FEDERAL INCOME TAX	1,957.5	2,221.9	0	2,221.9	2,361.1
INVESTMENT TAX CREDIT	7.0	7.0	0	7.0	7.0
NET FEDERAL INCOME TAX	1,950.5	2,214.8	0	2,214.8	2,354.0

TABLE J - 1
PARK WATER COMPANY

PLANT IN SERVICE
TEST YEAR 2016

PLANT IN SERVICE ($)	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
Plant in Service - BOY	92,483,123	96,267,160	0.0	96,267,160	98,791,686
Additions					
Gross Additions	12,962,215	13,193,143	0.0	13,193,143	16,403,351
Retirements of Plant	2,054,888	2,054,888	0.0	2,054,888	1,124,888
Net Additions	10,907,327	11,138,255	0.0	11,138,255	15,278,464
CWIP - BOY	3,322,311	3,070,556	0.0	3,070,556	3,632,451
CWIP - EOY	0	1,600,000	0.0	1,600,000	1,600,000
Net Changes - CWIP	1,661,155	2,335,278	0.0	2,335,278	2,616,226
Plant in Service - EOY	103,390,450	107,405,415	0.0	107,405,415	114,070,150
Average Utility Plant	97,936,786	101,836,288	0.0	101,836,288	106,430,918

Note: Amounts shown exclude common plant allocations.

TABLE J - 2
PARK WATER COMPANY

PLANT IN SERVICE
TEST YEAR 2017

PLANT IN SERVICE ($)	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	UPDATED FILING
Plant in Service - BOY	103,390,450	107,405,415	0.0	107,405,415	114,070,150
Additions					
Gross Additions	7,151,520	13,905,480	0.0	13,905,480	16,547,700
Retirements of Plant	623,803	623,803	0.0	623,803	623,803
Net Additions	6,527,717	13,281,677	0.0	13,281,677	15,923,897
CWIP - BOY	0	1,600,000	0.0	1,600,000	1,600,000
CWIP - EOY	0	0	0.0	0	0
AVERAGE- CWIP	0	800,000	0.0	800,000	800,000
Plant in Service - EOY	109,918,167	120,687,092	0.0	120,687,092	129,994,047
Average Utility Plant	106,654,308	114,046,254	0.0	114,046,254	122,032,098

Note: Amounts shown exclude common plant allocations.

TABLE K - 1
PARK WATER COMPANY

DEPRECIATION RESERVE & EXPENSE
TEST YEAR 2016

DEPRECIATION RESERVE ($)	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
BEGINNING YEAR BALANCE	21,067,835	21,096,041	0.0	21,096,041	21,920,314
ANNUAL ACCRUAL CHARGED TO:					
CLEARING ACCOUNTS	110,541	110,642	0.0	110,642	109,324
CONTRIBUTIONS	299,675	299,675	0.0	299,675	300,175
DEPRECIATION EXPENSE	2,058,176	2,078,396	0.0	2,078,396	2,139,342
OTHER					
TOTAL	2,468,392	2,488,713	0.0	2,488,713	2,548,841
RETIREMENTS & ADJUSTMENTS					
NET RETIREMENTS	2,054,888	2,054,888	0.0	2,054,888	1,124,888
ADJUSTMENTS	166,761	166,761	0.0	166,761	73,761
TOTAL	2,221,649	2,221,649	0.0	2,221,649	1,198,649
NET ADDITIONS	246,744	267,064	0.0	267,064	1,350,193
END OF YEAR BALANCE	21,314,579	21,363,105	0.0	21,363,105	23,270,506
AVERAGE BALANCE	21,191,207	21,229,573	0.0	21,229,573	22,595,410

Note: Amounts shown exclude common plant allocations.

TABLE K - 2
PARK WATER COMPANY

DEPRECIATION RESERVE & EXPENSE
ESCALATION YEAR 2017

DEPRECIATION RESERVE ($)	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
BEGINNING YEAR BALANCE	21,314,579	21,363,105	0.0	21,363,105	23,270,506
ANNUAL ACCRUAL CHARGED TO:					
CLEARING ACCOUNTS	111,954	112,156	0.0	112,156	112,391
CONTRIBUTIONS	301,170	301,170	0.0	301,170	301,669
DEPRECIATION EXPENSE	2,373,499	2,493,514	0.0	2,493,514	2,620,743
OTHER					
TOTAL	2,786,623	2,906,840	0.0	2,906,840	3,034,804
RETIREMENTS & ADJUSTMENTS					
NET RETIREMENTS	623,803	623,803	0.0	623,803	623,803
ADJUSTMENTS	6,908	6,908	0.0	6,908	6,908
TOTAL	630,712	630,712	0.0	630,712	630,712
NET ADDITIONS	2,155,911	2,276,128	0.0	2,276,128	2,404,092
END OF YEAR BALANCE	23,470,490	23,639,233	0.0	23,639,233	25,674,599
AVERAGE BALANCE	22,392,534	22,501,169	0.0	22,501,169	24,472,553

Note: Amounts shown exclude common plant allocations.

TABLE L - 1
PARK WATER COMPANY
AVERAGE RATE BASE SUMMARY
TEST YEAR 2016

AVERAGE RATEBASE ($)	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
PLANT IN SERVICE	95,134,549	99,037,080	0.0	99,037,080	103,413,202
WORK IN PROGRESS	1,661,155	2,335,278	0.0	2,335,278	2,616,226
MATERIALS & SUPPLIES	194,248	188,709	0.0	188,709	196,210
WORKING CASH	2,212,412	2,484,097	0.0	2,484,097	2,474,564
SUBTOTAL	99,202,365	104,045,165	0.0	104,045,165	108,700,202
LESS:					
DEPRECIATION RESERVE	20,981,548	21,019,972	0.0	21,019,972	22,120,695
ADVANCES	1,315,896	1,315,896	0.0	1,315,896	1,271,779
CONTRIBUTIONS	6,440,562	6,440,562	0.0	6,440,562	6,437,929
UNAMORTIZED ITC	32,945	32,945	0.0	32,945	32,945
DEFERRED INCOME TAX	6,773,971	6,807,979	0.0	6,807,979	6,866,281
SUBTOTAL	35,544,922	35,617,353	0.0	35,617,353	36,729,629
PLUS:					
METHOD 5 ADJUSTMENT	3,878	3,878	0.0	3,878	3,878
RESOURCES ADJUSTMENT					
NET DISTRICT RATE BASE	63,661,321	68,431,689	0.0	68,431,689	71,974,451
GENERAL OFFICE ALLOCATION	2,020,324	2,020,324	0.0	2,020,324	2,014,655
TOTAL RATE BASE	65,681,645	70,452,014	0.0	70,452,014	73,989,106
INTEREST CALCULATION					
AVG RATE BASE	65,681,645	70,452,014	0.0	70,452,014	73,989,106
X WEIGHTED COST OF DEBT	0.0349	0.0349	0.0	0.0349	0.0349
INTEREST EXPENSE	2,292,289	2,458,775	0.0	2,458,775	2,582,220
ADD INTEREST FOR ADVANCES	2,373	2,373	0.0	2,373	2,373
TOTAL INTEREST DEDUCTION	2,294,662	2,461,148	0.0	2,461,148	2,584,592

TABLE L - 2
PARK WATER COMPANY
AVERAGE RATE BASE SUMMARY
TEST YEAR 2017

AVERAGE RATEBASE ($)	ORA			PARK	
Description	ORIGINAL	REVISED	DIFFERENCE	REVISED	ORIGINAL
PLANT IN SERVICE	103,453,642	110,845,587	0.0	110,845,587	118,383,298
WORK IN PROGRESS	0	800,000	0.0	800,000	800,000
MATERIALS & SUPPLIES	200,076	193,810	0.0	193,810	202,097
WORKING CASH	1,956,374	2,619,576	0.0	2,619,576	4,141,888
SUBTOTAL	105,610,092	114,458,972	0.0	114,458,972	123,527,283
LESS:					
DEPRECIATION RESERVE	22,358,898	22,467,600	0.0	22,467,600	24,036,778
ADVANCES	1,381,748	1,381,748	0.0	1,381,748	1,338,735
CONTRIBUTIONS	6,190,140	6,190,140	0.0	6,190,140	6,187,006
UNAMORTIZED ITC	25,913	25,913	0.0	25,913	25,913
DEFERRED INCOME TAX	6,984,247	7,072,207	0.0	7,072,207	7,186,687
SUBTOTAL	36,940,946	37,137,608	0.0	37,137,608	38,775,119
PLUS:					
METHOD 5 ADJUSTMENT	3,687	3,687	0.0	3,687	3,687
RESOURCES ADJUSTMENT					
NET DISTRICT RATE BASE	68,672,833	77,325,051	0.0	77,325,051	84,755,851
GENERAL OFFICE ALLOCATION	2,470,344	2,470,344	0.0	2,470,344	2,462,159
TOTAL RATE BASE	71,143,176	79,795,395	0.0	79,795,395	87,218,010
INTEREST CALCULATION					
AVG RATE BASE	71,143,176	79,795,395	0.0	79,795,395	87,218,010
X WEIGHTED COST OF DEBT	0.0349	0.0349	0.0	0.0349	0.0349
INTEREST EXPENSE	2,482,897	2,784,859	0.0	2,784,859	3,043,909
ADD INTEREST FOR ADVANCES	4,331	4,331	0.0	4,331	4,331
TOTAL INTEREST DEDUCTION	2,487,228	2,789,190	0.0	2,789,190	3,048,240

(End of Exhibit B)

EXHIBIT C

APPENDICES A - E

APPENDIX A

Summary of Earnings

APPENDIX A
PARK WATER COMPANY - CENTRAL BASIN DIVISION
TEST YEAR 2016
SUMMARY OF EARNINGS (in Dollars)

	AT PRESENT RATES	AT AUTHORIZED RATE OF RETURN
OPERATING REVENUES	32,798,530	34,856,330
DEFERRED REVENUES	0	
MISCELLANEOUS REVENUE	(490,000)	(490,000)
TOTAL REVENUES	33,288,530	35,346,330
OPERATIONS & MAINTENANCE		
PAYROLL-OPERATIONS	1,217,235	1,217,235
OPERATIONS-OTHER	288,612	288,612
PURCHASED WATER-POTABLE	7,324,855	7,324,855
PURCHASED WATER-RECLAIMED	169,655	169,655
PURCHASED POWER	396,004	396,004
LEASED WATER RIGHTS	562,277	562,277
REPLENISHMENT	1,127,009	1,127,009
CHEMICALS	75,646	75,646
PAYROLL-CUSTOMERS	788,851	788,851
CUSTOMERS-OTHER	706,134	706,134
UNCOLLECTIBLES	192,039	203,974
PAYROLL-MAINTENANCE	420,463	420,463
MAINTENANCE-OTHER	613,420	613,420
PAYROLL-CLEARINGS	157,452	157,452
DEPRECIATION-CLEARINGS	110,642	110,642
CLEARINGS-OTHER	299,418	299,418
SUB-TOTAL O & M	14,449,712	14,461,647
ADMINISTRATIVE & GENERAL		
A & G PAYROLL	2,128,912	2,128,912
EMPLOYEE BENEFITS	1,841,845	1,841,845
INSURANCE	813,113	813,113
UNINSURED PROPERTY DAMAGE	0	0
REG. COMM. EXPENSE	260,253	260,253
FRANCHISE REQUIREMENTS	126,496	134,316
OUTSIDE SERVICES	199,626	199,626
A & G - OTHER	435,543	435,543
A & G TRANSFERRED CREDIT	(592,090)	(592,090)
RENTS	0	0
[1] GENERAL OFFICE ALLOCATION	3,084,372	3,084,372
SUB-TOTAL A & G	8,298,071	8,305,890

	AT PRESENT RATES	AT AUTHORIZED RATE OF RETURN
OTHER TAXES		
[1] PROPERTY TAXES	742,204	742,204
TAXES-OTHER	59,502	59,502
[1] PAYROLL TAXES	424,458	424,458
SUB-TOTAL OTHER TAXES	1,226,164	1,226,164
[1] DEPRECIATION	2,204,986	2,204,986
CA INCOME TAXES	362,627	542,790
FEDERAL INCOME TAXES	1,511,416	2,214,839
TOTAL EXPENSES	28,052,976	28,956,317
NET REVENUE	5,235,555	6,390,014
TOTAL RATE BASE	70,452,014	70,452,014
RATE OF RETURN	7.43%	9.07%

[1] DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM PARKS GENERAL OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

(END OF APPENDIX A)

APPENDIX B

Tariff Sheets

SCHEDULE NO. PR-1-R

RESIDENTIAL METERED SERVICE

APPLICABILITY

Applicable to all metered water services provided to single-family residential customers.

TERRITORY

Within all service areas of Los Angeles County as delineated in the service area maps included in the tariff schedules.

RATES

Quantity Rates:

For the first 900 cubic feet, per 100 cubic feet	$ 5.202
For all over 900 cubic feet, per 100 cubic feet	$ 5.983
	Per Meter
Service Charge:	Per Month
For 5/8 x ¾-inch meter	$ 20.94
For ¾-inch meter	31.41
For 1-inch meter	52.35
For 1 ½-inch meter	104.70
For 2-inch meter	167.52
For 3-inch meter	314.10
For 4-inch meter	523.50
For 6-inch meter	1,047.00
For 8-inch meter	1,675.20
For 10-inch meter	2,408.10
For 12-inch meter	3,455.10

This Service Charge is a readiness-to-serve charge, which is applicable to all metered services and to which is to be added the monthly charge computed at the Quantity Rates.

SCHEDULE NO. PR-1-R

RESIDENTIAL METERED SERVICE

SPECIAL CONDITIONS

1. All charges under this schedule to customers in the City of Norwalk are subject to a surcharge of 2.04 percent.
2. A late charge will be imposed per Schedule No. LC.
3. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the Company, service to subsequent tenants in that unit will, at the Company's option, be furnished on the account of the landlord or property owner.
4. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
5. As authorized by the California Public Utility Commission, an amount of $0.194 per Ccf is to be added to the quantity rate for a period of 12 months, beginning on the effective date of Advice Letter 259-W-A. This surcharge will recover the under-collection in the WRAM and MCBA as of December 31, 2014.

SCHEDULE NO. PR-1-NR

NONRESIDENTIAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service except that provided to single-family residential customers.

TERRITORY

Within all service areas of Los Angeles County as delineated in the service area maps included in the tariff schedules.

RATES

Quantity Rate:

For all water delivered per 100 cubic feet	$ 5.546

	Per Meter
Service Charge:	Per Month
For 5/8 x ¾-inch meter	$ 20.94
For ¾-inch meter	31.41
For 1-inch meter	52.35
For 1 ½-inch meter	104.70
For 2-inch meter	167.52
For 3-inch meter	314.10
For 4-inch meter	523.50
For 6-inch meter	1,047.00
For 8-inch meter	1,675.20
For 10-inch meter	2,408.10
For 12-inch meter	3,455.10

SCHEDULE NO. PR-1-NR

NONRESIDENTIAL METERED SERVICE

SPECIAL CONDITIONS

1. All charges under this schedule to customers in the City of Norwalk are subject to a surcharge of 2.04 percent.
2. A late charge will be imposed per Schedule No. LC.
3. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the Company, service to subsequent tenants in that unit will, at the Company's option, be furnished on the account of the landlord or property owner.
4. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
5. As authorized by the California Public Utility Commission, an amount of $0.194 per Ccf is to be added to the quantity rate for a period of 12 months, beginning on the effective date of Advice Letter 259-W-A. This surcharge will recover the under-collection in the WRAM and MCBA as of December 31, 2014.

SCHEDULE NO. PR-4F

NON-METERED FIRE SPRINKLER SERVICE

APPLICABILITY

Applicable for water service to privately-owned non-metered fire-sprinkler systems and hydrants where water is to be used only in case of fire.

TERRITORY

Within all service areas in Los Angeles County as delineated on the service area maps included in the tariff schedules.

RATES

Service Charge:	Per Month
For 2-inch meter	$22.12
For 3-inch meter	29.35
For 4-inch meter	43.65
For 6-inch meter	64.47
For 8-inch meter	95.40
For 10-inch meter	140.35
For 12-inch meter	203.08

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility at the cost paid by the applicant. Such payment shall not be subject to refund.

2. The minimum diameter for fire protection service shall be two (2) inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.

SCHEDULE NO. PR-4F

NON-METERED FIRE SPRINKLER SERVICE

SPECIAL CONDITIONS

3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

4. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water, and the cost paid by the applicant. Such payment shall not be subject to refund.

5. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

6. Any unauthorized use of water, other than for fire extinguishing purposes, shall be charged for at the regular established rate as set forth under Schedule No. PR-1-NR, Nonresidential Metered Service, and/or may be the grounds for the immediate disconnection of the sprinkler service without liability to the Company.

7. The utility reserves the right to limit the installation of private fire hydrant service to such areas where public fire hydrant does not exist or where public fire hydrant service is limited in scope to the detriment of the applicant.

8. A late charge will be imposed per Schedule No. LC.

9. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

SCHEDULE NO. PR- 5

FIRE FLOW TESTING CHARGE

APPLICABILITY

Applicable to all fire flow tests performed or witnessed using utility personnel.

TERRITORY

This fee applies to tests performed within all service areas of Los Angeles County As delineated in the service area maps included in the tariff schedules.

RATES

Per Fire Flow Test Performed	$390.00

SPECIAL CONDITIONS

1. Applicants must complete and submit Park Water Company's Fire Flow Test Application.

SCHEDULE NO. PR-6

RECLAIMED WATER SERVICE

APPLICABILITY

Applicable to meter reclaimed water service.

TERRITORY

Within all service areas in Los Angeles County as delineated on the service area maps included in the tariff schedules.

RATES

Quantity Rate:

For all water delivered per 100 cu. ft.	$ 4.384
	Per Meter
Service Charge:	Per Month
For 5/8 x ¾-inch meter	$ 20.94
For ¾-inch meter	31.41
For 1-inch meter	52.35
For 1 ½-inch meter	104.70
For 2-inch meter	167.52
For 3-inch meter	314.10
For 4-inch meter	523.50
For 6-inch meter	1,047.00
For 8-inch meter	1,675.20
For 10-inch meter	2,408.10
For 12-inch meter	3,455.10

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the charge for water used computed at Quantity Rates.

SCHEDULE NO. PR-6

RECLAIMED WATER SERVICE

SPECIAL CONDITIONS

1. The user (customer) is responsible for on-site compliance with local, state, or federal regulations that may apply to the use of an approved reclaimed water source.
2. All charges under this schedule to customers in the City of Norwalk are subject to a surcharge of 2.04 percent.
3. A late charge will be imposed per Schedule No. LC.
4. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

SCHEDULE NO. PR-9CM

CONSTRUCTION AND OTHER TEMPORARY METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished for construction and other temporary purposes.

TERRITORY

Within all service areas in Los Angeles County as delineated on the maps included in the tariff schedules.

RATES

Monthly quantity rates and service charge listed in Schedule PR-1-NR, Nonresidential Metered Service will apply to service furnished under this schedule.

SPECIAL CONDITIONS

1. Where it is necessary to install or relocate a meter to furnish service under this schedule, and such meter may be connected to the utility's existing facilities, the following charges will apply:

a.	For installation and removal of the meter	$25.00
b.	For each relocation of the meter within the same local area as the original installation	$12.50

2. Where no suitable outlet exists at the point where service is desired, the necessary facilities will be installed under the provisions of Rule No. 13, Temporary Service.

3. In case a meter is installed or used under conditions which are considered by the utility to subject the meter to unusual hazards, the applicant will be required to deposit with the utility the amount, show in the table below, which corresponds to the size and type of meter installed:

SCHEDULE NO. PR-9CM

CONSTRUCTION AND OTHER TEMPORARY METERED SERVICE

Size of Meter	Amount of Deposit
5/8 x 3/4 or 3/4 inch	$ 30.00
1-inch disc	60.00
1-1/2 inch	125.00
2-inch disc or torrent	200.00
2-1/2 inch Sparling Fire Hydrant	250.00
3-inch disc or torrent	895.00

The deposit less the cost of any repairs other than those due to normal depreciation will be returned to the customer upon completion of the service for which the meter was installed.

4. A late charge will be imposed per Schedule No. LC.

SCHEDULE NO. CARW
CALIFORNIA ALTERNATIVE RATES FOR WATER

APPLICABILITY

Applicable to residential domestic service to CARW households accommodation with a 1-inch or smaller meter, where the customer meets all the Special Conditions of this rate schedule.

TERRITORY

Within all service areas of Los Angeles County as delineated in the service area maps included in the tariff schedules.

METERED SINGLE-FAMILY RESIDENTIAL RATES

Quantity Rate:

Customers will be charged per 100 cubic feet of water delivered at the quantity rate reflected in Schedule No. PR-1-R, Residential Metered Service.

Service Charges:

Customers will be charged a monthly service charge at the applicable meter size rate reflected in Schedule No. PR-1-R, Residential Metered Service. Customers will receive a monthly CARW Credit of $7.06 prorated based on days of service, if service is not provided for a full month.

QUALIFIED NON-PROFIT GROUP LIVING FACILITIES RATES

Quantity Rate:

Customers will be charged per 100 cubic feet of water delivered at the quantity rate reflected in Schedule No. PR-1-R, Residential Metered Service.

SCHEDULE NO. CARW

CALIFORNIA ALTERNATIVE RATES FOR WATER

Service Charges:

Customers will be charged a monthly service charge at the applicable meter size rate reflected in Schedule No. PR-1-R, Residential Metered Service. Customers will receive a monthly CARW credit of $20.00 prorated based on days of service, if service is not provided for a full month. The maximum monthly credit per qualifying sub-meter customer is $20.00.

SPECIAL CONDITIONS

1. CARW Household: A CARW Household is a household where the total gross income from all sources is less than or equal to the maximum household income levels for the CARE programs approved by the Commission as reflected on Form No. 13, California Alternative Rates for Water (CARW) Application.

Total gross income shall include income from all sources, both taxable and non-taxable. Persons who are claimed as dependent on another person's income tax return are not eligible for this program.

SCHEDULE NO. CARW-SC

CALIFORNIA ALTERNATIVE RATES FOR WATER

APPLICABILITY

Applicable to all metered water service, excluding Fire Sprinkler Service, Reclaimed Water Service, Construction and Temporary Metered Service, and customers that receive a CARW credit.

TERRITORY

Within all service areas of Los Angeles County as delineated in the service area maps included in the tariff schedules.

SPECIAL CONDITIONS

A surcharge of $7.12 per month is applicable to all metered customers, excluding customers receiving Non-Metered Fire Sprinkler Service, Reclaimed Water Service, Construction and Other Temporary Metered Service, and customers that receive a CARW credit. The surcharge offsets CARW credits and CARW program costs and will be applied to each customer's bill.

APPENDIX C

Comparison of Rates

APPENDIX C
PARK WATER COMPANY - CENTRAL BASIN DIVISION
TEST YEAR 2016
COMPARISON OF RATES

USAGE	PRESENT	ADOPTED	INCREASE	PERCENT
0	20.22	20.94	0.72	3.56%
10	68.09	73.74	5.65	8.30%
10.55 AVG	71.12	77.03	5.91	8.31%
20	123.14	133.57	10.42	8.46%
30	178.20	193.39	15.20	8.53%
40	233.25	253.22	19.97	8.56%

Notes: Based on Monthly Charges According to Schedule No. 1
Residential Metered Comparison based on 5/8 x 3/4-inch meter
Rates do not include CPUC fees or surcharges that may appear
on customer bills.

APPENDIX D

Adopted Quantities

APPENDIX D
PARK WATER COMPANY - CENTRAL BASIN DIVISION
ADOPTED QUANTITIES
TABLE 1 of 5

Net-To-Gross Multiplier	1.782332
Uncollectible Rate	0.58%
Franchise Fee	0.38%
Federal Tax Rate	35%
State Tax Rate	8.84%

	2016	2017	2018
Water Consumption (KCcf)			
Domestic Water Sales	4,663,607	4,682,552	4,701,497
Unaccounted Water (2.5%)	119,580	120,065	120,551
Total Domestic Production	4,783,187	4,802,617	4,822,048
Reclaimed Water Sales	132,917	132,917	132,917
Unaccounted Water (0.0%)	0	0	0
Total Reclaimed Production	132,917	132,917	132,917
Replenishment			
Replenishment (AF)	4,200	4,800	5,000
Replenishment Rate ($/AF)	$268	$268	$268
Adm. & Reporting Fees	$1,409	$1,409	$1,409
Total Replenishment Charge	$1,127,009	$1,287,809	$1,341,409
Leased Water Rates			
Leased Water AF	3,435	4,004	4,004
Cost per AF ($/AF)	$164	$187	$215
Total Leased Water Rights Cost	$562,277	$747,872	$859,864
Purchased Power			
Electric			
Total Cost ($)	396,004	431,631	443,506
Total Kilowats (kWh)	2,763,966	3,146,414	3,273,895
Cost/Kilowatt Hour ($/kWh)	0.14327	0.13718	0.13547
Gas			
Total Cost ($)	0	0	0
Total Therms	0	0	0
Cost/Therm	$0	$0	$0
Total Purchased Power	396,004	431,631	443,506

		2016	2017	2018
Purchased Water				
Domestic Water				
Central Basin MWD		6,780.69	6,225.30	6,069.90
Usage Rate per AF		$1,062	$1,062	$1,062
Total Usage Cost ($)		$7,201,092	$6,611,264	$6,446,235
Charge per Month		$62,100	$62,100	$62,100
Total Service Charge ($)		$7,263,192	$6,673,364	$6,508,335
Minimum Flow Violation		48	48	48
Usage Rate, per AF		$1,062	$1,062	$1,062
Usage Cost ($)		$50,976	$50,976	$50,976
Charge per Month		$10,687	$10,687	$10,687
Total Capacity Reservation Charge ($)		$61,663	$61,663	$61,663
Total Purchased Water Cost		$7,324,855	$6,735,026	$6,569,998
Reclaimed Water				
Ccf		132,917	132,917	132,917
AF		305.14	305.14	305.14
Usage Rate, per AF 1st 25	78%	$556.00	$556.00	$556.00
Usage Rate, per AF 2nd 25	22%	$556.00	$556.00	$556.00
Usage Rate, per AF 3rd 25	0%	$507.00	$507.00	$507.00
Total Reclaimed Water Cost		$169,655	$169,655	$169,655
Total Purchased Water Cost ($)		$7,494,510	$6,904,682	$6,739,653

APPENDIX D
PARK WATER COMPANY - CENTRAL BASIN DIVISION
ADOPTED QUANTITIES
TABLE 2 of 5

Utility Plant in Service	**2016**	**2017**
Beginning of Year Balance	$96,267,160	$107,405,415
Additions	$13,193,143	$13,905,480
Retirements	$2,054,888	$623,803
End of Year Balance	$107,405,415	$120,687,092
Average Balance	$101,836,288	$114,046,254
Depreciation Reserve		
Beginning of Year Balance	$21,096,041	$21,363,105
Annual Accrual	$2,488,713	$2,906,840
Net Retirements	$2,221,649	$630,712
End of Year Balance	$21,363,105	$23,639,233
Average Balance	$21,229,573	$22,501,169

APPENDIX D
PARK WATER COMPANY - CENTRAL BASIN DIVISION
ADOPTED QUANTITIES (in Dollars)
TABLE 3 of 5

Rate Base Summary	**2016**	**2017**
Average Balances		
Plant in Service	99,037,080	110,845,587
Work in Progress	2,335,278	800,000
Materials & Supplies	188,709	193,810
Working Cash	2,484,097	2,619,576
Subtotal	104,045,165	114,458,972
Less:		
Depreciation Reserve	21,019,972	22,467,600
Advances	1,315,896	1,381,748
Contributions	6,440,562	6,190,140
Unamortized ITC	32,945	25,913
Deferred Income Tax	6,807,979	7,072,207
Subtotal	35,617,353	37,137,608
Plus:		
Method 5 Adjustment	3878	3687
Net District Rate Base	68,431,689	77,325,051
Main Office Allocation	2,020,324	2,470,344
Total Rate Base	**70,452,014**	**79,795,395**

APPENDIX D
PARK WATER COMPANY - CENTRAL BASIN DIVISION
ADOPTED QUANTITIES (in Dollars)
TABLE 4 of 5
TEST YEAR 2016 INCOME TAX CACULATIONS

	AT PRESENT RATES	AT AUTHORIZED RATE OF RETURN
OPERATING REVENUES	33,288,530	35,346,330
EXPENSES		
OPERATIONS & MAINTENANCE	14,147,032	14,147,032
UNCOLLECTIBLES	192,039	203,974
ADMINISTRATIVE & GENERAL	8,171,574	8,171,574
FRANCHISE REQUIREMENTS	126,496	134,316
PROPERTY TAXES	742,204	742,204
TAXES-OTHER	59,502	59,502
PAYROLL TAXES	424,458	424,458
MEALS ADJUSTMENT	(7,026)	(7,026)
TOTAL	23,856,279	23,876,034
INCOME BEFORE TAXES	9,432,252	11,470,297
CA CORP-FRANCHISE TAX (CCFT)		
CA TAX DEPRECIATION	2,868,986	2,868,986
INTEREST	2,461,148	2,461,148
TOTAL	5,330,134	5,330,134
TAXABLE INCOME FOR CCFT	4,102,118	6,140,163
CCFT RATE	8.84%	8.84%
CALIFORNIA INCOME TAX	362,627	542,790
FEDERAL INCOME TAX		
FED. TAX DEPRECIATION	2,209,037	2,209,037
CA TAX	362,627	362,627
INTEREST	2,461,148	2,461,148
QUALIFIED PROD. DEDUCTION	61,016	89,281
TOTAL	5,093,828	5,122,094
FIT TAXABLE INCOME	4,338,423	6,348,203
FIT RATE	35.00%	35.00%
FEDERAL INCOME TAX	1,518,448	2,221,871
INVESTMENT TAX CREDIT	7,032	7,032
NET FEDERAL INCOME TAX	1,511,416	2,214,839

APPENDIX D
PARK WATER COMPANY - CENTRAL BASIN DIVISION
ADOPTED QUANTITIES
TABLE 5 of 5

Number of Customers	2016	2017	2018
Residential	25,239	25,275	25,311
Business (Bi-Monthly)	1,645	1,645	1,645
Business (Monthly)	49	51	53
Industrial (Bi-Monthly)	3	3	3
Industrial (Monthly)	2	2	2
Public Authority	199	200	201
Private Fire Service (Bi-Monthly)	64	64	64
Private Fire Service (Monthly)	130	133	136
Private Fire Hydrants	11	11	11
Resale	0	0	0
Temporary	13	14	15
Irrigation-Reclaimed	25	25	25
Total	**27,380**	**27,423**	**27,466**

Water Sales (Ccf)	2016	2017	2018
Residential	3,194,441	3,198,997	3,203,554
Business (Bi-Monthly)	841,601	841,601	841,601
Business (Monthly)	282,615	294,150	305,686
Industrial (Bi-Monthly)	16,059	16,059	16,059
Industrial (Monthly)	21,634	21,634	21,634
Public Authority	287,729	289,175	290,621
Private Fire Service (Bi-Monthly)	180	180	180
Private Fire Service (Monthly)	1,509	1,543	1,578
Private Fire Hydrants	0	0	0
Resale	0	0	0
Temporary	17,839	19,211	20,583
Irrigation-Reclaimed	132,917	132,917	132,917
Total	**4,796,524**	**4,815,469**	**4,834,414**

Consumption per Customer (Ccf/Cust)	2016	2017	2018
Residential	126.57	126.57	126.57
Business (Bi-Monthly)	511.61	511.61	511.61
Business (Monthly)	5,767.65	5,767.65	5,767.65
Industrial (Bi-Monthly)	5,353.00	5,353.00	5,353.00
Industrial (Monthly)	10,817.17	10,817.17	10,817.17
Public Authority	1,445.88	1,445.88	1,445.88
Private Fire Service (Bi-Monthly)	2.82	2.82	2.82
Private Fire Service (Monthly)	11.60	11.60	11.60
Private Fire Hydrants	0.00	0.00	0.00
Resale	0.00	0.00	0.00
Temporary	1,372.22	1,372.22	1,372.22
Irrigation-Reclaimed	5,316.68	5,316.68	5,316.68

(END OF APPENDIX D)

APPENDIX E

Summary of Operating Expenses

APPENDIX E
PARK WATER COMPANY - CENTRAL BASIN DIVISION
SUMMARY OF OPERATING EXPENSES
TABLE 1 of 2
SUMMARY OF MAIN OFFICE EXPENSES (in Dollars)

	2016
Payroll - Customers	4,675
Payroll - Maintenance	34,686
Maintenance - Other	576,043
Payroll - Clearings	20,821
Depreciation - Clearings	9,692
Clearings - Other	31,427
A&G Payroll	4,132,003
Employee Benefits	1,252,460
Insurance	180,191
Uninsured Property Damage	0
Regulatory Commission Expense	0
Outside Services	625,999
A&G - Other	543,364
A&G Transferred Credit	(17,886)
Property Taxes	30,459
Payroll Taxes	231,024
Depreciation	348,138
WWH Adjustment Payroll Tax	(172)
WWH Adjustment Other	(3,988)
Grand Total	**7,998,936**
Allocation %	41.74%
CB Allocation	**3,338,756**
PAYROLL TAX	96,358
PROPERTY TAX	12,713
DEPRECIATION	145,313
OTHER	3,084,372
CB Allocation	**3,338,756**

APPENDIX E
PARK WATER COMPANY - CENTRAL BASIN DIVISION
SUMMARY OF OPERATING EXPENSES
TABLE 2 of 2
MAIN OFFICE RATE BASE SUMMARY (in Dollars)

EOY Balances	**2016**	**2017**
Plant in Service	13,163,691	15,014,430
Work in Progress	0	0
Subtotal	13,163,691	15,014,430
Less:		
Depreciation Reserve	6,868,874	7,141,535
Unamortized ITC	0	0
Deferred Income Tax	1,115,108	1,215,786
Subtotal	7,983,982	8,357,321
Net Main Office Rate Base	5,179,710	6,657,109
Average Rate Base	4,840,259	5,918,409
Four Factor Allocation		
Allocation %	41.74%	41.74%
CB Allocation	**2,020,324**	**2,470,344**

(END OF APPENDIX E)

(End of Exhibit C)

Decision 16-02-014 February 19, 2016

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Park Water Company (U314W) for Authority to Increase Rates Charged for Water Service by $2,918,800 or 8.72% in 2016, $2,422,093 or 6.63% in 2017, and $1,598,099 or 4.08% in 2018.	Application 15-01-001 (Filed January 2, 2015)

ORDER CORRECTING ERRORS IN DECISION 16-01-009

The Commission has been informed of several obvious errors and omissions in Decision 16-01-009. These errors and omissions are corrected as follows:

1. The third sentence in the Summary on page 2, Finding of Fact No. 8, Conclusion of Law No. 8, and Ordering Paragraph No. 2 erroneously show a revenue requirement of "$33,288,550." This is corrected to show a revenue requirement of "$35,346,330," as reflected on page 3 of the Joint Comparison Exhibit attached to the decision as Exhibit B.
2. Consistent with Section 19.0 of the settlement agreement adopted by the decision, the words ", and thereafter close the account" are deleted from Conclusion of Law No. 9.
3. Consistent with Section 16.3 of the settlement agreement adopted by the decision, Conclusion of Law No. 11 is corrected to read (additions are underlined and deletions are shown in strikethrough): "Park Water Company should be permitted <u>to file a Tier 2 advice letter</u> to recover the under-collected balance ~~of $17,989~~ in its Low-Income

Customer Data Sharing Cost Memorandum Account for the period ending December 31, ~~2014~~ 2015, through a 12-month temporary surcharge, and thereafter close the account."

4. Consistent with Section 16.3 of the settlement agreement adopted by the decision, Ordering Paragraph No. 7 is corrected to read (additions are underlined and deletions are shown in strikethrough): "Park Water Company is authorized to file a Tier 2 advice letter to recover the under-collected balance ~~of $17,989~~ in its Low-Income Customer Data Sharing Cost Memorandum Account for the period ending December 31, ~~2014~~ 2015, through a 12-month temporary surcharge, and thereafter close the account."
5. Consistent with Section 19.0 of the settlement agreement adopted by the decision, the reference to "$7.12" in the discussion on page 11, Finding of Fact No. 14 and Conclusion of Law No. 13, and Ordering Paragraph No. 10 is changed to "$8.81."
6. Conclusion of Law No. 19 is a partial sentence without effect and is deleted.
7. Conclusion of Law No. 20 is renumbered as Conclusion of Law No. 19.

Therefore, pursuant to Resolution A-4661,

IT IS ORDERED that Decision 16-01-009 is corrected as follows:

1. The amount "$33,288,550" is changed to "$35,346,330" in the third sentence on page 2, Finding of Fact No. 8, Conclusion of Law No. 8, and Ordering Paragraph No. 2.

2. The words ", and thereafter close the account" are deleted from Conclusion of Law No. 9.

3. Conclusion of Law No. 11 is revised to read: "Park Water Company should be permitted to file a Tier 2 advice letter to recover the under-collected balance in

its Low-Income Customer Data Sharing Cost Memorandum Account for the period ending December 31, 2015, through a 12-month temporary surcharge, and thereafter close the account."

4. Ordering Paragraph No. 7 is revised to read: "Park Water Company is authorized to file a Tier 2 advice letter to recover the under-collected balance in its Low-Income Customer Data Sharing Cost Memorandum Account for the period ending December 31, 2015, through a 12-month temporary surcharge, and thereafter close the account."

5. The amount "$7.12" is changed to "$8.81" in the Discussion on page 11, Finding of Fact No. 14, and Ordering Paragraph No. 10.

6. Conclusion of Law No. 19 is deleted.

7. Conclusion of Law No. 20 is renumbered to Conclusion of Law No. 19.

This order is effective today.

Dated February 19, 2016, at San Francisco, California.

/s/ TIMOTHY J. SULLIVAN
TIMOTHY J. SULLIVAN
Executive Director

0000152796

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

Arizona Corporation Commission
DOCKETED
APR 18 2014
DOCKETED BY ne

IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE.	DOCKET NO. SW-01428A-13-0042
IN THE MATTER OF THE APPLICATION OF LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE.	DOCKET NO. W-01427A-13-0043 DECISION NO. 74437 **OPINION AND ORDER**

DATE OF HEARING:	December 6 and 11 (pre-hearing conferences), 9 (public comment and procedural conference), 13, and 16, 2013
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Teena Jibilian
APPEARANCES:	Mr. Jay Shapiro, FENNEMORE CRAIG, PC, on behalf of Liberty Utilities (Litchfield Park Water & Sewer) Corp.; Mr. Daniel W. Pozefsky, Chief Counsel, on behalf of the Residential Utility Consumer Office; and Ms. Robin Mitchell and Mr. Matthew Laudone, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

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CONCLUSIONS OF LAW 22

ORDER 22

BY THE COMMISSION:

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

I. Procedural History

1. On February 28, 2013, Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("LPSCO" or "Company")[1] filed the above-captioned rate applications with the Arizona Corporation Commission ("Commission").

2. On March 4, 2013, the Company filed a Motion to Consolidate in each docket.

3. On March 28, 2013, the Commission's Utilities Division ("Staff") filed a Letter of Sufficiency in each docket.

4. On April 12, 2013, a Rate Case Procedural Order was issued, consolidating the dockets, scheduling the matter for hearing, setting procedural deadlines, and directing public notice of the applications and hearing.

5. On May 10, 2013, the Company filed a Request to Correct Notice.

6. On May 13, 2013, a Procedural Order was issued granting the Company's Request to Correct Notice.

7. On July 19, 2013, the Company docketed a Notice of Filing Certification and Proof of Mailing, indicating that public notice of the consolidated applications and the hearing thereon was published on June 11, 2013 in the *West Valley View*, and that notice was mailed to the Company's customers on June 11, June 19, June 28, and July 17, 2013.

8. Between June 26, 2013 and September 26, 2013, seven customer comments were filed opposing the requested rate increases.

9. Intervention was granted to the Residential Utility Consumer Office ("RUCO"), and Olivia Burnes.

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[1] Following the filing of the application, LPSCO changed its name from Litchfield Park Service Company dba Liberty Utilities to Liberty Utilities (Litchfield Park Water & Sewer) Corp. *See* Hearing Transcript ("Tr.") at 13.

10. On September 25, 2013, Staff filed a request that the deadline for filing its testimony be extended to September 27, 2013.

11. On September 26, 2013, Staff filed the Direct Testimony of its witnesses Darron W. Carlson, John A. Cassidy, and Dorothy Hains.

12. On September 26, 2013, the Company filed Notices of Filing System Improvements Benefits Mechanism Surcharge Projects for both its Water and Wastewater divisions.

13. On September 27, 2013, RUCO filed the Direct Testimony of its witness Robert B. Mease.

14. On October 4, 2013, RUCO filed the Direct Testimony on Rate Design of Robert B. Mease and Staff filed the Direct Testimony on Rate Design of Darron W. Carlson.

15. On October 16, 2013 and October 21, 2013, Staff filed Notices of Errata to the Direct Testimony on Rate Design of Darron W. Carlson.

16. On October 23, 2013, the Company filed the Rebuttal Testimonies of its witnesses Christopher D. Krygier, Thomas J.Bourassa, Greg Sorenson, and Wendell Licon.

17. On October 29, 2013, the Company filed a Notice of Errata which included its revised Rebuttal Schedule H-3, page 4, which matched the charges being proposed by Staff.

18. On November 12, 2013, RUCO filed the Surrebuttal Testimony of its witness Robert B. Mease.

19. On November 12, 2013, Staff filed the Surrebuttal Testimonies of its witnesses Darron W. Carlson, John A Cassidy, and Dorothy M. Hains.

20. On November 13, 2013, the Company filed a Notice of Errata with a revised Rebuttal Schedule D-1 reflecting its proposed return on equity of 9.70 percent.

21. On December 4, 2013, the Company filed the Rejoinder Testimonies of its witnesses Christopher D. Krygier, Thomas J.Bourassa, Greg Sorenson, and Wendell Licon.

22. On December 4, 2013, RUCO filed a Notice of Supplemental Filing to update the Surrebuttal Testimony of its witness Robert B. Mease.

23. On December 5, 2013, the Company filed witness summaries of its witnesses Christopher Krygier, Thomas J. Bourassa (Rate Base), and Greg Sorenson.

24. On December 6, 2013, RUCO filed a witness summary of its witness Robert B. Mease.

25. On December 6, 2013, the pre-hearing conference convened as scheduled. The Company, RUCO, and Staff appeared through counsel and discussed procedural issues associated with the hearing. The parties stated that they were discussing settlement of some issues in the case, and requested that no evidence be presented on the first scheduled day of the evidentiary hearing, December 9, 2014, but that December 9, 2014 be scheduled instead for public comment, followed by an additional pre-hearing conference at which the parties could provide an update of the progress on settling the issues and a proposed date for the hearing to commence.

26. On December 9, 2013, the Company filed witness summaries of its Cost of Capital witnesses Thomas J. Bourassa and Wendell Licon.

27. On December 9, 2013, the hearing convened for the purpose of taking public comment. Two members of the public appeared and provided public comment, expressing concern with the effects of the Company's requested rate increase on their HOA water bills. Following public comment, a procedural conference was held, with counsel for the Company, RUCO, and Staff attending. The parties stated that they were still working toward a settlement of all issues in the case with the exception of the System Improvement Benefit ("SIB") surcharge mechanisms proposed by the Company and supported by Staff, but not by RUCO. As requested by the parties, the evidentiary hearing was again postponed to an undetermined date, pending another procedural conference to be held on December 11, 2013.

28. On December 11, 2013, a telephonic procedural conference convened as scheduled. The Company, RUCO and Staff appeared through counsel. The parties indicated that a Settlement Agreement signed by the Company and RUCO would be filed later that day, and that while Staff did not intend to oppose it, Staff had elected not to be a signatory to the Settlement Agreement, due to timing issues. Staff was directed to file Direct Testimony of a witness regarding the Settlement Agreement. The evidentiary hearing was set to convene on Friday, December 13, 2013, at 1:00 p.m. for the purpose of taking testimony on the Settlement Agreement, and to continue on Monday, December 16, 2013 at 10:00 a.m. for taking testimony on remaining disputed issues.

29. On December 11, 2013, the Company filed a Notice of Filing Settlement Agreement, along with a copy of a Settlement Agreement signed by representatives of the Company and RUCO. A copy of the Settlement Agreement is attached hereto as Exhibit A.

30. On December 12, 2013, Staff filed the Direct Testimony Regarding Settlement Agreement of its witness James R. Armstrong.

31. On December 12, 2013, Staff filed witness summaries of its witnesses Darron W. Carlson, Dorothy M. Hains, and James R. Armstrong.

32. On December 13, 2014, the hearing convened before a duly authorized Administrative Law Judge for the taking of evidence on the application. The Company, RUCO and Staff appeared through counsel, presented evidence through their witnesses, and were provided an opportunity to cross examine other witnesses. The hearing concluded on December 16, 2013.

33. Prior to the conclusion of the hearing, late filed hearing exhibits A-25 and A-26, consisting of proposed Plans of Administration for the water and wastewater SIB surcharge mechanisms proposed by the Company in this proceeding, were admitted with no objection. The parties were informed that any responsive filings would be due one week following the filing of Exhibits A-25 and A-26.

34. On January 3, 2014, the Company filed a Notice of Filing Late Filed Exhibits, to which was attached late filed Hearing Exhibits A-25 and A-26.

35. On January 8, 2014, RUCO filed Notice that it had no opposition to late filed Hearing Exhibits A-25 and A-26, and further, that RUCO did not intend to file any testimony regarding late filed Hearing Exhibits A-25 and A-26.

36. On January 17, 2014, the Company, RUCO, and Staff filed Initial Closing Briefs.

37. On January 31, 2014, the Company, RUCO, and Staff filed Reply Closing Briefs, and the matter was taken under advisement.

38. Due to the delay in commencement of the evidentiary hearing to accommodate the parties' settlement discussions, the timeclock in this matter should be extended to April 9, 2014,

pursuant to A.A.C. R14-2-103(b)(11)(ii).[2]

II. Background

39. LPSCO is an Arizona public service corporation that provides water and wastewater utility service to the public in communities within the cities of Litchfield Park, Goodyear, and Avondale, and in adjacent unincorporated areas of Maricopa County in the west Phoenix valley, west of the Agua Fria River and north of Interstate Highway 10. During the test year, LPSCO served 16,802 water customers and 16,161 wastewater customers.

40. LPSCO, an Arizona C Corporation, is owned by Liberty Utilities, a Delaware corporation, through its operating subsidiary Liberty Utilities (West). Liberty Utilities' ultimate parent is Algonquin Power & Utilities Corp., a Canadian corporation whose shares are traded on the Toronto Stock Exchange.[3]

41. LPSCO's current rates were approved in Decision No. 72026 (December 10, 2010).

42. The current application is based on a test year ended December 31, 2012.

III. Settlement Agreement Issues

43. LPSCO and RUCO are signatories to a Settlement Agreement in this case. A copy of the Settlement Agreement is attached hereto as Exhibit A. The Settlement Agreement between LPSCO and RUCO resolves all disputed issues in this case, among all parties to the case, with the exception of the SIB issues. While Staff is not a signatory to the Settlement Agreement, Staff participated in preparation of the Summary Schedules attached as Exhibit 1 to the Settlement Agreement,[4] stipulates to the terms of the Settlement Agreement, and recommends that the Commission adopt it.[5]

44. For its water division, LPSCO's application requested a revenue increase of $2,257,160, over adjusted test year revenues of $11,201,390, or 20.15 percent, for a total revenue

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[2] This timeclock extension allows time for satisfaction of the Settlement Agreement's request that new rates become effective on or before May 1, 2014.

[3] According to Algonquin Power & Utilities Corp.'s March 28, 2013 Annual Information Form filed with the U.S. Securities and Exchange Commission, Liberty Utilities is wholly owned by Liberty Utilities (America) Holdco Inc., a Delaware corporation, which is wholly owned by Liberty Utilities (America) Co., a Delaware corporation. Liberty Utilities (America) Co. is a wholly owned subsidiary of Liberty Utilities (Canada) Corp., a Canadian federal corporation, which is in turn wholly owned by Algonquin Power & Utilities Corp.

[4] Direct Testimony of Staff witness James Armstrong, Hearing Exhibit ("Exh.") S-1 at 1.

[5] *Id.* at 2.

requirement of $13,458,550, and a 9.50 percent rate of return on its proposed fair value rate base ("FVRB")[6] of $35,647,602. The terms of the Settlement Agreement call for an 8.76 percent rate of return on FVRB of $33,103,506. This results in a revenue increase of $1,423,850 over adjusted test year revenues of $11,201,268, or 12.71 percent, for a total revenue requirement of $12,625,118.[7]

45. For its wastewater division, LPSCO's application requested a revenue increase of $659,088 over adjusted test year revenues of $10,361,603, or 6.36 percent, for a total revenue requirement of $11,020,691, and a 9.50 percent rate of return on its proposed FVRB of $23,877,697. The terms of the Settlement Agreement call for an 8.76 percent rate of return on FVRB of $24,190,673. This results in a revenue increase of $342,962 over adjusted test year revenues of $10,362,796, or 3.31 percent, for a total revenue requirement of $10,705,758.[8]

A. Rate Base

46. Water Division. The parties agree that the FVRB for LPSCO's water division is $33,103,506. Based on the entirety of the record in this proceeding, we find that the FVRB for LPSCO's water division is $33,103,506.

47. Wastewater Division. The parties agree that the FVRB for LPSCO's wastewater division is $24,190,673. Based on the entirety of the record in this proceeding, we find that the FVRB for LPSCO's wastewater division is $24,190,673.

B. Operating Income

48. Water Division. The parties agree that the adjusted test year revenues for the water division are $11,201,268, and adjusted test year operating expenses are $9,166,122, for test year adjusted operating income of $2,035,146. Based on the entirety of the record in this proceeding, we determine that the test year adjusted operating income for LPSCO's water division is $2,035,146.

49. Wastewater Division. The parties agree that the adjusted test year revenues for the wastewater division are $10,362,796, and adjusted test year operating expenses are $8,451,599, for test year adjusted operating income of $1,911,197. Based on the entirety of the record in this

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[6] LPSCO proposed that its original cost rate base ("OCRB") be considered its FVRB.
[7] The differences between these revenue requirement figures and those appearing in the Settlement Agreement Summary Schedules are due to rounding errors, and are *de minimus*.
[8] *Id.*

proceeding, we determine that the test year adjusted operating income for LPSCO's wastewater division is $1,911,197.

C. Cost of Capital

50. LPSCO's actual capital structure at the end of the test year was 15.87 percent long-term debt and 84.13 percent common equity, and the parties recommend adoption of this capital structure. The parties reached agreement on a cost of debt of 6.4 percent and a cost of equity as recommended by RUCO of 9.2 percent, for a weighted average cost of capital of 8.76 percent. We determine that based on the entirety of the record in this proceeding, an 8.76 percent rate of return on FVRB is just and reasonable.

51. Cost of capital summary:

	Percentage	Cost	Weighted Average Cost
Common Equity	84.13%	9.20%	7.74%
Long-Term Debt	15.87%	6.40%	1.02%
Weighted Average Cost of Capital			8.76%

D. Authorized Revenue Increase

52. Based on our findings herein, we determine that LPSCO is entitled to a gross revenue increase of $1,423,850 for its water division.[9]

Fair Value Rate Base	$ 33,103,506
Adjusted Operating Income	2,035,146
Required Rate of Return	8.76%
Required Operating Income	2,898,867
Operating Income Deficiency	864,721
Gross Revenue Conversion Factor	1.6466
Gross Revenue Increase	$ 1,423,850

53. Based on our findings herein, we determine that LPSCO is entitled to a gross revenue

[9] The differences between these revenue requirement figures and those appearing in the Settlement Agreement Summary Schedules are due to rounding errors, are *de minimus,* and have no effect upon the rates proposed in the Settlement Agreement, which are set forth in Exhibit F.

increase of $342,962 for its wastewater division.[10]

Fair Value Rate Base	$ 24,190,673
Adjusted Operating Income	1,911,197
Required Rate of Return	8.76%
Required Operating Income	2,119,103
Operating Income Deficiency	207,906
Gross Revenue Conversion Factor	1.6496
Gross Revenue Increase	$ 342,962

E. Rate Design

54. The parties are in agreement on rate designs and service charges for the water and wastewater divisions as they appear in the Summary Schedules of the Settlement Agreement. The proposed rate design for the water division includes inverted tiers intended to promote water conservation. The proposed rate design is reasonable and appropriate, and will be adopted.

55. Decision No. 72026 approved a low income tariff for LPSCO's water and wastewater divisions.[11] The tariff is designed to allow customers with gross annual household incomes of 150 percent of federal poverty guidelines to receive a discount on their water bills after submitting an application to determine eligibility.[12] In this case, the parties propose a modified low income tariff to reflect an increased discount from 15 percent to 30 percent for eligible customers, and propose that the Company file the modified tariff at the time it files revised schedules of rates and charges as required by this Decision.

56. The proposed rate design and modification to LPSCO's low income tariff are reasonable and appropriate, and will be adopted. LPSCO should continue to implement the low income tariff, as modified, in accordance with the guidelines adopted in Decision No. 72026.

F. Depreciation Rates

57. The parties recommend that LPSCO use the depreciation and amortization rates

[10] *Id.*
[11] Decision No. 72026 at 69-70 and Exhibit A.
[12] Decision No. 72026 at 69.

proposed by Staff and contained in Staff's Engineering Report, which are reproduced on the water and wastewater Schedules C-2, page 2 of the Summary Schedules attached as Exhibit 1 to Exhibit A. LPSCO should be directed to use those depreciation and amortization rates on a going forward basis.

G. Off-Site Facilities Water Hook-Up Fee Tariff

58. The Company's current water division off-site facilities hook-up fee tariff does not include tariffed fees for meter sizes 6 inches and larger. The Settlement Agreement shows tariffed hook-up fees for 6, 8, 10, and 12 inch meter sizes on water division Schedule H-3, page 5. Staff recommends approval of the fees, and that LPSCO be required to file a new off-site facilities hook-up fee tariff in conformance with Figure 7 of the Staff Water Engineering Report, attached to the Direct Testimony of Staff witness Dorothy Hains, Hearing Exh. S-2. At the hearing, LPSCO's witness testified that LPSCO is in agreement with Staff's recommendation, and would file the tariff at the time it files its revised rate schedules. LPSCO should be directed to make the filing at that time.

H. Purchased Power Adjustor Mechanism ("PPAM")

59. In the Settlement Agreement, RUCO agreed not to oppose LPSCO's proposed PPAM as modified by Staff. Staff reviewed LPSCO's purchased power costs for the years 2008 through 2012, and recommends approval of a PPAM for both the water and wastewater divisions, provided that LPSCO files an annual report on its purchased power costs. Staff proposes to calculate an annual increase or decrease in the adjustor, and provide a Recommended Order for Commission approval within 30 days of LPSCO's filing the annual purchased power report. LPSCO agreed to file a Plan of Administration for the PPAM within 90 days of this Decision. Staff's recommendations are reasonable, and the requested PPAM for LPSCO's water and wastewater divisions should be approved, subject to the filing, within 90 days of this Decision, for Commission approval, of a Plan of Administration for the PPAM that comports with Staff's recommendations.

I. Change in State Corporate Income Tax Rate

60. Arizona state law calls for annual reductions in the corporate income tax rate from December 31, 2014 through December 31, 2016.[13] Staff's witness testified that the provisions of this

[13] Direct Testimony of Staff witness Darron W. Carlson, Hearing Exh. S-6 at 32-33, referring to the effects of House Bill 2001, signed into law on February 17, 2011.

law give rise to excess deferred income taxes.[14] Staff recommends that LPSCO be required to determine the amount of its excess deferred income tax related to the changes in State income tax, and within 90 days of this Decision, file a plan on how to refund any excess State income tax recoveries to ratepayers. LPSCO agreed to Staff's recommendations.

J. Water Usage Report

61. The adjusted test year revenues for the water division agreed to by the parties includes a $58,000 decrease in test year revenues based on the declining usage-driven revenue erosion of its 3/4-inch and 1-inch residential customers. As part of its recommendation for approval of the declining usage adjustment, Staff recommends that LPSCO be required to file an annual report every January that details the monthly usage of each meter size and customer class for the prior calendar year.[15] Staff stated that it will review the annual filings, and if Staff believes Commission action is necessary, will file such a recommendation to the Commission. LPSCO agreed to Staff's recommendation. Staff's recommendation is reasonable and should be adopted.

K. Best Management Practices Tariffs ("BMPS")

62. LPSCO's service area is located in the Phoenix Active Management Area ("AMA"). LPSCO currently has five BMP tariffs in place. LPSCO agreed to submit for Commission approval the five additional BMP tariffs shown in Figure 8 of the Staff Water Engineering Report, attached to Hearing Exh. S-2, Direct Testimony of Staff witness Dorothy Hains, in addition to its current BMP tariffs.

IV. Water and Wastewater SIBs

63. The only disputed issue in this proceeding is whether LPSCO's requested water and wastewater SIB surcharge mechanisms should be approved. LPSCO and Staff are in agreement that the Company should be authorized to implement water and wastewater SIB surcharge mechanisms. RUCO does not agree.

64. In its application, LPSCO sought approval of a Distribution System Improvement Charge ("DSIC") or DSIC-like mechanism for both its water and wastewater divisions to recover the

[14] Direct Testimony of Staff witness Darron W. Carlson, Hearing Exh. S-6 at 33.
[15] Tr. at 69; Direct Testimony of Staff witness Darron W. Carlson, Hearing Exh. S-6 at 31-32.

capital costs (return on investment, income taxes and depreciation expense) associated with system improvement projects verified to be completed and placed in service between rate cases.

65. In its October 23, 2013 filing of Rebuttal Testimony, LPSCO formally modified its DSIC request in order to seek approval of water and wastewater SIB surcharge mechanisms, in the form approved by the Commission in Decision No. 73938 (June 27, 2013).[16]

66. LPSCO is requesting approval of water and wastewater SIBs that are materially the same as the SIB mechanism described in and approved by Decision No. 73938, under the same terms and conditions as the SIB approved in Decision No. 73938.[17] During preparation for the hearing on its application, LPSCO furnished to the parties approximately 600 pages of engineering and financial documentation, and worked with the Commission's Engineering Staff during the preparation for the hearing in this case to develop water and wastewater SIB schedules.[18]

67. LPSCO believes approval of the water and wastewater SIBs will serve the public interest by allowing LPSCO to make significant plant investments to maintain and improve service to existing customers in a way that will lessen the impact of necessary rate increases by allowing smaller, more incremental rate increases.[19]

68. RUCO does not agree with LPSCO that the water and wastewater SIB are in the public interest, and does not support their approval.[20] RUCO believes that the water and wastewater SIBs are bad public policy, are illegal and mechanically flawed.[21] Further, RUCO believes that neither Staff nor LPSCO have made a case to support Commission approval of the water and wastewater SIBs in this case.[22]

69. After evaluating the financial and engineering information provided by LPSCO to support its water and wastewater SIB requests, Staff found the information provided by LPSCO

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[16] Decision No. 73938 approved a SIB mechanism for Arizona Water Company's Eastern Group. Judicial notice was taken in this proceeding of Decision No. 73938, which RUCO marked as Hearing Exh. R-7.
[17] Tr. at 76.
[18] Settlement Agreement ¶ 6.3.
[19] Settlement Agreement ¶ 6.2.
[20] Settlement Agreement ¶ 6.6.
[21] *Id.*
[22] *Id.*

adequate, and the proposed plant improvements to be reasonable and prudent.[23] Staff recommends that the Commission authorize the water and wastewater SIBs for LPSCO.[24]

70. Water Division SIB Plant Table I. In the course of analyzing the application, Staff reviewed the September 26, 2013 Litchfield Park Facilities Assessment, Volume 2 – Water, which was prepared for LPSCO by an outside engineering firm.[25] Table 7 of Hearing Exh. A-21 contains the details, justifications, and cost estimates for LPSCO's proposed five year plan for replacement water plant projects.[26] A copy of that Table 7 is labeled as "Water Division SIB Plant Table I," and is attached hereto and incorporated herein as Exhibit B. Staff Engineering analyzed and prepared a summary of LPSCO's proposed five year water infrastructure plan by year (2014-2018), plant account, and annual estimated project costs.[27] LPSCO's five year plan includes infrastructure additions in four National Association of Regulatory Utility Commissioners ("NARUC") plant accounts: Services, Meters, Hydrants, and Transmission & Mains.[28] Staff found the proposed five year water infrastructure replacement plan, at a cost of $9,160,400, to be reasonable and appropriate.[29] Staff stated, however, that it made no "used and useful" determination of the proposed plant items, and that no conclusions should be inferred for rate making or rate base purposes in the future.[30]

71. Wastewater Division SIB Plant Table I. In the course of analyzing the application, Staff reviewed the September 26, 2013 Litchfield Park Facilities Assessment, Volume 2 – Wastewater, which was prepared for LPSCO by an outside engineering firm.[31] Table 7 of Hearing Exh. A-20 contains the details, justifications, and cost estimates for LPSCO's proposed five year plan for replacement wastewater plant projects.[32] A copy of that Table 7 is labeled as "Wastewater

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[23] Tr. at 199-200; Staff Water Engineering Report at 13-14, attached to Hearing Exh. S-2, Direct Testimony of Staff witness Dorothy Hains; Staff Wastewater Engineering Report at 11, attached to Hearing Exh. S-2, Direct Testimony of Staff witness Dorothy Hains.
[24] Staff Br. at 15.
[25] Hearing Exh. A-21.
[26] Hearing Exh. A-21 at 17 and Table 7.
[27] Staff Water Engineering Report at 13-14, attached to Hearing Exh. S-2, Direct Testimony of Staff witness Dorothy Hains.
[28] *Id.*
[29] *Id.*
[30] *Id.*
[31] Hearing Exh. A-20.
[32] Hearing Exh. A-20 at 12 and Table 7.

Division SIB Plant Table I," and is attached hereto and incorporated herein as Exhibit C. Staff Engineering analyzed and prepared a summary of LPSCO's proposed five year wastewater infrastructure plan by year (2014-2018), plant account and annual estimated project costs.[33] The five year plan includes infrastructure in three NARUC plant accounts: Services, Manholes, and Gravity Flow Collection Sewer.[34] Staff found the proposed five year wastewater infrastructure replacement plan, at a cost of $10,337,600, to be reasonable and appropriate.[35] Staff stated, however, that it made no "used and useful" determination of the proposed plant items, and that no conclusions should be inferred for rate making or rate base purposes in the future.[36]

72. At the hearing, LPSCO presented draft Plans of Administration ("POAs") for its proposed water and wastewater SIB surcharge mechanisms.[37] At the time of the hearing, LPSCO and Staff were working together on a final draft form of the POAs. Before the conclusion of the hearing, late filed hearing exhibits A-25 and A-26, consisting of LPSCO's final proposed POAs for the water and wastewater SIB surcharge mechanisms, were admitted with no objection. Parties were informed at that time that an opportunity to file responsive testimony would be provided. On January 3, 2014, the Company filed a Notice of Filing Late Filed Exhibits, to which was attached late filed Hearing Exhibits A-25 and A-26, the proposed POAs for LPSCO's proposed wastewater and water SIBs, respectively. On January 8, 2014, RUCO docketed Notice that it did not oppose late filed Hearing Exhibits A-25 and A-26, and further, that RUCO did not intend to file testimony regarding late filed Hearing Exhibits A-25 and A-26. A copy of LPSCO's proposed water SIB POA is attached hereto and incorporated herein as Exhibit D. A copy of LPSCO's proposed wastewater SIB POA is attached hereto and incorporated herein as Exhibit E.

73. The proposed SIB mechanisms are designed to allow the Commission to authorize LPSCO to recover between rate cases, through a surcharge, the pre-tax return on investment and depreciation expense associated with the specific water and wastewater infrastructure projects, net of

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[33] Staff Wastewater Engineering Report at 11, attached to Hearing Exh. S-2, Direct Testimony of Staff witness Dorothy Hains.
[34] *Id.*
[35] *Id.*
[36] *Id.*
[37] Hearing Exhs. A-23 and A-22, respectively.

associated plant retirements, which have been submitted for review in this rate proceeding and which LPSCO plans to complete and place in service, to serve existing connections, prior to LPSCO's next rate case filing (no later than June 1, 2019). Under the proposed SIB mechanisms, the projects will be subject to a usefulness and prudency review in LPSCO's next rate case, and any approved surcharges will be subject to true-up and refund.

74. The key provisions of LPSCO's proposed water and wastewater SIBs, as detailed in the proposed POAs, are as follows:

a. Approval of SIB-Eligible Projects – All SIB-eligible projects must be reviewed by Staff and approved by the Commission prior to being included in the SIB surcharges.[38] All of the projects must be completed and placed into service prior to being included in the SIB surcharges.[39] LPSCO must file a report with the Commission every six months summarizing the status of all SIB-eligible projects.[40]

b. Costs Eligible for SIB Recovery – Cost recovery under the SIB mechanism is allowed for the pre-tax return on investment and depreciation expense associated with SIB projects, net of associated plant retirements. The rate of return, depreciation rates, gross revenue conversion factor and tax multiplier are to be the same as established in this Decision.[41]

c. Efficiency Credit – The SIB surcharge will include an efficiency credit equal to five percent of the SIB revenue requirement.[42]

d. Surcharge Cap – The amount that can be collected annually by each SIB surcharge filing is limited to five percent of the revenue requirement authorized in this Decision.[43]

e. Timing of the SIB Surcharge Filing – For each division, LPSCO may file up to

[38] Exhibit D at 2, 8-9 (emergency circumstances requirements) and Exhibit E at 2, 8-9 (emergency circumstances requirements).
[39] *Id.*
[40] Exhibit D at 3-7 and Exhibit E at 3-7.
[41] *Id.*
[42] Exhibit D at 6 and Exhibit E at 6.
[43] *Id.*

five SIB surcharge requests between rate case decisions; may make no more than one SIB surcharge filing prior to 12 months following this Decision; must make an annual SIB surcharge filing to true up its surcharge collections; and must file a new rate case application no later than June 30, 2019, with a test year ending no later than December 31, 2018, at which time any SIB surcharge then in effect will be reviewed for inclusion in base rates in that proceeding, and the surcharge will be reset to zero.[44]

f. SIB Rate Design – The SIB surcharge will consist of a fixed monthly charge on customers' bills, with the surcharge and the efficiency credit listed as separate line items. The surcharge will increase proportionately based on customer meter size, in the case of the water SIB, and service lateral size, in the case of the wastewater SIB.[45]

g. Commission Approval of SIB Surcharge – Each SIB surcharge must be approved by the Commission prior to implementation.[46]

h. Public Notice – At least 30 days prior to a SIB surcharge becoming effective, LPSCO is required to provide public notice to customers in the form of a bill insert or customer letter. The notice must include the individual surcharge amount by meter size; the individual efficiency credit by meter size; the individual true-up surcharge/credit by meter size; and directions where a customer may obtain a summary of the project(s) included in the current surcharge filing, including a description of each project and its cost.[47]

i. SIB Surcharge Request Filing Requirements – In order to allow the Commission to conduct a fair value analysis, all SIB surcharge requests must include LPSCO's most current balance sheet at the time of the filing; its most current income statement; an earnings test schedule; a rate review schedule (including the

[44] Exhibit D at 3-6 and Exhibit E at 3-6.
[45] Exhibit D at 9 and Exhibit E at 9.
[46] Exhibit D at 9-10 and Exhibit E at 9-10.
[47] Exhibit D at 10 and Exhibit E at 9-10.

incremental pro forma effects of the proposed increase); a revenue requirement calculation; a surcharge calculation; an adjusted rate base schedule; a construction work in progress ("CWIP") ledger for each project showing accumulation of charges by month and paid vendor invoices); Excel schedules with formulae intact supporting the revenue requirements approved in this Decision and the same Excel schedules incorporating the effects of SIB-eligible plant for the current SIB surcharge request and any previously approved surcharge and true-up requests; and a typical residential bill analysis showing the effect of the SIB surcharge.[48]

j. Reconciliation and True-Ups – Any under- or over-collected SIB authorized revenues will be recovered or refunded, without interest, over a 12-month period by means of a SIB true-up surcharge or true-up credit.[49]

k. Earnings Test – To allow the Commission to ensure that rates are just and reasonable, LPSCO must perform an earnings test calculation for each initial SIB filing and SIB annual report filing. The purpose of the earnings test filing is to determine whether the actual rate of return reflected by operating income for the relevant 12-month period exceeded the most recently authorized fair value rate of return. The earnings test must be based on the most recent available operating income, adjusted for any operating revenue and expense adjustments adopted in this Decision; on the rate base adopted in this Decision, updated to recognize changes in plant, accumulated depreciation, contributions in aid of construction ("CIAC"), advances in aid of construction ("AIAC"), and accumulated deferred income taxes through the most recent available financial statement (quarterly or longer).[50]

l. Emergency Circumstances - Under the proposed POA, Projects may be not be added to either Water SIB Plant Table I or Wastewater SIB Plant Table I subsequent to this Decision, except in the event of emergency circumstances,

[48] Exhibit D at 4-5 and Exhibit E at 4-5.
[49] Exhibit D at 6-7 and Exhibit E at 7.
[50] Exhibit D at 7 and Exhibit E at 7-8.

which are specifically defined in Section V of the water and wastewater POAs. Such emergency additions must be approved by the Commission.[51]

75. As it argued in the case leading up to Decision No. 73938, RUCO argues that the SIBs should not be approved. RUCO claims that the SIBs shift risk from LPSCO to the ratepayer without adequate financial consideration to the ratepayer; that the SIBs are not true adjustor mechanisms because they are used to include plant costs, not fluctuating operating expenses; that the SIBs would result in interim rates, which LPSCO has not requested; that the SIBs will increase LPSCO's FVRB without any meaningful determination of fair value, and therefore the SIBs are single issue ratemaking; that *Scates v. Arizona Corp. Comm'n*, 118 Ariz. 531, P.2d 612 (App. 1978) does not provide for an exception that would allow the SIBs; that LPSCO and Staff did not make a case for the SIBs; and that the SIBs are not in the public interest because they eliminate regulatory lag to the benefit of the utility, at the risk of reducing pressure to operate prudently and efficiently, to the detriment of the ratepayer.

76. LPSCO and Staff argue that the proposed SIBs are within the Commission's legal authority, comply with the fair value requirement of the Arizona Constitution, are lawful adjustor mechanisms under Arizona law, and comply with all requirements for adjustor mechanisms under Arizona law.

V. <u>Compliance</u>

77. The Commission's Consumer Services database from January 1, 2010 through August 15, 2013 showed a total of seven complaints for the water division and two complaints for the wastewater division, all of which have been resolved and closed.

78. The Commission's compliance database indicates that LPSCO is currently in compliance with all Commission requirements.

79. The Staff Engineering Report indicates that LPSCO's water and wastewater systems are in compliance with the Arizona Department of Environmental Quality ("ADEQ") monitoring and reporting requirements.

[51] Exhibit D at 8-9 and Exhibit E at 8-9.

VI. Conclusions

80. For purposes of this proceeding, we determine that LPSCO has a water division FVRB of $33,103,506 and a wastewater division FVRB of $24,190,673.

81. A rate of return on FVRB of 8.76 percent, based on an actual capital structure of 84.13 percent common equity and 15.87 percent long-term debt, is reasonable and appropriate.

82. LPSCO is entitled to a water division gross revenue increase of $1,423,850 and a wastewater division gross revenue increase of $342,962.

83. The rate design agreed to by the parties and set forth in Exhibit F should be adopted in this proceeding.

84. LPSCO should be required to file, along with its revised rates and schedules, a new low income tariff modified to reflect an increased discount from 15 percent to 30 percent for eligible customers, as agreed to by the parties, and should be required to continue to implement the low income tariff as required by Decision No. 72026.

85. Under the water rates adopted herein, a 3/4-inch meter residential customer with average water consumption (8,827 gallons per month) will experience a 10.45 percent increase in rates, from $24.33 to $26.87. A typical bill analysis for other meter sizes appears in Exhibit A, Water Division Schedule H-2.

86. Under the wastewater rates adopted herein, a residential customer will experience a 3.488 percent increase in rates, from $38.99 to $40.35. A typical bill analysis for other customer classes appears in Exhibit A, Wastewater Division Schedule H-2.

87. LPSCO should use, on a going forward basis, the depreciation and amortization rates shown on water division and wastewater division Schedules C-2, page 2 of the Summary Schedules attached as Exhibit 1 to Exhibit A.

88. As LPSCO agreed, it should be required to file for its water division a new off-site facilities hook-up fee tariff in conformance with Figure 7 of the Staff Engineering Report on the water division, attached to the Direct Testimony of Staff witness Dorothy Hains, Hearing Exh. S-2.

89. LPSCO's request for a PPAM for its water and wastewater divisions should be approved, subject to the filing, within 90 days of this Decision, for Commission approval, a Plan of

Administration for the PPAM that comports with Staff's recommendations.

90. LPSCO's service area is located in the Phoenix Active Management Area ("AMA"). As LPSCO agreed, it should be required to submit for Commission approval five additional BMP tariffs shown in Figure 8 of the Staff Engineering Report, attached to Hearing Exh. S-2, Direct Testimony of Staff witness Dorothy Hains, in addition to its current BMP tariffs. LPSCO may request cost recovery of actual costs associated with the additional implemented BMPs in its next rate case.

91. As LPSCO agreed, it should be required to file within 90 days, as recommended by Staff, a report detailing the amount of its excess deferred income tax resulting from the changes in State income tax due to House Bill 2001, along with a plan on how it will refund any excess State income tax recoveries to ratepayers.

92. LPSCO agreed to Staff's recommendation in regard to reporting on usage for its water division. LPSCO should be directed to annually file in this docket, commencing on or before February 1, 2015, until the filing of LPSCO's next rate case, a report that details the monthly usage of each meter size and customer class for the prior January-December calendar year. We will require Staff to analyze the data, and if Staff believes that Commission action should be taken, Staff should provide a recommendation to the Commission.

93. We agree with our Staff's expert analysis that the infrastructure replacement plans set forth in Exhibits B and C and are reasonable, and the costs are appropriate. The infrastructure replacement plans provide a reasonable and appropriate means for LPSCO to meet the challenge of replacing aging infrastructure in the LPSCO water and wastewater systems, while addressing important issues of regulatory lag and rate gradualism. As the POAs specify, plant additions under the SIBs are limited to those set forth in Exhibits B and C, and plant items for which SIB recovery may be authorized pursuant to the POAs in future Commission proceedings will be subject to review and refund in LPSCO's next rate case. We make no "used and useful" determination of the proposed plant items, and no such conclusions should be inferred for rate making or rate base purposes in the future.

94. The SIB surcharge mechanisms LPSCO proposes will provide a means for the

Commission to update LPSCO's FVRB and implement a series of step increases, thereby allowing LPSCO to undertake its substantial infrastructure replacement program which will benefit its customers without the need for a repeated series of rate cases, which can be costly for ratepayers. The SIB surcharge mechanisms include safeguards to ensure that rates will continue to be just and reasonable. Each annual SIB surcharge requires our approval and a fair value analysis and determination, based on LPSCO's provision of updated financial information, prior to taking effect. The information that LPSCO must include in SIB filings pursuant to the POAs will allow for a consideration of all of LPSCO's costs at the time a surcharge adjustment is made. Moreover, the SIB surcharge mechanisms do not guarantee surcharge increases, as each requested surcharge increase will only be authorized if we determine that LPSCO is not earning more than its authorized rate of return. In addition, the amount to be collected by the SIB surcharges will be capped at five percent of the revenue requirement authorized in this Decision, and the infrastructure replacements will be subject to annual true-ups, and to refund following a usefulness and prudency review in LPSCO's next rate case. Importantly, the SIB includes the tangible customer benefit of an efficiency credit equal to five percent of any approved SIB revenue requirement.

95. We have comprehensively addressed, in our Opinion and Order set forth in Decision No. 73938, the arguments RUCO again raises in this case in opposition to LPSCO's proposed SIB surcharge mechanisms. In Decision No. 73938, we found the SIB mechanism approved therein, upon which LPSCO's proposed SIB mechanisms are based, to be compliant with the Commission's constitutional requirements, as well as with the case law interpreting the Commission's authority and discretion in setting rates.[52] We find LPSCO's proposed SIB mechanisms in this case, which are virtually identical to those approved in Decision No. 73938, to also be compliant with the Commission's constitutional requirements and duties, and with the case law interpreting those requirements and duties. The legal analysis set forth in Decision No. 73938 is incorporated in our Decision today. For the reasons stated hereinabove, and with those stated in Decision No. 73938, we find that implementation of LPSCO's proposed SIB surcharge mechanisms, pursuant to the proposed

[52] Decision No. 73938 at 42-54.

POAs in Exhibits D and E, and limited to the infrastructure replacement plans set forth in Exhibits B and C, is in the public interest, and will therefore approve them.

96. LPSCO should be required to file, at the time it files its revised rates and schedules, water and wastewater SIB POAs that conform to the proposed POAs in Exhibits D and E.

97. LPSCO should be authorized to request, pursuant to the requirements and conditions set forth in the POAs in Exhibits D and E, SIB surcharge mechanism treatment for the specific projects listed in Exhibits B and C.

CONCLUSIONS OF LAW

1. LPSCO is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over LPSCO and the subject matter of this proceeding.

3. The rates, charges and conditions of service established herein are just and reasonable and in the public interest.

4. Notice of the application was given in accordance with law.

ORDER

IT IS THEREFORE ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp. is hereby authorized and directed to file with the Commission, on or before April 30, 2014, revised schedules of rates and charges consistent with Exhibit F attached hereto.

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service rendered on and after May 1, 2014.

IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp. shall provide notice to its customers of the revised rates and charges, in a form acceptable to the Commission's Utilities Division Staff, in its next regularly scheduled billing.

IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp. shall file, along with its revised rates and schedules, a new low income tariff modified to reflect an increased discount for eligible customers, from 15 percent to 30 percent.

IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp.

shall notify its customers of the increased discount for customers eligible for its low income tariff in the customer notice ordered above, and shall continue to notify all new customers of the availability of the low income tariff at the time service is requested.

IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp. shall annually file with the Commission, at the time it files its annual utility report with the Commission, as a compliance item in this docket, a low income tariff report showing the number of participants for the preceding year, discounts given, administrative and carrying costs, and collections made through the commodity surcharge.

IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp. shall, at the time it files revised schedules of rates and charges, file a new water division off-site facilities hook-up fee tariff in conformance with Figure 7 of the Staff Water Engineering Report, attached to the Direct Testimony of Staff witness Dorothy Hains, Hearing Exh. S-2.

IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp. is hereby authorized and directed to file within 45 days, with the Commission's Docket Control Center, as a compliance item in this matter, for Commission approval, five additional BMP tariffs in conformance with Figure 8 of the Staff Engineering Report, attached to the Direct Testimony of Staff witness Dorothy Hains, Hearing Exh. S-2, and to request cost recovery of actual costs associated with the implemented BMPs in its next rate case.

IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp. shall use, on a going forward basis, the depreciation and amortization rates shown on water division and wastewater division Schedules C-2, page 2 of the Summary Schedules attached as Exhibit 1 to Exhibit A.

IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp.'s request for approval of a Purchased Power Adjustor Mechanism is hereby approved, subject to its filing, within 90 days of this Decision, for Commission approval, a Plan of Administration for the Purchased Power Adjustor Mechanism that comports with Staff's recommendations.

IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp. shall file within 90 days, as recommended by Staff, a report detailing the amount of its excess

deferred income tax resulting from the changes in State income tax due to House Bill 2001, along with a plan on how it will refund any excess State income tax recoveries to ratepayers.

IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp. shall annually file in this docket, commencing on or before February 1, 2015, and until the filing of its next rate case, a report that details the monthly usage of each meter size and customer class for the prior January-December calendar year. Staff shall analyze the data, and if Staff believes that Commission action should be taken, shall provide a recommendation to the Commission.

IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp. is hereby authorized to implement a Water System Improvement Benefit surcharge mechanism and a Wastewater System Improvement Benefit surcharge mechanism pursuant to the requirements and conditions set forth in the Plans of Administration appearing in Exhibits D and E.

IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp. shall file, at the time it files its revised rates and schedules, Plans of Administration for the System Improvement Benefit and Collection System Improvement Benefit surcharge mechanisms authorized herein which conform to Exhibits D and E.

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IT IS FURTHER ORDERED that Liberty Utilities (Litchfield Park Water & Sewer) Corp. is hereby authorized to request, pursuant to the requirements and conditions set forth in the Plans of Administration appearing in Exhibits D and E, System Improvement Benefit mechanism treatment only for the specific projects listed in Exhibits B and C.

IT IS FURTHER ORDERED that the timeclock in this matter is hereby extended to April 9, 2014, pursuant to A.A.C. R14-2-103(b)(11)(ii).

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, JODI A. JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 18th day of April 2014.

JODI A. JERICH
EXCUTIVE DIRECTOR

DISSENT _____

DISSENT _____
TJ:tv

SERVICE LIST FOR: LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.

DOCKET NOS.: SW-01428A-13-0042 and W-01427A-13-0043

Jay L. Shapiro
FENNEMORE CRAIG, PC
2394 E. Camelback Road, Suite 600
Phoenix, AZ 85016
Attorneys for Litchfield Park Service Company

Daniel W. Pozefsky, Chief Counsel
RUCO
1110 W. Washington St., Suite 220
Phoenix, AZ 85007

Olivia Burnes
356 N. Cloverfield Circle
Litchfield Park, AZ 85340

Janice Alward, Chief Counsel
Robin Mitchell, Staff Attorney
Matthew Laudone, Staff Attorney
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

Steven M. Olea, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

EXHIBIT A

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

Docket Nos. W-01427A-13-0043 & SW-01428A–13-0042 (Consolidated)

DECEMBER 11, 2013

PROPOSED SETTLEMENT AGREEMENT BETWEEN LPSCO AND RUCO IN THE LPSCO RATE CASE DOCKET NOs. W-01427A-13-0043 & SW-01428A-13-0042

The purpose of this Settlement Agreement ("Agreement") is to settle disputed issues related to Docket Nos. W-01427A-13-0043 and SW-01428A-13-0042 (the "Rate Case"). This Agreement is entered into by Liberty Utilities (Litchfield Park Water & Sewer) Corp. f/n/a Litchfield Park Service Co. ("LPSCO" or "Company") and the Residential Utility Consumer Office ("RUCO"). LPSCO and RUCO will be referred to collectively as "Signatories;" a single entity will be referred to individually as a "Signatory."

I. RECITALS.

1.1 On February 28, 2013, LPSCO filed separate rate applications for its water and its wastewater divisions. The Utilities Division Staff ("Staff") filed a letter of sufficiency on March 28, 2013. Thereafter, an April 12, 2013 Procedural Order consolidated the two dockets and established a procedural schedule. Notice to customers was sent by mail in June and July 2013, and notice was published on June 11, 2013. Intervention was granted to RUCO on April 24, 2013 and to Ms. Olivia Burnes on September 19, 2013.

1.2 On numerous occasions throughout the pendency of this Rate Case, representatives from LPSCO have worked and met with representatives from RUCO, and with representatives from Staff, in an effort to provide additional information and answer questions. As a result of these efforts, discovery, and pre-filing of testimony, the three parties have accepted a number of each other's adjustments, the result of which is that a number of issues that were in dispute have been resolved.

1.3 On December 2, 2013, counsel for RUCO contacted counsel for LPSCO and Staff to raise the possibility of resolving one or more issues that remained in dispute as of the filing of LPSCO's rejoinder testimony. From that date through the date of

this Agreement, representatives from the three parties discussed the issues that remained in dispute in an effort to resolve those issues. As a result of those efforts, the three parties have eliminated most of the issues in dispute. The sole remaining issue is the Company's request for approval of System Improvement Benefit ("SIB") and Collection System Improvement Benefit ("CSIB") surcharges.

1.4 As a result of the resolution of the issues in dispute in this case, except the SIB/CSIB, the parties are now in material agreement on (1) the Company's fair value rate base; (2) the level of operating expenses; (3) the rate of return; (4) the revenue requirement; and (5) the rate design, as reflected in the **Summary Schedules** attached hereto as **Exhibit 1**. Moreover, RUCO agrees not to oppose the Company's proposed Purchase Power Adjustment Mechanism ("PPAM") as modified by Staff.

1.5 By reaching material agreement on the Company's fair value rate base, operating expenses, rate of return, revenue requirement and rate design, as reflected in the **Summary Schedules** attached hereto as **Exhibit 1**, the parties have eliminated multiple issues from dispute. These issues, which were still either in dispute or needing clarification at the time of the Company's rejoinder filing, include return on equity, rate design, Corporate Cost allocations, Achievement Pay, RUCO's use of a 13 month average for Customer Meter Deposits, the Declining Usage Adjustment, and the final amount of Post Test Year Plant to be included in rate base. As such, the only remaining issue in dispute is the Company's request for approval of a SIB and CSIB, which issue does not impact the revenue requirement.

1.6 In order to effectuate the Commission's determination of LPSCO's fair value rate base and the setting of just and reasonable rates thereon, LPSCO and RUCO enter into this Agreement and jointly represent to the Commission that the terms and conditions of this Agreement are just, reasonable, fair, and in the public interest in that these terms and conditions establish just and reasonable rates for water and wastewater utility service by LPSCO under the facts and circumstances presented in this Rate Case, promote the convenience, comfort and safety, and the preservation of health, of the employees and patrons of LPSCO; and avoid further litigation in the determination of fair value rate base and setting of rates.

1.7 The Signatories agree to ask the Commission: (1) to find that the terms and conditions of this Agreement are just and reasonable and in the public interest, along with any and all other necessary findings, and (2) to approve the Agreement such that it and the rates contained herein may become effective on or before May 1, 2014.

1.8 Staff's representatives participated in the preparation of the **Summary Schedules** and the Signatories believe Staff supports the material terms of this Agreement and will stipulate accordingly following the submission of this Agreement to the Commission.

NOW, THEREFORE, in consideration of the foregoing, and the mutual promises herein made, and in consideration of the representations, warranties and covenants herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Signatories, intending to be legally bound, hereby agree to the following terms and conditions.

II. REVENUE REQUIREMENT AND RATE INCREASE PROVISIONS.

2.1 Rate Increase.

2.1.1 The revenue requirements and rate increases for both of the Company's water and sewer divisions are shown on Schedule A-1 of the **Summary Schedules** attached hereto as **Exhibit 1**.

2.2 Fair Value Rate Base.

2.2.1 The fair value rate base used to establish the revenue requirement and rates agreed to herein is shown on Schedule B-1 the **Summary Schedules** attached hereto as **Exhibit 1**. LPSCO agrees to the use of original cost rate base as its fair value rate base for purposes of setting rates in this case.

2.2.2 The rate base set forth on Schedule B-1 the **Summary Schedules** attached hereto as **Exhibit 1** includes Post Test Year Plant as recommended by LPSCO and RUCO, which project includes a roughly $1.1M revenue neutral wastewater system improvement that is used and useful serving existing customers.

2.3 The rates agreed to herein are based on a test year ending December 31, 2012, with adjustments for known and measurable changes.

2.4 The operating expense levels agreed to herein are based upon the expense levels recommended by RUCO and the Company.

III. BILL IMPACT AND RATE DESIGN.

3.1 For the water division, the rate design includes inverted tiers intended to promote water conservation.

3.2 The Company's low income tariff has been modified to reflect an increased discount from 15% to 30% for eligible customers. The revised tariff will be filed as part of the final approved tariffs after a Commission Decision is approved.

3.3 Upon the effective date of the new rates, the monthly bill for a ¾" residential water customer using 8,827 gallons per month is $26.87 as shown on Schedule H-2, Page 1 of the **Summary Schedules** attached hereto as **Exhibit 1**.

3.4 Upon the effective date of the new rates, the monthly bill for a residential wastewater customer with median usage is $40.35 as shown on Schedule H-2, Page 1 of the **Summary Schedules** attached hereto as **Exhibit 1**.

IV. COST OF CAPITAL.

4.1 Staff, RUCO and the Company jointly recommended that a capital structure comprised of 15.87% long term debt and 84.13% common equity be adopted.

4.2 RUCO's recommended return on common equity of 9.2% will be adopted.

4.3 A cost of debt of 6.4 % will be adopted.

4.4 A fair value rate of return of 8.76% will be adopted.

V. DEPRECIATION/AMORTIZATION.

5.1 The depreciation and amortization rates proposed by Staff and contained in the Direct Testimony of Staff witness Dorothy Hains will be adopted until further order of the Commission. The recommended depreciation rates are shown on Schedule C-2, Page 2 the **Summary Schedules** attached hereto as **Exhibit 1**.

VI. SIB/CSIB

6.1 In its initial application, the Company sought approval of a Distribution System Improvement Charge ("DSIC") or DSIC-like mechanism for both its water and wastewater divisions. The Company sought approval of a DSIC-like mechanism to provide for recovery of the capital costs (return on investment, income taxes and depreciation expense) associated with distribution system improvement projects that have been verified to be completed and placed in service where costs have not been included in rate base for recovery in the decision in the LPSCO Rate Case.

6.2 The Company is requesting approval of a SIB and CSIB for its water and wastewater divisions, respectively, because it believes that approval will serve the public interest by allowing LPSCO to make significant plant investments in its water and wastewater systems to maintain and/or improve service to existing customers in a way that will lessen the impact of necessary rate increases by allowing smaller, more incremental rate increases to cover the costs of these necessary plant investments. The Company believes that the costs of these water and wastewater projects, the benefits of rate gradualism for both water and wastewater customers, and the other factors set forth in the record justifies implementation of a SIB and CSIB for LPSCO's water and wastewater divisions.

6.3 In support of its request, the Company furnished Staff and RUCO approximately 600 pages of engineering and financial documentation in support of its request.

Thereafter, the Company worked with Staff Engineering to develop schedules in the form under development by Staff.

6.4 In its rebuttal filing dated October 23, 2013, the Company formally modified its request to request a SIB and CSIB in the form approved by the Commission in Decision No. 73938 (June 27, 2013) for Arizona Water Company's Eastern Group. The Signatories are both parties to the Arizona Water Company Eastern Group rate case, Docket No. W-01445A-11-0310 ("AWC SIB Docket"), which docket is now the subject of rehearing. RUCO sought rehearing of Decision No. 73938 and the Commission granted rehearing and also voted to reconsider Decision No. 73736 pursuant to ARS § 40-252. RUCO has also filed a notice of appeal of Decision No. 74081.

6.5 Staff has reviewed the Company's five-year infrastructure replacement plan for water at a cost of $9,160,400 and wastewater at a cost of $10,337,600 and found both to be reasonable and appropriate.

6.6 RUCO does not support the approval of a SIB or CSIB. RUCO does not agree that the SIB/CSIB are in the public interest. RUCO believes that the SIB/CSIB are bad public policy, are illegal and mechanically flawed. Further, RUCO believes that neither Staff nor the Company have made their case to support the approval of the SIB/CSIB in this case.

6.7 In order to promote efficiency in making a record upon which the Commission can first consider the Company's request for approval of a SIB/CSIB, and RUCO's opposition thereto, and thereafter, if such relief is granted, to allow RUCO to challenge an order approving a SIB and/or CSIB along with it other SIB appeals, the Signatories agree that, in addition to the prefiled testimony of the witnesses in this LPSCO Rate Case the following shall be marked into evidence without objection as Exhibits in this LPSCO Rate Case.

6.7.1 AWC SIB Docket (Phase Two) Sorensen Direct Testimony (filed April 2, 2013)

6.7.2 The SIB water and wastewater engineering report (emailed to all parties on October 1, 2013)

6.7.3 LPSCO's proposed SIB Plans of Administration

6.7.4 AWC SIB Docket (Phase Two) Settlement Agreement (filed April 1, 2013)

6.7.5 AWC SIB Docket (Phase Two) Rigsby Direct Testimony (without exhibits) (filed April 2, 2013)

6.7.6 AWC SIB Docket (Phase Two) Quinn Direct Testimony (April 2, 2013)

6.7.7 AWC SIB Docket (Phase Two) Comments of Attorney General – State of Alaska

The Signatories acknowledge that at the time of the filing of this Agreement this list may not be exhaustive and that any Signatory can offer additional exhibits at hearing as deemed necessary, however, objections to admission are only waived as to the documents identified above.

VII. COMMISSION EVALUATION OF PROPOSED SETTLEMENT.

7.1 The Signatories agree to the admission into evidence of the pre-filed testimony of each other's witnesses in this Rate Case. All testimony shall be individually marked but may be offered in whole during the hearings on this Rate Case.

7.2 This Agreement will serve as a procedural device by which the Signatories will submit their proposed fair value rate base, operating expenses, rate of return; revenue requirement and rate design, as reflected in the **Summary Schedules** attached hereto as **Exhibit 1**, to the Commission.

7.3 The Signatories acknowledge and agree that determination of the Company's fair value rate base and establishment of just and reasonable rates thereon, requires Commission approval, and that the Commission will independently consider and evaluate the terms of this Agreement. With respect to approval of this Agreement, the Signatories agree as follows:

7.3.1. The Signatories shall submit this Agreement to the Commission immediately following execution, followed by supporting testimony from each of the Signatories, if required by the Administrative Law Judge.

7.3.2. To support and defend the Agreement by filing testimony as required by the Administrative Law Judge, appearing at any and all hearings, open meetings or other proceedings in the Docket related to the Agreement, and taking any and all other steps reasonably necessary to obtain Commission adoption of the material terms of the Agreement, including, but not limited to, eliciting support from its constituents.

7.3.3. Except for the issues remaining in dispute noted above, to waive all rights to appeal a Commission decision providing the Commission adopts the material terms of this Agreement. The Signatories agree that a final, non-appealable Commission order adopting the material terms of this Agreement shall constitute Commission approval of the Agreement for purposes of this Agreement.

7.4 If the Commission fails to issue an order adopting all material terms of this Agreement, one or both of the Signatories may withdraw from this Agreement, and such Signatory or Signatories may pursue without prejudice their respective remedies at law. For purposes of this Agreement, whether a term is material will

be left to the reasonable discretion of the Signatory choosing to withdraw from the Agreement. If a Signatory withdraws from the Agreement pursuant to this paragraph and files an application for rehearing, the other Signatory will support the application for rehearing by filing a document with the Commission that supports approval of the Agreement in its entirety.

VIII. MISCELLANEOUS PROVISIONS.

8.1 The Signatories hereby agree to the incorporation of the Recitals set forth above as part of the terms and conditions of this Agreement.

8.2 The provisions set forth herein regarding the quantification of cost of capital, fair value rate base, fair value rate of return, operating expenses and the revenue requirement are made for purposes of settlement only and should not be construed as admissions against interest or waivers of litigation positions related to other or future cases, nor should the acceptance by any Signatory of a specific element of this Agreement be considered as precedent for acceptance of that element in any other context.

8.3 No Signatory is bound by any position asserted in negotiations, except as expressly stated in this Agreement. No Signatory will offer evidence of conduct or statements made in the course of negotiating this Agreement before this Commission, any other regulatory agency, or any court.

8.4 Neither this Agreement nor any of the positions taken in this Agreement by any of the Signatories may be referred to, cited, and/or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except to secure approval of this Agreement and enforce its terms.

8.5 To the extent any provision of this Agreement is inconsistent with any existing Commission order, rule, or regulation, this Agreement will control.

8.6 The Signatories will make reasonable and good faith efforts necessary to obtain a Commission order approving the material terms of this Agreement. The Signatories will support and defend this Agreement before the Commission. Subject to the provisions above, if the Commission adopts an order approving all material terms of the Agreement, the Signatories will support and defend the Commission's order before any court or regulatory agency in which it may be at issue.

8.7 This Agreement may be executed in any number of counterparts and by each Signatory on separate counterparts, each of which when so executed and delivered will be deemed an original and all of which taken together will constitute one and the same instrument. This Agreement may also be executed electronically or by facsimile.

LITCHFIELD PARK SERVICE COMPANY

By: _____
Name: Gregory S. Sorensen
Its: President - AZ/TX
12/13/13

RESIDENTIAL UTILITY CONSUMER OFFICE

By: _____
Name: Patrick J Quinn
Its: DIRECTOR

8725015.5/035227.0022

DECISION NO. 74437

EXHIBIT 1

DECISION NO. 74437

WATER DIVISION SCHEDULES

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Proposed Final Schedule A-1
Page 1
Witness: Bourassa

Line No.		
1	Fair Value Rate Base	$ 33,103,506
2		
3	Adjusted Operating Income	2,035,146
4		
5	Current Rate of Return	6.15%
6		
7	Required Operating Income	$ 2,898,428
8		
9	Required Rate of Return on Fair Value Rate Base	8.76%
10		
11	Operating Income Deficiency	$ 863,282
12		
13	Gross Revenue Conversion Factor	1.6466
14		
15	Increase in Gross Revenue	
16	Requirement	$ 1,421,511
17		
18	Adjusted Test Year Revenues	$ 11,201,268
19	Increase in Gross Revenue Revenue Requirement	$ 1,421,511
20	Proposed Revenue Requirement	$ 12,622,779
21	% Increase	12.69%
22		

23	Customer		Present	Proposed	Dollar	Percent
24	**Classification**		**Rates**	**Rates**	**Increase**	**Increase**
25	5/8x3/4 Inch	Residential	$ 11,824	$ 13,587	$ 1,763	14.91%
26	3/4 Inch	Residential	3,047,017	3,303,996	256,979	8.43%
27	3/4 Inch	Residential - Low Income	7,293	7,439	145	1.99%
28	1 Inch	Residential	3,360,696	3,828,957	468,261	13.93%
29	1 Inch	Residential - Low Income	8,528	10,497	1,968	23.08%
30	1.5 Inch	Residential	44,871	51,734	6,863	15.30%
31	2 Inch	Residential	4,981	5,815	835	16.76%
32	4 Inch	Residential	-	-	-	0.00%
33	5/8x3/4 Inch	Commercial	245	318	73	30.00%
34	3/4 Inch	Commercial	8,987	10,544	1,557	17.32%
35	1 Inch	Commercial	28,013	33,136	5,123	18.29%
36	1.5 Inch	Commercial	118,831	137,507	18,676	15.72%
37	2 Inch	Commercial	684,406	801,050	116,644	17.04%
38	4 Inch	Commercial	242,692	277,275	34,582	14.25%
39	8 Inch	Commercial	10,786	13,432	2,646	24.53%
40	10 Inch	Commercial	36,262	41,490	5,229	14.42%
41	5/8x3/4 Inch	Irrigation	906	1,056	150	16.61%
42	3/4 Inch	Irrigation	58,536	67,423	8,887	15.18%
43	1 Inch	Irrigation	292,670	337,957	45,287	15.47%
44	1.5 Inch	Irrigation	342,197	392,060	49,863	14.57%
45	2 Inch	Irrigation	1,777,002	2,033,354	256,352	14.43%
46	4 Inch	Irrigation	140,026	161,002	20,976	14.98%
47	1 Inch	MF	1,558	2,135	577	37.03%
48	1.5 Inch	MF	47,101	54,451	7,350	15.61%
49	2 Inch	MF	320,997	373,425	52,428	16.33%
50	4 Inch	MF	47,487	54,683	7,195	15.15%
51	5/8x3/4 Inch	Fire	28,594	37,120	8,526	29.82%
52	3/4 Inch	Fire	2,879	3,736	857	29.78%
53	1 Inch	Fire	275	358	83	30.00%
54		Hydrant	68,030	77,594	9,565	14.06%
55		Sweeper	700	798	98	14.06%
56	8 Inch	Goodyear	128,952	142,421	13,469	10.44%
57	4 Inch	VUI	3,060	3,978	918	30.00%
58	Declining Usage Adjustment		(58,703)	(58,703)	-	0.00%
59	Revenue Annualization		147,042	166,016	18,974	12.90%
60	**Subtotal**		$ 10,964,740	$ 12,387,640	$ 1,422,901	12.98%
61						
62	Other Water Revenues		235,723	235,723	(0)	0.00%
63	Reconciling Amount		805	(584)	(1,389)	-172.55%
64	Rounding				-	0.00%
65	**Total of Water Revenues**		$ 11,201,268	$ 12,622,779	$ 1,421,511	12.69%
66						
67						
68	SUPPORTING SCHEDULES:					
69	B-1					
70	C-1					
71	C-3					
72	H-1					

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Summary of Rate Base

Exhibit
Proposed Final Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 90,867,014	$ 90,867,014
3	Less: Accumulated Depreciation	18,927,597	18,927,597
4			
5	Net Utility Plant in Service	$ 71,939,416	$ 71,939,416
6			
7	Less:		
8	Advances in Aid of Construction	30,374,274	30,374,274
9			
10	Contributions in Aid of Construction	7,425,812	7,425,812
11			
12	Accumulated Amortization of CIAC	(1,285,854)	(1,285,854)
13			
14	Customer Meter Deposits	1,432,787	1,432,787
15	Custmer Security Deposits	147,661	147,661
16	Accumulated Deferred Income Tax	832,300	832,300
17			
18			
19	Plus:		
20			
21	Deferred Regulatory Assets TCE Plume	91,069	91,069
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	$ 33,103,506	$ 33,103,506
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	SUPPORTING SCHEDULES:		
42	B-2		
43	B-3		
44	B-5		
45	E-1		
46			
47			
48			
49			
50			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Proposed Final Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustment	Rejoinder Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 91,151,411	(284,397)	$ 90,867,014
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	16,514,086	2,413,511	18,927,597
7				
8				
9	Net Utility Plant			
10	in Service	$ 74,637,324		$ 71,939,416
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	30,374,274	-	30,374,274
15				
16	Contributions in Aid of			
17	Construction - Gross	7,324,578	101,234	7,425,812
18				
19	Accumulated Amortization of CIAC	(1,489,772)	203,918	(1,285,854)
20				
21	Customer Meter Deposits	1,271,802	160,985	1,432,787
22	Custmer Security Deposits	140,147	7,514	147,661
23	Accumulated Deferred Income Tax	1,459,075	(626,775)	832,300
24				-
25				-
26				
27	**Plus:**			
28				
29	Deferred Regulatory Assets TCE Plume	90,381	688	91,069
30	Prepayments	-		-
31	Materials and Supplies	-		-
32	Working capital	-	-	-
33				-
34				
35	Total	$ 35,647,602		$ 33,103,506
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
47	B-2, pages 2			B-1
48	E-1			
49				
50				
51				

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Proposed Final Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustments 1 Plant-In-Service	2 Accumulated Depreciation	3 CIAC	4 ADIT	5 Customer Security Deposits	6 Regulatory Assets	7 Customer Meter Deposits	Rejoinder Adjusted at end of Test Year
1	Gross Utility									
2	Plant in Service	$ 91,151,411	(284,397)							90,867,014
3										
4	**Less:**									
5	Accumulated									
6	Depreciation	16,514,086		2,413,511						18,927,597
7										
8										
9	Net Utility Plant									
10	in Service	$ 74,637,324	$ (284,397)	$ (2,413,511)	$ -	$ -	$ -	$ -	$ -	$ 71,939,416
11										
12	**Less:**									
13	Advances in Aid of									
14	Construction	30,374,274				-				30,374,274
15										
16	Contributions in Aid of									
17	Construction (CIAC)	7,324,578			101,234					7,425,812
18										
19	Accumulated Amort of CIAC	(1,489,772)			203,918					(1,285,854)
20										
21	Customer Meter Deposits	1,271,802							$ 160,985	1,432,787
22	Customer Security Deposits	140,147					7,514			147,661
23	Accumulated Deferred Income Taxes	1,459,075				(626,775)				832,300
24										
25										
26	**Plus:**									
27										
28	Deferred Regulatory Assets TCE Plume	90,381						688		91,069
29	Prepayments	-								
30	Materials and Supplies	-								
31	Allowance for Cash Working Capital	-								-
32										
33	Total	$ 35,647,602	$ (284,397)	$ (2,413,511)	$ (305,152)	$ 626,775	$ (7,514)	$ 688	$ (160,985)	# $ 33,103,506
34										
35										
36										
37	SUPPORTING SCHEDULES:						RECAP SCHEDULES:			
38	B-2, pages 3-9						B-1			
39	E-1									
40										
41										

DOCKET NO. SW-01428A-13-0042 ET AL.

DECISION NO. 74437

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Proposed Final Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Adjusted Orginal Cost	A True-up of Accruals	B Plant Reclassification	C Plant Not Used and Useful	D Duplicate Invoices	E Retirement Transportation Equipment	F Retirements and Reclassification	G Adjustments to Reconcile Plant to Reconstruction	Rejoinder Adjusted Original Cost
				Adjustments							
6	301	Organization Cost	21,100							-	21,100
7	302	Franchise Cost	-							-	-
8	303	Land and Land Rights	1,456,278			(6,000)				-	1,450,278
9	304	Structures and Improvements	28,000,916	(178,617)	(2,776,772)	(6,156)	(3,000)			-	25,036,371
10	305	Collecting and Impounding Res.	-							-	-
11	306	Lake River and Other Intakes	-							-	-
12	307	Wells and Springs	3,097,345	(18,108)	134,878					(0)	3,214,114
13	308	Infiltration Galleries and Tunnels	-							-	-
14	309	Supply Mains	-							-	-
15	310	Power Generation Equipment	207,020		18,111					-	225,130
16	311	Electric Pumping Equipment	897,792		(23,502)					-	874,290
17	320	Water Treatment Equipment	-							-	-
18	320.1	Water Treatment Plant	1,696,759		1,728,635					-	3,425,394
19	320.2	Chemical Solution Feeders	-							-	-
20	330	Dist. Reservoirs & Standpipe	492,176							-	492,176
21	330.1	Storage tanks	-		901,841					-	901,841
22	330.2	Pressure Tanks	-							-	-
23	331	Trans. and Dist. Mains	40,259,045						(2,859)	0	40,256,187
24	333	Services	5,350,963							-	5,350,963
25	334	Meters	4,759,560							-	4,759,560
26	335	Hydrants	3,304,755				(2,608)			0	3,302,148
27	336	Backflow Prevention Devices	38,387							-	38,387
28	339	Other Plant and Misc. Equip.	259,531							-	259,531
29	340	Office Furniture and Fixtures	651,098		6,555					-	657,653
30	340.1	Computers and Software	-		7,995					-	7,995
31	341	Transportation Equipment	307,592					(17,555)	(55,341)	1	234,697
32	342	Stores Equipment	37,143							-	37,143
33	343	Tools and Work Equipment	47,434							-	47,434
34	344	Laboratory Equipment	5,803							-	5,803
35	345	Power Operated Equipment	-						18,003	(0)	18,003
36	346	Communications Equipment	128,402							-	128,402
37	347	Miscellaneous Equipment	-							-	-
38	348	Other Tangible Plant	132,312		(9,897)					-	122,414
39		Rounding								(1)	(1)
40		TOTALS	$ 91,151,411	$ (196,725)	$ (12,156)	$ (12,156)	$ (5,608)	$ (17,555)	$ (40,196)	$ 0	$ 90,867,014
41											
42	Adjusted Plant-in-Service										$ 91,151,411
43											
44	Increase (decrease) in Plant-in-Service										$ (284,397)
45											
46	Adjustment to Plant-in-Service										$ (284,397)
47											
48	SUPPORTING SCHEDULES										
49	B-2, pages 3.1 to 3.7										

DOCKET NO. SW-01428A-13-0042 ET AL.

DECISION NO. 74437

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - A

Exhibit
Proposed Final Schedule B-2
Page 3.1
Witness: Bourassa

Line No.			
1	True-Up of Accruals		
2			
3			
4	Acct.		
5	No.	Description	Adjustment
6	304	Structures and Improvements	(178,617)
7	307	Wells and Springs	(18,108)
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
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29			
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31			
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33			
34			
35			
36			
37			
38			
39			
40		TOTALS	$ (196,725)
41			
42	SUPPORTING SCHEDULE		
43	Staff Adjustment #3		
44			
45			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - B

Exhibit
Proposed Final Schedule B-2
Page 3.2
Witness: Bourassa

Line No.

1 Reclassification of Plant

Acct. No.	Description	Adjustment
304	Structures and Improvements	(2,776,772)
307	Wells and Springs	134,878
310	Power Generation Equipment	18,111
311	Electric Pumping Equipment	(23,502)
320.1	Water Treatment Plant	1,728,635
330.1	Storage tanks	901,841
340	Office Furniture and Fixtures	6,555
340.1	Computers and Software	7,995
348	Other Tangible Plant	(9,897)
	TOTALS	$ (12,156)

SUPPORTING SCHEDULE
Staff Adjustment #5
Staff Table 8 - Reclassification

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - C

Exhibit
Proposed Final Schedule B-2
Page 3.3
Witness: Bourassa

Line No.			
1	Plant Not Used and Useful		
2			
3			
4	Acct.		
5	No.	Description	Adjustment
6	303	Land and Land Rights	(6,000)
7	304	Structures and Improvements	(6,156)
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
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26			
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40		TOTALS	$ (12,156)
41			
42	SUPPORTING SCHEDULE		
43	Staff Adjustment #6		
44	Staff Table 6 - Not Used and Useful Plant Items		
45			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - D

Exhibit
Proposed Final Schedule B-2
Page 3.4
Witness: Bourassa

Line No.			
1	Plant Not Used and Useful		
2			
3			
4	Acct.		
5	No.	Description	Adjustment
6	304	Structures and Improvements	(3,000)
7	335	Hydrants	(2,608)
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
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27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40		TOTALS	$ (5,608)
41			
42	SUPPORTING SCHEDULE		
43	Staff Adjustment #7		
44			
45			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - E

Exhibit
Proposed Final Schedule B-2
Page 3.5
Witness: Bourassa

Line No.

1 Retirement of Transportation Equipment

Acct. No.	Description	Adjustment
341	Transportation Equipment	(17,555)
	TOTALS	$ (17,555)

SUPPORTING SCHEDULE
Staff Adjustment #7

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - F

Exhibit
Proposed Final Schedule B-2
Page 3.6
Witness: Bourassa

Line No.					
1	Retirements				
2					
3					
4	Acct.			Year	
5	No.	Description		Reflected on B-2 Plant[1]	Adjustment
6	341	Transportation Equipment		2008	$ (40,196)
7					
8					$ (40,196)
9					
10	Reclassifications				
11					
12	Acct.			Year	
13	No.	Description	Year	Reflected on B-2 Plant[1]	Adjustment
14	341	Transportation Equipment		see below	$ (15,144)
15	331	Trans. and Dist. Mains	2012	2012	3,985
16	345	Power Operated Equipment	2008	2008	18,003
17	331	Trans. and Dist. Mains	2006	2008	(6,844)
18					
19					$ -
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					
36					
37					
38					
39					
40		Total Adjustment			$ (40,196)
41					
42	SUPPORTING SCHEDULE				
43	Work papers - Supplemental Response to RUCO 6.01				
44					
45	[1] Post last test year end date				

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - G

Exhibit
Proposed Final Schedule B-2
Page 3.7
Witness: Bourassa

Line No. 1 Reconciliation of Plant to Plant Reconstruction

Line No.	Acct. No.	Description	Adjusted Orginal Cost	B-2 Adjustments	Rejoinder Adjusted Orginal Cost	Rejoinder Plant Per Reconstruction	Difference
6	301	Organization Cost	21,100	-	21,100	21,100	-
7	302	Franchise Cost	-	-	-	-	-
8	303	Land and Land Rights	1,456,278	(6,000)	1,450,278	1,450,278	-
9	304	Structures and Improvements	28,000,916	(2,964,545)	25,036,371	25,036,371	-
10	305	Collecting and Impounding Res.	-	-	-	-	-
11	306	Lake River and Other Intakes	-	-	-	-	-
12	307	Wells and Springs	3,097,345	116,770	3,214,114	3,214,114	(0)
13	308	Infiltration Galleries and Tunnels	-	-	-	-	-
14	309	Supply Mains	-	-	-	-	-
15	310	Power Generation Equipment	207,020	18,111	225,130	225,130	-
16	311	Electric Pumping Equipment	897,792	(23,502)	874,290	874,290	-
17	320	Water Treatment Equipment	-	-	-	-	-
18	320.1	Water Treatment Plant	1,696,759	1,728,635	3,425,394	3,425,394	-
19	320.2	Chemical Solution Feeders	-	-	-	-	-
20	330	Dist. Reservoirs & Standpipe	492,176	-	492,176	492,176	-
21	330.1	Storage tanks	-	901,841	901,841	901,841	-
22	330.2	Pressure Tanks	-	-	-	-	-
23	331	Trans. and Dist. Mains	40,259,045	(2,859)	40,256,187	40,256,187	0
24	333	Services	5,350,963	-	5,350,963	5,350,963	-
25	334	Meters	4,759,560	-	4,759,560	4,759,560	-
26	335	Hydrants	3,304,755	(2,608)	3,302,147	3,302,148	0
27	336	Backflow Prevention Devices	38,387	-	38,387	38,387	-
28	339	Other Plant and Misc. Equip.	259,531	-	259,531	259,531	-
29	340	Office Furniture and Fixtures	651,098	6,555	657,653	657,653	-
30	340.1	Computers and Software	-	7,995	7,995	7,995	-
31	341	Transportation Equipment	307,592	(72,896)	234,696	234,697	1
32	342	Stores Equipment	37,143	-	37,143	37,143	-
33	343	Tools and Work Equipment	47,434	-	47,434	47,434	-
34	344	Laboratory Equipment	5,803	-	5,803	5,803	-
35	345	Power Operated Equipment	-	18,003	18,003	18,003	(0)
36	346	Communications Equipment	128,402	-	128,402	128,402	-
37	347	Miscellaneous Equipment	-	-	-	-	-
38	348	Other Tangible Plant	132,312	(9,897)	122,414	122,414	-
39		*Rounding*					(1)
40		TOTALS	$ 91,151,411	$ (284,397)	$ 90,867,014	$ 90,867,015	$ 0

43 SUPPORTING SCHEDULE
44 B-2, pages 3.1 through 3.6
45 B-2, pages 3.8 through 3.12

Litchfield Park Service Company - Water Division
dba Liberty Utilities
Plant Additions and Retirements

Exhibit
Proposed Final Schedule B-2
Page 3.8
Witness: Bourassa

				Per Decision		2008									
Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant at 9/30/2008	Accum. Deprec. At 9/30/2008	Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	3 months Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	21,100	-	-			-		-		-	21,100	-
2	302	Franchise Cost	0.00%	-	-	-			-		-		-	-	-
3	303	Land and Land Rights	0.00%	1,284,595	-	(367,902)	-		(367,902)		-		-	916,693	-
4	304	Structures & Improvements	3.33%	24,649,251	404,869	(1,026,408)	(20,938)		(1,047,346)		-		200,845	23,601,905	605,714
5	305	Collecting & Impounding Reservoirs	2.50%	-	-	-			-		-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-	-	-			-		-		-	-	-
7	307	Wells & Springs	3.33%	2,393,491	631,793	163	-		163		-		19,926	2,393,653	651,720
8	308	Infiltration Galleries	6.67%	-	-	-			-		-		-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-			-		-		-	-	-
10	310	Power Generation Equipment	5.00%	202,269	56,403	-			-		-		2,528	202,269	58,932
11	311	Pumping Equipment	12.50%	917,055	598,038	11,723	-		11,723	420,594	420,594		22,269	508,184	199,713
12	320	Water Treatment Equipment	3.33%	-	-				-		-		-	-	-
13	320.1	Water Treatment Plants	3.33%	1,337,824	41,009	(46,530)			(46,530)		-		10,944	1,291,294	51,953
14	320.2	Solution Chemical Feeders	20.00%	-	-	-			-		-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	439,244	174,417	600	-		600		-		2,439	439,844	176,856
16	330.1	Storage Tanks	2.22%	-	-	-			-		-		-	-	-
17	330.2	Pressure Tanks	5.00%	-	-	-			-		-		-	-	-
18	331	Transmission & Distribution Mains	2.00%	28,918,695	3,844,739	724,203	(10,868)	(6,844)	706,491		-		146,360	29,625,186	3,991,099
19	333	Services	3.33%	4,245,838	900,699	164,164	(15,625)		148,539		-		35,965	4,394,377	936,664
20	334	Meters	8.33%	4,133,092	1,931,628	5,723			5,723		-		86,131	4,138,815	2,017,760
21	335	Hydrants	2.00%	2,055,781	163,913	91,012			91,012		-		10,506	2,146,793	174,420
22	336	Backflow Prevention Devices	6.67%	38,387	7,546	-			-		-		840	38,387	8,186
23	339	Other Plant & Misc Equipment	6.67%	259,531	33,497	-			-		-		4,328	259,531	37,825
24	340	Office Furniture & Equipment	6.67%	551,757	124,987	-			-		-		9,201	551,757	134,187
25	340.1	Computers & Software	20.00%	-	-	-			-		-		-	-	-
26	341	Transportation Equipment	20.00%	174,415	83,060	-		(11,159)	(11,159)	40,196	40,196		7,437	123,060	50,301
27	342	Stores Equipment	4.00%	31,711	1,586	-			-		-		317	31,711	1,903
28	343	Tools, Shop & Garage Equipment	5.00%	23,350	7,113	-			-		-		292	23,350	7,405
29	344	Laboratory Equipment	10.00%	-	-	-			-		-		-	-	-
30	345	Power Operated Equipment	5.00%	-	-	-		18,003	18,003		-		113	18,003	113
31	346	Communication Equipment	10.00%	119,710	21,730	-			-		-		2,993	119,710	24,723
32	347	Miscellaneous Equipment	10.00%	-	-	-			-		-		-	-	-
33	348	Other Tangible Plant	10.00%	-	-	2,475			2,475		-		31	2,475	31
34		Plant Held for Future Use							-		-		-	-	-
35															
36		TOTALS		71,797,096	9,027,027	(440,777)	(47,431)	-	(488,208)	460,790	460,790	-	563,265	70,848,098	9,129,503

DOCKET NO. SW-01428A-13-0042 ET AL.

DECISION NO. 74437

Litchfield Park Service Company - Water Division
dba Liberty Utilities
Plant Additions and Retirements

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Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-		-	-		-		-	21,100	-
2	302	Franchise Cost	0.00%	-		-	-		-		-	-	-
3	303	Land and Land Rights	0.00%	92,495	-	-	92,495		-		-	1,009,188	-
4	304	Structures & Improvements	3.33%	1,190,719	(21,984)	(1,036,948)	131,787		-		788,138	23,733,692	1,393,852
5	305	Collecting & Impounding Reservoirs	2.50%	-		-	-		-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-		-	-		-		-	-	-
7	307	Wells & Springs	3.33%	501,310	(773)	65,920	566,457		-		89,140	2,960,110	740,860
8	308	Infiltration Galleries	6.67%	-		-	-		-		-	-	-
9	309	Raw Water Supply Mains	2.00%	-		-	-		-		-	-	-
10	310	Power Generation Equipment	5.00%	-		-	-		-		10,113	202,269	69,045
11	311	Pumping Equipment	12.50%	21,214	-	10,851	32,065	35,008	35,008		63,339	505,241	228,044
12	320	Water Treatment Equipment	3.33%			-	-		-		-	-	-
13	320.1	Water Treatment Plants	3.33%	2,479	(24,987)	287,816	265,308		-		47,417	1,556,602	99,370
14	320.2	Solution Chemical Feeders	20.00%	-		-	-		-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-		-		9,765	439,844	186,621
16	330.1	Storage Tanks	2.22%	-		664,366	664,366		-		7,374	664,366	7,374
17	330.2	Pressure Tanks	5.00%	-		-	-		-		-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,906,160	(18,664)	-	1,887,496		-		611,379	31,512,663	4,602,477
19	333	Services	3.33%	1,580,515	-	-	1,580,515		-		172,648	5,974,892	1,109,312
20	334	Meters	8.33%	51,571		-	51,571		-		346,911	4,190,366	2,364,671
21	335	Hydrants	2.00%	309,661		-	309,661		-		46,032	2,456,454	220,452
22	336	Backflow Prevention Devices	6.67%	-		-	-		-		2,560	38,387	10,746
23	339	Other Plant & Misc Equipment	6.67%	-		-	-		-		17,311	259,531	55,135
24	340	Office Furniture & Equipment	6.67%	-		-	-		-		36,802	551,757	170,990
25	340.1	Computers & Software	20.00%	-		7,995	7,995		-		800	7,995	800
26	341	Transportation Equipment	20.00%	-		-	-		-		24,612	123,060	74,913
27	342	Stores Equipment	4.00%	-		-	-		-		1,268	31,711	3,171
28	343	Tools, Shop & Garage Equipment	5.00%	-		-	-		-		1,168	23,350	8,573
29	344	Laboratory Equipment	10.00%	-		-	-		-		-	-	-
30	345	Power Operated Equipment	5.00%	-		-	-		-		900	18,003	1,013
31	346	Communication Equipment	10.00%	-		-	-		-		11,971	119,710	36,694
32	347	Miscellaneous Equipment	10.00%	-		-	-		-		-	-	-
33	348	Other Tangible Plant	10.00%	15,420		-	15,420		-		1,019	17,895	1,049
34		Plant Held for Future Use				-	-		-		-	-	-
35													
36		TOTALS		5,671,544	(66,408)	0	5,605,136	35,008	35,008	-	2,290,668	76,418,226	11,385,163

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Litchfield Park Service Company - Water Division
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Plant Additions and Retirements

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Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2010 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-		-	-		-		-	21,100	-
2	302	Franchise Cost	0.00%	-		-	-		-		-	-	-
3	303	Land and Land Rights	0.00%	430,531	(53)	-	430,478		-		-	1,439,666	-
4	304	Structures & Improvements	3.33%	1,284,065	(3,776)	(1,245,500)	34,789		-		790,911	23,768,481	2,184,763
5	305	Collecting & Impounding Reservoirs	2.50%	-		-	-		-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-		-	-		-		-	-	-
7	307	Wells & Springs	3.33%	56,518	-	-	56,518		-		99,513	3,016,628	840,373
8	308	Infiltration Galleries	6.67%	-		-	-		-		-	-	-
9	309	Raw Water Supply Mains	2.00%	-		-	-		-		-	-	-
10	310	Power Generation Equipment	5.00%	-		-	-		-		10,113	202,269	79,159
11	311	Pumping Equipment	12.50%	61,729	-	13,620	75,349	20,920	20,920		66,557	559,670	273,681
12	320	Water Treatment Equipment	3.33%			-	-		-		-	-	-
13	320.1	Water Treatment Plants	3.33%	353,630	(34)	1,215,221	1,568,817		-		77,956	3,125,420	177,326
14	320.2	Solution Chemical Feeders	20.00%	-		-	-		-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-	-	-		-		9,765	439,844	196,385
16	330.1	Storage Tanks	2.22%	-		20,000	20,000		-		14,971	684,366	22,345
17	330.2	Pressure Tanks	5.00%	-		-	-		-		-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,611,724	(3,139)	-	1,608,585		-		646,339	33,121,267	5,248,817
19	333	Services	3.33%	307,502	(207)	-	307,294		-		204,080	6,282,186	1,313,392
20	334	Meters	8.33%	167,302		-	167,302		-		356,027	4,357,688	2,720,698
21	335	Hydrants	2.00%	221,507	(2,608)	-	218,899		-		51,318	2,675,353	271,770
22	336	Backflow Prevention Devices	6.67%	-		-	-		-		2,560	38,387	13,307
23	339	Other Plant & Misc Equipment	6.67%	-		-	-		-		17,311	259,531	72,446
24	340	Office Furniture & Equipment	6.67%	-		6,555	6,555		-		37,021	558,312	208,010
25	340.1	Computers & Software	20.00%	-		-	-		-		1,599	7,995	2,399
26	341	Transportation Equipment	20.00%	4,845		-	4,845		-		25,097	127,905	100,009
27	342	Stores Equipment	4.00%	3,688		-	3,688		-		1,342	35,399	4,513
28	343	Tools, Shop & Garage Equipment	5.00%	939		-	939		-		1,191	24,289	9,764
29	344	Laboratory Equipment	10.00%	-		-	-		-		-	-	-
30	345	Power Operated Equipment	5.00%	-		-	-		-		900	18,003	1,913
31	346	Communication Equipment	10.00%	-		-	-		-		11,971	119,710	48,665
32	347	Miscellaneous Equipment	10.00%	-		-	-		-		-	-	-
33	348	Other Tangible Plant	10.00%	20,924		(9,897)	11,027		-		2,341	28,922	3,390
34		Plant Held for Future Use					-		-		-	-	-
35													
36		TOTALS		4,524,902	(9,816)	(0)	4,515,085	20,920	20,920	-	2,428,883	80,912,392	13,793,126

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Litchfield Park Service Company - Water Division
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Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-		-		-			-		-	21,100	-
2	302	Franchise Cost	0.00%	-		-		-			-		-	-	-
3	303	Land and Land Rights	0.00%	8,476	(6,188)	-		2,288			-		-	1,441,954	-
4	304	Structures & Improvements	3.33%	549,237	(8,757)	(494,324)		46,156			-		792,259	23,814,637	2,977,022
5	305	Collecting & Impounding Reservoirs	2.50%	-		-		-			-		-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-		-		-			-		-	-	-
7	307	Wells & Springs	3.33%	19,010	(686)	68,958		87,282			-		101,907	3,103,910	942,279
8	308	Infiltration Galleries	6.67%	-		-		-			-		-	-	-
9	309	Raw Water Supply Mains	2.00%	-		-		-			-		-	-	-
10	310	Power Generation Equipment	5.00%	4,596		18,111		22,706			-		10,681	224,976	89,840
11	311	Pumping Equipment	12.50%	220,561	(3,315)	(47,974)		169,271	1,327		1,327		80,455	727,615	352,809
12	320	Water Treatment Equipment	3.33%			-		-			-		-	-	-
13	320.1	Water Treatment Plants	3.33%	28,534	(223)	225,596		253,908			-		108,304	3,379,328	285,630
14	320.2	Solution Chemical Feeders	20.00%	-		-		-			-		-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	53,676	(1,344)	-		52,332			-		10,345	492,176	206,731
16	330.1	Storage Tanks	2.22%	-		217,475		217,475			-		17,607	901,841	39,952
17	330.2	Pressure Tanks	5.00%	-		-		-			-		-	-	-
18	331	Transmission & Distribution Mains	2.00%	5,388,147	(8,802)	-		5,379,345			-		716,219	38,500,612	5,965,036
19	333	Services	3.33%	382,109	(944)	-		381,165			-		215,543	6,663,351	1,528,936
20	334	Meters	8.33%	267,613	(4,811)	-		262,802			-		373,941	4,620,489	3,094,639
21	335	Hydrants	2.00%	512,885	(573)	-		512,312			-		58,630	3,187,665	330,400
22	336	Backflow Prevention Devices	6.67%	-		-		-			-		2,560	38,387	15,867
23	339	Other Plant & Misc Equipment	6.67%	-		-		-			-		17,311	259,531	89,757
24	340	Office Furniture & Equipment	6.67%	9,928		-		9,928			-		37,571	568,240	245,581
25	340.1	Computers & Software	20.00%	-		-		-			-		1,599	7,995	3,998
26	341	Transportation Equipment	20.00%	26,185	(636)	-		25,550	17,555		17,555		26,380	135,900	108,635
27	342	Stores Equipment	4.00%	1,116		-		1,116			-		1,438	36,515	5,952
28	343	Tools, Shop & Garage Equipment	5.00%	578		-		578			-		1,229	24,867	10,993
29	344	Laboratory Equipment	10.00%	-		-		-			-		-	-	-
30	345	Power Operated Equipment	5.00%	-		-		-			-		900	18,003	2,813
31	346	Communication Equipment	10.00%	3,986	(49)	-		3,937			-		12,168	123,647	60,833
32	347	Miscellaneous Equipment	10.00%	-		-		-			-		-	-	-
33	348	Other Tangible Plant	10.00%	44,349		-		44,349			-		5,110	73,271	8,500
34		Plant Held for Future Use		-				-			-		-	-	-
35															
36		TOTALS		7,520,985	(36,328)	(12,156)	-	7,472,500	18,882	-	18,882	-	2,592,158	88,366,010	16,366,402

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Litchfield Park Service Company - Water Division
dba Liberty Utilities
Plant Additions and Retirements

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Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Plant only B-2 Adjust	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-			-	-		-		-	-	21,100	-
2	302	Franchise Cost	0.00%	-			-	-		-		-	-	-	-
3	303	Land and Land Rights	0.00%	8,324			8,324	-		-		-	-	1,450,278	-
4	304	Structures & Improvements	3.33%	1,405,618	(5,268)	(178,617)	1,221,734	-		-		65,110	813,369	25,036,371	3,855,501
5	305	Collecting & Impounding Reservoirs	2.50%	-			-	-		-		-	-	-	-
6	306	Lake, River, Canal Intakes	2.50%	-			-	-		-		-	-	-	-
7	307	Wells & Springs	3.33%	142,604	(726)	(18,108)	123,770	13,565		13,565		-	105,195	3,214,114	1,033,909
8	308	Infiltration Galleries	6.67%	-			-	-		-		-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-			-	-		-		-	-	-	-
10	310	Power Generation Equipment	5.00%	155			155	-		-		-	11,253	225,130	101,092
11	311	Pumping Equipment	12.50%	147,387	(712)		146,675	-		-		14,698	100,119	874,290	467,627
12	320	Water Treatment Equipment	3.33%				-	-		-		-	-	-	-
13	320.1	Water Treatment Plants	3.33%	46,116	(50)		46,066	-		-		-	113,299	3,425,394	398,928
14	320.2	Solution Chemical Feeders	20.00%	-			-	-		-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.22%	-	-		-	-		-		-	10,926	492,176	217,657
16	330.1	Storage Tanks	2.22%	-			-	-		-		-	20,021	901,841	59,973
17	330.2	Pressure Tanks	5.00%	-			-	-		-		-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,808,114	(8,947)	3,985	1,803,153	47,578		47,578		1,827	787,568	40,256,187	6,706,853
19	333	Services	3.33%	(1,200,817)	(1,065)		(1,201,882)	110,506		110,506		-	200,038	5,350,963	1,618,468
20	334	Meters	8.33%	233,873	(3,333)		230,540	91,470		91,470		7,444	390,879	4,759,560	3,401,292
21	335	Hydrants	2.00%	120,585	(2,471)		118,114	3,631		3,631		-	64,898	3,302,148	391,667
22	336	Backflow Prevention Devices	6.67%	-			-	-		-		-	2,560	38,387	18,428
23	339	Other Plant & Misc Equipment	6.67%	-			-	-		-		568	17,311	259,531	107,636
24	340	Office Furniture & Equipment	6.67%	89,413			89,413	-		-		-	40,884	657,653	286,464
25	340.1	Computers & Software	20.00%	-			-	-		-		-	1,599	7,995	5,597
26	341	Transportation Equipment	20.00%	111,782	(1,468)	(3,985)	106,328	7,532		7,532		-	37,060	234,697	138,363
27	342	Stores Equipment	4.00%	628			628	-		-		-	1,473	37,143	7,425
28	343	Tools, Shop & Garage Equipment	5.00%	22,870	(303)		22,567	-		-		-	1,808	47,434	12,800
29	344	Laboratory Equipment	10.00%	5,803			5,803	-		-		-	290	5,803	290
30	345	Power Operated Equipment	5.00%	-			-	-		-		-	900	18,003	3,713
31	346	Communication Equipment	10.00%	4,827	(72)		4,755	-		-		498	12,602	128,402	73,934
32	347	Miscellaneous Equipment	10.00%	-			-	-		-		-	-	-	-
33	348	Other Tangible Plant	10.00%	49,143			49,143	-		-		1,695	9,784	122,414	19,980
34		Plant Held for Future Use					-			-			-	-	-
35															
36		TOTALS		2,996,426	(24,414)	(196,725)	2,775,287	274,282	-	274,282	-	91,841	2,743,636	90,867,015	18,927,597

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Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

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Accumulated Depreciation

Line No.	Acct. No.	Description	Adjusted Accum. Depr.	A True-Up of Accruals	B Plant Reclassification	C Plant Not Used and Useful	D Duplicate Invoices	Adjustments E Retirement Trans. Equip	F Annualized Depreciation	G Plant Additions Wrong Yrs	H Retirements and Reclassifications	I Adjustments to Reconcile A/D to Reconstruction	Rejoinder Adjusted Accum. Depr.
6	301	Organization Cost	21,100						(21,100)	-		-	-
7	302	Franchise Cost	-						-	-		-	-
8	303	Land and Land Rights	-						-	-		-	-
9	304	Structures and Improvements	3,036,910	(2,974)	(249,236)	(308)	(250)		1,006,248	65,110		-	3,855,501
10	305	Collecting and Impounding Re:	-						-	-		-	-
11	306	Lake River and Other Intakes	-						-	-		-	-
12	307	Wells and Springs	915,114	(301)	11,127				107,969	-		(0)	1,033,909
13	308	Infiltration Galleries and Tunne	-						-	-		-	-
14	309	Supply Mains	-						-	-		-	-
15	310	Power Generation Equipment	87,092		1,358				12,642	-		-	101,092
16	311	Electric Pumping Equipment	759,242		9				(306,323)	14,698		-	467,627
17	320	Water Treatment Equipment	-						-	-		-	-
18	320.1	Water Treatment Plant	199,379		145,981				53,569	-		-	398,928
19	320.2	Chemical Solution Feeders	-						-	-		-	-
20	330	Dist. Reservoirs & Standpipe	205,453						12,204	-		-	217,657
21	330.1	Storage tanks	-		59,973				-	-		-	59,973
22	330.2	Pressure Tanks	-						-	-		-	-
23	331	Trans. and Dist. Mains	5,947,658						757,892	1,827	(525)	0	6,706,853
24	333	Services	1,409,855						208,613	-		-	1,618,468
25	334	Meters	2,960,806						433,042	7,444		-	3,401,292
26	335	Hydrants	335,259				(130)		56,539	-		0	391,667
27	336	Backflow Prevention Devices	15,227						3,201	-		-	18,428
28	339	Other Plant and Misc. Equip.	85,429						21,638	568		-	107,636
29	340	Office Furniture and Fixtures	239,369		1,093				46,003	-		-	286,464
30	340.1	Computers and Software	-		5,597				-	-		-	5,597
31	341	Transportation Equipment	200,543					(17,555)	43,604	-	(49,801)	(38,427)	138,363
32	342	Stores Equipment	5,839						1,586	-		-	7,425
33	343	Tools and Work Equipment	11,341						1,459	-		-	12,800
34	344	Laboratory Equipment	290						(0)	-		-	290
35	345	Power Operated Equipment	-						-	-	3,713	(0)	3,713
36	346	Communications Equipment	58,472						14,964	498		-	73,934
37	347	Miscellaneous Equipment	-						-	-		-	-
38	348	Other Tangible Plant	19,709		(2,474)				1,049	1,695		-	19,980
39			-										-
40		TOTALS	$ 16,514,086	$ (3,275)	$ (26,572)	$ (308)	$ (380)	$ (17,555)	$ 2,454,800	$ 91,841	$ (46,613)	$ (38,427)	$ 18,927,597
41													
42	Adjusted Accumulated Depreciation												$ 16,514,086
43													
44	Increase (decrease) in Accumulated Depreciation												$ 2,413,511
45													
46	Adjustment to Accumulated Depreciation												$ 2,413,511
47													
48	SUPPORTING SCHEDULES												
49	B-2, pages 4.1 through 4.9												

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - A

Exhibit
Proposed Final Schedule B-2
Page 4.1
Witness: Bourassa

Line No.

1 A/D related to True-up of Accruals

Acct. No.	Description	Orginal Cost	Depr Rate	Years	A/D
304	Structures and Improvements	(178,617)	3.33%	0.50	(2,974)
307	Wells and Springs	(18,108)	3.33%	0.50	(301)
	TOTALS	$ (196,725)			$ (3,275)

SUPPORTING SCHEDULE
Schedule B-2, page 3.1

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - B

Exhibit
Proposed Final Schedule B-2
Page 4.2
Witness: Bourassa

Line No. 1 Reclassification of Plant - A/D

Line No.	Acct. No.	Description	Year	Depr Rate	Years	Plant Adjustment	A/D Adjustment
6	304	Structures and Improvements	2009	3.33%	3.5	$ (1,036,948)	$ (120,858)
7	304	Structures and Improvements	2010	3.33%	2.5	(1,245,500)	(103,688)
8	304	Structures and Improvements	2011	3.33%	1.5	(494,324)	(24,691)
9	Subtotal					**$ (2,776,772)**	**$ (249,236)**
10	307	Wells and Springs	2009	3.33%	3.5	65,920	7,683
11	307	Wells and Springs	2010	3.33%	2.5	-	-
12	307	Wells and Springs	2011	3.33%	1.5	68,958	3,444
13	Subtotal					**$ 134,878**	**$ 11,127**
14	310	Power Generation Equipment	2009	5.00%	3.5	-	-
15	310	Power Generation Equipment	2010	5.00%	2.5	-	-
16	310	Power Generation Equipment	2011	5.00%	1.5	18,111	1,358
17	Subtotal					**$ 18,111**	**$ 1,358**
18	311	Electric Pumping Equipment	2009	12.50%	3.5	10,851	4,747
19	311	Electric Pumping Equipment	2010	12.50%	2.5	13,620	4,256
20	311	Electric Pumping Equipment	2011	12.50%	1.5	(47,974)	(8,995)
21	Subtotal					**$ (23,502)**	**$ 9**
22	320.1	Water Treatment Plant	2009	3.33%	3.5	287,816	33,545
23	320.1	Water Treatment Plant	2010	3.33%	2.5	1,215,221	101,167
24	320.1	Water Treatment Plant	2011	3.33%	1.5	225,598	11,269
25	Subtotal					**$ 1,728,635**	**$ 145,981**
26	330.1	Storage tanks	2009	2.22%	3.5	664,366	51,621
27	330.1	Storage tanks	2010	2.22%	2.5	20,000	1,110
28	330.1	Storage tanks	2011	2.22%	1.5	217,475	7,242
29	Subtotal					**$ 901,841**	**$ 59,973**
30	340	Office Furniture and Fixtures	2009	6.67%	3.5	-	-
31	340	Office Furniture and Fixtures	2010	6.67%	2.5	6,555	1,093
32	340	Office Furniture and Fixtures	2011	6.67%	1.5	-	-
33	Subtotal					**$ 6,555**	**$ 1,093**
34	340.1	Computers and Software	2009	20.00%	3.5	7,995	5,597
35	340.1	Computers and Software	2010	20.00%	2.5	-	-
36	340.1	Computers and Software	2011	20.00%	1.5	-	-
37	Subtotal					**$ 7,995**	**$ 5,597**
38	348	Other Tangible Plant	2009	10.00%	3.5	-	-
39	348	Other Tangible Plant	2010	10.00%	2.5	(9,897)	(2,474)
40	348	Other Tangible Plant	2011	10.00%	1.5	-	-
41	Subtotal					**$ (9,897)**	**$ (2,474)**
44		TOTALS				**$ (12,156)**	**$ (26,572)**

46 SUPPORTING SCHEDULE
47 Schedule B-2, page 3.2

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - C

Exhibit
Proposed Final Schedule B-2
Page 4.3
Witness: Bourassa

Line No.

1 Plant Not Used and Useful

Acct. No.	Description	Year	Depr Rate	Years	Plant Adjustment	A/D Adjustment
303	Land and Land Rights	2011	0.00%	1.5	(6,000)	-
304	Structures and Improvements	2011	3.33%	1.5	(6,156)	(308)
	TOTALS				$ (12,156)	$ (308)

SUPPORTING SCHEDULE
Schedule B-2, page 3.3

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - D

Exhibit
Proposed Final Schedule B-2
Page 4.4
Witness: Bourassa

Line No.

1 Duplicate Invoices

Acct. No.	Description	Year	Depr Rate	Years	Plant Adjustment	A/D Adjustment
304	Structures and Improvements	2010	3.33%	2.5	(3,000)	(250)
335	Hydrants	2010	2.00%	2.5	(2,608)	(130)
	TOTALS				$ (5,608)	$ (380)

SUPPORTING SCHEDULE
Staff Adjustment #7

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - E

Exhibit
Proposed Final Schedule B-2
Page 4.5
Witness: Bourassa

Line No.

1 Retirement of Transportation Equipment - A/D

Acct. No.	Description	Year of Retirement	Adjustment
341	Transportation Equipment	2011	(17,555)
	Plant Held for Future Use		
	TOTALS		$ (17,555)

SUPPORTING SCHEDULE
Staff Adjustment #7

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - F

Exhibit
Proposed Final Schedule B-2
Page 4.6
Witness: Bourassa

Line No.

1 Accumulated Depreciation - Annualization Correction

Acct. No.	Description	Adjusted Orginal Cost	Rejoinder Adjusted Orginal Cost	Annualized Depreciation Correction
301	Organization Cost	21,100	-	(21,100)
302	Franchise Cost	-	-	-
303	Land and Land Rights	-	-	-
304	Structures and Improvements	3,036,910	4,043,158	1,006,248
305	Collecting and Impounding Res.	-	-	-
306	Lake River and Other Intakes	-	-	-
307	Wells and Springs	915,114	1,023,083	107,969
308	Infiltration Galleries and Tunnels	-	-	-
309	Supply Mains	-	-	-
310	Power Generation Equipment	87,092	99,734	12,642
311	Electric Pumping Equipment	759,242	452,920	(306,323)
320	Water Treatment Equipment	-		-
320.1	Water Treatment Plant	199,379	252,948	53,569
320.2	Chemical Solution Feeders	-	-	-
330	Dist. Reservoirs & Standpipe	205,453	217,657	12,204
330.1	Storage tanks	-	-	-
330.2	Pressure Tanks	-	-	-
331	Trans. and Dist. Mains	5,947,658	6,705,550	757,892
333	Services	1,409,855	1,618,468	208,613
334	Meters	2,960,806	3,393,848	433,042
335	Hydrants	335,259	391,798	56,539
336	Backflow Prevention Devices	15,227	18,428	3,201
339	Other Plant and Misc. Equip.	85,429	107,068	21,638
340	Office Furniture and Fixtures	239,369	285,371	46,003
340.1	Computers and Software	-	-	-
341	Transportation Equipment	200,543	244,147	43,604
342	Stores Equipment	5,839	7,425	1,586
343	Tools and Work Equipment	11,341	12,800	1,459
344	Laboratory Equipment	290	290	(0)
345	Power Operated Equipment	-	-	-
346	Communications Equipment	58,472	73,436	14,964
347	Miscellaneous Equipment	-	-	-
348	Other Tangible Plant	19,709	20,759	1,049
	Plant Held for Future Use			-
	TOTALS	$ 16,514,086	$ 18,968,887	$ 2,454,800

SUPPORTING SCHEDULE
Staff Adjustment #2

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - G

Exhibit
Proposed Final Schedule B-2
Page 4.7
Witness: Bourassa

Line No.

1 Accumulated Depreciation - Plant Additions in Wrong Years

Acct. No.	Description	Depreciation Correction
301	Organization Cost	-
302	Franchise Cost	-
303	Land and Land Rights	-
304	Structures and Improvements	65,110
305	Collecting and Impounding Res.	-
306	Lake River and Other Intakes	-
307	Wells and Springs	-
308	Infiltration Galleries and Tunnels	-
309	Supply Mains	-
310	Power Generation Equipment	-
311	Electric Pumping Equipment	14,698
320	Water Treatment Equipment	-
320.1	Water Treatment Plant	-
320.2	Chemical Solution Feeders	-
330	Dist. Reservoirs & Standpipe	-
330.1	Storage tanks	-
330.2	Pressure Tanks	-
331	Trans. and Dist. Mains	1,827
333	Services	-
334	Meters	7,444
335	Hydrants	-
336	Backflow Prevention Devices	-
339	Other Plant and Misc. Equip.	568
340	Office Furniture and Fixtures	-
340.1	Computers and Software	-
341	Transportation Equipment	-
342	Stores Equipment	-
343	Tools and Work Equipment	-
344	Laboratory Equipment	-
345	Power Operated Equipment	-
346	Communications Equipment	498
347	Miscellaneous Equipment	-
348	Other Tangible Plant	1,695
	TOTALS	$ 91,841

SUPPORTING SCHEDULE
Work papers

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - H

Exhibit
Proposed Final Schedule B-2
Page 4.8
Witness: Bourassa

Line No.

1 Retirements A/D

Acct. No.	Description	Year of Retirement	Adjustment
341	Transportation Equipment	2008	(40,196)
Total			$ (40,196)

11 Reclassifications A/D

Acct. No.	Description	Year	Depr Rate	Years[1]	Plant Adjustment	A/D Adjustment
341	Transportation Equipment	2012	20.00%	0.5	$ (3,985)	$ (399)
341	Transportation Equipment	2008	20.00%	4.125	(18,003)	(14,853)
341	Transportation Equipment	2008	20.00%	4.125	6,844	5,646
Subtotal					$ (15,144)	$ (9,605)
331	Trans. and Dist. Mains	2012	2.00%	0.5	$ 3,985	$ 40
345	Power Operated Equipment	2008	5.00%	4.125	18,003	3,713
331	Trans. and Dist. Mains	2008	2.00%	4.125	(6,844)	(565)
Subtotal					$ 15,144	$ 3,188
Total						$ (6,416)

39 Total Adjustment $ (46,613)

41 SUPPORTING SCHEDULE
42 Schedule B-2, page 3.6
43 Work papers

45 [1] Post last test year end date

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - I

Exhibit
Proposed Final Schedule B-2
Page 4.9
Witness: Bourassa

Line No. 1 Reconciliation of A/D to A/D Reconstruction

Acct. No.	Description	Adjusted Orginal Cost A/D	B-2 Adjustments	Rejoinder Adjusted Orginal Cost A/D	Rejoinder A/D Per Reconstruction	Difference
301	Organization Cost	21,100	(21,100)	-	-	-
302	Franchise Cost	-	-	-	-	-
303	Land and Land Rights	-	-	-	-	-
304	Structures and Improvements	3,036,910	818,591	3,855,501	3,855,501	-
305	Collecting and Impounding Res.	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-
307	Wells and Springs	915,114	118,795	1,033,909	1,033,909	(0)
308	Infiltration Galleries and Tunnels	-	-	-	-	-
309	Supply Mains	-	-	-	-	-
310	Power Generation Equipment	87,092	14,000	101,092	101,092	-
311	Electric Pumping Equipment	759,242	(291,615)	467,627	467,627	-
320	Water Treatment Equipment	-	-	-	-	-
320.1	Water Treatment Plant	199,379	199,550	398,928	398,928	-
320.2	Chemical Solution Feeders	-	-	-	-	-
330	Dist. Reservoirs & Standpipe	205,453	12,204	217,657	217,657	-
330.1	Storage tanks	-	59,973	59,973	59,973	-
330.2	Pressure Tanks	-	-	-	-	-
331	Trans. and Dist. Mains	5,947,658	759,195	6,706,853	6,706,853	0
333	Services	1,409,855	208,613	1,618,468	1,618,468	-
334	Meters	2,960,806	440,486	3,401,292	3,401,292	-
335	Hydrants	335,259	56,408	391,667	391,667	0
336	Backflow Prevention Devices	15,227	3,201	18,428	18,428	-
339	Other Plant and Misc. Equip.	85,429	22,207	107,636	107,636	-
340	Office Furniture and Fixtures	239,369	47,096	286,464	286,464	-
340.1	Computers and Software	-	5,597	5,597	5,597	-
341	Transportation Equipment	200,543	(23,752)	176,790	138,363	(38,427)
342	Stores Equipment	5,839	1,586	7,425	7,425	-
343	Tools and Work Equipment	11,341	1,459	12,800	12,800	-
344	Laboratory Equipment	290	(0)	290	290	-
345	Power Operated Equipment	-	3,713	3,713	3,713	(0)
346	Communications Equipment	58,472	15,462	73,934	73,934	-
347	Miscellaneous Equipment	-	-	-	-	-
348	Other Tangible Plant	19,709	271	19,980	19,980	-
	Plant Held for Future Use					-
	TOTALS	$ 16,514,086	$ 2,451,939	$ 18,966,025	$ 18,927,597	$ (38,427)

SUPPORTING SCHEDULE
B-2, pages 4.1 through 4.8
B-2, pages 3.8 through 3.12

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Proposed Final Schedule B-2
Page 5
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line No.		Gross CIAC	Accumulated Amortization
1			
2			
3			
4			
5	Computed balance at 12/31/2012	$ 7,425,812	$ 1,285,854
6			
7	Adjusted balance at 12/31/2012	$ 7,324,578	$ 1,489,772
8			
9	Increase (decrease)	$ 101,234	$ (203,918)
10			
11			
12	Adjustment to CIAC/AA CIAC	$ 101,234	$ 203,918
13	Label	3a	3b
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	E-1		
21	B-2, page 5.1 to 5.4		
22			
23			
24			
25			
26			
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39			
40			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base *Proforma* Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Proposed Final Schedule B-2
Page 5.1
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	Balance at 9/30/2008	2008 Activity	Balance at 12/31/2008	2009 Activity	Balance at 12/31/2009
1								
2								
3	Wells & Sprngs Contributed	3.33%	8600.2.0100.10.1615.0011	-		-	499,000	499,000
4			Prior to Nov 2002					
5								
6	Amortization				-		8,308	
7	Accum Amort.		8600.2.0000.10.1641.0100	-	-	-	8,308	8,308
8								
9	Pumping Equipment - Contribu	12.50%	8600.2.0100.10.1615.0011	15,219		15,219	-	15,219
10			Prior to Nov 2002					
11								
12	Amortization				476		1,902	
13	Accum Amort.		8600.2.0000.10.1641.0100	18,824	476	19,300	1,902	21,202
14								
15								
16	Trans/Dist Main Contributed	2.00%	8600.2.0100.10.1615.0020	2,846,725		2,846,725		2,846,725
17								
18								
19	Amortization				14,234		56,935	
20	Accum Amort.		8600.2.0000.10.1641.0100	742,400	14,234	756,634	56,935	813,568
21								
22	Services Contributed	3.33%	8600.2.0100.10.1615.0013	151,402		151,402	448,505	599,907
23								
24								
25	Amortization				1,260		12,509	
26	Accum Amort.		8600.2.0000.10.1641.0100	36,723	1,260	37,983	12,509	50,492
27								
28	Meters Contributed	8.33%	8600.2.0100.10.1615.0021	29,899		29,899		29,899
29								
30								
31	Amortization				191			
32	Accum Amort.		8600.2.0000.10.1641.0100	29,708	191	29,899	-	29,899
33								
34	Hydrants Contributed	2.00%	8600.2.0100.10.1615.0022	52,935		52,935		52,935
35								
36								
37	Amortization				265		1,059	
38	Accum Amort.		8600.2.0000.10.1641.0100	33,051	265	33,316	1,059	34,375
39								
40	Land Contributed	0.00%	8600.2.0100.10.1615.0022	-		-	92,495	92,495
41								
42								
43					-		-	
44				-	-	-	-	-
45								
46	**Total CIAC Water**			**3,096,180**		**3,096,180**		**4,136,180**
27								
28								
29	**Total Accum Amort.**			**860,706**		**877,131**		**957,844**

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Proposed Final Schedule B-2
Page 5.2
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	2010 Activity	Balance at 12/31/2010	2011 Activity	Balance at 12/31/2011
1							
2							
3	Wells & Sprngs Contributed	3.33%	8600.2.0100.10.1615.0011	-	499,000		499,000
4			Prior to Nov 2002				
5							
6	Amortization			16,617		16,617	
7	Accum Amort.		8600.2.0000.10.1641.0100	16,617	24,925	16,617	41,542
8							
9	Pumping Equipment - Contribu	12.50%	8600.2.0100.10.1615.0011	-	15,219	25,353	40,572
10			Prior to Nov 2002				
11							
12	Amortization			1,902		3,487	
13	Accum Amort.		8600.2.0000.10.1641.0100	1,902	23,104	3,487	26,591
14							
15							
16	Trans/Dist Main Contributed	2.00%	8600.2.0100.10.1615.0020		2,846,725		2,846,725
17							
18							
19	Amortization			56,935		56,935	
20	Accum Amort.		8600.2.0000.10.1641.0100	56,935	870,503	56,935	927,437
21							
22	Services Contributed	3.33%	8600.2.0100.10.1615.0013		599,907		599,907
23							
24							
25	Amortization			19,977		19,977	
26	Accum Amort.		8600.2.0000.10.1641.0100	19,977	70,469	19,977	90,446
27							
28	Meters Contributed	8.33%	8600.2.0100.10.1615.0021		29,899		29,899
29							
30							
31	Amortization						
32	Accum Amort.		8600.2.0000.10.1641.0100	-	29,899	-	29,899
33							
34	Hydrants Contributed	2.00%	8600.2.0100.10.1615.0022		52,935		52,935
35							
36							
37	Amortization			1,059		1,059	
38	Accum Amort.		8600.2.0000.10.1641.0100	1,059	35,433	1,059	36,492
39							
40	Land Contributed	0.00%	8600.2.0100.10.1615.0022		92,495		92,495
41							
42							
43				-		-	
44				-	-	-	-
45							
46	**Total CIAC Water**				**4,136,180**		**4,161,533**
27							
28							
29	**Total Accum Amort.**				**1,054,334**		**1,152,407**

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 4

Exhibit
Proposed Final Schedule B-2
Page 5.3
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	2012 Activity	Balance at 12/31/2012
1					
2					
3	Wells & Sprngs Contributed	3.33%	8600.2.0100.10.1615.0011	-	499,000
4			Prior to Nov 2002		
5					
6	Amortization			16,617	
7	Accum Amort.		8600.2.0000.10.1641.0100	16,617	58,158
8					
9	Pumping Equipment - Contribu	12.50%	8600.2.0100.10.1615.0011	-	40,572
10			Prior to Nov 2002		
11					
12	Amortization			5,071	
13	Accum Amort.		8600.2.0000.10.1641.0100	5,071	31,663
14					
15					
16	Trans/Dist Main Contributed	2.00%	8600.2.0100.10.1615.0020	3,046,493	5,893,218
17					
18					
19	Amortization			87,399	
20	Accum Amort.		8600.2.0000.10.1641.0100	87,399	1,014,837
21					
22	Services Contributed	3.33%	8600.2.0100.10.1615.0013	172,302	772,209
23					
24					
25	Amortization			22,846	
26	Accum Amort.		8600.2.0000.10.1641.0100	22,846	113,292
27					
28	Meters Contributed	8.33%	8600.2.0100.10.1615.0021		29,899
29					
30					
31	Amortization				
32	Accum Amort.		8600.2.0000.10.1641.0100	-	29,899
33					
34	Hydrants Contributed	2.00%	8600.2.0100.10.1615.0022	45,484	98,419
35					
36					
37	Amortization			1,514	
38	Accum Amort.		8600.2.0000.10.1641.0100	1,514	38,006
39					
40	Land Contributed	0.00%	8600.2.0100.10.1615.0022		92,495
41					
42					
43				-	
44				-	-
45					
46	**Total CIAC Water**				7,425,812
27					
28					
29	**Total Accum Amort.**				1,285,854

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 4

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Proposed Final Schedule B-2
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Witness: Bourassa

Deferred Income Tax as of December 31, 2012

Line No.			Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
6		Plant-in-Service	$ 162,040,849 [1]								
7		Accum. Deprec.	(32,475,811) [1]								
8		CIAC	(59,777,267) [3]								
9	Fed.	Fixed Assets	$ 69,787,771	$ 47,372,348 [2]	100.0%	$ (22,415,423)	31.79%		-		(7,125,863)
11	State	Fixed Assets	$ 69,787,771	$ 74,030,636 [2]	100.0%	$ 4,242,865	6.500%		275,786		-
13	Fed &State	AIAC		14,120,317 [4]	100.0%	$ 14,120,317 [4]	38.29%		$ 5,406,669		
15								$ -	$ 5,682,456	$ -	$ (7,125,863)

17	Net Asset (Liability)	$ (1,443,407)
19	Allocation Factor - Water-Division (based on rate base before ADIT)	0.5766
21	Net Asset (Liability) Water Division	$ (832,300)
23	Adjusted DIT Asset (Liability)	$ (1,459,075)
25	Adjustment to DIT	$ (626,775)

32 Footnotes - See page 7.1

DOCKET NO. SW-01428A-13-0042 ET AL.

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Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 4

Exhibit
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Line No.					
1	[1] **Per adjusted book balances, land not included**				
2					
3	**2 Computation of Net Tax Value December 31, 2012**				
4					
5	Based on 2012 Tax Depreciation report (December 31, 2012) as amended				
6	Unadjusted Cost at December 31, 2012 per federal and state tax depr. report	$ 85,943,311		$ 84,887,919	
7	Reconciling Items not on tax report:				
8	Land on Tax and not on included in adjusted plant balance	(1,055,392)		-	
9	FA Accrual on not on tax report	6,391,333		6,391,333	
10	Proposed Plant Retirements	(1,712,539)		(1,712,539)	
11	Proposed Plant Retirements Rejoinder	(17,555)		(17,555)	
12	Post Test Year plant	1,102,722		1,102,722	
13	Post Test Year Plant Retirement	(38,457)		(38,457)	
14					
15				-	
16	Net Unadjusted Cost tax Basis at December 31, 2012		$ 90,613,423		$ 90,613,423
17					
18	Reductions				
19	Basis Reduction 2012 and Prior Years per federal and state tax depr. report	$ (25,331,094)		$ -	
20	Accumulated Depreciation 2012 and prior per federal and state tax depr. report	(19,678,532)		(18,351,338)	
21	Proposed Plant Retirements	1,712,539		1,712,539	
22	Proposed Plant Retirements Rejoinder	17,555		17,555	
23	Post Test Year Plant Retirement	38,457		38,457	
24					
25					
26					
27			(43,241,075)		(16,582,787)
28	Net Reductions through December 31, 2012		$ 47,372,348		$ 74,030,636
29	Net tax value of plant-in-service at December 31, 2012				
30					
31	[3] **CIAC (including impact of change to probability of realization)**				
32	Gross CIAC per adjusted book balances		$ 35,802,727		
33	CIAC reductions/addtions				
34	A.A per adjusted book balances	$ (5,439,155)			
35		-			
36			(5,439,155)		
37	Net CIAC before unrealized AIAC			$ 30,363,572	
38					
39	Unrealized AIAC Component				
40	AIAC per adjusted book balances		$ 42,019,564		
41	Adjusted Net AIAC (see footnote 5 below)		70.0%		
42	Unrealized AIAC Component % (1-Realized AIAC Component)			$ 29,413,695	
43				$ 59,777,267	
44	Total realizable CIAC				
45					
46	[4] **AIAC (including impact of change in probability of realization)**				
47	AIAC per adjusted book balances			$ 42,019,564	
48	Less: Unrealized AIAC (from Note 3, above)			$ (29,413,695)	
49					
50	Subtotal			$ 12,605,869	
51	Meter and Service Line Installation Charges per adjusted book balances			1,514,448	
52	Total realizable AIAC			$ 14,120,317	
53					

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Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 5

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Line No.		
1	Customer Security Deposits	
2		
3	Customer Security Deposits Balance per Staff	$ 147,661
4	Adjusted Customer Security Deposits Balance	140,147
5		
6	Adjustment to Customer Security Deposits based upon a 13 month average	$ 7,514
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45	SUPPORTING SCHEDULE	
46	Staff Adjustment #10	
47		
48		

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 6

Exhibit
Proposed Final Schedule B-2
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Witness: Bourassa

Line No.		
1	Regulatory Assets	
2		
3	Adjustment for additional Regulatory Asset amounts	$ 688
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42	SUPPORTING SCHEDULE	
43	RUCO Adjustment #10	
44		
45		

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 7

Exhibit
Proposed Final Schedule B-2
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Witness: Bourassa

Line No.		
1	Customer Meter Deposits	
2		
3	Customer Security Deposits Balance per RUCO	$ 1,432,787
4	Adjusted Customer Security Deposts Balance	1,271,802
5		
6	Adjustment to Customer Security Deposits based upon a 13 month average	$ 160,985
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45	SUPPORTING SCHEDULE	
46	RUCOAdjustment #10	
47		
48		

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Computation of Working Capital

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Proposed Final Schedule B-5
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Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	506,180
3	Pumping Power (1/24 of Pumping Power)		37,647
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	$	543,827
10			
11			
12	Working Capital Requested	$	-
13			
14			
15			
16			Rejoinder
17			Adjusted Test Year
18	Total Operating Expense	$	9,166,122
19	Less:		
20	Income Tax	$	1,054,157
21	Property Tax		531,421
22	Depreciation		2,627,581
23	Purchased Water		-
24	Pumping Power		903,527
25	Allowable Expenses	$	4,049,437
26	1/8 of allowable expenses	$	506,180
27			
28			
29	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
30	E-1	B-1	
31			
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Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Income Statement

Exhibit
Proposed Final Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Test Year Results	Adjustment	Rejoinder Adjusted Test Year Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 10,965,545	$ -	$ 10,965,545	$ 1,421,511	$ 12,387,056
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	235,723	-	235,723		235,723
5		$ 11,201,268	$ -	$ 11,201,268	$ 1,421,511	$ 12,622,779
6	**Operating Expenses**					
7	Salaries and Wages	$ 1,069,839	-	$ 1,069,839		$ 1,069,839
8	Purchased Water	2,615	-	2,615		2,615
9	Purchased Power	903,527	-	903,527		903,527
10	Fuel For Power Production	-	-	-		-
11	Chemicals	208,080	-	208,080		208,080
12	Materials and Supplies	91,139	-	91,139		91,139
13	Management Services - US Liberty Water	1,260,835	(10,249)	1,250,586		1,250,586
14	Management Services - Corporate	781,023	-	781,023		781,023
15	Management Services - Other	-	-	-		-
16	Outside Services - Accounting	9,271	-	9,271		9,271
17	Outside Services - Engineering	-	-	-		-
18	Outside Services- Other	103,412	-	103,412		103,412
19	Outside Services- Legal	19,865	-	19,865		19,865
20	Water Testing	66,942	(22,062)	44,880		44,880
21	Rents - Building	-	-	-		-
22	Rents - Equipment	7,229	-	7,229		7,229
23	Transportation Expenses	103,726	-	103,726		103,726
24	Insurance - General Liability	88,374	-	88,374		88,374
25	Insurance - Vehicle	20,825	-	20,825		20,825
26	Reg. Comm. Exp. - Other	19,721	851	20,572		20,572
27	Reg. Comm. Exp. - Rate Case	65,800	-	65,800		65,800
28	Miscellaneous Expense	151,237	(10,177)	141,060		141,060
29	Bad Debt Expense	(76)	21,216	21,140		21,140
30	Depreciation and Amortization Expense	2,615,868	11,713	2,627,581		2,627,581
31	Taxes Other Than Income	-	-	-		-
32	Property Taxes	559,122	(27,701)	531,421	22,577	553,998
33	Income Tax	1,028,589	25,568	1,054,157	535,652	1,589,809
34			-	-		-
35	**Total Operating Expenses**	$ 9,176,963	$ (10,841)	$ 9,166,122	$ 558,229	$ 9,724,351
36	**Operating Income**	$ 2,024,305	$ 10,841	$ 2,035,146	$ 863,282	$ 2,898,428
37	**Other Income (Expense)**					
38	Interest Income	-	-	-		-
39	Other income	-	-	-		-
40	Interest Expense	(388,078)	51,862	(336,216)		(336,216)
41	Other Expense	-	-	-		-
42		-	-	-		-
43	**Total Other Income (Expense)**	$ (388,078)	$ 51,862	$ (336,216)	$ -	$ (336,216)
44	**Net Profit (Loss)**	$ 1,636,227	$ 62,703	$ 1,698,929	$ 863,282	$ 2,562,212
45						
46	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
47	C-1, page 2				A-1	
48	E-2					
49						

Litchfield Park Service Company - Water Division
dba Liberty Utilities
Test Year Ended December 31, 2012
Income Statement

Exhibit
Proposed Final Schedule C-1
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Line No.		LABEL>>>>> Adjusted Test Year Results	1 Depreciation	2 Property Taxes	3 Water Testing	4 Corporate Expense True-up	5 Corporate Allocation Expense	6 Interest on Customer Desposits	7 Bad Debt Expense	8 Misc. Expense	9 Amortization Regulatory Assets
1	**Revenues**										
2	Metered Water Revenues	$ 10,965,545									
3	Unmetered Water Revenues	-									
4	Other Water Revenues	235,723									
5		$ 11,201,268	$ -	$ -	$ -	$ -	$ -	$ -	$ -		$ -
6	**Operating Expenses**										
7	Salaries and Wages	$ 1,069,839									
8	Purchased Water	2,615									
9	Purchased Power	903,527									
10	Fuel For Power Production	-									
11	Chemicals	208,080									
12	Materials and Supplies	91,139									
13	Management Services - US Liberty Water	1,260,835				(8,420)	(1,829)				
14	Management Services - Corporate	781,023									
15	Management Services - Other	-									
16	Outside Services - Accounting	9,271									
17	Outside Services - Engineering	-									
18	Outside Services- Other	103,412									
19	Outside Services- Legal	19,865									
20	Water Testing	66,942			(22,062)						
21	Rents - Building	-									
22	Rents - Equipment	7,229									
23	Transportation Expenses	103,726									
24	Insurance - General Liability	88,374									
25	Insurance - Vehicle	20,625									
26	Reg. Comm. Exp. - Other	19,721									851
27	Reg. Comm. Exp. - Rate Case	65,800									
28	Miscellaneous Expense	151,237						5,931		(16,108)	
29	Bad Debt Expense	(76)							21,216		
30	Depreciation and Amortization Expense	2,615,868	11,713								
31	Taxes Other Than Income	-									
32	Property Taxes	559,122		(27,701)							
33	Income Tax	1,028,589									
34											
35	***Total Operating Expenses***	$ 9,176,963	$ 11,713	$ (27,701)	$ (22,062)	$ (8,420)	$ (1,829)	$ 5,931	$ 21,216	$ (16,108)	$ 851
36	**Operating Income**	$ 2,024,305	$ (11,713)	$ 27,701	$ 22,062	$ 8,420	$ 1,829	$ (5,931)	$ (21,216)	$ 16,108	$ (851)
37	**Other Income (Expense)**										
38	Interest Income	-									
39	Other income	-									
40	Interest Expense	(388,078)									
41	Other Expense	-									
42		-									
43	**Total Other Income (Expense)**	$ (388,078)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
44	**Net Profit (Loss)**	$ 1,636,227	$ (11,713)	$ 27,701	$ 22,062	$ 8,420	$ 1,829	$ (5,931)	$ (21,216)	$ 16,108	$ (851)
45											
46	SUPPORTING SCHEDULES:										
47	C-2										
48	E-2										

Litchfield Park Service Company - Water Division
dba Liberty Utilities
Test Year Ended December 31, 2012
Income Statement

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Proposed Final Schedule C-1
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Line No.		10 Interest Synch.	11 Income Taxes	12 Intentionally Left Blank	13 Intentionally Left Blank	14 Intentionally Left Blank	15 Intentionally Left Blank	16 Intentionally Left Blank	17 Intentionally Left Blank	Rejoinder Adjusted Test Year Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**											
2	Metered Water Revenues									$ 10,965,545	$ 1,421,511	$ 12,387,056
3	Unmetered Water Revenues									-		-
4	Other Water Revenues									235,723		235,723
5		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,201,268	$ 1,421,511	$ 12,622,779
6	**Operating Expenses**											
7	Salaries and Wages									$ 1,069,839		$ 1,069,839
8	Purchased Water									2,615		2,615
9	Purchased Power									903,527		903,527
10	Fuel For Power Production									-		-
11	Chemicals									208,080		208,080
12	Materials and Supplies									91,139		91,139
13	Management Services - US Liberty Water									1,250,586		1,250,586
14	Management Services - Corporate									781,023		781,023
15	Management Services - Other									-		-
16	Outside Services - Accounting									9,271		9,271
17	Outside Services - Engineering									-		-
18	Outside Services- Other									103,412		103,412
19	Outside Services- Legal									19,865		19,865
20	Water Testing									44,880		44,880
21	Rents - Building									-		-
22	Rents - Equipment									7,229		7,229
23	Transportation Expenses									103,726		103,726
24	Insurance - General Liability									88,374		88,374
25	Insurance - Vehicle									20,825		20,825
26	Reg. Comm. Exp. - Other									20,572		20,572
27	Reg. Comm. Exp. - Rate Case									65,800		65,800
28	Miscellaneous Expense									141,060		141,060
29	Bad Debt Expense									21,140		21,140
30	Depreciation and Amortization Expense									2,627,581		2,627,581
31	Taxes Other Than Income									-		-
32	Property Taxes									531,421	22,577	553,998
33	Income Tax		25,568							1,054,157	535,652	1,589,809
34												
35	**Total Operating Expenses**	$ -	$ 25,568	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,166,122	$ 558,229	$ 9,724,351
36	**Operating Income**	$ -	$ (25,568)	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,035,146	$ 863,282	$ 2,898,428
37	**Other Income (Expense)**											
38	*Interest Income*						-			-		-
39	Other Income									-		-
40	Interest Expense	51,862								(336,216)		(336,216)
41	Other Expense									-		-
42										-		-
43	**Total Other Income (Expense)**	$ 51,862	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (336,216)	$ -	$ (336,216)
44	**Net Profit (Loss)**	$ 51,862	$ (25,568)	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,698,929	$ 863,282	$ 2,562,212
45												
46	SUPPORTING SCHEDULES:											
47	C-2											
48	E-2											

RECAP SCHEDULES:
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Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses

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Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	
		Depreciation	Property Taxes	Water Testing	Corporate Expense True-up	Corporate Allocation Expense	Interest on Customer Desposits	Subtotal
4	Revenues							-
6	Expenses	11,713	(27,701)	(22,062)	(8,420)	(1,829)	5,931	(42,368)
9	Operating Income	(11,713)	27,701	22,062	8,420	1,829	(5,931)	42,368
12	Interest Expense							-
14	Other Income / Expense							-
17	Net Income	(11,713)	27,701	22,062	8,420	1,829	(5,931)	42,368

Line No.		Adjustments to Revenues and Expenses						
		7	8	9	10	11	12	
		Bad Debt Expense	Misc. Expense	Amortization Regulatory Assets	Interest Synch.	Income Taxes	Intentionally Left Blank	Total
25	Revenues							-
27	Expenses	21,216	(16,108)	851		25,568	-	(10,841)
30	Operating Income	(21,216)	16,108	(851)	-	(25,568)	-	10,841
33	Interest Expense	-			51,862			51,862
36	Other Income / Expense							-
38	Net Income	(21,216)	16,108	(851)	51,862	(25,568)	-	62,703

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses
Adjustment Number 1

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Depreciation Expense

Line No.	Acct. No.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
5	301	Organization Cost	21,100	0.00%	-
6	302	Franchise Cost	-	0.00%	-
7	303	Land and Land Rights	1,450,278	0.00%	-
8	304	Structures and Improvements	25,036,371	3.33%	833,711
9	305	Collecting and Impounding Res.	-	2.50%	-
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	3,214,114	3.33%	107,030
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	-	2.00%	-
14	310	Power Generation Equipment	225,130	5.00%	11,257
15	311	Electric Pumping Equipment	874,290	12.50%	109,286
16	320	Water Treatment Equipment	-	3.33%	-
17	320.1	Water Treatment Plant	3,425,394	3.33%	114,066
18	320.2	Chemical Solution Feeders	-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	492,176	2.22%	10,926
20	330.1	Storage tanks	901,841	2.22%	20,021
21	330.2	Pressure Tanks	-	5.00%	-
22	331	Trans. and Dist. Mains	40,256,187	2.00%	805,124
23	333	Services	5,350,963	3.33%	178,187
24	334	Meters	4,759,560	8.33%	396,471
25	335	Hydrants	3,302,148	2.00%	66,043
26	336	Backflow Prevention Devices	38,387	6.67%	2,560
27	339	Other Plant and Misc. Equip.	259,531	6.67%	17,311
28	340	Office Furniture and Fixtures	657,653	6.67%	43,865
29	340.1	Computers and Software	7,995	20.00%	1,599
30	341	Transportation Equipment	234,697	20.00%	46,939
31	342	Stores Equipment	37,143	4.00%	1,486
32	343	Tools and Work Equipment	47,434	5.00%	2,372
33	344	Laboratory Equipment	5,803	10.00%	580
34	345	Power Operated Equipment	18,003	5.00%	900
35	346	Communications Equipment	128,402	10.00%	12,840
36	347	Miscellaneous Equipment	-	10.00%	-
37	348	Other Tangible Plant	122,414	10.00%	12,241
38		TOTALS	$ 90,867,015		$ 2,794,816

Line No.			Gross CIAC	Amort. Rate	
41	Less: Amortization of Contributions				
	307	Wells and Springs	$ 499,000	3.3300%	$ (16,617)
42	311	Electric Pumping Equipment	$ 40,572	12.5000%	(5,071)
43	331	Trans. and Dist. Mains	$ 5,893,218	2.0000%	(117,864)
44	333	Services	$ 772,209	3.3300%	(25,715)
45	334	Meters	$ 29,899	8.3300%	- *
46	335	Hydrants	$ 98,419	2.0000%	(1,968)
47			$ 6,834,317		$ (167,235)
48	Total Depreciation Expense				$ 2,627,581
49					
50	Adjusted Test Year Depreciation Expense				2,615,868
51					
52	Increase (decrease) in Depreciation Expense				11,713
53					
54	Adjustment to Revenues and/or Expenses				$ 11,713
55					
56	SUPPORTING SCHEDULE				
57	B-2, page 3				

*Fully Depreciated/Amortized

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Proposed Final Schedule C-2
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 11,201,268	$ 11,201,268
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	22,402,536	22,402,536
4	Company Recommended Revenue	11,201,268	12,622,779
5	Subtotal (Line 4 + Line 5)	33,603,803	35,025,315
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	11,201,268	11,675,105
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	22,402,536	23,350,210
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	96,334	96,334
12	Full Cash Value (Line 9 + Line 10 - Line 11)	22,306,202	23,253,876
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	4,238,178	4,418,236
15	Composite Property Tax Rate - Obtained from ADOR	12.5389%	12.5389%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 531,421	$ 553,998
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	$ 531,421	
19	Adjusted Test Year Property Taxes	$ 559,122	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	$ (27,701)	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 553,998
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 531,421
24	Increase in Property Tax Due to Increase in Revenue Requirement		$ 22,577
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 22,577
27	Increase in Revenue Requirement		$ 1,421,511
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.58826%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Proposed Final Schedule C-2
Page 4
Witness: Bourassa

Water Testing

Line No.			
1			
2			
3	Recommended Water Testing Expense	$	44,880
4			
5	Adjusted Test Year Water Testing Expense		66,942
6			
7	Increase(decrease) Rate Case Expense	$	(22,062)
8			
9	Adjustment to Revenue and/or Expense	$	(22,062)
10			
11			
12	Reference		
13	RUCO Adjustment #6		
14	Testimony		
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Proposed Final Schedule C-2
Page 5
Witness: Bourassa

Corporate Allocation True-Up

Line No.			
1			
2			
3			
4	Corporate Allocation True-up	$	(29,297)
5			
6	% Allocation to Water		28.74%
7			
8	Total Adjustment to Management Services - US Liberty Water	$	(8,420)
9			
10			
11	Adjustment to Revenue and/or Expense	$	(8,420)
12			
13	SUPPORTING SCHEDULES		
14	Staff Adjustment #2		
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Proposed Final Schedule C-2
Page 6
Witness: Bourassa

Corporate Allocation Expense Adjustment

Line No.			
1			
2	Corporate Allocation Expense Adjustment	$	(1,829)
3			
4			
5			
6	Total Adjustment to Management Services - US Liberty Water	$	(1,829)
7			
8			
9	Adjustment to Revenue and/or Expense		(1,829)
10			
11	Reference		
12	Testimony		
13	Work Papers		
14			
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Proposed Final Schedule C-2
Page 7
Witness: Bourassa

Interest on Customer Security Deposits

Line No.			
1			
2	Interest on Customer Deposits	$	5,931
3			
4			
5			
6	Adjustment to Miscellaneous Expense	$	5,931
7			
8			
9	Adjustment to Revenue and/or Expense		5,931
10			
11	Reference		
12	Staff Adjustment #4		
13	Testimony		
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Proposed Final Schedule C-2
Page 8
Witness: Bourassa

Bad Debt Expense

Line No.			
1			
2	Allocated Bad Debt Expense - Water Division	$	21,216
3			
4			
5			
6	Increase in Bad Debt Expense	$	21,216
7			
8			
9	Adjustment to Revenue and/or Expense		21,216
10			
11	Reference		
12	RUCO Adjustment #11		
13			
14			
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Proposed Final Schedule C-2
Page 9
Witness: Bourassa

Miscellaneous Expense

Line No.			
1			
2	Miscellanous Expense Adjustment	$	(16,108)
3			
4			
5	Adjustment to Miscellaneous Expense	$	(16,108)
6			
7			
8			
9	Adjustment to Revenue and/or Expense	$	(16,108)
10			
11	Reference		
12	RUCO Adjustment 15		
13			
14			
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Proposed Final Schedule C-2
Page 10
Witness: Bourassa

Amortization of Regulatory Assets

Line No.			
1			
2	Adjusted TCE Plume Balance per B-2	$	91,069
3	Amortization rate		10.00%
4	Annual Amortization	$	9,107
5			
6	Test Year Amortization		8,256
7			
8	Adjustment to Regulatory Expense - Other	$	851
9			
10			
11	Adjustment to Revenue and/or Expense		851
12			
13	Reference		
14	Testimony		
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Proposed Final Schedule C-2
Page 11
Witness: Bourassa

Interest Synchronization

Line No.			
1			
2			
3			
4	Fair Value Rate Base	$ 33,103,506	
5	Weighted Cost of Debt	1.02%	
6	Interest Expense		$ 336,216
7			
8	Test Year Interest Expense		$ 388,078
9			
10	Increase (decrease) in Interest Expense		(51,862)
11			
12			
13			
14	Adjustment to Revenue and/or Expense		$ 51,862
15			
16			
17	Weighted Cost of Debt Computation		
18			Weighted
19		Percent	Cost	Cost
20	Debt	15.87%	6.40%	1.02%
21	Equity	84.13%	9.20%	7.74%
22	Total	100.00%		8.76%
23				
24				
25				
26				
27				
28				
29				
30				

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 11

Exhibit
Proposed Final Schedule C-2
Page 12
Witness: Bourassa

Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Computed Income Tax	$ 1,054,157	$ 1,589,809
5	Test Year Income tax Expense	-	1,054,157
6	Adjustment to Income Tax Expense	$ 1,054,157	$ 535,652
7			
8			
9			
10			
11			
12			
13	SUPPORTING SCHEDULE		
14	C-3, page 2		
15			
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Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Computation of Gross Revenue Conversion Factor

Exhibit
Proposed Final Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	38.290%
2		
3	Property Taxes	0.980%
4		
5		
6	Total Tax Percentage	39.270%
7		
8	Operating Income % = 100% - Tax Percentage	60.730%
9		
10		
11		
12		
13	1 = Gross Revenue Conversion Factor	
14	Operating Income %	1.6466
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1
27		
28		
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40		

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012

Exhibit
Proposed Final Schedule C-3
Page 2
Witness: Bourassa

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.2701%					
5	Subtotal (L3 - L4)	60.7299%					
6	Revenue Conversion Factor (L1 / L5)	1.646636					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	38.2900%					
9	One Minus Combined Income Tax Rate (L7 - L8)	61.7100%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.5000%					
14	Federal Taxable Income (L12 - L13)	93.5000%					
15	Applicable Federal Income Tax Rate (L55 Col F)	34.0000%					
16	Effective Federal Income Tax Rate (L14 x L15)	31.7900%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.2900%				
	Calculation of Effective Property Tax Factor						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	38.2900%					
20	One Minus Combined Income Tax Rate (L18-L19)	61.7100%					
21	Property Tax Factor	1.5883%					
22	Effective Property Tax Factor (L20*L21)		0.9801%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.2701%			
24	Required Operating Income	$ 2,898,428					
25	AdjustedTest Year Operating Income (Loss)	$ 2,035,146					
26	Required Increase in Operating Income (L24 - L25) .		$ 863,282				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	$ 1,589,809					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	$ 1,054,157					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 535,652				
30	Recommended Revenue Requirement	$ 12,622,779					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	$ -					
33	Adjusted Test Year Uncollectible Expense	$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ -				
35	Property Tax with Recommended Revenue	$ 553,998					
36	Property Tax on Test Year Revenue	$ 531,421					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 22,577				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 1,421,511				

		(A)	(B)	(C)	(D)	(E)	(F)
		Test Year			Company Recommended		
		Total		Water	Total		Water
	Calculation of Income Tax:						
39	Revenue	$ 11,201,268		$ 11,201,268	$ 12,622,779		$ 12,622,779
40	Operating Expenses Excluding Income Taxes	8,111,965		8,111,965	8,134,543		8,134,543
41	Synchronized Interest (L47)	336,216		336,216	336,216		336,216
42	Arizona Taxable Income (L39 - L40 - L41)	$ 2,753,086		$ 2,753,086	$ 4,152,021		$ 4,152,020
43	Arizona State Effective Income Tax Rate (see work papers)	6.5000%		6.5000%	6.5000%		6.5000%
44	Arizona Income Tax (L42 x L43)	$ 178,951		$ 178,951	$ 269,881		$ 269,881
45	Federal Taxable Income (L42- L44)	$ 2,574,136		$ 2,574,136	$ 3,882,140		$ 3,882,139
46							
47	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 7,500		$ 7,500	$ 7,500		$ 7,500
48	Federal Tax on Second Income Bracket ($50,001 - $75,000) @ 25%	$ 6,250		$ 6,250	$ 6,250		$ 6,250
49	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500		$ 8,500	$ 8,500		$ 8,500
50	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 91,650		$ 91,650	$ 91,650		$ 91,650
51	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ 761,306		$ 761,306	$ 1,206,028		$ 1,206,027
52							
53	Total Federal Income Tax	$ 875,206		$ 875,206	$ 1,319,928		$ 1,319,927
54	Combined Federal and State Income Tax (L35 + L42)	$ 1,054,157		$ 1,054,157	$ 1,589,809		$ 1,589,809
55	COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / [Col. [D], L45 - Col. [A], L45]				34.0000%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L53] / [Col. [E], L45 - Col. [B], L45]					0.0000%	
57	WATER Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Col. [F], L45 - Col. [C], L45]						34.0000%

			Water
	Calculation of Interest Synchronization:		
58	Rate Base		$ 33,103,506
59	Weighted Average Cost of Debt		1.0157%
60	Synchronized Interest (L59 X L60)		$ 336,216

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Summary of Cost of Capital

Exhibit
Proposed Final Schedule D-1
Page 1
Witness: Bourassa

Consolidated Capital Structure of Water and Wastewater Division

Line No.	Item of Capital	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	15.87%	6.40%	1.02%
2				
3	Stockholder's Equity	84.13%	9.20%	7.74%
4				
5	Totals	100.00%		8.76%
6				
7				
8				
9				
10				
11				

DOCKET NO. SW-01428A-13-0042 ET AL.

DECISION NO. 74437

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Proposed Final Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	$ 11,824	$ 13,587	$ 1,763	14.91%	0.11%	0.11%
2	3/4 Inch	Residential	3,047,017	3,303,996	256,979	8.43%	27.20%	26.17%
3	3/4 Inch	Residential - Low Income	7,293	7,439	145	1.99%	0.07%	0.06%
4	1 Inch	Residential	3,360,696	3,828,957	468,261	13.93%	30.00%	30.33%
5	1 Inch	Residential - Low Income	8,528	10,497	1,968	23.08%	0.08%	0.08%
6	1.5 Inch	Residential	44,871	51,734	6,863	15.30%	0.40%	0.41%
7	2 Inch	Residential	4,981	5,815	835	16.76%	0.04%	0.05%
8	4 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
9								
10		Subtotal	6,485,210	7,222,025	736,815	11.36%	57.90%	57.21%
11								
12	5/8x3/4 Inch	Commercial	$ 245	$ 318	$ 73	30.00%	0.00%	0.00%
13	3/4 Inch	Commercial	8,987	10,544	1,557	17.32%	0.08%	0.08%
14	1 Inch	Commercial	28,013	33,136	5,123	18.29%	0.25%	0.26%
15	1.5 Inch	Commercial	118,831	137,507	18,676	15.72%	1.06%	1.09%
16	2 Inch	Commercial	684,406	801,050	116,644	17.04%	6.11%	6.35%
17	4 Inch	Commercial	242,692	277,275	34,582	14.25%	2.17%	2.20%
18	8 Inch	Commercial	10,786	13,432	2,646	24.53%	0.10%	0.11%
19	10 Inch	Commercial	36,262	41,490	5,229	14.42%	0.32%	0.33%
20								
21		Subtotal	$ 1,130,221	$ 1,314,751	$ 184,530	16.33%	10.09%	10.42%
22								
23								
24	5/8x3/4 Inch	Irrigation	$ 906	$ 1,056	$ 150	16.61%	0.01%	0.01%
25	3/4 Inch	Irrigation	58,536	67,423	8,887	15.18%	0.52%	0.53%
26	1 Inch	Irrigation	292,670	337,957	45,287	15.47%	2.61%	2.68%
27	1.5 Inch	Irrigation	342,197	392,060	49,863	14.57%	3.05%	3.11%
28	2 Inch	Irrigation	1,777,002	2,033,354	256,352	14.43%	15.86%	16.11%
29	4 Inch	Irrigation	140,026	161,002	20,976	14.98%	1.25%	1.28%
30								
31		Subtotal	$ 2,611,336	$ 2,992,852	$ 381,515	14.61%	23.31%	23.71%
32								
33	1 Inch	MF	1,558	2,135	$ 577		0.01%	0.02%
34	1.5 Inch	MF	47,101	54,451	7,350		0.42%	0.43%
35	2 Inch	MF	320,997	373,425	52,428		2.87%	2.96%
36	4 Inch	MF	47,487	54,683	7,195		0.42%	0.43%
37		Subtotal	$ 417,143	$ 484,693	$ 67,551	16.19%	3.72%	3.84%
38								
39	5/8x3/4 Inch	Fire	$ 28,594	$ 37,120	$ 8,526	29.82%	0.26%	0.29%
40	3/4 Inch	Fire	2,879	3,736	857	29.78%	0.03%	0.03%
41	1 Inch	Fire	275	358	83	30.00%	0.00%	0.00%
42		Hydrant	68,030	77,594	9,565	14.06%	0.61%	0.61%
43		Sweeper	700	798	98	14.06%	0.01%	0.01%
44	8 Inch	Goodyear	128,952	142,421	13,469	10.44%	1.15%	1.13%
45	4 Inch	VUI	3,060	3,978	918	30.00%	0.03%	0.03%
46	Total Revenues Before Annualization		10,876,400	12,280,327	$ 1,402,910	12.90%	97.10%	97.29%
47								

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Proposed Final Schedule H-1
Page 2
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Additional Bills	Additional Gallons to be Pumped (In 1,000's)
1				Revenue Annualization				
5	5/8x3/4 Inch	Residential	$ 49	$ 56	7	14.59%	3	14
6	3/4 Inch	Residential	34,533	37,659	3,125	9.05%	1,429	12,169
7	3/4 Inch	Residential - Low Income	251	258	7	2.93%	13	91
8	1 Inch	Residential	96,691	110,113	13,422	13.88%	2,257	28,881
9	1 Inch	Residential - Low Income	2,131	2,602	471	22.11%	74	600
9	1.5 Inch	Residential	-	-	-	0.00%	-	-
10	2 Inch	Residential	-	-	-	0.00%	-	-
11	4 Inch	Residential	-	-	-	0.00%	-	-
13		Subtotal	$ 133,655	$ 150,688	17,033	12.74%	3,776	41,755
15	5/8x3/4 Inch	Commercial	$ -	$ -	-	0.00%	-	-
16	3/4 Inch	Commercial	(153)	(176)	(23)	0.00%	(7)	(43)
17	1 Inch	Commercial	42	50	8	18.94%	1	9
18	1.5 Inch	Commercial	-	-	-	0.00%	-	-
19	2 Inch	Commercial	4,680	5,329	649	13.87%	22	1,430
20	4 Inch	Commercial	-	-	-	0.00%	-	-
21	8 Inch	Commercial	-	-	-	0.00%	-	-
22	10 Inch	Commercial	-	-	-	0.00%	-	-
23					-			
24		Subtotal	$ 4,569	$ 5,203	34,700	759.41%	16	1,396
27	5/8x3/4 Inch	Irrigation	$ -	$ -	$ -	0.00%	-	-
28	3/4 Inch	Irrigation	22	25	3	14.93%	1	6
29	1 Inch	Irrigation	(1,420)	(1,616)	(196)	0.00%	(17)	(443)
30	1.5 Inch	Irrigation	(4,253)	(4,832)	(580)	0.00%	(18)	(1,367)
31	2 Inch	Irrigation	7,873	8,971	1,098	13.94%	18	2,507
32	4 Inch	Irrigation	6,460	7,374	913	14.14%	5	2,032
34		Subtotal	$ 8,682	$ 9,921	1,239	14.27%	(11)	2,735
36	1 Inch	MF	$ -	$ -	$ -	0.00%	-	-
37	1.5 Inch	MF	-	-	-	0.00%	-	-
38	2 Inch	MF	(183)	(210)	(27)	0.00%	(1)	(53)
39	4 Inch	MF	-	-	-	0.00%	-	-
40		Subtotal	$ (183)	$ (210)	$ (27)	0.00%	(1)	(53)
42	5/8x3/4 Inch	Fire	$ 237	$ 307	70	29.77%	23	1
43	3/4 Inch	Fire	82	107	24	29.83%	8	0
44	1 Inch	Fire	-	-	-	0.00%	-	-
46	8 Inch	Goodyear	-	-	-	0.00%	-	-
47	4 Inch	VUI	-	-	-	0.00%	-	-
49	Total Revenue Annualization		$ 147,042	$ 166,016	$ 53,040	36.07%	3,780	45,832

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Proposed Final Schedule H-1
Page 3
Witness: Bourassa

Line No.		Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2							
3	Subtotal Metered Revenues	$ 10,876,400	$ 12,280,327	$ 1,403,927	12.91%	97.10%	97.29%
4	Declining Usage Adjustment	(58,703)	(58,703)	-	0.00%	-0.52%	-0.47%
5	Subtotal Revenue Annualization	147,042	166,016	18,974	12.90%	1.31%	1.32%
6	Total Metered Revenues	$ 10,964,740	$ 12,387,640	$ 1,422,901	12.98%	97.89%	98.14%
7							
8	Misc. Revenues	$ 235,723	$ 235,723	(0)	0.00%	2.10%	1.87%
9	Reconciling Amount to GL	805	(584)	(1,389)	-172.55%	0.01%	0.00%
10	Total Water Revenues	$ 11,201,268	$ 12,622,779	$ 1,421,511	12.69%	100.00%	100.00%
11							

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Customer Summary

Exhibit
Proposed Final Schedule H-2
Page 1
Witness: Bourassa

Line No.	Meter Size, Class		(a) Average Number of Customers at 12/31/2012	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8x3/4 Inch	Residential	58	4,277	$ 15.64	$ 18.00	2.36	15.10%
2	3/4 Inch	Residential	9,320	8,827	24.33	26.87	2.54	10.45%
3	3/4 Inch	Residential - Low Income	29	7,138	19.47	20.04	0.57	2.95%
4	1 Inch	Residential	5,835	13,707	44.58	50.56	5.98	13.42%
5	1 Inch	Residential - Low Income	24	8,161	28.89	35.27	6.38	22.10%
6	1.5 Inch	Residential	26	40,907	130.15	147.43	17.29	13.28%
7	2 Inch	Residential	2	53,542	183.86	210.49	26.62	14.48%
8	4 Inch	Residential	-	-	255.00	331.50	76.50	30.00%
9		Subtotal	15,293					
10								
11	5/8x3/4 Inch	Commercial	2	-	$ 10.20	$ 13.26	3.06	30.00%
12	3/4 Inch	Commercial	31	6,052	21.76	25.06	3.30	15.18%
13	1 Inch	Commercial	44	12,065	48.54	56.68	8.13	16.75%
14	1.5 Inch	Commercial	54	51,926	163.53	185.51	21.98	13.44%
15	2 Inch	Commercial	253	57,587	191.59	218.37	26.78	13.98%
16	4 Inch	Commercial	7	926,238	2,859.90	3,261.50	401.60	14.04%
17	8 Inch	Commercial	1	30,000	898.80	1,119.30	220.50	24.53%
18	10 Inch	Commercial	1	895,000	2,882.45	3,270.15	387.70	13.45%
19		Subtotal	393					
20								
21	5/8x3/4 Inch	Irrigation	3	6,528	$ 22.67	$ 25.99	3.32	14.65%
22	3/4 Inch	Irrigation	119	12,057	36.65	41.37	4.72	12.88%
23	1 Inch	Irrigation	232	30,391	95.18	108.06	12.88	13.53%
24	1.5 Inch	Irrigation	98	90,421	280.18	318.56	38.38	13.70%
25	2 Inch	Irrigation	249	187,244	581.75	662.83	81.09	13.94%
26	4 Inch	Irrigation	8	466,516	1,466.94	1,672.70	205.76	14.03%
27		Subtotal	708					
28								
29	1 Inch	MF	5	2,717	25.67	35.19	9.52	37.09%
30	1.5 Inch	MF	16	71,146	221.77	251.94	30.17	13.60%
31	2 Inch	MF	112	64,098	208.62	237.24	28.63	13.72%
32	4 Inch	MF	3	393,611	1,246.04	1,420.74	174.70	14.02%
33		Subtotal	136					
34								
35	5/8x3/4 Inch	Fire	232	35	$ 10.27	$ 13.33	3.06	29.82%
36	3/4 Inch	Fire	23	43	10.28	13.34	3.06	29.78%
37	1 Inch	Fire	1	-	22.95	29.84	6.89	30.00%
38		Hydrant	13	148,689	$ 450.53	$ 513.87	63.34	14.06%
39	8 Inch	Goodyear	2	3,248,000	5,373.00	5,934.20	561.20	10.44%
40	4 Inch	VUI	1	0	255.00	331.50	76.5	30.00%
41		Total	16,802					
42								

43 (a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Customer Summary

Exhibit
Proposed Final Schedule H-2
Page 2
Witness: Bourassa

Line No.	Meter Size, Class		(a) Average Number of Customers at 12/31/2012	Median Consumption	Median Bill Present Rates	Median Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8 Inch	Residential	58	4,000	$ 15.11	$ 17.46	2.35	15.55%
2	3/4 Inch	Residential	9,320	7,000	20.84	23.31	2.47	11.85%
3	3/4 Inch	Residential - Low Income	29	6,000	17.62	18.16	0.54	3.04%
4	1 Inch	Residential	5,835	10,000	37.50	43.34	5.84	15.56%
5	1 Inch	Residential - Low Income	24	8,000	28.63	34.96	6.33	22.12%
6	1.5 Inch	Residential	26	34,000	115.94	132.60	16.66	14.37%
7	2 Inch	Residential	2	28,500	136.04	161.66	25.62	18.83%
8	4 Inch	Residential	-	-	255.00	331.50	76.50	30.00%
9		Subtotal	15,293					
10								
11	5/8 Inch	Commercial	2	-	$ 10.20	$ 13.26	3.06	30.00%
12	3/4 Inch	Commercial	31	2,000	14.02	17.16	3.14	22.40%
13	1 Inch	Commercial	44	4,000	33.14	40.95	7.81	23.57%
14	1.5 Inch	Commercial	54	24,000	96.84	113.10	16.26	16.79%
15	2 Inch	Commercial	253	20,000	119.80	145.08	25.28	21.10%
16	4 Inch	Commercial	7	507,500	1,591.13	1,814.34	223.22	14.03%
17	8 Inch	Commercial	1	30,000	898.80	1,119.30	220.50	24.53%
18	10 Inch	Commercial	1	947,000	2,989.61	3,382.09	392.48	13.13%
19		Subtotal	393					
20								
21	5/8 Inch	Irrigation	3	4,000	$ 17.84	$ 21.06	3.22	18.05%
22	3/4 Inch	Irrigation	119	5,000	19.75	23.01	3.26	16.51%
23	1 Inch	Irrigation	232	12,000	48.42	56.55	8.13	16.79%
24	1.5 Inch	Irrigation	98	47,000	148.61	168.49	19.88	13.38%
25	2 Inch	Irrigation	249	115,186	363.41	413.80	50.39	13.87%
26	4 Inch	Irrigation	8	163,000	566.33	649.35	83.02	14.66%
27		Subtotal	708					
28								
29	1 Inch	MF	5	2,000	24.95	34.65	9.70	38.88%
30	1.5 Inch	MF	16	12,000	73.92	89.70	15.78	21.35%
31	2 Inch	MF	112	33,000	144.63	170.43	25.80	17.84%
32	4 Inch	MF	3	167,000	573.97	657.15	83.18	14.49%
33		Subtotal	136					
34								
35	5/8 Inch	Fire	232	-	$ 10.20	$ 13.26	3.06	30.00%
36	3/4 Inch	Fire	23	-	$ 10.20	$ 13.26	3.06	30.00%
37	1 Inch	Fire	1	-	$ 22.95	$ 29.84	6.89	30.00%
38		Hydrant	13	21,000	64	73	8.95	14.06%
39	8 Inch	Goodyear	2	-	501.00	575.00	74.00	14.77%
40	4 Inch	VUI	1	0	255.00	331.50	76.5	30.00%
41		Total	16,802					
42								
43	(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.							
44								

DOCKET NO. SW-01428A-13-0042 ET AL.

DECISION NO. 74437

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Present and Proposed Rates

Exhibit
Proposed Final Schedule H-3
Page 1
Witness: Bourassa

Line No.	Monthly Usage Charge for:	Present Rates	Proposed Rates	Change	Percent Change
1	Meter Size (All Classes):				
2	5/8x3/4 Inch	$ 10.20	$ 13.26	$ 3.06	30.00%
2	3/4 Inch - Residential	10.20	13.26	3.06	30.00%
3	3/4 Inch	10.20	13.26	3.06	30.00%
3	1 Inch - Residential	22.95	29.84	6.89	30.00%
4	1 Inch	25.50	33.15	7.65	30.00%
4	1 1/2 Inch	51.00	66.30	15.30	30.00%
5	2 Inch	81.60	106.08	24.48	30.00%
6	3 Inch	163.20	212.16	48.96	30.00%
7	4 Inch	255.00	331.50	76.50	30.00%
8	6 Inch	510.00	663.00	153.00	30.00%
9	8 Inch - Bulk Water Only	501.00	575.00	74.00	14.77%
10	8 Inch	841.50	1,060.80	219.30	26.06%
11	10 Inch	1,173.00	1,524.90	351.90	30.00%
12	12 Inch	2,193.00	2,850.90	657.90	30.00%
13					
14	Construction - Hydrants	$ -	$ -		
15					
16	Gallons In Minimum (All Meter Sizes and Classes)	-	-		
17					
18					

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	Present Rate (Per 1,000 gallons)	Proposed Rate (Per 1,000 gallons)
19				
20				
21				
22	5/8x3/4 Inch and 3/4 Inch Meter - Residential	0 gallons to 3,000 gallons	$ 1.00	[redacted]
23		3,001 gallons to 9,000 gallons	$ 1.91	
24		over 9,000 gallons	$ 3.03	
25				
26	5/8x3/4 Inch and 3/4 Inch Meter - Residential	0 gallons to 3,000 gallons	[redacted]	$ 0.750
27		3,001 gallons to 10,000 gallons		$ 1.950
28		10,001 gallons to 20,000 gallons		$ 2.950
29		over 20,000 gallons		$ 3.456
30				
31	5/8x3/4 Inch and 3/4 Inch Meter - Com., Irr.	0 gallons to 9,000 gallons	$ 1.91	$ 1.950
32		over 9,000 gallons	$ 3.03	$ 3.456
33				
34	1 Inch Meter - Residential, MF	0 gallons to 5,000 gallons	$ 1.00	[redacted]
35		5,001 gallons to 20,000 gallons	$ 1.91	
36		over 20,000 gallons	$ 3.03	
37				
38	1 Inch Meter - Residential, MF	0 gallons to 5,000 gallons	[redacted]	$ 0.750
39		5,001 gallons to 19,000 gallons		$ 1.950
40		19,001 gallons to 30,000 gallons		$ 2.950
41		over 30,000 gallons		$ 3.456
42				
43	NT = No Tariff			

DOCKET NO. SW-01428A-13-0042 ET AL.

DECISION NO. 74437

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Present and Proposed Rates

Exhibit
Proposed Final Schedule H-3
Page 2
Witness: Bourassa

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	Present Rate (Per 1,000 gallons)	Proposed Rate (Per 1,000 gallons)
5	1 Inch Meter - All Classes, except Residential	0 gallons to 20,000 gallons	$ 1.91	$ 1.950
6		over 20,000 gallons	$ 3.03	$ 3.456
8	1.5 Inch Meter - All Classes	0 gallons to 40,000 gallons	$ 1.91	$ 1.950
9		over 40,000 gallons	$ 3.03	$ 3.456
11	2 Inch Meter - All Classes	0 gallons to 60,000 gallons	$ 1.91	$ 1.950
12		over 60,000 gallons	$ 3.03	$ 3.456
14	3 Inch Meter -All Classes	0 gallons to 120,000 gallons	$ 1.91	$ 1.950
15		over 120,000 gallons	$ 3.03	$ 3.456
17	4 Inch Meter- All Classes	0 gallons to 180,000 gallons	$ 1.91	$ 1.950
18		over 180,000 gallons	$ 3.03	$ 3.456
20	6 Inch Meter - All Classes	0 gallons to 360,000 gallons	$ 1.91	$ 1.950
21		over 360,000 gallons	$ 3.03	$ 3.456
23	8 Inch Meter - Bulk resale only	All gallons	$ 1.50	$ 1.650
25	8 Inch Meter - All Classes	0 gallons to 650,000 gallons	$ 1.91	$ 1.950
26		over 650,000 gallons	$ 3.03	$ 3.456
28	10 Inch Meter - All Classes	0 gallons to 940,000 gallons	$ 1.91	$ 1.950
29		over 940,000 gallons	$ 3.03	$ 3.456
31	12 Inch Meter - All Classes	0 gallons to 1,248,000 gallons	$ 1.91	$ 1.950
32		over 1,248,000 gallons	$ 3.03	$ 3.456
38	**Construction- Hydrants**	All gallons	$ 3.03	$ 3.456

DOCKET NO. SW-01428A-13-0042 ET AL.

DECISION NO. 74437

Litchfield Park Service Company - Water Division dba Liberty Utilities
Changes in Representative Rate Schedules
Test Year Ended December 31, 2012

Exhibit
Proposed Final Schedule H-3
Page 3
Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1			
2			
3	Other Service Charges	Present Rates	Proposed Rates
4	Establishment (Regular Hours) per Rule R14-2-403D (a)	$ 20.00	$ 20.00
5	Establishment (After Hours) per Rule R14-2-403D (a)	$ 40.00	NT
6	Re-Establishment of Service per Rule R14-2-403D (a)	(b)	(b)
7	Reconnection (Regular Hours) per Rule R14-2-403D (a)	$ 50.00	$ 20.00
8	Reconnection (After Hours) per Rule R14-2-403D (a)	$ 65.00	NT
9	Meter Test (if correct) per Rule R14-2-408F (c)	$ 25.00	$ 25.00
10	Meter Reread perRule R14-2-408C (if correct)	$ 5.00	$ 5.00
11	Fire Hydrant Meter Relocation	NT	$ 50.00
12	Fire Hydrant Meter Repair	NT	Cost
13	NSF Check per Rule R14-2-409F (a)	$ 20.00	$ 25.00
14	Deferred Payment, Per Month	1.50%	1.50%
15	Late Charge	(c)	(c)
16	Service Calls - Per Hour/After Hours(d)	$ 40.00	$ 40.00
17	Deposit Requirements	(f)	(f)
18	Deposit Interest	3.50%	6.00%
19	Meter and Service lines	see H-3, page 4	
20	Main Extension Tariff	at Cost	at Cost
21			
22			
23			

24 (a) Charges applicable to water service.
25 (b) Minimum charge times number of full months off the system. per Rule R14-2-403(D).
26 (c) Greater of $5.00 of 1.5% of upaid balance.
27 (d) Afer horus service charge is appropirate when it is at the customer's requres or convenience. It compensates the utility
28 for additional expenses incurred for providing after-hours services. It is appropriate to apply this charge for any utility
29 service provided after hours at the customers request or for the customer's convenience.
30 (e) Per ACC Rules R14-2-403(B) Residential - two times the average bill.
31 Commercial - two and one-half times the average bill.
32
33
34 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM
35 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE
36 TAX. PER COMMISSION RULE 14-2-409D(5).
37
38

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Meter and Service Line Charges

Exhibit
Proposed Final Schedule H-3
Page 4
Witness: Bourassa

Refundable Meter and Service Line Charges

	Present Service Line Charge	Present Meter Install-ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install-ation Charge	Total Proposed Charge
5/8 x 3/4 Inch	$ 385.00	$ 135.00	$ 520.00	$ 445.00	$ 155.00	$ 600.00
3/4 Inch	385.00	215.00	600.00	445.00	255.00	700.00
1 Inch	435.00	255.00	690.00	495.00	315.00	810.00
1 1/2 Inch	470.00	465.00	935.00	550.00	525.00	1,075.00
2 Inch / Turbine	630.00	965.00	1,595.00	At Cost	At Cost	At Cost
2 Inch / Compound	630.00	1,690.00	2,320.00	At Cost	At Cost	At Cost
3 Inch / Turbine	805.00	1,470.00	2,275.00	At Cost	At Cost	At Cost
3 Inch / Compound	845.00	2,265.00	3,110.00	At Cost	At Cost	At Cost
4 Inch / Turbine	1,170.00	2,350.00	3,520.00	At Cost	At Cost	At Cost
4 Inch / Compound	1,230.00	3,245.00	4,475.00	At Cost	At Cost	At Cost
6 Inch / Turbine	1,730.00	4,545.00	6,275.00	At Cost	At Cost	At Cost
6 Inch / Compound	1,770.00	6,280.00	8,050.00	At Cost	At Cost	At Cost
8 Inch & Larger	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

N/T = No Tariff

Hydrant Meter Deposit*

	Present Charge	Proposed Charge
5/8 x 3/4 Inch	$ 135.00	$ 135.00
3/4 Inch	215.00	215.00
1 Inch	255.00	255.00
1 1/2 Inch	465.00	465.00
2 Inch / Turbine	965.00	965.00
2 Inch / Compound	1,690.00	1,690.00
3 Inch / Turbine	1,470.00	1,470.00
3 Inch / Compound	2,265.00	2,265.00
4 Inch / Turbine	2,350.00	2,350.00
4 Inch / Compound	3,245.00	3,245.00
6 Inch / Turbine	4,545.00	4,545.00
6 Inch / Compound	6,280.00	6,280.00
8 Inch & Larger	At Cost	At Cost

* Shall have a non-interest bearing deposit of the amount indicated , refundable in its entirety upon return of the meter in good condition and payment of the final bill.

Litchfield Park Service Company - Water Division dba Liberty Utilities
Test Year Ended December 31, 2012
Hook-Up Fees

Exhibit
Proposed Final Schedule H-3
Page 5
Witness: Bourassa

Line No.		Present Charge	Proposed Charge
1			
2	**Off-site Facilities Hook-up Fee**		
3			
4			
5			
6	5/8 x 3/4 Inch	$ 1,800	$ 1,800
7	3/4 Inch	2,700	2,700
8	1 Inch	4,500	4,500
9	1 1/2 Inch	9,000	9,000
10	2 Inch	14,400	14,400
11	3 Inch	28,800	28,800
12	4 Inch	45,000	45,000
13	6 Inch or Larger	90,000	NT
14	6 Inch	NT	90,000
15	8 Inch	NT	144,000
16	10 Inch	NT	310,500
17	12 Inch	NT	967,500
18			
19			
20			
21	NT = No Tariff		
22			
23			
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34			
35			
36			

WASTEWATER DIVISION SCHEDULES

DECISION NO. 74437

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Proposed Final Schedule A-1
Page 1
Witness: Bourassa

Line No.		
1	Fair Value Rate Base	$ 24,190,673
2		
3	Adjusted Operating Income	1,911,197
4		
5	Current Rate of Return	7.90%
6		
7	Required Operating Income	$ 2,118,051
8		
9	Required Rate of Return on Fair Value Rate Base	8.76%
10		
11	Operating Income Deficiency	$ 206,854
12		
13	Gross Revenue Conversion Factor	1.6496
14		
15	Increase in Gross Revenue	
16	Requirement	$ 341,225
17		
18	Adjusted Test Year Revenues	$ 10,362,796
19	Increase in Gross Revenue Revenue Requirement	$ 341,225
20	Proposed Revenue Requirement	$ 10,704,021
21	% Increase	3.29%
22		

23	Customer	Present	Proposed	Dollar	Percent
24	Classification	Rates	Rates	Increase	Increase
25	Residential	$ 7,214,632	$ 7,466,283	$ 251,652	3.49%
26	Residential - Low Income	23,862	24,694	832	3.49%
27	Residential HOA 145	67,843	70,209	2,366	3.49%
28	Residential HOA 172	80,475	83,282	2,807	3.49%
29	Residential HOA 560	262,013	271,152	9,139	3.49%
30	Multi-Unit 3	10,423	10,788	366	3.51%
31	Multi-Unit 5	4,524	4,683	159	3.51%
32	Multi-Unit 6	6,948	7,192	244	3.51%
33	Multi-Unit 7	109,439	113,279	3,840	3.51%
34	Multi-Unit 8	6,948	7,192	244	3.51%
35	Multi-Unit 13	62,102	64,281	2,179	3.51%
36	Multi-Unit 15	267,082	276,455	9,373	3.51%
37	Multi-Unit 16	6,948	7,192	244	3.51%
38	Multi-Unit 17	7,383	7,642	259	3.51%
39	Multi-Unit 22	9,554	9,889	335	3.51%
40	Multi-Unit 43	18,674	19,329	655	3.51%
41	Multi-Unit 78	33,874	35,063	1,189	3.51%
42	Multi-Unit 84	36,480	37,760	1,280	3.51%
43	Multi-Unit 123	106,833	110,582	3,749	3.51%
44	Multi-Unit 282	122,467	126,765	4,298	3.51%
45	Small Commercial	75,094	77,725	2,631	3.50%
46	Regular Domestic	438,612	453,960	15,348	3.50%
47	Restaurant, Motels, Grocery, Dry Cleaning	375,664	388,810	13,147	3.50%
48	Wigwam Resort - Per Room	143,312	148,342	5,029	3.51%
49	Wigwam Resort - Main	17,200	17,802	602	3.50%
50	Elementary Schools	70,174	72,630	2,456	3.50%
51	Middle and High Schools	55,039	56,965	1,926	3.50%
52	Community College	21,327	22,074	747	3.50%
53	Effluent Sales	72,967	72,967	-	0.00%
54	Revenue Annualization	126,683	131,217	4,534	3.58%
55					
56	**Subtotal**	$ 9,854,576	$ 10,196,206	$ 341,629	3.47%
57					
58	Other Water Revenues	508,220	508,220	-	0.00%
59	Reconciling Amount	-	(404)	(404)	0.00%
60	Rounding			-	0.00%
61	**Total of Water Revenues**	$ 10,362,796	$ 10,704,022	$ 341,225	3.29%
62					

63

64 SUPPORTING SCHEDULES:
65 B-1
66 C-1
67 C-3
68 H-1

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Summary of Rate Base

Exhibit
Proposed Final Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 74,460,070	$ 74,460,070
3	Less: Accumulated Depreciation	13,548,214	13,548,214
4			
5	Net Utility Plant in Service	$ 60,911,856	$ 60,911,856
6			
7	Less:		
8	Advances in Aid of Construction	11,645,290	11,645,290
9			
10	Contributions in Aid of Construction	28,376,915	28,376,915
11			
12	Accumulated Amortization of CIAC	(4,153,301)	(4,153,301)
13			
14	Customer Meter Deposits	81,661	81,661
15	Customer Security Deposits	163,774	163,774
16	Accumulated Deferred Income Tax	606,843	606,843
17			
18			
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	$ 24,190,673	$ 24,190,673
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	SUPPORTING SCHEDULES:		
42	B-2		
43	B-3		
44	B-5		
45	E-1		
46			
47			
48			
49			
50			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Proposed Final Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustment	Rejoinder Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 74,024,532	435,538	$ 74,460,070
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	13,244,186	304,027	13,548,214
7				
8				
9	Net Utility Plant			
10	in Service	$ 60,780,346		$ 60,911,856
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	11,645,290	-	11,645,290
15				
16	Contributions in Aid of			
17	Construction - Gross	28,470,485	(93,570)	28,376,915
18				
19	Accumulated Amortization of CIAC	(4,446,775)	293,475	(4,153,301)
20				
21	Customer Meter Deposits	95,892	(14,231)	81,661
22	Customer Security Deposits	155,440	8,334	163,774
23	Accumulated Deferred Income Tax	982,318	(375,475)	606,843
24				-
25				-
26				
27	**Plus:**			
28	Unamortized Finance			
29	Charges	-		-
30	Prepayments	-		-
31	Materials and Supplies	-		-
32	Working capital	-	-	-
33				-
34				
35	Total	$ 23,877,697		$ 24,190,673
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
47	B-2, pages 2			B-1
48	E-1			
49				
50				
51				

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments

Exhibit
Proposed Final Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at End of Test Year	1 Plant-in-Service	2 Accumulated Depreciation	Proforma Adjustments 3 CIAC	4 ADIT	5 Customer Security Deposits	6 Customer Meter Deposits	Rejoinder Adjusted at end of Test Year
1	Gross Utility								
2	Plant in Service	$ 74,024,532	435,538						$ 74,460,070
3									
4	**Less:**								
5	Accumulated								
6	Depreciation	13,244,186		304,027					13,548,214
7									
8									
9	Net Utility Plant								
10	in Service	$ 60,780,346	$ 435,538	$ (304,027)	$ -	$ -	$ -	$ -	$ 60,911,856
11									
12	**Less:**								
13	Advances in Aid of								
14	Construction	11,645,290				-			11,645,290
15									
16	Contributions in Aid of								
17	Construction (CIAC)	28,470,485			(93,570)				28,376,915
18									
19	Accumulated Amort of CIAC	(4,446,775)			293,475				(4,153,301)
20									
21	Customer Meter Deposits	95,892						(14,231)	81,661
22	Customer Security Deposits	155,440					8,334		163,774
23	Accumulated Deferred Income Taxes	982,318				(375,475)			606,843
24									
25									
26	**Plus:**								
27	Unamortized Finance								
28	Charges	-							-
29	Prepayments								
30	Materials and Supplies								
31	Allowance for Cash Working Capital	-							-
32									
33	Total	$ 23,877,697	$ 435,538	$ (304,027)	$ (199,905)	$ 375,475	$ (8,334)	$ 14,231	$ 24,190,673
34									
35									
36									
37	SUPPORTING SCHEDULES:						RECAP SCHEDULES:		
38	B-2, pages 3-8						B-1		
39	E-1								
40									
41									

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Proposed Final Schedule B-2
Page 3
Witness: Bourassa

Plant-in-Service

Line No.	Acct. No.	Description	Adjusted Orginal Cost	A Post Test Year Plant	B Post Test Year Retirements	C Accrual True-Up	D Plant Reclassification	E Plant Not Used and Useful	F Duplicate Invoices	G Retirements and Reclassification	H Adjustments to Reconcile Plant to Reconstruction	Rejoinder Adjusted Original Cost
				Adjustments								
6	351	Organization	-								-	-
7	352	Franchise	-								-	-
8	353	Land	1,850,582					(11,217)	(3,409)		0	1,835,956
9	354	Structures & Improvements	24,208,314	1,081,134	(28,089)	199,000	(525,110)	(113,329)			-	24,821,920
10	355	Power Generation	603,332						(400)		0	602,932
11	360	Collection Sewer Forced	1,162,597								-	1,162,597
12	361	Collection Sewers Gravity	31,886,680				41,564				-	31,928,245
13	362	Special Collecting Structures	-								-	-
14	363	Customer Services	76,190								-	76,190
15	364	Flow Measuring Devices	46,210				36,618				-	82,828
16	366	Reuse Services	4,057,660								-	4,057,660
17	367	Reuse Meters And Installation	44,753								-	44,753
18	370	Receiving Wells	860,393								-	860,393
19	371	Pumping Equipment	799,461	21,588	(10,368)		61,670				-	872,370
20	374	Reuse Distribution Reservoirs	62,286								-	62,286
21	375	Reuse Trans. and Dist. System	420,334								-	420,334
22	380	Treatment & Disposal Equipment	5,585,470	(1,000,000)	300,000		476,749				-	5,362,219
23	381	Plant Sewers	47,802								-	47,802
24	382	Outfall Sewer Lines	343,681								-	343,681
25	389	Other Sewer Plant & Equipment	871,498				(43,005)		(864)	6,193	-	833,823
26	390	Office Furniture & Equipment	275,740								-	275,740
27	390	Computers and Software	-								-	-
28	391	Transportation Equipment	33,497							(13,303)	-	20,194
29	392	Stores Equipment	8,968								-	8,968
30	393	Tools, Shop And Garage Equip	145,631				(15,681)				-	129,950
31	394	Laboratory Equip	186,348				836				-	187,184
32	395	Power Operated Equip	28,090				(21,485)				-	6,605
33	396	Communication Equip	418,996			(3,555)					-	415,441
34	398	Other Tangible Plant	-								-	-
35			-								-	-
36			-								-	-
37			-								-	-
38			-								-	-
39												-
40		Plant Held for Future Use										-
41		TOTALS	$ 74,024,532	$ 102,722	$ 261,543	$ 195,445	$ 12,156	$ (124,546)	$ (4,673)	$ (7,110)	$ 0	$ 74,460,070
42												
43		Plant-in-Service per Books										$ 74,024,532
44												
45		Increase (decrease) in Plant-in-Service										$ 435,538
46												
47		Adjustment to Plant-in-Service										$ 435,538
48												
49		SUPPORTING SCHEDULES										
50		B-2, pages 3.1 to 3.9										
51												

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - A

Exhibit
Proposed Final Schedule B-2
Page 3.1
Witness: Bourassa

Line No.				
1	Post Test Year Plant True-up			
2				
3				
4	Acct.			
5	No.	Description		Adjustment
6	380	Treatment & Disposal Equipment	remove amount proposed in Direct	$ (1,000,000)
7				
8	354	Structures & Improvements	True-up to Final Costs	$ 1,081,134
9	371	Pumping Equipment	True-up to Final Costs	21,588
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
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33				
34				
35				
36				
37				
38				
39				
40		Net Adjustment		$ 102,722
41				
42				
43	SUPPORTING SCHEDULE			
44	Testimony			
45	Work papers			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - B

Exhibit
Proposed Final Schedule B-2
Page 3.2
Witness: Bourassa

Line No.				
1	Post Test Year Plant Retirements			
2				
3				
4	Acct.			
5	No.	Description		Adjustment
6	380	Treatment & Disposal Equipment	remove amount proposed in Direct	$ 300,000
7				
8	380	Treatment & Disposal Equipment	true-up to actual cost	-
9				
10	354	Structures & Improvements		(28,089)
11				
12	371	Pumping Equipment		(10,368)
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
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33				
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35				
36				
37				
38				
39				
40				
41		Net Adjustment		$ 261,543
42				
43	SUPPORTING SCHEDULE			
44	Testimony			
45				

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - C

Exhibit
Proposed Final Schedule B-2
Page 3.3
Witness: Bourassa

Line No.			
1	Accrual True-up		
2			
3			
4	Acct.		
5	No.	Description	Cost
6	354	Structures & Improvements	$ 199,000
7	396	Communication Equip	(3,555)
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
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26			
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28			
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35			
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37			
38			
39			
40	Net Adjustment		$ 195,445
41			
42			
43	SUPPORTING SCHEDULE		
44	Staff Adjustment #3		
45			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - D

Exhibit
Proposed Final Schedule B-2
Page 3.4
Witness: Bourassa

Line No.			
1	Plant Reclassification		
2			
3			
4	Acct.		
5	No.	Description	Cost
6	354	Structures & Improvements	$ (525,110)
7	361	Collection Sewers Gravity	41,564
8	364	Flow Measuring Devices	36,618
9	371	Pumping Equipment	61,670
10	380	Treatment & Disposal Equipment	476,749
11	389	Other Sewer Plant & Equipment	(43,005)
12	393	Tools, Shop And Garage Equip	(15,681)
13	394	Laboratory Equip	836
14	395	Power Operated Equipment	(21,485)
15			
16			
17			
18			
19			
20			
21			
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23			
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38			
39			
40	Net Adjustment		$ 12,156
41			
42			
43	SUPPORTING SCHEDULE		
44	Staff Table 6 - Reclassification		
45	Testimony		

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - E

Exhibit
Proposed Final Schedule B-2
Page 3.5
Witness: Bourassa

Line No.			
1	Plant Not Used and Useful		
2			
3			
4	Acct.		
5	No.	Description	Cost
6	353	Land	$ (11,217)
7	354	Structures & Improvements	(113,329)
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
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28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40	Net Adjustment		$ (124,546)
41			
42			
43	SUPPORTING SCHEDULE		
44	Staff Adjustment #6		
45			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - F

Exhibit
Proposed Final Schedule B-2
Page 3.6
Witness: Bourassa

Line No.			
1	Duplicate Invoices		
2			
3			
4	Acct.		
5	No.	Description	Cost
6	353	Land	$ (3,409)
7	355	Power Generation	(400)
8	389	Other Sewer Plant & Equipment	(864)
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
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27			
28			
29			
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34			
35			
36			
37			
38			
39			
40	Net Adjustment		$ (4,673)
41			
42			
43	SUPPORTING SCHEDULE		
44	Staff Adjustment #7		
45			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - G

Exhibit
Proposed Final Schedule B-2
Page 3.7
Witness: Bourassa

Line No.					
1	Retirements				
2					
3					
4	Acct.				
5	No.	Description	Year		Adjustment
6	391	Transportation Equipment	2008		$ (7,110)
7					
8					$ (7,110)
9					
10	Reclassifications				
11					
12	Acct.			Year	
13	No.	Description	Year	Reflected on B-2 Plant[1]	Adjustment
14	391	Transportation Equipment		see below	$ (6,193)
15	389	Other Sewer Plant & Equipment	2008	2008	6,193
16					
17					
18					
19					$ -
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					
36					
37					
38					
39					
40		Total Adjustment			$ (7,110)
41					
42	SUPPORTING SCHEDULE				
43	Work papers - Supplemental Response to RUCO 6.01				
44					
45	[1] Post last test year end date				

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - H

Exhibit
Proposed Final Schedule B-2
Page 3.8
Witness: Bourassa

Line No. 1 Reconciliation of Plant to Plant Reconstruction

Line No.	Acct. No.	Description	Adjusted Orginal Cost	B-2 Adjustments	Rejoinder Adjusted Orginal Cost	Rejoinder Plant Per Reconstruction	Difference
6	351	Organization	$ -	$ -	$ -	$ -	$ -
7	352	Franchise	-	-	-	-	-
8	353	Land	1,850,582	(14,626)	1,835,956	1,835,956	0
9	354	Structures & Improvements	24,208,314	613,606	24,821,920	24,821,920	-
10	355	Power Generation	603,332	(400)	602,932	602,932	0
11	360	Collection Sewer Forced	1,162,597	-	1,162,597	1,162,597	-
12	361	Collection Sewers Gravity	31,886,680	41,564	31,928,245	31,928,245	-
13	362	Special Collecting Structures	-	-	-	-	-
14	363	Customer Services	76,190	-	76,190	76,190	-
15	364	Flow Measuring Devices	46,210	36,618	82,828	82,828	-
16	366	Reuse Services	4,057,660	-	4,057,660	4,057,660	-
17	367	Reuse Meters And Installation	44,753	-	44,753	44,753	-
18	370	Receiving Wells	860,393	-	860,393	860,393	-
19	371	Pumping Equipment	799,481	72,890	872,370	872,370	-
20	374	Reuse Distribution Reservoirs	62,286	-	62,286	62,286	-
21	375	Reuse Trans. and Dist. System	420,334	-	420,334	420,334	-
22	380	Treatment & Disposal Equipment	5,585,470	(223,251)	5,362,219	5,362,219	-
23	381	Plant Sewers	47,802	-	47,802	47,802	-
24	382	Outfall Sewer Lines	343,681	-	343,681	343,681	-
25	389	Other Sewer Plant & Equipment	871,498	(37,675)	833,823	833,823	-
26	390	Office Furniture & Equipment	275,740	-	275,740	275,740	-
27	390.1	Computers and Software	-	-	-	-	-
28	391	Transportation Equipment	33,497	(13,303)	20,194	20,194	-
29	392	Stores Equipment	8,968	-	8,968	8,968	-
30	393	Tools, Shop And Garage Equip	145,631	(15,681)	129,950	129,950	-
31	394	Laboratory Equip	186,348	836	187,184	187,184	-
32	395	Power Operated Equipment	28,090	(21,485)	6,605	6,605	-
33	396	Communication Equip	418,996	(3,555)	415,441	415,441	-
34	398	Other Tangible Plant	-	-	-	-	-
40		Plant Held for Future Use					-
41		TOTALS	$ 74,024,532	$ 435,537	$ 74,460,069	$ 74,460,070	$ 0

44 SUPPORTING SCHEDULE
45 B-2, pages 3.1 through 3.7
46 B-2, pages 3.9 through 3.13

Litchfield Park Service Company - WW Division
dba Liberty Utilities
Plant Additions and Retirements

Exhibit
Proposed Final Schedule B-2
Page 3.9
Witness: Bourassa

				Per Decision		2008									
Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	Plant at 9/30/2008	Accum. Deprec. At 9/30/2008	Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%	-	-	-			-		-		-	-	-
2	352	Franchise	0.00%	-	-	-			-		-		-	-	-
3	353	Land	0.00%	1,783,426	-	-			-		-		-	1,783,426	-
4	354	Structures & Improvements	3.33%	18,720,541	1,470,581	(233,680)	(20,663)		(254,342)		-		154,790	18,466,199	1,625,370
5	355	Power Generation	5.00%	548,674	107,121	-			-		-		6,858	548,674	113,980
6	360	Collection Sewer Forced	2.00%	1,161,105	(207,785)	-			-		-		5,806	1,161,105	(201,979)
7	361	Collection Sewers Gravity	2.00%	23,094,661	2,850,025	681,674	(7,514)		674,161		-		117,159	23,768,822	2,967,184
8	362	Special Collecting Structures	2.00%	-	-	-			-		-		-	-	-
9	363	Customer Services	2.00%	-	-	-			-		-		-	-	-
10	364	Flow Measuring Devices	10.00%	47,019	19,320	-			-		-		1,175	47,019	20,495
11	366	Reuse Services	2.00%	3,789,468	482,984	160,400	(59)		160,341		-		19,348	3,949,808	502,332
12	367	Reuse Meters And Installation	8.33%	52,331	7,610	1,535			1,535		-		1,106	53,866	8,716
13	370	Receiving Wells	3.33%	860,393	175,322	-			-		-		7,163	860,393	182,484
14	371	Pumping Equipment	12.50%	1,759,801	959,964	7,696			7,696		-		55,114	1,767,496	1,015,078
15	374	Reuse Distribution Reservoirs	2.50%	62,825	1,959	-			-		-		393	62,825	2,352
16	375	Reuse Trans. and Dist. System	2.50%	414,315	3,884	-			-		-		2,589	414,315	6,474
17	380	Treatment & Disposal Equipment	5.00%	5,431,228	1,365,496	(36,423)			(36,423)		-		67,663	5,394,805	1,433,159
18	381	Plant Sewers	5.00%	47,788	6,531	-			-		-		597	47,788	7,128
19	382	Outfall Sewer Lines	3.33%	343,681	70,253	-			-		-		2,861	343,681	73,114
20	389	Other Sewer Plant & Equipment	6.67%	605,548	41,241	(11,446)		6,193	(5,253)		-		10,054	600,295	51,294
21	390	Office Furniture & Equipment	6.67%	198,772	58,516	12,496			12,496		-		3,419	211,268	61,935
22	390.1	Computers and Software	20.00%	-	-	-			-		-		-	-	-
23	391	Transportation Equipment	20.00%	26,078	10,505	3,368		(6,193)	(2,825)	7,110	7,110		1,056	16,143	4,450
24	392	Stores Equipment	4.00%	8,968	2,156	-			-		-		90	8,968	2,246
25	393	Tools, Shop And Garage Equip	5.00%	56,167	8,241	4,879			4,879		-		733	61,046	8,973
26	394	Laboratory Equip	10.00%	173,948	60,590	-			-		-		4,349	173,948	64,939
26	395	Power Operated Equipment	5.00%	-	-	-			-		-		-	-	-
26	396	Communication Equip	10.00%	418,996	195,163	-			-		-		10,475	418,996	205,638
28	398	Other Tangible Plant	10.00%	-	-	-			-		-		-	-	-
29				-	-	-			-		-		-	-	-
30					-				-		-		-	-	-
31					-				-		-		-	-	-
32					-				-		-		-	-	-
33					-				-		-		-	-	-
34		Plant Held for Future Use							-		-		-	-	-
35															
36		TOTALS		59,805,733	7,689,676	590,500	(28,236)	-	562,264	7,110	7,110	-	472,796	60,160,887	8,155,362

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

Litchfield Park Service Company - WW Division
dba Liberty Utilities
Plant Additions and Retirements

Exhibit
Proposed Final Schedule B-2
Page 3.10
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%	-		-	-			-	-	-
2	352	Franchise	0.00%	-		-	-			-	-	-
3	353	Land	0.00%	68,263	(11,217)	-	57,046			-	1,840,472	-
4	354	Structures & Improvements	3.33%	643,865	(6,430)	(465,350)	172,085			617,790	18,638,284	2,243,160
5	355	Power Generation	5.00%	7,457	(400)	-	7,058			27,610	555,731	141,590
6	360	Collection Sewer Forced	2.00%	1,200		-	1,200			23,234	1,162,305	(178,745)
7	361	Collection Sewers Gravity	2.00%	3,132,384	(18,762)	41,564	3,155,186			506,928	26,924,008	3,474,112
8	362	Special Collecting Structures	2.00%	-		-	-			-	-	-
9	363	Customer Services	2.00%	-		-	-			-	-	-
10	364	Flow Measuring Devices	10.00%	-		36,618	36,618			6,533	83,637	27,028
11	366	Reuse Services	2.00%	107,733		-	107,733			80,073	4,057,541	582,405
12	367	Reuse Meters And Installation	8.33%	-		-	-			4,487	53,866	13,203
13	370	Receiving Wells	3.33%	-		-	-			28,651	860,393	211,136
14	371	Pumping Equipment	12.50%	59,896		5,048	64,944			224,996	1,832,441	1,240,074
15	374	Reuse Distribution Reservoirs	2.50%	-		-	-			1,571	62,825	3,922
16	375	Reuse Trans. and Dist. System	2.50%	-		-	-			10,358	414,315	16,832
17	380	Treatment & Disposal Equipment	5.00%	38,942		424,288	463,230			281,321	5,858,034	1,714,480
18	381	Plant Sewers	5.00%	-		-	-			2,389	47,788	9,518
19	382	Outfall Sewer Lines	3.33%	-		-	-			11,445	343,681	84,558
20	389	Other Sewer Plant & Equipment	6.67%	78,761		(43,005)	35,756			41,232	636,051	92,526
21	390	Office Furniture & Equipment	6.67%	-		-	-			14,092	211,268	76,026
22	390.1	Computers and Software	20.00%	-		-	-			-	-	-
23	391	Transportation Equipment	20.00%	-		-	-			3,229	16,143	7,679
24	392	Stores Equipment	4.00%	-		-	-			359	8,968	2,605
25	393	Tools, Shop And Garage Equip	5.00%	-		-	-			3,052	61,046	12,026
26	394	Laboratory Equip	10.00%	-		836	836			17,437	174,785	82,375
26	395	Power Operated Equipment	5.00%	-		-	-			-	-	-
26	396	Communication Equip	10.00%	-		-	-			41,900	418,996	247,538
28	398	Other Tangible Plant	10.00%	-		-	-			-	-	-
29				-		-	-			-	-	-
30							-			-	-	-
31							-			-	-	-
32							-			-	-	-
33							-			-	-	-
34		Plant Held for Future Use					-			-	-	-
35												
36		TOTALS		4,138,501	(36,809)	0	4,101,693	-	-	1,948,686	64,262,579	10,104,048

DOCKET NO. SW-01428A-13-0042 ET AL.

DECISION NO. 74437

Litchfield Park Service Company - WW Division
dba Liberty Utilities
Plant Additions and Retirements

Exhibit
Proposed Final Schedule B-2
Page 3.11
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2010 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%	-	-	-	-			-	-	-
2	352	Franchise	0.00%	-		-	-			-	-	-
3	353	Land	0.00%	1,613	(3,409)	-	(1,796)			-	1,838,676	-
4	354	Structures & Improvements	3.33%	-	-	-	-			620,655	18,638,284	2,863,815
5	355	Power Generation	5.00%	800		-	800			27,807	556,531	169,397
6	360	Collection Sewer Forced	2.00%	-		-	-			23,246	1,162,305	(155,499)
7	361	Collection Sewers Gravity	2.00%	1,324,126	(7,422)	-	1,316,704			551,647	28,240,712	4,025,759
8	362	Special Collecting Structures	2.00%	-		-	-			-	-	-
9	363	Customer Services	2.00%	15,630		-	15,630			156	15,630	156
10	364	Flow Measuring Devices	10.00%	-		-	-			8,364	83,637	35,392
11	366	Reuse Services	2.00%	-		-	-			81,151	4,057,541	663,556
12	367	Reuse Meters And Installation	8.33%	-		-	-			4,487	53,866	17,690
13	370	Receiving Wells	3.33%	-		-	-			28,651	860,393	239,787
14	371	Pumping Equipment	12.50%	36,683		-	36,683	935,300		172,692	933,824	477,666
15	374	Reuse Distribution Reservoirs	2.50%	-		-	-			1,571	62,825	5,493
16	375	Reuse Trans. and Dist. System	2.50%	-		-	-			10,358	414,315	27,189
17	380	Treatment & Disposal Equipment	5.00%	35,345		-	35,345			293,785	5,893,360	2,008,265
18	381	Plant Sewers	5.00%	-		-	-			2,389	47,788	11,907
19	382	Outfall Sewer Lines	3.33%	-		-	-			11,445	343,681	96,003
20	389	Other Sewer Plant & Equipment	6.67%	33,548	(864)	-	32,684			43,515	668,735	136,041
21	390	Office Furniture & Equipment	6.67%	10,777		-	10,777			14,451	222,046	90,477
22	390.1	Computers and Software	20.00%	-		-	-			-	-	-
23	391	Transportation Equipment	20.00%	-		-	-			3,229	16,143	10,908
24	392	Stores Equipment	4.00%	-		-	-			359	8,968	2,964
25	393	Tools, Shop And Garage Equip	5.00%	2,936		-	2,936			3,126	63,982	15,151
26	394	Laboratory Equip	10.00%	-		-	-			17,478	174,785	99,854
26	395	Power Operated Equipment	5.00%	-		-	-			-	-	-
26	396	Communication Equip	10.00%	-		-	-			41,900	418,996	289,438
28	398	Other Tangible Plant	10.00%	-		-	-			-	-	-
29				-		-	-			-	-	-
30							-			-	-	-
31							-			-	-	-
32							-			-	-	-
33							-			-	-	-
34		Plant Held for Future Use					-			-	-	-
35												
36		TOTALS		1,461,458	(11,694)	-	1,449,764	935,300	-	1,962,660	64,777,043	11,131,408

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

Litchfield Park Service Company - WW Division
dba Liberty Utilities
Plant Additions and Retirements

Exhibit
Proposed Final Schedule B-2
Page 3.12
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%	-		-	-			-	-	-
2	352	Franchise	0.00%	-		-	-			-	-	-
3	353	Land	0.00%	-		-	-			-	1,838,676	-
4	354	Structures & Improvements	3.33%	455,088	(126,691)	-	328,396			626,123	18,966,680	3,489,938
5	355	Power Generation	5.00%	48,087		-	48,087			29,029	604,618	198,425
6	360	Collection Sewer Forced	2.00%	-		-	-			23,246	1,162,305	(132,253)
7	361	Collection Sewers Gravity	2.00%	3,563,023	(2,268)	-	3,560,755			600,422	31,801,467	4,626,181
8	362	Special Collecting Structures	2.00%	-		-	-			-	-	-
9	363	Customer Services	2.00%	35,240		-	35,240			665	50,870	821
10	364	Flow Measuring Devices	10.00%	-		-	-			8,364	83,637	43,756
11	366	Reuse Services	2.00%	-		-	-			81,151	4,057,541	744,707
12	367	Reuse Meters And Installation	8.33%	-		-	-			4,487	53,866	22,177
13	370	Receiving Wells	3.33%	-		-	-			28,651	860,393	268,438
14	371	Pumping Equipment	12.50%	44,147	(782)	6,000	49,364	4,702		119,519	978,486	592,483
15	374	Reuse Distribution Reservoirs	2.50%	-		-	-			1,571	62,825	7,063
16	375	Reuse Trans. and Dist. System	2.50%	5,005		-	5,005			10,420	419,320	37,610
17	380	Treatment & Disposal Equipment	5.00%	69,624	(1,025)	6,156	74,756			296,538	5,968,136	2,304,803
18	381	Plant Sewers	5.00%	-		-	-			2,389	47,788	14,296
19	382	Outfall Sewer Lines	3.33%	-		-	-			11,445	343,681	107,448
20	389	Other Sewer Plant & Equipment	6.67%	36,091		-	36,091			45,808	704,826	181,849
21	390	Office Furniture & Equipment	6.67%	9,304		-	9,304			15,121	231,350	105,598
22	390.1	Computers and Software	20.00%	-		-	-			-	-	-
23	391	Transportation Equipment	20.00%	-		-	-			3,229	16,143	14,136
24	392	Stores Equipment	4.00%	-		-	-			359	8,968	3,322
25	393	Tools, Shop And Garage Equip	5.00%	29,211	(485)	-	28,726			3,917	92,709	19,069
26	394	Laboratory Equip	10.00%	5,476	(187)	-	5,289			17,743	180,073	117,597
26	395	Power Operated Equipment	5.00%	-		-	-			-	-	-
26	396	Communication Equip	10.00%	-		-	-			41,900	418,996	331,337
28	398	Other Tangible Plant	10.00%	-			-			-	-	-
29				-			-			-	-	-
30							-			-	-	-
31							-			-	-	-
32							-			-	-	-
33							-			-	-	-
34		Plant Held for Future Use					-			-	-	-
35												
36		TOTALS		4,300,296	(131,438)	12,156	4,181,015	4,702	-	1,972,095	68,953,355	13,098,801

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

Litchfield Park Service Company - WW Division
dba Liberty Utilities
Plant Additions and Retirements

Exhibit
Proposed Final Schedule B-2
Page 3.13
Witness: Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012 Plant Additions (Per Books)	Plant Adjustments	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	PTY Plant	PTY Retirement	PTY A/D	Plant Balance	Accum. Deprec.
1	351	Organization	0.00%	-		-	-	-	-	-				-	-
2	352	Franchise	0.00%	-		-	-	-	-	-				-	-
3	353	Land	0.00%	(2,541)	(179)	-	(2,720)	-	-	-				1,835,956	-
4	354	Structures & Improvements	3.33%	5,164,696	182,339	(59,760)	5,287,274	485,079	6,478	711,547	1,081,134	28,089	18,001	24,821,920	3,712,796
5	355	Power Generation	5.00%	4,604		-	4,604	6,291	-	30,189				602,932	222,323
6	360	Collection Sewer Forced	2.00%	292		-	292	-	-	23,249				1,162,597	(109,004)
7	361	Collection Sewers Gravity	2.00%	165,891	(1,400)	-	164,491	37,713	407	637,297				31,928,245	5,226,172
8	362	Special Collecting Structures	2.00%	-		-	-	-	-	-				-	-
9	363	Customer Services	2.00%	25,356	(37)	-	25,320	-	-	1,271				76,190	2,092
10	364	Flow Measuring Devices	10.00%	-		-	-	809	-	8,323				82,828	51,269
11	366	Reuse Services	2.00%	118		-	118	-	23	81,152				4,057,660	825,882
12	367	Reuse Meters And Installation	8.33%	(4,774)		-	(4,774)	4,339	-	4,107				44,753	21,945
13	370	Receiving Wells	3.33%	-		-	-	-	-	28,651				860,393	297,089
14	371	Pumping Equipment	12.50%	257,054	(796)	50,622	306,880	393,199	-	114,977	21,588	10,368	1,349	872,370	274,226
15	374	Reuse Distribution Reservoirs	2.50%	-		-	-	539	-	1,564				62,286	8,088
16	375	Reuse Trans. and Dist. System	2.50%	1,013		-	1,013	-	803	10,496				420,334	48,908
17	380	Treatment & Disposal Equipment	5.00%	8,503	(66)	46,304	54,742	660,659	-	283,259				5,362,219	1,927,403
18	381	Plant Sewers	5.00%	14		-	14	-	-	2,390				47,802	16,686
19	382	Outfall Sewer Lines	3.33%	-		-	-	-	-	11,445				343,681	118,892
20	389	Other Sewer Plant & Equipment	6.67%	136,494		-	136,494	7,497	-	51,314				833,823	225,666
21	390	Office Furniture & Equipment	6.67%	44,390		-	44,390	-	-	16,911				275,740	122,510
22	390.1	Computers and Software	20.00%	-		-	-	-	-	-				-	-
23	391	Transportation Equipment	20.00%	4,051		-	4,051	-	-	3,634				20,194	17,770
24	392	Stores Equipment	4.00%	-		-	-	-	-	359				8,968	3,681
25	393	Tools, Shop And Garage Equip	5.00%	53,206	(284)	(15,681)	37,241	-	-	5,566				129,950	24,635
26	394	Laboratory Equip	10.00%	7,144	(34)	-	7,111	-	-	18,363				187,184	135,959
26	395	Power Operated Equipment	5.00%	28,090		(21,485)	6,605	-	-	165				6,605	165
26	396	Communication Equip	10.00%	-	(3,555)	-	(3,555)	-	-	41,722				415,441	373,059
28	398	Other Tangible Plant	10.00%	-			-	-	-	-				-	-
29							-	-		-				-	-
30							-			-				-	-
31							-			-				-	-
32							-			-				-	-
33							-			-				-	-
34		Plant Held for Future Use					-			-				-	-
35															
36		TOTALS		5,893,603	175,989	-	6,069,592	1,596,125	7,711	2,087,950	1,102,722	38,457	19,350	74,460,070	13,548,214

DOCKET NO. SW-01428A-13-0042 ET AL.

DECISION NO. 74437

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Proposed Final Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation

Line No.	Acct. No.	Description	Adjusted Accum. Depr.	A Post Test Year Retirement	B Accrual True-Up	C Plant Reclassification	D Plant Not Used and Useful	Adjustments E Duplicate Invoices	F Plant Additions Wrong Yrs	G Retirements and Reclassification	H Adjustments to Reconcile A/D to Reconstruction	Rejoinder Adjusted Accum. Depr.
6	351	Organization	-						-		-	-
7	352	Franchise	-						-		-	-
8	353	Land	-						-		-	-
9	354	Structures & Improvements	3,773,984	(10,088)	3,313	(55,232)	(5,661)		6,478		-	3,712,796
10	355	Power Generation	222,393					(70)	-		0	222,323
11	360	Collection Sewer Forced	(109,004)						-		-	(109,004)
12	361	Collection Sewers Gravity	5,222,855			2,910			407		-	5,226,172
13	362	Special Collecting Structures	-						-		-	-
14	363	Customer Services	2,092						-		-	2,092
15	364	Flow Measuring Devices	38,453			12,816			-		-	51,269
16	366	Reuse Services	825,859						23		-	825,882
17	367	Reuse Meters And Installation	21,945						-		-	21,945
18	370	Receiving Wells	297,089						-		-	297,089
19	371	Pumping Equipment	276,747	(9,019)		6,497			-		-	274,226
20	374	Reuse Distribution Reservoirs	8,088						-		-	8,088
21	375	Reuse Trans. and Dist. System	48,106						803		-	48,908
22	380	Treatment & Disposal Equipment	1,551,533	300,000		75,870			-		-	1,927,403
23	381	Plant Sewers	16,686						-		-	16,686
24	382	Outfall Sewer Lines	118,892						-		-	118,892
25	389	Other Sewer Plant & Equipment	234,145			(10,039)		(144)	-	1,704	-	225,666
26	390	Office Furniture & Equipment	122,510						-		-	122,510
27	390.1	Computers and Software	-						-		-	-
28	391	Transportation Equipment	33,497						-	(12,219)	(3,508)	17,770
29	392	Stores Equipment	3,681						-		-	3,681
30	393	Tools, Shop And Garage Equip	25,027			(392)			-		-	24,635
31	394	Laboratory Equip	135,667			293			-		-	135,959
32	395	Power Operated Equipment	702			(537)			-		-	165
33	396	Communication Equip	373,237		(178)				-		-	373,059
34	398	Other Tangible Plant	-						-		-	-
35			-									-
36			-									-
37			-									-
38			-									-
39												-
40		Plant Held for Future Use										-
41		TOTALS	$ 13,244,186	$ 280,893	$ 3,136	$ 32,185	$ (5,661)	$ (214)	$ 7,711	$ (10,515)	$ (3,508)	$ 13,548,214
42												
43		Adjusted Accumulated Depreciation										$ 13,244,186
44												
45		Increase (decrease) in Accumulated Depreciation										$ 304,027
46												
47		Adjustment to Accumulated Depreciation										$ 304,027
48												
49		SUPPORTING SCHEDULES										
50		B-2, pages 4.1 through 4.8										
51												

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - A

Exhibit
Proposed Final Schedule B-2
Page 4.1
Witness: Bourassa

Line No.

1 A/D -Post Test Year Plant Retirements

Acct. No.	Description		Adjustment
380	Treatment & Disposal Equipment	remove amount proposed in Direct	$ 300,000
380	Treatment & Disposal Equipment	true-up to actual cost	-
354	Structures & Improvements		(28,089)
371	Pumping Equipment		(10,368)
	Subtotal		$ 261,543

Half-year Depreciation on Post-Test Year Plant

Acct. No.	Description	Cost	Depreciation Rate	Years	Adjustment
354	Structures & Improvements	$ 1,081,134	3.33%	0.50	$ 18,001
371	Pumping Equipment	21,588	12.50%	0.50	1,349
	Subtotal				$ 19,350

Net Adjustment	$ 280,893

SUPPORTING SCHEDULE
Testimony

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - B

Exhibit
Proposed Final Schedule B-2
Page 4.2
Witness: Bourassa

Line No.

1 A/D - Accrual True-up

Acct. No.	Description	Orginal Cost	Depr Rate	Years	A/D
354	Structures & Improvements	199,000	3.33%	0.50	3,313
396	Communication Equip	(3,555)	10.00%	0.50	(178)

40 Net Adjustment $ 3,136

43 SUPPORTING SCHEDULE
44 Staff Adjustment #3

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - C

Exhibit
Proposed Final Schedule B
Page 4.3
Witness: Bourassa

Line No.							
1	A/D - Plant Reclassification						
2							
3							
4	Acct.			Depr		Plant	A/D
5	No.	Description	Year	Rate	Years	Adjustment	Adjustment
6	354	Structures & Improvements	2009	3.33%	3.5	$ (465,350)	$ (54,237)
7	354	Structures & Improvements	2011	3.33%	1.5	-	-
8	354	Structures & Improvements	2012	3.33%	0.5	(59,760)	(995)
9	Subtotal					**$ (525,110)**	**$ (55,232)**
10	361	Collection Sewers Gravity	2009	2.00%	3.5	41,564	2,910
11	361	Collection Sewers Gravity	2011	2.00%	1.5	-	-
12	361	Collection Sewers Gravity	2012	2.00%	0.5	-	-
13	Subtotal					**$ 41,564**	**$ 2,910**
14	364	Flow Measuring Devices	2009	10.00%	3.5	36,618	12,816
15	364	Flow Measuring Devices	2011	10.00%	1.5	-	-
16	364	Flow Measuring Devices	2012	10.00%	0.5	-	-
17	Subtotal					**$ 36,618**	**$ 12,816**
18	371	Pumping Equipment	2009	12.50%	3.5	5,048	2,208
19	371	Pumping Equipment	2011	12.50%	1.5	6,000	1,125
20	371	Pumping Equipment	2012	12.50%	0.5	50,622	3,164
21	Subtotal					**$ 61,670**	**$ 6,497**
22	380	Treatment & Disposal Equipment	2009	5.00%	3.5	424,288	74,250
23	380	Treatment & Disposal Equipment	2011	5.00%	1.5	6,156	462
24	380	Treatment & Disposal Equipment	2012	5.00%	0.5	46,304	1,158
25	Subtotal					**$ 476,749**	**$ 75,870**
26	389	Other Sewer Plant & Equipment	2009	6.67%	3.5	(43,005)	(10,039)
27	389	Other Sewer Plant & Equipment	2011	6.67%	1.5	-	-
28	389	Other Sewer Plant & Equipment	2012	6.67%	0.5	-	-
29	Subtotal					**$ (43,005)**	**$ (10,039)**
30	393	Tools, Shop And Garage Equip	2009	5.00%	3.5	-	-
31	393	Tools, Shop And Garage Equip	2011	5.00%	1.5	-	-
32	393	Tools, Shop And Garage Equip	2012	5.00%	0.5	(15,681)	(392)
33	Subtotal					**$ (15,681)**	**$ (392)**
34	394	Laboratory Equip	2009	10.00%	3.5	836	293
35	394	Laboratory Equip	2011	10.00%	1.5	-	-
36	394	Laboratory Equip	2012	10.00%	0.5	-	-
37	Subtotal					**$ 836**	**$ 293**
38	395	Power Operated Equipment	2009	5.00%	3.5	-	-
39	395	Power Operated Equipment	2011	5.00%	1.5	-	-
40	395	Power Operated Equipment	2012	5.00%	0.5	(21,485)	(537)
41	Subtotal					**$ (21,485)**	**$ (537)**
42							
43							
44	Net Adjustment					**$ 12,156**	**$ 32,185**
45							
46	SUPPORTING SCHEDULE						
47	Staff Table 6 - Reclassification						
48	Testimony						
49							

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - D

Exhibit
Proposed Final Schedule B-2
Page 4.4
Witness: Bourassa

Line No.

1 A/D Plant Not Used and Useful

Acct. No.	Description	Orginal Cost	Depr Rate	Years	A/D
353	Land	(11,217)	0.00%	3.50	-
354	Structures & Improvements	(113,329)	3.33%	1.50	(5,661)

40 Net Adjustment $ (5,661)

43 SUPPORTING SCHEDULE
44 Staff Adjustment #6

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - E

Exhibit
Proposed Final Schedule B-2
Page 4.5
Witness: Bourassa

Line No.

1 A/D Duplicate Invoices

Acct. No.	Description	Orginal Cost	Depr Rate	Years	A/D
353	Land	$ (3,409)	0.00%	2.50	$ -
355	Power Generation	(400)	5.00%	3.50	(70)
389	Other Sewer Plant & Equipment	(864)	6.67%	2.50	(144)

Net Adjustment $ (214)

SUPPORTING SCHEDULE
Staff Adjustment #7

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - F

Exhibit
Proposed Final Schedule B-2
Page 4.6
Witness: Bourassa

Line No.

1 Accumulated Depreciation - Plant Additions in Wrong Years

Line	Acct. No.	Description	Depreciation Correction
6	351	Organization	$ -
7	352	Franchise	-
8	353	Land	-
9	354	Structures & Improvements	6,478
10	355	Power Generation	-
11	360	Collection Sewer Forced	-
12	361	Collection Sewers Gravity	407
13	362	Special Collecting Structures	-
14	363	Customer Services	-
15	364	Flow Measuring Devices	-
16	366	Reuse Services	23
17	367	Reuse Meters And Installation	-
18	370	Receiving Wells	-
19	371	Pumping Equipment	-
20	374	Reuse Distribution Reservoirs	-
21	375	Reuse Trans. and Dist. System	803
22	380	Treatment & Disposal Equipment	-
23	381	Plant Sewers	-
24	382	Outfall Sewer Lines	-
25	389	Other Sewer Plant & Equipment	-
26	390	Office Furniture & Equipment	-
27	390.1	Computers and Software	-
28	391	Transportation Equipment	-
29	392	Stores Equipment	-
30	393	Tools, Shop And Garage Equip	-
31	394	Laboratory Equip	-
32	395	Power Operated Equipment	-
33	396	Communication Equip	-
34	398	Other Tangible Plant	-
40		Plant Held for Future Use	
41		TOTALS	$ 7,711

44 SUPPORTING SCHEDULE
45 B-2, pages 4.1 through 4.3
46 B-2, pages 3.6 through 3.10

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - G

Exhibit
Proposed Final Schedule B-2
Page 4.7
Witness: Bourassa

Line No.

1 Retirements A/D

Acct. No.	Description	Year of Retirement	Adjustment
341	Transportation Equipment	2008	(7,110)
Total			$ (7,110)

11 Reclassifications A/D

Acct. No.	Description	Year	Depr Rate	Years[1]	Plant Adjustment	A/D Adjustment
341	Transportation Equipment	2008	20.00%	4.125	$ (6,193)	$ (5,109)
Subtotal					$ (6,193)	$ (5,109)
389	Other Sewer Plant & Equipment	2008	6.67%	4.125	$ 6,193	$ 1,704
Subtotal					$ 6,193	$ 1,704
Total						$ (3,405)

39 Total Adjustment $ (10,515)

41 SUPPORTING SCHEDULE
42 Schedule B-2, page 3.6
43 Work papers

45 [1] Post last test year end date

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - H

Exhibit
Proposed Final Schedule B-2
Page 4.8
Witness: Bourassa

Line No. 1 Reconciliation of A/D to A/D Reconstruction

Line No.	Acct. No.	Description	Adjusted Orginal Cost	B-2 Adjustments	Rejoinder Adjusted Orginal Cost	Rejoinder Plant Per Reconstruction	Difference
6	351	Organization	$ -	$ -	$ -	$ -	$ -
7	352	Franchise	-	-	-	-	-
8	353	Land	-	-	-	-	-
9	354	Structures & Improvements	3,773,984	(61,189)	3,712,796	3,712,796	-
10	355	Power Generation	222,393	(70)	222,323	222,323	0
11	360	Collection Sewer Forced	(109,004)	-	(109,004)	(109,004)	-
12	361	Collection Sewers Gravity	5,222,855	3,317	5,226,172	5,226,172	-
13	362	Special Collecting Structures	-	-	-	-	-
14	363	Customer Services	2,092	-	2,092	2,092	-
15	364	Flow Measuring Devices	38,453	12,816	51,269	51,269	-
16	366	Reuse Services	825,859	23	825,882	825,882	-
17	367	Reuse Meters And Installation	21,945	-	21,945	21,945	-
18	370	Receiving Wells	297,089	-	297,089	297,089	-
19	371	Pumping Equipment	276,747	(2,521)	274,226	274,226	-
20	374	Reuse Distribution Reservoirs	8,088	-	8,088	8,088	-
21	375	Reuse Trans. and Dist. System	48,106	803	48,908	48,908	-
22	380	Treatment & Disposal Equipment	1,551,533	375,870	1,927,403	1,927,403	-
23	381	Plant Sewers	16,686	-	16,686	16,686	-
24	382	Outfall Sewer Lines	118,892	-	118,892	118,892	-
25	389	Other Sewer Plant & Equipment	234,145	(8,480)	225,666	225,666	-
26	390	Office Furniture & Equipment	122,510	-	122,510	122,510	-
27	390.1	Computers and Software	-	-	-	-	-
28	391	Transportation Equipment	33,497	(12,219)	21,278	17,770	(3,508)
29	392	Stores Equipment	3,681	-	3,681	3,681	-
30	393	Tools, Shop And Garage Equip	25,027	(392)	24,635	24,635	-
31	394	Laboratory Equip	135,667	293	135,959	135,959	-
32	395	Power Operated Equipment	702	(537)	165	165	-
33	396	Communication Equip	373,237	(178)	373,059	373,059	-
34	398	Other Tangible Plant	-	-	-	-	-
40		Plant Held for Future Use					-
41		TOTALS	$ 13,244,186	$ 307,535	$ 13,551,721	$ 13,548,214	$ (3,508)

44 SUPPORTING SCHEDULE
45 B-2, pages 4.1 through 4.7
46 B-2, pages 3.9 through 3.13

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 - H

Exhibit
Proposed Final Schedule B-2
Page 4.9
Witness: Bourassa

Line No.

1 Half-year Depreciation on Post-Test Year Plant

Acct. No.	Description		Cost	Depreciation Rate	Years	Adjustment
354	Structures & Improvements	$	1,081,134	3.33%	0.50	18,001
371	Pumping Equipment		21,588	12.50%	0.50	1,349
Total						$ 19,350
	Total Adjustment					$ 19,350

SUPPORTING SCHEDULE
Schedule B-2, page 3.1
Testimony

DECISION NO. 74437

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Proposed Final Schedule B-2
Page 5
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line No.		Gross CIAC	Accumulated Amortization
1			
2			
3			
4			
5	Computed balance at 12/31/2012	$ 28,376,915	$ 4,153,301
6			
7	Adjusted balance at 12/31/2012	$ 28,470,485	$ 4,446,775
8			
9	Increase (decrease)	$ (93,570)	$ (293,475)
10			
11			
12	Adjustment to CIAC/AA CIAC	$ (93,570)	$ 293,475
13	Label	3a	3b
14			
15			
16			
17			
18			
19	SUPPORTING SCHEDULES		
20	E-1		
21	B-2, page 5.1 - 5.3		
22			
23			
24			
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Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 3

Exhibit
Proposed Final Schedule B-2
Page 5.1
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	9/30/2008	2008 Activity	Balance at 12/31/2008	2009 Activity	Balance at 12/31/2009
1								
2								
3	Collection Sewers Contributed	2.00%	8600.2.0200.10.1615.0026	17,134,023	706,018	17,840,041	2,870,602	20,710,643
4								
5								
6	Amortization				87,435		385,507	
7	Accum Amort.		8600.2.0000.10.1641.0100	1,576,589	87,435	1,664,024	385,507	2,049,531
8								
9	Services Contributed	2.00%	8600.2.0200.10.1615.0016	1,509,762	140,400	1,650,162	698,724	2,348,886
10								
11								
12	Amortization				7,900		39,990	
13	Accum Amort.		8600.2.0000.10.1641.0100	495,529	7,900	503,429	39,990	543,419
14								
15	**Total CIAC Sewer**			**18,643,786**		**19,490,203**		**23,059,529**
16								
17								
18	**Total Accum Amort.**			**2,072,117**		**2,167,452**		**2,592,950**
19								
20								
21								
22								
23								
24								
25								

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 3

Exhibit
Proposed Final Schedule B-2
Page 5.2
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	2010 Activity	Balance at 12/31/2010	2011 Activity	Balance at 12/31/2011
1							
2							
3	Collection Sewers Contributed	2.00%	8600.2.0200.10.1615.0026	1,079,042	21,789,685	3,955,923	25,745,608
4							
5							
6	Amortization			425,003		475,353	
7	Accum Amort.		8600.2.0000.10.1641.0100	425,003	2,474,534	475,353	2,949,887
8							
9	Services Contributed	2.00%	8600.2.0200.10.1615.0016	15,630	2,364,516	34,990	2,399,506
10							
11							
12	Amortization			47,134		47,640	
13	Accum Amort.		8600.2.0000.10.1641.0100	47,134	590,553	47,640	638,193
14							
15	**Total CIAC Sewer**				**24,154,201**		**28,145,114**
16							
17							
18	**Total Accum Amort.**				**3,065,087**		**3,588,080**
19							
20							
21							
22							
23							
24							
25							

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Contributions-in-aid of Construction and Amortization
Adjustment 3

Exhibit
Proposed Final Schedule B-2
Page 5.3
Witness: Bourassa

Line No.		Depr'n Rate	GL Account	2012 Activity	Balance at 12/31/2012
1					
2					
3	Collection Sewers Contributed	2.00%	8600.2.0200.10.1615.0026	[redacted]	25,745,608
4					
5					
6	Amortization			514,912	
7	Accum Amort.		8600.2.0000.10.1641.0100	514,912	3,464,799
8					
9	Services Contributed	2.00%	8600.2.0200.10.1615.0016	231,801	2,631,307
10					
11					
12	Amortization			50,308	
13	Accum Amort.		8600.2.0000.10.1641.0100	50,308	688,501
14					
15	**Total CIAC Sewer**				**28,376,915**
16					
17					
18	**Total Accum Amort.**				**4,153,301**
19					
20					
21					
22					
23					
24					
25					

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 4

Exhibit
Proposed Final Schedule B-2
Page 6.0
Witness: Bourassa

Deferred Income Tax as of February 29, 2012

Line No.			Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
6		Plant-in-Service	$ 162,040,849 [1]								
7		Accum. Deprec.	(32,475,811) [1]								
8		CIAC	(59,777,267) [3]								
9	Fed.	Fixed Assets	$ 69,787,771	$ 47,372,348 [2]	100.0%	$ (22,415,423)	31.79%		-		(7,125,863)
11	State	Fixed Assets	$ 69,787,771	$ 74,030,636 [2]	100.0%	$ 4,242,865	6.500%		275,786		-
13	Fed &State	AIAC		14,120,317 [4]	100.0%	$ 14,120,317 [4]	38.29%		$ 5,406,669		
15								$ -	$ 5,682,456	$ -	$ (7,125,863)
17		Net Asset (Liability)						$ (1,443,407)			
19		Allocation Factor - Wastewwater-Division (based on rate base before ADIT)						0.4204			
21		Net Asset (Liability) Wastewater Division						$ (606,843)			
23		Adjusted DIT Asset (Liability)						$ (982,318)			
25		Adjustment to DIT						$ (375,475)			

Footnotes - See page 7.1

DOCKET NO. SW-01428A-13-0042 ET AL.

DECISION NO. 74437

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment 4

Exhibit
Proposed Final Schedule B-2
Page 6.1
Witness: Bourassa

Line No.		FEDERAL		STATE	
1	[1] **Per adjusted book balances, land not included**				
2					
3	[2] **Computation of Net Tax Value December 31, 2012**				
4					
5	Based on 2012 Tax Depreciation report (December 31, 2012) as amended				
6	Unadjusted Cost at December 31, 2012 per federal and state tax depr. report	$ 85,943,311		$ 84,887,919	
7	Reconciling Items not on tax report:				
8	Land on Tax and not on included in adjusted plant balance	(1,055,392)		-	
9	FA Accrual on not on tax report	6,391,333		6,391,333	
10	Proposed Plant Retirements Direct	(1,712,539)		(1,712,539)	
	Proposed Plant Retirements Rejoinder	(17,555)		(17,555)	
11	Post Test Year plant	1,102,722		1,102,722	
12	Post Test Year Plant Retirement	(38,457)		(38,457)	
13	Plant Held for Future Use			-	
14				-	
15	Net Unadjusted Cost tax Basis at December 31, 2012		$ 90,613,423		$ 90,613,423
16					
17	Reductions				
18	Basis Reduction 2012 and Prior Years per federal and state tax depr. report	$ (25,331,094)		$ -	
19	Accumulated Depreciation 2012 and prior per federal and state tax depr. report	(19,678,532)		(18,351,338)	
20	Proposed Plant Retirements Direct	1,712,539		1,712,539	
21	Proposed Plant Retirements Rejoinder	17,555		17,555	
22	Post Test Year retirement	38,457		38,457	
23	Plant Held for Future Use	-		-	
24					
25					
26			(43,241,075)		(16,582,787)
27	Net Reductions through December 31, 2012		$ 47,372,348		$ 74,030,636
28	Net tax value of plant-in-service at December 31, 2012				
29					
30	[3] **CIAC (including impact of change to probability of realization)**				
31	Gross CIAC per adjusted book balances		$ 35,802,727		
32	CIAC reductions/addtions				
33	A.A per adjusted book balances	$ (5,439,155)			
34		-			
35			(5,439,155)		
36	Net CIAC before unrealized AIAC			$ 30,363,572	
37					
38	Unrealized AIAC Component				
39	AIAC per adjusted book balances		$ 42,019,564		
40	Adjusted Net AIAC (see footnote 5 below)		70.0%		
41	Unrealized AIAC Component % (1-Realized AIAC Component)			$ 29,413,695	
42				$ 59,777,267	
43	Total realizable CIAC				
44					
45	[4] **AIAC (including impact of change in probability of realization)**				
46	AIAC per adjusted book balances			$ 42,019,564	
47	Less: Unrealized AIAC (from Note 3, above)			$ (29,413,695)	
48					
49	Subtotal			$ 12,605,869	
50	Meter and Service Line Installation Charges per adjusted book balances			1,514,448	
51	Total realizable AIAC			$ 14,120,317	
52					

DECISION NO. 74437

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Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 5

Exhibit
Proposed Final Schedule B-2
Page 7
Witness: Bourassa

Line No.		
1	Customer Security Deposits	
2		
3	Customer Security Deposits per Staff	$ 163,774
4		
5	Adjusted Customer Security Deposits	$ 155,440
6		
7	Adjustment to Customer Security Deposits based upon a 13 month average	$ 8,334
8		
9		
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42	SUPPORTING SCHEDULE	
43	Staff Adjustment #10	
44		
45		

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Original Cost Rate Base Proforma Adjustments
Adjustment Number 6

Exhibit
Proposed Final Schedule B-2
Page 8
Witness: Bourassa

Line No.			
1	Customer Meter Deposits		
2			
3	Customer Meter Deposits per RUCO	$	81,661
4			
5	Adjusted Customer Meter Deposits	$	95,892
6			
7	Adjustment to Customer Meter Deposits based upon a 13 month average	$	(14,231)
8			
9			
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42	SUPPORTING SCHEDULE		
43	RUCO Adjustment #5		
44			
45			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Computation of Working Capital

Exhibit
Proposed Final Schedule
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	777,666
3	Pumping Power (1/24 of Pumping Power)		25,068
4	Purchased Water (1/24 of Purchased Water)		1,111
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	$	803,845
10			
11			
12	Working Capital Requested	$	-
13			
14			
15			
16			Rejoinder
17			Adjusted Test Year
18	Total Operating Expense	$	8,451,599
19	Less:		
20	Income Tax	$	1,033,417
21	Property Tax		547,273
22	Depreciation		21,291
23	Purchased Water		26,656
24	Pumping Power		601,635
25	Allowable Expenses	$	6,221,326
26	1/8 of allowable expenses	$	777,666
27			
28			
29	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
30	E-1	B-1	
31			
32			
33			
34			
35			
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39			
40			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Income Statement

Exhibit
Proposed Final Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Test Year Results	Adjustment	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 9,853,383	$ 1,193	$ 9,854,576	$ 341,225	$ 10,195,801
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	508,220	-	508,220		508,220
5		$ 10,361,603	$ 1,193	$ 10,362,796	$ 341,225	$ 10,704,021
6	**Operating Expenses**					
7	Salaries and Wages	$ 1,168,151	-	$ 1,168,151		$ 1,168,151
8	Purchased Water	26,656	-	26,656		26,656
9	Purchased Power	601,635	-	601,635		601,635
10	Slude Removal Expense	234,893	3,423	238,316		238,316
11	Fuel for Power Production	-	-	-		-
12	Chemicals	357,986	-	357,986		357,986
13	Materials and Supplies	86,994	-	86,994		86,994
14	Management Services - US Liberty Water	1,469,058	(9,941)	1,459,117		1,459,117
15	Management Services - Corporate	698,951	-	698,951		698,951
16	Management Services - Other	-	-	-		-
17	Outside Services - Accounting	2,161	-	2,161		2,161
18	Outside Services - Engineering	-	-	-		-
19	Outside Services- Other	222,303	-	222,303		222,303
20	Outside Services- Legal	25,746	-	25,746		25,746
21	Water Testing	57,735	(27,078)	30,657		30,657
22	Rents - Office	40,007	-	40,007		40,007
23	Equipment Rental	3,076	-	3,076		3,076
24	Transportation Expenses	26,465	-	26,465		26,465
25	Insurance - General Liability	57,823	-	57,823		57,823
26	Insurance - Vehicle	11,506	-	11,506		11,506
27	Reg. Comm. Exp. - Other	14,189	-	14,189		14,189
28	Reg. Comm. Exp. - Rate Case	74,200	-	74,200		74,200
29	Miscellaneous Expense	77,293	3,498	80,791		80,791
30	Bad Debt Expense	45,215	(23,924)	21,291		21,291
31	Depreciation and Amortization Expense	1,598,765	24,122	1,622,887		1,622,887
32	Taxes Other Than Income	-	-	-	-	-
33	Property Taxes	576,026	(28,753)	547,273	6,022	553,295
34	Income Tax	1,013,153	20,264	1,033,417	128,350	1,161,767
35	**Total Operating Expenses**	$ 8,489,987	$ (38,388)	$ 8,451,599	$ 134,371	$ 8,585,970
36	**Operating Income**	$ 1,871,616	$ 39,581	$ 1,911,197	$ 206,854	$ 2,118,051
37	**Other Income (Expense)**					
38	Interest Income	-	-	-		-
39	Other income	-	-	-		-
40	Interest Expense	(259,945)	14,252	(245,693)		(245,693)
41	Other Expense	-	-	-		-
42		-	-	-		-
43	**Total Other Income (Expense)**	$ (259,945)	$ 14,252	$ (245,693)	$ -	$ (245,693)
44	**Net Profit (Loss)**	$ 1,611,671	$ 53,833	$ 1,665,504	$ 206,854	$ 1,872,358
45						
46	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
47	C-1, page 2				A-1	
48	E-2					
49						

Litchfield Park Service Company - WW Division
dba Liberty Utilities
Test Year Ended December 31, 2012
Income Statement

Exhibit
Proposed Final Schedule C-1
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Witness: Bourassa

Line No.		LABEL>>>>> Adjusted Test Year Results	1 Depreciation	2 Property Taxes	3 Water Testing	4 Corporate Allocation True-up	5 Corporate Allocation Expense	6 Interest on Customer Dep.	7 Revenue Expense Annualization	8 Bad Debt Expense	9 Misc. Expense
1	**Revenues**										
2	Metered Water Revenues	$ 9,853,383							$ 1,193		
3	Unmetered Water Revenues	-									
4	Other Water Revenues	508,220									
5		$ 10,361,603	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,193	$ -	
6	**Operating Expenses**										
7	Salaries and Wages	$ 1,168,151									
8	Purchased Water	26,656									
9	Purchased Power	601,635							-		
10	Sludge Removal Expense	234,893			3,410				13		
11	Fuel for Power Production	-									
12	Chemicals	357,986									
13	Materials and Supplies	86,994									
14	Management Services - US Liberty Water	1,469,058				(7,420)	(2,521)				
15	Management Services - Corporate	698,951									
16	Management Services - Other	-									
17	Outside Services - Accounting	2,161									
18	Outside Services - Engineering	-									
19	Outside Services- Other	222,303									
20	Outside Services- Legal	25,746									
21	Water Testing	57,735			(27,078)						
22	Rents - Office	40,007									
23	Equipment Rental	3,076									
24	Transportation Expenses	26,465									
25	Insurance - General Liability	57,823									
26	Insurance - Vehicle	11,506									
27	Reg. Comm. Exp. - Other	14,189									
28	Reg. Comm. Exp. - Rate Case	74,200									
29	Miscellaneous Expense	77,293						5,346	(1,506)		(342)
30	Bad Debt Expense	45,215								(23,924)	
31	Depreciation and Amortization Expense	1,598,765	24,122								
32	Taxes Other Than Income	-									
33	Property Taxes	576,026		(28,753)							
34	Income Tax	1,013,153									
35	**Total Operating Expenses**	$ 8,489,987	$ 24,122	$ (28,753)	$ (23,668)	$ (7,420)	$ (2,521)	$ 5,346	$ (1,493)	$ (23,924)	$ (342)
36	**Operating Income**	$ 1,871,616	$ (24,122)	$ 28,753	$ 23,668	$ 7,420	$ 2,521	$ (5,346)	$ 2,686	$ 23,924	$ 342
37	**Other Income (Expense)**										
38	Interest Income	-									
39	Other income	-									
40	Interest Expense	(259,945)									
41	Other Expense	-									
42		-									
43	**Total Other Income (Expense)**	$ (259,945)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
44	**Net Profit (Loss)**	$ 1,611,671	$ (24,122)	$ 28,753	$ 23,668	$ 7,420	$ 2,521	$ (5,346)	$ 2,686	$ 23,924	$ 342
45											
46	SUPPORTING SCHEDULES:										
47	C-2										
48	E-2										

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Litchfield Park Service Company - WW Division
dba Liberty Utilities
Test Year Ended December 31, 2012
Income Statement

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Witness: Bourassa

Line No.		10 Interest Synch.	11 Income Taxes	12 Intentionally Left Blank	13 Intentionally Left Blank	14 Intentionally Left Blank	15 Intentionally Left Blank	16 Intentionally Left Blank	17 Intentionally Left Blank	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**											
2	Metered Water Revenues									$ 9,854,576	$ 341,225	$ 10,195,801
3	Unmetered Water Revenues									-		-
4	Other Water Revenues									508,220		508,220
5		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,362,796	$ 341,225	$ 10,704,021
6	**Operating Expenses**											
7	Salaries and Wages									$ 1,168,151		$ 1,168,151
8	Purchased Water									26,656		26,656
9	Purchased Power									601,635		601,635
10	Sludge Removal Expense									238,316		238,316
11	Fuel for Power Production									-		-
12	Chemicals									357,986		357,986
13	Materials and Supplies									86,994		86,994
14	Management Services - US Liberty Water									1,459,117		1,459,117
15	Management Services - Corporate									698,951		698,951
16	Management Services - Other									-		-
17	Outside Services - Accounting									2,161		2,161
18	Outside Services - Engineering									-		-
19	Outside Services- Other									222,303		222,303
20	Outside Services- Legal									25,746		25,746
21	Water Testing									30,657		30,657
22	Rents - Office									40,007		40,007
23	Equipment Rental									3,076		3,076
24	Transportation Expenses									26,465		26,465
25	Insurance - General Liability									57,823		57,823
26	Insurance - Vehicle									11,506		11,506
27	Reg. Comm. Exp. - Other									14,189		14,189
28	Reg. Comm. Exp. - Rate Case									74,200		74,200
29	Miscellaneous Expense									80,791		80,791
30	Bad Debt Expense									21,291		21,291
31	Depreciation and Amortization Expense									1,622,887		1,622,887
32	Taxes Other Than Income									-		-
33	Property Taxes									547,273	6,022	553,295
34	Income Tax		20,264							1,033,417	128,350	1,161,767
35	**Total Operating Expenses**	$ -	$ 20,264	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,451,599	$ 134,371	$ 8,585,970
36	**Operating Income**	$ -	$ (20,264)	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,911,197	$ 206,854	$ 2,118,051
37	**Other Income (Expense)**											
38	Interest Income						-			-		-
39	Other income									-		-
40	Interest Expense	14,252								(245,693)		(245,693)
41	Other Expense									-		-
42										-		-
43	**Total Other Income (Expense)**	$ 14,252	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (245,693)	$ -	$ (245,693)
44	**Net Profit (Loss)**	$ 14,252	$ (20,264)	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,665,504	$ 206,854	$ 1,872,358
45												
46	SUPPORTING SCHEDULES:											
47	C-2											
48	E-2											

RECAP SCHEDULES:
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Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses

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Proposed Final Schedule C-2
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Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	Subtotal
		Depreciation	Property Taxes	Water Testing	Corporate Allocation True-up	Corporate Allocation Expense	Interest on Customer Dep.	
4	Revenues							-
6	Expenses	24,122	(28,753)	(23,668)	(7,420)	(2,521)	5,346	(32,894)
9	Operating Income	(24,122)	28,753	23,668	7,420	2,521	(5,346)	32,894
12	Interest Expense							-
14	Other Income / Expense							-
17	Net Income	(24,122)	28,753	23,668	7,420	2,521	(5,346)	32,894

Line No.		Adjustments to Revenues and Expenses						
		7	8	9	10	11	12	Total
		Revenue Expense Annualization	Bad Debt Expense	Misc. Expense	Interest Synch.	Income Taxes	Intentionally Left Blank	
25	Revenues	1,193						1,193
27	Expenses	(1,493)	(23,924)	(342)	-	20,264	-	(38,388)
30	Operating Income	2,686	23,924	342	-	(20,264)	-	39,581
33	Interest Expense	-			14,252			14,252
36	Other Income / Expense							-
38	Net Income	2,686	23,924	342	14,252	(20,264)	-	53,833

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
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Witness: Bourassa

Depreciation Expense

Line No.	Acct. No.	Description	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1					
2					
3					
4					
5	351	Organization	-	0.00%	-
6	352	Franchise	-	0.00%	-
7	353	Land	1,835,956	0.00%	-
8	354	Structures & Improvements	24,821,920	3.33%	826,570
9	355	Power Generation	602,932	5.00%	30,147
10	360	Collection Sewer Forced	1,162,597	2.00%	23,252
11	361	Collection Sewers Gravity	31,928,245	2.00%	638,565
12	362	Special Collecting Structures	-	2.00%	-
13	363	Customer Services	76,190	2.00%	1,524
14	364	Flow Measuring Devices	82,828	10.00%	8,283
15	366	Reuse Services	4,057,660	2.00%	81,153
16	367	Reuse Meters And Installation	44,753	8.33%	3,728
17	370	Receiving Wells	860,393	3.33%	28,651
18	371	Pumping Equipment	872,370	12.50%	109,046
19	374	Reuse Distribution Reservoirs	62,286	2.50%	1,557
20	375	Reuse Trans. and Dist. System	420,334	2.50%	10,508
21	380	Treatment & Disposal Equipment	5,362,219	5.00%	268,111
22	381	Plant Sewers	47,802	5.00%	2,390
23	382	Outfall Sewer Lines	343,681	3.33%	11,445
24	389	Other Sewer Plant & Equipment	833,823	6.67%	55,616
25	390	Office Furniture & Equipment	275,740	6.67%	18,392
26	390.1	Computers and Software	-	20.00%	-
27	391	Transportation Equipment	20,194	20.00%	4,039
28	392	Stores Equipment	8,968	4.00%	359
29	393	Tools, Shop And Garage Equip	129,950	5.00%	6,497
30	394	Laboratory Equip	187,184	10.00%	18,718
31	395	Power Operated Equipment	6,605	5.00%	330
32	396	Communication Equip	415,441	10.00%	41,544
33	398	Other Tangible Plant	-	10.00%	-
34			-		-
35					-
36					-
37					-
38					-
39		TOTALS	$ 74,460,070		$ 2,190,425
40					
41	Less: Amortization of Contributions		Gross CIAC	Amort. Rate	
42	361	Collection Sewers Gravity	$ 25,745,608	2.0000%	$ (514,912)
43	363	Customer Services	2,631,307	2.0000%	$ (52,626)
44			$ 28,376,915		
45	Total Depreciation Expense				$ 1,622,887
46					
47	Adjusted Test Year Depreciation Expense				1,598,765
48					
49	Increase (decrease) in Depreciation Expense				24,122
50					
51	Adjustment to Revenues and/or Expenses				$ 24,122
52					
53	SUPPORTING SCHEDULE				
54	B-2, page 3				

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Proposed Final Schedule C-2
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	$ 10,362,796	$ 10,362,796
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	20,725,592	20,725,592
4	Company Recommended Revenue	10,362,796	10,704,021
5	Subtotal (Line 4 + Line 5)	31,088,388	31,429,613
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	10,362,796	10,476,538
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	20,725,592	20,953,075
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	51,225	51,225
12	Full Cash Value (Line 9 + Line 10 - Line 11)	20,674,367	20,901,851
13	Assessment Ratio	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	3,928,130	3,971,352
15	Composite Property Tax Rate - Obtained from ADOR	13.9322%	13.9322%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	$ 547,273	$ 553,295
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	$ 547,273	
19	Adjusted Test Year Property Taxes	$ 576,026	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	$ (28,753)	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		$ 553,295
23	Company Test Year Adjusted Property Tax Expense (Line 18)		$ 547,273
24	Increase in Property Tax Due to Increase in Revenue Requirement		$ 6,022
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		$ 6,022
27	Increase in Revenue Requirement		$ 341,225
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.76474%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 3

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Witness: Bourassa

Water Testing Expense

Line No.			
1			
2			
3	Sludge Removal Expense Adjustment	$	3,410
4			
5	Water Testing Expense Adjustment		(27,078)
6			
7			
8			
9			
10			
11	Increase(decrease) in Expense	$	(23,668)
12			
13	Adjustment to Revenue and/or Expense	$	(23,668)
14			
15			
16	Reference		
17	Testimony		
18			
19			
20			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 4

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Corporate Allocation True-Up

Line No.			
1			
2			
3			
4	Corporate Allocation True-Up Adjustment	$	(7,420)
5			
6			
7			
8	Total Adjustment to Management Services - US Liberty Water	$	(7,420)
9			
10			
11	Adjustment to Revenue and/or Expense	$	(7,420)
12			
13	SUPPORTING SCHEDULES		
14	Staff Adjustment #2		
15	Testimony		
16			
17			
18			
19			
20			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 5

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Corporate Allocation Expense Adjustment

Line No.			
1			
2	Corporate Allocation Expense Adjustment	$	(2,521)
3			
4			
5			
6	Total Adjustment to Management Services - US Liberty Water	$	(2,521)
7			
8			
9	Adjustment to Revenue and/or Expense		(2,521)
10			
11	Reference		
12	Testimony		
13	Work papers		
14			
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 6

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Interest on Customer Security Deposits

Line No.			
1			
2	Interest on Customer Deposits	$	5,346
3			
4			
5			
6	Adjustment to Miscellaneous Expense	$	5,346
7			
8			
9	Adjustment to Revenue and/or Expense		5,346
10			
11	Reference		
12	Staff Adjustment #4		
13	Testimony		
14			
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
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Witness: Bourassa

Revenue and Expense Annualization

Line No.			
1			
2			
3	Revenue Annualization for Res Low Income	$	1,193
4			
5	Increase (decrease) in Revenues	$	1,193
6			
7	Annualized Purchase Power	$	54
8	Annualized Sudge Removal		13
9	Annualized Postage		(1,506)
10			
11	Increase (decrease) in Expenses	$	(1,439)
12			
13			
14			
15			
16			
17			
18	Reference		
19	RUCO Adjustment #3		
20	Testimony		

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 8

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Proposed Final Schedule C-2
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Bad Debt Expense

Line No.			
1			
2	Reclassify Bad Debt Expense to Water Division		(23,924)
3			
4			
5			
6	Adjustment to Bad Debt Expense	$	(23,924)
7			
8			
9	Adjustment to Revenue and/or Expense	$	(23,924)
10			
11	Reference		
12	RUCO Adjustment #11		
13			
14			
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 9

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Miscellaneous Expense

Line No.			
1			
2	Miscellanous Expense Adjustment	$	(342)
3			
4			
5	Adjustment to Miscellaneous Expense	$	(342)
6			
7			
8			
9	Adjustment to Revenue and/or Expense	$	(342)
10			
11	Reference		
12	RUCO Adjustment 15		
13			
14			
15			
16			
17			
18			
19			
20			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and Expenses
Adjustment Number 10

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Interest Synchronization

Line No.			
1			
2			
3			
4	Fair Value Rate Base	$ 24,190,673	
5	Weighted Cost of Debt	1.02%	
6	Interest Expense		$ 245,693
7			
8	Test Year Interest Expense		$ 259,945
9			
10	Increase (decrease) in Interest Expense		(14,252)
11			
12			
13			
14	Adjustment to Revenue and/or Expense		$ 14,252
15			
16			
17	Weighted Cost of Debt Computation		
18	Pro forma Capital Structure		Weighted
19		Percent	Cost	Cost
20	Debt	15.87%	6.40%	1.02%
21	Equity	84.13%	9.20%	7.74%
22	Total	100.00%		8.76%
23				
24				
25				
26				
27				
28				
29				
30				

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Adjustment to Revenues and/or Expenses
Adjustment Number 11

Exhibit
Proposed Final Schedule C-2
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Witness: Bourassa

Line No.		Test Year at Present Rates	Test Year at Proposed Rates
1	Income Taxes		
2			
3			
4	Compauted Income Tax	$ 1,033,417	$ 1,161,767
5	Test Year Income tax Expense	-	1,033,417
6	Adjustment to Income Tax Expense	$ 1,033,417	$ 128,350
7			
8			
9			
10			
11			
12			
13	SUPPORTING SCHEDULE		
14	C-3, page 2		
15			
16			
17			
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29			
30			

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Computation of Gross Revenue Conversion Factor

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Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	38.290%
2		
3	Property Taxes	1.089%
4		
5		
6	Total Tax Percentage	39.379%
7		
8	Operating Income % = 100% - Tax Percentage	60.621%
9		
10		
11		
12		
13	1 = Gross Revenue Conversion Factor	
14	Operating Income %	1.6496
15		
16		
17		
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19		
20		
21		
22		
23		
24		
25	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
26	C-3, page 2	A-1
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Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012

Exhibit
Proposed Final Schedule C-3
Page 2
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GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	[E]	[F]
	Calculation of Gross Revenue Conversion Factor:						
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.3790%					
5	Subtotal (L3 - L4)	60.6210%					
6	Revenue Conversion Factor (L1 / L5)	1.649594					
	Calculation of Uncollectible Factor:						
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	38.2900%					
9	One Minus Combined Income Tax Rate (L7 - L8)	61.7100%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
	Calculation of Effective Tax Rate:						
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.5000%					
14	Federal Taxable Income (L12 - L13)	93.5000%					
15	Applicable Federal Income Tax Rate (L55, Col E)	34.0000%					
16	Effective Federal Income Tax Rate (L14 x L15)	31.7900%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.2900%				
	Calculation of Effective Property Tax Factor						
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	38.2900%					
20	One Minus Combined Income Tax Rate (L18-L19)	61.7100%					
21	Property Tax Factor	1.7647%					
22	Effective Property Tax Factor (L20*L21)		1.0890%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.3790%			
24	Required Operating Income	$ 2,118,051					
25	AdjustedTest Year Operating Income (Loss)	$ 1,911,197					
26	Required Increase in Operating Income (L24 - L25)		$ 206,854				
27	Income Taxes on Recommended Revenue (Col. (E), L52)	$ 1,161,767					
28	Income Taxes on Test Year Revenue (Col. (B), L54)	$ 1,033,417					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ 128,350				
30	Recommended Revenue Requirement	$ 10,704,021					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	$ -					
33	Adjusted Test Year Uncollectible Expense	$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ -				
35	Property Tax with Recommended Revenue	$ 553,295					
36	Property Tax on Test Year Revenue	$ 547,273					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 6,022				
38	Total Required Increase in Revenue (L26 + L29 + L37)		$ 341,225				

		(A)	(B)	(C)	(D)	[E]	[F]
		Test Year			Company Recommended		
		Total	Sewer		Total	Sewer	
	Calculation of Income Tax:						
39	Revenue	$ 10,362,796	$ 10,362,796		$ 10,704,021	$ 10,704,021	
40	Operating Expenses Excluding Income Taxes	$ 7,418,182	$ 7,418,182		$ 7,424,203	$ 7,424,203	
41	Synchronized Interest (L47)	$ 245,693	$ 245,693		$ 245,693	$ 245,693	
42	Arizona Taxable Income (L39 - L40 - L41)	$ 2,698,921	$ 2,698,921		$ 3,034,126	$ 3,034,126	
43	Arizona State Effective Income Tax Rate (see work papers)	6.5000%	6.5000%		6.5000%	6.5000%	
44	*Arizona Income Tax (L42 x L43)*	$ 175,430	$ 175,430		$ 197,218	$ 197,218	
45	Federal Taxable Income (L42- L44)	$ 2,523,491	$ 2,523,491		$ 2,836,908	$ 2,836,908	
46							
47	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 7,500	$ 7,500		$ 7,500	$ 7,500	
48	Federal Tax on Second Income Bracket ($50,001 - $75,000) @ 25%	$ 6,250	$ 6,250		$ 6,250	$ 6,250	
49	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ 8,500	$ 8,500		$ 8,500	$ 8,500	
50	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ 91,650	$ 91,650		$ 91,650	$ 91,650	
51	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ 744,087	$ 744,087		$ 850,649	$ 850,649	
52							
53	Total Federal Income Tax	$ 857,987	$ 857,987		$ 964,549	$ 964,549	
54	Combined Federal and State Income Tax (L35 + L42)	$ 1,033,417	$ 1,033,417		$ 1,161,767	$ 1,161,767	

55	COMBINED Applicable Federal Income Tax Rate [Col. [D], L53 - Col. [A], L53 / [Col. [D], L45 - Col. [A], L45]	34.0000%		
56	WASTEWATER Applicable Federal Income Tax Rate [Col. [E], L53 - Col. [B], L53] / [Col. [E], L45 - Col. [B], L45]		34.0000%	
57	WATER Applicable Federal Income Tax Rate [Col. [F], L53 - Col. [C], L53] / [Col. [F], L45 - Col. [C], L45]			0.0000%

		Sewer	
	Calculation of Interest Synchronization:		
58	Rate Base	$ 24,190,673	
59	Weighted Average Cost of Debt	1.0157%	
60	Synchronized Interest (L45 X L46)	$ 245,693	

Litchfield Park Service Company - Wastewater Division - dba Liberty Utilities
Test Year Ended December 31, 2012
Summary of Cost of Capital

Exhibit
Proposed Final Schedule D-1
Page 1
Witness: Bourassa

Consolidated Capital Structure of Water and Wastewater Division

Adjusted End of Test Year

Line No.	Item of Capital	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	15.87%	6.40%	1.02%
2				
3	Stockholder's Equity	84.13%	9.20%	7.74%
4				
5	Totals	100.00%		8.76%
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
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24				
25				
26				
27				
28				
29				
30				

Litchfield Park Service Company - Wastewater Division dba Liberty Utilities
Revenue Summary
With Annualized Revenues to Year End Number of Customers
Test Year Ended December 31, 2012

Exhibit
Proposed Final Schedule H-1
Page 1
Witness: Bourassa

Line No.	Customer Classification	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	$ 7,214,632	$ 7,466,283	$ 251,652	3.49%	69.62%	69.75%
2	Residential - Low Income	23,862	24,694	832	3.49%	0.23%	0.23%
3	Residential HOA 145	67,843	70,209	2,366	3.49%	0.65%	0.66%
4	Residential HOA 172	80,475	83,282	2,807	3.49%	0.78%	0.78%
5	Residential HOA 560	262,013	271,152	9,139	3.49%	2.53%	2.53%
6	Subtotal	$ 7,648,824	$ 7,915,621	$ 266,797	3.49%	73.81%	73.95%
7							
8	Multi-Unit Housing						
9	Multi-Unit 3	$ 10,423	$ 10,788	$ 366	3.51%	0.10%	0.10%
10	Multi-Unit 5	4,524	4,683	159	3.51%	0.04%	0.04%
11	Multi-Unit 6	6,948	7,192	244	3.51%	0.07%	0.07%
12	Multi-Unit 7	109,439	113,279	3,840	3.51%	1.06%	1.06%
13	Multi-Unit 8	6,948	7,192	244	3.51%	0.07%	0.07%
14	Multi-Unit 13	62,102	64,281	2,179	3.51%	0.60%	0.60%
15	Multi-Unit 15	267,082	276,455	9,373	3.51%	2.58%	2.58%
16	Multi-Unit 16	6,948	7,192	244	3.51%	0.07%	0.07%
17	Multi-Unit 17	7,383	7,642	259	3.51%	0.07%	0.07%
18	Multi-Unit 22	9,554	9,889	335	3.51%	0.09%	0.09%
19	Multi-Unit 43	18,674	19,329	655	3.51%	0.18%	0.18%
20	Multi-Unit 78	33,874	35,063	1,189	3.51%	0.33%	0.33%
21	Multi-Unit 84	36,480	37,760	1,280	3.51%	0.35%	0.35%
22	Multi-Unit 123	106,833	110,582	3,749	3.51%	1.03%	1.03%
23	Multi-Unit 282	122,467	126,765	4,298	3.51%	1.18%	1.18%
24							
25	Subtotal	$ 809,679	$ 838,093	$ 28,414	3.51%	7.81%	7.83%
26							
27	Small Commercial	$ 75,094	$ 77,725	2,631	3.50%	0.72%	0.73%
28	Measured Service:						
29	Regular Domestic	$ 438,612	$ 453,960	15,348	3.50%	4.23%	4.24%
30	Restaurant, Motels, Grocery, Dry Cleaning	375,664	388,810	13,147	3.50%	3.63%	3.63%
31	Subtotal	$ 814,276	$ 842,770	$ 28,494	3.50%	7.86%	7.87%
32							
33	Wigwam Resort - Per Room	$ 143,312	$ 148,342	$ 5,029	3.51%	1.38%	1.39%
34	Wigwam Resort - Main	17,200	17,802	602	3.50%	0.17%	0.17%
35	Subtotal	$ 160,512	$ 166,143	$ 5,631	3.51%	1.55%	1.55%
36							
37	Elementary Schools	$ 70,174	$ 72,630	$ 2,456	3.50%	0.68%	0.68%
38	Middle and High Schools	55,039	56,965	1,926	3.50%	0.53%	0.53%
39	Community College	21,327	22,074	747	3.50%	0.21%	0.21%
40	Subtotal	$ 146,540	$ 151,669	$ 5,129	3.50%	1.41%	1.42%
41							
42	Effluent Sales	72,967	72,967	-	0.00%	0.70%	0.68%
43	Total Revenues Before Revenues Annualization	$ 9,727,893	$ 10,064,989	$ 337,096	3.47%	93.87%	94.03%

Litchfield Park Service Company - Wastewater Division dba Liberty Utilities
Revenue Summary
With Annualized Revenues to Year End Number of Customers
Test Year Ended December 31, 2012

Exhibit
Proposed Final Schedule H-1
Page 2
Witness: Bourassa

Line No.	Customer Classification	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1							
2	Revenue Annualization						
3	Residential	$ 128,534	$ 133,018	$ 4,483	3.49%	1.24%	1.24%
4							
5	Small Commercial	66	68	2	3.50%	0.00%	0.00%
6	Measured Service:						
7	Regular Domestic	(1,644)	(1,702)	(58)	3.50%	-0.02%	-0.02%
8	Restaurant, Motels, Grocery, Dry Cleaning	3,014	3,119	105	3.50%	0.03%	0.03%
9	Effluent Sales	(3,287)	(3,287)	-	0.00%	-0.03%	-0.03%
10	Subtotal Revenue Annualization	$ 126,683	$ 131,217	$ 4,534	3.58%	1.22%	1.23%
11							
12	Misc Service Revenues						
13	Misc Revenues	$ 463,236	$ 463,236	$ -	0.00%	4.47%	4.33%
14	Third Party Revenues (not on GL)	$ 44,984	$ 44,984	-	0.00%	0.43%	0.42%
15	Reconciling Amount to C-1	0	(404)	(404)	0.00%	0.00%	0.00%
16	Totals	$ 10,362,796	$ 10,704,022	$ 341,225	3.29%	100.00%	100.00%
17							
18							
19							
20							
21							
22							
23							
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42							
43							
44							

Litchfield Park Service Company - Wastewater Division dba Liberty Utilities
Test Year Ended December 31, 2012
Analysis of Revenue by Detailed Class
Special Rate Commercial Customers Pay Standard Commerical Rate

Proposed Final Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers at 12/31/2012	Average Water Use	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	Residential	15,692	N/A	$ 38.99	$ 40.35	$ 1.36	3.488%
2	Residential - Low Income						
3	Residential HOA 145	1	N/A	5,653.55	5,850.75	197.20	3.488%
4	Residential HOA 172	1	N/A	6,706.28	6,940.20	233.92	3.488%
5	Residential HOA 560	1	N/A	21,834.40	22,596.00	761.60	3.488%
6							
7	Multi-Unit Housing						
8	Multi-Unit 3	8	N/A	108.57	112.38	3.81	3.509%
9	Multi-Unit 5	2	N/A	180.95	187.30	6.35	3.509%
10	Multi-Unit 6	4	N/A	144.76	149.84	5.08	3.509%
11	Multi-Unit 7	36	N/A	253.33	262.22	8.89	3.509%
12	Multi-Unit 8	2	N/A	289.52	299.68	10.16	3.509%
13	Multi-Unit 13	11	N/A	470.47	486.98	16.51	3.509%
14	Multi-Unit 15	41	N/A	542.85	561.90	19.05	3.509%
15	Multi-Unit 16	1	N/A	579.04	599.36	20.32	3.509%
16	Multi-Unit 17	1	N/A	615.23	636.82	21.59	3.509%
17							
18	Multi-Unit 22	1	N/A	796.18	824.12	27.94	3.509%
19	Multi-Unit 43	1	N/A	1,556.17	1,610.78	54.61	3.509%
20	Multi-Unit 84	1	N/A	3,039.96	3,146.64	106.68	3.509%
21	Multi-Unit 78	1	N/A	2,822.82	2,921.88	99.06	3.509%
22	Multi-Unit 123	2	N/A	4,451.37	4,607.58	156.21	3.509%
23	Multi-Unit 282	1	N/A	10,205.58	10,563.72	358.14	3.509%
24							
25	Small Commercial	95	N/A	65.93	68.24	2.31	3.504%
26	Measured Service:						
27	Regular Domestic	169	55,837	216.71	224.29	7.58	3.499%
28	Restaurant, Motels, Grocery, Dry Cleaning	72	92,066	432.79	447.94	15.15	3.500%
29							
30	Wigwam Resort - Per Room	1	N/A	11,942.70	12,361.80	419.10	3.509%
31	Wigwam Resort - Main	1	N/A	1,433.30	1,483.47	50.17	3.500%
32							
33	Elementary Schools	6	N/A	975	1,009	34.11	3.500%
34	Middle and High Schools	4	N/A	1,147	1,187	40.13	3.500%
35	Community College	1	N/A	1,777	1,840	62.21	3.500%
36							
37	Effluent Sales ($125 per acre foot)	0	2,964,633	1,127	1,127	-	0.000%
38	Effluent Sales ($100 per acre foot)	4	4,321,326	1,340	1,340	-	0.000%
39	Effluent Sales ($200 per acre foot)	0	2,308,900	1,593	1,593	-	0.000%
40	Total	16,161					
41							
42							

Litchfield Park Service Company - Wastewater Division dba Liberty Utilities
Present and Proposed Rates
Test Year Ended December 31, 2012

Exhibit
Proposed Final Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification	Present Rates	Proposed Rates	Change	Percent Change
1					
2					
3					
4	**Monthly Charge for:**				
5	Monthly Residential Service	$ 38.99	$ 40.35	$ 1.36	3.49%
6					
7	Multi-Unit Housing - Monthly per Unit	$ 36.19	$ 37.46	$ 1.27	3.51%
8					
9	Commercial:				
10	Small Commercial - Monthly Service	$ 65.93	$ 68.24	$ 2.31	3.50%
11	Measured Service:				
12	Regular Domestic:				
13	Monthly Service Charge	$ 36.91	$ 38.20	$ 1.29	3.49%
14	Commodity Charge per 1,000 gallons	$ 3.22	$ 3.33	$ 0.11	3.50%
15					
16	Restaurant, Motels, Grocery Stores & Dry Cleaning Estab.[1]				
17	Monthly Service Charge	$ 36.91	$ 38.20	$ 1.29	3.49%
18	Commodity Charge per 1,000 gallons	$ 4.30	$ 4.45	$ 0.15	3.50%
19					
20	Wigwam Resort:				
21	Monthly Rate - Per Room	$ 36.19	$ 37.46	$ 1.27	3.51%
22	Main Hotel Facilities - Per Month	$ 1,433.30	$ 1,483.47	$ 50.17	3.50%
23					
24	Schools - Monthly Service Rates:				
25	Elementary Schools	$ 974.64	$ 1,008.75	$ 34.11	3.50%
26	Middile Schools	$ 1,146.64	$ 1,186.77	$ 40.13	3.50%
27	High Schools	$ 1,146.64	$ 1,186.77	$ 40.13	3.50%
28	Community College	$ 1,777.29	$ 1,839.50	$ 62.21	3.50%
29					
30	Effluent[2]	Market	Market		
31					

32 [1] Motels without restuarants charged multi-unit monthly rate.

33 [2] Market Rate - Maximum effluent rate shall not exceed $430 per acre foot based on a potable water rate of $1.32 per thousand
34 gallons.

35

Litchfield Park Service Company - Wastewater Division dba Liberty Utilities
Changes in Representative Rate Schedules
Test Year Ended December 31, 2012

Exhibit
Proposed Final Schedule H-3
Page 2
Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment (Regular Hours) per Rule R14-2-603D **(a)**	$ 20.00	$ 20.00
2	Establishment (After Hours) per Rule R14-2-603D **(a)**	$ 40.00	NT
3	Re-Establishment of Service per Rule R14-2-603D **(a)**	(b)	(b)
4	Reconnection (Regular Hours) per Rule R14-2-603D **(a)**	$ 50.00	$ 20.00
5	Reconnection (After Hours) per Rule R14-2-603D **(a)**	$ 65.00	NT
6	NSF Check, per Rule R14-2-608E **(a)**	$ 25.00	$ 25.00
7	Deferred Payment, Per Month	1.50%	1.50%
8	Late Charge (c)	(c)	(c)
9	Service Calls - Per Hour/After Hours(e)	$ 40.00	$ 40.00
10	Deposit Requirement	(e)	(e)
11	Deposit Interest	3.50%	6.00%
12	Service Lateral Connection Charge- All Sizes	(f)	(f)
13	Main Extension Tariff, per Rule R14-2-606B	(g)	(g)
14			
15			
16			

17 (a) Charges are applicable to wastewater service.
18 (b) Minimum charge times number of full months off the system. per Rule R14-2-603D.
19 (c) Greater of $5.00 or 1.5% of unpaid balance.
20 (d) No charge for service calls during normal working hours.
21 (e) Afer horus service charge is appropirate when it is at the customer's requres or convenience. It compensates the utility
22 for additional expenses incurred for providing after-hours services. It is appropriate to apply this charge for any utility
23 service provided after hours at the customers request or for the customer's convenience.
24 (e) Per ACC Rules R14-2-603B Residential - two times the average bill.
25 Non-residential - two and one-half times the average bill.
26 (f) At cost. Customer/Developer shall install or cuase to be installed all Service Laterals as a
27 non-refundable contribution-in-aid of construction..
28 (g) All Main Extensions shall be completed at cost and shall be treated as non-refundable
29 contribution-in-aid of construction.
30
31
32 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM
33 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE
34 TAX. PER COMMISSION RULE 14-2-409D(5).
35
36
37
38
39

Water SIB Table I

Table 7 **Water Capital Project Summary**
Litchfield Park Facilities Assessment, Volume 2 - Water
Liberty Utilities

Project No.	NARUC Acct No. (SIB-eligible plant) 309 - Supply Mains 331 - T&D Mains 333 - Services 334 - Meters 335 - Hydrants	Replacement Plant Description: Pipe Length / Quantity	Replacement Plant Description: Diameter/ Size	Replacement Plant Description: Material	Replacement Plant Description: Installed Cost per Unit (Estimated)	Replacement Plant: PWS ID No.	Replacement Plant: Site (location description)	Replacement Plant: Expected In-Service Date	Replacement Plant: Estimated Subtotal Cost (by NARUC Acct No.)	Replacement Plant: Estimated Subtotal Cost (by project)	1. Provide narrative why Replacement Asset is necessary • replacement of existing asset that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility • replacement of existing asset for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this asset is a priority. 3. Provide narrative explaining how replacing this asset will benefit existing customers. 4. Provide affirmation that Replacement Asset does not include the costs for extending or expanding facilities to serve new customers. 5. Provide reference to related page No. in the submitted detailed Engineering Analysis supporting the need for SIB. Engineering Analysis shall also include narrative explaining the utility's systematic assessment, inspection, maintenance, and repair/replacement program.
1A	331	2,579	6"	DIP	$105.89	04-07046	Bird Lane	Year 1	$273,100	$404,300	1. Water main replacement is necessary because the pipe is at the end of its design life, installed in 1962. Also, this stretch of Bird Lane from Old Litchfield Road to Pejaro Lane requires open cut trench replacement of the sewer pipeline and laterals. It would be advantageous from a surface restoration cost perspective, to replace the aging water pipeline and services at the same time. 2. Replacing pipes and service lines are a priority to avoid water delivery interruptions and avoid expensive repairs. 3. Replacing pipes and service lines benefits existing customers by improving water supply reliability. 4. Pipe replacements are entirely in established, fully developed neighborhoods and do not serve new water customers. 5. Sections 3.1 and 3.2 in the report explain the modes of pipeline failure. In this case, the failure mode is mortality and efficiency.
1B	333	30	1"	Type "K" Copper	$2,500.00	04-07046	Bird Lane		$75,000		
1C	334	30	1"	Sensus or Equal	$626.67	04-07046	Bird Lane		$18,800		
1D	335	6	5 1/4"	Waterous Pacer, Mueller Centurion, Clow Medallion or Equal	$6,233.33	04-07046	Bird Lane		$37,400		
2A	331	3,440	6" & 12"	DIP	$105.90	04-07046	Redondo Drive	Year 1	$364,300	$551,700	1. Water main replacement is necessary because the pipe is at the end of its design life, installed in 1955. It is located in the Redondo Drive loop subdivision and the sewer pipes are recommended for replacement due to deteriorated condition. It would be advantageous from a surface restoration cost perspective, to replace the aging water pipeline and services at the same time. 2. Replacing pipes and service lines are a priority to avoid water delivery interruptions and avoid expensive repairs. 3. Replacing pipes and service lines benefits existing customers by improving water supply reliability. 4. Pipe replacements are entirely in established, fully developed neighborhoods and do not serve new water customers. 5. Sections 3.1 and 3.2 in the report explain the modes of pipeline failure. In this case, the failure mode is mortality and efficiency.
2B	333	46	1"	Type "K" Copper	$2,500.00	04-07046	Redondo Drive		$115,000		
2C	334	46	1"	Sensus or Equal	$626.09	04-07046	Redondo Drive		$28,800		
2D	335	7	5 1/4"	Waterous Pacer, Mueller Centurion, Clow Medallion or Equal	$6,228.57	04-07046	Redondo Drive		$43,600		

EXHIBIT B
DECISION NO. 74437
DOCKET NO. SW-01428A-13-0042 ET AL.

Water SIB Table I

Table 7 Water Capital Project Summary
Litchfield Park Facilities Assessment, Volume 2 - Water
Liberty Utilities

Project No.	NARUC Acct No. (SIB-eligible plant) 309 - Supply Mains 331 - T&D Mains 333 - Services 334 - Meters 335 - Hydrants	Replacement Plant Description				Replacement Plant					
		Pipe Length / Quantity	Diameter/ Size	Material	Installed Cost per Unit (Estimated)	PWS ID No.	Site (location description)	Expected In-Service Date	Estimated Subtotal Cost (by NARUC Acct No.)	Estimated Subtotal Cost (by project)	1. Provide narrative why Replacement Asset is necessary - replacement of existing asset that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing asset for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this asset is a priority. 3. Provide narrative explaining how replacing this asset will benefit existing customers. 4. Provide affirmation that Replacement Asset does not include the costs for extending or expanding facilities to serve new customers. 5. Provide reference to related page No. in the submitted detailed Engineering Analysis supporting the need for SIB. Engineering Analysis shall also include narrative explaining the utility's systematic assessment, inspection, maintenance, and repair/replacement program.
3A	331	6,330	6" & 12"	DIP	$105.89	04-07046	Laguna Drive and Bahia Lane	Year 2	$670,300	$1,195,100	1. Water main replacement is necessary because the pipe is approaching the end of its design life (installed in 1968) and replacement will satisfy current design criteria for fire flows. It is located along Laguna Drive and Bahia Lane, southeast of Old Litchfield Rd and Wigwam Blvd. Service line replacement is necessary to ensure system integrity. The sewer pipelines in the vicinity are recommended for replacement due to inadequate slopes and debris accumulation. It would be advantageous from a surface restoration cost perspective, to replace the aging water pipeline and services at the same time. 2. Replacing pipes and service lines are a priority to avoid water delivery interruptions and avoid expensive repairs. 3. Replacing pipes and service lines benefits existing customers by improving water supply reliability. 4. Pipe replacements are entirely in established, fully developed neighborhoods and do not serve new water customers. 5. Sections 3.1 and 3.2 in the report explain the modes of pipeline failure. In this case, the failure mode is mortality and efficiency.
3B	333	142	1"	Type "K" Copper	$2,500.00	04-07046	Laguna Drive and Bahia Lane		$355,000		
3C	334	142	1"	Sensus or Equal	$625.35	04-07046	Laguna Drive and Bahia Lane		$88,800		
3D	335	13	5 1/4"	Waterous Pacer, Mueller Centurion, Clow Medallion or Equal	$6,230.77	04-07046	Laguna Drive and Bahia Lane		$81,000		
4A	331	2,357	6" & 12"	DIP	$114.30	04-07046	Neolin Ave	Year 2	$269,400	$338,100	1. Water main replacement is necessary because the pipe is at the end of its design life (installed in 1956) and replacement will satisfy current design criteria for fire flows. It is located along Neolin Avenue and Wigwam Blvd. The sewer pipelines in the vicinity are recommended for replacement due to failed materials and conditions that can lead to overflows. It would be advantageous from a surface restoration cost perspective, to replace the aging water pipeline and services at the same time. 2. Replacing pipes and service lines are a priority to avoid water delivery interruptions and avoid expensive repairs. 3. Replacing pipes and service lines benefits existing customers by improving water supply reliability. 4. Pipe replacements are entirely in established, fully developed neighborhoods and do not serve new water customers. 5. Sections 3.1 and 3.2 in the report explain the modes of pipeline failure. In this case, the failure mode is mortality and efficiency.
4B	333	12	1"	Type "K" Copper	$2,500.00	04-07046	Neolin Ave		$30,000		
4C	334	12	1"	Sensus or Equal	$625.00	04-07046	Neolin Ave		$7,500		
4D	335	5	5 1/4"	Waterous Pacer, Mueller Centurion, Clow Medallion or Equal	$6,240.00	04-07046	Neolin Ave		$31,200		

Water SIB Table I

Table 7 Water Capital Project Summary
Litchfield Park Facilities Assessment, Volume 2 - Water
Liberty Utilities

Project No.	NARUC Acct No. (SIB-eligible plant) 309 - Supply Mains 331 - T&D Mains 333 - Services 334 - Meters 335 - Hydrants	Replacement Plant Description: Pipe Length / Quantity	Replacement Plant Description: Diameter/ Size	Replacement Plant Description: Material	Replacement Plant Description: Installed Cost per Unit (Estimated)	Replacement Plant: PWS ID No.	Replacement Plant: Site (location description)	Replacement Plant: Expected In-Service Date	Replacement Plant: Estimated Subtotal Cost (by NARUC Acct No.)	Replacement Plant: Estimated Subtotal Cost (by project)	1. Provide narrative why Replacement Asset is necessary • replacement of existing asset that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility • replacement of existing asset for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this asset is a priority. 3. Provide narrative explaining how replacing this asset will benefit existing customers. 4. Provide affirmation that Replacement Asset does not include the costs for extending or expanding facilities to serve new customers. 5. Provide reference to related page No. in the submitted detailed Engineering Analysis supporting the need for SIB. Engineering Analysis shall also include narrative explaining the utility's systematic assessment, inspection, maintenance, and repair/replacement program.
5A	331	3,942	6" & 12"	DIP	$127.04	04-07046	South La Loma Ave	Year 3	$500,800	$560,000	1. Water main replacement is necessary because the pipe is approaching the end of its design life, installed in 1965. It is located along La Loma Ave and Honeysuckle St NW of Old Litchfield and Wigwam Blvd. The area has been planned out as the City of Litchfield's future City Hall when funds become available. The sewer lines are recommended for replacement due to corroded material and overflow potential. 2. Replacing pipes and service lines are a priority to avoid water delivery interruptions and avoid expensive repairs. 3. Replacing pipes and service lines benefits existing customers by improving water supply reliability. 4. Pipe replacements are entirely in established, fully developed neighborhoods and do not serve new water customers. 5. Sections 3.1 and 3.2 in the report explain the modes of pipeline failure. In this case, the failure mode is mortality and efficiency.
5B	333	3	1"	Type "K" Copper	$2,500	04-07046	South La Loma Ave		$7,500		
5C	334	3	1"	Sensus or Equal	$633.33	04-07046	South La Loma Ave		$1,900		
5D	335	8	5 1/4"	Waterous Pacer, Mueller Centurion, Clow Medallion or Equal	$6,225.00	04-07046	South La Loma Ave		$49,800		
6A	331	14,630	6" & 12"	DIP	$119.79	04-07046	Villa Nueva	Year 3	$1,752,500	$2,458,100	1. Water main replacement is necessary because the pipe is approaching the end of its design life (installed in 1966) and replacement will satisfy current design criteria for fire flows. It is located in the southeast portion of Litchfield Park throughout the Villa Nueva subdivision. It would be advantageous from a surface restoration cost perspective, to replace the aging water pipeline and services at the same time. 2. Replacing pipes and service lines are a priority to avoid water delivery interruptions and avoid expensive repairs. 3. Replacing pipes and service lines benefits existing customers by improving water supply reliability. 4. Pipe replacements are entirely in established, fully developed neighborhoods and do not serve new water customers. 5. Sections 3.1 and 3.2 in the report explain the modes of pipeline failure. In this case, the failure mode is mortality and efficiency.
6B	333	166	1"	Type "K" Copper	$2,500.00	04-07046	Villa Nueva		$415,000		
6C	334	166	1"	Sensus or Equal	$625.30	04-07046	Villa Nueva		$103,800		
6D	335	30	5 1/4"	Waterous Pacer, Mueller Centurion, Clow Medallion or Equal	$6,226.67	04-07046	Villa Nueva		$186,800		
7A	331	7,693	6" & 12"	DIP	$107.34	04-07046	Old Litchfield Rd	Year 4	$825,800	$1,053,600	1. The sewer pipes are recommended for replacement due to deteriorated condition and overflow potential. It would be advantageous from a surface restoration cost perspective, to replace the aging water pipeline and services at the same time. Water main replacement will also satisfy current design criteria for fire flows by upsizing pipelines. 2. Replacing pipes and service lines are a priority to avoid water delivery interruptions and avoid expensive repairs. 3. Replacing pipes and service lines benefits existing customers by improving water supply reliability. 4. Pipe replacements are entirely in established, fully developed neighborhoods and do not serve new water customers. 5. Sections 3.1 and 3.2 in the report explain the modes of pipeline failure. In this case, the failure mode is mortality and efficiency.
7B	333	41	1"	Type "K" Copper	$2,500.00	04-07046	Old Litchfield Rd		$102,500		
7C	334	41	1"	Sensus or Equal	$626.83	04-07046	Old Litchfield Rd		$25,700		
7D	335	16	5 1/4"	Waterous Pacer, Mueller Centurion, Clow Medallion or Equal	$6,225.00	04-07046	Old Litchfield Rd		$99,600		

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Water SIB Table I

Table 7 Water Capital Project Summary
Litchfield Park Facilities Assessment, Volume 2 - Water
Liberty Utilities

Project No.	NARUC Acct No. (SIB-eligible plant) 309 - Supply Mains 331 - T&D Mains 333 - Services 334 - Meters 335 - Hydrants	Replacement Plant Description: Pipe Length / Quantity	Replacement Plant Description: Diameter/ Size	Replacement Plant Description: Material	Replacement Plant Description: Installed Cost per Unit (Estimated)	Replacement Plant: PWS ID No.	Replacement Plant: Site (location description)	Replacement Plant: Expected In-Service Date	Replacement Plant: Estimated Subtotal Cost (by NARUC Acct No.)	Replacement Plant: Estimated Subtotal Cost (by project)	1. Provide narrative why Replacement Asset is necessary - replacement of existing asset that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - replacement of existing asset for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this asset is a priority. 3. Provide narrative explaining how replacing this asset will benefit existing customers. 4. Provide affirmation that Replacement Asset does not include the costs for extending or expanding facilities to serve new customers. 5. Provide reference to related page No. in the submitted detailed Engineering Analysis supporting the need for SIB. Engineering Analysis shall also include narrative explaining the utility's systematic assessment, inspection, maintenance, and repair/replacement program.
8A	331	10,283	6" & 12"	DIP	$116.76	04-07046	North of Bird Lane	Year 4	$1,200,600	$1,631,400	1. Water main replacement is necessary because the pipe is at the end of its design life (installed in 1962) and replacement will satisfy current design criteria for fire flows. It is located in the subdivision north of Bird Lane. The sewer infrastructure in the vicinity is also recommended for replacement due to deteriorated conditions. It would be advantageous from a surface restoration cost perspective, to replace the aging water pipeline and services at the same time. 2. Replacing pipes and service lines are a priority to avoid water delivery interruptions and avoid expensive repairs. 3. Replacing pipes and service lines benefits existing customers by improving water supply reliability. 4. Pipe replacements are entirely in established, fully developed neighborhoods and do not serve new water customers. 5. Sections 3.1 and 3.2 in the report explain the modes of pipeline failure. In this case, the failure mode is mortality and efficiency.
8B	333	96	1"	Type "K" Copper	$2,500.00	04-07046	North of Bird Lane		$240,000		
8C	334	96	1"	Sensus or Equal	$625.00	04-07046	North of Bird Lane		$60,000		
8D	335	21	5 1/4"	Waterous Pacer, Mueller Centurion, Clow Medallion or Equal	$6,228.57	04-07046	North of Bird Lane		$130,800		
9A	331	6,282	6"	DIP	$105.89	04-07046	North La Loma Ave	Year 5	$665,200	$968,100	1. Water main replacement is necessary because the pipe is nearing the end of its design life (installed in 1965) and replacement will satisfy current design criteria for fire flows. It is located along La Loma Drive north of Fairway Dr and almost curving to Old Litchfield Rd. The sewer infrastructure in the vicinity is also recommended for replacement due to deteriorated conditions. It would be advantageous from a surface restoration cost perspective, to replace the aging water pipeline and services at the same time. 2. Replacing pipes and service lines are a priority to avoid water delivery interruptions and avoid expensive repairs. 3. Replacing pipes and service lines benefits existing customers by improving water supply reliability. 4. Pipe replacements are entirely in established, fully developed neighborhoods and do not serve new water customers. 5. Sections 3.1 and 3.2 in the report explain the modes of pipeline failure. In this case, the failure mode is mortality and efficiency.
9B	333	71	1"	Type "K" Copper	$2,500.00	04-07046	North La Loma Ave		$177,500		
9C	334	71	1"	Sensus or Equal	$625.35	04-07046	North La Loma Ave		$44,400		
9D	335	13	5 1/4"	Waterous Pacer, Mueller Centurion, Clow Medallion or Equal	$6,230.77	04-07046	North La Loma Ave		$81,000		
										$9,160,400	

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Wastewater SIB Table I

Table 7 **Sewer Capital Project Summary**
Litchfield Park Facilities Assessment, Volume 1 - Sewer
Liberty Utilities

Project No.	NARUC Acct No. (SIB-eligible plant)	Replacement Plant Description (new plant) (SIB-eligible plant)					ADEQ WW Inventory ID No.	Site (location description)	Replacement Plant			
	361 Gravity Collecting Sewers 363 Service Laterals, Manholes, Clean-outs	Description	Pipe Length/ Quantity	Diameter/ Size	Material	Installed Cost/ Unit (estimated)			Expected In-Service Date	Estimated Subtotal Cost (by NARUC Acct No.)	Estimated Subtotal Cost (by project)	1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - addressing excessive infiltration and inflow (I/I), showing excessive I/I adversely affecting treatment plant, if applicable - *replacement of existing plant for other reasons supported by persuasive showing by utility* 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers. 5. Provide reference to related page No. in the submitted detailed Engineering Analysis supporting the need for SIB. Engineering Analysis shall also include narrative explaining the utility's systematic assessment, inspection, maintenance and repair/replacement program. If addressing I/I, evaluate the extent of I/I along with the frequency, duration and volume of wet weather conditions and any other factors contributing to I/I.
1A	361	Replace sewer pipe	2,347	12-inch	PVC	$139.70	100310	Bird Lane	Year 1	$327,900	$375,200	1. This project will replace unlined concrete pipe installed in 1962 that is severely deteriorated. The conditions warrant an open cut trench method. It is located in Bird Lane between Old Litchfield Rd and Pajaro Lane. The manhole and service lateral replacement costs are included to take advantage of cost saving potential *and increase construction efficiency.* 2. This segment of pipe is a priority because a blockage of the pipe would potentially affect 30+ homes with either service interruption or sewer backups. Structural collapse of the pipe would affect vehicular traffic on this major east/west leg of Litchfield Park. 3. Replacing this portion of the sewer system will provide reliable sanitary sewer conveyance for existing customers. 4. This project does not include extending the sewer service facilities to serve new customers. 5. The Engineering Analysis that supports the need for SIB can be found in the Final Litchfield Park Facilities Assessment, Volume 1 – Sewer. Reference pages 7, 11, and Appendices 3, 4, 5 and 7.
1B	363	Replace sewer manhole	6	60-inch	Precast concrete, epoxy coated	$4,817.13	100310	Bird Lane	Year 1	$29,000		
1C	363	Replace service lateral	30	4-inch	PVC	$609.35	100310	Bird Lane	Year 1	$18,300		
2A	361	Replace sewer pipe	2,974	8-inch	PVC	$121.07	100310	Redondo Drive	Year 1	$360,100	$450,600	1. This project will replace unlined concrete pipe installed in 1955 that is moderately deteriorated. It is located in the Redondo Drive loop subdivision. The manhole and service lateral replacement costs are included to take advantage of cost saving potential and increase construction efficiency. 2. This segment of pipe is a priority because a *blockage of the pipe would potentially affect* 65+ homes with either service interruption or sewer backups. Structural collapse of the pipe would endanger the community. 3. Replacing this portion of the sewer system will provide reliable sanitary sewer conveyance for existing customers. 4. This project does not include extending the sewer service facilities to serve new customers. 5. The Engineering Analysis that supports the need for SIB can be found in the Final Litchfield Park Facilities Assessment, Volume 1 – Sewer. Reference pages 7, 11, and Appendices 3, 4 and 5.
2B	363	Replace sewer manhole	17	48-inch	Precast concrete, epoxy coated	$3,676.32	100310	Redondo Drive	Year 1	$62,500		
2C	363	Replace service lateral	65	4-inch	PVC	$431.34	100310	Redondo Drive	Year 1	$28,000		

Wastewater SIB Table I

Table 7 Sewer Capital Project Summary
Litchfield Park Facilities Assessment, Volume 1 - Sewer
Liberty Utilities

Project No.	NARUC Acct No. (SIB-eligible plant) 361 Gravity Collecting Sewers 363 Service Laterals, Manholes, Clean-outs	Replacement Plant Description (new plant) (SIB-eligible plant)					ADEQ WW Inventory ID No.	Site (location description)	Replacement Plant			
		Description	Pipe Length/ Quantity	Diameter/ Size	Material	Installed Cost/ Unit (estimated)			Expected In-Service Date	Estimated Subtotal Cost (by NARUC Acct No.)	Estimated Subtotal Cost (by project)	
												1. Provide narrative why Replacement Plant is necessary - replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility - addressing excessive infiltration and inflow (I/I), showing excessive I/I adversely affecting treatment plant, if applicable - replacement of existing plant for other reasons supported by persuasive showing by utility 2. Provide narrative explaining why this segment of plant is a priority. 3. Provide narrative explaining how replacing this plant will benefit existing customers. 4. Provide affirmation that *Replacement Plant does not* include the costs for extending or expanding facilities to serve new customers. 5. Provide reference to related page No. in the submitted detailed Engineering Analysis supporting the need for SIB. Engineering Analysis shall also include narrative explaining the utility's systematic assessment, inspection, maintenance and repair/replacement program. If addressing I/I, evaluate the extent of I/I along with the frequency, duration and volume of wet weather conditions and any other factors contributing to I/I.
3A	361	Replace sewer pipe	4,961	8-inch	PVC	$121.07	100310	Laguna Drive and Bahia Lane	Year 2	$600,700	$727,300	1. This project will replace vitrified clay pipe installed in 1956 that has exceeded the design life. The pipelines are also lying at slopes too flat to function well as gravity sewer mains. Frequent cleaning is performed to address odor complaints and debris blockages. It is located along Laguna Drive and Bahia Lane, southeast of Old Litchfield Rd and Wigwam Blvd. The brick manholes have heavily deteriorated benches that require repair. The service lateral replacement costs are included to take advantage of cost saving potential and increase construction efficiency. 2. This segment of pipe is a priority because a blockage of the pipe of the pipe would potentially affect 140+ homes with either service interruption or sewer backups. Structural collapse of the pipe would endanger the community and depending the location; also affect the nearby man-made Tierra Verde Lake with waterfowl or school-age pedestrians. 3. Replacing this portion of the sewer system will provide reliable sanitary sewer conveyance for existing customers. This project will also prevent a sewer overflow and protect the public health. 4. This project does not include extending the sewer service facilities to serve new customers. 5. The Engineering Analysis that supports the need for SIB can be found in the Final Litchfield Park Facilities Assessment, Volume 1 – Sewer. Reference pages 7, 11, and Appendices 3, 4, 5, 6 and 7.
3B	363	Replace sewer manhole	18	48-inch	Precast concrete, epoxy coated	$3,676.23	100310	Laguna Drive and Bahia Lane	Year 2	$66,200		
3C	363	Replace service lateral	140	4-inch	PVC	$431.34	100310	Laguna Drive and Bahia Lane	Year 2	$60,400		
4A	361	Replace sewer pipe	2,974	12-inch	PVC	$139.70	100310	Neolin Ave	Year 2	$415,500	$490,900	1. This project will replace a sewer line with multiple problems. There are different materials, the original concrete installation dated 1955, PVC with an unknown installation. It is located along Neolin Avenue and Wigwam Blvd. Frequent odor complaints are tied to this specific area as well as sewer backups into homes. The manhole and service lateral replacement costs are included to take advantage of cost saving potential and increase construction efficiency. 2. This segment of pipe is a priority because failure of the pipe would potentially affect 13+ homes and produce sewer backups. 3. Replacing this portion of the sewer system will provide reliable sanitary sewer conveyance for existing customers. This project will also prevent a sewer overflow and protect the public health. 4. This project does not include extending the sewer service facilities to serve new customers. 5. The Engineering Analysis that supports the need for SIB can be found in the Final Litchfield Park Facilities Assessment, Volume 1 – Sewer. Reference pages 7, 12, and Appendices 3, 4, 5 and 6.
4B	363	Replace sewer manhole	14	60-inch	Precast concrete, epoxy coated	$4,817.13	100310	Neolin Ave	Year 2	$67,500		
4C	363	Replace service lateral	13	4-inch	PVC	$609.35	100310	Neolin Ave	Year 2	$7,900		

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Wastewater SIB Table I

Table 7 **Sewer Capital Project Summary**
Litchfield Park Facilities Assessment, Volume 1 - Sewer
Liberty Utilities

Project No.	NARUC Acct No. (SIB-eligible plant) 361 Gravity Collecting Sewers 363 Service Laterals, Manholes, Clean-outs	Replacement Plant Description (new plant) (SIB-eligible plant)					ADEQ WW Inventory ID No.	Site (location description)	Replacement Plant			
		Description	Pipe Length/ Quantity	Diameter/ Size	Material	Installed Cost/ Unit (estimated)			Expected In-Service Date	Estimated Subtotal Cost (by NARUC Acct No.)	Estimated Subtotal Cost (by project)	
												1. Provide narrative why Replacement Plant is necessary **- replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility** **- addressing excessive infiltration and inflow (I/I), showing excessive I/I adversely affecting treatment plant, if applicable** **- replacement of existing plant for other reasons supported by persuasive showing by utility** **2. Provide narrative explaining why this segment of plant is a priority.** **3. Provide narrative explaining how replacing this plant will benefit existing customers.** **4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.** **5. Provide reference to related page No. in the submitted detailed Engineering Analysis supporting the need for SIB. Engineering Analysis shall also include narrative explaining the utility's systematic assessment, inspection, maintenance and repair/replacement program.** **If addressing I/I, evaluate the extent of I/I along with the frequency, duration and volume of wet weather conditions and any other factors contributing to I/I.**
5A	361	Replace sewer pipe	2,094	12-inch	PVC	$104.44	100310	Golf Course	Year 2	$218,700	$262,100	1. This project will replace vitrified clay pipe installed in 1962 that has exceeded the design life. Unsuccessful field inspection attempts may indicate that the pipeline is partially collapsed under the golf course. There is an I&I potential associated with this pipeline due to it's location under the golf course. 2. This segment of pipe is a priority because the high probability of collapse would affect course users and cascade to a detrimental economic impact on the resort. 3. Replacing this portion of the sewer system will provide reliable sanitary sewer conveyance to upstream customers; there is no direct service connections associated with this project. 4. This project does not include extending the sewer service facilities to serve new customers. 5. The Engineering Analysis that supports the need for SIB can be found in the Final Litchfield Park Facilities Assessment, Volume 1 – Sewer. Reference pages 7, 12, and Appendices 3, 4 and 5.
5B	363	Replace sewer manhole	9	60-inch	Precast concrete, epoxy coated	$4,817.13	100310	Golf Course	Year 2	$43,400		
6A	361	Replace sewer pipe	2,417	12-inch	PVC	$93.38	100310	La Loma	Year 3	$225,700	$278,200	1. This project will replace concrete pipe installed in 1965. The design life must be re-evaluated due to the corrosive effects on the unprotected concrete material. It is located along La Loma Ave and Honeysuckle St NW of Old Litchfield and Wigwam Blvd. The area has been planned out as the City of Litchfield's future City Hall when funds become available. 2. This segment of pipe is a priority because the high probability of collapse would potentially affect 10+ homes, several businesses and produce sewer backups. Structural collapse of the pipe would affect pedestrian and vehicular traffic should the City Hall construction take place. 3. Replacing this portion of the sewer system will provide reliable sanitary sewer conveyance. This project will also prevent a sewer overflow and protect the public health. 4. This project does not include extending the sewer service facilities to serve new customers. 5. The Engineering Analysis that supports the need for SIB can be found in the Final Litchfield Park Facilities Assessment, Volume 1 – Sewer. Reference page 7 and Appendices 3, 4 and 5.
6B	363	Replace sewer manhole	9	60-inch	Precast concrete, epoxy coated	$4,817.13	100310	La Loma	Year 3	$43,400		
6C	363	Replace service lateral	15	4-inch	PVC	$609.35	100310	La Loma	Year 3	$9,100		
7A	361	Replace sewer pipe	15,274	8-inch & 10-inch	PVC	$124.26	100310	South Villa Nueva	Year 3	$1,898,000	$2,177,600	1. This project will replace vitrified clay pipe installed in 1966. It is located in the southeast portion of Litchfield Park throughout the Villa Nueva subdivision. The brick manholes have heavily deteriorated benches that require repair. The service lateral replacement costs are included to take advantage of cost saving potential and increase construction efficiency. 2. This segment of pipe is a priority because the high probability of collapse would potentially affect 160+ homes and produce sewer backups. Structural collapse of the pipe would endanger the community and vehicular traffic. 3. Replacing this portion of the sewer system will provide reliable sanitary sewer conveyance. This project will also prevent a sewer overflow and protect the public health. 4. This project does not include extending the sewer service facilities to serve new customers. 5. The Engineering Analysis that supports the need for SIB can be found in the Final Litchfield Park Facilities Assessment, Volume 1 – Sewer. Reference Appendices 3, 4, 5 and 7.
7B	363	Replace sewer manhole	61	48-inch	Precast concrete, epoxy coated	$3,451.79	100310	South Villa Nueva	Year 3	$210,600		
7C	363	Replace service lateral	160	4-inch	PVC	$431.34	100310	South Villa Nueva	Year 3	$69,000		

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Wastewater SIB Table I

Table 7 **Sewer Capital Project Summary**
Litchfield Park Facilities Assessment, Volume 1 - Sewer
Liberty Utilities

Project No.	NARUC Acct No. (SIB-eligible plant) 361 Gravity Collecting Sewers 363 Service Laterals, Manholes, Clean-outs	Replacement Plant Description (new plant) (SIB-eligible plant)					ADEQ WW Inventory ID No.	Site (location description)	Replacement Plant			
		Description	Pipe Length/ Quantity	Diameter/ Size	Material	Installed Cost/ Unit (estimated)			Expected In-Service Date	Estimated Subtotal Cost (by NARUC Acct No.)	Estimated Subtotal Cost (by project)	
												1. Provide narrative why Replacement Plant is necessary **- replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility** **- addressing excessive infiltration and inflow (I/I), showing excessive I/I adversely affecting treatment plant, if applicable** **- replacement of existing plant for other reasons supported by persuasive showing by utility** **2. *Provide narrative explaining why this segment of plant is a priority.*** **3. Provide narrative explaining how replacing this plant will benefit existing customers.** **4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.** **5. Provide reference to related page No. in the submitted detailed Engineering Analysis supporting the need for SIB. Engineering Analysis shall also include narrative explaining the utility's systematic assessment, inspection, maintenance and repair/replacement program.** **If addressing I/I, evaluate the extent of I/I along with the frequency, duration and volume of wet weather conditions and any other factors contributing to I/I.**
8A	361	Replace sewer pipe	7,961	8-inch, 10-inch, 12-inch	PVC	$128.45	100310	Old Litchfield Road	Year 4	$1,022,700	$1,138,100	1. This project will replace concrete pipe on an unknown age. The unprotected material is highly susceptible to advance hydrogen sulfide induced corrosion. The location of the pipeline is critical, crossing the intersection of Camelback Road and Litchfield Road. The uncoated precast manholes require extensive repair to remain as safe access points to the sewer system. Service lateral replacement costs are included to take advantage of cost saving potential and increase construction efficiency. 2. This segment of pipe is a priority because the high probability of collapse would potentially affect downtown Litchfield Park businesses and produce sewer backups as well interrupt traffic at a major intersection. 3. Replacing this portion of the sewer system will provide reliable sanitary sewer conveyance. This project will also prevent a sewer overflow and protect the public health. 4. This project does not include extending the sewer service facilities to serve new customers. 5. The Engineering Analysis that supports the need for SIB can be found in the Final Litchfield Park Facilities Assessment, Volume 1 – Sewer. Reference Appendices 3, 4, 5 and 7.
8B	363	Replace sewer manhole	29	48-inch	Precast concrete, epoxy coated	$3,518.86	100310	Old Litchfield Road	Year 4	$102,100		
8C	363	Replace service lateral	30	4-inch	PVC	$443.21	100310	Old Litchfield Road	Year 4	$13,300		
9A	361	Replace sewer pipe	7,846	8-inch	PVC	$121.07	100310	North of Bird Lane	Year 4	$949,900	$1,068,700	1. This project will replace vitrified clay pipe installed in 1962 that has exceeded its designated useful life of 50 years. It is located in the subdivision north of Bird Lane. The brick manholes have heavily deteriorated benches that require repair also several bricks have fallen out. This compromises the structural integrity of the manhole. The service lateral replacement costs are included to take advantage of cost saving potential and increase construction efficiency. 2. This segment of pipe is a priority because the high probability of collapse would potentially affect 90+ homes and produce sewer backups. Structural collapse of the pipe would endanger the community and vehicular traffic. 3. Replacing this portion of the sewer system will provide reliable sanitary sewer conveyance. This project will also prevent a sewer overflow and protect the public health. 4. This project does not include extending the sewer service facilities to serve new customers. 5. The Engineering Analysis that supports the need for SIB can be found in the Final Litchfield Park Facilities Assessment, Volume 1 – Sewer. Reference Appendices 3, 4, 5 and 7.
9B	363	Replace sewer manhole	23	48-inch	Precast concrete, epoxy coated	$3,477.81	100310	North of Bird Lane	Year 4	$80,000		
9C	363	Replace service lateral	90	4-inch	PVC	$431.34	100310	North of Bird Lane	Year 4	$38,800		
10A	361	Replace sewer pipe	4,635	8-inch	PVC	$121.07	100310	North La Loma	Year 5	$561,200	$661,700	1. This project will replace vitrified clay pipe installed in 1965. It is located along La Loma Drive north of Fairway Dr and almost curving to Old Litchfield Rd. The manhole and service lateral replacement costs are included to take advantage of cost saving potential and increase construction efficiency. 2. This segment of pipe is a priority because the high probability of collapse would potentially affect 70+ homes and produce sewer backups. Structural collapse of the pipe would endanger the community and vehicular traffic. 3. Replacing this portion of the sewer system will provide reliable sanitary sewer conveyance. This project will also prevent a sewer overflow and protect the public health. 4. This project does not include extending the sewer service facilities to serve new customers. 5. The Engineering Analysis that supports the need for SIB can be found in the Final Litchfield Park Facilities Assessment, Volume 1 – Sewer. Reference Appendices 3, 4, 5 and 7.
10B	363	Replace sewer manhole	19	48-inch	Precast concrete, epoxy coated	$3,676.22	100310	North La Loma	Year 5	$69,900		
10C	363	Replace service lateral	71	4-inch	PVC	$431.34	100310	North La Loma	Year 5	$30,600		

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Wastewater SIB Table I

Table 7 **Sewer Capital Project Summary**
Litchfield Park Facilities Assessment, Volume 1 - Sewer
Liberty Utilities

Project No.	NARUC Acct No. (SIB-eligible plant) 361 Gravity Collecting Sewers 363 Service Laterals, Manholes, Clean-outs	Replacement Plant Description (new plant) (SIB-eligible plant) Description	Pipe Length/ Quantity	Diameter/ Size	Material	Installed Cost/ Unit (estimated)	ADEQ WW Inventory ID No.	Site (location description)	Replacement Plant Expected In-Service Date	Estimated Subtotal Cost (by NARUC Acct No.)	Estimated Subtotal Cost (by project)	
11A	361	Replace sewer pipe	8,758	8-inch	PVC	$121.07	100310	Tierra Verde Lake to Wigwam	Year 5	$1,060,400	$1,290,100	1. This project will replace vitrified clay pipe installed in 1967. It is located between Tierra Verde Lake and Indian School Road up to south of Wigwam Blvd. The manhole and service lateral replacement costs are included to take advantage of cost saving potential and increase construction efficiency. 2. This segment of pipe is a priority because the high probability of collapse would potentially affect 200+ homes and produce sewer backups. Structural collapse of the pipe would endanger the community and depending the location; *also affect the nearby man-made* Tierra Verde Lake with waterfowl. 3. Replacing this portion of the sewer system will provide reliable sanitary sewer conveyance. This project will also prevent a sewer overflow and protect the public health. 4. This project does not include extending the sewer service facilities to serve new customers. 5. The Engineering Analysis that supports the need for SIB can be found in the Final Litchfield Park Facilities Assessment, Volume 1 – Sewer. Reference Appendices 3, 4, 5 and 7.
11B	363	Replace sewer manhole	44	48-inch	Precast concrete, epoxy coated	$3,209.49	100310	Tierra Verde Lake to Wigwam	Year 5	$141,300		
11C	363	Replace service lateral	205	4-inch	PVC	$431.34	100310	Tierra Verde Lake to Wigwam	Year 5	$88,400		
12A	361	Replace sewer pipe	9,656	8-inch	PVC	$121.07	100310	West of Staggs Park	Year 5	$1,169,100	$1,416,700	1. This project will replace vitrified clay pipe installed in 1973. It is located west of Staggs Park and south of Wigwam Blvd. The manhole and service lateral replacement costs are included to take advantage of cost saving potential and increase construction efficiency. 2. This segment of pipe is a priority because the high probability of collapse would potentially affect 220+ homes and produce sewer backups. Structural collapse of the pipe would endanger the community and vehicular traffic. 3. Replacing this portion of the sewer system will provide reliable sanitary sewer conveyance. This project will also prevent a sewer overflow and protect the public health. 4. This project does not include extending the sewer service facilities to serve new customers. 5. The Engineering Analysis that supports the need for SIB can be found in the Final Litchfield Park Facilities Assessment, Volume 1 – Sewer. Reference Appendices 3, 4, 5 and 7.
12B	363	Replace sewer manhole	44	48-inch	Precast concrete, epoxy coated	$3,468.79	100310	West of Staggs Park	Year 5	$152,700		
12C	363	Replace service lateral	220	4-inch	PVC	$431.34	100310	West of Staggs Park	Year 5	$94,900		
										Estimated Total Cost	**$10,337,200**	

1. Provide narrative why Replacement Plant is necessary
- **replacement of existing plant that has exceeded its designated useful life and has worn out or is in deteriorating condition due to no fault of the utility**
- **addressing excessive infiltration and inflow (I/I), showing excessive I/I adversely *affecting treatment plant, if applicable***
- **replacement of existing plant for other reasons supported by persuasive showing by utility**

2. Provide narrative explaining why this segment of plant is a priority.
3. Provide narrative explaining how replacing this plant will benefit existing customers.
4. Provide affirmation that Replacement Plant does not include the costs for extending or expanding facilities to serve new customers.
5. Provide reference to related page No. in the submitted detailed Engineering Analysis supporting the need for SIB. Engineering Analysis shall also include narrative explaining the utility's systematic assessment, inspection, maintenance and repair/replacement program.
If addressing I/I, evaluate the extent of I/I along with the frequency, duration and volume of wet weather conditions and any other factors contributing to I/I.

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DECISION NO. 74437

Liberty Utilities (Litchfield Park Water & Sewer) Corp.
Plan of Administration
System Improvement Benefit Mechanism ("SIB")-Water
Docket No. W-01428A-13-0043

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EXHIBITS

SIB PLANT TABLE I ..... Exhibit 1

SIB PLANT TABLE II ..... Exhibit 2

SIB SCHEDULE A - CALCULATION OF OVERALL SIB REVENUE REQUIREMENTS AND EFFICIENCY CREDIT ..... Exhibit 3

SIB SCHEDULE B - CALCULATION OF SIB TRUE-UP REVENUE REQUIREMENTS ADJUSTMENT ..... Exhibit 4

SIB SCHEDULE C - TYPICAL BILLS ANALYSIS ..... Exhibit 5

SIB SCHEDULE D - SUMMARY OF REVENUE AND RATE BASE IMPACTS INCLUDING EARNINGS TEST ..... Exhibit 6

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EXHIBIT D DECISION NO. 74437

Liberty Utilities (Litchfield Park Water & Sewer) Corp.
Plan of Administration
System Improvement Benefit Mechanism ("SIB")-Water
Docket No. W-01428A-13-0043

I. GENERAL DESCRIPTION

This document is the Plan of Administration ("POA") for the System Improvement Benefit ("SIB") Mechanism approved for the Water Division of Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("Company") by the Arizona Corporation Commission ("ACC" or "Commission") in Decision No. _____ on _____. The SIB provides for recovery of the capital costs (return on investment, income taxes and depreciation expense) associated with distribution system improvement projects listed in SIB Plant Table I that have been verified to be completed[1] and placed in service per SIB Plant Table II and where costs have not been included in rate base for recovery in Decision No._____. These projects are necessary to provide and continue to provide proper, adequate and reliable service to existing customers; are not designed to serve or promote customer growth; and will not comprise an upgrade or expansion of existing plant unless justified for existing customers per Section V below. Any expenditures offset by contributions in aid of construction or advances in aid of construction are not eligible for inclusion in the SIB.

II. DEFINITIONS

- NARUC – National Association of Regulatory Utility Commissioners.
- SIB – System Improvement Benefit mechanism to be implemented between rate proceedings to support investment in plant recorded in SIB Eligible NARUC accounts.
- SIB Eligible Plant – Investments in plant recorded in SIB Eligible NARUC accounts.
- SIB Eligible NARUC accounts:
  - NARUC Account No. 309 – Supply Mains
  - NARUC Account No. 331 –Transmission and Distribution Mains
  - NARUC Account No. 333 – Services
  - NARUC Account No. 334 - Meters and Meter Installations;
  - NARUC Account No. 335 – Hydrants

[1] Acceptable forms of verifications may include the Maricopa County Environmental Services Department Approval of Construction, a Professional Engineer's Certificate of Completion, etc.

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- SIB Plant Table I (Excerpt attached as Exhibit 1) – The schedule of planned SIB eligible projects approved in the Company's most recent rate case decision.

- SIB Plant Table II (Sample attached as Exhibit 2) – The schedule of completed and verified SIB eligible projects, from SIB Plant Table I and associated retirements.

- SIB Revenue Requirement – The revenue requirement equal to the return on investment, income taxes and depreciation expense necessary to support the SIB Plant Table II amounts.

- SIB Revenue Requirement Efficiency Credit – An amount equal to 5 percent of the SIB Revenue Requirement.

- SIB Authorized Revenue – Amount equal to the SIB Revenue Requirement less the SIB Revenue Requirement Efficiency Credit plus any SIB True up Adjustment.

- Gross SIB Surcharge – Amount to be shown on customers' bills based on meter sizes without consideration to the SIB Surcharge Efficiency Credit.

- SIB Surcharge Efficiency Credit – An amount equal to 5 percent of the Gross SIB Surcharge to be shown on customers' bills.

- SIB Surcharge – The amount equal to the Gross SIB Surcharge less the SIB Surcharge Efficiency Credit to be charged based on meter size, calculated to recover the SIB Authorized Revenue, to be shown on the customers' bills.

- SIB True-up Adjustment – An amount to adjust for over or under collection of the SIB Authorized Revenues as compared with the total SIB Surcharges collected for the preceding 12 month period. Each true–up shall also analyze the cumulative over or under collections to include a comparison of all past SIB Authorized Revenues, total SIB Surcharges, and prior true-ups to be used in calculation of the SIB true-up surcharge or credit.\

- Total Revenue Requirement – The revenue requirement approved in Decision No. _____, plus the SIB Revenue Requirement.

III. SIB RELATED FILINGS

A. Progress Reports – Once a SIB is approved in a decision, the Company must file with Docket Control semi-annual status reports delineating the status of all SIB

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Eligible Plant, on a project by project basis as listed in SIB Plant Table I, starting 6 months after the decision and every 6 months thereafter.

B. Reconciliation and True Up – Once a SIB Surcharge is implemented, the Company must file annually to true up its SIB Surcharge collections over the preceding twelve months with the SIB Authorized Revenue for that period and establish a surcharge or credit to true up over or under collections, regardless of whether it seeks a new surcharge. The filing dates for these annual true-ups shall be as established in the Commission's Decision approving the SIB Surcharge.

C. SIB Surcharge Requests – To obtain its SIB Surcharge the Company must file the following:

1. SIB Plant Table II (with supporting information and documentation), showing the SIB eligible projects completed for which the Company seeks cost recovery. Such projects must

   a) be projects listed in the Company's initial SIB Plant Table I, approved in Decision No. _____, or have been added to said SIB Plant Table I pursuant to Section V of this POA;

   b) have been completed by the Company;

   c) have been verified; and

   d) be actually serving customers.

2. A summary of Commission approved SIB-eligible projects contemplated for the next twelve (12)-month SIB surcharge period from SIB Plant Table I.

3. SIB Schedule A (sample attached as Exhibit 3), showing a calculation of the SIB Revenue Requirement and SIB Revenue Requirement Efficiency Credit, SIB Authorized Revenue, Gross SIB Surcharge, SIB Surcharge Efficiency Credit, and the SIB Surcharge. Schedule A shall be supported by revenue requirements schedules supporting the revenue requirements in Decision No. _____ and the pro-forma revenue requirements including the effects of SIB Eligible Plant.

4. SIB Schedule B (sample as attached Exhibit 4) showing the overall SIB True-up Adjustment calculation for the prior twelve-month SIB Surcharge period, as well as the individual SIB True-up Adjustment for each meter size.

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5. SIB Schedule C (sample as attached as Exhibit 5) showing the effect of the SIB Surcharge on a typical residential customer bill for both median and average usage.

6. SIB Schedule D (sample as attached Exhibit 6) which shall include an analysis of the impact of the SIB Eligible Plant on the fair value rate base, revenue, and the fair value rate of return. The Company shall also file the following:

   a) the most current balance sheet at the time of the filing;

   b) the most current income statement;

   c) an earnings test schedule;

   d) a rate review schedule (including the incremental and pro forma effects of the proposed increase);

   e) an adjusted rate base schedule; and

   f) a Construction Work in Progress ledger (for each project showing accumulation of charges by month and paid vendor invoices).

D. The Company will maintain and provide Excel schedules with formulae intact supporting the revenue requirements approved in the rate decision that approved the SIB and provide same Excel schedules to incorporate the effects of SIB Eligible Plant for the current SIB Surcharge Request and any previously approved Surcharge and True-up requests.

E. The Company may make its initial SIB Surcharge Request through Docket Control no earlier than twelve months after the entry of Decision No._____.

F. The Company may make no more than one SIB Surcharge Request every twelve months with no more than five SIB Surcharge Requests between rate case decisions. A True-up must be filed with each Surcharge Request, except the first.

G. Unless otherwise authorized by the Commission, the Company shall be required to file its next general rate case no later than June 30, 2019, with a test year ending no later than December 31, 2018.

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H. Any SIB Surcharges that are in effect shall be reset to zero upon the date new rates become effective in the Company's next general rate case.

I. The Company may request to add Plant to SIB Table I only under emergency circumstances. Any additions or modifications to SIB Plant Table I must be approved by the Commission.

IV. SURCHARGE CALCULATIONS

A. Calculations of Amounts to Be Collected By the SIB Surcharge

1. The amount to be collected by the SIB Authorized Revenue shall be equal to the SIB Revenue Requirement minus the SIB Revenue Requirements Efficiency Credit plus any SIB True up Adjustment.

   For purposes of calculating the SIB Revenue Requirement:

   a. The required rate of return is equal to the overall rate of return authorized in Decision No. _____.

   b. The gross revenue conversion factor/tax multiplier is equal to the gross revenue conversion factor/tax multiplier approved in Decision No. _____; and

   c. The applicable depreciation rate(s) is equal to the depreciation rate(s) approved in Decision No. _____.

2. The project cost to be used in calculating the SIB Revenue Requirement shall be the lesser of the actual project cost listed in SIB Plant Table II or 110 percent of the estimated cost listed in SIB Plant Table I as approved in Decision No. _____. Unit costs shall be used if actual units constructed are less than estimated in SIB Plant Table I.

3. The amount to be collected by each SIB Surcharge Request shall be capped annually at five percent of the revenue requirement authorized in Decision No. _____.

B. Reconciliation And True-Ups

1. The revenue collected by the total SIB Surcharges over the preceding twelve months shall be trued-up and reconciled with the SIB Authorized Revenue for that period.

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2. A new SIB Surcharge shall be combined with an existing SIB Surcharge such that a single SIB surcharge and SIB Efficiency Credit are shown on a customer's bill.

3. For each twelve (12) month period that a SIB surcharge is in effect, the Company shall reconcile the amounts collected by the SIB Surcharge with the SIB Authorized Revenue, for that twelve (12)-month period, consistent with Schedule B, attached hereto as Exhibit B.

4. Any under- or over-collected SIB Authorized Revenues shall be recovered or refunded, without interest, over a twelve-month period by means of a SIB True-up Surcharge or Credit.

5. Starting with the second annual SIB Surcharge, where there are over or under-collected balances, such over or under-collected balances shall be carried over to the next year, and considered in the calculation of the new SIB True-up Surcharge or Credit. If, after the five-year period there remains an over or under-collected balance, such balance shall be reset to zero, and addressed in the next rate case.

C. Earnings Test

1. Once a SIB Surcharge is in effect, the Company shall be required to perform an annual earnings test calculation for each SIB Surcharge Request to determine whether the actual rate of return reflected by the operating income for the affected system or division for the relevant 12-month period exceeded the most recently authorized fair value rate of return for the affected system or division.

2. The earnings test shall be:

a) based on the most recent available operating income,

b) adjusted for any operating revenue and expense adjustments adopted in the most recent general rate case; and

c) based on the rate base adopted in the most recent general rate case, updated to recognize changes in plant, accumulated depreciation, contributions in aid of construction, advances in aid of construction, and accumulated deferred income taxes through the most recent available financial statement (quarterly or longer).

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V. ADDING PROJECTS TO SIB TABLE I UNDER EMERGENCY CIRCUMSTANCES

A. The Company can seek Commission approval to add projects in SIB Plant Table I only in the event of emergency circumstances. No such changes may be made without Commission approval.

B. Any addition to SIB Plant Table I must be plant investment that maintains or improves existing customer service, system reliability, integrity and safety. Eligible plant additions are limited to plant replacement projects. The costs of extending facilities or capacity to serve new customers are not recoverable through the SIB mechanism.

C. To be eligible for SIB treatment, a project must be SIB Eligible Plant.

D. SIB Eligible Plant must satisfy at least one of the following conditions:

1. Water loss for the system exceeds ten (10) percent, as calculated by the following formula: ((Volume of Water Produced and/ or Purchased) – (Volume of Water Sold + Volume of Water Put to Beneficial Use)) divided by (Volume of Water Produced and/or Purchased). If the Volume of Water Put to Beneficial Use is not metered, it shall be established in a reliable, verifiable manner.

2. Plant assets that have remained in service beyond their useful service lives (based on the Company's system's authorized utility plant depreciation rates) and are in need of replacement due to being worn out or in a deteriorating condition through no fault of the Company;

3. Any other engineering, operational or financial justification supporting the need for a plant asset replacement, other than the Company's negligence or improper maintenance, including, but not limited to:

   a. A documented increasing level of repairs to, or failures of, a plant asset justifying its replacement prior to reaching the end of its useful service life (e.g. black poly pipe);

   b. Meter replacements for systems that have implemented a meter testing and maintenance program in compliance with A.A.C. R14-2-408(E) or the applicable tariff.

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c. Meters replaced in a system for the purpose of complying with the United States Environmental Protection Agency's Reduction of Lead in Drinking Water Act of 2010; and

d. Assets that are required to be moved, replaced or abandoned by a governmental agency or political subdivision if the Company can show that it has made a good faith effort to seek reimbursement for all or part of the costs incurred.

VI. RATE DESIGN

A. The SIB Surcharge rate design shall be calculated as follows:

1) The SIB Surcharge shall be a fixed monthly surcharge containing a Gross SIB Surcharge and the SIB Surcharge Efficiency Credit as its two components.

2) The SIB Surcharge shall be calculated by dividing the SIB Authorized Revenue by the number of equivalent active 5/8-inch meters at the end of the most recent twelve (12)-month period, and shall increase with meter size based on the following meter capacity multipliers:

5/8-inch x ¾-inch	1.0 times
¾-inch	1.5 times
1-inch	2.5 times
1½-inch	5 times
2-inch	8 times
3-inch	16 times
4-inch	25 times
6-inch	50 times
8-inch	80 times
10-inch	115 times
12-inch & above	215 times

B. The SIB Surcharge shall apply to all of the Company's metered customers, including private fire service customers.

VII. SURCHARGE IMPLEMENTATION

A. SIB surcharges shall not become effective until approved by the Commission.

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B. At least 30 days prior to the SIB surcharge becoming effective, the Company shall provide public notice in the form of a billing insert or customer letter in a form acceptable to Staff. Such notice shall include the following information:

1. The individual Gross SIB Surcharge, by meter size;

2. The individual SIB Surcharge Efficiency Credit, by meter size;

3. SIB Surcharge, by meter size; and

4. Directions where the customer may obtain a summary of the projects included in the current SIB Surcharge Request, including a description of each project and its cost.

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LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.
Docket No. SW-01428A-13-0042 et al.
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2013

SIB Schedule A

Line No.	CALCULATION OF OVERALL SIB REVENUE REQUIREMENT & EFFICIENCY CREDIT		[A] WATER DIVISION	[B]
1				
2	Total Authorized Revenue Requirement - Decision No. XXXXX (based on Final Settlement Schedules)		$ 12,622,779	
3				
4	SIB Revenue Cap %		5.00%	
5				
6	Net SIB Revenue Cap (ln. 2 x ln. 4)			$ 631,139
7				
8	SIB-Eligible Plant in Service - Per SIB Table II Summary		$ 956,000	
9				
10	Accumulated Depreciation - 1/2-Year Convention (ln. 28 x .5)		9,560	
11				
12	SIB Rate Base (ln. 8 - ln. 10)		$ 946,440	
13				
14				
15	Required Rate of Return - Decision No. 73736			
16	Weighted Cost of Equity:	7.74%		
17	Revenue Conversion Factor:	1.6466		
18	Pre-Tax Weighted Cost of Equity (ln. 16 x ln. 17):	12.74%		
19	Weighted Cost of Debt:	1.02%		
20				
21	Pre-Tax Cost of Capital (ln. 18 + ln. 19):	13.76%	13.76%	
22				
23	Required Revenues (ln. 12 x ln. 21)		$ 130,233	
24				
25				
26	Applicable Depreciation Rate - Per Decision No. XXXXX		2.00%	
27				
28	SIB Depreciation Expense (ln. 8 x ln. 26)		$ 19,120	
29				
30	Less: Depreciation Expense Associated with Applicable Retirements - Per SIB Table II Summary		$ 5,000	
31				
32	Net Depreciation Expense - SIBA Eligible Plant (ln. 28 - ln. 30)		$ 14,120	
33				
34	SIB Capital Costs - Pre-Tax Return & Depreciation (ln. 23 + ln. 32)			$ 144,353
35				
36	Under or Over Recovery from Previous Period			$ -
37				
38				
39	Overall SIB Revenue Requirement - Lesser of Net SIB Revenue Cap or SIB Captial Costs			$ 144,353
40				
41	SIB Efficiency Credit %		-5.00%	
42				
43	Overall SIB Efficiency Credit (ln. 39 x ln. 41)			$ (7,218)
44				
45				
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48				
49				
50				

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.
Docket No. SW-01428A-13-0042 et al.
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2013

Line No.	CALCULATION OF INDIVIDUAL SIB FIXED SURCHARGE AND EFFICIENCY CREDIT	[A]	[B]	[C]	[D]	[E]	[F]	[G]
					SIB Surcharge		SIB Efficiency Credit	
	Customer Meter Size	No. of Customers 12/31/2012	Meter Multiplier	5/8 x 3/4-inch Equivalent Meters (C X F)	Individual Fixed Surcharge	Annual Revenue by Meter Size	Individual Fixed Credit	Annual Refund by Meter Size
9	5/8 x 3/4-inch and 3/4-inch	9,817	1	9,817	$ 0.38	$ 44,623	$ (0.02)	(2,231.15)
10	1-inch	6,141	2.5	15,353	$ 0.95	$ 69,784	$ (0.05)	(3,489.22)
11	1 1/2-inch	194	5	970	$ 1.89	$ 4,409	$ (0.09)	(220.46)
12	2-inch	616	8	4,928	$ 3.03	$ 22,400	$ (0.15)	(1,120.01)
13	3-inch	-	16	-	$ 6.06	$ -	$ (0.30)	-
14	4-inch	18	25	450	$ 9.47	$ 2,045	$ (0.47)	(102.27)
15	6-inch	-	50	-	$ 18.94	$ -	$ (0.95)	-
16	8-inch	3	80	240	$ 30.30	$ 1,091	$ (1.52)	(54.55)
17	10-inch	-	115	-	$ 43.56	$ -	$ (2.18)	-
19	Totals	16,789		31,758		$ 144,353		$ (7,218)
20		-						

24	Overall SIB Revenue Requirement (p. 1, ln. 32)	$ 144,353
26	Individual SIB Fixed Surcharge Per 5/8 x 3/4-inch Equivalent Meter (ln. 24 ÷ col. C, ln. 19 ÷ 12)	$ 0.38
28	Overall SIB Efficiency Credit (p. 1, ln. 36)	$ (7,218)
30	Individual SIB Fixed Efficiency Credit Per 5/8 x 3/4-inch Equivalent Meter (ln. 28 ÷ col. C, ln. 19 ÷ 12)	$ (0.02)

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.
Docket No. SW-01428A-13-0042 et al.
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2013

SIB Schedule B

Line No.	CALCULATION OF OVERALL SIB REVENUE TRUE-UP FROM PRIOR 12-MONTH SIBA SURCHARGE PERIOD	[A] WATER DIVISION	[B]
1			
2	Overall SIB Revenue Requirement from Prior 12-Month SIB Surcharge Period	$ 144,353	
3			
4	Overall SIB Efficiency Credit from Prior 12-Month SIB Surcharge Period	$ (7,218)	
5			
6	Total SIB Revenue Requirement Net of Efficiency Credit - Prior 12-Month SIB Surcharge Period		$ 137,135
7			
8	Total SIB Surcharge Revenues from Prior 12-Month SIB Surcharge Period	$ 125,000	
9			
10	Total SIB Efficiency Credit Refunds from Prior 12-Month SIB Surcharge Period	$ (10,000)	
11			
12	Total SIB Surcharge Revenues Net of Efficiency Credit from Prior 12-Month SIB Surcharge Period		$ 115,000
13			
14	Net SIB Surcharge Under/(Over)-Collections from Prior 12-Month SIB Surcharge Period (ln. 6 - ln. 12)		22,135
15			
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LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.
Docket No. SW-01428A-13-0042 et al.
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2013

CALCULATION OF INDIVIDUAL SIB FIXED TRUE-UP SURCHARGE/CREDIT

Line No.	Customer Meter Size	[A] No. of Customers 12/31/2012	[B] Meter Multiplier	[C] 5/8 x 3/4-inch Equivalent Meters (C X F)	[D] SIB True-Up Surcharge/(Credit) Fixed Surcharge / (Credit)	[E] SIB True-Up Surcharge/(Credit) Annual Revenue by Meter Size
9	5/8 x 3/4-inch	9,817	1	9,817	$ 0.06	$ 6,843
10	1-inch	6,141	2.5	15,353	$ 0.15	$ 10,701
11	1 1/2-inch	194	5	970	$ 0.29	$ 676
12	2-inch	616	8	4,928	$ 0.46	$ 3,435
13	3-inch	-	16	-	$ 0.93	$ -
14	4-inch	18	25	450	$ 1.45	$ 314
15	6-inch	-	50	-	$ 2.90	$ -
16	8-inch	3	80	240	$ 4.65	$ 167
17	10-inch	-	115	-	$ 6.68	$ -
19	Totals	16,789		31,758		$ 22,135

24	Net SIB Surcharge Under/(Over)-Collections from Prior 12-Month SIB Surcharge Period (p. 1, ln. 14)	$ 22,135
26	Individual SIB Fixed True-Up Surcharge/(Credit) Per 5/8 x 3/4-inch Equivalent Meter (ln. 24 ÷ col. C, ln. 19 ÷ 12)	0.06

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.
Docket No. SW-01428A-13-0042 et al.
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2013

SIB Schedule C

Line No.	Gallons Consumed	[A] Present Bill	[B] SIB Fixed Surcharge	[C] SIB Efficiency Credit	[D] SIB True-Up Surcharge / (Credit)	[E] Total Pro Forma Bill	[F] Net SIB Increase	[G] Percent SIB Increase
		WATER DIVISION - 3/4 Inch Customer						
1								
2	-	$ 13.26	$ 0.38	$ (0.02)	$ 0.06	$ 13.68	$ 0.42	3.2%
3	1,000	14.01	0.38	(0.02)	0.06	14.43	0.42	3.0%
4	2,000	14.76	0.38	(0.02)	0.06	15.18	0.42	2.8%
5	3,000	15.51	0.38	(0.02)	0.06	15.93	0.42	2.7%
6	4,000	17.46	0.38	(0.02)	0.06	17.88	0.42	2.4%
7	5,000	19.41	0.38	(0.02)	0.06	19.83	0.42	2.2%
8	6,000	21.36	0.38	(0.02)	0.06	21.78	0.42	2.0%
9	7,000	23.31	0.38	(0.02)	0.06	23.73	0.42	1.8%
10	8,000	25.26	0.38	(0.02)	0.06	25.68	0.42	1.7%
11	9,000	27.21	0.38	(0.02)	0.06	27.63	0.42	1.5%
12	10,000	29.16	0.38	(0.02)	0.06	29.58	0.42	1.4%
13	11,000	32.11	0.38	(0.02)	0.06	32.53	0.42	1.3%
14	12,000	35.06	0.38	(0.02)	0.06	35.48	0.42	1.2%
15	13,000	38.01	0.38	(0.02)	0.06	38.43	0.42	1.1%
16	14,000	40.96	0.38	(0.02)	0.06	41.38	0.42	1.0%
17	15,000	43.91	0.38	(0.02)	0.06	44.33	0.42	1.0%
18	20,000	58.66	0.38	(0.02)	0.06	59.08	0.42	0.7%
19	25,000	90.69	0.38	(0.02)	0.06	91.11	0.42	0.5%
20								
21								
22				-				
23								
24	Residential Bill at Average Consumption of 8,827 Gallons	$ 26.87	$ 0.38	$ (0.02)	$ 0.06	$ 27.29	$ 0.42	1.6%
25								
26								
27	Basic Service Charge	$ 13.26	$ 0.38	$ (0.02)	$ 0.06	$ 13.68	$ 0.42	3.2%
28								
29	Commodity Rate Per 1,000 Gallons							
30	0 - 3,000 Gallons	$ 0.7500	n/a	n/a	n/a	n/a	n/a	n/a
31	3,001 - 10,000 Gallons	$ 1.9500	n/a	n/a	n/a	n/a	n/a	n/a
32	10,001 - 20,000 Gallons	$ 2.9500	n/a	n/a	n/a	n/a	n/a	n/a
33	Over 20,000 Gallons	$ 3.4560	n/a	n/a	n/a	n/a	n/a	n/a
34								
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LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.
Docket No. SW-01428A-13-0042 et al.
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2013

SIB Schedule D

Line No.		[A]	[B]	[C]	[D]	[E]	[F]	[G]
		WATER DIVISION						
		Per Decision XXXXX	Net SIB Step-1 Increase	Net SIB Step-2 Increase	Net SIB Step-3 Increase	Net SIB Step-4 Increase	Net SIB Step-5 Increase	Pro Forma With SIB
1	Total Operating Revenue	$ 12,622,779	$ 137,135	$ -	$ -	$ -	$ -	$ 12,759,914
2								
3	Operating Expenses							
4	Operations & Maintenance	$ 4,952,963	$ -	$ -	$ -	$ -	$ -	$ 4,952,963
5	Depreciation & Amortization	2,627,581	14,120	-	-	-	-	2,641,701
6	Taxes Other than Income	553,998	-	-	-	-	-	553,998
7	Income Taxes	1,589,809	45,047	-	-	-	-	1,634,856
8	Total Operating Expenses	$ 9,724,351	$ 59,167	$ -	$ -	$ -	$ -	$ 9,783,518
9								
10	Operating Income (ln. 1 - ln. 8)	$ 2,898,428	$ 77,969	$ -	$ -	$ -	$ -	$ 2,976,397
11								
12	Interest Expense							
13	Weighted Avg. Cost of Debt	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%
14	Interest Expense (ln. 13 x ln. 19)	$ 336,246	$ 9,613	$ -	$ -	$ -	$ -	$ 345,859
15								
16	Net Income (ln. 10 - ln. 14)	$ 2,562,182	$ 68,356	$ -	$ -	$ -	$ -	$ 2,630,538
17								
18								
19	Rate Base - O.C.L.D.	$ 33,105,506	$ 946,440	$ -	$ -	$ -	$ -	$ 34,051,946
20								
21	Return on Rate Base - O.C.L.D. (ln. 10 ÷ ln. 19)	8.76%	8.24%	0.00%	0.00%	0.00%	0.00%	8.74%
22								
23	Authorized Return on Rate Base	8.76%	8.76%	8.76%	8.76%	8.76%	8.76%	8.76%
24								
25	Capital Structure							
26	Debt %	15.87%	15.87%	15.87%	15.87%	15.87%	15.87%	15.87%
27	Equity %	84.13%	84.13%	84.13%	84.13%	84.13%	84.13%	84.13%
28								
29	Total Equity (ln. 19 x ln. 27)	$ 27,851,662	$ 796,240	$ -	$ -	$ -	$ -	$ 28,647,902
30								
31	Authorized Return on Equity	9.20%	9.20%	9.20%	9.20%	9.20%	9.20%	9.20%
32								
33	Return on Equity (Ln. 16 ÷ ln. 29)	9.20%	8.58%	0.00%	0.00%	0.00%	0.00%	9.18%
34								
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DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

Liberty Utilities (Litchfield Park Water & Sewer) Corp.
Plan of Administration
System Improvement Benefit Mechanism ("SIB")-Wastewater
Docket No. SW-01428A-13-0042

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SIB SCHEDULE D - SUMMARY OF REVENUE AND RATE BASE IMPACTS INCLUDING EARNINGS TEST ..... Exhibit 6

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I. GENERAL DESCRIPTION

This document is the Plan of Administration ("POA") for the System Improvement Benefit ("SIB") Mechanism approved for the Wastewater Division of Liberty Utilities (Litchfield Park Water & Sewer) Corp.) ("Company") by the Arizona Corporation Commission ("ACC" or "Commission") in Decision No. _____ on _____. The SIB provides for recovery of the capital costs (return on investment, income taxes and depreciation expense) associated with collection system improvement projects listed in SIB Plant Table I that have been verified to be completed[1] and placed in service per SIB Plant Table II and where costs have not been included in rate base for recovery in Decision No._____. These projects are necessary to provide and continue to provide proper, adequate and reliable service to existing customers; are not designed to serve or promote customer growth; and will not comprise an upgrade or expansion of existing plant unless justified for existing customers per Section V below. Any expenditures offset by contributions in aid of construction or advances in aid of construction are not eligible for inclusion in the SIB.

II. DEFINITIONS

- NARUC – National Association of Regulatory Utility Commissioners.
- SIB – System Improvement Benefit mechanism to be implemented between rate proceedings to support investment in plant recorded in SIB Eligible NARUC accounts.
- SIB Eligible Plant – Investments in plant recorded in SIB Eligible NARUC accounts.
- SIB Eligible NARUC accounts:
  - NARUC Account No. 361 – Collection Sewers - Gravity
  - NARUC Account No. 363 – Services to Customers
- SIB Plant Table I (Excerpt attached as Exhibit 1) – The schedule of planned SIB eligible projects approved in the Company's most recent rate case decision.

[1] Acceptable forms of verifications may include the Maricopa County Environmental Services Department Approval of Construction, a Professional Engineer's Certificate of Completion, etc.

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- SIB Plant Table II (Sample attached as Exhibit 2) – The schedule of completed and verified SIB eligible projects, from SIB Plant Table I and associated retirements.

- SIB Revenue Requirement – The revenue requirement equal to the return on investment, income taxes and depreciation expense necessary to support the SIB Plant Table II amounts.

- SIB Revenue Requirement Efficiency Credit – An amount equal to 5 percent of the SIB Revenue Requirement.

- SIB Authorized Revenue – Amount equal to the SIB Revenue Requirement less the SIB Revenue Requirement Efficiency Credit plus any SIB True up Adjustment.

- Gross SIB Surcharge – Amount to be shown on customers' bills based on service sizes without consideration to the SIB Surcharge Efficiency Credit.

- SIB Surcharge Efficiency Credit – An amount equal to 5 percent of the Gross SIB Surcharge to be shown on customers' bills.

- SIB Surcharge – The amount equal to the Gross SIB Surcharge less the SIB Surcharge Efficiency Credit to be charged based on service size, calculated to recover the SIB Authorized Revenue, to be shown on the customers' bills.

- SIB True-up Adjustment – An amount to adjust for over or under collection of the SIB Authorized Revenues as compared with the total SIB Surcharges collected for the preceding 12 month period. Each true–up shall also analyze the cumulative over or under collections to include a comparison of all past SIB Authorized Revenues, total SIB Surcharges, and prior true-ups to be used in calculation of the SIB true-up surcharge or credit.

- Total Revenue Requirement – The revenue requirement approved in Decision No. _____, plus the SIB Revenue Requirement.

III. SIB RELATED FILINGS

A. Progress Reports – Once a SIB is approved in a decision, the Company must file with Docket Control semi-annual status reports delineating the status of all SIB Eligible Plant, on a project by project basis as listed in SIB Plant Table I, starting 6 months after the decision and every 6 months thereafter.

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B. Reconciliation and True Up – Once a SIB Surcharge is implemented, the Company must file annually to true up its SIB Surcharge collections over the preceding twelve months with the SIB Authorized Revenue for that period and establish a surcharge or credit to true up over or under collections, regardless of whether it seeks a new surcharge. The filing dates for these annual true-ups shall be as established in the Commission's Decision approving the SIB Surcharge.

C. SIB Surcharge Requests – To obtain its SIB Surcharge the Company must file the following:

1. SIB Plant Table II (with supporting information and documentation), showing the SIB eligible projects completed for which the Company seeks cost recovery. Such projects must:

   a) be projects listed in the Company's initial SIB Plant Table I, approved in Decision No. _____, or have been added to said SIB Plant Table I pursuant to Section V of this POA;

   b) have been completed by the Company;

   c) have been verified; and

   d) be actually serving customers.

2. A summary of Commission approved SIB-eligible projects contemplated for the next twelve (12)-month SIB surcharge period from SIB Plant Table I.

3. SIB Schedule A (sample attached as Exhibit 3), showing a calculation of the SIB Revenue Requirement and SIB Revenue Requirement Efficiency Credit, SIB Authorized Revenue, Gross SIB Surcharge, SIB Surcharge Efficiency Credit, and the SIB Surcharge. Schedule A shall be supported by revenue requirements schedules supporting the revenue requirements in Decision No. _____ and the pro-forma revenue requirements including the effects of SIB Eligible Plant.

4. SIB Schedule B (sample as attached Exhibit 4) showing the overall SIB True-up Adjustment calculation for the prior twelve-month SIB Surcharge period, as well as the individual SIB True-up Adjustment for each service size.

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5. SIB Schedule C (sample as attached as Exhibit 5) showing the effect of the SIB Surcharge on a typical residential customer bill.

6. SIB Schedule D (sample as attached Exhibit 6) which shall include an analysis of the impact of the SIB Eligible Plant on the fair value rate base, revenue, and the fair value rate of return. The Company shall also file the following:

   a) the most current balance sheet at the time of the filing;

   b) the most current income statement;

   c) an earnings test schedule;

   d) a rate review schedule (including the incremental and pro forma effects of the proposed increase);

   e) an adjusted rate base schedule; and

   f) a Construction Work in Progress ledger (for each project showing accumulation of charges by month and paid vendor invoices).

D. The Company will maintain and provide Excel schedules with formulae intact supporting the revenue requirements approved in the rate decision that approved the SIB and provide same Excel schedules to incorporate the effects of SIB Eligible Plant for the current SIB Surcharge Request and any previously approved Surcharge and True-up requests.

E. The Company may make its initial SIB Surcharge Request through Docket Control no earlier than twelve months after the entry of Decision No._____.

F. The Company may make no more than one SIB Surcharge Request every twelve months with no more than five SIB Surcharge Requests between rate case decisions. A True-up must be filed with each Surcharge Request, except the first.

G. Unless otherwise authorized by the Commission, the Company shall be required to file its next general rate case no later than June 30, 2019, with a test year ending no later than December 31, 2018.

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H. Any SIB Surcharges that are in effect shall be reset to zero upon the date new rates become effective in the Company's next general rate case.

I. The Company may request to add Plant to SIB Table I only under emergency circumstances. Any additions or modifications to SIB Plant Table I must be approved by the Commission."

IV. SURCHARGE CALCULATIONS

A. Calculations of Amounts to Be Collected By the SIB Surcharge

1. The amount to be collected by the SIB Authorized Revenue shall be equal to the SIB Revenue Requirement minus the SIB Revenue Requirements Efficiency Credit plus any SIB True up Adjustment.

   For purposes of calculating the SIB Revenue Requirement:

   a. The required rate of return is equal to the overall rate of return authorized in Decision No. _____.

   b. The gross revenue conversion factor/tax multiplier is equal to the gross revenue conversion factor/tax multiplier approved in Decision No. _____; and

   c. The applicable depreciation rate(s) is equal to the depreciation rate(s) approved in Decision No. _____.

2. The project cost to be used in calculating the SIB Revenue Requirement shall be the lesser of the actual project cost listed in SIB Plant Table II or 110 percent of the estimated cost listed in SIB Plant Table I as approved in Decision No. _____. Unit costs shall be used if actual units constructed are less than estimated in SIB Plant Table I.

3. The amount to be collected by each SIB Surcharge Request shall be capped annually at five percent of the revenue requirement authorized in Decision No. _____.

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B. Reconciliation And True-Ups

1. The revenue collected by the total SIB Surcharges over the preceding twelve months shall be trued-up and reconciled with the SIB Authorized Revenue for that period.

2. A new SIB Surcharge shall be combined with an existing SIB Surcharge such that a single SIB surcharge and SIB Efficiency Credit are shown on a customer's bill.

3. For each twelve (12) month period that a SIB surcharge is in effect, the Company shall reconcile the amounts collected by the SIB Surcharge with the SIB Authorized Revenue for that twelve (12)-month period, consistent with Schedule B, attached hereto as Exhibit B.

4. Any under- or over-collected SIB Authorized Revenues shall be recovered or refunded, without interest, over a twelve-month period by means of a SIB True-up Surcharge or Credit.

5. Starting with the second annual SIB Surcharge, where there are over or under-collected balances, such over or under-collected balances shall be carried over to the next year and considered in the calculation of the new SIB True-up Surcharge or Credit. If, after the five-year period there remains an over or under-collected balance, such balance shall be reset to zero, and addressed in the next rate case.

C. Earnings Test

1. Once a SIB Surcharge is in effect, the Company shall be required to perform an annual earnings test calculation for each SIB Surcharge Request to determine whether the actual rate of return reflected by the operating income for the affected system or division for the relevant 12-month period exceeded the most recently authorized fair value rate of return for the affected system or division.

2. The earnings test shall be:

a) based on the most recent available operating income,

b) adjusted for any operating revenue and expense adjustments adopted in the most recent general rate case; and

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c) based on the rate base adopted in the most recent general rate case, updated to recognize changes in plant, accumulated depreciation, contributions in aid of construction, advances in aid of construction, and accumulated deferred income taxes through the most recent available financial statement (quarterly or longer).

V. ADDING PROJECTS TO SIB TABLE I UNDER EMERGENCY CIRCUMSTANCES

A. The Company can seek Commission approval to add projects in SIB Plant Table I only in the event of emergency circumstances. No such changes may be made without Commission approval.

B. Any addition to SIB Plant Table I must be plant investment that maintains or improves existing customer service, system reliability, integrity and safety. Eligible plant additions are limited to plant replacement projects. The costs of extending facilities or capacity to serve new customers are not recoverable through the SIB mechanism.

C. To be eligible for SIB treatment, a project must be SIB Eligible Plant.

D. SIB Eligible Plant must satisfy at least one of the following conditions:

1. Replacement Plant is necessary to address excessive infiltration and inflow ("I/I") adversely affecting treatment plant, and indicating the probability of sewer system collapse causing a public health and safety hazard.

2. Plant assets that have remained in service beyond their useful service lives (based on the Company's system's authorized utility plant depreciation rates) and are in need of replacement due to being worn out or in a deteriorating condition through no fault of the Company;

3. Any other engineering, operational or financial justification supporting the need for a plant asset replacement, other than the Company's negligence or improper maintenance, including, but not limited to:

   a. A documented increasing level of repairs to, or failures of, a plant asset justifying its replacement prior to reaching the end of its useful service life;

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b. Assets that are required to be moved, replaced or abandoned by a governmental agency or political subdivision if the Company can show that it has made a good faith effort to seek reimbursement for all or part of the costs incurred.

VI. RATE DESIGN

A. The SIB Surcharge rate design shall be calculated as follows:

1) The SIB Surcharge shall be a fixed monthly surcharge containing a Gross SIB Surcharge and the SIB Surcharge Efficiency Credit as its two components.

2) The SIB Surcharge shall be calculated by dividing the SIB Authorized Revenue by the number of equivalent active 4-inch services at the end of the most recent twelve (12) month period, and shall increase with service size based on the following meter capacity multipliers:

Service Lateral Size	Factor
4-inch	1
6-inch	2.25
8-inch	4
10-inch	6.25

B. The SIB Surcharge shall apply to all of the Company's customers.

VII. SURCHARGE IMPLEMENTATION

A. SIB surcharges shall not become effective until approved by the Commission.

B. At least 30 days prior to the SIB surcharge becoming effective, the Company shall provide public notice in the form of a billing insert or customer letter in a form acceptable to Staff. Such notice shall include the following information:

1. The individual Gross SIB Surcharge, by service size;

2. The individual SIB Surcharge Efficiency Credit, by service size;

3. SIB Surcharge, by service size; and

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4. Directions where the customer may obtain a summary of the projects included in the current SIB Surcharge Request, including a description of each project and its cost.

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LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.
Docket No. SW-01428A-13-0042 et al.
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2013

SIB Schedule A

Line No.	CALCULATION OF OVERALL SIB REVENUE REQUIREMENT & EFFICIENCY CREDIT		[A] WASTEWATER DIVISION	[B]
1				
2	Total Authorized Revenue Requirement - Decision No. XXXXX (based on Final Settlement Schedules)		$ 10,704,021	
3				
4	SIB Revenue Cap %		5.00%	
5				
6	Net SIB Revenue Cap (ln. 2 x ln. 4)			$ 535,201
7				
8	SIB-Eligible Plant in Service - Per SIB Table II Summary		$ 825,800	
9				
10	Accumulated Depreciation - 1/2-Year Convention (ln. 28 x .5)		8,258	
11				
12	SIB Rate Base (ln. 8 - ln. 10)		$ 817,542	
13				
14				
15	Required Rate of Return - Decision No. 73736			
16	Weighted Cost of Equity:	7.74%		
17	Revenue Conversion Factor:	1.6466		
18	Pre-Tax Weighted Cost of Equity (ln. 16 x ln. 17):	12.74%		
19	Weighted Cost of Debt:	1.02%		
20				
21	Pre-Tax Cost of Capital (ln. 18 + ln. 19):	13.76%	13.76%	
22				
23	Required Revenues (ln. 12 x ln. 21)		$ 112,496	
24				
25				
26	Applicable Depreciation Rate - Per Decision No. XXXXX		2.00%	
27				
28	SIB Depreciation Expense (ln. 8 x ln. 26)		$ 16,516	
29				
30	Less: Depreciation Expense Associated with Applicable Retirements - Per SIB Table II Summary		$ 5,000	
31				
32	Net Depreciation Expense - SIBA Eligible Plant (ln. 28 - ln. 30)		$ 11,516	
33				
34	SIB Capital Costs - Pre-Tax Return & Depreciation (ln. 23 + ln. 32)			$ 124,012
35				
36	Under or Over Recovery from Previous Period			$ -
37				
38				
39	Overall SIB Revenue Requirement - Lesser of Net SIB Revenue Cap or SIB Captial Costs			$ 124,012
40				
41	SIB Efficiency Credit %		-5.00%	
42				
43	Overall SIB Efficiency Credit (ln. 39 x ln. 41)			$ (6,201)
44				
45				
46				
47				
48				
49				
50				

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

A

LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.
Docket No. SW-01428A-13-0042 et al.
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2013

CALCULATION OF INDIVIDUAL SIB FIXED SURCHARGE AND EFFICIENCY CREDIT

Line No.	Customer Meter Size	[A] No. of Customers 12/31/2012	[B] Total Revenue Requirement	[C] Total Efficiency Credit	[D] SIB Surcharge Individual Fixed Surcharge	[E] SIB Surcharge Annual Revenue by Meter Size	[F] SIB Efficiency Credit Individual Fixed Credit	[G] SIB Efficiency Credit Annual Refund by Meter Size
9	Total Customers	16,157	$ 124,012	(6,201)	$ 0.64	$ 124,012	$ (0.03)	(6,201)
10	(per Wastewater H-2, Page 1 Settlement Schedule)							
15	Totals	16,157	124,012	(6,201)		$ 124,012		$ (6,201)

Line No.			
20	Overall SIB Revenue Requirement (p. 1, ln. 32)	$ 124,012	
22	Individual SIB Fixed Surcharge Per Customer (ln. 20 ÷ col. A, ln. 15 ÷ 12)		$ 0.64
24	Overall SIB Efficiency Credit (p. 1, ln. 36)	$ (6,201)	
26	Individual SIB Fixed Efficiency Credit PerCustomer (ln. 24 ÷ col. A, ln. 15 ÷ 12)		$ (0.03)

DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.
Docket No. SW-01428A-13-0042 et al.
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2013

SIB Schedule B

Line No.	CALCULATION OF OVERALL SIB REVENUE TRUE-UP FROM PRIOR 12-MONTH SIBA SURCHARGE PERIOD	[A] WASTEWATER DIVISION	[B]
1			
2	Overall SIB Revenue Requirement from Prior 12-Month SIB Surcharge Period	$ 124,012	
3			
4	Overall SIB Efficiency Credit from Prior 12-Month SIB Surcharge Period	$ (6,201)	
5			
6	Total SIB Revenue Requirement Net of Efficiency Credit - Prior 12-Month SIB Surcharge Period		$ 117,812
7			
8	Total SIB Surcharge Revenues from Prior 12-Month SIB Surcharge Period	$ 125,000	
9			
10	Total SIB Efficiency Credit Refunds from Prior 12-Month SIB Surcharge Period	$ (10,000)	
11			
12	Total SIB Surcharge Revenues Net of Efficiency Credit from Prior 12-Month SIB Surcharge Period		$ 115,000
13			
14	Net SIB Surcharge Under/(Over)-Collections from Prior 12-Month SIB Surcharge Period (ln. 6 - ln. 12)		2,812
15			
16			
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DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

B

LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.
Docket No. SW-01428A-13-0042 et al.
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2013

Line No.		[A]	[B]	[C]	[D]	[E]
	CALCULATION OF INDIVIDUAL SIB FIXED TRUE-UP SURCHARGE/CREDIT					
					SIB True-Up Surcharge/(Credit)	
	Customer Meter Size	No. of Customers 12/31/2012			Fixed Surcharge / (Credit)	Annual Revenue by Meter Size
9	Per Customer	16,157			$ 0.01	$ 2,812
19	Totals	16,157		-		$ 2,812
24	Net SIB Surcharge Under/(Over)-Collections from Prior 12-Month SIB Surcharge Period (p. 1, ln. 14)				$ 2,812	
26	Individual SIB Fixed True-Up Surcharge/(Credit) Per Customer (ln. 24 ÷ col. A, ln. 19 + 12)					0.01

DECISION NO. 74437

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B

LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.
Docket No. SW-01428A-13-0042 et al.
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2013

SIB Schedule C

Line No.		[A]	[B]	[C]	[D]	[E]	[F]	[G]
		WASTEWATER DIVISION - Residential Customer						
		Present Bill	SIB Fixed Surcharge	SIB Efficiency Credit	SIB True-Up Surcharge / (Credit)	Total Pro Forma Bill	Net SIB Increase	Percent SIB Increase
1								
2	Average Residential Bill	$ 40.35	$ 0.64	$ (0.03)	$ 0.01	$ 40.97	$ 0.62	1.5%
3								
4								
5								
6								
7								
8								
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DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

LIBERTY UTILITIES (LITCHFIELD PARK WATER & SEWER) CORP.
Docket No. SW-01428A-13-0042 et al.
Calculation of Overall SIB Revenue Requirement and Individual Surcharge
As of December 31, 2013

SIB Schedule D

Line No.		[A]	[B]	[C]	[D]	[E]	[F]	[G]
		WASTEWATER DIVISION						
		Per Decision XXXXX	Net SIB Step-1 Increase	Net SIB Step-2 Increase	Net SIB Step-3 Increase	Net SIB Step-4 Increase	Net SIB Step-5 Increase	Pro Forma With SIB
1	Total Operating Revenue	$ 10,704,021	$ 117,812	$ -	$ -	$ -	$ -	$ 10,821,833
2								
3	Operating Expenses							
4	Operations & Maintenance	$ 5,248,021	$ -	$ -	$ -	$ -	$ -	$ 5,248,021
5	Depreciation & Amortization	1,622,887	11,516	-	-	-	-	1,634,403
6	Taxes Other than Income	553,295	-	-	-	-	-	553,295
7	Income Taxes	1,161,767	38,925	-	-	-	-	1,200,692
8	Total Operating Expenses	$ 8,585,970	$ 50,441	$ -	$ -	$ -	$ -	$ 8,636,411
9								
10	Operating Income (ln. 1 - ln. 8)	$ 2,118,051	$ 67,371	$ -	$ -	$ -	$ -	$ 2,185,422
11								
12	Interest Expense							
13	Weighted Avg. Cost of Debt	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%
14	Interest Expense (ln. 13 x ln. 19)	$ 245,700	$ 8,304	$ -	$ -	$ -	$ -	$ 254,003
15								
16	Net Income (ln. 10 - ln. 14)	$ 1,872,351	$ 59,067	$ -	$ -	$ -	$ -	$ 1,931,418
17								
18								
19	Rate Base - O.C.L.D.	$ 24,190,673	$ 817,542	$ -	$ -	$ -	$ -	$ 25,008,215
20								
21	Return on Rate Base - O.C.L.D. (ln. 10 ÷ ln. 19)	8.76%	8.24%	0.00%	0.00%	0.00%	0.00%	8.74%
22								
23	Authorized Return on Rate Base	8.76%	8.76%	8.76%	8.76%	8.76%	8.76%	8.76%
24								
25	Capital Structure							
26	Debt %	15.87%	15.87%	15.87%	15.87%	15.87%	15.87%	15.87%
27	Equity %	84.13%	84.13%	84.13%	84.13%	84.13%	84.13%	84.13%
28								
29	Total Equity (ln. 19 x ln. 27)	$ 20,351,613	$ 687,798	$ -	$ -	$ -	$ -	$ 21,039,411
30								
31	Authorized Return on Equity	9.20%	9.20%	9.20%	9.20%	9.20%	9.20%	9.20%
32								
33	Return on Equity (Ln. 16 ÷ ln. 29)	9.20%	8.59%	0.00%	0.00%	0.00%	0.00%	9.18%
34								
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DECISION NO. 74437

DOCKET NO. SW-01428A-13-0042 ET AL.

D

WATER DIVISION

MONTHLY MINIMUM CHARGE (All Classes):

5/8" x 3/4" Meter	$	13.26
3/4" Meter		13.26
1" Meter - Residential		29.84
1" Meter		33.15
1 1/2" Meter		66.30
2" Meter		106.08
3" Meter		212.16
4" Meter		331.50
6" Meter		663.00
8" Meter – Bulk Water Only		575.00
8" Meter		1,060.80
10" Meter		1,524.90
12" Meter		2,850.90

COMMODITY CHARGE – Per 1,000 Gallons:

5/8 x 3/4-Inch Meter - Residential

0 gallons to 3,000 gallons	$	0.750
3,001 gallons to 10,000 gallons		1.950
10,001 gallons to 20,000 gallons		2.950
Over 20,000 gallons		3.456

3/4-Inch Meter - Residential

0 gallons to 3,000 gallons	$	0.750
3,001 gallons to 10,000 gallons		1.950
10,001 gallons to 20,000 gallons		2.950
Over 20,000 gallons		3.456

5/8 x 3/4-Inch Meter - Commercial and Irrigation

0 gallons to 9,000 gallons	$	1.950
Over 9,000 gallons		3.456

3/4-Inch Meter - Commercial and Irrigation

0 gallons to 9,000 gallons	$	1.950
Over 9,000 gallons		3.456

1-Inch Meter – Residential

0 gallons to 5,000 gallons	$	0.750
5,001 gallons to 19,000 gallons		1.950
19,001 gallons to 30,000 gallons		2.950
Over 30,000 gallons		3.456

1-Inch Meter - All Classes except Residential		
0 gallons to 20,000 gallons	$	1.950
Over 20,000 gallons		3.456
1 1/2-Inch Meter – All Classes		
0 gallons to 40,000 gallons	$	1.950
Over 40,000 gallons		3.456
2-Inch Meter – All Classes		
0 gallons to 60,000 gallons	$	1.950
Over 60,000 gallons		3.456
3-Inch Meter – All Classes		
0 gallons to 120,000 gallons	$	1.950
Over 120,000 gallons		3.456
4-Inch Meter – All Classes		
0 gallons to 180,000 gallons	$	1.950
Over 180,000 gallons		3.456
6-Inch Meter – All Classes		
0 gallons to 360,000 gallons	$	1.950
Over 360,000 gallons		3.456
8-Inch Meter – Bulk Resale Only		
All gallons	$	1.650
8-Inch Meter – All Classes		
0 gallons to 650,000 gallons	$	1.950
Over 650,000 gallons		3.456
10-Inch Meter – All Classes		
0 gallons to 940,000 gallons	$	1.950
Over 940,000 gallons		3.456
12-Inch Meter – All Classes		
0 gallons to 1,248,000 gallons	$	1.950
Over 1,248,000 gallons		3.456
Construction - Hydrants		
All gallons	$	3.456

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable Pursuant to A.A.C. R14-2-405)

	Service Line	Meter Installation	Total
5/8" x 3/4" Meter	$ 445.00	$ 155.00	$ 600.00
3/4" Meter	445.00	255.00	700.00
1" Meter	495.00	315.00	810.00
1-1/2" Meter	550.00	525.00	1,075.00
2" Turbine Meter	830.00	1,045.00	1,875.00
2" Compound Meter	830.00	1,890.00	2,720.00
3" Turbine Meter	At Cost	At Cost	At Cost
3" Compound Meter	At Cost	At Cost	At Cost
4" Turbine Meter	At Cost	At Cost	At Cost
4" Compound Meter	At Cost	At Cost	At Cost
6" Turbine Meter	At Cost	At Cost	At Cost
6" Compound Meter	At Cost	At Cost	At Cost
8" & Larger Meters	At Cost	At Cost	At Cost

HYDRANT METER DEPOSIT:*

5/8" x 3/4" Meter	$ 135.00
3/4" Meter	215.00
1" Meter	255.00
1 1/2" Meter	465.00
2" Turbine Meter	965.00
2" Compound Meter	1,690.00
3" Turbine Meter	1,470.00
3" Compound Meter	2,265.00
4" Turbine Meter	2,350.00
4" Compound Meter	3,245.00
6" Turbine Meter	4,545.00
6" Compound Meter	6,280.00
8" & Larger Meters	At Cost

* Shall have a non-interest bearing deposit of the amount indicated, refundable in its entirety upon return of the meter in good condition and payment of the final bill.

MISCELLANEOUS SERVICE CHARGES:

Establishment	$ 20.00
Re-Establishment (Within 12 Months)	(a)
Reconnection	$ 20.00
Meter Test (if correct)	25.00
Meter Re-read (if correct)	5.00
Fire Hydrant Meter Relocation	50.00
Fire Hydrant Meter Repair	At Cost
Deposit	(b)
Deposit Interest	6.00%
NSF Check	$ 25.00

Deferred Payment, Per Month		1.50%
Late Charge		(c)
After Hours Service Charge, Per Hour*	$	40.00

(a) Number of full months off the system times the monthly minimum, per A.A.C. R14-2-403(D).

(b) Per A.A.C. R14-2-403(B). Residential – two times the average monthly bill. Non-residential – two and one half times the average monthly bill.

(c) Greater of $5.00 or 1.50% of unpaid balance.

* For After Hours Service Calls for work performed on the customer's property after hours, at customer's request. In addition to the charge for any utility service provided.

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE TAX, PER A.A.C. R14-2-409(D)(5).

WASTEWATER DIVISION

MONTHLY SERVICE:

Residential:

Residential Service	$	40.35
Low Income Residential Service		34.30
Multi-Unit Housing – Monthly per Unit		37.46

Commercial:

Small Commercial Service - Monthly	$	68.24

MEASURED SERVICE:

Regular Domestic:

Monthly Service Charge	$	38.20
Commodity Charge per 1,000 gallons		3.33

Restaurant, Motel,* Grocery Store, Dry Cleaning Estab.:

Monthly Service Charge	$	38.20
Commodity Charge per 1,000 gallons		4.45

Wigwam Resort:

Monthly Rate – Per Room	$	37.46
Main Hotel Facilities – Per Month		1483.47

Schools – Monthly Service Rates:

Elementary Schools	$	1,008.75
Middle Schools		1,186.77
High Schools		1,186.77
Community College		1,839.50

EFFLUENT SALES:

Charge Per 1,000 gallons	$	**

*Motels without restaurants charged Multi-Unit Housing - Monthly per Unit rate

**Market Rate – Maximum effluent rate shall not exceed $430 per acre foot based on a potable water rate of $1.32 per thousand gallons

MISCELLANEOUS SERVICE CHARGES:

Establishment	$	20.00
Reestablishment (within 12 months)		(a)
Reconnection	$	20.00
NSF Check	$	25.00
Deferred payment (per month)		1.50%
Deposit		(b)
Deposit Interest		6.00%
Late Charge		(c)
After Hours Service Charge, Per Hour*	$	40.00
Service Lateral Connection Charge – All Sizes		(d)
Main Extension Tariff		(e)

(a) Number of full months off the system times the minimum charge, per A.A.C. R14-2-603(D).

(b) Per A.A.C. R14-2-603(B). Residential – two times the average monthly bill. Non-residential – two and one half times the average monthly bill.

(c) Greater of $5.00 or 1.50% of unpaid balance.

(d) At cost. Customer/Developer shall install or cause to be installed all Service Laterals as a non-refundable contribution in aid of construction.

(e) Per A.A.C. R14-2-606(B). All Main Extensions shall be completed at cost and shall be treated as non-refundable contributions in aid of construction.

* For After Hours Service Calls for work performed on the customer's property after hours, at customer's request. In addition to the charge for any utility service provided.

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE TAX, PER A.A.C. R14-2-409(D)(5).

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities	**:**	
	:	**14-0371**
Proposed General Increase in Natural Gas Rates	**:**	

ORDER

DATED: February 11, 2015

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STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities	:	
	:	**14-0371**
Proposed General Increase in Natural Gas Rates	:	

ORDER

By the Commission:

I. INTRODUCTION

A. Overview

On March 31, 2014, Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities ("Liberty Midstates" or "Company") filed with the Illinois Commerce Commission ("Commission") revised tariff sheets in which they proposed a general increase in gas rates pursuant to Article IX of the Illinois Public Utilities Act ("Act" or "PUA"), 220 ILCS 5/9, to become effective May 15, 2014.

B. Procedural History

On May 7, 2014, the Commission suspended the filing to and including August 27, 2014, for a hearing on the proposed rate increase. On July 30, 2014, the Commission re-suspended the tariffs to and including February 27, 2015.

Company witnesses submitting testimony in this proceeding were David Swain, Christopher Krygier, Dan Long and Robert Hevert. Commission staff ("Staff") witnesses submitting testimony in this proceeding were Steven R. Knepler, Mike Ostrander, Rochelle M. Phipps, and Christopher Boggs. No other parties moved to intervene.

An evidentiary hearing was held in this matter on October 16, 2014. The record was not marked "Heard and Taken" at the conclusion of the hearing, but rather left open until a later date to address a potential change in the State of Illinois' corporate income tax rate. Initial and Reply Briefs were filed by the Company and Staff. A Proposed Order was served on both parties.

C. Nature of Liberty's Operations

Liberty Midstates is a public utility that provides natural gas to approximately 85,000 customers in Illinois, Iowa, and Missouri, 22,000 of which are in Illinois. Liberty Midstates is an indirect subsidiary of Algonquin Power and Utilities Corp, a Canadian

corporation consisting of a power generation unit and a utility services unit. Prior to August 1, 2012, Liberty Midstates was not a public utility and did not operate in Illinois. On August 1, 2012, pursuant to ICC Docket 11-0559, Liberty Energy (Midstates) Corp. acquired the natural gas distribution utility operations of Atmos Energy Corporation ("Atmos") in Illinois, Iowa, and Missouri. This is the first rate case filed by Liberty Midstates in Illinois. The last rate case filed for this service territory was filed on February 17, 2000 by United Cities Gas Company, an operating division of Atmos.

D. Test Year

Liberty Midstates proposes to use a future test year for the twelve months ending December 31, 2015. No party objected to the use of this test year.

E. Legal Standard

All rates set by the Commission must be "just and reasonable" and any "unjust or unreasonable" rate is unlawful. In this regard, Section 5/9-101 of the PUA provides, in relevant part, that:

> All rates or other charges made, demanded or received by any product or commodity furnished or to be furnished or for any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge made, demanded or received for such product or commodity or service is hereby prohibited and declared unlawful. All rules and regulations made by a public utility affecting or pertaining to its charges to the public shall be just and reasonable.

220 ILCS 5/9-101.

II. RATE BASE

A. Resolved Issues

1. Interest Synchronization Calculation

Staff witness Steven R. Knepler proposed that the interest synchronization adjustment reflect Staff's rate base, weighted cost of debt, and the 7.75% state income tax rate that is to become effective, January 1, 2015. The Company objected to Staff's weighted cost of debt and state income tax rate; however, in surrebuttal testimony, the Company stated that it and Staff agree on the interest synchronization methodology, but disagree on the inputs. In the spirit of compromise, the Company acknowledged that the final order should reflect the capital structure and the state income tax rate approved by the Commission.

The Commission finds the agreed proposed interest synchronization calculation to be reasonable, and it will be adopted for use in this proceeding.

2. Budget Payment Plans

Staff proposed adjustments to reduce the Company's rate base by the average over-collection associated with the budget payment plans. The over-collection represents a ratepayer funded source of capital and should be deducted from the rate base on which the Company is expected to earn a return. The Company accepted Staff's adjustments in rebuttal testimony.

The Commission finds Staff's proposed adjustment to be reasonable and it will be adopted for this proceeding.

3. Utility Plant – Meters

In rebuttal testimony, the Company proposed additions to utility plant rate base for meters inadvertently omitted from its initial filing. In its rebuttal testimony, Staff accepted Liberty Midstates' proposed adjustments to utility plant, accumulated depreciation and depreciation expense.

The Commission finds the proposed additions to be reasonable, and they will be adopted for use in this proceeding.

4. Average Net Plant

Staff proposed adjustments to accumulated depreciation to reclassify allocated accumulated depreciation erroneously netted against utility plant in service, and to reflect the impact of the correction of test year depreciation expense. The Company accepted Staff's proposed adjustments in rebuttal testimony.

The Commission finds that Staff's proposed adjustments to accumulated depreciation are appropriate and they will be adopted for use in this proceeding.

5. Accumulated Deferred Income Taxes

Staff proposed adjustments to correct the shared plant allocation factor and to include the impact of the proration of accumulated deferred income taxes ("ADIT"). The Company accepted Staff's adjustments in rebuttal testimony. Also in rebuttal testimony, the Company proposed additions to rate base for meters inadvertently omitted from its initial filing. Liberty Midstates proposed adjustments to utility plant, accumulated depreciation and depreciation expense, but did not propose the related adjustment to ADIT. Staff proposed an adjustment to ADIT due to the additional meters in rebuttal testimony. The Company accepted Staff's adjustment in surrebuttal testimony.

The Commission finds that the proposed adjustments to ADIT are appropriate, and they will be adopted for use in this proceeding.

6. Original Cost Determination

For purposes of an original cost determination, Staff recommended that the Commission approve Liberty Midstates' utility plant balance as of December 31, 2013 of $52,686,071. Although the Company does not explicitly state its acceptance of Staff's original cost recommendation in its testimony, Staff notes that the Company agreed to include the original cost determination as a "Resolved Issue" in the agreed initial brief outline.

The Commission finds Staff's recommended original cost determination to be reasonable, and it will be adopted for use in this proceeding.

7. Cash Working Capital

Mr. Knepler proposed, and the Company accepted, an adjustment to remove non-cash expenses (uncollectible expense) from the cash working capital ("CWC") allowance. Staff and Company agree on the formula methodology to calculate the CWC allowance and further agree that the Order's CWC balance should be based on the level of operating expenses approved by the Commission in this proceeding.

The Commission finds that the proposed formula methodology to calculate CWC is appropriate, and it will be adopted for use in this proceeding.

B. Contested Issues

1. Average Net Plant

a. Staff's Position

Staff recommends the Commission adopt Staff's adjustments to compute the rate base components of utility plant in service and accumulated depreciation, or net plant, as an average balance, since Staff's method takes into account the fact that investments are made throughout the test year, rather than the Company's method of year-end net plant valuation which incorrectly assumes, for rate setting purposes, that all investments are made at the beginning of the test year. Staff notes the Company chose a future test year ending December 31, 2015. Staff asserts that an average rate base derives rates that properly match test year revenues and expenses which will occur throughout 2015 with the level of rate base investment also occurring throughout the year; while a year-end rate base would derive revenues and expenses for 2015 which represent a level of investment that would not exist until the end of 2015.

Staff states that a test year is a time period used to develop costs representative of the first year in which rates being set will be in effect. Under the Commission's rules, utilities may select a historical test year or a future test year. (83 Ill Adm. Code 287.20) Staff believes that the Commission has only approved the use of a year-end rate base with a historical test year and has rejected proposals to use a year-end rate base with a

future test year. Staff avers that the Company selected a future test year which is already forward-looking in that it largely relies upon projected costs.

While the Company argues that use of average net plant in a case of increasing plant in service is not forward-looking, Staff asserts that the Company's argument is meritless since the selection of a future test year, which is based upon projected costs, is by definition forward-looking. In addition, Staff notes it is normal for utilities to have increased investments after filing a rate case. As an example, The Peoples Gas Light and Coke Company ("Peoples Gas") and North Shore Gas Company ("North Shore") both showed increasing net plant from 2006 through 2013. Over that same time period, Staff notes Peoples Gas and North Shore each filed four rate cases that each showed an increase in plant investments. Three of the rate cases utilized a future test year with an average rate base, while the fourth rate case utilized a historical test year with a year-end rate base.

While the Company further argues that the use of average net plant is less representative of the net plant in place during the period rates are in effect, Staff notes that using the year-end 2015 rate base as proposed by the Company reflects the level of rate base investment at the end of the test year, rather than the average level during the test year.

Staff contends that the Company's proposal is flawed; noting that under the Company's proposal, the revenues and expenses throughout all of 2015 – beginning January 1 - would represent a level of investment that would not exist until the end of the test year. In contrast, using an average rate base, as Staff recommends, would result in revenues and expenses that are expected to occur throughout 2015 and correspond with the level of investment throughout the test year. Staff argues that a year-end rate base is not more representative of the rate base that will exist when the proposed rates will be in effect due to the date on which the proposed tariffs would become effective. The Company has proposed using the projected rate base at December 31, 2015 and the projected revenues and expenses at the end of 2015; however, Staff opines that rates from this case would become effective around March 1, 2015. Therefore, Staff argues that under the Company's proposal, ratepayers will be paying a return on plant investments that the Company may not make until months after the rates' effective date. Using an average rate base, as Staff proposes, properly derives rates that match the rate base more closely with the associated revenues and expenses.

Staff believes its position is consistent with recent decisions in rate cases in which the Commission approved an average rate base with a future test year: Docket No. 08-0363, Northern Illinois Gas Company, (March 25, 2009); Docket No. 09-0319, Illinois-American Water Company, (April 13, 2010); Docket No. 11-0282, Ameren Illinois Company, (January 10, 2012); Docket Nos. 11-0280/0281, Peoples Gas and North Shore, (January 10, 2012); Docket No. 11-0767, Illinois-American Water Company, (September 19, 2012); and Docket Nos. 12-0511/0512, Peoples Gas and North Shore, (June 18, 2013). Staff suggests that the Commission's practice with respect to average

rate base for future test periods is well established, and believes the Company has not demonstrated sufficient justification to break from this long-standing precedent.

Staff notes that Liberty Midstates in its Initial Brief attempts to justify its proposal that the Commission should depart from its consistent practice of using a net plant average in rate base with a future test year by claiming that the "evidence in this docket demonstrates that a year-end rate base is more appropriate" and that there are facts and circumstances of this proceeding that differ from the numerous rate cases where the Commission approved an average rate base with future test periods. Staff states that the Company also argues that the current proceeding is taking place during a period of significant increasing plant in service, and Liberty Midstates further contends there is a strong likelihood the rates adopted in this proceeding will remain in effect for a number of years. Staff notes the Company asserts it has been under-earning and believes the use of average plant net balance for the test year would exacerbate this under-earning and not allow the Company to recoup its costs of providing service.

Staff asserts that the Company's arguments are meritless. Staff notes the Company chose the future test year ending December 31, 2015. Staff contends an average rate base derives rates that properly match test year revenues and expenses which will occur throughout 2015 with the level of rate base investment also occurring throughout the test year, while the adoption of a year-end rate base would derive revenues and expenses for 2015 which represent a level of investment that would not exist until December 31, 2015. Staff opines that rates from this case will likely become effective around March 1, 2015. Therefore using a December 31, 2015 valuation for net plant, ratepayers would pay a return on investments that the Company will not make for ten months after the effective date for new rates resulting from this proceeding.

While Liberty Midstates contends that the particular circumstances of this proceeding justify the adoption of a year-end rate base, Staff believes there is no merit to the contention. Staff does not find persuasive Liberty Midstates' suggestion that it has not been in operation for an extended period, that this proceeding is the Company's first rate case in Illinois or the claim that it has been under-earning due to the period of time between rate cases. Staff notes that like the other utilities that used an average rate base, the Company's Illinois service territory grew over time from individual municipalities providing gas service and merging into what is currently an operating division of a utility whose parent holding company, Algonquin Power & Utilities Corp. ("APUC"), is listed on the Toronto Stock Exchange. Staff also asserts that the Company should have been aware prior to making the decision to acquire the Illinois operations of Atmos that new rates had not been established for the Illinois jurisdiction since the 2000 rate case. Staff opines that the Commission has no responsibility to make the current owners "whole" for their purchase; this Commission is limited to determining a revenue requirement based on the test year data. Staff avers that the Company's belief that its particular circumstances of prior periods in which the company under-earned is not sufficient justification for the Commission to deviate from its long-standing precedent with respect to determining a revenue requirement based upon an average rate base in future test years.

Staff similarly dismisses the Company argument that "the Company's projects are not large enough for it to access the capital markets each time it initiates a project, nor is it constantly accessing the capital markets such as larger utilities may do with shelf registrations." Staff suggests if this argument has a basis, it is up to the Company to file more frequent rate cases; noting that the Commission cannot set rates to fund future plant additions.

b. The Company's Position

In determining the rate base in this proceeding, Liberty Midstates notes the Commission must decide whether to use the rate base total at the end of the test year, or the "average rate base," which in this case uses the rate base projected to exist at the mid-year point of the test year. The Company's proposed rate increase is based on the year-end rate base, while Staff has proposed an adjustment to use the mid-year rate base. The Company submits that the evidence in this docket demonstrates that a year-end rate base is more appropriate.

The Company acknowledges that the Commission has frequently used average rate base instead of year-end rate base in cases involving future test years; however, Liberty Midstates notes that in most of the cases cited by Staff this issue was uncontested. The Company is aware of only three dockets in which this issue was actually contested: Central Illinois Public Service Company's ("CIPS") 1990 rate case (Docket No. 90-0072); Nicor's 2004 rate case (Docket No. 04-0779); and People's Gas 2012 rate case, (Docket No. 12-0512). In those cases, Liberty Midstates believes the Commission made it clear that although it was adopting an average rate base approach, the determination of whether to use an average rate base or a year-end rate base is based on the facts and circumstances in each individual case—as the Commission described it, a "close issue." Liberty Midstates suggests that the Commission has made it clear that there is not a general rule requiring one approach or the other; rather, the Commission has based its findings on the facts and circumstances of the particular case. The Company opines that the particular facts of this proceeding justify the adoption of a year-end rate base.

Liberty Midstates contends that this proceeding is taking place during a period of significant increasing plant in service, arguing that the Company is at the beginning of a vigorous infrastructure improvement program that will last well beyond 2015. Liberty Midstates contends that the average rate base proposed by Staff would exist only in June 2015, four months after the rates set in this docket are expected to go into effect, and there appears a strong likelihood that the rates adopted in this proceeding will remain in effect for a number of years. Liberty Midstates asserts that use of average rate base in a situation such as this, where rate base is substantially increasing over time, will understate rate base for nearly all of the time that rates are in effect. The Company contends this is contrary to Mr. Ostrander's assertion that a year-end rate base is not more representative of the rate base that will exist when the proposed rates will be in effect.

Liberty Midstates believes it is undisputed that it has been under-earning since its inception, and suggests that this mitigates concerns that might otherwise be associated with the using year-end rate base. The Company notes it will continue to be significantly under-earning even during the test year, until approximately early March 2015 when the rates set in this proceeding are expected to go into effect, and suggests that the use of an average plant net balance for the test year will exacerbate the effects of this under-earning because it believes that after only a few months the Company's rate base will be greater than that on which its newly adopted rates are based.

Liberty Midstates also contends it is in a different position than that of other utilities in cases where the Commission has implemented an average rate base, noting that the other utilities cited by Staff have been in operation for over a hundred years, were not filing their first rate case, and had not been under-earning for such long period of time between rate case filings as the Company. Liberty Midstates also argues that its projects are not large enough for it to access the capital markets each time it initiates a project, nor is it constantly accessing the capital markets such as larger utilities may do with shelf registrations.

The Company also disagrees with Staff's assertion that in the case of future test years, an average net plant balance is appropriate because during a time of more frequent rate cases, utilities tend to invest more. Mr. Long stated that in his more than thirty-five years of experience, utilities do not seek funds and then establish what investment can be made with those funds. Rather, utilities establish the necessary investment plan and seek funds to pay for that plan. As a result, the only way the Company can be fairly compensated for investments it will make during 2015 is for rates established for that period to include all investment made during that period.

The Company also disagrees with Staff's claim that an average rate base is appropriate because the future test year is forward looking. Liberty Midstates avers that using an average plant balance would actually bring the future period back six months assuming investment is made evenly throughout the year. This would place rate-base-related costs out of synch time-wise with the income statement costs used in the revenue requirement.

Liberty Midstates notes that Staff in its Initial Brief continues to propose that the Commission compute the components of rate base as an average balance, despite the Company's explanation of what it perceives as the unique facts and circumstances in this particular case that were explained in detail in the record. Liberty Midstates claims that it showed that its operating and financial situations are drastically different from the larger utilities in the dockets cited by Staff and that its capital projects are not large enough for it to access the capital markets each time it initiates a project, nor is it constantly accessing the capital markets such as larger utilities may do with shelf registrations.

Instead, Liberty Midstates claims that it must aggregate its capital needs and obtain funding in advance for plant. While this issue exists for Liberty Midstates in any case, using average net plant exacerbates the problem more than using end-of-year

balances. Liberty Midstates disputes that its proposal for a year-end rate base is flawed, and suggests that otherwise it will significantly under-earn even during the test year, until approximately early March 2015 when the rates set in this proceeding are expected to go into effect.

In light of what Liberty Midstates believes are the unique and compelling facts of its case, the Company submits that the Commission's previous description of this issue as a "close issue" would effectively be rendered meaningless if a year-end rate base is not adopted in this proceeding. The Company submits that it has shown that its rates should take into account all of the investment that it will make in the test year.

c. Commission Analysis and Conclusion

The Commission notes that Staff is supporting the use of an average net plant for computing rate base components, suggesting that this method more accurately reflects the addition of assets through the test year. Staff also notes that the Commission has generally adopted average net plant in past dockets which involved future test years.

Liberty Midstates, however, correctly points out that each proceeding must be judged on its own facts, and believes that the facts present in this proceeding argue in favor of the use of end-of year net plant. Liberty Midstates asserts various factors, including that it has been significantly under-earning in past years, that utilities are entering a period of increasing plant investment, that Liberty Midstates has not been in operation as long nor is it as large as other Illinois utilities, and that it otherwise may have trouble financing plant additions.

The Commission believes that, based on the facts presented in this proceeding, the most appropriate method for determining rate base components is the average net plant method endorsed by Staff. The Commission believes that this method most accurately matches the manner in which plant additions are made to the period for which rates will be in effect. This method is superior to the year-end method endorsed by the Company which would use a December 31, 2015 rate base for rates which will become effective in March, 2015. The Commission believes that to use the year-end method would allow the Company to earn a return on assets not yet in-service until later in the test year. The Commission does not find persuasive the arguments that the Company has made to differentiate its facts from prior rate cases, including that fact that it may have been under-earning in past years.

2. Accumulated Deferred Income Taxes

a. Staff's Position

Staff recommends the Commission adopt Staff's adjustments to establish ADIT as a prorated average balance that is in compliance with Section 168 (i)(9)(B) of the Internal Revenue Code rather than as a year-end balance as proposed by the Company. The

discussion on the basis of using average ADIT as a component of an average rate base is essentially the same as that regarding "Average Net Plant."

Staff notes that in rebuttal testimony, the Company agreed that Staff's proration of the test year-end ADIT balance is in compliance with Section 168(i)(9)(B) of the Internal Revenue Code, but continues to contest the use of an average balance. Staff advances essentially the same arguments on the basis of using average ADIT as a component of an average rate base as in the section of this Order on "Average Net Plant."

b. The Company's Position

Liberty Midstates agrees that the methodology for calculating ADIT is not contested, but notes that several of the inputs are subject to the contested adjustments discussed by the parties. The Company incorporates by reference its arguments in support of a year-end rate base, its arguments in support of rejecting Staff's adjustment to incentive compensation, as well Liberty Midstates' arguments in support of rejecting Staff's adjustment to the corporate state income tax rate.

c. Commission Analysis and Conclusion

As it found in regard to net plant, the Commission believes that the use of average net plant as supported by Staff is the most appropriate method to use in this proceeding.

3. Incentive Compensation

a. Staff's Position

Staff suggests the Commission adopt Staff's adjustments to reduce Liberty Midstates' operating expenses and rate base for incentive compensation costs that do not provide tangible benefits to ratepayers. Staff notes the adjustments are comprised of the following: (1) Long Term Incentive Plan costs related to shareholder-oriented goals; (2) Short Term Incentive Plan costs related to goals tied to financial performance; and (3) Shared Bonus Pool Program costs related to goals tied to financial performance.

Staff notes that Liberty Midstates argues that incentive compensation costs will be incurred during the test year and in the future; that incentive compensation is an important recruiting and retention tool; and financial incentives ultimately benefit ratepayers. Staff acknowledges that incentive compensation costs could be incurred in the test year and in the future and that incentive compensation can be an important recruiting/retention tool. However, Staff believes the Company fails to demonstrate how such incentive plans produce tangible benefits to ratepayers. Staff notes this criteria for rate recovery – the utility demonstration of tangible benefits to ratepayers – has been established in numerous Commission orders:

- Docket No. 08-0363, Northern Illinois Gas Company (March 25, 2009);

- Docket Nos. 09-0166/0167 (Cons), The Peoples Gas Light and Coke Company and North Shore Gas Company, filed March 25, 2009;
- Docket Nos. 09-0308/0309/0310/0311 (Cons), Ameren Illinois Utilities (March 17, 2010);
- Docket Nos. 11-0280/0281 (Cons), The Peoples Gas Light and Coke Company and North Shore Gas Company (January 10, 2012); and
- Docket Nos. 12-0511/0512 (Cons), The Peoples Gas Light and Coke Company and North Shore Gas Company (June 18, 2013).

Staff witness Ostrander testified that he agrees with the Company that incentive compensation can be an important recruiting and retention tool; however, as to the Company's assertion that financial incentives ultimately benefit ratepayers, Mr. Ostrander suggests that the Company offered no evidence that any of the Company's incentive compensation plans' financial metrics result in demonstrated tangible benefits to ratepayers. Mr. Ostrander opines that based upon the Commission's criteria for rate recovery -- for the utility to demonstrate tangible benefits to ratepayers – the adjustment proposed for incentive compensation proposed by Staff is appropriate and should be adopted by the Commission.

Staff in its Reply Brief notes that the Company continues to disagree with Staff regarding whether incentive compensation on financial metrics benefits customers. Staff continues to recommend that the Commission adopt Staff's adjustments to reduce the Company's operating expenses and rate base for incentive compensation costs that do not provide tangible benefits to ratepayers. As set forth in Staff's Initial Brief, the Company fails to demonstrate how such incentive compensation costs produce tangible benefits to ratepayers. Staff submits that this criteria for rate recovery – the utility demonstration of tangible benefits to ratepayers – has been previously established in numerous Commission orders.

b. The Company's Position

Liberty Midstates notes that Staff has proposed adjustments to disallow $8,033 of capital related to the Long Term Incentive Plan ("LTIP") and $16,585 of capital related to the Short Term Incentive Plan ("STIP") and the Shared Bonus Pool Program ("SBPP"). Under the discussion of operating expenses, Staff witness Ostrander recommends corresponding disallowances for the operating expense portion of the LTIP, STIP and SBPP. The Company disagrees with Staff's proposed adjustment to the capital portion of the LTIP, STIP, and SBPP for the same reasons it objects to Staff's corresponding adjustment to the operating expense portion of the Company's incentive compensation plans. Based on the evidence in the record, Liberty Midstates urges the Commission to reject Staff's proposed adjustment on this issue.

c. Commission Analysis and Conclusion

The Commission, having reviewed the evidence and the arguments presented by the parties, believes that Staff's proposed adjustment to rate base for incentive compensation is appropriate. The Commission does not disagree with the Company, nor does Staff, that the use of incentive compensation can be an important recruiting and retention tool; however, the Commission believes that to be recovered from ratepayers, the incentive compensation must show clear benefit to ratepayers. The Commission does not believe that is the incentive compensation expenses discussed in this section provide sufficient benefits to ratepayers or meet the Commission's standard for recovery from customers. The argued benefit to ratepayers of incentive compensation costs are secondary or tertiary benefits and do not meet the Commission's standard of tangible ratepayer benefits. The Commission will, therefore, adopt Staff's proposed adjustment to incentive compensation costs to rate base in this proceeding.

C. Approved Rate Base

Staff recommends a rate base of $39,418,527 as reflected on page 5 of Appendix A to Staff's Initial Brief. Staff notes its recommendation is $504,232 less than the $39,922,399 rate base requested by Liberty Midstates in rebuttal. Liberty believes that the evidence in the record demonstrates that Staff's adjustments to average net plant, ADIT, and incentive compensation are not supported and should be rejected; therefore test year rate base should total $39,922,399.

The Commission finds, based on the earlier analysis and decisions made on various contested issues, that the test year rate base should be set at $39,418,167.

III. OPERATING REVENUES AND EXPENSES

A. Resolved Issues

1. Property Taxes – Test Year Expenses

Liberty Midstates accepted Staff's adjustments to property tax expense. Thus, the parties agree on the amount of test year property taxes to be included in the revenue requirement, but disagree on a related issue, Liberty Midstates' request for deferred accounting treatment for the property taxes on an office building to be constructed in Vandalia, Illinois. This discussion is presented elsewhere in this Order.

2. Outside Professional Services

Staff notes that it initially proposed a $416,254 adjustment to reduce outside professional services expense for outside consultants because the amount had not been supported. In rebuttal testimony, Staff revised its adjustment to disallow an additional $206,194 in outside professional services expense for payments made to the former owner, Atmos, for transition and training services to assist Liberty Midstates in its new

ownership and management roles. Staff argued that these payments were not reflective of ongoing, recurring expenses. Furthermore, all payments made to Atmos were made during the first quarter of 2013, further indication that such payments were non-recurring and, thus, non-recoverable operating expenses. Staff also opined that if Liberty Midstates' request to enter into an affiliate services agreement with a service company is approved in Docket No. 14-0269, then it is possible that certain economies of scale will be achieved, which have not been considered in the instant proceeding. In its surrebuttal testimony, Liberty Midstates acknowledged the potential for cost savings and, for the purpose of narrowing issues, stated that it would not contest Staff's adjustment to Outside Professional Services expense.

The Commission finds that this proposed adjustment is not contested, is appropriate, and will be adopted for this proceeding.

3. Rate Case Expense

The Company originally proposed rate case expense of $707,500 to be amortized over three years. Staff proposed adjustments to reflect actual amounts recoverable for the ADIT consultant and the initial Part 285 consultant. The Company accepted Staff's adjustments in rebuttal testimony. Also in rebuttal testimony, the Company revised its rate case expense estimate to $865,478. Staff notes that the increased costs were due to the Company's conservative initial estimate and the number of and complexity of issues subsequently presented in this proceeding.

While Ms. Phipps does not propose an adjustment to the rate case expense associated with SEA, she provided a summary of her review of rate case expense associated with SEA in order to make the Commission aware that the Company increased its estimate of rate case expense for SEA substantially during this proceeding, and nearly depleted the higher budget before the surrebuttal stage.

Therefore, Staff recommends that the Order in this proceeding include the following Commission conclusion:

> The Commission has considered the costs expended by the Company to compensate attorneys and technical experts to prepare and litigate this rate case proceeding and assesses that such costs in the total amount of $865,478, which is $288,493 amortized over three years, are just and reasonable pursuant to Section 9-229 of the Act (220 ILCS 5/9-229).

Staff notes that Liberty Midstates' revised rate case expense estimate of $865,478 amortized over three years results in a test-year rate case expense of $288,493.

Liberty Midstates notes that Staff witness Phipps points out that the Company's estimate for Sussex Economic Advisors ("SEA") could be too low, because the Company's actual expenditures for work by SEA to date is almost equal to the total forecasted amount, and because SEA did additional work that was not originally

anticipated during the case. The Company suggests these comments are irrelevant given that Liberty Midstates is not proposing that any additional amounts be added to the rate case expense amounts that the parties have agreed upon and that there is no disputed issue regarding rate case expense. The Company does not believe the comments need to be addressed further.

The Commission recognizes that this issue is agreed between the parties, however, Staff has expressed some concern over Liberty Midstates' apparent under-estimation of the level of rate case expense which would be incurred during this proceeding, and the fact that the estimated expense was raised during the proceeding. Liberty Midstates believes Staff's concern is unwarranted given that it is not proposing any additional rate case expense amounts to be collected from ratepayers. The Commission recognizes both parties concerns on this issue, and acknowledges that expenses may go up based on the number of contested issues presented. The Commission recommends that the Company keep abreast of this issue in any future proceedings. The Commission finds that the language suggested by Staff is appropriate, that there is no contested issue presented on rate case expense, and the recommended language will be included in the Finding and Ordering paragraphs of this Order.

4. Allocation from Shared Services

In direct testimony, Staff proposed an adjustment to reduce the expense Allocation from Shared Services. Based upon information provided by the Company in its rebuttal testimony, Staff withdrew this adjustment.

The Commission finds that this proposed adjustment has been withdrawn, and it will not be considered in this proceeding.

5. Depreciation Expense

Staff proposed an adjustment to correct a calculation error in the Company's depreciation expense schedule. The Company accepted Staff's adjustment in rebuttal testimony.

The Commission finds this proposed agreed adjustment to be reasonable, and it will be adopted for use in this proceeding.

B. Contested Issues

1. Gross Revenue Conversion Factor

a. Staff's Position

Staff notes that it and Company disagree with respect to two of the inputs to the determination of the Gross Revenue Conversion Factor ("GRCF"): (1) the uncollectible expense rate, and (2) the state income tax rate.

i. Uncollectible Expense Rate

Staff states that the first disputed input is the Company's proposed uncollectible rate of 0.70% based upon the average uncollectible rate for the three historical years 2011-2013 of 0.68% plus 0.02% for the expected rate impact from the instant proceeding. Staff has proposed an uncollectible rate of 0.51% based upon the average uncollectible rate for the five most recent historical years 2009-2013. In rebuttal, Staff suggests it demonstrated the reasonableness of its 0.51% proposed rate by calculating two additional average uncollectible rates that approximate Staff's proposed uncollectible rate of 0.51%: 1) the average for the four most recent years (2010-2013) is 0.48% and 2) the average uncollectible rate for the period 2009 through 2013 but excluding the high year of 2013 and the low year of 2010 is 0.54%.

Staff believes its proposed uncollectible rate of 0.51% is objective, verifiable and reasonable, and should be approved by the Commission.

Staff in its Reply Brief suggests that Liberty Midstates has failed to demonstrate that its proposed rate of 0.70% is a representative rate for test year purposes; rather, Staff opines that there are various flaws in Liberty Midstates' arguments.

First, Staff notes the Company claims that "the five-year average ignores the more recent data used by the Company which indicates a higher level of uncollectibles." Staff states that its proposed five-year average does not ignore the most recent data and, as shown in Staff Schedule 6.08, 2013, the most recent year for which data is available, is included in column (b) and is included in the determination of the five-year average. Accordingly, Staff's proposed uncollectible rate includes, and gives equal weight to, the five most recent years 2009-2013.

Staff also believes that the suggestion that the higher uncollectible rate experienced in 2013 "…indicates a higher level of uncollectibles" is completely unsupported and misleading. Staff avers that the Company did not present any statistics or studies to show that a higher-than-normal uncollectible rate in one year is indicative of (higher) future uncollectible rates. While the Company urges the Commission to believe that a single data point of recent data is a more reliable predictor of uncollectible rates than a five-year history, Staff opines that the evidence suggests precisely the opposite conclusion; at the very least, it suggests that uncollectible rates vary from year to year. Staff Schedule 6.08 shows that uncollectible rates for the five year period from 2009 to 2013 are the following:

Year	Rate
2009 (Atmos)	0.62%
2010 (Atmos)	0.07%
2011 (Atmos)	0.50%
2012 (Atmos partial year)	0.55%
2012 (Liberty partial year)	0.36%

2013 (Liberty)	1.03%

Staff suggests there is no evidence that the uncollectible expense rate has trended higher since 2009, and there is no evidence that more recent data is more reliable in the determination of the test year uncollectible expense rate.

Staff also contends that the Company's statement that "Staff's five-year average relies primarily on data from a different company" is a red herring and should be ignored by the Commission. Staff submits that the important facts related to the determination of the uncollectible expense rate in the instant proceeding are:

1. The service territory is the same (regardless whether being served by Atmos Energy Corporation or Liberty Midstates);
2. The customers are the same;
3. The customer mix is the same; and
4. The rate structure is the same.

Staff notes that the only change is the name of the utility on the customers' bill, from Atmos to Liberty Midstates.

Liberty Midstates argues that some of the data included in Staff's analysis is questionable; however, Staff notes that it relied on the Form 21 ILCC annual reports submitted by the Company's predecessor in interest to the Commission, which have been verified by an officer of the reporting company. Specifically, Liberty Midstates questions Atmos' 2010 negative uncollectible rate (-0.07%). Staff states that there may be valid reasons why the rate is negative, and in any case, those issues were not raised in this case. Furthermore, Staff believes it can only be assumed that during the acquisition due diligence process, any concerns with the prior financial records of Atmos' were considered and reflected in the purchase price of the Atmos service territory approved by the Commission in Docket No. 11-0559.

Finally, Liberty Midstates attempts to distinguish the instant case (which uses a future test year) from the six cases cited by Staff witness Knepler where the Commission used a five-year average to set the uncollectible rate, noting that of the six cases cited by Mr. Knepler, only one case used a future test year. Staff argues that Liberty Midstates has failed to demonstrate why the choice of future test year or historical test year is significant.

Staff submits that the test year selected by the Company is not a determining factor in whether the Commission considers a five-year average in setting the uncollectible expense rate because the revenue requirement and rate design are set to recover operating expenses and provide for a return on investment. Furthermore, the underlying concern for the Commission is that its Orders be supported by the evidence. Staff argues that a five-year average uncollectible expense rate provides evidence for the Commission such that a "reasonable mind would accept as sufficient to support a particular conclusion." (citing ComEd, 398 Ill. App.3d 510, 514 (2nd Dist. 2009)) Therefore, Staff

submits that its proposed 0.51% uncollectible rate is objective, verifiable and supportable and should be adopted by the Commission.

ii. State Income Tax Rate

Staff states that the second disputed input to the GRCF is the Illinois Income Tax rate. Staff notes that the current rate of 9.50% (the rate which is reflected in the Company's filing) is scheduled to sunset and return to the pre-2011 rate of 7.75% effective January 1, 2015. The Company provided various financial articles and statements from elected officials to support the retention of the current income tax rate.

Staff suggests that it cannot recommend that the Commission base its order on possible legislative action; to do so would be based upon conjecture and speculation as what, if any, action the General Assembly may take in the fall 2014 veto session and beyond. At the present, Staff notes there is no bill awaiting the Governor's signature to extend or make permanent the 9.5% state income tax rate. Therefore, Staff recommends that the revenue requirement reflect the 7.75% income tax rate that is to become effective January 1, 2015.

Despite having two proposed state income tax rates (7.75% vs. 9.50%), the parties have reached a mutually agreeable solution to address any post-hearing income tax legislation. Should such legislation be enacted prior to the Commission's Order, the parties are to file briefs addressing the impact of the enacted rate. Accordingly, the record has not been marked heard and taken and has been continued generally. Therefore, Staff further believes that the state income rate issue is not in dispute.

b. The Company's Position

Staff and the Company agree on the method for calculating the Gross Revenue Conversion Factor ("GRCF"), but disagree on the inputs. The parties dispute the appropriate level of uncollectible expense and the state income tax rate. As discussed below, the Company argues that the Commission should reject Staff's adjustments to the uncollectible expense rate and the state income tax rate.

i. Uncollectible Expense Rate

In determining its revenue requirement, the Company used an uncollectible expense rate of 0.70%. The Company identified this rate as its best estimate of the likely uncollectible expense rate to be in effect in the test year. Staff witness Knepler proposed the use of a five-year historical average of uncollectible expense from 2009 through 2013 (combining reports from the Company and from the Company's predecessor) resulting in an uncollectible expense rate of 0.51%. Liberty Midstates believes that Staff's proposed adjustment is in error because it uses data that predates the Company's existence, appears erroneous, does not take into account the Company's actual experience, and fails to consider the likely effects of future increases.

Liberty Midstates own recent experience indicates a higher level of uncollectibles than suggested by Staff. Liberty Midstates' actual uncollectible rate in 2013 was 1.03%; and further showed that it is reasonable to expect an increase in uncollectible expense in the test year due to the impact of the first rate increase in this service area in over fourteen years. Based on these factors, Liberty Midstates contends the uncollectible expense ratio of 0.70% is reasonable, while Staff's approach fails to take into consideration factors that are likely to affect test year uncollectibles. The Company's proposed uncollectible rate takes into account that the Company's belief that it will be able to improve collections over time relative to its prior year's experience.

To address Staff's concern regarding year-to-year fluctuations, the Company presented a calculation of a three-year average rate of uncollectibles. The uncollectible rate using a three-year average is 0.68%, which is consistent with and supports the Company's proposed rate of 0.70%. Liberty Midstates opines that the three-year average indicates the Company's proposal is reasonable and not unduly affected by a single year's fluctuations.

Liberty Midstates also opines that Staff witness Knepler's use of a five-year average in this case is problematic for a number of reasons, all of which remain unaddressed by Staff. First, the five-year average ignores the more recent data used by the Company which indicates a higher level of uncollectibles. The more recent data is a better indicator of the level of uncollectible expense that would be expected to occur in the test year -- the data used by Staff reaches back to 2009. Staff's five-year average also relies primarily on data from a different company. The Company is not aware of any instance where the Commission has required a utility to recover costs based on the uncollectible data of another company that no longer operates in the state. This is particularly troublesome where that data is clearly inaccurate. For instance, the data for 2010 indicates a negative uncollectible amount. There is nothing in the record to explain how such a negative amount could arise. Staff did not explain this anomaly, and the Company has not been able to verify any of the non-Company data used by Staff in its five-year average.

Liberty Midstates also notes that Staff additionally presented an average rate of uncollectibles based on a four-year average of 2010 through 2013 and additionally an average rate with high and low years removed. The Company's objection to the questionable data continues to apply to Staff's four-year average calculation. Likewise, the exclusion of the high year in Staff's calculation inappropriately excludes the most recent data from 2013, which the Company argues is actually the most relevant and most reliable figure. Liberty Midstates contends that Staff's approach results in a calculation that is too far removed from the 2015 test year to present a reliable indication of the level of uncollectible expense that will be incurred in the test year. Further, the high and low year exclusion method would only rely on five months of operations by Liberty Midstates itself.

Liberty Midstates opines that Staff witness Knepler testified that the Commission had used a five-year average in certain other cases, and the Company notes that in none

of the cases testified to by Staff did the Commission use data from companies other than the utility seeking a rate increase. In addition, all but one of the cases testified to by Staff did not involve future test years. The Commission has previously and explicitly found that the methodology used in cases using a historical test year is not determinative in rate cases using a future test year. Instead, the Commission has examined the facts and circumstances of a particular rate case to determine the reasonableness of an uncollectible expense estimate, rather than mandating a particular methodology be used.

Based on the facts in this proceeding, including historical data, the Company's best estimates, and identifiable and specific circumstances, the Company suggests that its proposal of 0.70% represents the best estimate of uncollectible expense that will occur in the test year. In contrast, Liberty Midstates contends that Staff's approach ignores the data reliability issues raised by the Company and the likely challenges that will be faced in the test year and should be rejected.

Liberty Midstates avers that Staff's reliance on clearly inaccurate data from 2010 in its Initial Brief should be troubling to the Commission; noting that the 2010 data indicates a negative level of uncollectible expense. Liberty Midstates opines that there is nothing in the record to explain how such a negative amount could arise and Staff's brief fails to address this anomaly. Liberty Midstates also complains that Staff's five-year average additionally ignores the more recent data used by the Company which indicates a significantly higher level of uncollectible expense, 1.03 percent; while Staff's data reaches back to 2009 and is simply too far removed the 2015 test year to be considered relevant. The Company also submits that Staff's adjustment is even more troubling, since Liberty Midstates believes that uncollectible expense will likely increase due to the impact of the first rate increase in this service area in over fourteen years.

Liberty Midstates notes in its Reply Brief that Staff incorrectly states that the Company's estimate "was based upon the average uncollectible rate for the three historical years 2011-2013 of 0.68 percent plus .02 percent for the expected rate impact from the instant proceeding." The Company states that it only calculated the three-year average in response to Staff's concern about year-to-year fluctuations. Had the three year average indicated that there was something severely wrong with the Company's estimate, the Company submits that it would have considered revising the estimate.

Instead, Liberty Midstates avers that its estimate of test year uncollectible expense was based on the Company's most recent actual experience from 2013, with the Company applying a downward adjustment to the 1.03 percent 2013 actual data to reflect the Company's expectation that it will be able to increase collections over time. Liberty Midstates opines that this adjustment was tempered by the Company's estimation that uncollectibles will rise after the first rate increase in over a decade.

The Company suggests that its estimate is the only approach in the record that considers the facts and circumstances applicable to this proceeding. Staff seeks to apply a formulaic approach to determining the Company's uncollectible rate without looking at any of the individual circumstances of this case. Staff's brief (and its proposed

calculation) failed to address: (1) the clearly erroneous data; (2) the Company's most recent actual experience; and (3) the likely effect of the future rate increase. Based on the facts in this proceeding, including historical data, the Company's best estimates, and identifiable and specific circumstances applicable to the test year, the Company's proposal of 0.70 percent represents the best estimate of uncollectible expense for the test year.

ii. State Income Tax Rate

The Illinois corporate income tax rate in place when the Company prepared and initiated the filing of its rate case was 9.5%, and Liberty Midstates argues this rate represents the most likely corporate income tax rate to be in effect in 2015. Staff objected to the use of the 9.5% state income tax rate because the state income tax rate is scheduled to reduce to 7.75%, absent legislative action on January 1, 2015.

The Company disagreed with Staff's proposed adjustment and noted that the absence of legislation extending the 9.5% state income tax rate during the testimony phase of this proceeding is not indicative of the rate of taxes that will be in effect in 2015. Liberty Midstates noted that the most likely time for the state income tax extension to be addressed by the General Assembly is after the November election, and probably even after the start of 2015.

The Company submits that it is not seeking to game the state income tax rate, and if evidence becomes available that demonstrates it is more likely that the current corporate income tax rate will be changed (lower or higher for that matter) for 2015, a change to the proposed rates would be warranted. However, the Company notes the Commission may be required to make a determination regarding which tax rate is more likely to be in effect in 2015. The Company has presented evidence showing that the most likely tax rate will be 9.5%.

Liberty Midstates contends that it is very unlikely the state corporate income tax will be 7.75% in 2015, and, based on the state's financial condition and statements made by the current governor and state legislators, believes it is highly likely the current state corporate income tax rate of 9.5% will remain in place beyond January 1, 2015. Liberty Midstates noted that Speaker of the House Madigan and Senate President Cullerton (with their intact veto-proof majorities in the general assembly) support extending the 9.5% corporate income tax rate, while outgoing Governor Quinn also supports the extension.

The Company also presented a June 5, 2014 Moody's Sector Comment for Illinois that indicated, if legislators do not reverse or offset the scheduled tax reduction in some fashion, Illinois' backlog of payments to vendors, municipalities, public universities, and other entities will triple to $16.2 billion in the next three years. Likewise, Governor Quinn's FY 2015 Budget Address noted that "[if action is not taken to stabilize our revenue code…extreme and radical cuts will be imposed on education and critical public services." Even with a new governor taking over in 2015, Liberty Midstates opines that these budgetary pressures remain as strong as ever.

Company witness Long also testified that he is not aware of any credible proposals by leading politicians that would allow for a reduced corporate income tax rate. While there is some support for reducing individual income tax levels in 2015, Mr. Long is not aware of evidence indicating strong support specifically for the reduction of state corporate income tax rates.

To the extent that the tax rate for 2015 is not definitively known, Liberty Midstates suggests that the Commission must review the available evidence to determine the most likely income tax rate that will apply in the test year. The Company submits that, absent a conclusive legal action, the record evidence can only support the conclusion that the most likely corporate income tax rate for 2015 is 9.5%.

As noted by Staff on its Initial Brief, a procedure is in place to present any new legislation on the state income tax rate prior to the Commission's Order. Ideally, this legislation will be enacted prior to the time the Commission must render its determination. In that case the Company and Staff agree that the General Assembly's action would be incorporated into the record. In the event the General Assembly does not act in time, Liberty Midstates urges the Commission to conclude that 9.5 percent is the appropriate test year state income tax rate.

c. Commission Analysis and Conclusion

Regarding the uncollectible rate to be adopted in this proceeding, the Commission notes that Staff has proposed an uncollectible rate of 0.51%, which is based upon the average uncollectible rate for the five most recent historical years 2009-2013. Staff suggests it demonstrated the reasonableness of its 0.51% proposed rate by calculating two additional average uncollectible rates that approximate Staff's proposed uncollectible rate of 0.51%: 1) the average for the four most recent years (2010-2013) is 0.48%, and 2) the average uncollectible rate for the period 2009 through 2013 but excluding the high year of 2013 and the low year of 2010 is 0.54%. Staff believes its proposed uncollectible rate of 0.51% is objective, verifiable and reasonable, and should therefore be approved by the Commission.

Liberty Midstates suggests an uncollectible expense rate of 0.70%. The Company identified this rate as its best estimate of the likely uncollectible expense rate to be in effect in the test year. Liberty Midstates' own recent experience indicates a higher level of uncollectibles than suggested by Staff. Liberty Midstates notes that its actual uncollectible rate in 2013 was 1.03%; and believes it has shown that it is reasonable to expect an increase in uncollectible expense in the test year due to the impact of the first rate increase in this service area in over fourteen years.

Liberty Midstates also argues that Staff's use of a five-year average ignores the more recent data used by the Company which indicates a higher level of uncollectibles. Liberty Midstates claims the more recent data is a better indicator of the level of uncollectible expense that would be expected to occur in the test year -- the data used by

Staff reaches back to 2009. Liberty Midstates also contends that Staff's five-year average also relies primarily on data from a different company.

The Commission will first dismiss Liberty Midstates' suggestion that it is inappropriate to use uncollectible data from its predecessor, Atmos. The Commission agrees with Staff that the facts support use of both sets of data. The Commission also finds it unlikely that the negative uncollectible rate apparently experienced by Atmos in 2010 is an accurate representation of an appropriate uncollectible rate, and believes that the inclusion of the 2010 data in any conclusion is unsupported. Despite the fact that this information was derived from the Form 21 filed with the Commission, there appears to be no context or explanation for a negative uncollectible rate. While there may be a reasonable explanation for how this occurred, it seems unlikely to be repeated, and appears to clearly meet the definition of an "outlier."

The Commission believes it would be inappropriate to "throw out' the most recent uncollectible rate experienced by the Company as an outlier, as there is no suggestion that the number was calculated inappropriately, and the Commission recognizes that this is the most current information available. The Commission has routinely adopted the use of an average in calculating the appropriate uncollectible rate, which should "smooth out" the results rather than using any one year.

The Commission believes that the most appropriate uncollectible rate to be used in this proceeding would be an average of the rates experience in 2009, 2011, 2012 (averaged between the results of each operating company) and 2013. The Commission finds that the resulting uncollectible rate would be 0.66%, which the Commission believes is appropriate for use in this proceeding. The Commission will decline to use an "adder" for this number to account for what Liberty Midstates believes will be an increased level of uncollectible expense due to the rate increase expected to begin in March, 2015. The Commission finds that this would be overly speculative and is not supported by the evidence presented in this proceeding.

In consideration of the proper tax rate to be used as an input to the GRCF is the Illinois Income Tax rate, Staff notes that the current rate of 9.50% (the rate which is reflected in the Company's filing) is scheduled to sunset and return to the pre-2011 rate of 7.75% effective January 1, 2015. Staff suggests that this is the proper rate to be used, as there has yet been no legislation passed to roll-back the sunset of the 2014 tax rate or to otherwise return to a tax rate of 9.5%. Liberty Midstates acknowledges Staff's position, but believes it is likely that the roll-back to the lower rate will not happen based on the statements of various legislative leaders. The Commission believes that the evidence, as it stands now, shows that the appropriate tax rate to be used as an input to the GRCF is the 7.75%, which is scheduled to be in effect for 2015.

2. Incentive Compensation

a. Staff's Position

Staff recommends that the Commission adopt Staff's adjustments to reduce Liberty Midstates' operating expenses and rate base for incentive compensation costs that do not provide tangible benefits to ratepayers. The adjustments are comprised of the following: (1) Long Term Incentive Plan costs related to shareholder-oriented goals; (2) Short Term Incentive Plan costs related to goals tied to financial performance; and (3) Shared Bonus Pool Program costs related to goals tied to financial performance.

Staff notes that Liberty Midstates argues that incentive compensation costs will be incurred during the test year and in the future; incentive compensation is an important recruiting and retention tool; and financial incentives ultimately benefit ratepayers. Staff acknowledges that incentive compensation costs could be incurred in the test year and in the future and that incentive compensation can be an important recruiting/retention tool. However, Staff believes the Company has failed to demonstrate how such incentive plans produce tangible benefits to ratepayers. Staff notes that this criteria for rate recovery – the utility demonstration of tangible benefits to ratepayers – has been established in numerous Commission orders:

- Docket No. 08-0363, Northern Illinois Gas Company (March 25, 2009);
- Docket Nos. 09-0166/0167 (Cons), The Peoples Gas Light and Coke Company and North Shore Gas Company, filed March 25, 2009;
- Docket Nos. 09-0308/0309/0310/0311 (Cons), Ameren Illinois Utilities (March 17, 2010);
- Docket Nos. 11-0280/0281 (Cons), The Peoples Gas Light and Coke Company and North Shore Gas Company (January 10, 2012); and
- Docket Nos. 12-0511/0512 (Cons), The Peoples Gas Light and Coke Company and North Shore Gas Company (June 18, 2013).

(Staff Ex. 5.0, pp. 4-5)

Staff witness Ostrander agrees with the Company that incentive compensation can be an important recruiting and retention tool. As to the Company's assertion that financial incentives ultimately benefit ratepayers, Mr. Ostrander suggests that the Company offered no evidence that any of the Company's incentive compensation plans' financial metrics result in demonstrated tangible benefits to ratepayers. Mr. Ostrander opines that based upon the Commission's criteria for rate recovery -- for the utility to demonstrate tangible benefits to ratepayers – the adjustment proposed for incentive compensation proposed by Staff is appropriate and should be adopted by the Commission.

b. The Company's Position

The Company notes that Staff proposes disallowing approximately: (1) $18,682 of costs related to the LTIP, consisting of $10,649 of expenses and $8,033 of capital; (2) $38,530 of costs related to the STIP and SBPP consisting of $21,962 of expenses and $16,568 of capital. Liberty Midstates believes that Staff's proposed adjustment is not supported by the record and should be rejected.

Liberty Midstates suggests the Commission reject Staff's proposed adjustment for three reasons. First, the Company states that incentive compensation is a cost that will be incurred in the test year and will be incurred going forward. Second, incentive compensation is an important recruiting and retention tool. Third, financial incentives are an important metric which ultimately benefit customers.

Liberty Midstates notes that Staff does not dispute that incentive compensation costs will be incurred in the test year or that incentive compensation can be useful recruiting tool. The Company disagrees with Staff that basing incentive compensation on financial metrics does not benefit customers. Liberty Midstates avers that financial metrics provide benefits by encouraging more efficient operations, the benefits of which ultimately flow to customers, arguing that efficiency is encouraged because the Company's financial metrics are not only impacted by revenues, but costs as well. Ratepayers directly benefit from the cost controls incentivized by the Company's financial metrics. Finally, Liberty Midstates contends customers benefit from the financial health and stability of the utility and encouraging workers to enhance that stability should be encouraged.

Additionally, Liberty Midstates argues that the incentive compensation package it offers to its employees should be viewed as an overall package that has financial performance as one of many goals. Liberty Midstates opines that the packages, as a whole, benefit customers by encouraging employees to reach higher levels of on-the-job performance overall, and segregating and disallowing particular portions of the incentive packages miss the point that these plans are set up to have significant benefits for all stakeholders of the Company.

The Company agrees with Staff that the Commission standard for recovery of incentive compensation is that such plans provide tangible benefits to ratepayers. The Company claims it has met this standard. The Company presented evidence that financial metrics provide benefits by encouraging more efficient operations, the benefits of which ultimately flow to customers. Efficiency is encouraged because the Company's financial metrics are not only impacted by revenues, but costs as well. Ratepayers directly benefit from the cost controls incentivized by the Company's financial metrics. Additionally, customers benefit from the financial health and stability of the utility and encouraging workers to enhance that stability should be encouraged.

The Company complains that Staff's Initial Brief does not address any of the factors presented by the Company. Staff simply provides a blanket assertion that the

Company has not demonstrated that its plan produce tangible benefits. Staff has not identified any reason why the evidence presented by the Company does not provide tangible benefits to ratepayers, nor has Staff provided a citation to the record. Accordingly, Liberty Midstates recommends that the Commission reject Staff's proposed adjustment.

c. Commission Analysis and Conclusion

The Commission does not believe it is necessary to repeat the party's arguments from the incentive compensation section of this Order regarding rate base, as the parties have made essentially the same arguments in each section. As the Commission previously found that Staff's proposed incentive compensation adjustment is appropriate for rate base, it is similarly appropriate in calculating operating revenues and expenses. Staff's proposed adjustment will therefore be adopted for use in this proceeding.

C. Approved Operating Income / Revenue Requirement

Staff recommends a revenue requirement of $12,021,409, an increase of $4,439,655 or 58.56% in base rates. The above revenue requirement produces an operating income of $2,684,377. Staff notes that its revenue requirement recommendation is presented on page 1 of Appendix A to this IB. In its rebuttal testimony, the Company recommends that the Commission set a total operating revenues at $12,972,374; an increase of $5,466,835 or 72.11% in tariffed revenues.

The Commission finds that the authorized tariffed revenues for 2015 should be $12,090,676, which along with other revenues of $116,352, produces total operating revenues of $12,207,028.

IV. COST OF CAPITAL

A. Resolved Issues

1. Short-Term Debt Ratio

Staff recommends a 0.46% short-term debt ratio that equals its proportion to Liberty Utility Company's ("LUC's") actual December 31, 2013 capital structure including ratemaking adjustments. The Company accepts Staff's recommended 0.46% short-term debt ratio. The Commission finds that for purposes of this proceeding the appropriate proportions of short-term debt to use is 0.46%.

2. Cost of Short-Term Debt

Staff recommends a 1.41% cost of short-term debt, which equals the average one-month LIBOR rate for the 30 days ending January 31, 2014, plus 1.25%. The Company accepts Staff's recommended cost of short-term debt. For purposes of this proceeding the Commission finds that a 1.41% cost of short term debt is reasonable.

3. Embedded Cost of Long-Term Debt

Staff recommends using LUC's cost of debt for Liberty Midstates' cost of debt because, unlike Liberty Midstates, LUC has external debt investors. Staff says LUC's cost of debt reflects market-determined interest rates and renders imputing a cost of debt unnecessary. Staff indicates the embedded cost of long-term debt equals 4.81%. The Company accepted Staff's recommended embedded cost of long-term debt in order to narrow the issues in this case. Staff also recommends that, in future cases, the Company provide invoices and supporting documentation that clearly identify the debt issues, specify the expenses incurred for each particular debt issue, the date those expenses were incurred, and the method for amortizing expenses.

The Commission finds that for purposes of this proceeding, an embedded cost of debt of 4.81% is reasonable. In addition, the Commission concludes that in future cases, the Company should provide invoices and supporting documentation that clearly identify those debt issues that it seeks to include in the embedded cost of long-term debt calculation, specify the expenses incurred for each particular debt issue, the date those expenses were incurred, and the method for amortizing expenses.

B. Contested Issues

1. Common Equity and Long-Term Debt Ratios

a. Staff Position

Staff says the capital structure of Liberty Midstates comprises 60.10% common equity. The common equity ratio of its ultimate parent company, Algonquin Power and Utilities Corp. ("APUC"), is 56.64%. In addition to utility services, APUC has a power generation unit. Staff notes Section 9-230 of the Act states, "In determining a reasonable rate of return upon which investment for any public utility in any proceeding to establish rates or charges, the Commission shall not include any (1) incremental risk, [or] (2) increased cost of capital . . . which is the direct or indirect result of the public utility's affiliation with unregulated or nonutility companies."

Staff asserts the costs of debt and common equity are a function of capital structure: the higher the common equity ratio, the lower the cost of debt and common equity, all else equal. Conversely, Staff says the lower the common equity ratio, the higher the cost of debt and common equity, all else equal. Staff suggests assuming that Liberty Midstates and LUC are standalone companies rather than subsidiary and parent company. Under this hypothetical scenario, Staff says Liberty Midstates' higher common equity ratio would result in Liberty Midstates having lower cost debt and common equity than LUC, all else equal. Conversely, Staff says LUC's lower common equity ratio would result in higher cost debt and equity than Liberty Midstates, all else equal.

Staff contends that in reality, LUC is the parent company of Liberty Midstates, and provides Liberty Midstates all of its debt and equity capital such that Liberty Midstates' cost of debt equals LUC's cost of debt. Staff notes that in this proceeding, Liberty Midstates seeks to combine its 60.10% common equity ratio with the higher cost debt resulting from LUC's lower common equity ratio. According to Staff, Liberty Midstates' proposal would increase its rate of return due to the cost of debt resulting from the more leveraged capital structure of its parent company, LUC. Staff avers that combination of higher equity ratio and higher cost of debt would violate Section 9-230 of the Act.

Staff argues that since Liberty Midstates' cost of debt is that of LUC, the capital structure for setting Liberty Midstates' rates can contain no more common equity than LUC's capital structure under Section 9-230 of the Act. Staff notes the Company deems the LUC capital structure confidential. To the best of Staff's knowledge, the Commission has never issued a rate Order without disclosing publicly the capital structure used for ratemaking purposes in a contested proceeding. Beyond issues of transparency, long-held Commission precedent holds that although orders of the Commission are not *res judicata*, and the Commission is free to reach a different result in a subsequent case than it reached in an earlier case, it must articulate a rational reason for departing from past practices. (Staff Initial Brief at 20, citing Citizens Utility Board v. Commerce Commission, 166 Ill.2d 111, 125, 132 (1995)) In Staff's view, the Company has failed to articulate a rational reason why the LUC capital structure must remain confidential.

Staff believes the Commission should not rely upon a confidential capital structure for ratemaking purposes since it is a key determinant of overall rate of return and interest synchronization and must be examined for consistency with Section 9-230 of the Act. Staff proposes using an imputed capital structure that comprises 45.59% common equity, 53.95% long-term debt and 0.46% short-term debt. Staff believes its capital structure proposal meets the requirements of Section 9-230 of the Act and is reasonable given the average capital structure of the gas sample and LUC's BBB credit ratings.

Staff recommends an imputed capital structure for ratemaking purposes for two additional reasons. First, Staff contends the capital structure and cost of debt data for Liberty Midstates is not reliable. Staff says the Company could not provide audited financial statements (e.g., income statement, balance sheet, statement of cash flows) for Liberty Midstates and the Company does not prepare either a statement of cash flows or a statement of retained earnings at the Liberty Midstates level. Staff also claims the Company's balance sheet is not "balanced," meaning the total assets exceed the total liabilities plus shareholders equity. Second, Staff says Liberty Midstates obtains both equity funding and debt through its immediate parent company, LUC. According to Staff, LUC has the only investor claim on Liberty Midstates' cash flows. Staff claims debt investors have a lower exposure of risk than equity investors do when they have a priority claim to an asset's cash flows. Staff argues a priority claim cannot exist without another investor with a subordinate, residual claim. When the priority and residual investor is the same, Staff asserts there is no splitting of the company's net cash flows, rendering the split between debt and common equity in Liberty Midstates' capital structure financially meaningless. Staff maintains the cost of debt for Liberty Midstates is a function of the

split between debt and common equity in LUC's capital structure, rather than Liberty Midstates' capital structure. In Staff's view, it is reasonable to impute a capital structure in order to determine a fair rate of return for Liberty Midstates.

Staff started with the average common equity ratio of the gas sample (i.e., 49.91%), and subtracted 6.4 percentage points to reflect the two-notch difference between the average Standard & Poor's ("S&P") credit rating for the gas sample companies (i.e., A-) and LUC's S&P credit rating of BBB. Staff says 6.4 percentage points reflects two-thirds of the 9.5 percentage point difference between the midpoints of Moody's Investors Service ("Moody's") debt capitalization benchmark ratios for A and Baa rated utilities. The resulting common equity ratio is 43.51%.

Staff states that the Commission's net short-term debt calculation removes amounts assigned to calculate the return on construction work in progress ("CWIP"), i.e., allowance for funds used during construction. Staff says in contrast, the proxy group's capital structure reflects gross short-term debt balances. For consistency, Staff says it imputed the long-term capital structure ratios, then removed the short-term debt assigned to CWIP and recalculated the long-term debt and common equity ratios. Staff indicates it began with the 43.51% common equity ratio and LUC's 4.99% gross short-term debt ratio. The long-term debt ratio equals 100% less the sum of the short-term debt ratio and the imputed common equity ratio, or 51.50%. Next, Staff subtracted the net short-term debt balance (0.46%) from the gross short-term debt balance (4.99%) and assigned the difference (4.53%) to common equity and long-term debt, based on their relative proportions of long-term capital. The resulting capital structure comprises 0.46% short-term debt, 53.95% long-term debt and 45.59% common equity.

Staff says the 54.42% total debt ratio in its capital structure proposal is at the center of the range for Moody's debt to capitalization benchmark ratio of 50-59% for Baa-rated utilities. Staff also claims a 54.42% total debt ratio is consistent with APUC's debt to total capital target for Liberty Utilities Company. Staff insists its proposed capital structure is reasonable in relation to other similar companies and consistent with the target capital structure for LUC.

In its Reply Brief, Staff asserts all three benchmarks cited by the Company as "meaningful benchmarks that may inform the Commission's decision," and which range from 50.07% to 56.40%, would be impermissible under Section 9-230 of the Act because they exceed the actual common equity ratio of LUC, which serves as the upper bound on permissible common equity ratios. Staff claims even if the Company's claims that its actual capital structure "is the correct capital structure for purposes of ratemaking in this case" and it is "just, reasonable, and consistent with relevant and observable benchmarks," were correct - which Staff says they are not - Section 9-230 of the Act precludes adoption of such a capital structure. (Staff Reply Brief at 11-12, citing Company Initial Brief at 38 and 30)

According to Staff, the Commission cannot consider the Company's actual capital structure unless it makes a threshold determination that this capital structure in question

satisfies the requirements of Section 9-230. Second, Staff also contends Section 9-230 absolutely bars, as a matter of law, the adoption of a capital structure which, as a result of affiliation, results in increased risk or increased cost of capital. In Staff's view, the arguments put forth by the Company regarding the reasonableness of its actual capital structure cannot be considered, given the absolute mandate of Section 9-230.

The Company claims that Staff's proposed imputed capital structure is without any support from Commission precedent. Staff argues that to the contrary, the Commission has adopted imputed capital structures for ratemaking purposes in those circumstances in which Section 9-230 of the Act prohibits using the utility's actual capital structure. (Staff Reply Brief at 13, citing Docket Nos. 11-0280/11-0281 (Consol.) and Docket No. 12-0293)

Staff says its imputed capital structure, comprising a 54.41% debt to capitalization ratio comports with the Company's own target debt ratio. Staff also says the Company's parent company Algonquin Power and Utilities has informed the credit rating agencies what debt ratio range it believes is appropriate for its utility business and Staff's proposal is similar to the target that APUC established for LUC.

Staff observes that if the goodwill is removed from the Company's common equity balance, which it says typically occurs in Illinois ratemaking proceedings, the Company's common equity ratio falls from 60.10% to 43.98%, which is even lower than Staff's recommended equity ratio of 45.59%.

The Company asserts that authorizing an equity ratio below the Company's current actual equity ratio (and below the equity ratios in place at the proxy group companies) would increase the Company's financial risk, and serve to exacerbate the Company's elevated risk relative to the proxy group. Staff believes this assertion should be ignored.

Staff states that issuer credit ratings reflect the combined business risk and financial risk of an entity. The average credit rating for the proxy group is A-. Staff says the average credit rating for the gas distribution utility industry is A- and no adjustment to the sample average common equity ratio would be necessary if LUC were also rated A-. Staff states LUC's BBB credit rating is lower than the average credit rating of the proxy group. Staff asserts LUC is paying higher interest rates on its debt than it would have had it been rated A-. Staff maintains that combining LUC's embedded cost of debt, which reflects its BBB rating, to a capital structure that supports an A- credit rating, would result in a mismatch between the cost of debt and the average equity ratio of the proxy group and the cost of equity estimate derived from that proxy group.

Staff contends it is necessary to lower the common equity ratio and raise the cost of equity estimate for LUC in order to align the cost of equity, cost of debt and capital structure and to ensure those reflect the risk inherent in a BBB/Baa-rated gas utility. Staff asserts that although relying on benchmarks for the debt to equity ratio and using bond yields to adjust the cost of equity are not perfect proxies, they provide reasonable estimates that the Commission has adopted in the past.

In Staff's view, it is important to assess the financial strength implied by a recommended rate of return on rate base by comparing three S&P financial benchmarks to the implied financial metrics for LUC, based on that proposal. LUC's implied financial strength is significant. According to S&P, a significant financial risk profile, combined with LUC's business risk profile of "Strong" corresponds to an implied S&P credit rating of BBB. Staff concludes its proposal should not have any negative effect on the financial strength of LUC.

The Company disagrees with Ms. Phipps' position that the Company's capital structure is unreliable. Staff says the Company incorrectly characterized the credit facility borrowing, with a maturity date more than one year from the issuance date, as short-term debt, which is defined by Commission rule as debt maturing within one year after the issue date. Staff states that the Company also provided inconsistent information regarding its outstanding indebtedness. Despite acknowledging that it had a revolving credit facility borrowing of $3,660,923 as of December 31, 2013, Staff says the Company later revised its position, stating, "To the extent the Company has previously indicated that it did draw down or maintain balances on this revolving credit facility, it was incorrect and those indications should be revised."

The Company alleges that authorized equity ratios since January 2013 for BBB-rated natural gas utilities exceed Staff's proposed common equity ratio and, thus, call into question Ms. Phipps' recommendation. Staff asserts that even if the Commission were to consider the equity ratios and ROEs authorized in other jurisdictions, which it does not, Mr. Hevert has not provided the information necessary for the Commission to determine whether the facts and circumstances in any of the decisions he cites are relevant to the Commission's decision in this case. Staff says examples of such facts and circumstances include, but are not limited to:

- Whether the authorized rate of return is for gas operations only;
- Ratemaking adjustments (e.g., removal of goodwill and the effect of affiliates that increase the cost of capital);
- Whether authorized rate of return is determined using a formula rather than financial analysis to estimate the investor-required rate of return; and
- Models relied upon to estimate the investor-required rate of return.

Staff maintains that Section 9-230 of the Act prohibits the Commission from combining Liberty Midstates' capital structure with LUC's cost of debt and requires that the Commission remove the last iota of incremental cost due to Liberty Midstates' affiliation with LUC. According to Staff, capital structures approved in other jurisdictions, subject to different laws, are not relevant.

The Company attempts to call into question the methodology Ms. Phipps used to adjust the average common equity ratio of the proxy group so that it would reflect LUC's riskier credit rating. Staff complains that Mr. Hevert first raised the arguments described in the Company's brief in surrebuttal testimony, even though those arguments responded to an adjustment set forth in Staff's direct testimony, which in Staff's view is improper.

Staff says it was denied an opportunity to address and expose these arguments as baseless in Staff's rebuttal testimony. Staff also asserts nothing in Mr. Hevert's surrebuttal, or any other record evidence, suggests the standard rating agency adjustments identified by Mr. Hevert vary based upon a company's capital structure. Staff says the midpoint of the debt to capitalization ratio range for an A rating would remain 9.5 percentage points from the midpoint of the debt to capitalization ratio range for a Baa rating regardless of how Moody's calculates the debt ratio for any particular company.

Staff recognizes that the Company's ratemaking capital structure differs from how Moody's calculates its benchmark ratios. As such, Staff says Ms. Phipps used the proxy group's average common equity ratio as the starting point for the imputed capital structure rather than the common equity ratio implied by the Moody's benchmark debt to capitalization ratio. Despite the Company's claim that it is unclear whether Ms. Phipps relied on Moody's "Standard Grid" or "Low Business Risk Grid," Staff says Ms. Phipps testified that Moody's views natural gas local distribution companies as having low business risk.

In addition to satisfying the requirements of Section 9-230 of the Act and the need for transparency when the Commission authorizes a rate of return for an Illinois public utility, Staff says its proposed capital structure reflects a common equity ratio that is only slightly lower than LUC's actual common equity ratio. Staff says nothing in the record indicates the small difference between LUC's actual common equity ratio and Staff's imputed capital structure is likely to result in a credit rating downgrade for LUC. Staff says its recommended debt ratio is within the target range for LUC and Staff's recommended capital structure, in conjunction with its recommended rate of return on common equity, is consistent with LUC's BBB credit rating. Staff argues that not only does its recommended rate of return meet the requirements of Section 9-230 of the Act, it is reasonable as well.

b. Company Position

The Company recommends that its actual capital structure be adopted and Staff's proposed imputed capital structure be rejected. Liberty Midstates noted that the Commission has previously taken the position that "a hypothetical capital structure should only be used when the utility's actual capital structure is found to be unreasonable, imprudent or unduly affected by such circumstances as double leverage as so to unfairly burden the utility's customers." The Company says Liberty Midstates' actual capital structure consists of 60.10 percent equity ratio and 39.90 percent long-term debt.

The Company claims that one reasonable means of assessing its capital structure is to consider the observable and relevant benchmarks such as the capital structures in place at the proxy companies, or that of Liberty Midstates ultimate parent company, APUC. The Company says that Liberty Midstates' 60.10 percent equity ratio is within the range of equity ratios, of the companies that make up the proxy group that both Mr. Hevert and Staff witness Phipps use to evaluate the Company's cost of equity. The Company also states that Liberty Midstates' actual capital structure is generally consistent with the

56.64 percent average equity ratio of APUC (which is the ultimate source of both LUC and Liberty Midstates' equity, and influences the credit rating of the debt that finances their operations) over the past eight fiscal quarters. The Company says that the Commission has previously compared the equity ratio of a utility to its ultimate parent in Docket No. 11-0281 when reviewing the reasonableness of a capital structure.

The Company contends that equity ratio is an important factor in a company's overall risk profile and has a strong influence on its credit rating and cost of capital. The Company states that as the equity ratio decreases, the degree of financial leverage and, therefore, financial risk increases. In the Company's view, in recommending a relatively low equity ratio, Staff is asking the Company to adopt a degree of financial leverage that is far removed from industry practice, and which exposes Liberty Midstates to additional risk.

The Company claims that utilities face both business and financial risk. With regard to financial risk, the Company says increasing financial leverage increases the risk that a company may not have adequate cash flow to meet its financial obligations The Company states that all else remaining equal, a meaningful increase in financial leverage is likely to lead to a higher cost of both debt and equity. The Company claims because APUC's and LUC's credit ratings already are below the proxy group's average credit rating, Staff's proposal would further increase the Company's financial risk. The Company avers that to the extent Liberty Midstates faces incremental business risks associated with its relatively small size, regulatory environment and exposure to weather variability, it would be reasonable for it to finance its operations with an equity ratio above the average equity ratio of the proxy group companies, not substantially below, as Staff suggests. Further, the Company notes that the Commission has previously found that if the levels of equity and debt are not set properly, the Company may experience negative market consequences. The Company argues that a severe error may result in rates that are not just inappropriate, but confiscatory.

The Company says Staff chose to impute a capital structure because it did not have confidence in the Company's capital structure data. The Company disagrees with Staff's assertion that its capital structure data was not reliable. The Company takes issue with the fact that Staff considered certain updates by the Company to include information it previously omitted from a filing to mean that its capital structure data unreliable. For example, the Company says it did not include retained earnings in Schedule D-1 of its initial filing, but included it in them in its revised filing. The Company says Staff did not allege that the retained earnings figures were unreliable. The Company maintains they simply were inadvertently not included on a schedule. Following the submission of corrective responses, the Company says Staff did not identify any area where it remained uncertain regarding the Company's capital structure. The Company states that Staff did not express disagreement with the final capital structure reported by the Company.

The Company argues that the approach adopted by Staff is completely *ad hoc* and with no support in Commission precedent or in financial literature. The Company says Staff cited to no authority for the manner in which it imputed a capital structure for the

Company -- neither in direct testimony nor rebuttal testimony. The Company argues that Staff's suggestion that the Company's equity ratio should be reduced to reflect the Company's lower credit rating is misplaced. The Company asserts that a company's credit rating does not determine its equity ratio; rather a company's credit rating is dependent on its equity ratio (among other risk factors). The Company states that authorizing an equity ratio below the Company's current actual equity ratio (and below the equity ratios in place at the proxy group companies) would increase the Company's financial risk, and serve to exacerbate the Company's elevated risk level relative to the proxy group.

The Company also contends that it is unclear that the data Ms. Phipps relied on to develop her proposed ROE adjustment is directly comparable to the data she uses to develop her beginning capital structure estimate. The Company says the Commission has previously rejected an imputed capital structure where it expressed concerns about complications caused by the introduction of possible measurement errors to determining the cost of capital.

The Company complains Ms. Phipps relies on reported capital structure data to establish the baseline equity ratio for A-rated utilities on the one hand, and rating agency guidelines to calculate the 6.40 percentage point decrement associated with BBB-rated utilities on the other. The Company questions whether the two are sufficiently comparable that differences in rating agency guidelines can be applied to accounting data for the purpose of creating a reasonable hypothetical capital structure. The Company claims Schedule 10.3 -- 2013-2014 Reported Authorized Returns on Equity, Natural Gas Utilities Rate Cases, demonstrates that the average authorized equity ratio since January 2013 for BBB-rated natural gas utilities was 50.07 percent, or 4.48 percentage points above Ms. Phipps' 45.59 percent imputed equity.

The Company claims there is reason to believe capital structure data may differ from rating agency benchmarks. The Company states that Moody's makes a series of adjustments to the ratio of debt to capitalization and therefore it is quite possible Moody's definition of "total capital" may differ from the data gathered by Ms. Phipps. The Company says that, as to its "standard adjustments," Moody's considers almost a dozen categories for adjustment. In the Company's view, while it is unclear whether or to what extent those adjustments would be made to the accounting data relied on by Ms. Phipps, the fact that Moody's tends to apply such adjustments calls into question the premise of Ms. Phipps' calculation.

The Company says that Moody's presents guidelines for both its "Standard Grid" and its "Low Business Risk Grid" and claims it is unclear whether or how Ms. Phipps relied on one or both of those "Grids" in developing her 6.40 percentage point adjustment. The Company states that assuming the midpoint of the ranges (as Ms. Phipps had done) indicates that the Moody's guidelines imply equity ratios for A-rated companies in the range of 55.00 percent to 60.00 percent. The Company says the midpoint of that range, 57.50 percent, is 7.59 percentage points above the 49.91 percent equity ratio that forms the basis of Ms. Phipps' analysis. The Company asserts applying Ms. Phipps 6.40

percentage point adjustment to the 57.50 percent midpoint produces an adjusted equity ratio of 51.10 percent, which itself is 5.51 percentage points above Ms. Phipps' 45.59 percent hypothetical equity ratio. The Company believes Ms. Phipps' analysis is disconnected from the rating agency benchmarks and must be viewed with caution.

Although the Company believes that its actual capital structure is the correct capital structure for purposes of ratemaking in this case, it suggests that the Commission may look to other benchmarks as measures of industry practice and, therefore, as measures of a reasonable imputed capital structure and for confirmation that Ms. Phipps' recommended capital structure is over-leveraged. The Company suggests that the average authorized equity ratio for BBB-rated gas utilities of 50.07 percent, the overall average authorized equity ratio of 51.48 percent, and the 56.40 percent proxy group average equity ratio are all meaningful benchmarks that may inform the Commission's decision. The Company states that although the average of those data points is 52.65 percent, the middle of the three observations (i.e., 51.48 percent) also would be a reasonable basis for an imputed equity ratio.

In the Company's view, Staff has not presented a sufficient justification for the Commission to depart from the Company's actual capital structure. The Company argues that Staff misstates the law with respect to Section 9-230 and reaches factual conclusions that are unsupported by the record.

Staff claims that Liberty Midstates' actual capital structure would violate Section 9-230. The Company claims its cost of capital does not include any incremental risk or increased cost of capital which is the direct or indirect result of its affiliation with unregulated or nonutility companies. The Company says LUC's subsidiaries are almost entirely regulated utilities. The Company also says the non-regulated power generation unit held by APUC generally sells that power to utilities under long-term contracts. The Company claims there is no reason to believe that the power generation unit has merchant or other unregulated risk that is reflected in APUC's capital structure.

Staff claims that Liberty Midstates proposes to increase its rate of return by using the cost of debt of LUC with its actual common equity ratio. The Company asserts Staff is incorrect that it proposed using LUC's cost of debt of 4.81 percent. The Company says it proposed a cost of debt based solely on Liberty Midstates issuances equaling 4.43 percent. The Company adds it was Staff that proposed using LUC's embedded long-term debt cost of 4.81 percent. The Company accepted Staff's proposal to narrow the issues in this proceeding. In the Company's view, Staff should not be able to now argue that its own proposal violates the PUA.

Staff claims that because Liberty Midstates' cost of debt is that of LUC, it cannot have a higher common equity ratio than LUC. The Company asserts Staff is misstating the applicable rule. The Company contends Section 9-230 does not allow (much less require) reductions to the equity ratio simply because a parent company has a lower equity ratio. The Company says the higher cost of capital contemplated by Section 9-230 must be caused by the affiliation. The Company says the plain language of Section 9-

230 states the Commission shall not include incremental risk or increased cost of capital "which is the direct or indirect result of the public utility's affiliation with unregulated or nonutility companies." The Company says appellate courts have stated the Commission is required to determine whether a utility's risk or cost of capital was increased "because of its affiliation." The Company asserts Section 9-230 imposes a causation requirement, but Staff has not even attempted to make a showing that there is an increased cost of capital that is the "result of" Liberty Midstates' affiliation with LUC. According to the Company, Staff made a blanket assertion that is not supported by facts or legal authority. The Company claims there is nothing in the record to support a finding of higher costs, let alone higher costs caused by affiliation.

The Company claims the Commission recently rejected a similar argument by Staff in Docket No. 11-0767. In that docket, the Company says Illinois American Water Company ("IAWC") forecasted a test year common equity ratio of 50.51 percent based on its actual capital structure. The Company says Staff proposed to impute the 42 percent equity ratio of IAWC's parent, American Water Works. The Company says the Commission ultimately approved an equity ratio of 48.10 percent for IAWC (over 6 percent higher than its parent) and found no indication of incremental risk or increased cost of capital due to affiliation with non-utilities or unregulated companies.

Because APUC's and LUC's credit ratings already are below the proxy group average, the Company contends Staff's recommendation would only further increase the Company's financial risk and, therefore, its cost of capital. To the extent lower credit ratings reflect heightened business risk, the Company believes it would be reasonable to have a higher level of equity in the capital structure.

Staff alleges that Liberty Midstates could issue debt cheaper on a standalone basis than through LUC. The Company claims Staff's assertion has no support in the record and is mistaken. Staff presents a hypothetical that assumes a higher common equity ratio automatically results in a lower cost of debt. The Company says no expert witness presented evidence supporting this hypothetical and there is zero record support for assuming it is true. The Company asserts there are several additional factors that affect the cost of debt besides common equity ratio.

Mr. Hevert testified that the market for debt associated with a company the size of Liberty Midstates is limited; the Company's issuance would likely be far lower than the minimum threshold to be eligible for the Moody's Utility Baa Bond Index. The Company says issuances that are not "index-eligible" have significantly less liquidity than larger debt issuances from more established issuers. The Company claims smaller, privately-placed debt typically is more expensive and has more onerous loan covenants than larger, index-eligible issuances. Mr. Hevert concluded that access to debt capital ultimately issued at LUC, affords the Company better access to capital on more reasonable terms. The Company claims this is the only record evidence regarding the relative cost of debt.

Because issuances through LUC are subject to Section 7-101 of the Act approval, the Company says the issue of whether LUC has a lower cost of debt has previously been

examined. The Company states that in Docket No. 12-0326 Staff did "not object to the Company's proposal to issue the indebtedness through its affiliate LUC[o], since such issuance should result in a lower overall cost to Liberty Midstates than an independent debt issuance made by the Company."

Staff assumes that its hypothetical is true. Staff alleges that "Liberty Midstates seeks to combine its 60.10 percent common equity ratio with the higher cost debt resulting from LUC's lower common equity ratio." The Company argues that in addition to lacking any record support, Staff has failed to provide any frame of reference for its notion that 4.81 percent is a higher cost of debt. The Company says its embedded cost of debt of 4.81 percent is below the 5.17 percent (mean) and 5.39 percent (median) embedded cost of debt implied from authorized equity returns from 1/31/13 to 1/31/14. The Company alleges Staff's own data does not even support a finding that 4.81 percent is a higher cost of debt; Staff refers to a Baa yield of 5.02 percent, which is still above 4.81 percent.

The Company says Staff's initial brief complains generally that LUC's capital structure is confidential and states that the Commission should not rely on a confidential capital structure. It is not clear to the Company why Staff makes this argument a focus of its brief. The Company says no party has moved that LUC's capital structure be made public. The Company adds that no party has proposed that LUC's capital structure be the basis for a Commission decision. The Company agrees with Staff that the Commission should not base its decision on LUC's capital structure.

The Company says its actual capital structure is stated, publicly, in the record. The Company believes the confidentiality issue is a red herring and the more important principle at issue is that the Commission bases its decisions on record evidence. According to the Company, there is no record evidence supporting the Commission's consideration of LUC's capital structure in determining the rate of return in this proceeding.

In the Company's view the only relevance this discussion has with respect to the Commission's decision in this case is that Staff's Brief claims that one reason Ms. Phipps proposed an imputed capital structure was because LUC's capital structure is confidential. The Company claims there is no record support for this assertion and Staff has not provided any cite to the record. The Company asserts either Staff's assertion is incorrect, or Staff is stating that Ms. Phipps had a "secret," "unexpressed" basis for her proposed imputed capital structure. The Company suggests this may explain the real reason behind Ms. Phipps' "arbitrary," "nonstandard" and *ad hoc* capital structure calculations. The Company asserts that presenting that reason now, when it is not subject to rebuttal or surrebuttal testimony, or cross examination, is unfair. The Company says it indicates that Staff's position is not supported by the record.

Staff asserts that the Company's data is unreliable because it does not provide audited financial statements. The Company states that Part 285 has no requirement that financial statements be audited. The Company avers requiring audited financial statements at the Liberty Midstates level would be costly with no offsetting benefit.

According to the Company, Staff provides only one example of a possible inaccuracy in Liberty Midstates financial statements by claiming that the Company's balance sheet is not "balanced." The Company says the "imbalance" Staff refers to is a $120 difference out of over $175 million dollars of assets equaling less than a 0.00007 percent difference. The Company suggests this is hardly an indication of unreliability.

Staff claims that because Liberty Midstates obtains debt and equity through LUC, only LUC has an investor claim on Liberty Midstates' cash flow. According to the Company, the fact that a single entity holds both debt and equity capital does not diminish the priority claim afforded debt securities, nor does it confer a priority position on residual cash flows. The Company says the allocation of cash flows is determined by the terms of the securities, not by the identity of the securities' holders. The Company states it is likely that institutional investors could hold both debt and equity securities in a given company. According to the Company, that they would do so is a function of their investment policies and objectives. The Company claims it is unlikely that an institutional investor would invest in the debt and equity securities of a given company, but make no distinction in the returns required for each. The Company says that is what Ms. Phipps' position appears to suggest.

Ms. Phipps' position also suggests to the Company that two firms identical in all respects but for the identity of the debt and equity investors would have different fundamental valuations. The Company asserts that is not feasible since such valuation differences would be arbitraged away. According to the Company, Ms. Phipps' position suggests that a firm's value could change not because its fundamental risks and expected cash flows had changed, but because the identity of its investors had changed. The Company claims that is not a feasible outcome.

c. Commission Analysis and Conclusion

As the Commission understands it, the Company proposes to use its actual capital structure which is comprised of 60.10% common equity, which it believes is reasonable. Among other things, the Company asserts the Commission has a preference for using an actual capital structure rather than an imputed capital structure.

Staff objects to this proposal arguing that the Company's proposal would increase its rate of return due to the cost of debt resulting from the more leveraged capital structure of its parent company, LUC. Staff avers that combination of higher equity ratio and higher cost of debt would violate Section 9-230 of the Act. Staff suggests the Company's common equity ratio should be no higher than LUC's and complains that the Company treats LUC's capital structure as confidential. Staff proposes using an imputed capital structure that comprises 45.59% common equity, 53.95% long-term debt and 0.46% short-term debt.

The Commission notes that as a general proposition, it prefers to use an actual capital structure rather than an imputed capital structure in rate setting proceedings. In this case, the Commission is somewhat concerned about the relatively high proportion of

common equity in the Company's actual capital structure. This concern is exacerbated by the fact that both the Company's immediate parent, LUC, and ultimate parent, APUC, have lower common equity ratios than the Company.

Among other things, the Company claims there is no record support for Staff's assertion that the proposed 4.81% cost of long-term debt is higher than the Company's. The Company's reply brief states that LUC's embedded cost of long-term debt is 4.81% and Company's stand-alone embedded cost of debt is 4.43%. (Company Reply Brief at 13-14) The Commission also shares Staff's concern that the Company's cost of long-term debt may not adequately reflect market conditions.

The Commission shares Staff's concern that combining a relatively high common equity ratio with a cost of debt derived from LUC's cost of debt will result in an unreasonably high overall cost of capital. The Commission also notes that the Company states that LUC's subsidiaries are "almost entirely regulated utilities." This statement suggests LUC has higher business risk than the Company with no unregulated operations. The Company does not adequately explain why it is necessary for it to have a capital structure with significantly more common equity than its parent when the parent, in all likelihood, has higher business risk. In this instance, the Commission simply cannot adopt the Company's recommendation because it would result in an unreasonably high overall cost of capital and the resulting rates would be unfair to customers.

The Company expresses frustration that Staff's testimony did not explicitly state that one reason it did not recommend using LUC's capital structure was the confidentiality of the data. The Commission believes Staff would have been irresponsible to recommend such a capital structure knowing that the Commission could not adopt its recommendation, because the Order in this proceeding cannot utilize a confidential capital structure. Whether stated explicitly in testimony, Staff simply could not recommend the use of LUC's capital structure. Having rejected the Company's actual capital structure, Staff was left with no choice but to recommend an imputed capital structure. The Commission also notes that its discussion of capital structure in this Order has been somewhat hampered by the fact that certain information is deemed confidential by the Company.

Among other things, the Company complains that the approach adopted by Staff to develop its proposed capital structure is completely *ad hoc* and with no support in Commission precedent or in financial literature. The Commission has reviewed how Staff developed its proposed capital structure and does not share that concern. Staff fully explained each step in the process used to develop its proposed capital structure and why each was taken. By its actions, the Company left Staff and the Commission with no alternative but to impute a capital structure. The Commission has also reviewed the result of Staff' proposal compared to Moody's debt capitalization benchmark for Baa-rated utilities, the target capital structure for LUC, the firms that comprise the proxy group, as well as APUC and finds it to be reasonable for purposes of establishing the Company rate of return on rate base.

In summary, the Commission concludes that Staff's proposed capital structure should be adopted for purposes of this proceeding. The Commission notes that, while there are extensive arguments regarding Section 9-230 of the Act, given the foregoing conclusions, it is not necessary for the Commission to resolve that issue in this Order.

2. Cost of Common Equity

a. Company Position

The Company proposes a 10.50% return on equity ("ROE") while Staff proposes that the Company's ROE be set at 9.23%. The Company does not agree with Staff's recommended ROE. Mr. Hevert relied on two approaches to develop his ROE recommendation: the Multi-Stage Discounted Cash Flow ("DCF") model and the Capital Asset Pricing Model ("CAPM"). To assess the reasonableness of his DCF and CAPM results, the Company says Mr. Hevert also considered the results of a Bond Yield Plus Risk Premium analysis. The Company also says Mr. Hevert took into consideration the Company's risk and cost profile, in particular (1) its relatively small size; (2) the regulatory environment in which the Company operates; (3) weather variability; and (4) the direct costs associated with equity issuances.

The Company states that absent substantial defects in a parties' analysis, it recognizes that recent Commission orders have shown a preference towards using an average of the parties' DCF and CAPM -- i.e. taking the average of the ROE witnesses' DCF results and combining that with the average of ROE witnesses CAPM results and dividing by two. The Commission has emphasized that using such an approach is not an endorsement of every input or rationale presented by the parties. The Commission has previously stated that such an approach "significantly diminishes any perceived upward or downward bias as set forth in the different positions of the parties." The Company says combining Mr. Hevert's 9.60 percent mean DCF result with Staff's 8.00 percent DCF result would produce an average DCF estimate of 8.80 percent. Combining the 10.68 percent average of Mr. Hevert's standard CAPM results with Staff's 9.72 percent average CAPM result would produce an average CAPM estimate of 10.20 percent. The average of those two estimates (8.80 percent and 10.20 percent) is 9.50 percent. The Company claims both Staff and the Company believe the Company's level of risk is higher than the proxy group's average and a higher ROE is required. The Company says adding Staff's 32 basis point incremental risk adjustment to the 9.50 percent average of the DCF and CAPM estimates, the resulting ROE would be 9.82 percent.

The Company believes that in this case, the Commission should adopt its proposed ROE of 10.50%. In the Company's view, this approach reflects a more rigorous ROE analysis as well as a reflection of factors specific to the Company's individual circumstances, particularly the judgment that the Company's particular risk profile would indicate that its ROE should be at the high end of the indicated range.

The Company claims Mr. Hevert's analytical approach reflects certain preferences expressed by the Commission in Docket No. 11-0292 and Docket No. 13-0192. Because

the ROE is a market-based concept and Liberty Midstates is not a publicly traded entity, the Company says Mr. Hevert established a group of comparable publicly-traded companies to serve as its "proxy." Mr. Hevert applied these models to this proxy group of comparable gas utilities. Mr. Hevert recognized that the Commission has been inclined to consider both the DCF and CAPM approach. The Company says Mr. Hevert primarily relied on the DCF model and CAPM, and used the Bond Yield Plus Risk Premium analyses as a corroborating methodology. The Company states that Staff found Mr. Hevert's ROE models and proxy group to be sufficiently reasonable to adopt them in this proceeding, although Staff adjusted certain inputs.

The Company indicates in direct testimony, Mr. Hevert's ROE analyses, using data as of January 31, 2014, included a mean multi-stage DCF result of 9.94% and an average standard CAPM result of 10.38%. Mr. Hevert reviewed the reasonableness of those estimates using a Bond Yield Plus Risk Premium analysis and an alternate CAPM analysis. In rebuttal testimony, the Company says Mr. Hevert updated his ROE analyses using data as of July 31, 2014, Mr. Hevert's updated analyses produce a mean multi-stage DCF result of 9.60% and an average standard CAPM result of 10.68%. Based on this analysis, the Company says Mr. Hevert determined that a reasonable range for ROE is 10.00 to 10.50 percent. After considering the Company's regulatory and business risks relative to the proxy group, the Company reports Mr. Hevert stated that 10.50 percent is a reasonable ROE for Liberty Midstates.

The Company says Mr. Hevert relies on a form of the DCF model referred to as multi-stage DCF. The multi-stage DCF model sets the subject company's stock price equal to the present value of future cash flows received over three "stages." In the first two stages, "cash flows" are defined as projected dividends. In the third stage, "cash flows" equal both dividends and the expected price at which the stock will be sold at the end of the period (i.e., the "terminal price"). Mr. Hevert calculated the terminal price based on the Gordon model, which defines the price as the expected dividend divided by the difference between the Cost of Equity (i.e., the discount rate) and the long-term expected growth rate. The Company states that in essence, the terminal price is defined by the present value of the remaining "cash flows" in perpetuity. In each of the three stages, the dividend is the product of the projected earnings per share and the expected dividend payout ratio.

Staff agreed that the Multi-Stage DCF model should be relied upon, but adjusted certain input assumptions including: (1) removing the "sv" component of the sustainable growth formula; (2) assuming the long-term payout ratio will remain constant after Value Line's 2017-2019 projection period; and (3) assuming a 4.67% long-term growth rate (updated from 4.76 percent in Staff's direct testimony).

The Company asserts Staff's removal of the "sv" component of the Retention Growth model is not appropriate. The Company says Retention Growth estimate allows for earnings growth through reinvested earnings as well as earnings growth funded through external equity. Ms. Phipps explained that she excluded the "sv" component because she believes Value Line forecasts no new common equity share issuances for

the proxy companies. The Company claims Ms. Phipps' belief that Value Line does not forecast new common equity share issuances for the proxy companies is incorrect. The Company states that Company Schedule 7.2 shows that Value Line projects six out of nine proxy companies to increase their common shares outstanding from 2014 through the 2016 - 2018 forecast period. The Company says Ms. Phipps' recommendation has not been adjusted to remove this error.

The Company does not agree with Staff's assumption that the long-term payout ratio will remain constant. Ms. Phipps stated that historical data may reflect conditions that may not continue in the future and alleged that investors are indifferent as to whether their returns come from dividends or capital appreciation. The Company asserts companies adjust their payout ratios to reflect changing capital investment cycles. The Company contends that by relying on Value Line's forecasted payout ratios for the 2017-2019 period, Ms. Phipps has essentially picked a point in the proxy companies' capital investment cycles and has assumed it represents the long-term (that is, in perpetuity) expected financing practices of those companies. In the Company's view, it is more reasonable to consider historical data that covers a range of capital market conditions and individual utility capital investment levels. The Company believes the calculation in Mr. Hevert's model represents a reasonably long period and is an appropriate estimate of the expected payout ratio. The Company claims Ms. Phipps has not suggested any alternative time period, nor has she demonstrated Mr. Hevert's analysis is inappropriate.

The Company argues that payout ratios for gas utility companies are currently at the low end of observed historical levels. The Company believes it is reasonable to assume the currently low payout ratios are related to the elevated level of capital expenditures the industry is facing in the near term and therefore can be expected to increase over time. The Company complains Ms. Phipps provided no empirical support for her implicit assumption that there has been a permanent, structural downward shift in natural gas utility company payout ratios. The Company believes it remains reasonable to assume that over the long-term, dividend payout ratios for gas utility companies will converge to their long-term historical median of 68.85 percent.

The Company also disagrees with Staff's use of a long term GDP growth rate of 4.67 percent. Ms. Phipps relies on projected real GDP growth estimates from both the Energy Information Administration ("EIA") and Global Insight that end from approximately 26 to 30 years from now, while Mr. Hevert considered the long-term average real GDP growth rate over the 1929 to 2013 period. The Company claims Ms. Phipps' reliance on the EIA and Global Insight's forecasts results in an unreasonably low nominal growth rate in the context of historical growth rates. The Company says Mr. Hevert cited to several examples in industry literature indicating that investors expect companies to grow at historical average rates. The Company also believes a 4.67 percent long-term growth rate is not consistent with the growth rate implied by recently authorized ROEs.

The Company states that CAPM analysis is a risk premium method that estimates the Cost of Equity for a given security as a function of a risk-free return plus a risk premium (to compensate investors for the non-diversifiable or "systematic" risk of that security). In

Docket No. 13-0192, the Commission stated its preference for (1) Beta coefficients calculated over five years; and (2) the exclusion of non-dividend paying companies from the DCF analysis when calculating the required market return. The Company says Mr. Hevert performed his CAPM analyses reflecting those preferences.

Mr. Hevert's approach to estimating the Market Risk Premium ("MRP") is based on the market-required return, less the current 30-year Treasury bond yield. To estimate the market required return, the Company says Mr. Hevert calculated the market capitalization weighted average ROE based on the Constant Growth DCF model relying on data from two sources: Bloomberg and Value Line. The Company states that Mr. Hevert selected a 30-year yield because natural gas utilities typically are long-duration investments and as such, the 30-year Treasury yield is more suitable for the purpose of calculating the Cost of Equity.

Mr. Hevert considered two methods of calculating the Beta coefficient. The first approach simply employs the average reported Beta coefficient from Value Line for each of the proxy group companies. Mr. Hevert also calculated Beta coefficients over five years using monthly returns. Mr. Hevert calculated the "raw" Beta coefficient for each member of the proxy group and adjusted those raw Beta coefficients to address the tendency to regress toward the market Beta coefficient of unity. For the purpose of that calculation, Mr. Hevert relied on monthly returns, and performed a regression analysis of the data over the five-year period ended January 31, 2014.

Staff agrees that reliance on the CAPM approach is appropriate. The Company and Staff disagree over (1) the selection of the risk-free rate component of the model; (2) the appropriate Beta Coefficients; and (3) the calculation of the expected return on the overall market, which is used to determine the *ex-ante* MRP.

Staff witness Phipps claims that it is a flaw to use the forecasted U.S. Treasury bond yield as a proxy for the risk-free rate of return. The Company asserts that the Cost of Equity is a forward-looking concept. Since the purpose of this proceeding is to establish the Cost of Equity for Liberty Midstates' gas utility operations on a forward-looking basis, the Company says it is necessary to develop a CAPM analysis that reflects investor expectations concerning the risk-free rate. Mr. Hevert observed that Ms. Phipps calculates an implied 20-year forward U.S. Treasury yield in ten years of 4.27 percent as part of her calculation of expected inflation using the U.S. Treasury bonds and U.S. Treasury Inflation-Protected Securities ("TIPS") spread; that estimate is 71 basis points above the 3.56 percent 30-day average 20-year Treasury yield as of the same date). The Company claims that calculation shows an expectation of rising interest rates. The Company says Blue Chip's near-term forecast of the 30-year Treasury yield, which is the consensus projection of over fifty business economists for the average 30-year U.S. Treasury yield in the coming six quarters, also indicates investors expect interest rates to rise.

The Company argues that expectations for rising interest rates are not surprising given the ongoing tapering of the Federal Reserve's Quantitative Easing program (which

was intended to lower long-term rates) that started in December 2013. The Company believes it is appropriate to consider both current and projected 30-year Treasury yields when estimating the risk-free rate component of the CAPM.

Mr. Hevert's primary analyses reflect the Commission's preference for Beta coefficient calculated over five-years. Mr. Hevert also believes it is important to consider Beta coefficient estimates that reflect current and expected levels of systematic risk. The Company says Mr. Hevert performed an alternate set of CAPM analyses using Bloomberg Beta coefficient which are calculated over two-years and regression Beta coefficient calculated over 18-months. Staff believes the alternate CAPM Beta coefficients are calculated over too short of a time period to be reliable and are more prone to measurement error arising from short-term changes in risk and investor risk preferences.

The Company says that a five-year period is not required to calculate beta. Mr. Hevert says Ms. Phipps' Beta coefficient estimates do not cover a full business cycle. The Company contends that looking at Beta coefficients over differing periods, as Mr. Hevert has done, is consistent with industry practice and provides additional information and perspective that should not be disregarded. The Company says Ms. Phipps' concern about statistical relevance overlooks the fact that Mr. Hevert's 18-month Beta coefficient relies on more observations than at least two of Ms. Phipps' estimates. Ms. Phipps' regression Beta and Zacks' Beta coefficients compare the monthly returns of a given company relative to a market index (i.e., five years result in 60 observations), Mr. Hevert compares the monthly returns of the subject company to the S&P 500 on a daily basis (i.e., the monthly returns for each trading day in the 18 months, which results in 379 trading days).

According to the Company, the MRP estimates in Mr. Hevert's analyses are reasonable relative to the observed MRPs from 1926 to 2013. The Company asserts Staff witness Phipps' suggestion that these estimates are too high fails to recognize that the mean and median long-term Treasury yields over the same period were substantially higher (5.09 percent and 4.26 percent, respectively). Given that the MRP is calculated as the expected market return less the yield on long-term government bonds, the Company believes it is reasonable for the current MRP to be moderately above the long-term average.

The Company states that taking into consideration the volatility of historical MRPs, even the highest of Mr. Hevert's MRP estimates is statistically indistinguishable from the historical mean at a 95.00 percent confidence interval. The Company insists Mr. Hevert's *ex-ante* market-DCF derived MRPs used in his CAPM analyses are reasonable.

The Company says Mr. Hevert used the Bond Yield Plus Risk Premium method to corroborate the reasonableness of his DCF and CAPM estimates. This approach is based on the basic financial tenet that, since equity investors bear the residual risk associated with ownership and therefore require a premium over the return they would have earned as a bondholder. That is, since returns to equity holders are more risky than

returns to bondholders, equity investors must be compensated for bearing that risk. Risk premium approaches estimate the Cost of Equity as the sum of the equity risk premium and the yield on a particular class of bonds.

Mr. Hevert first defined the Risk Premium as the difference between authorized ROEs and the then-prevailing level of long-term (i.e., 30-year) Treasury yields. Next, Mr. Hevert gathered data from 988 natural gas rate proceedings between January 1, 1980 and January 31, 2014. In addition to the authorized ROE, Mr. Hevert calculated the average period between the filing of the case and the date of the final order (the lag period). The Company says in order to reflect the prevailing level of interest rates during the pendency of the proceedings, Mr. Hevert calculated the average 30-year Treasury yield over the average lag period (approximately 187 days). Because the data covers a number of economic cycles, the Company suggests the analysis also may be used to assess the stability of the Equity Risk Premium. The Company claims prior research has shown the Equity Risk Premium is inversely related to the level of interest rates. The Company believes this analysis is particularly relevant given the relatively low, but increasing level of current Treasury yields.

The results of this approach results in an implied ROE between 10.17 percent and 10.68 percent. The Company states that while the Commission has not relied on returns authorized to other utilities when determining the appropriate authorized ROE for a particular utility, it has recognized the value of observing general market conditions and trends, including the recent average of authorized ROEs, when assessing parties ROE recommendations.

Prior to a 32-basis point credit rating adjustment, Staff is recommending an ROE of 8.91%, which the Company says is below recently authorized natural gas ROEs in Illinois and other jurisdictions. The Company asserts Staff's ROE estimate was determined by giving 50% weight to a multi-stage DCF result of 8.26% (updated to 8.00% in rebuttal testimony), which is more than 80 basis points below the lowest authorized ROE for a natural gas utility since at least January 2013. The Company states that after applying a 32 basis point upward adjustment to Ms. Phipps' ROE estimate to reflect the Company's relatively lower credit rating compared to the proxy group average credit rating, Ms. Phipps' 9.23% ROE recommendation is below the average authorized natural gas ROE since January 2013 of 9.65%.

The Company argues that Staff's Non-Constant Growth DCF result relies on the unfounded assumption that near-term projections from Value Line (for dividend payout ratios) and medium-term projections from the Energy Information Administration and Global Insights (for real GDP growth) reflect investors' expectations for the long-term (i.e., in perpetuity). Mr. Hevert relied on what the Company believes is the more reasonable assumption that earnings growth and dividend payout ratios would revert toward long-term observed historical averages over time.

In Docket No. 11-0559, the Commission ordered that:

> For the next rate proceeding for Liberty Energy Midstates, the pre-tax cost of capital will be set using no higher than the lower of (1) the pre-tax cost of capital that Liberty Energy Midstates would have had if (a) its debt to equity ratio was the same as Atmos' equity ratio as of September 30, 2011 (including short-term debt), and (b) the cost of its debt were the same as the cost of debt held by Atmos on September 30, 2011, and (2) the pre-tax cost of capital based on the actual capital structure of Liberty Energy Midstates. The FERC Form 2 Annual Report for the year ended December 31, 2011 will be used as the basis for the purpose of calculating the cost of debt for Atmos. (Section 7-204(b)(7)).

The Company notes Condition 9 may impose a limitation on weighted cost of capital that the Company may recover in this case. The Commission identified two possible approaches to determining the pre-tax cost of capital, one using the Company's actual capital structure, and one using its predecessor's capital structure and cost of debt. The Company is required to use the lower of the two. Therefore, if the Company's actual capital structure results in a lower pre-tax cost of capital, no adjustment is necessary. If, however, the Company's actual capital structure results in a higher pre-tax cost of capital, an adjustment is necessary to reduce the cost of capital in this case to that which would be determined using its predecessor's capital structure and cost of debt.

The Company indicates it presented a calculation of the Condition 9 adjustment under its actual capital structure as well as the three benchmark capital structures identified by Mr. Hevert. The Company says because that calculation contained an error, the Company's cost of debt was transposed from 4.81 percent to 4.18 percent, the Company attached a revised calculation to its brief. The Company states that based on the revised schedule, the use of the Company's actual capital structure, cost of equity and rate base, the overall revenue requirement would need to be adjusted downwards by $344,918 to reflect the application of Condition 9.

The Company states that this downward adjustment would need to be reduced or eliminated in the event the inputs to the calculation, such as the capital structure used in this case, the cost of equity, and the rate base, are different than those used by the Company in its calculations.

In its Reply Brief, the Company says Staff continues to support its 9.23 percent ROE recommendation, claiming that its models were correctly specified and thus contain no source of bias. Staff further states that because it used a sample group of companies, it has minimized measurement error. Regarding the latter point, the Company claims since Staff adopted the sample companies used in Mr. Hevert's analysis, it follows that Mr. Hevert's analysis likewise has minimized measurement error. As to Staff's assertion that its models are correctly specified and contain no source of bias, the Company disagrees. Although neither the Company nor Mr. Hevert suggests that Staff purposefully biases its models, the Company says there are many points of disagreement as to the correct specification of those models.

According to the Company, Staff's position that differences in credit ratings "notches" among investment grade utilities can be used as a proxy for differences in the Cost of Equity fails to recognize the senior position that debt holders have relative to equity holders, and the investment horizon considered by equity holders. The Company says a long-term issuer credit rating is an opinion regarding the subject company's overall financial capacity to pay its financial obligations as they come due and payable; it is not a direct measure of equity risk. Because debt and equity are different securities, with different risk and return parameters, the Company contends one cannot be used as a direct measure of the other.

The Company argues that the relationship between debt yields on the one hand, and Cost of Equity on the other are not simple and linear, as Ms. Phipps' approach suggests. The Company claims the Equity Risk Premium (that is, the difference between debt yields and the Cost of Equity) is inversely related to interest rates: at lower levels of interest rates the Equity Risk Premium is larger. The Company contends Staff's adjustment does not reflect that relationship and as such, its 32 basis point adjustment, while directionally proper, is an insufficient measure of the Company's incremental risk.

Looking only at the issue of financial risk, the Company avers that Staff's 32 basis points ROE adjustment is substantially less than the required incremental return necessary to compensate the Company for the increase in financial leverage arising from Staff's proposed equity ratio. Using the Hamada Equation, Mr. Hevert calculated that the incremental required return associated with Staff's 640 basis point downward adjustment to the equity ratio is approximately 60 basis points. The Company says that estimate, which is based on equity prices, not debt yields, is 28 basis points above Ms. Phipps' proposed adjustment.

The long-term growth rate included in Mr. Hevert's Multi-Stage DCF model, which represents the expected rate of long-term growth beginning in the year 2024, is measured by the expected rate of nominal growth in GDP. Staff does not take issue with that assumption, nor does Staff disagree with Mr. Hevert's position that nominal GDP growth is the combination of (1) real growth, and (2) the expected rate of inflation. Staff and Mr. Hevert agree that market-based data relating to nominal and Treasury Inflation-Protected yields may be used to estimate the expected rate of inflation beginning in 2024. The remaining point of difference relates to the proper measure of expected long-term real GDP growth.

Staff asserts that Mr. Hevert's expected rate of real GDP growth exceeds the estimates of professional forecasters and, thus, should be rejected. As Staff points out, those forecasts extend, in some cases, to the year 2040. Here, Staff is willing to rely on "numerous forecasters" for long-term forecasts beginning ten years in the future. Yet, the Company says Staff is critical of forecasters' ability to project interest rates within the course of the current year, noting that they not only over-estimated Treasury yields in 2014, they did not even correctly guess the trend. Staff observes that "forecasters are economists rather than investors." The Company says Staff's position that forecasters' long-term growth projections may be used as a basis of criticism for Mr. Hevert's expected

growth rate is at odds with its position that forecasters are not investors and cannot "correctly guess the trend" of interest rates less than one year hence. In the Company's view, Staff can't have it both ways.

The Company states that the principal issue regarding the long-term forecast is that it reflects long-term growth expectations beginning ten years in the future and Mr. Hevert's projection is based on the assumption that absent specific knowledge to the contrary, it is reasonable to assume that over time, real GDP growth will revert to its long-term average. The Company claims industry literature indicates that long-term historical real GDP growth is a proper estimate of expected long-term real growth. Morningstar, a source cited by Staff, notes that "[g]rowth in real GDP (with only a few exceptions) has been reasonably stable over time; therefore, its historical performance is a good estimate of expected long-term (future) performance." The Company says Morningstar's long-term estimate of real GDP growth (3.22 percent) is within five basis points of the 3.27 percent growth rate assumed in Mr. Hevert's Multi-Stage DCF analyses.

Mr. Hevert says that there is academic support for his approach and long-term expected growth rate: "Expected growth rates vary somewhat among companies, but dividend growth for most mature firms is generally expected to continue in the future at about the same rate as nominal gross domestic product (real GDP plus inflation). On that basis, one might expect the dividends of an average, or "normal," company to growth at a rate of 5 percent to 8 percent a year."

Staff argues that Mr. Hevert's long-term growth rate is "not sustainable," reasoning that the Return on Equity needed to produce a 5.72 percent growth rate, assuming the long-term payout ratio included in his Multi-Stage DCF model is "implausible." The Company says Staff's argument is based on the simple "b times r" formula it proposes, rather than the more sophisticated model on which Mr. Hevert relies. The Company claims the simple "b times r" formula has not been a limiting factor for gas utilities' historical growth. According to the Company, South Jersey Industries' ten-year average earnings growth was 9.00 percent and its average payout ratio 50.25 percent. By Staff's logic, the company would have needed to earn an 18.09 percent ROE over that ten-year period to achieve its actual growth. Over the same period, the Company says Piedmont Natural Gas had average growth in earnings of 5.00 percent while maintaining a 69.49 percent average payout ratio, which would imply a 16.39 percent earned ROE using the simple "b times r" model. The Company also says Southwest Gas Corporation had ten-year average earnings growth rate of 9.50 percent while maintaining a 47.84 percent average payout ratio, which would imply an 18.21 percent earned ROE. In the Company's view, Staff's objection is not so much a criticism of Mr. Hevert's analysis as it is an indication that Staff's DCF model is incorrect and that its positions in this case are internally inconsistent.

The Company states from a practical perspective the Multi-Stage DCF model allows the analyst to assess the reasonableness of the inputs and results by checking certain internal ratios and metrics against comparative benchmarks. The Company says the terminal values in Mr. Hevert's Multi-Stage DCF model, which are derived from the

expected long-term growth rate, reflect a contraction in Price/Earnings ratios from current levels. The Company says Staff provided no such corroborating analysis of its assumptions.

Staff argues that it identified a problem with Mr. Hevert's Multi-Stage DCF model because the resulting dividend growth rate exceeded the earnings growth rate in the later stages. The Company believes there is no "problem" with those relationships. The Company says the Multi-Stage DCF model is important precisely because earnings and dividend growth rates are not expected to be equal, nor is the payout ratio expected to remain constant in perpetuity: "…the model enables analysts to reflect assumptions regarding the timing and extent of changes in the payout ratio to show, for example, increases or decreases in expected capital spending, or transition from current payout levels to long-term expected levels." According to the Company, the growth rates that Staff sees as a "problem" simply reflect the rational observation that as capital spending requirements fall, payout ratios will increase.

Staff asserts that the long-term industry payout ratio should be based on the level projected by Value Line for the years 2016 to 2018. The Company says those payout ratios are well below the long-term industry average of 68.85 percent. The Company asserts the historically low payout ratios that Staff assumes will persist in perpetuity are predicated on elevated levels of capital expenditures that the industry, including the proxy companies, face through the 2016 – 2018 period. The Company believes as the capital investment cycle declines, payout ratios would be expected to increase. The Company says Staff assumes that the proxy companies' payout ratios will remain at the level projected by Value Line for the years 2016 to 2018, even though Value Line also projects that seven of the nine proxy companies will experience elevated capital investments during that time. The Company claims Staff provides no empirical basis for its assumption that there has been a permanent, structural downward shift in natural gas utility payout ratios. Rather, Staff assumes, with no supporting analysis, that payout ratios will forever reflect the heightened capital investment requirements that Value Line also projects for the 2016 to 2018 period.

Staff also argues that the change in payout ratios reflects a trade-off between present and future dividends, and that an increasing dividend payout ratio results in a temporary acceleration of near term dividend growth that is exactly offset by a reduction in long term sustainable growth because less earnings are retained for reinvestment. The Company says Staff's argument is predicated on the simple "retention growth" or "b plus r" model which is contradicted by experience and produces results that Staff finds unreasonable.

Staff argues that certain elements of Mr. Hevert's Risk Premium Analysis, which he refers to as the Capital Asset Pricing Model, are inconsistent with prior findings made by the Commission. The Company claims Mr. Hevert, however, structured his analyses in keeping with the Commission's guidance. The Company states that in Docket No. 13-0192, the Commission stated its preference for (1) Beta coefficients calculated over five years; and (2) the exclusion of non-dividend paying companies from the DCF analysis

when calculating the required market return (which is used to estimate the MRP). The Company claims Mr. Hevert performed CAPM analyses reflecting these assumptions.

The Company says Mr. Hevert's Alternate CAPM analyses reflect other assumptions but, does not make specific adjustments to his ROE range or recommendation based on those analyses. In the Company's view, Staff's criticisms are inapplicable as they fail to take into account the analysis actually performed by Mr. Hevert to develop his Risk Premium Analysis in this case.

Staff and Mr. Hevert agree that the yield on 30-year Treasury securities is the proper measure of the Risk Free rate in the Capital Asset Pricing Model. Staff and Mr. Hevert further agree that the 30-day average Treasury yield is appropriate for that purpose. Although Staff notes that the 30-year yield includes an interest rate premium associated with its relatively long term to maturity, the Company says that natural gas utilities typically are long-duration investments and as such, the 30-year Treasury yield is more suitable for the purpose of calculating the Cost of Equity.

Staff argues that Mr. Hevert erred by including a near-term projection of the 30-year Treasury yield in his CAPM analysis. According to the Company, Mr. Hevert provided his CAPM results based only on the same 30-day average Treasury yield that Staff included in its CAPM analyses. The Company says those results, which ranged from 9.93 percent to 10.47 percent in Mr. Hevert's Direct Testimony, and 10.23 percent to 10.45 percent in his Rebuttal Testimony fall within his recommended ROE range of 10.00 percent to 10.50 percent.

The Company states that Staff's suggestion that all relevant information is captured in current Treasury bond yields is an over simplification of investor expectations and the market forces influencing current interest rates; the forward yields on which Staff relies for its long-term GDP growth calculation reflect investors' expectations of increased interest rates. The Company says Staff does not argue against the use of forward yields as a measure of market expectations. The Company says Staff acknowledges that Treasury yields reflect market forces. Although the market expectations embedded in Staff's long-term GDP growth rate reflect yields ten years in the future, the Company claims the same holds true for near-term periods; even over the coming three years investors' expectations call for increased long-term Treasury yields.

According to the Company, Staff is content to rely on economists' projections of real GDP growth over periods up to 25 years in the future and does not apply the same dim view of economists' ability to project interest rates in the near term to their ability to project macroeconomic growth far in the future. The Company contends Staff can be seen to be picking and choosing individual components based on outcome rather than adopting a consistent approach throughout its analysis.

Staff suggests that Mr. Hevert's estimate of the Market Rate of Return is biased because (1) it reflects companies with both high and low growth rates, (2) it includes companies that pay dividends for which the expected growth rate is zero, and (3) that the

dividend yield, and market capitalization values provided by Mr. Hevert's two sources (Value Line and Bloomberg) are not one and the same. Staff's arguments are directed at Mr. Hevert's analyses that exclude non-dividend paying companies.

As to Staff's concern with the variability of growth rates, the Company claims industries, and individual companies within those industries, face constantly evolving business and financial opportunities (and risks). The Company believes it is reasonable for a broad market index such as the S&P 500 to contain companies with relatively high and relatively low growth rates at any given time. Given the 500 companies contained in the S&P 500 Index, the Company asserts it is possible to select individual company growth estimates that appear unreasonable. The Company says as many as ten had growth rates below 0.00 percent; as many as 19 companies had earnings growth rates below the 2.37 percent inflation rate assumed in the long-term growth estimate included in Mr. Hevert's DCF analyses.

The Company states that the work papers supporting Staff's calculation of the expected market return also reflect substantial variability on a company-by-company basis - growth rates range from negative 24.70 percent to 41.08 percent. In the Company's view, that is not surprising, given that Mr. Hevert's primary market return analyses incorporates the same companies as Staff's analysis and the end results (that is, the expected market return) are relatively similar.

Staff also asserts that because a publicly-traded company's market capitalization is observable, it should be the same in both the Bloomberg and Value Line analyses. The Company claims Staff ignored in its Brief that Bloomberg uses intraday prices in calculating the reported market capitalization, while Value Line uses previous day's closing prices. The Company believes the fact that those services apply different approaches in no way detracts from their usefulness.

Staff also argues that dividend yields are observable; yet, Mr. Hevert's Bloomberg and Value Line analyses use the same dividend yield for a given company in only a handful of instances. The Company says Bloomberg's reported dividend yield is based on analysts' consensus estimate of the current calendar year dividend amount, whereas Value Line's reported dividend yield is based on the dividends paid over a trailing twelve-month period. The Company also says there will be some difference between the values reported by the two within a given day.

According to the Company, Staff's conclusion – that the differences in results reported by Value Line on the one hand, and Bloomberg on the other renders their results so questionable that they should be disregarded – ignores the reasonable and rational explanation of those differences. The Company says this difference was explained to Staff in testimony, but Staff's initial brief ignored the explanation. The Company says both Value Line and Bloomberg are well-established sources of financial data and provide reasonable measures of the assumptions used by equity investors.

Staff argues that Beta coefficients calculated over eighteen to twenty-four month periods are more prone to measurement error arising from short-term changes in risk and investor risk preferences, which can bias the beta estimate. Staff further argues that a decrease in a company's systematic risk could increase its estimated beta even though generally an increasing beta would be interpreted as signaling an increase in a company's systematic risk. Conversely, an increase in a company's systematic risk could lower its calculated beta even though generally a decreasing beta would be interpreted as signaling a decrease in a company's systematic risk.

Staff draws a distinction between "systematic risk" and Beta coefficients, but the Company contends they are one and the same. Systematic, or "non-diversifiable" risk, is a fundamental component of Modern Portfolio Theory, the central theme of which is that rational investors make investment decisions reflecting the inherent aversion to taking on additional risk without being compensated by additional returns. The Company says in the context of Modern Portfolio Theory, risk is defined as the uncertainty, or variability, of returns. Modern Portfolio Theory was advanced by recognizing that total risk can be separated into two distinct components: (1) systematic or non-diversifiable risk, which is that portion of risk that can be attributed to the market as a whole; and (2) non-systematic (or diversifiable) risk, which is attributable to the subject company, itself. In applying the CAPM, it is systematic risk (as opposed to non-systematic risk) that determines the Cost of Equity. The Company states that considering Beta coefficients over differing periods is consistent with industry practice and provides additional information and perspective that should not be disregarded. In the Company's view, Staff's argument that systematic risk is a separate issue from the Beta coefficient that somehow diminishes that the usefulness of Beta coefficients measured over different time periods is incorrect.

Staff also argues that having calculated Beta coefficients over eighteen-month periods for three consecutive years to demonstrate that they change over time. The Company claims that the systematic risk of the proxy group increased over the 2009-2014 period. In the Company's view, this makes intuitive sense as utilities' appeared relatively stable during the height of the market's elevated volatility during the 2007-2009 financial crisis, but have reverted toward a more normal systematic risk level as the economic recovery continues (and perhaps even faced relatively elevated risk compared to the overall market as interest rates rose sharply during the second half of 2013).

Staff argues that Mr. Hevert's Bond Yield Plus Risk Premium analysis suffers from certain flaws, including the use of authorized returns from jurisdictions across the U.S., reliance on historical data (which Staff argues includes the years 1992 through 2010), and the difficulty in determining the appropriate period on which to rely.

Regarding the historical period, Mr. Hevert's analysis begins in 1980 and ends in 2014. The Company says that period covers a number of economic cycles, a point that is important to Staff in other applications. The Company says Staff insists on something in one part of its analysis, while criticizing the inclusion of the same principle in Mr. Hevert's analysis. According to the Company, contrary to Staff's assertion, there is no

difficulty in determining the appropriate period on which to rely: the analysis includes the entire 34-year period to assess the stability of the Equity Risk Premium.

Staff argues that Mr. Hevert's results are nonsensical because it suggests that the Cost of Equity would increase at levels below 2.90 percent (in his original analysis). The Company says that the relationship makes perfect sense. The Company states that low levels of Treasury yields observed during the financial crisis were due, in large measure, to the tendency of investors to seek the safety of Treasury securities as a means of avoiding equity risk. As a result of that aversion and the resulting increased demand for Treasury securities, the Company says investors would require a lower yield on Treasury securities, while at the same time increasing the return required to take on the risks associated with equity ownership.

The Company asserts the inflection point noted by Staff is the point at which the decrease in Treasury yields is more than offset by an increase in the Equity Risk Premium. In that scenario, the Cost of Equity rises as Treasury yields decrease. The Company believes that relationship is both empirically and theoretically reasonable. The Company says during periods of extreme instability, investors are willing to accept very low yields on Treasury securities in order to avoid the risk of capital losses from equity investments, while increasing the return that they require to take on the risk of equity ownership. The Company asserts that consistent with that relationship, Mr. Hevert's analysis demonstrates that the Cost of Equity increases to reflect the risk inherent in periods during which interest rates fall to unusually low levels.

Staff argues that because Mr. Hevert's calculation is not based on issuance costs that the Company has incurred but not previously recovered through rates, it should not be considered in setting the investor-required rate of return on common equity. The Company says Mr. Hevert's flotation cost adjustment recognizes the costs of issuing equity that were incurred by APUC. The Company says his calculation of flotation costs includes the last two equity issuances for APUC and as such, the Company has incurred actual flotation costs that have not been previously recovered through rates. Even though Mr. Hevert does not make a specific adjustment for flotation costs, the Company claims they are necessary and legitimate costs that can be properly considered in determining the Company's Cost of Equity.

b. Staff Position

Staff states that to estimate the cost of common equity for Liberty Midstates, it began with Mr. Hevert's discounted cash flow and risk premium ("CAPM") analyses and she corrected the most significant flaws in those analyses. Staff says Mr. Hevert's multi-stage DCF analysis (also referred to as non-constant DCF, or "NCDCF") models three stages of dividend growth. The first, a near-term growth stage, is assumed to last five years. The second stage is a transitional growth period lasting from the end of the fifth year to the end of the tenth year. Finally, the third, or "steady-state," growth stage is assumed to begin after the tenth year and continue into perpetuity. An expected stream of dividends is estimated by applying these stages of growth to the current dividend. The

discount rate that equates the present value of this expected stream of cash flows to the company's current stock price equals the market-required return on common equity.

Staff indicates Ms. Phipps made the following changes to Mr. Hevert's NCDCF analysis: (1) she removed the SV factor from the retention growth rate estimate, which is included in the first stage growth rate; (2) she assumed the dividend payout ratios for the sample companies remain at Value Line's forecasted 2016 – 2018 level rather than reverting to an historical average payout ratio; and (3) she replaced Mr. Hevert's third stage historical growth rate with a forward-looking estimate.

Staff reports Ms. Phipps estimated the growth rate parameters for the DCF analysis as follows. For the first stage, which is assumed to last five years, she used Mr. Hevert's average Zacks, First Call, Value Line growth rate estimates and a modified version of the retention growth estimate that removes the SV factor. In the intervening five-year transitional stage, the first stage growth rate transitions to the third stage growth rate. For the third "steady state" stage, which begins at the end of the tenth year, Ms. Phipps calculated the nominal overall economic growth rate beginning in 2024 to estimate the long-term growth expectations of investors. Staff says that growth rate was calculated using the expected real growth rate (2.4%) based on the average of the Energy Information Administration and Global Insight's forecasts of real GDP, and the expected inflation rate (2.3%) based on the difference in yields on U.S. Treasury bonds and U.S. Treasury Inflation-Protected Securities. Staff says she then combined the resulting 4.76% average of the EIA and Global Insight forecasts with the 4.38% average nominal GDP growth forecasted by EIA and Global Insight to derive her estimate of long-term growth of 4.57%.

Staff states that Ms. Phipps' DCF estimate of the required rate of return on common equity for the gas sample is 8.26%.

To estimate the cost of equity for Liberty Midstates using risk premium analysis, Staff says Ms. Phipps modified Mr. Hevert's CAPM analysis, a one-factor risk premium model. In the CAPM, the risk factor is market risk, which is defined as risk that cannot be eliminated through portfolio diversification. To implement the CAPM, Staff says one must estimate the risk-free rate of return, the expected rate of return on the market portfolio, and a security or portfolio-specific measure of market risk.

Staff asserts that the most significant flaws in Mr. Hevert's CAPM analyses are: (1) using a forecasted U.S. Treasury bond yield as a proxy for the risk-free rate of return and (2) his estimates of the investor-required return on the market portfolio. Staff says Ms. Phipps relied exclusively on Mr. Hevert's current 30-day average yield on thirty-year U.S. Treasury bonds of 3.81% for the risk-free rate.

To estimate the expected rate of return on the market portfolio, Staff says Ms. Phipps relied exclusively on Staff's estimate of the market return of 12.15%. Staff indicates the expected rate of return on the market was estimated by conducting DCF analysis on the firms composing the S&P 500 Index ("S&P 500") as of December 31,

2013. Staff says firms not paying a dividend as of December 31, 2013, or for which neither Zacks nor Reuters growth rates were available, were eliminated from the analysis. That analysis estimated that the expected rate of return on the market equals 12.15%.

To estimate the beta of the gas sample, Staff reports Ms. Phipps supplemented the two five-year beta estimates that Mr. Hevert uses with the following five-year beta estimates: (1) Staff's regression beta; (2) Zacks betas; and (3) a five-year Bloomberg beta estimate provided by Mr. Hevert. Staff indicates Ms. Phipps measured market risk on a security-specific basis using a regression analysis that employs sixty monthly observations of stock and the U.S. Treasury bill return data. She also used a beta published by Zacks, which also employs 60 monthly observations in its beta estimation.

Staff states that since the beta estimates from Zacks, Bloomberg, Mr. Hevert's regression analysis and Staff's regression analysis are calculated using monthly returns rather than weekly returns (as Value Line uses), Ms. Phipps averaged the monthly return betas to avoid over-weighting the monthly return-based betas. She then averaged that result with the Value Line beta to obtain a single estimate of beta for the sample. For the gas sample, Staff says Zacks beta averages 0.66, the Bloomberg beta estimate is 0.62, Mr. Hevert's regression beta is 0.73 and Staff's regression beta is 0.62. The average of the monthly betas is 0.66. Staff reports that averaging this monthly beta with the weekly Value Line beta (0.72), produces a beta for the gas sample of 0.69.

According to Staff, using those inputs, the risk premium model estimates a required rate of return on common equity of 9.56%.

To assess the reasonableness of her recommendation, Staff says Ms. Phipps considered the observable 5.02% rate of return the market currently requires on less risky Baa rated long-term debt. Based on her analysis, in her judgment, the investor-required rate of return on common equity equals 9.23% for the Company.

To estimate the investor-required rate of return on common equity for the gas sample, Staff indicates Ms. Phipps averaged the NCDCF-derived results (8.26%) and the risk premium-derived results (9.56%) for the gas sample, which produced an estimate of 8.91%. Staff asserts the models from which the individual company estimates were derived are correctly specified and thus contain no source of bias. Staff also claims excepting the use of U.S. Treasury bond yield as a proxy for the long-term risk-free rate, the use of a constant growth DCF analysis for estimating the rate of return on the market portfolio, and the use of nominal GDP growth as a proxy for long-term utility growth, Staff is unaware of bias in her proxy for investor expectations. Staff avers measurement error has been minimized through the use of a sample, since estimates for a sample as a whole are subject to less measurement error than individual company estimates.

Staff reports Ms. Phipps considered the difference in the yields for A and Baa rated long-term utility bonds. On January 29, 2014, the yield for Baa-rated utility bonds was 5.02% and the yield for A-rated utility bonds was 4.54%, which is 48 basis points lower than the riskier Baa-rated bonds. Staff says the S&P credit rating of LUC is two notches

lower than the average credit rating of the gas sample – i.e., BBB v. A-. Ms. Phipps added two-thirds of the difference in the Baa/A rated bond yields, or 32 basis points (i.e., 48 basis points × 0.67), to the 8.91% cost of equity estimate to reflect the greater risk that LUC's lower credit rating implies. Staff says the resulting cost of equity is 9.23%.

According to Staff, the Commission has adopted similar adjustments in Docket No. 04-0779 and Docket Nos. 02-0798/03-0008/03-0009 (Cons.). In Docket No. 08-0363, Staff assessed the risk level of its sample to the target utility and adjusted the cost of equity downward 25 basis points, which equals the spread between Baa1 and A2 30-year utility debt yields and which Staff says the Commission adopted. Staff states that in Docket Nos. 09-0306 et al., Staff relied upon the spread between the ratings of the proxy group versus the target utility to adjust its cost of common equity estimate to account for the difference in risk between the proxy group and the target utility, which it says was adopted by the Commission.

Staff alleges there are flaws in Mr. Hevert's NCDCF analysis, which lead him to over-estimate the Company's cost of common equity, including: (1) a retention growth rate estimate (i.e., br + sv) that includes an external growth factor "sv," which is based on an assumption that does not hold true for the proxy group companies; (2) a long-term growth rate that is not sustainable; and (3) a faulty assumption that the payout ratios of the proxy group companies will converge to 69.45%.

Staff further alleges the flaws in Mr. Hevert's CAPM analysis include: (1) using a forecasted U.S. Treasury bond yield as a proxy for the risk-free rate; (2) his expected rate of return on the market portfolio is overstated; and (3) his alternate CAPM analyses rely upon beta estimates for two years or less and incorrect market risk premium estimates. Staff argues that Mr. Hevert's bond yield plus risk premium analysis, which has previously been rejected by the Commission, is flawed for numerous reasons. Finally, Staff contends Mr. Hevert's flotation cost adjustment, which has previously been rejected by the Commission, is inappropriate and unwarranted.

Mr. Hevert's retention growth rate estimate includes an external growth rate factor, SV, which assumes that a company raises all external capital at the market price. Staff notes the source of Mr. Hevert's external financing forecast, Value Line, forecasts that none of the sample companies will issue new shares at the market price. Citing the decision in Docket No. 08-0363, Staff says the Commission has rejected a DCF analysis that includes a sustainable growth rate estimate with an external growth rate factor in the past.

Mr. Hevert's long-term growth rate of 5.72% is based on the combination of a historical growth in real GDP of 3.27% from 1929-2013 and a 2.37% inflation rate that is derived from forward U.S. Treasury yields starting in 2024. Staff does not object to Mr. Hevert's 2.37% estimate of expected inflation. Staff asserts that Mr. Hevert's 3.27% estimate of real GDP growth far exceeds the estimates of professional forecasters and, thus, should be rejected. EIA and Global Insight currently forecast real GDP growth will average 2.4% during the 2024-2040 and 2024-2043 periods, respectively. Staff states

that those forecasts are in line with the 2.4-2.6% annual percentage GDP growth rates published by numerous forecasters for the 2011-2040 measurement period. Staff claims the projected growth rates for real GDP from eight sources all indicate that Mr. Hevert's historical real GDP growth estimate overstates the level of real GDP growth expected over the long-term and thereby causes his estimate of the investor-required rate of return for the companies in the proxy group to be too high.

In Staff's view, the long-term growth rate that Mr. Hevert used in the final stage of his multi-stage DCF analyses for the gas samples is not sustainable. Staff states that in order to sustain 5.72% growth given Mr. Hevert's assumed 30.55% earnings retention rate, the companies in the gas sample would have to indefinitely sustain, on average, an 18.72% return on new common equity investment, which is 78% higher than Mr. Hevert's 10.50% cost of common equity recommendation for Liberty Midstates' gas operations. Staff claims the implausibility of the proxy group sustaining an average 18.72% ROE indefinitely becomes obvious when one considers the ROE for the proxy group averaged 11.00% during 2003-2013, with no single company achieving an 18.72% ROE during any single year of that measurement period. Staff also asserts an 18.72% return on retained earnings would exceed Value Line's projected 11.17% ROE for the proxy group.

Staff contends Mr. Hevert's multi-stage DCF analysis is also problematic because the assumed dividend growth rate far exceeds the assumed growth in earnings per share. According to Mr. Hevert's analysis, average earnings per share growth rate for the proxy group is 5.3% to 5.7% in years 2014- 2024 while the annual dividend growth rate for the proxy group averages 1.6% in 2014, and rises to a range of 9.4% to 8.8% during the 2018-2024 period, with a 2014-2024 average of 6.6%.

Citing the Commission's decision in Docket No. 13-0192, Staff says the Commission has previously expressed concern regarding Mr. Hevert's long-term growth rate estimate.

Staff claims a problem with Mr. Hevert's multi-stage DCF modeling is an increasing payout ratio with accelerating sustainable growth. Staff says that Mr. Hevert's model assumes a sample average 56% dividend payout ratio in 2017, which he increases to 69% by 2024, and a sample average 5.3% growth rate in 2018, which he increases to 5.7% in 2024. Staff believes this is problematic because Mr. Hevert's model ignores that dividend policy involves a trade-off between present and future dividends. Staff says a declining dividend payout ratio results in a temporary slowing in near-term dividend growth, which is exactly offset by higher long-term sustainable growth because more earnings are retained for reinvestment. Conversely, Staff says an increasing dividend payout ratio results in a temporary acceleration of near term dividend growth that is exactly offset by a reduction in long-term sustainable growth because less earnings are retained for reinvestment.

Staff opposes the forecasted U.S. Treasury bond yields that Mr. Hevert uses as a proxy for the risk-free rate. Staff asserts that interest rates are constantly adjusting, and accurately forecasting the movements of interest rates is problematic. Staff notes that

the Blue Chip Financial Forecast that Mr. Hevert relied upon for his forecasted risk-free rate estimate predicted 30-year U.S. Treasury bond yields would rise from 3.8% to 3.9% in the first quarter of 2014, 4.0% in the second quarter of 2014 and 4.1% in the third quarter of 2014. Staff says in reality, 30-year U.S. Treasury bond yields over the first nine months of 2014 fell to 3.7% in the first quarter, 3.4% in the second quarter and 3.3% in the third quarter. Staff contends that not only did the forecasters over-estimate the level of 30-year U.S. Treasury bond yields, they did not even correctly guess the trend.

Staff argues that current U.S. Treasury bond yields reflect all relevant, available information, including investor expectations regarding future interest rates. Staff says investor appraisals of the value of forecasts are also reflected in current interest rates. Staff adds that if investors believe that the forecasts are valuable, that belief would be reflected in current market interest rates. Staff says if investors believe the forecasts are not valuable, that belief would also be reflected in current market interest rates. According to Staff, if one uses current market interest rates in a risk premium analysis, speculation of whether investor expectations of future interest rates equal those from a particular forecast reporting service is unnecessary. Staff also says that U.S. Treasury bond yields reflect market forces, while forecasts do not. Staff says the risk free rate is reflected in the return that investors are willing to accept in the market. As of January 31, 2014, Staff claims investors were willing to accept 3.61% return on U.S. Treasury bonds, which includes an interest rate risk premium associated with its relatively long term to maturity.

Staff says the Commission recognized this in its Docket No. 02-0798 et al. Order. Staff also states that in Docket Nos. 09-0306 et al., the Commission rejected a CAPM that relied upon a forecasted U.S. Treasury bond yield as a proxy for the risk-free rate.

To estimate the market risk premium ("MRP"), Mr. Hevert used the constant growth DCF model to calculate the market capitalization weighted average return on equity using data from Bloomberg and Value Line. Staff asserts Mr. Hevert's DCF analyses overstate his MRP estimate because each of his analyses includes one or more companies with a growth estimate over 40%, which significantly affects the MRP estimate. Staff says the Bloomberg analysis includes a company with a growth rate of 144.90%, which adds 0.10% to the market return. For the Value Line analysis, Ms. Phipps identified four companies with growth rates ranging from 72.5% - 129%, which add 0.67% to the market return. Additionally, Staff says thirty-five dividend-paying companies are missing growth rates in the Value Line DCF analysis. Staff asserts that because a publicly-traded company's market value is observable, it should be the same in both the Bloomberg and Value Line analyses. Staff says Mr. Hevert's Bloomberg and Value Line analyses use different market values for many of the companies. Staff also says dividend yields are observable; yet, Mr. Hevert's Bloomberg and Value Line analyses use the same dividend yield for a given company in only a handful of instances. In Staff's view, the results of Mr. Hevert's market return analyses are questionable at best and should be disregarded.

Mr. Hevert also presents "alternate CAPM analyses," which use (1) two-year and eighteen month beta coefficients; and (2) market risk premiums that were calculated using both dividend and non-dividend paying companies. According to the Company, Mr.

Hevert did not make a specific adjustment to his ROE recommendation based on the results of his alternate CAPM analyses. Rather, Mr. Hevert considered those results along with other factors, when determining where the Company's cost of equity fell within the range of his results.

Mr. Hevert relies on beta estimates measured over eighteen to twenty-four months. Staff contends betas measured over shorter periods are more prone to measurement error arising from short-term changes in risk and investor risk preferences, which can bias the beta estimate. Staff says a decrease in a company's systematic risk could increase its estimated beta even though generally an increasing beta would be interpreted as signaling an increase in a company's systematic risk. Staff adds that an increase in a company's systematic risk could lower its calculated beta even though generally a decreasing beta would be interpreted as signaling a decrease in a company's systematic risk. Staff claims those counter-intuitive results are a consequence of the inverse relationship between risk and stock values. As the risk of a stock declines, Staff says its price rises, all else equal. In a rising stock market, Staff says the beta calculated will rise for a stock that is declining in risk, all else equal. Conversely, Staff states that in a declining market, the beta calculated will decline for a stock that is increasing in risk. In Staff's view, a longer measurement period should be used as a more complete business cycle will include both rising and falling markets, reducing measurement error. Staff says Ms. Phipps calculated beta using only eighteen months of data for three consecutive measurement periods to demonstrate the inherent volatility in using such a short measurement period to measure beta.

For his alternate CAPM, Mr. Hevert developed two estimates of the market risk premium by calculating the required return on the S&P 500 Index using data from Bloomberg and Value Line. He used a constant growth DCF on all of the companies in the index with long-term growth projections available, including non-dividend paying companies. Staff believes that Mr. Hevert's inclusion of the non-dividend paying companies in a constant growth DCF analysis upwardly biases his estimate of market return. Staff states that the dividend growth rate of non-dividend paying companies cannot be both constant and equal to the earnings growth rate as Mr. Hevert's estimation process assumes. If the dividend growth rate is constant, Staff claims it must remain 0% for a non-divided paying company. In contrast, Staff says the average dividend growth rates of the non-dividend paying companies in Mr. Hevert's analyses equal approximately 17%. Staff insists that including non-dividend paying companies in a DCF analysis of the market overstates the resulting estimated required rate of return on the market and the implied market risk premium. Staff says the weighted average growth rate for the dividend paying companies is approximately 10% whereas the weighted average growth rate for the non-dividend paying companies is 18% to 22%.

Staff states that in Docket No. 13-0192, the Commission rejected Mr. Hevert's CAPM analysis.

Staff contends Mr. Hevert's risk premium model suffers from the same problems as the risk premium models he presented, and the Commission rejected, in prior cases.

Staff says in Docket No. 13-0192, the Commission questioned the validity of the bond yield plus risk premium approach given (1) its reliance on utility authorized returns on equity throughout the U.S.; and (2) its heavy reliance on historical data (1992-2010) and the difficulty in determining an appropriate historical period to rely upon. Staff also cites Docket No. 11-0282.

Staff asserts that Mr. Hevert's model, estimated over the period 1980–2014, nonsensically predicts that when the U.S. Treasury bond yield falls to 2.90% or below (which occurred 163 days between December 16, 2008, and December 31, 2013), the cost of common equity for utilities will rise. In rebuttal testimony, Mr. Hevert presented an alternative bond yield plus risk premium analysis, which employs a shorter measurement period (2011 to the present) and includes credit spreads as an additional independent variable. According to Staff, the alternative model is no better than Mr. Hevert's original analysis. Staff says Mr. Hevert's alternative model predicts the cost of equity is inversely related to the 30-year U.S. Treasury bond yield when the U.S. Treasury bond yield is 3.73% or lower (vs. a 2.90% inflection point in his original analysis). Staff claims this is not consistent with the positive relationship that one would reasonably expect to exist between the cost of equity and U.S. Treasury bond yields – i.e., the cost of equity would increase as the 30-year Treasury bond yield increases.

In Staff's view, the counter-intuitive relationship between bond yields and implied risk premiums indicates that Mr. Hevert's risk premium model is not useful for checking, let alone estimating, the cost of common equity for gas utilities.

Citing Docket No. 13-0192, Staff says the Commission has rejected Mr. Hevert's bond yield plus risk premium analysis in prior cases.

According to Staff, the flotation cost adjustment proposed by Mr. Hevert is contrary to long-standing Commission practice. The Commission Order from Docket No. 94-0065 states, "The Commission has traditionally approved [flotation cost] adjustments only when the utility anticipates it will issue stock in the test year or when it has been demonstrated that costs incurred prior to the test year have not been recovered previously through rates." Staff says that Order states, "[the utility] has the burden of proof on this issue." Thus, the Commission should allow recovery of flotation costs only if a utility can verify both that it incurred the specific amount of flotation costs for which it seeks compensation and it has not previously recovered those costs through rates." Staff asserts the Company has done neither. Staff also claims the Company has no unrecovered cost of common equity issuance costs.

Mr. Hevert's flotation cost calculations were based on the costs of issuing equity that were incurred by APUC and his sample group companies in their two most recent common equity issuances. Based on those issuance costs, he calculated a flotation cost of 0.15% (15 basis points) for the gas distribution operations. Staff asserts he did not make a specific flotation cost adjustment, but claims to have considered the effect of flotation costs in determining where the Company's ROE falls within the range of results.

In Staff's view, the size of the flotation cost in Mr. Hevert's rate of return on common equity remains a mystery.

Staff cites several cases where it says the Commission has repeatedly rejected generalized flotation cost adjustments in previous cases as an inappropriate basis for raising utility rates. Staff also claims that in Docket No. 13-0192, the Commission rejected similar flotation cost proposals by Mr. Hevert (i.e., flotation cost calculations that are based on the equity issuance costs of the parent company and the proxy group companies). Staff contends that since Mr. Hevert's calculation is not based on issuance costs that the Company has incurred but has not previously recovered through rates, it should not be considered in setting the investor-required rate of return on common equity.

Staff states that based on the condition set forth in the Commission's Order in Docket No. 11-0559, the upper limit pre-tax cost of capital is 10.47% with a 9.23% cost of common equity. Staff says Ms. Phipps proposes an overall cost of capital of 6.81% for Liberty Midstates, which is 9.55% on a pre-tax basis and her recommendation satisfies the Commission's condition set forth Docket No. 11-0559.

The Company disagrees with Staff's 9.23% cost of equity recommendation and argues that it is well below the average authorized natural gas ROE since January 2013 of 9.65%. Citing the Commission's decision in Docket No. 11-0282, Staff says its recommendation in this case is similar or higher than recent authorized natural gas ROEs in Illinois. Staff indicates the Commission approved a 9.06% ROE for Ameren Illinois Company's gas distribution operations, and in Docket No. 13-0192, the Commission approved a 9.08% ROE for Ameren Illinois Company's gas distribution operations. Staff states that in Docket Nos. 12-0511/12-0512 (Cons.), the Commission authorized a 9.28% ROE for the gas operations of The Peoples Gas Light and Coke Company and North Shore Gas Company.

Mr. Hevert recommends a 10.50% ROE after performing various analyses with results ranging from 9.28% to 13.49%. Staff says Mr. Hevert's only rationale for that ROE recommendation is that it "falls within his recommended range of 10.00% to 10.50%," which is also based on Mr. Hevert's judgment alone. Mr. Hevert claims he considered the Company's size, the regulatory environment in which the Company operates, weather variability and flotation costs. He also calculated a flotation cost adjustment of 15 basis points (0.15%), which he lowered to 0.13% in rebuttal testimony. Staff complains Mr. Hevert did not propose a specific adjustment to his ROE recommendation for size, regulatory environment, weather risk or flotation costs, but rather made a subjective judgment. Citing the decision in Docket No. 94-0040, Staff says the Commission requires detailed justification for departing from the results of cost of equity models and "that the explanation be rational and aimed at serving both the ratepayer and the shareholder by setting a return sufficiently high that the utility can attract capital, but not so high that it earns an excessive return." Staff asserts the Company has failed to support its 10.50% ROE recommendation; therefore, it should be rejected.

Staff claims the Company acknowledges that the Commission relies on the results of specific cost of equity models, rather than subjective estimates, when it states, "recent Commission orders have shown a preference towards using an average of the parties DCF and CAPM – i.e., taking the average of the ROE witnesses' DCF results and combining that with the average of ROE witnesses CAPM results and dividing by two." Staff notes the Company's statement does not accurately describe the ROE decision in the last two rate cases in which Mr. Hevert himself was the cost of equity witness. Staff indicates that in Docket Nos. 13-0192 and 11-0282, the Commission combined Staff's CAPM results with the average DCF results. Staff states that should the Commission accept the growth rates with which Mr. Hevert calculated his DCF results and apply the same methodology in this case - which Staff believes it should not - it would result in an ROE of 9.26%, which would have to be raised by 31 basis points to account for the difference in the credit ratings of LUC versus the proxy group. Staff indicates the resulting ROE would be 9.57% - not 9.82% as the Company claims.

The Company claims that Ms. Phipps' 4.57% nominal long-term GDP growth estimate is unreasonably low nominal growth rate in the context of historical growth rates. The Company claims that Mr. Hevert cited to several examples in industry literature indicating that investors expect companies to grow at historical average rates. According to Staff, Mr. Hevert does not present any evidence that directly applies to utilities or that occurs in an environment like today's market. Staff says the Baron Fund quarterly report cited by Mr. Hevert is not specific to utilities, which have lower growth rates than the market as a whole. Mr. Hevert also cites a financial text by Eugene F. Brigham and Michael C. Ehrhardt that states dividend growth for most mature firms is expected to continue at about the same rate as nominal GDP (real GDP plus inflation), or 5% to 8% a year. Staff complains that the record does not specify the age of the nominal GDP growth rate estimate in the Brigham text book; that is, is the growth rate range from 2014 or is it older?

Staff believes the forecast range is consistent with an estimate Brigham provided 20 years ago. Staff also asserts there is no evidence that Brigham and Ehrhardt have any expertise in economic forecasting. Staff states that even with a real GDP growth rate estimate as high as Mr. Hevert's 3.27%, an inflation rate of 4.73% would be necessary to achieve a nominal GDP growth rate of 8%. Given consensus estimates of long-term inflation of 2.3%-2.4%, Staff asserts the Brigham/Ehrhardt range is not plausible. Staff also says when Brigham estimated long-term nominal GDP growth in 1994, he used an inflation rate of 4% and a real GDP growth rate of 2%. In Staff's view, with today's lower long-term inflation rate of 2.3%-2.4% (which is not a point of dispute between Staff and the Company), Brigham's long-term nominal GDP growth rate would be 4.3%-4.4% today. Staff also says in the 1994 case, the Commission determined that Mr. Brigham's growth rates were "excessively high".

Staff contends the Company's claim that it is reasonable to assume future real GDP growth will reflect historical real GDP growth is incorrect. Mr. Hevert attempted to support this claim by graphing annual real GDP growth rates from a subset of the measurement period he used to calculate his historical real GDP growth rate. Staff

asserts Mr. Hevert's graphs do not answer the question of whether historical realized real GDP growth over either measurement period reflects investor expectations of long-term real GDP growth. Staff says Blue Chip Financial Forecasts estimates real GDP will average 2.4% for 2020-2024, which is identical to the real GDP projections Ms. Phipps relied upon, and is far below the 3.27% historical average relied upon by Mr. Hevert. Staff claims the real average realized GDP has declined since 1948, whereas Mr. Hevert's model assumes it will rise.

The Company assumes earnings growth and dividend payout ratios will revert toward long-term observed historical averages over time. Staff says a higher dividend payout ratio requires a lower percentage of earnings retained to common equity (i.e., the retention ratio); yet, Value Line projects increasing retention ratios for the proxy group companies, rather than a retention ratio that reverts to an *ad hoc* mean, as Mr. Hevert's model assumes.

Staff believes the Company's reliance on historical data is problematic because it reflects conditions that may not continue in the future. Staff says using average historical data implies reversion to a mean and, even if payout ratios were mean reverting, there is no method for determining the true value of that mean let alone the length of time over which mean reversion will occur. Staff says any measurement period chosen is arbitrary, rendering the results uninformative.

The Company objects to Staff's DCF analysis holding the proxy group companies' dividend payout ratio at the 2017-2019 level, arguing it is reasonable to use historical data to estimate dividend payout ratios, thereby assuming current payout ratios will increase over time. Staff insists the company is incorrect; because it is not problematic to assume that a payout ratio will stabilize at the 56% level Value Line forecasts. Staff says financial theory recognizes that investors are indifferent as to whether they receive their return on an investment in the form of dividends or through capital appreciation. This implies to Staff that the dividend payout ratio does not affect common stock prices or the cost of common equity.

Staff states that assuming a higher dividend payout ratio requires a lower long-term growth estimate, whereas Mr. Hevert's DCF analysis models increasing payout ratios in combination with increasing retention ratios, which contradicts financial theory. Staff claims if Mr. Hevert's model held the dividend payout ratio at Value Line's forecasted 2017-2019 level (instead of creating his own forecasted increase equal to an ad hoc historical industry average payout ratio by 2024), his DCF analysis would have produced a return on equity estimate of 9.25%, even while retaining his long-term growth estimate of 5.72% and the "SV" factor in his Retention Growth Estimate.

The Company observes that Ms. Phipps calculates an implied 20-year forward U.S. Treasury yield in ten years of 4.27 percent as part of her calculation of expected inflation using the TIPS spread; that estimate is 71 basis points above the 3.56 percent 30-day average 20-year Treasury yield as of the same date. The Company claims that calculation shows an expectation of rising interest rates. Staff contends the implied 20-

year forward rate is not expected to occur for another 10 years and, therefore, is not a reasonable proxy for today's risk-free rate.

The Company also asserts that forecasts of the 30-year U.S. Treasury bond yield indicate investors expect interest rates to rise; therefore, the Company concludes, it is appropriate to consider both current and projected 30-year U.S. Treasury bond yields when estimating the risk-free rate component of the CAPM. Staff says Mr. Hevert relied upon the forecasted 30-year U.S. Treasury bond yield published in Blue Chip Financial Forecast. Certain data included in Blue Chip Financial Forecast may serve as proxies for investor expectations; however, the forecasters are economists rather than investors. According to Staff, Mr. Hevert's argument does not recognize this distinction.

The Company argues the market risk premiums, or "MRP" estimates in Mr. Hevert's analysis are reasonable relative to historical MRP. Staff maintains the results of Mr. Hevert's market return analyses are questionable at best and should be disregarded. To support his MRP estimates, Mr. Hevert produced a histogram of annual MRP over the 1926-2013 period and calculated the cumulative probability of those MRP. Mr. Hevert claims those charts "demonstrate that MRPs of at least 10.32 percent (the high end of the range of MRP estimates in my Direct Testimony) have occurred [or in the case of the cumulative probability, will occur] nearly half the time."

Staff believes Mr. Hevert's argument is misleading because it implies that 1) 10.32% is the median historical market risk premium; and 2) expected historical market risk premium equals the median rate of return. Staff claims neither is true. Staff says Mr. Hevert's own work papers indicate that the median historical market risk premium equals 8.0%, not the 10.32% he used. Staff also argues the expected historical market risk premium equals the mean historical market risk premium. Staff says Morningstar reports the mean historical market risk premium for the 1926-2013 period was 7.0%.

The Company argues even the highest of Mr. Hevert's MRP estimates is statistically indistinguishable from the historical mean at a 95.00 percent confidence interval. Staff says according to Mr. Hevert's work paper, the 95 percent confidence interval ranges from 2.63% to 11.28%. Staff claims Mr. Hevert has not explained what it means that his highest MRP is within the 95% confidence interval of the mean historical MRP. Specifically, he does not address how confidence intervals are used, much less what a confidence interval is, and what a 95% level means (as opposed to some other percentage). Staff claims it does not require an expert to observe that with its large width, Mr. Hevert's confidence interval can be used to validate any MRP estimate from 2.63% to 11.28%. In Staff's view, an interval of such breadth is useless for assessing the validity of any MRP estimate, since an MRP of 3.59% would be as valid as an MRP of 10.32%.

The Company observes that Ms. Phipps' five-year betas do not cover a full business cycle. Staff maintains that measuring beta over an even longer period than Ms. Phipps calculated results in lower beta coefficients. Staff says its regression beta, measured over ten years, is 0.56 (versus a five-year beta of 0.62). Staff also says the current ten-year Value Line beta is 0.62 (versus the five-year beta of 0.72). Staff

concludes that applying this argument would result in an even lower cost of equity estimate.

In response to Ms. Phipps' testimony that measuring betas over periods longer than five years reduces measurement error, Mr. Hevert countered that each of the 18-month betas he calculated for the proxy companies reveal a statistically significant relationship. Staff asserts that Mr. Hevert incorrectly implies by this statement that his 18-month beta estimates are accurate. Staff maintains that the t-statistic does not test the predictive ability of the model (i.e., the ability of market stock returns to predict gas sample stock returns). Staff says the t-statistic measures the extent to which an estimate differs from zero; hence, the higher the beta, the higher the t-statistic. Staff contends the statistical information Mr. Hevert provides does not indicate the validity or the accuracy of his beta estimate.

Staff states that the 18-month betas that Mr. Hevert calculated for the proxy group range from 0.70 -1.20, with four estimates exceeding 1.0. Staff says this implies that the proxy group companies are riskier than the market as a whole. Staff asserts Mr. Hevert attempts to justify his excessively high 18-month beta estimates by arguing that utilities "perhaps even faced relatively elevated risk compared to the overall market as interest rates rose during the second half of 2013." Staff maintains there is no merit to Mr. Hevert's claim that his 18-month beta estimates are the result of elevated risk compared to the market. Staff says according to Value Line, these stocks, as a group, are the safest, most stable and least risky investments relative to the Value Line universe, which accounts for about 95% of the market capitalization of all stocks in the U.S. Staff also says Moody's Investors Service and Standard & Poor's also view natural gas distribution utilities as low risk entities.

The Company asserts the Commission has recognized the value of observing general market conditions and trends, including the recent average of authorized ROEs, when assessing parties ROE recommendations. Staff contends the Company's argument is flawed in that it fails to recognize the shortcomings of relying on authorized ROEs to estimate the cost of equity. Staff says the Company's analysis assumes all other factors affecting a utility's credit rating are equal (e.g., future test years, tariff riders, ratemaking adjustments to capital structure and recoverable expenses), which is not a realistic assumption.

The Company notes a downward adjustment would be necessary if the Commission adopts the Company's actual capital structure and 10.50% cost of equity recommendation. Staff believes that adopting the Company's actual capital structure would not be permissible under Section 9-230 of the Act. Staff also believes the Company's inflated cost of equity recommendation would not balance the interests of investors and ratepayers.

c. Commission Analysis and Conclusion

The Company witness Mr. Hevert's ROE analyses produced an average updated multi-stage DCF result of 9.60% and an average standard CAPM result of 10.68%. Mr. Hevert reviewed the reasonableness of those estimates using a Bond Yield Plus Risk Premium analysis and an alternate CAPM analysis. Based on this analysis, Mr. Hevert determined that a reasonable range for the Company's ROE is 10.00 to 10.50 percent. After considering the Company's regulatory and business risks relative to the proxy group, Mr. Hevert concluded that 10.50 percent is a reasonable ROE for the Company.

Staff witness Ms. Phipps' analysis indicates that the cost of common equity for the Company's natural gas distribution operations is 9.23%. Ms. Phipps began with Mr. Hevert's DCF and CAPM analyses. Ms. Phipps' DCF estimate of the required rate of return on common equity for the gas sample is 8.26% and her CAPM estimates a required rate of return on common equity of 9.56% for the gas sample. Ms. Phipps recommended adding 32 basis points to the 8.91% cost of equity estimate for the natural gas sample to reflect the greater risk that the Company's lower credit rating implies. Her resulting cost of equity recommendation is 9.23%.

As an initial matter, the Commission notes that there were extensive arguments and filings relating to contested cost of capital issues. The Commission will begin by identifying some of the issues it will not be addressing in this conclusion. Given that Mr. Hevert did not rely on his alternative CAPM analyses or the betas calculated with relatively short-term data, the Commission will not address them. Similarly, the Commission will not discuss Mr. Hevert's Bond Yield Plus Risk Premium analyses since he did not explicitly consider them in his recommendation and the Commission will not rely on them. While Mr. Hevert calculated flotation cost adjustments and made arguments related thereto, he did not incorporate an explicit adjustment to his cost of equity recommendation; thus, the Commission will not address it in this conclusion. Finally, Mr. Hevert says he considered the Company's risk profile, in particular its relatively small size, the regulatory environment in which it operates, and weather variability, in addition to costs associated with equity issuances. Because there is no way to evaluate how this consideration impacted Mr. Hevert's recommendation, there is no need for the Commission to explicitly address it in this conclusion.

Next, the Commission notes that in its initial brief, the Company discusses how the Commission estimated the cost of equity in Docket No. 13-0192. The Commission also notes; however, that as Staff points out in its reply brief, the Company's initial brief mischaracterizes the actual Commission action in that proceeding. Additionally, at page 34 of its reply brief, the Company discusses the risk-free rate that Mr. Hevert used in developing his recommendation. It appears to the Commission that the Company suggests that Mr. Hevert relied only on his analyses that use the 30-day average Treasury yields and not the near-term projections of the 30-year Treasury yield. The Commission notes that is not true. Whether intentional or not, the Commission does not appreciate misleading statements from any party and notes that it calls into question the very veracity of that party's arguments.

For purposes of estimating the Company's cost of equity in this proceeding, the Commission finds it is appropriate to average the DCF recommendations of the Company and Staff as well as the CAPM results discussed below. For purposes of clarity, the Commission does not endorse every input to the DCF analyses, or rationale therefore, presented by the Company or Staff.

As in Docket No. 13-0192, the Commission shares, to a large degree, the concerns expressed by Staff that the growth rate used by Mr. Hevert in the final stage of his multi-stage DCF model is too high and would imply a return on new common equity investment that is implausible and unsustainable.

The Commission finds that the DCF recommendations made by both parties are of sufficient value to be considered in estimating the cost of common equity in this case. Averaging the recommendations of 9.60% by the Company and 8.26% by Staff results in a DCF estimate of 8.93%. Based on the record, the Commission believes that blending the Parties' proposals in this manner results in an average return that significantly diminishes any perceived upward or downward bias.

Regarding CAPM, in its Order in Docket No. 11-0282, the Commission expressed "serious concerns" with the betas used by Mr. Hevert. The Commission noted that it has traditionally relied upon betas calculated with five years of data. In Docket No. 13-0192, the Commission again found that the beta estimates provided by Staff are more reliable than those provided by Mr. Hevert. Despite Staff's suggestions to the contrary, Mr. Hevert's alternative CAPM, which rely on shorter-term betas, was not explicitly considered in his recommendation. Therefore, the Commission is not considering Mr. Hevert's alternative CAPM analyses.

In this proceeding, the Commission concludes that reliance on near-term projections of the 30-year Treasury yield as a proxy for the risk-free rate is not appropriate, in part for the reasons identified by Staff. Therefore, the Commission will rely on Mr. Hevert's CAPM analyses that utilize current 30-year treasury estimates, which, when averaged, produce a CAPM estimate of 10.34% ("Current Treasury CAPM"). (Company Ex. 7.0, 6)

For purposes of this proceeding, the Commission concludes that it is appropriate to average the results of Staff's CAPM analyses (9.56%) with results of Mr. Hevert's Current Treasury CAPM average (10.34%). Again, for purposes of clarity, the Commission does not endorse every input to the CAPM analyses, or rationale therefore, presented by the Company or Staff.

As explained above, the Commission finds the average of the DCF results of 8.93%, combined with the average of Staff's CAPM result and the Company's Current Treasury CAPM average, 9.95%, should be averaged to provide the estimate of the cost of equity for the proxy group, 9.44%. The Commission agrees with Staff that it is necessary to increase that estimate to reflect the additional risk of the Company relative

to the proxy group. The Commission finds Staff's estimate of that additional risk, 32 basis points, to be reasonable and it should be adopted. While no estimate of the incremental risk would be perfect, the Staff method appears to be reasonably derived. The derivation of the Company's cost of common equity is shown in the table below.

Staff DCF	8.26%
Liberty DCF	9.60%
Average DCF	8.93%
Staff CAPM	9.56%
Liberty CAPM	10.34%
Average CAPM	9.95%
Overall Average	9.44%
Risk Adjustment	0.32%
Approved ROE	9.76%

For purposes of this proceeding, the Commission finds that a reasonable estimate of the Company's cost of common equity is 9.76%.

C. Authorized Rate of Return on Rate Base

Upon giving effect to the determinations made above on the balances and costs of capital, including the cost of common equity, the Commission finds, for purposes of this proceeding, that the Company's gas operations should be authorized a return on rate base of 7.05% as shown in the table below and reflected in the appendices to this Order.

Capital Component	Weight	Cost	Weighted Cost	Revenue Conversion Factor	Pre Tax WAAC
Short-Term Debt	0.46%	1.41%	0.01%	1.0000	0.01%
Long-Term Debt	53.95%	4.81%	2.59%	1.0000	2.59%
Common Equity	45.59%	9.76%	4.45%	1.6509	7.35%
Total	100.00%		7.05%		9.95%

Based on the condition set forth in the Commission's Order in Docket No. 11-0559, the upper limit pre-tax cost of capital is 10.90% with a 9.76% cost of common equity. The authorized overall cost of capital of 7.05% for the Company, which is 9.95% on a pre-tax basis, satisfies the Commission's condition set forth in Docket No. 11-0559. The Commission finds that the overall revenue requirement does not need to be adjusted downward to reflect the condition adopted in Docket No. 11-0559.

V. COST OF SERVICE

The Company and Staff agreed that the Company's proposed rate design is reasonable and should be adopted. Staff noted that it does not object to the Liberty Midstates Gas Cost of Service ("COS") study. The Company's COS study shows, by customer class, the distribution of revenue responsibility necessary to achieve equalized rates of return on investment at the Company's proposed revenue requirement. The Company's COS study identifies the revenues, costs, and profitability for each customer class. It also serves as a partial basis for the Company's proposed rate design. Generally, the Company prepared the COS study utilizing three major steps: (1) cost functionalization; (2) cost classification; and (3) cost allocation of all the costs of the utility's system to customer classes.

Staff witness Boggs evaluated whether the Company's COS study assigns costs to the various rate classes appropriately and, thus, whether it would be an acceptable guidance tool for determining rates. To that end, Mr. Boggs analyzed the testimony and exhibits presented by Mr. Long. Mr. Boggs also reviewed data request responses from Liberty Midstates related to the gas COS study.

Staff believes the Company's functionalization methodology is consistent with the Commission's Uniform System of Accounts which groups plant and expenses into various functions such as production, gas in storage, storage, transmission, or distribution. Staff notes this methodology was used previously in various natural gas rate cases and Staff has no objections to its use in this proceeding.

Classification divides rate base and expenses into energy (or variable-related), demand or customer components. The Company used a methodology, which classifies the functionalized plant and expenses based on how the expenses are incurred: commodity related, demand related, and customer related. Commodity-related costs are costs that vary with the throughput sold to, or transported for, customers. Demand-related costs service the peak demand of the system. Customer-related costs are incurred by the Company to extend service and attach a customer to the distribution system for gas metering, for usage, and for maintenance of customers' accounts. This methodology reflects cost causation, has been accepted previously by the Commission in various natural gas rate cases, and Staff has no objections to its use in this proceeding.

The Company's COS study used a combination of direct assignment and generic functional allocators to assign costs among the customer classes. For costs that have a direct relationship to a specific customer class, the Company directly assigned those costs to that class. For costs that pertain to more than one customer class, the Company used either external allocators or developed internal allocators that are composites of other allocated costs in the COS study. The Company then allocated the cost to more than one customer class. The Company's combination of direct assignment and generic functional allocators to assign costs among the customer classes is reasonable because it fairly assigns costs to the specific customer classes that cause those costs to be incurred.

The Company used the peak day demand to evaluate service adequacy and the contribution of each class during peak day demand and operating pressure. The peak day demand and peak hourly demand are the primary factors that drive the planning and designing of facilities required to serve customers. Company witness Long explains that it was necessary to use the peak day demand allocator because no load research data or peak day data was available to provide a better estimate. The peak day demand methodology has been commonly used in various natural gas rate cases in which the Commission has approved its use in a COS study. Thus, Staff advocates that the use of the peak day demand methodology in Liberty Midstates' COS study is reasonable.

The Company also determined each rate class's contribution to the total annual energy consumption of the Company. The Company then developed the allocator by determining each class' annual therm consumption in proportion to the total therm consumption by all classes. Staff witness Boggs had no objections to the Company allocating consumption costs among the classes in proportion to the total therm consumption as the most logical way to allocate consumption costs.

In addition, the Company used a simple pro-rata distribution of revenue by rate class from which a percentage of total revenue for each class is determined. The pro-rata distribution of revenue by rate class as a percentage of total revenue is the most logical way to allocate revenue-related items and Mr. Boggs had no objection to its use.

The Company's meter cost allocator reflects the total cost for meters installed for each customer class. The Company determined a current cost for each type of meter and how many of each type is installed for each rate class. From this information, the Company then estimated the total cost for the meters installed for each customer class. Staff believes that this methodology is cost based and is the fairest, most logical method to allocate revenues needed to recover those meter costs.

Staff notes that the Company's direct labor costs were categorized by the operating function(s) (labor costs for gas supply, transmission, distribution, etc.) to which they are related and were assigned accordingly. Each labor cost was then classified as either being a fixed labor cost or as being a variable labor cost and then assigned to the appropriate rate class. After all labor costs were allocated, each customer class was assigned the corresponding weighted proportion of labor costs based on how each class contributed to the incurring of those costs. The Company's COS study employed two labor allocators. The one in the study labeled L1G utilized all labor expense accounts whereas the one labeled L2G utilized transmission and distribution functional labor only. Mr. Boggs agreed that this methodology is cost based and assigns to each customer class its portion of labor costs incurred by the Company.

The Company begins the gas plant allocation process by assigning all plant among the customer classes. The results of the various allocated plant functions are added together for each rate class and the respective sums represent the total allocation of plant functions to each class. The Company ends the total gas plant allocation process by

assigning various operating expense items to each class based upon plant assignments to those classes. Mr. Boggs determined that this methodology is cost based and did not object to its use. The Company's process of allocating plant-related expenses based on gas plant balances reflects how each class contributes to the operating expense items incurred by the Company.

Mr. Boggs concluded that the data provided by the Company is the most recently available and, therefore, the most reliable. Relying on data from any other source or any other time period would not be pertinent to this proceeding. The Company's COS study appropriately assigns costs to the various functions and rate classes. Thus, it is an acceptable guidance tool for determining rates in this case.

The Commission finds that the Company's Cost of Service Study was appropriate for use in this proceeding, and that it appropriately assigns costs to the various functions and rate classes.

VI. RATE DESIGN

Staff does not object to the Liberty Midstates Gas proposed rate design. Company witness Long first evaluated customer costs associated with each rate class, using the customer costs for each rate class to evaluate levels at which the fixed charge could be set, and considered as customer costs only those costs reflected in expense accounts 871, 875, 878, 892, 893, 901, 902.2, 903.2,912, 913 and 916 and in plant accounts 380, 381, 382, 383 and 385. Thus, Staff agrees that Mr. Long classified as customer costs only those costs that are customer related.

Mr. Long evaluated the customer-related costs for each rate class by adding the amounts of customer related plant accounts allocated to each class and multiplying those totals by the rate of return on rate base. Next, he added in the customer related expense accounts that are allocated to each class. After the completion of this process, Mr. Long applied the gross revenue factor to the amount of return and increased the expense accounts by that result in order to place their value at the revenue level. The result for each rate class is the annual customer related revenue requirement for each class. He then divided each of these annual class cost amounts by the number of customers in each class, and then by twelve months in order to determine the cost per customer per month for each class.

The calculated results of Mr. Long's customer costs per customer for each customer class included $13.92 for the residential class, $17.82 for the commercial class, and $380.28 for the industrial class. However, Mr. Long's proposed Customer Charges are a $23 Customer Charge for the residential class, an $80 Customer Charge for the commercial class and a $200 Customer Charge for the industrial class.

Mr. Long evaluated three different approaches to determine the revenue allocation process before he selected the one he used to determine his Customer Charge proposals for each class. Mr. Long calls the revenue allocation approach he selected the "sensitivity

allocation" approach and he presents it in Company Ex. 3.0, Schedule 3.3, on lines 26-30. Under this approach, Mr. Long applied the overall 38.54% average revenue increase only to the residential class. The other proposed revenue increases that he applied were 41.32% to the commercial class and 20% to the industrial class. This approach used "both the iterative process as well as [his] professional judgment in order to mitigate extreme results of the other attempts." Mr. Long states that he believes this final approach is both "fair and reasonable". Mr. Long stated that his main consideration for this approach is the very small industrial class that consists of only eight customers, and explained that cost based revenue allocation would produce a large rate increase for this class.

Mr. Long used the class revenue allocations and the billing determinants from the forecasted test year to calculate the amount needed on a monthly basis from each customer in each class to recover the customer-related costs related to providing natural gas service. His results are presented in Company Ex. 3.0, Schedule 3.4.

Mr. Boggs compared Mr. Long's proposed rates with the rates that would result based on the COS study. Mr. Boggs began by using the COS study to determine class revenue allocations. The same revenue requirement by customer class was used that was provided in Company Ex. 3.0, Schedule 3.1, to determine the amounts of revenue needed from each customer class to recover the cost to serve that class. Customer-related costs were targeted from the COS study and the billing determinants of each class to calculate the Customer Charge. All remaining revenue needed was recovered through the Usage Charge (PGA charges were not considered in any of these approaches as they are a pass-through rate and remain equal throughout the process).

Mr. Boggs' approach using the COS study to determine class revenue allocations revealed that under a strictly cost-based approach, residential Customer Charges and Usage Charges would nearly double from their current levels. For commercial customers, the Customer Charge would decrease, but the Usage Charges would more than double. For the Industrial class, Customer Charges would have to be increased four fold and Usage Charges would have to more than triple the current level to meet the proposed test year revenue requirement.

Mr. Boggs determined that cost based-rates shaped by the COS study would produce excessive increases to the industrial class' Customer Charge and Usage Charge such that the needed increases would most likely have an adverse impact on the monthly bills of the eight industrial customers. With the commercial class showing a decline in its monthly Customer Charge, a different rate design could be developed that would more evenly allocate the proposed revenue requirement increase.

Staff witness Boggs recommends that the Commission approve the Company's rate design/revenue allocation proposal presented in Mr. Long's direct testimony. This rate design/revenue allocation proposal represents the most fair and balanced scenario at this time. Staff notes that after fifteen years without any rate increases, the cost to serve Liberty Midstates customers has increased considerably and all customers will

receive a significant increase. In future rate cases, Staff believes the Company should have more historical data that will allow for better analysis of how to distribute future increases among the customer classes.

If the Commission approves a different revenue requirement than the one proposed by the Company, Mr. Boggs proposes to keep the Customer Charges for each rate class the same as proposed by Mr. Long in his direct testimony and collect the remainder of the revenue requirement through the Usage Charge. This recommendation would remain consistent with the Company's current proposal to use the Usage Charge as a fall-out to recover any revenue that the Customer Charge does not capture. This recommendation also does not require any adjustment to the PGA charge that the Company proposes.

In addition, the Company states that it does not intend to update or eliminate rates for Optional Gas Service, Contract Service, Negotiated Gas Service and Cogeneration Compressed Natural Gas, Prime Movers, Fuel Cell Service, Large Tonnage Air Conditioning customer classes (Class numbers 150, 190, 191 and 192 respectively) because the Company provides no permanent service to any customers in those classes. The Company intends to keep rates for those four classes open in the event that future customers request service in one of those classes.

Since there are no customers in any of the four classes listed above, it is reasonable to maintain the current rates for these classes at this time. However, Mr. Boggs recommends that the Commission in its order in this proceeding require Liberty Midstates to perform and provide a new cost of service study should a new customer begin taking service from Liberty Midstates who is eligible to take service under customer classes 150, 190, 191 or 192.

The Commission finds that the Company's proposed rate design is appropriate, and it will be adopted for this proceeding. The Commission recognizes that it has been approximately 15 years since there has been a gas rate case for this service territory, and it appears that Liberty Midstates has appropriately allocated customer costs for each rate class so as to minimize potential rate shock which might otherwise occur. The Commission also finds it appropriate for Liberty Midstates to maintain the current rates for the four rate classes for which it currently has no customers. The Commission agrees with Staff that should Liberty Midstates have a customer in the future take service under any of its customer class numbers 150, 190, 191 or 192, at that time Liberty Midstates will be required to conduct a new cost of service study and to provide that new cost of service study to the Manager of the Rates Department at the Illinois Commerce Commission.

VII. OTHER

A. Quality of Future Rate Filings and Reports

1. Staff Position

During the course of this proceeding Staff made several recommendations which can be summarized in the following three categories:

1. Recommendations for improvements in the quality of data submitted in future rate filings;
2. Recommendations for supplemental Information to be submitted with the Form 21 Annual Report; and
3. Recommendation for progress reports on the implementation of Accounting Controls and Procedures.

Staff recommends several improvements that it believes Liberty Midstates should make to improve the quality of the data presented in future rate filings. Staff also recommended that the Commission put Liberty Midstates on notice that future rate filings should incorporate Staff's recommendations. Staff says the Company acknowledged that Liberty Midstates was presented with a set of unique challenges in its initial rate filing before the Commission. Staff also says that the Company takes the Commission reporting requirements seriously and that the Company pledges to provide more complete information in its next rate case.

Staff recommends that the Commission include the following language in its order to put Liberty Midstates on notice that the quality of its future rate filings must improve:

> The Commission recognizes that Liberty Midstates was presented with a set of unique challenges in its initial rate filing. However, the Company determines when to file its rate case and has the burden of proof to support its rate increase. Any future rate filing should reflect the following improvements in its next rate filing:
>
> 1. All Part 285 schedules and workpapers should use line numbers and column headings to provide ease of reference;
> 2. Responses to Staff data requests should include the appropriate supporting calculations, workpapers, and reference sources;
> 3. Responses to Staff data requests should be made in a timely manner;
> 4. Cost should be recorded in the same accounts across historical, budget, and forecasted periods in its filings;
> 5. The 46-deficiencies identified in the Part 285 Deficiency Letter filed on e-docket on May 1, 2014 should not recur in a future rate filing.
>
> The Commission also recognizes that the use of the acronym, "Liberty," causes confusion as to whether the Company is being referred to

> or one of the affiliates of the Company is being referred to. Thus, the Commission puts the Company on notice that the acronyms of affiliated companies and the names of affiliates need to be adequately differentiated and consistently used in all filings with the Commission not just rate filings.

Staff states that the Form 21 ILCC submitted annually by Liberty Midstates to the Commission requires the Company to provide "total company data." Staff asserts that because Liberty Midstates operates in three states (Illinois, Missouri and Iowa), the total company data does not provide the Commission with information on the Illinois jurisdiction of the Company. Staff has proposed that Liberty Midstates supplement its annual Form 21 ILCC submission with specific Illinois only data.

According to Staff, the Company expressed concerns that the adoption of Company-specific requirements will subject the Company to a regulatory regime that is not applicable to any other utility. Staff reports the Company does believe that it could use reasonable efforts to comply with making certain otherwise inapplicable requirements applicable to the Company.

Staff recommends that the Commission include in the following finding its order:

> In order to provide the Commission with information on the Illinois jurisdiction of the Company annually in its Form 21 ILCC, the Commission orders Liberty Midstates to supplement its Form 21 ILCC with the following schedules with only Illinois jurisdictional data to be designated by an "a" following the page number, beginning with the 2014 reporting year that is to be submitted to the Commission by March 31, 2015:
>
> 1. Page 2a – Balance Sheet: supplement to also provide Illinois jurisdictional data for lines 29 – 31, Customer Accounts Receivable, Other Accounts Receivable, and Accumulated Provision for Uncollectible Accounts, as included on the associated lines of Page 2, Balance Sheet;
> 2. Page 3a – Balance Sheet: provide Illinois jurisdictional data for Deferred Debits reflected on lines 56 - 71 included in the existing page 3, Balance Sheet;
> 3. Page 4a – Balance Sheet: provide Illinois jurisdictional data for the Other Non-Current Liabilities reflected on lines 25 - 32 and Customer Deposits reflected on line 38 included in the existing page 4, Balance Sheet;
> 4. Page 5a – Balance Sheet: provide Illinois jurisdictional data for the Deferred Debits reflected on lines 51 – 58 included in the existing page 5, Balance Sheet;
> 5. Page 32a – Employee Data: supplement the existing information for the number of Illinois employees;
> 6. Page 33a – Charges for Outside, Professional and Other Consultative Services;

7. Pages 42a and 43a – Accumulated Deferred Income Taxes – Accelerated Amortization of Property;
8. Page 47a – Transactions with Associated (Affiliated) Companies;
9. Page 233a – Miscellaneous Deferred Debits;
10. Pages 234a – 235a – Accumulated Deferred Income Tax;
11. Pages 262a - 263a – Taxes Accrued, Prepaid and Charged During Year;
12. Pages 320a - 325a – Gas Operation and Maintenance Expense;
13. Page 335a – Miscellaneous General Expenses;
14. Pages 336a - 338a – Depreciation, Depletion and Amortization of Gas Plant;
15. Pages 350a - 351a – Regulatory Commission Expenses;
16. Page 352a – Employee Pension and Benefits;
17. Pages 354a – 355a – Distribution of Salaries and Wages; and
18. Pages 708a - 709a – Purchased Gas.

In addition, the FERC Form 2 submitted to the Commission should not be hand-written and should be legible.

Staff states that in addition to being a utility company that operates in three states, Liberty Midstates is also a member of Algonquin Power and Light Company, a Canadian based, Multi-level Corporation. Staff says Liberty Midstates is directly assigned or allocated costs from various affiliated companies pursuant to the affiliate agreements that were approved by the Commission in Docket No. 11-0559. Staff adds that the costs charged to Liberty Midstates are then further jurisdictionalized among its Illinois, Missouri and Iowa operations. To more clearly trace the direct and allocated costs from these affiliated companies, Staff proposes that Liberty Midstates develop certain accounting controls and procedures. Staff believes the details of the accounting controls and procedures can be more fully addressed in a mutually agreeable manner in Docket No. 14-0269, Liberty Midstates' ongoing request for approval of revisions to its existing affiliate services agreements, and recommends that the Commission include the following direction in its order:

In Docket No. 14-0269, Liberty Midstates' on-going case with the Commission for approval to revise its existing affiliate services agreements, the Commission directs Staff and the Company to develop controls and procedures to be approved by the Commission to ensure that costs charged to Liberty Midstates from its affiliates are being properly allocated and billed pursuant to the affiliate services agreements approved by the Commission. Controls and procedures that shall be developed shall include, but not be limited to, the following:

1. Costs billed direct from affiliates can be distinguished from costs that are allocated from affiliates within Liberty Midstates' books and records;
2. Billings from each affiliate should be able to be ascertained within Liberty Midstates' books and records; and
3. All costs billed from affiliates should be supported by source documents that authorize the provided services.

Staff states that the Company has agreed to make semi-annual progress reports to the Manager of the Commission's Accounting Department, beginning on October 1, 2015 and continuing such until the accounting controls and procedures are fully implemented. Since Staff is now recommending that the Commission direct Staff and the Company to work together to develop accounting controls and procedures in Docket No. 14-0269, Staff believes the recommendation for semi-annual reporting pursuant to an Order in this proceeding is unnecessary.

Staff acknowledges and appreciates the Company commitment to improve the quality of its future rate filings.

2. Company Position

The Company notes that Staff recommended that the Commission put Liberty Midstates on notice that the quality of its supporting data must improve in its next rate case. The Company claims this proceeding presented unique challenges that are not anticipated to be present in future rate cases. The Company says its longer operating history at the time of next rate case will enable it provide the Part 285 schedules entirely from its own records, eliminating delays in retrieving data from its predecessor. The Company asserts Liberty Midstates' short operating history and the more than fourteen years since its predecessor's last rate case presented challenges in this proceeding. The Company says that Liberty Midstates has the ability to and will provide more complete supporting documentation in its next rate case filing. The Company asserts it has every incentive to provide more complete supporting documentation in its next rate case due to the burden of proof placed on Liberty Midstates by Section 9-201(c).

The Company contends the Commission already has in place procedures to ensure that the Commission has the necessary data for it to make a determination. The Company says those procedures were followed to rectify deficiencies in this case to ensure that the Commission had all necessary information. The Company understands that the process was not ideal from Staff's perspective, and highlighted Staff's cooperation and efforts in working with the Company in this case.

Staff believes the Commission should require Liberty Midstates to provide certain supplemental ILCC Form 21 information beyond what is required by Form 21. The Company expressed concerns that the adoption of Company-specific requirements based on the unique circumstances for this rate case will subject it to a regulatory regime that is not applicable to any other utility and that it may be administratively difficult to

comply with. The Company believes that changes to the Form 21 requirements may be better suited for a rulemaking proceeding. Subject to the Company's concern, it believes it could use reasonable efforts to comply with making certain otherwise inapplicable Form 21 requirements applicable to the Company as proposed by Staff. In the event the Commission adopts Staff's proposal, the Company believes that it be limited in time to the next rate case filed by the Company, after which the need for any such obligations could be re-assessed.

The Company indicates it is willing to use reasonable efforts on an informal basis to provide Staff with requested information (making certain otherwise inapplicable Form 21 requirements applicable to the Company) between now and the next rate case. The Company, however, suggests that imposing Company-specific Form 21 requirements in the context of a rate case bypasses the more structured approaches to rulemaking from which the Form 21 requirements originate. The Company suggests Company-specific requirements are also difficult to interpret other than on a reasonable efforts basis, because Commission guidance on interpretation of one set of rules would not apply to these special requirements applicable only to the Company.

In its reply brief, the Company says it has already stopped using the term "Liberty" in response to Staff's position that this term causes confusion. Throughout its briefs, the Company reports it has consistently referred to itself as Liberty Midstates. The Company says it has adopted similar naming conventions for its other affiliated companies. For instance, Liberty Utilities Co. was referred to as LUCo by the Company. The Company intends to maintain these naming conventions in its future filings with the Commission. The Company believes a Commission order is not required to address every aspect of the parties' back and forth on filing issues; the parties can and are working it out on a voluntary basis.

According to the Company, Staff has for the first time in its initial brief a new proposal directing Staff and the Company to develop accounting controls and procedures in Docket 14-0269. The Company claims because this position was not advanced until Staff's initial brief, there is no support in the record for Staff's proposed directive. The Company believes for that reason alone, the Commission should reject Staff's proposed directive. The Company says it did agree to Staff's original semi-annual report condition that Staff has requested be withdrawn. The Company indicates it is still willing to comply with this condition.

The Company states that it is also willing to voluntarily work with Staff in Docket No. 14-0269 to develop mutually agreeable accounting controls and procedures, but does not believe a directive in this proceeding is appropriate in this proceeding and is best left to Docket No. 14-0269. The Company notes that Docket No. 14-0269 is an ongoing docket involving the same Staff witnesses who will have the ability to raise this issue in that proceeding. The Company says now that Staff has identified this as an important issue in Docket No. 14-0269, the Company has no doubt that the Commission will fully consider Staff's accounting control and procedure recommendations in that docket. The Company also states that Staff's proposal has already changed once within the last

month. The Company suggests it is possible that further changes could arise as Staff and the Company begin working together, and a directive in this proceeding may unnecessarily limit flexibility.

3. Commission Analysis and Conclusion

Staff wants the Commission to impose certain requirements on the Company in any future rate filing. The Company believes such requirements are unnecessary because the Commission already has adequate rules and procedures in place to control rate cases. In the event the Commission adopts Staff recommendations, the Company believes they should be in place for only the next rate case filing.

It appears to the Commission that the Company and Staff agree that the Company faced unusual challenges in preparing and executing its rate filing. In light of that fact, the Commission concludes that Staff recommendations should be adopted for the Company's next rate filing. The parties and the Commission can reevaluate whether requirements should be extended at that time.

The Commission recognizes that the Company determines when to file its rate case and has the burden of proof to support its rate increase. In its next rate filing, the Commission concludes that the Company should reflect the following improvements in its next rate filing:

1. All Part 285 schedules and workpapers should use line numbers and column headings to provide ease of reference;
2. Responses to Staff data requests should include the appropriate supporting calculations, workpapers, and reference sources;
3. Responses to Staff data requests should be made in a timely manner;
4. Cost should be recorded in the same accounts across historical, budget, and forecasted periods in its filings;
5. The 46-deficiencies identified in the Part 285 Deficiency Letter filed on e-docket on May 1, 2014 should not recur in the Company's next rate filing.

Staff also recommends that the Commission put the Company on notice that the acronyms of affiliated companies and the names of affiliates need to be adequately differentiated and consistently used in all filings with the Commission not just rate filings because the acronym "Liberty" can cause confusion. The Company responds that such a requirement is not necessary in a Commission Order and that it has already ceased using the term "Liberty." The Commission agrees that the Company's use of the term "Liberty" can be confusing. The Commission urges the Company to clearly differentiate between affiliated companies and attempt to more consistently use the differentiated representations in all future proceedings before the Commission.

Staff asserts that because Liberty Midstates operates in three states, the total company data does not provide the Commission with information on the Illinois jurisdiction of the Company. Staff proposes that Liberty Midstates supplement its annual Form 21

ILCC submission with specific Illinois only data. In addition, Staff recommends that the Commission require that the FERC Form 2 submitted to the Commission should not be hand-written and should be legible.

The Company is concerned that the adoption of Company-specific requirements based on the unique circumstances for this rate case will subject it to a regulatory regime that is not applicable to any other utility and that it may be administratively difficult to comply with. The Company believes that changes to the Form 21 requirements may be better suited for a rulemaking proceeding.

As the Commission understands it, the Company is willing to use reasonable efforts on an informal basis to provide Staff with requested information, making certain otherwise inapplicable Form 21 requirements applicable to the Company, between now and the next rate case. The Commission appreciates Staff's desire to obtain reliable data related to the Company's operations and financial condition. In the Commission's view, however, imposing the additional reporting requirements Staff desires through a rate proceeding is not ideal. As the Company suggests, such a process would subject it to annual reporting requirements which would not be applicable to other multi-jurisdictional gas utilities. Instead, the Commission urges the Company to make all reasonable efforts to provide Staff with the requested information outside of the rate case and outside of the annual Commission Form 21 filing process. Additionally, the Commission urges the Company not to submit its FERC Form 2 to the Commission in hand-written format and to ensure it is legible.

Finally, Staff proposes for the Commission to include in its Order in this proceeding certain provisions related to the ongoing proceeding, Docket No. 14-0269. The Company believes this recommendation should be rejected and, instead, Staff's proposal should be considered in Docket No. 14-0269.

The Commission finds that provisions related to Docket No. 14-0269 should not be addressed in this proceeding. The Commission suggests that Staff raise any issues related to that proceeding in Docket No. 14-0269. Additionally, the Commission accepts the Company's offer to comply with Staff's original semi-annual report condition. The Commission also encourages the Company and Staff to work together in Docket No. 14-0269 to develop appropriate accounting controls and procedures.

B. Deferred Accounting Treatment for Property Taxes

1. Company Position

The Company indicates it will establish a new office building in Vandalia during the test year. The Company states that property taxes will not be assessed until the following year. Staff asserts this timing difference means the Company cannot recover property taxes in rates resulting from this proceeding because the first time taxes will be incurred falls outside the test year.

The Company did not contest Staff's position regarding the incorporation of these taxes into rates in this case. However, the Company seeks approval to treat the property taxes paid on this property between now and its next rate case as a regulatory asset for which it can seek recovery separately in its next rate case proceeding. The Company believes this is appropriate because the taxes are recurring costs of determinable amounts, they are used to provide service, and they are relatively large for a utility of the Company's size. In addition, the Company claims that this is a unique circumstance because the test year happens to be the first year in which the building operates and it is only during this year that the property taxes are not assessed. The Company states that in any other year, the property taxes will be assessed and paid.

Staff asserts that treatment of these taxes as a deferred asset is precluded by the Commission's decision in Docket 98-0895 regarding costs related to the conversion of microprocessors to accept dates after the turn of the last century ("Y2K costs"). The Company claims the facts of this proceeding are distinguishable from Docket No. 98-0895. The Company contends that unlike the property taxes for which the Company is requesting deferred asset treatment, the Y2K costs involved one-time non-recurring costs that would not be incurred year after year.

Staff asserts that the Company's proposal to treat deferred property taxes as a regulatory asset is prohibited by the Illinois Supreme Court's decision in Business and Profession People v. Commerce Commission, 146 Ill.2d 175 (1991) ("BPI II"). The Company states it is true that BPI II sets forth the standard for recording and recovery of a regulatory asset. The Company believes Staff misapplies the standard for recovery of a regulatory asset to the Company's request rather than the standard for recording a regulatory asset which Liberty Midstates seeks. The Company says the Commission would determine recovery in the Company's next rate case.

According to the Company, the court in BPI II set forth the standard for recording deferred charges as requiring the utility to show: (1) circumstances beyond its control have created a significant regulatory lag between the in-service date and the date of the Rate Order; and that (2) denial of the accounting variance could significantly and adversely affect the company's earnings, as well as its short-term and long-term capital. The Company asserts that after the first year timing difference, Liberty Midstates will never realize cost recovery for taxes accrued for the period from January 1, 2016 until the beginning of the test year for the Company's next rate case. The Company also contends testified that these costs are relatively large for a utility of the Company's size.

The Company believes that it has established that circumstances beyond its control have created a significant lag between the in-service date and the date of the rate order and that denial of the Company's request for deferred accounting treatment could significantly and adversely affect the Company's earnings. The Company claims its evidence regarding the two BPI II factors is uncontroverted in the record because Staff never disputed this evidence. The Company believes the evidence in the record fully supports a finding that Liberty Midstates should be entitled to treat the property taxes

related to the Vandalia office building as a regulatory asset for which it can seek recovery separately in its next rate case proceeding.

2. Staff Position

Staff reports that the Company's rebuttal testimony included a request for deferred accounting treatment for property taxes paid between now and its next rate case as a regulatory asset. Staff says the Company further proposed in surrebuttal testimony that in its next rate case, the Company would reflect one year's worth of amortization in the operating expenses and the unamortized portion would be included in rate base.

Staff believes that it would not be permissible for the Commission to approve deferred accounting treatment for the recovery of property taxes for an office building to be built in a future rate case because it would violate test year rules by mismatching expenses and revenues from different periods. Staff asserts the Commission has ruled against the establishment of a regulatory asset for the future recovery of costs in various proceedings, including a rulemaking to amend the Commission's rule to provide for the recovery of deferred costs, Docket No. 93-0408, and a request by Citizens Utilities Company to defer its costs related to the conversion of microprocessors to accept dates after the turn of the last century in Docket No. 98-0895 because it would violate test year principles.

Staff states that in Docket No. 93-0408, a coalition of utilities sought to initiate a rulemaking to establish specific categories of costs and cost savings which entities subject to regulation ("regulated entities") by the Commission would be authorized to defer for future recovery or flow back to customers; establish procedures for obtaining, where necessary, authorization to defer such costs; and authorize the recovery of such deferred costs through tariffs approved by the Commission.

Staff states that relying on BPI II, the Commission declined to initiate the rulemaking because test year rules were viewed as intended to prevent utilities from mismatching revenue and operating expense data and post-in service carrying charges are not operating expenses, they were found not to be test year items.

Staff argues that Liberty Midstates' proposal would also violate the prohibition against single-issue ratemaking because it would defer selected elements of the revenue requirement formula (i.e., property taxes) and consider changes in them in isolation from changes in the other elements of the revenue requirement formula. Staff says all elements of the revenue requirement should be examined contemporaneously so that changes in one element are netted against all the other elements.

Staff says the Illinois Supreme Court articulated this longstanding principle in BPI II, where it explained:

> The rule against single-issue ratemaking recognizes that the revenue formula is designed to determine the revenue requirement based on the

> aggregate costs and demand of the utility. Therefore, it would be improper to consider changes to components of the revenue requirement in isolation. Often times a change in one item of the revenue formula is offset by a corresponding change in another component of the formula. For example, an increase in depreciation expense attributable to a new plant may be offset by a decrease in the cost of labor due to increased productivity, or by increased demand for electricity. (Demand for electricity affects the revenue requirement indirectly. The yearly revenue requirement is divided by the expected demand for electricity to arrive at a per kilowatt hour rate. If actual demand is more than the estimated demand used in the formula, the utility's revenues increase.) In such a case, the revenue requirement would be overstated if rates were increased based solely on the higher depreciation expense without first considering changes to other elements of the revenue formula. Conversely the revenue requirement would be understated if rates were reduced based on the higher demand data without considering the effects of higher expenses. (Staff Initial Brief at 59, citing 146 Ill. 2d at 43-44)

According to Staff, the Commission has previously rejected proposals requesting a "regulatory asset" in compliance with the Illinois Supreme Court in BPI II that found that a regulatory asset violates basic test year principles and the prohibition against single issue ratemaking. Staff recommends that Liberty Midstates' request to establish a regulatory asset for property taxes on its office building to be constructed in Vandalia, Illinois, be denied.

Liberty Midstates argues that it can distinguish the property tax expense on its future office building from previous cases before the Commission. The Company opines that the 2015 test year is the only year in which the building is in operation and the property tax is not assessed. The Company further states that in any other year, the property taxes will be assessed and paid. Staff claims the latter statement is not totally correct – the initial assessment is expected in 2016 with the first payment in the third quarter of 2017. Notwithstanding that statement, Staff says the fact remains that Liberty Midstates will not incur any property tax on its proposed office building during the 2015 test year and Staff believes that to allow the recovery of any such deferral would create a test year violation because the proposal would mismatch expenses from one period with revenues from another.

Staff states that the second distinction that Liberty Midstates attempts to make is to distinguish its proposed property tax deferral from the Citizens Utilities' proposal to defer its Y2K costs. The Company argues that the Y2K costs are distinguishable because they are one-time, non-recurring costs, which would not be incurred year after year. Staff fails to see the distinction. Staff says that just as the Commission ruled in Docket No. 98-0895 that, the cost at issue are operating expenses, the relief sought by Liberty Midstates in the instant docket is also for the recovery of an operating expense.

In Staff's view, the Company raises what are essentially distinctions without differences. Both Citizens Utilities and Liberty Midstates reflect attempts to recover non-test year operating expenses in a future rate case. Staff recommends that Liberty Midstates' request for deferred accounting for its property taxes be denied.

3. Commission Analysis and Conclusion

As a general proposition, the Commission's test year rules cannot be violated. Operating expenses that occur outside of the test year cannot be included in the test year revenue requirement. There is no question that property taxes are operating expenses and that the property taxes at issue here will not be incurred during the test year. In fact, the test year in this proceeding is 2015, but the property taxes at issue will not be paid until the third quarter of 2017.

The Company correctly states the standard promulgated under BPI II to allow recording deferred charges. Under that standard the utility must show: (1) circumstances beyond its control have created a significant regulatory lag between the in-service date and the date of the Rate Order; and that (2) denial of the accounting variance could significantly and adversely affect the company's earnings, as well as its short-term and long-term cost of capital.

As an initial matter, the Commission notes that the costs at issue in BPI II were not operating expenses, but instead were capital investments associated with electric generating facilities. Putting that distinction aside, the Company has not adequately explained why circumstances beyond its control prevent it from recovering the property taxes at issue here. The Commission believes that if it desired, the Company could file a rate case with a 2017 test year to recover the property taxes associated with the new building.

As the Commission understands it, the property taxes associated with the new office building being constructed in Vandalia, Illinois are estimated to be approximately $48,500 per year. Additionally, the Commission understands that the Company's net operating income is approximately $2.5 million per year. Thus, the property taxes at issue here would account for less than two percent of the Company's annual net operating income and it is not clear to the Commission that this could significantly and adversely affect the Company's earnings. The Commission also finds no showing that failure to recover the property taxes associated with the new building would adversely affect the Company's short-term and long-term cost of capital.

The Commission finds that granting deferred accounting treatment for property taxes would violate test year rules. Even if such costs were eligible for deferred accounting treatment, the Company has not met the standards for recording such charges articulated in BPI II. In summary, the Commission concludes that the Company's request for deferred accounting treatment for property taxes must be denied.

VIII. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having given due consideration to the entire record, is of the opinion and finds that:

(1) Liberty Midstates is an Illinois corporation engaged in the distribution and sale of electricity and natural gas to the public in Illinois, and is a public utility as defined in Section 3-105 of the Act;

(2) the Commission has jurisdiction over the parties hereto and the subject matter herein;

(3) the findings and conclusions contained in the prefatory portion of this Order are supported by evidence of record and are hereby adopted as findings of this order; the Appendix attached hereto provide supporting calculations for various conclusions in this Order;

(4) the test year in this proceeding is a future test year consisting of the 12 months ending December 31, 2015, as adjusted; such test year is appropriate for purposes of this proceeding;

(5) for purposes of this proceeding, Liberty Midstates' original cost rate base for gas delivery service operations for the test year is $39,418,167 as shown in the Appendix hereto;

(6) that the $52,686,071 original cost of plant for Liberty Midstates at December 31, 2013 is unconditionally approved as the original cost of plant;

(7) a just and reasonable return which Liberty Midstates should be allowed to earn on its net original cost gas delivery service rate base is 7.05%; this rate of return incorporates an ROE of 9.76%;

(8) the rate of return set forth in Finding (7) results in base rate gas delivery service tariffed operating revenues of $12,090,676, which combined with other revenues of $116,352, produces total operating revenues of $12,207,028 and net annual operating income of $2,779,006 for the test year;

(9) Liberty Midstates' gas delivery service rates which are presently in effect are insufficient to generate the operating income necessary to permit it the opportunity to earn a fair and reasonable return on net original cost rate base; the proposed tariffs should be permanently canceled and annulled;

(10) the rates proposed by Liberty Midstates would produce a rate of return in excess of a return that is fair and reasonable; the proposed rates should be permanently canceled and annulled consistent with the findings herein;

(11) Liberty Midstates should be authorized to place into effect tariff sheets designed to produce annual gas delivery service revenues as shown in the Appendix attached hereto; the new tariff sheets shall reflect an effective date not less than five working days after the date of filing, with the tariff sheets to be corrected within that time period if necessary, except as is otherwise required by Section 9-201(b) of the Act;

(12) The Commission has considered the costs expended by the Company to compensate attorneys and technical experts to prepare and litigate this rate case proceeding and assesses that such costs in the total amount of $865,478, which is $288,493 amortized over three years, are just and reasonable pursuant to Section 9-229 of the Act (220 ILCS 5/9-229);

(13) the determinations regarding cost of service, interclass revenue allocations, rate design, and tariff terms and conditions, as are contained in the prefatory portion of this Order above, are reasonable for purposes of this proceeding and are adopted, and shall be incorporated into the tariffs filed by Liberty Midstates; and

(14) all motions, petitions, objections and other matters in this proceeding which remain unresolved should be disposed of consistent with the conclusions herein.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the tariff sheets presently in effect for gas delivery service rendered by Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities are hereby permanently canceled and annulled effective at such time as the new gas delivery service tariff sheets approved herein become effective by virtue of this Order.

IT IS FURTHER ORDERED that the proposed tariffs seeking a general increase in gas delivery service rates; filed by Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities on March 31, 2014, are permanently canceled and annulled.

IT IS FURTHER ORDERED that Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities is authorized to file new tariff sheets with supporting workpapers in accordance with Findings (5) through (13) of this Order, applicable to gas delivery service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that all motions, petitions and objections which have not been disposed of are hereby deemed to be disposed of in a manner consistent with the conclusions herein.

IT IS FURTHER ORDERED that subject to 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 11th day of February, 2015.

(SIGNED) BRIEN SHEAHAN

Acting Chairman

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company	)))))	**File No. GR-2014-0152**

REPORT AND ORDER

Issue Date: **December 3, 2014**

Effective Date: **January 2, 2015**

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BEFORE THE PUBLIC SERVICE COMMISSION
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REPORT AND ORDER

APPEARANCES

James M. Fischer, Esq., and **Larry W. Dority, Esq.**, Fischer & Dority, P.C., 101 Madison Street, Suite 400, Jefferson City, Missouri 65101, for Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities.

Edward F. Downey, Esq., and **Diana M. Vuylsteke, Esq.**, Bryan Cave LLP, 221 Bolivar Street, Suite 101, Jefferson City, Missouri 65109, for Noranda Aluminum, Inc.

Jeremy Knee, Esq., Associate General Counsel, Missouri Department of Economic Development, P.O. Box 1157, Jefferson City, Missouri 656102, for The Missouri Division of Energy

Marc D. Poston, Esq., Chief Deputy Counsel, Office of the Public Counsel, 200 Madison Street, Suite 650, Post Office Box 2230, Jefferson City, Missouri 65102, for the Office of the Public Counsel and the public.

Kevin Thompson, Esq., Chief Staff Counsel, **Jeffrey A. Keevil, Esq.**, Senior Staff Counsel, and **Akayla J. Jones, Esq.**, Legal Counsel, Missouri Public Service Commission, Post Office Box 360, Jefferson City, Missouri 65102, for the Staff of the Missouri Public Service Commission.

REGULATORY LAW JUDGE: Ronald D. Pridgin, Deputy Chief

Procedural History

On February 6, 2014, Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities (hereafter "Liberty") submitted to the Commission proposed tariff sheets that are intended to implement a general rate increase for natural gas service provided in its Missouri service area. Liberty's proposed tariffs would increase its Missouri jurisdictional revenues by approximately $7.6 million, or by 15.9%. The Commission suspended the tariffs and issued an Order and Notice on February 7.[1]

The Commission received timely intervention requests from The Missouri Division of Energy and Noranda Aluminum, Inc. The Commission granted these requests.

The test year is the 12 months ending September 30, 2013, updated for known and measureable changes through March 31. The Commission held local public hearings in Jackson, Sikeston, Hannibal, Kirksville, and Butler. The evidentiary hearing went from September 8 until September 10.

Stipulations

On August 12, Liberty, the Staff of the Commission ("Staff"), and the Office of the Public Counsel ("OPC") filed a Partial Stipulation and Agreement as to Certain Issues. The stipulations resolved all issues except: cost of capital, depreciation, cost of removal, special contracts, ISRS, rate design, and energy efficiency and weatherization.

No parties objected. Therefore, as permitted by Commission Rule 4 CSR 240-2.115, the Commission treated the stipulation as unanimous, and approved it on August 20.

[1] Calendar dates refer to 2014 unless otherwise noted.

As the August 12 stipulation stated, Liberty and Staff were to jointly file a late-filed exhibit identifying the final amount of rate case expense to be included in revenue requirement. Liberty and Staff did so on November 19, offering Late-Filed Exhibit 63 into evidence. The exhibit requests a final amount of rate case expenses of $609,679 normalized over three years at $203,226 per year.

OPC responded on November 24, opposing Liberty and Staff's requests. OPC characterizes the request as excessive, claiming that the stipulation provided for $37,768 of rate case expense, and that Liberty requests an increase of $571,911 above the agreed-upon $37,768. Further, OPC claims Liberty's request is conclusory, completely lacking any support.

The Commission ordered Liberty and Staff to respond to OPC's opposition. Liberty and Staff responded on December 1.

Staff states that OPC misrepresents Liberty's request. First, Staff points out that the rate case expense is to be normalized over three years, so the revenue requirement for the requested rate case expense is $203,226, not $609,679. Secondly, Staff states that the $37,768 of additional rate case expense is in addition to the normalized amount of rate case expense already included in Staff's direct case. Staff included rate case expense of $51,210 in its direct case.[2] Thus, at the time of the August 12 stipulation, the total amount of rate case expense contemplated was $88,978. Finally, Staff included a Highly Confidential workpaper which Staff represents it emailed to OPC before its November 19 filing.

[2] Ex. 17, p. 7.

Liberty's response largely echoes Staff's response. Liberty also states that it does not suggest OPC acquiesced to a blank check for rate case expense when it signed the August 12 stipulation. Liberty states that it provided invoices to Staff to support its claim. Further, Liberty said that it understood Staff consulted with OPC while finalizing Staff's workpaper that became the basis for Late-Filed Exhibit 63.

The August 12 stipulation provides for possible inclusion of additional rate case expense. Liberty and Staff offered Exhibit 63 in support of the additional rate case expense. And while OPC clearly opposes this request, OPC did not object to the admission of Exhibit 63.

This is significant because "in fact, all probative evidence received without objection in a contested case must be considered in administrative hearings."[3] All parties waive objection to that evidence, even if they make a "specific and laborious objection" to that same evidence later in the hearing.[4] Thus, Exhibit 63 is admitted.

Based on the information presented in Exhibit 63 and in the verified pleadings of Staff and Liberty, the Commission approves as reasonable a final amount of rate case expenses of $609,679. The Commission also approves normalizing this amount over three years at $203,226 per year.

On September 5, Liberty, OPC and The Missouri Division of Energy ("DE") filed a Non-Unanimous Second Partial Stipulation and Agreement as to Certain Issues. Staff did not sign this stipulation, and asked for a hearing on one of the issues from that stipulation.

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[3] *See Dorman v. State Bd. of Registration of Healing Arts*, 64 S.W.3d 446, 454 (Mo. App. 2001); *see also* Section 536.070(8)("Any evidence received without objection which has probative value shall be considered by the agency along with the other evidence in the case.")

[4] *See Canania v. Director of Revenue*, 918 S.W.2d 310, 313 (Mo. App. 1996).

On September 10, Liberty, OPC and DE withdrew the September 5 stipulation. At the same time, Liberty, OPC, DE and Staff filed a Revised Second Partial Stipulation and Agreement. Noranda did not sign it. But the signatories represented that Noranda did not object, and did not request a hearing on the issues resolved by the September 10 stipulation. As permitted by Commission Rule 4 CSR 240-2.115, the Commission will treat the stipulation as unanimous, and will approve it.

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact and conclusions of law. The positions and arguments of all of the parties have been considered by the Commission in making this decision, and the Commission finds the rates resulting from this decision just and reasonable.

General Findings of Fact

1. Liberty began providing natural gas service in Missouri in 2012 after buying the natural gas assets of Atmos Energy Corporation. The Commission approved the sale in File No. GM-2012-0037.[5]

2. Liberty is a Missouri corporation, a gas corporation, and a public utility. Liberty's ultimate corporate parent is Algonquin Power and Utilities Corp., a Canadian corporation whose stock is traded on the Toronto Stock Exchange. Liberty provides natural gas service to approximately 85,000 customers in Missouri, Illinois, and Iowa. Approximately 55,000 of those customers are in Missouri.[6]

[5] Ex. 1, p. 3.
[6] Id. at 4.

3. Liberty serves its Missouri customers through three rate districts: Northeast (NEMO), Southeast (SEMO), and West (WEMO).[7]

General Conclusions of Law

1. Failure to specifically address a piece of evidence, position or argument of any party does not indicate that the Commission has failed to consider relevant evidence, but indicates rather that the omitted material was not dispositive of this decision. When making findings of fact based upon witness testimony, the Commission will assign the appropriate weight to the testimony of each witness based upon their qualifications, expertise and credibility with regard to the attested-to subject matter.[8]

2. Liberty is a gas utility and a public utility subject to Commission jurisdiction.[9] The Commission has authority to regulate the rates Liberty may charge for gas.[10]

3. The Commission is authorized to value the property of gas utilities in Missouri.[11] Necessarily, that includes property and other assets proposed for inclusion in rate base. In determining value, "the commission may consider all facts which in its judgment have any bearing upon a proper determination of the question . . . ."[12] The courts have held that this statute means that the Commission's determination of the proper rate

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[7] Id. at 6.

[8] Witness credibility is solely within the discretion of the Commission, who is free to believe all, some, or none of a witness' testimony. *State ex. rel. Missouri Gas Energy v. Public Service Comm'n*, 186 S.W.3d 376, 389 (Mo. App. 2005).

[9] Section 386.020(15), (42) RSMo Cum Supp. 2013 (all statutory cites to RSMo Cum. Supp. 2013 unless otherwise indicated).

[10] Section 393.140(11).

[11] Section 393.230.1.

[12] Section 393.270.4.

must be based on consideration of all relevant factors.[13] Relevant factors include questions raised by stakeholders about the prudency and necessity of utility construction decisions and expenditures.

4. In making its determination, the Commission may adopt or reject any or all of any witnesses' testimony.[14] Testimony need not be refuted or controverted to be disbelieved by the Commission.[15] The Commission determines what weight to accord to the evidence adduced.[16] "It may disregard evidence which in its judgment is not credible, even though there is no countervailing evidence to dispute or contradict it."[17] The Commission may evaluate the expert testimony presented to it and choose between the various experts.[18]

5. Where the evidence conflicts, the Commission determines which evidence is most credible. The Commission's determinations of credibility are implicit in the Commission's findings of fact.[19] No law requires the Commission to expound upon which portions of the record the Commission accepted or rejected.[20]

6. The Staff of the Commission is represented by the Commission's Staff Counsel, an employee of the Commission authorized by statute to "represent and appear for the commission in all actions and proceedings involving this or any other law [involving

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[13] *State ex rel. Missouri Water Co. v. Public Service Commission*, 308 S.W.2d 704, 719 (Mo. 1957); *State ex rel. Midwest Gas Users' Association v. Public Service Commission*, 976 S.W.2d 470, 479 (Mo. App., W.D. 1998); *State ex rel. Office of Public Counsel v. Public Service Commission of Missouri,* 858 S.W.2d 806 (Mo. App., W.D. 1993).
[14] *State ex rel. Associated Natural Gas Co. v. Public Service Commission*, 706 S.W.2d 870, 880 (Mo. App., W.D. 1985).
[15] *State ex rel. Rice v. Public Service Commission*, 220 S.W.2d 61, 65 (Mo. banc 1949).
[16] *Id.*
[17] *Id.*
[18] *Associated Natural Gas*, *supra,* 706 S.W.2d at 882.
[19] *Stone v. Missouri Dept. of Health & Senior Services*, 350 S.W.3d 14, 26 (Mo. banc 2011).
[20] *Stith v. Lakin*, 129 S.W.3d 912, 919 (Mo. App., S.D. 2004).

the commission.]"[21] The Public Counsel is appointed by the Director of the Missouri Department of Economic Development and is authorized to "represent and protect the interests of the public in any proceeding before or appeal from the public service commission[.]"[22] The remaining parties include an industrial consumer and a governmental entity.

Burden of Proof

7. "At any hearing involving a rate sought to be increased, the burden of proof to show that the increased rate or proposed increased rate is just and reasonable shall be upon the . . . gas corporation . . . and the commission shall give to the hearing and decision of such questions preference over all other questions pending before it and decide the same as speedily as possible."[23]

Ratemaking Standards and Practices

8. The Commission is vested with the state's police power to set "just and reasonable" rates for public utility services,[24] subject to judicial review of the question of reasonableness.[25] A "just and reasonable" rate is one that is fair to both the utility and its

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[21] Section 386.071.

[22] Sections 386.700 and 386.710.

[23] Section 393.150.2.

[24] Section 393.130, in pertinent part, requires a utility's charges to be "just and reasonable" and not in excess of charges allowed by law or by order of the commission. Section 393.140 authorizes the Commission to determine "just and reasonable" rates.

[25] *St. ex rel. City of Harrisonville v. Pub. Serv. Comm'n of Missouri*, 291 Mo. 432, 236 S.W. 852 (Mo. banc. 1922); *City of Fulton v. Pub. Serv. Comm'n*, 275 Mo. 67, 204 S.W. 386 (Mo. banc. 1918), *error dis'd,* 251 U.S. 546, 40 S.Ct. 342, 64 L.Ed. 408; *City of St. Louis v. Pub. Serv. Comm'n of Missouri*, 276 Mo. 509, 207 S.W. 799 (1919); *Kansas City v. Pub. Serv. Comm'n of Missouri*, 276 Mo. 539, 210 S.W. 381 (1919), *error dis'd,* 250 U.S. 652, 40 S.Ct. 54, 63 L.Ed. 1190; *Lightfoot v. City of Springfield*, 361 Mo. 659, 236 S.W.2d 348 (1951).

customers;[26] it is no more than is sufficient to "keep public utility plants in proper repair for effective public service, [and] . . . to insure to the investors a reasonable return upon funds invested."[27] In 1925, the Missouri Supreme Court stated:[28]

> The enactment of the Public Service Act marked a new era in the history of public utilities. Its purpose is to require the general public not only to pay rates which will keep public utility plants in proper repair for effective public service, but further to insure to the investors a reasonable return upon funds invested. The police power of the state demands as much. We can never have efficient service, unless there is a reasonable guaranty of fair returns for capital invested. * * * These instrumentalities are a part of the very life blood of the state, and of its people, and a fair administration of the act is mandatory. When we say "fair," we mean fair to the public, and fair to the investors.

9. The Commission's guiding purpose in setting rates is to protect the consumer against the natural monopoly of the public utility, generally the sole provider of a public necessity.[29] "[T]he dominant thought and purpose of the policy is the protection of the public . . . [and] the protection given the utility is merely incidental."[30] However, the Commission must also afford the utility an opportunity to recover a reasonable return on the assets it has devoted to the public service.[31] "There can be no argument but that the Company and its stockholders have a constitutional right to a fair and reasonable return upon their investment."[32]

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[26] *St. ex rel. Valley Sewage Co. v. Pub. Serv. Comm'n*, 515 S.W.2d 845 (Mo. App. 1974).
[27] *St. ex rel. Washington University et al. v. Pub. Serv. Comm'n*, 308 Mo. 328, 344-45, 272 S.W. 971, 973 (Mo. banc 1925).
[28] *Id.*
[29] *May Dep't Stores Co. v. Union Elec. Light & Power Co*., 341 Mo. 299, 107 S.W.2d 41, 48 (Mo. App. 1937).
[30] *St. ex rel. Crown Coach Co. v. Pub. Serv. Comm'n*, 179 S.W.2d 123, 126 (1944).
[31] *St. ex rel. Utility Consumers Council, Inc. v. Pub. Serv. Comm'n*, 585 S.W.2d 41, 49 (Mo. banc 1979).
[32] *St. ex rel. Missouri Public Service Co. v. Fraas*, 627 S.W.2d 882, 886 (Mo. App. 1981).

10. The Commission has exclusive jurisdiction to establish public utility rates,[33] and the rates it sets have the force and effect of law.[34] A public utility has no right to fix its own rates and cannot charge or collect rates that have not been approved by the Commission;[35] neither can a public utility change its rates without first seeking authority from the Commission.[36] A public utility may submit rate schedules or "tariffs," and thereby suggest to the Commission rates and classifications which it believes are just and reasonable, but the final decision is the Commission's.[37] Thus, "[r]atemaking is a balancing process."[38]

11. Ratemaking involves two successive processes: first, the determination of the "revenue requirement," that is, the amount of revenue the utility must receive to pay the costs of producing the utility service while yielding a reasonable rate of return to the investors.[39] The second process is rate design, that is, the construction of tariffs that will collect the necessary revenue requirement from the ratepayers.

12. Revenue requirement is usually established based upon a historical test year that focuses on four factors: (1) the rate of return the utility has an opportunity to earn; (2) the rate base upon which a return may be earned; (3) the depreciation costs of plant and equipment; and (4) allowable operating expenses. The calculation of revenue requirement from these four factors is expressed in the following formula:

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[33] *May Dep't Stores*, *supra,*107 S.W.2d at 57.
[34] *Utility Consumers Council*, *supra*, 585 S.W.2d at 49.
[35] *Id.*
[36] *Deaconess Manor Ass'n v. Pub. Serv. Comm'n*, 994 S.W.2d 602, 610 (Mo. App. 1999).
[37] *May Dep't Stores*, *supra,*107 S.W.2d at 50.
[38] *St. ex rel. Union Elec. Co. v. Pub. Serv. Comm'n*, 765 S.W.2d 618, 622 (Mo. App. 1988).
[39] *St. ex rel. Capital City Water Co. v. Missouri Pub. Serv. Comm'n*, 850 S.W.2d 903, 916 n. 1 (Mo. App. 1993).

$$RR = C + (V - D)\,R$$

where:
- RR = Revenue Requirement;
- C = Prudent Operating Costs, including Depreciation Expense and Taxes;
- V = Gross Value of Utility Plant in Service;
- D = Accumulated Depreciation; and
- R = Overall Rate of Return or Weighted Cost of Capital.

13. The return on the rate base is calculated by applying a rate of return, that is, the weighted cost of capital, to the original cost of the assets dedicated to public service less accumulated depreciation.[40]

14. The Public Service Commission Act vests the Commission with the necessary authority to perform these functions. The Commission can prescribe uniform methods of accounting for utilities, and can examine a utility's books and records and, after hearing, can determine the accounting treatment of any particular transaction.[41] In this way, the Commission can determine the utility's prudent operating costs. The Commission can value the property of electric utilities operating in Missouri that is used and useful to determine the rate base.[42] Finally, the Commission can set depreciation rates and adjust a utility's depreciation reserve from time-to-time as may be necessary.[43]

15. The Revenue Requirement is the sum of two components: first, the utility's prudent operating expenses, and second, an amount calculated by multiplying the value of the utility's depreciated assets by a rate of return. For any utility, its fair rate of return is simply its composite cost of capital. The composite cost of capital is the sum of the

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[40] *See St. ex rel. Union Elec. Co.*, 765 S.W.2d at 622.
[41] Section 393.140.
[42] Section 393.230. Section 393.135 expressly prohibits the inclusion in electric rates of costs pertaining to property that is not "used and useful."
[43] Section 393.240.

weighted cost of each component of the utility's capital structure. The weighted cost of each capital component is calculated by multiplying its cost by a percentage expressing its proportion in the capital structure. Where possible, the cost used is the "embedded" or historical cost; however, in the case of common equity, the cost used is its estimated cost.

The Issues

I. Cost of capital

a. What capital structure should the Commission use in this case to determine a revenue requirement for Liberty?

Findings of Fact

4. Liberty's ultimate parent company is Algonquin Power & Utilities Corporation ("Algonquin"). One of Algonquin's business units is Liberty Utilities (Canada) Corp. ("LUC"), which owns 100% interest in Liberty Utilities Company ("LUCo"). Liberty, in turn, falls under Liberty Utilities Company. [44]

5. In the present case, Staff's recommended capital structure is the actual capital structure of Liberty's direct parent, LUCo. Liberty is part of a holding-company system; its book capital structure and capital costs are not a true reflection of the system's capital costs with respect to Liberty.[45]

6. LUCo is the entity that drives Liberty's cost of capital.[46]

7. Liberty does not have a credit rating.[47]

8. Liberty does not issue equity.[48]

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[44] Ex. 13, p. 3.
[45] Ex. 31, p. 4.
[46] Ex. 13, pp. 18-19.
[47] Id. at 16.
[48] Id. at 18-19.

9. Liberty does not issue long-term debt, and does not raise its own short-term debt.[49]

10. All of the items listed in paragraphs 7-9 above occur at the LUCo level.[50]

11. LUCo issues long-term debt to debt investors and issues equity indirectly to Algonquin. Then, it allocates portions of this capital to the operations that need capital at the time. Thus, Liberty's capital structure is an allocated capital structure or book capital structure.[51]

12. LUCo uses its internal finance department to manage and determine capital structures of its operations (including Liberty). Liberty's capital structure is an internally assigned capital structure that has no bearing on the cost of capital for Liberty.[52]

13. Liberty justifies using its book capital structure by noting Algonquin's actual capital structure is similar. However, Algonquin's operations are not similar to Liberty's; significantly, Algonquin's operations include both regulated and unregulated entities.[53]

14. DBRS (a Canadian credit rating agency) rates LUCo and APUC separately.[54]

15. DBRS gives LUCo a higher credit rating than Algonquin.[55]

16. A lower business risk subsidiary can issue more debt than the higher business risk subsidiary. Liberty's ratepayers should not have to pay an equity return on the higher equity ratio needed to offset Algonquin's higher business risk.[56]

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[49] Id. at 19.
[50] Ex. 31, p. 4.
[51] Id.
[52] Id. at 2.
[53] Ex. 13, p. 3.
[54] Ex. 32, p. 3.
[55] Id. at 4.
[56] Id. at 8.

Conclusions of Law

16. The Commission may disregard the actual book capital structure of a utility when it is deemed to be in the public interest to do so.[57]

17. There are two circumstances in which it is appropriate for the Commission to use a hypothetical capital structure.[58]

18. One circumstance is "when the utility's actual debt-equity ratio is deemed inefficient and unreasonable because it contains too much equity and not enough debt, necessitating an inflated rate of return."[59]

19. The second circumstance that justifies adopting a hypothetical construct occurs when the utility is part of a holding company system. In such situations, the utility's book capital structure and capital costs may not be a true reflection of the system's capital costs with respect to a particular operating company. Double leveraging represents one approach utilized by regulatory agencies to account for a utility's status as a subsidiary in a holding company system. Moreover, it is only the parent's alleged use of its low cost debt to purchase stock in its subsidiary that serves as the principle behind the application of double leveraging.[60]

Decision

The Commission finds this issue in favor of Staff. Liberty proposed a capital structure more like Algonquin's. But Algonquin's capital structure reflects its higher business risk due to its unregulated activities. Liberty, which is regulated, does not face the

[57] State ex. rel. Associated Natural Gas Co. v. Public Service Com'n of Missouri, 706 S.W.2d 870, 878 (Mo.App. W.D. 1985).
[58] Id.
[59] Id.
[60] Id. at 878-79.

same business risk as Algonquin. Thus, Liberty should not be able to charge its Missouri ratepayers as if it needed a more equity rich capital structure like Algonquin's. Thus, the appropriate capital structure is that of Liberty Utility Company's structure, the company that issues debt and equity on behalf of Liberty.

b. What is the appropriate embedded cost of debt that the Commission should apply in this case to determine a revenue requirement for Liberty?

Findings of Fact

17. Liberty does not issue debt.[61]

18. Liberty proposes a 4.5% cost of debt, which is its assigned cost of debt through its parent companies.[62]

19. LUCo issues debt, and passes debt capital out to subsidiaries as needed.[63]

20. The debt and debt cost on Liberty's books are products of the debt allocation process LUCo performs for its United States operations.[64]

Conclusions of Law

There are no additional conclusions of law.

[61] Ex. 13, p. 18.
[62] Ex. 6NP, p. 46.
[63] Id., at 19.
[64] Id. at 21.

Decision

The Commission finds this issue in favor of Staff. Liberty proposed a 4.5% cost of debt, which is its assigned cost of debt through its parent companies. Having chosen Staff's capital structure, which is based on Liberty Utilities Company's capital structure, it follows that the appropriate cost of debt should be based upon Liberty Utilities Company's embedded cost of debt.

c. What is the appropriate cost of equity that the Commission should apply in this case to determine a revenue requirement for Liberty?

Findings of Fact

21. Mr. Zephania Marevangepo is Staff's return on equity witness.[65]

22. The midpoint of Mr. Marevangepo's recommended return on equity range is 8.7%, which would give Liberty a return on equity more than 60 basis points lower than any return on equity at any state Commission in at least 30 years.[66] Staff's testimony did not support such a low return on equity. Thus, the Commission does not find this testimony persuasive.

23. Liberty's cost of capital witness is Robert Hevert.[67]

24. Because all return on equity models are subject to various assumptions and constraints, equity analysts and investors tend use multiple methods to develop their return requirements. Mr. Hevert therefore appropriately relied on three widely-accepted approaches to develop his return on equity ("ROE") recommendation: (1) the Discounted

[65] Tr. 182.
[66] Ex. 6, p. 3.
[67] Ex. 5, p. 2.

Cash Flow ("DCF") model, including the Quarterly Growth, Constant Growth, and Multi-Stage forms; (2) the Capital Asset Pricing Model ("CAPM"); and (3) the Bond Yield Plus Risk Premium approach.[68]

25. Since the ROE is a market-based concept, and Liberty is not a publicly traded entity, it is necessary to establish a group of comparable publicly-traded companies to serve as its "proxy." Even if Liberty were a publicly traded entity, short-term events could bias its market value during a given period of time. A significant benefit of using a proxy group is that it serves to moderate the effects of anomalous, temporary events associated with any one company.[69]

26. To select his proxy group, Mr. Hevert began with the universe of companies that Value Line classifies as Electric or Natural Gas Utilities, which includes a group of 58 domestic U.S. utilities, and applied the following screening criteria:

- He excluded companies that do not consistently pay quarterly cash dividends;
- All of the companies in the proxy group have been covered by at least two utility industry equity analysts;
- All of the companies have investment 1 grade senior unsecured bond and/or corporate credit ratings from Standard & Poor's ("S&P");
- Companies with at least 60.00 percent of consolidated net operating income derived from regulated natural gas utility operations; and
- Companies currently known to be party to a merger, or other significant transaction were eliminated.[70]

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[68] Ex. 5, p. 3.
[69] Id. at 6.
[70] Id. at 7-8.

27. The companies that met Mr. Hevert's screening criteria, which the Commission finds Mr. Hevert chose appropriately, were:[71]

Company	**Ticker**
AGL Resources	GAS
Atmos Energy	ATO
Laclede Group	LG
New Jersey Resources	NJR
Northwest Natural Gas	NWN
Piedmont Natural Gas	PNY
South Jersey Industries	SJI
Southwest Gas	SWX
Washington Gas Light	WGL

28. After selecting his proxy group, Mr. Hevert used a Discounted Cash Flow model. The DCF approach is based on the theory that a stock's current price represents the present value of all expected future cash flows. In its simplest form, the DCF model expresses the Cost of Equity as the sum of the expected dividend yield and long-term growth rate.[72]

29. The DCF model assumes that the total return received by investors includes the dividend yield, and the rate of growth. Under the model's assumptions, the rate of growth equals the rate of capital appreciation. That is, the model assumes that the investor's return is the sum of the dividend yield and the increase in the stock price.[73]

30. However, most dividend-paying companies, including utilities, pay dividends on a quarterly (as opposed to an annual) basis. The yield component of the Quarterly Growth DCF model, therefore, accounts for the quarterly payment of dividends. Thus, the

[71] Id. at 8.
[72] Id. at. 11.
[73] Id. at 11.

Quarterly Growth DCF model incorporates investors' expectation of the quarterly payment of dividends, and the associated quarterly compounding of those dividends as they are reinvested at investors' required ROE.[74]

31. To calculate the expected dividends over the coming year for the proxy companies, Mr. Hevert obtained the last four paid quarterly dividends for each company, and multiplied them by one plus the growth rate. He also used three averaging periods to calculate an average stock price to ensure the model's results are not skewed by anomalous events.[75]

32. Earnings growth projections have a statistically significant relationship to stock valuation levels, while dividend growth rates do not. Investors form their investment decisions based on expectations of growth in earnings, not dividends. Consequently, earnings growth not dividend growth is the appropriate estimate for the purpose of the Constant Growth DCF model.[76]

33. Mr. Hevert's quarterly growth DCF results, which the Commission finds to be reasonable, are:[77]

	Mean Low	***Mean***	***Mean High***
30-Day Average	8.05%	9.29%	10.76%
90-Day Average	8.05%	9.28%	10.76%
180-Day Average	8.03%	9.26%	10.74%

34. Mr. Hevert also used a Constant Growth DCF model. The Constant Growth DCF model assumes: (1) a constant average annual growth rate for earnings and

[74] Id.
[75] Id.
[76] Id. at 15.
[77] Id. at 17.

dividends; (2) a stable dividend payout ratio; (3) a constant price-to-earnings multiple; and (4) a discount rate greater than the expected growth rate. Under those assumptions, dividends, earnings, book value, and the stock price all grow at the same, constant rate.[78]

35. Mr. Hevert used the same projected earnings per share growth rates and the retention growth estimate that he used in his Quarterly Growth DCF analysis.[79]

36. Mr. Hevert's constant growth DCF results, which the Commission finds to be reasonable, are:[80]

	Mean Low	***Mean***	***Mean High***
30-Day Average	7.93%	9.12%	10.55%
90-Day Average	7.92%	9.12%	10.55%
180-Day Average	7.90%	9.10%	10.53%

37. In order to address certain limiting assumptions underlying the Constant Growth form of the DCF model, Mr. Hevert also used the Multi-Stage (three-stage) DCF Model. The Multi-Stage model is an extension of the Constant Growth model. It allows the analyst to specify growth rates over three distinct stages. As with the Constant Growth model, the Multi-Stage form defines the Cost of Equity as the discount rate that sets the current price equal to the discounted value of future cash flows. Unlike the Constant Growth form, however, the Multi-Stage model must be solved in an iterative fashion.[81]

38. The Multi-Stage model sets the subject company's stock price equal to the present value of future cash flows received over three "stages". In the first two stages, "cash flows" are defined as projected dividends. In the third stage, "cash flows" equal both

[78] Id. at 17.
[79] Id. at 18.
[80] Id. at 19.
[81] Id.

dividends and the expected price at which the stock will be sold at the end of the period *(i.e.,* the "terminal price").[82]

39. Since the model provides the ability to specify near, intermediate and long-term growth rates, for example, it avoids the sometimes limiting assumption that the subject company will grow at the same, constant rate in perpetuity. In addition, by calculating the dividend as the product of earnings and the payout ratio, the model enables analysts to reflect assumptions regarding the timing and extent of changes in the payout ratio to reflect, for example, increases or decreases in expected capital spending, or transition from current payout levels to long-term expected levels.[83]

40. Mr. Hevert's multi-stage growth DCF results, which the Commission finds to be reasonable, are:[84]

	Mean Low	***Mean***	***Mean High***
30-Day Average	9.58%	9.92%	10.36%
90-Day Average	9.58%	9.91%	10.36%
180-Day Average	9.56%	9.89%	10.34%

41. Mr. Hevert also used a Capital Asset Pricing Model ("CAPM") analysis. This method of estimating the cost of equity uses a risk-free return plus a risk premium.[85]

42. Because utility assets represent long-term investments, Mr. Hevert used two different measures of the risk-free rate: the current 30-day average yield on 30-year Treasury bonds (3.87%), and the projected 30-year Treasury yield (4.15%).[86]

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[82] Id.
[83] Id. at 20-21.
[84] Id. at 19.
[85] Id. at 25.
[86] Id. at 27.

43. Due to recent economic conditions, such as the 2008 Lehman Brothers bankruptcy filing, Mr. Hevert used a forward-looking estimate of the market risk premium, rather than a historical average.[87]

44. Mr. Hevert's CAPM results, which the Commission finds to be reasonable, suggest a return on equity of 10.21 to 12.78%. A summary of his results are below:[88]

	Bloomberg Derived Market Risk Premium	*Value Line Derived Market Risk Premium*
Average Calculated Beta Coefficient		
Current 30-Year Treasury (3.87%)	12.50%	11.40%
Near Term Projected 30-Year Treasury (4.15%)	12.78%	11.68%
Average Bloomberg Beta Coefficient		
Current 30-Year Treasury (3.87%)	11.96%	10.93%
Near Term Projected 30-Year Treasury (4.15%)	12.24%	11.21%
Average Value Line Beta Coefficient		
Current 30-Year Treasury (3.87%)	11.14%	10.21%
Near Term Projected 30-Year Treasury (4.15%)	11.42%	10.49%

45. Mr. Hevert also employed a bond yield plus risk premium approach. It is based on the concept that equity holders' payments are subordinate to bondholders' payments, and, consequently, equity holders will require a premium to take on the risk of not being paid a return on investment.[89]

46. The results of Mr. Hevert's bond yield plus risk premium analysis, which the Commission finds to be reasonable, showed an estimated cost of equity between 10.19 and 10.69%.[90]

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[87] Id.
[88] Id. at 30-31.
[89] Id. at 31.
[90] Id. at 33-34.

47. Mr. Hevert's return on equity recommendation is 10.0% to 10.5%.[91]

Conclusions of Law

20. The Commission must estimate the cost of common equity capital. This is a difficult task, as academic commentators have recognized.[92] The United States Supreme Court, in two frequently cited decisions, has established the constitutional parameters that must guide the Commission in its task.[93] In the earlier of these cases, *Bluefield Water Works*, the Court stated that:

> Rates which are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the services are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment.[94]

21. In the same case, the Court provided the following guidance as to the return due to equity owners:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.[95]

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[91] Ex. 6, p. 3.

[92] C.F. Phillips, Jr., *The Regulation of Public Utilities*, 390 (1993); Goodman, 1 *The Process of Ratemaking*, *supra,* at 606.

[93] *Fed. Power Comm'n v. Hope Nat. Gas Co.,* 320 U.S. 591, 64 S.Ct. 281, 88 L.Ed. 333 (1943); *Bluefield Water Works & Improv. Co. v. Pub. Serv. Comm'n of West Virginia*, 262 U.S. 679, 43 S.Ct. 675, 67 L.Ed. 1176 (1923).

[94] *Bluefield, supra,* 262 U.S. at 690, 43 S.Ct. at 678, 67 L.Ed. at 1181.

[95] *Id*., 262 U.S. at 692-93, 43 S.Ct. at 679, 67 L.Ed. at 1182-1183.

22. The Court restated these principles in *Hope Natural Gas Company*, the later of the two cases:

> '[R]egulation does not insure that the business shall produce net revenues.' But such considerations aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.[96]

23. The Commission must draw primary guidance in the evaluation of the expert testimony from the Supreme Court's *Hope* and *Bluefield* decisions. Pursuant to those decisions, returns for Liberty's shareholders must be commensurate with returns in other enterprises with corresponding risks. Just and reasonable rates must include revenue sufficient to cover operating expenses, service debt and pay a dividend commensurate with the risk involved. The language of *Hope* and *Bluefield* unmistakably requires a *comparative method*, based on a quantification of risk.

24. Investor expectations are not the sole determiners of ROE under *Hope* and *Bluefield*; we must also look to the performance of other companies that are similar to Liberty in terms of risk. *Hope* and *Bluefield* also expressly refer to objective measures. The allowed return must be sufficient to ensure confidence in the financial integrity of the company in order to maintain its credit and attract necessary capital. By referring to confidence, the Court again emphasized risk.

25. The Commission cannot simply find a rate of return on equity that is "correct"; a "correct" rate does not exist. However, there are some numbers that the Commission can

[96] *Hope Nat. Gas Co., supra,* 320 U.S. at 603, 64 S.Ct. 288, 88 L.Ed. 345 (citations omitted).

use as guideposts in establishing an appropriate return on equity. The Commission stated that it does not believe that its return on equity finding should "unthinkingly mirror the national average."[97] Nevertheless, the national average is an indicator of the capital market in which Liberty will have to compete for necessary capital.

26. The Commission has described a “zone of reasonableness” extending from 100 basis points above to 100 basis points below the recent national average of awarded ROEs to help the Commission evaluate ROE recommendations.[98] Because the evidence shows the recent national average ROE for gas utilities is 9.69%,[99] that “zone of reasonableness” for this case is 8.69% to 10.69%.

27. The Commission has wide latitude in setting an ROE within the zone of reasonableness.[100] The zone of reasonableness is simply a tool to help the Commission to evaluate the recommendations offered by various rate of return experts. It should not be taken as an absolute rule that would preclude consideration of recommendations that fall outside that zone.

28. In the final analysis, the method employed to estimate the cost of common equity is unimportant, as long as the result that is reached satisfies the constitutional requirements.[101]

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[97] *In re Missouri Gas Energy*, 12 Mo.P.S.C.3d 581, 593 (*Report and Order* issued September 21, 2004).
[98] *Id.*
[99] Ex. 6, p. 19.
[100] *State ex. rel. Public Counsel,* 274 S.W.3d at 574 (*citing In re Permian Basin Area Rate Cases*, 390 U.S. 747, 767, 88 S.Ct. 1344, 20 L.Ed.2d 312 (1968))(“**courts are without authority** to set aside **any** rate selected by the Commission [that] is within a ‘zone of reasonableness’)(emphasis supplied).
[101] *State ex rel. Arkansas Power & Light Company v. Missouri Public Service Commission***,** 736 S.W.2d 457, 462 (Mo.App., W.D. 1987); *State ex rel. Associated Natural Gas Company v. Public Service Commission of Missouri,* 706 S.W.2d 870, 879 (Mo.App., W.D. 1985).

Decision

The Commission finds this issue in favor of Liberty. The Commission will set the return on equity at 10.0%, which is the bottom of the range Liberty proposed.[102] Such a return on equity is commensurate with returns of other corporations with corresponding risks, will ensure confidence in the financial integrity of the company, and is near the midpoint of the above-mentioned zone of reasonableness.

II. Contract Customers[103]

a. Is Liberty currently authorized to enter into special contracts at non-tariffed rates with its customers in Missouri, such as Noranda and General Mills?

Findings of Fact

48. Liberty has a special contract in place with Noranda, which is in Liberty's SEMO Division.[104]

49. The Noranda contract pre-dates the 2000 Atmos acquisition of Associated Natural Gas and was in effect during the test year.[105]

50. Noranda has the option to bypass Liberty and interconnect with the interstate pipeline operated by Texas Eastern Transmission Company (TETCO). The special contract keeps Noranda from switching, and ultimately benefits Liberty's customers.[106]

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[102] Ex. 5, p. 3.
[103] Much of the evidence for this issue is Highly Confidential. This Report and Order does not contain any Highly Confidential evidence, although the evidence it cites is often Highly Confidential.
[104] Ex. 2, p. 17.
[105] Ex. 3, p. 3.
[106] Ex. 2, p. 18.

51. Liberty also has a special contract in place with General Mills, which is in effect during the test year. General Mills is in Liberty's NEMO Division.[107]

52. The General Mills plant in the special contract is within 1400 feet of an interstate pipeline operated by Panhandle Eastern Pipeline Company (PEPL). Thus, the plant could bypass Liberty and connect to PEPL.[108]

53. These two special contracts provide two large customers that contribute to fixed and variable cost recovery of Liberty's cost of service. If Liberty lost those customers, Liberty's other customers would likely see a rate increase.[109]

54. Noranda uses over 20,000 times as much natural gas as an average residential customer in the SEMO Division.[110]

Conclusions of Law

There are no additional conclusions of law.

Decision

The Commission finds this issue in favor of Liberty. The Commission finds that Liberty stepped into the shoes of Atmos when it purchased Atmos' assets, and that Liberty had the right to charge Noranda and General Mills the rates it did during the test year.

b. If Liberty is not currently authorized to enter into special contracts at non-tariffed rates with its customers in Missouri such as Noranda and General Mills,

[107] Ex. 2, p. 17.
[108] Id. at 18-19., Ex. 3, p. 9.
[109] Id. at 19.
[110] Ex. 46, p. 6.

should the Commission authorize Liberty to adopt a tariff to allow it to enter into such special contracts? If yes, what should such tariff state?

Findings of Fact

55. Without a tariff, special contracts may be discriminatory since the contracts would give special treatment for some customers, completely at Liberty's discretion.[111]

56. Although Liberty submitted a specimen tariff, that tariff is ambiguous about the relationship between a special contract and Liberty's existing tariffs.[112]

57. Liberty's proposed tariff also has the title of "Negotiated Gas Sales Service", which applies to Liberty's sales service and alternative fuel customers. Thus, Liberty's proposed tariff is confusing as it is unclear if it is to deal with transportation service, sales service, or both.[113]

58. Also, Liberty's proposed tariff does not require a customer to give Liberty any evidence of the investment needed for the customer to take service directly from the bypass provider. Staff's proposed tariff, however, does impose such a requirement.[114]

Conclusions of Law

There are no additional conclusions of law.

[111] Ex. 13HC, p. 53.
[112] Ex. 39HC, p. 9.
[113] Id. at 9-10.
[114] Ex. 3HC, Sch. CDK-R7 and Ex. 39HC, Sch. DMS-5.

Decision

The Commission finds this issue in favor of Staff. Liberty should have to provide Staff some justification for its special contracts. Liberty can best do so through a tariff. The Commission finds Liberty should file a tariff as suggested by Staff.

c. What rate should the Commission use to calculate Liberty's revenues from Noranda and General Mills for purposes of this rate case?

Findings of Fact

59. Staff recommends calculating Liberty's revenues from Noranda and General Mills by imputing the Commission-approved tariff rate, rather than the discounted rate established in the special contracts with these customers.[115]

60. Staff does not believe Liberty should have charged Noranda and General Mills the full-tariffed rate on the first day Liberty began operating the Missouri districts.[116]

61. In a previous Atmos rate case, Staff recommended revenue imputation adjustments for Noranda and General Mills, but ultimately the settlement in the last Atmos rate case explicitly stated that there would be no imputation of revenues for Noranda or General Mills. Atmos, Staff, Public Counsel, and Noranda entered into the following agreement:

> 7. Special Contracts. The Signatories agree that revenues associated with special contracts shall not be imputed in this case. The Signatories agree that Atmos shall offer to extend the special contracts of Noranda and General Mills to expire on the effective date of rates approved in Atmos's next general rate case. The rates for such extended period shall be those in effect at the

[115] Ex. 23NP, pp. 2-3.
[116] Tr. 378.

> end of the respective contract's original term. This paragraph shall not be construed to limit the ability of Atmos and Special Contract customers: i) to accept alternative mutually agreeable contract provisions, or ii) to enter into alternative mutually agreeable contracts for service."[117]

62. The Commission approved this stipulation.[118]

63. According to the Agreement with Staff and Public Counsel, Atmos was required to extend those contracts and use the same rates that were in effect at the end of the respective contract's original term.[119]

64. The Agreement to use these specific rates in the Noranda and General Mills contracts was not discretionary with Atmos. The rate provisions were mandatory, and agreed to by Atmos, Staff, Public Counsel, and Noranda.[120]

65. Had Liberty charged the rates Staff suggests in this case, Liberty would have violated the stipulation from File No. GR-2010-0192.[121]

66. Liberty purchased Atmos' Missouri assets, and was obligated to comply with all Commission orders applicable to Atmos.[122]

67. The current cost to supply interruptible transportation service is about $0.03 per Mcf.[123]

68. Even if Noranda was treated as a firm transportation customer and the SEMO transmission network costs were allocated to Noranda, then Noranda's cost would be approximately $0.11 per Mcf.[124]

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[117] *Unanimous Stipulation and Agreement*, File No. GR-2010-0192 (August 11, 2010).
[118] Tr. 361.
[119] Tr. 362.
[120] Tr. 364.
[121] Tr. 273.
[122] *Order Approving Unanimous Stipulation and Agreement*, File No. GM-2012-0037 (March 14, 2012).
[123] Ex. 46HC, pp. 8-11.
[124] Id. at 10.

69. Regardless of whether Noranda is treated as an interruptible or a firm customer, Liberty charges Noranda more than its cost to serve Noranda.[125]

70. General Mills and Noranda would likely bypass Liberty's local distribution network, switch to alternative fuels, or substantially reduce their natural gas consumption if the full-tariffed rated were charged.[126]

71. During the test year, Liberty stepped into the shoes of Atmos and was required to charge Noranda and General Mills the same rates that were in the Atmos contracts with those customers.[127]

Conclusions of Law

There are no additional conclusions of law.

Decision

The Commission finds this issue in favor of Liberty. Imputing the revenue that Staff seeks to impute to Liberty would greatly reduce Liberty's revenue requirement. That, in turn, could force Liberty to raise rates for Noranda and General Mills to the point that they, having the legal right to seek an alternative energy provider and the practical and economic incentive to do so, would likely leave Liberty's system. This would ultimately cause financial harm to Liberty and to its customers.

The negotiated rates Liberty charged Noranda and General Mills were reasonable because those rates covered all variable costs and some fixed costs of serving these

[125] Id. at 4, 8-11.
[126] Ex. 2NP, pp. 17-18; Ex. 3HC, pp. 3-9; Ex. 4HC, pp. 9-10; Ex. 46HC, pp. 2-11; Ex. 57, p. 24; Ex. 58, pp. 3-9; Ex. 59, pp. 3-14.
[127] Tr. 361.

customers. Imputing the tariffed rate would not accurately reflect the historical revenues or the expected revenues as the new tariff for special contracts does not require the Company to use the tariffed rates. If in fact any entity believes future rates negotiated under the Company's special contract tariff are excessively discounted, those entities may file a Complaint under the Commission's Complaint procedures.

d. What rate should the Commission use to calculate Liberty's revenues from SourceGas for purposes of this rate case?

Findings of Fact

72. Liberty or its predecessor has provided interstate service to SourceGas (which was formerly known as Associated Natural Gas Company) since June 1, 2000, when ANG sold its Missouri assets to Atmos. At that time, the ANG local distribution system was being separated into a Missouri service territory operated by United Cities Gas, a division of Atmos, and an Arkansas service territory that would continue to be owned by ANG.[128]

73. For the Arkansas property to have a gas pipeline and gas supply, there needed to be an interstate arrangement between Atmos and ANG that would allow Atmos to provide interstate transportation service to ANG after the service area was separated. Atmos obtained authority to provide interstate transportation services to SourceGas under flex or discount rates.[129]

[128] Tr. 495-96; Ex. 12NP, p. 4.
[129] Tr. 494-96, 513

74. While Liberty was negotiating interstate transportation service terms with SourceGas at the Federal Energy Regulatory Commission ("FERC"), Liberty was also negotiating interstate transportation service terms with Atmos for its WEMO service territory in the Rich Hill-Hume area.[130]

75. For SourceGas, Liberty is the provider of the interstate transportation service. On the other side of Missouri, however, in the Rich Hill-Hume area, Liberty is the customer, and receives gas using the interstate transportation service provided by Atmos from its Kansas facilities.[131]

76. When Liberty acquired the Atmos properties in Missouri, it was necessary to file with the FERC for approval of an open access interstate transportation service. Under the new approved arrangement, the Liberty rate results in benefits for Liberty customers in the SEMO district.[132]

77. Liberty has on file with FERC an interstate transportation rate approved by the FERC in Docket No. CP12-42-000. That tariff allows Liberty to receive gas in Missouri and transport said gas across its SEMO distribution system to its state line interconnects with SourceGas. This transportation service is an open access service and is available to all similarly situated customers. The approved maximum transportation rate is $1.3938 per Dth and mirrors the current Large Customer transportation rate for SEMO.[133]

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[130] Ex. 12NP, p. 11.
[131] Tr. 524.
[132] Tr. 500; Ex. 12HC, p. 5.
[133] Ex. 12HC, p. 3-4.

Conclusions of Law

29. A "state utility commission setting retail prices must allow, as reasonable operating expenses, costs incurred as a result of paying a FERC-determined wholesale price."[134]

Decision

The Commission finds this issue in favor of Liberty. Although much of the evidence on this sub-issue is highly confidential, the Commission's review of this evidence finds that Liberty acted reasonably both with SourceGas and Atmos.

III. Depreciation

Findings of Fact

78. The depreciation rate in question is for hardware and software that is used at Liberty's corporate office in Jackson, Missouri and allocated to its divisions in Iowa, Illinois and Missouri jurisdictions.[135]

79. In its Order Approving the Unanimous Stipulation and Agreement in File No. GM-2012-0037, the Commission ordered Liberty to adopt Atmos' depreciation rates.[136]

80. Atmos, Liberty's predecessor, used Liberty's proposed rates for these accounts in its 2006 and 2010 rate cases.[137]

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[134] *Nantahala Power & Light Co. v. Thornburg*, 476 U.S. 953, 965 (1986).
[135] Ex. 10, p. 9.
[136] Ex. 13, p. 71; Tr. 588-89.
[137] Tr. 572.

81. Staff used a 14.29% rate for system and network hardware and software, and an 18.98% rate for personal computer hardware and software in the 2010 case.[138]

82. Thus, Liberty's depreciation rates are in line with Staff's rates for the most recent Atmos rate case.[139]

83. Staff's depreciation rate proposal of 4.75% reflects a 21-year life span for these assets. This is an unrealistically long life to apply to computer equipment and systems.[140]

84. This would imply that systems and equipment purchased today would, on average, still be in service in the year 2035.[141]

Conclusions of Law

There are no additional conclusions of law.

Decision

The Commission finds this issue in favor of Liberty. Given the speed at which technology develops and changes, depreciation rates of 21 years for computer hardware and software are unreasonably long.

[138] Ex. 36, pp. 1-2; Tr. 591-92.
[139] Ex. 11, p. 3.
[140] Id.
[141] Ex. 10, p. 11.

THE COMMISSION ORDERS THAT:

1. The Revised Second Partial Stipulation and Agreement filed by Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities Company, the Office of the Public Counsel, the Staff of the Commission and The Missouri Division of Energy on September 10, 2014, is approved, and the signatories are ordered to comply with its terms.

2. The proposed tariff sheets filed by Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities Company on February 6, 2014, Tariff No. YG-2014-0320, are rejected.

3. Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities shall file tariffs that comport with this Report and Order no later than December 10, 2014.

4. The Staff of the Commission shall file a recommendation regarding the tariffs ordered in paragraph 3 no later than December 11, 2014. Any party that wishes to object to the tariffs ordered in paragraph 3 shall do so no later than December 14, 2014.

5. All pending motions and other requests for relief not granted are denied.

6. This Report and Order shall become effective on January 2, 2015.

BY THE COMMISSION

Morris L. Woodruff
Secretary

R. Kenney, Chm., Stoll, W. Kenney, Hall, and Rupp, CC., concur and certify compliance with the provisions of Section 536.080, RSMo.

Dated at Jefferson City, Missouri, on this 3rd day of December, 2014.

The Commonwealth of Massachusetts

DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 15-75 February 10, 2016

Petition of Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty Utilities for approval of the rates and charges set forth in Tariffs M.D.P.U. Nos. 1000C, 1001B, 1002I, 1003C through 1024C, and 1025A, and approval of an increase in base distribution rates for gas service pursuant to G.L. c. 164, § 94 and 220 C.M.R. § 5.00 et seq.

APPEARANCES: Cheryl M. Kimball, Esq.
Nicholas D. Horan, Esq.
Daniel P. Venora, Esq.
Keegan Werlin LLP
265 Franklin Street
Boston, Massachusetts 02110

-and-

Ronald J. Ritchie, Esq.
Liberty Utilities (New England Natural Gas Company) Corp.
36 Fifth Street
Fall River, MA 02721

FOR: LIBERTY UTILITIES (NEW ENGLAND NATURAL GAS COMPANY) CORP. D/B/A LIBERTY UTILITIES
Petitioner

Maura Healey, Attorney General
Commonwealth of Massachusetts
By: Joseph W. Rogers
John J. Geary
Alexander M. Early
Nathan C. Forster
Matthew E. Saunders
Elizabeth Anderson
Assistant Attorneys General
Office of Ratepayer Advocacy
One Ashburton Place
Boston, Massachusetts 02108
Signatory

Jerrold Oppenheim, Esq.
57 Middle Street
Gloucester, Massachusetts 01930
FOR: LOW-INCOME WEATHERIZATION AND FUEL ASSISTANCE PROGRAM NETWORK
Signatory

Rachel Graham Evans, Esq.
Matthew Altieri, Esq.
Department of Energy Resources
100 Cambridge Street, Suite 1020
Boston, Massachusetts 02114
FOR: MASSACHUSETTS DEPARTMENT OF ENERGY RESOURCES
Signatory

James M. Avery, Esq.
Pierce Atwood, LLP
100 Summer Street
Boston, Massachusetts 02110
FOR: THE BERKSHIRE GAS COMPANY
Limited Participant

Jessica Buno, Esq.
Keegan Werlin LLP
265 Franklin Street
Boston, MA 02110

FOR: NSTAR GAS COMPANY D/B/A EVERSOURCE ENERGY
Limited Participant

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I. INTRODUCTION

On July 15, 2015, Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty Utilities ("Liberty Utilities" or "Company") filed a petition with the Department of Public Utilities ("Department") for an increase in gas distribution rates. The Department approved the Company's last general increase in distribution rates on March 31, 2011. New England Gas Company, D.P.U. 10-114 (2011).

In its initial filing, the Company sought to increase its annual revenues by $11,778,729, which represents a 33.3 percent increase in base distribution revenues, or an increase of 15.2 percent in current annual operating revenues.[1] The Company's filing is based on a test year of January 1, 2014 through December 31, 2014.[2] The Department docketed this matter as D.P.U. 15-75, and suspended the effective date of the proposed rate increase until June 1, 2016, to investigate the propriety of the Company's petition.

Liberty Utilities currently provides retail natural gas distribution service to approximately 54,000 residential, commercial, and industrial customers in the six Massachusetts communities of Fall River, North Attleboro, Plainville, Swansea, Somerset, and Westport (Exh. LU-/JMSw-1, at 3). The Company currently operates as a wholly owned

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[1] During the course of the proceeding, the Company made adjustments in response to information requests from the Department and the Attorney General which resulted in a decrease to its requested revenues to $11,523,799 (Explanatory Statement at 1, n.1).

[2] For purposes of this Order, Liberty Utilities' rate year will be March 1, 2016 through February 28, 2017.

subsidiary of Liberty Utilities Co., which is in turn a wholly owned subsidiary of Algonquin Power and Utilities Corp. (Exhs. LU-/JMSw-1, at 3; AG-1-3, Att. C-3, at 5-6).[3]

II. PROCEDURAL HISTORY

On July 16, 2015, the Attorney General of the Commonwealth of Massachusetts ("Attorney General") filed a notice of intervention pursuant to G.L. c. 12, § 11E(a). On August 24, 2015, pursuant to G.L. c. 12, § 11E(b), the Department approved the Attorney General's retention of experts and consultants. Liberty Utilities (New England Natural Gas Company) Corp., D.P.U. 15-75, Stamp Approval. The Department granted intervenor status to the Department of Energy Resources ("DOER") and the Low-Income Weatherization and Fuel Assistance Program Network ("Low-Income Network") and granted limited participant status to The Berkshire Gas Company and NSTAR Gas Company d/b/a Eversource Energy on August 27, 2015. Pursuant to notice duly issued, the Department held public hearings in Fall River on September 3, 2015 and North Attleboro on September 10, 2015, and solicited written comments.

In support of the Company's filing, the following witnesses provided testimony: (1) James M. Sweeney, president, Liberty Utilities - Massachusetts; (2) Janet M. Simpson, partner, Dively and Associates, PLLC; (3) Dylan W. D'Ascendis, managing consultant, Sussex Energy Advisors; (4) Paul M. Normand, principal, Management Applications

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[3] The Company formerly operated as a division of Southern Union Company. New England Gas Company, D.P.U. 10-114, at 1 (2011). The Department approved the acquisition of the Company's assets by Liberty Utilities Co. in New England Gas Company, D.P.U. 13-07 (2013).

Consulting, Inc.; (5) Mark E. Smith, vice president of human resources, Liberty Utilities Service Corp.; (6) David A. Heintz, vice president, Concentric Energy Advisors; and (7) Melissa F. Bartos, assistant vice president, Concentric Energy Advisors. The Company also responded to multiple rounds of information requests from the Attorney General, the Department, and the Low-Income Network.

On December 15, 2015, the Attorney General, the Company, DOER, and the Low-Income Network ("settling parties") filed for Department approval of a rate settlement agreement resolving a number of issues raised during the course of this proceeding as an alternative to a fully litigated rate case. Specifically, the settling parties submitted: (1) a Joint Motion for Approval of Settlement Agreement ("Joint Motion"); (2) the Settlement Agreement ("Settlement"); and (3) an Explanatory Statement including a summary of the adjustments to the Company's revenue requirement calculated under the terms of the Settlement (Attachment A).[4] In the Joint Motion, the settling parties request that the Department find that: (1) the terms of the Settlement are reasonable; and (2) implementation of the terms of the Settlement will result in just and reasonable rates for the Company (Joint Motion at 2).

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[4] In a hearing officer memorandum issued November 24, 2015, the Department required that any settlement include an explanatory statement to facilitate review of the settlement proposal. The Department required that the explanatory statement include a procedural history, a section-by-section summary of the settlement, and responses to the following questions: (1) what are the issues underlying the settlement and what are the major implications; (2) whether any of the issues raise policy implications; (3) whether other pending proceedings may be affected; (4) whether the settlement involves issues of first impression, or if there is any change in treatment from a previously decided issue; and (5) what is the standard of review applicable to this proceeding.

On December 15, 2015, the Department established a procedural schedule for review of the Settlement providing for the opportunity to file comments. No comments were filed. The settling parties responded to information requests issued by the Department on January 15, 2016. On January 26, 2016, the settling parties filed an amendment to the Settlement ("Amendment") as well as supplemental responses to information requests issued by the Department. The evidentiary record consists of 533 exhibits.[5]

III. DESCRIPTION OF PROPOSED SETTLEMENT

A. Introduction

The Settlement provides for a distribution rate increase in two phases: (1) an increase of $7.8 million over current rates, effective March 1, 2016; and (2) an increase of up to $500,000, effective March 1, 2017 (Settlement at §§ 1.1.2-1.1.3). Other than the March 1, 2016 and March 1, 2017 distribution rate increases, the Company may not increase or redesign base distribution rates to become effective prior to March 1, 2019 (Settlement at § 1.5.1).[6]

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[5] The Joint Motion requests that the Department enter into evidence the Company's initial filing, including all testimony, exhibits, and schedules, as well as all responses to discovery (Joint Motion at 1-2). The Company's initial filing included affidavits from all witnesses adopting their direct testimony. On January 15, 2016, the Company provided affidavits in which the affiants authenticated the exhibits that they sponsored during the course of the proceeding. Accordingly, the Department grants the settling parties' request to admit these exhibits into the record. 220 C.M.R. § 1.10(1).

[6] Under the terms of the Settlement, the creation of a new reconciling mechanism is considered a distribution rate increase, and thus may not become effective prior to March 1, 2019, unless required by statute (Settlement at § 1.5.2). This provision does not apply to any reconciling factor already in existence as of the effective date of the Settlement (Settlement at § 1.5.2).

B. March 1, 2016 Distribution Rate Increase

Under the Settlement, the rate base used to calculate the March 1, 2016 distribution rate increase includes: (1) the capital additions requested for recovery in the Company's pending TIRF filing, D.P.U. 15-54, representing cumulative TIRF investment through December 31, 2014; and (2) capital additions, incurred by the Company during 2015 associated with completed 2014 TIRF projects[7] (Settlement at §§ 1.8.1-1.8.2).[8]

In arriving at the agreed-upon rate increase of $7.8 million, the settling parties made an adjustment to the Company's March 1, 2016 revenue requirement of negative $117,731 associated with the three-year amortization of the gain on the disposition of certain assets and excess contributions in aid of construction, totaling $353,192.81, collected by the Company (Settlement at § 1.4.2). The Company will continue to use the plant account depreciation accrual rates approved in D.P.U. 10-114 to determine its depreciation expense until base distribution rates are approved within the Company's next base rate proceeding (Settlement at § 1.4.1).

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[7] Under the Settlement, the Company must demonstrate in its Gas System Enhancement Plan cost recovery filing that it has not included any 2015 additions associated with completed 2014 TIRF projects (Settlement at § 1.8.5).

[8] The Settlement provides that the inclusion of these TIRF-eligible capital additions in rate base eliminates the need for a prudency review of these capital additions (Settlement at § 1.8.3). Additionally, because all TIRF-eligible capital additions are included in the March 1, 2016 distribution rates, the Company will cease billing its TIRF effective March 1, 2016 (Settlement at § 1.8.4). Any prior period reconciliation as of March 1, 2016 will be reviewed, and if warranted, recovered through the Company's local distribution adjustment clause, to be filed for effect May 1, 2016 (Settlement at § 1.8.4).

Pursuant to the Settlement, until base distribution rates are approved within the Company's next base rate proceeding, the Company will use for ratemaking purposes: (1) a 9.6 percent return on equity; (2) a capital structure consisting of 50 percent common equity and 50 percent long-term debt; and (3) a long-term debt rate of 6.38 percent (Settlement at §§ 1.3.1-1.3.3).

C. March 1, 2017 Distribution Rate Increase

The Settlement provides for an additional increase of up to $500,000, effective March 1, 2017, associated with a significant incremental increase over test year levels of employee hires, contingent upon the Company demonstrating it has hired additional full-time employees to bring its total headcount to 152 employees (Settlement at § 1.2.1). In order to receive the additional distribution rate increase of $500,000, the Company must demonstrate a headcount of 152 employees for any two bi-weekly pay periods during the fourth quarter of calendar year 2016 (Settlement at § 1.2.2). If the Company does not achieve a headcount of 152 employees for two bi-weekly pay periods during the fourth quarter of 2016, the $500,000 distribution rate increase will be reduced according to a formula set forth in the Settlement (Settlement at §§ 1.2.2-1.2.3).[9] Pursuant to the Settlement, by January 31, 2017, the

[9] Under the formula set forth in the Settlement, the Company will average the headcounts of the two bi-weekly pay periods with highest headcounts during the fourth quarter of 2016 (Settlement at § 1.2.3). The Company will then calculate the difference between this average and 152, and multiply that figure by $87,000 (Settlement at § 1.2.3). That amount will then be subtracted from $500,000 to determine the increase the Company is eligible to collect effective March 1, 2017 (Settlement at § 1.2.3).

Company must submit to the Department and the settling parties an affidavit providing evidence of the headcount numbers for the fourth quarter of 2016 (Settlement at § 1.2.3).

D. Rate Design

Under the Settlement, the Company will eliminate its multi-block distribution usage rate design and implement a single block rate structure (Settlement at § 1.7.1). Subject to certain allocations necessary to comply with the ten percent rate cap established by G.L. c. 164, § 94I, the distribution rate increases resulting from the Settlement will be implemented by increasing each base distribution element by an equal percentage across all rate elements (Amendment at § 1.7.2).[10]

E. Other Settlement Terms[11]

Under the Settlement, the Company will file a petition with the Department seeking approval of the issuance of three outstanding notes issued by Liberty Utilities in 2013 (Settlement at § 1.6).

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[10] The illustrative bill impacts provided in Attachment A to Exhibit DPU-SP-1-2 (supp.) include percentage increases to the customer charge that are not uniform across all rate classes. The Company is directed to ensure that the tariffs filed in compliance with this Order are consistent with the terms of the Settlement, as approved.

[11] The Settlement requires that after January 1, 2016, and prior to a Department Order on the Settlement, the Company file with the Department a letter from corporate management confirming the three percent non-union salary and wage increase, effective January 1, 2016 (Settlement at § 1.9.1). The settling parties satisfied this provision by filing on January 27, 2016, a letter from the Company's corporate management confirming the three percent increase effective January 1, 2016.

The Settlement provides that the Company shall maintain its existing arrearage management program and will continue to recover net incremental costs associated with administration of the program through its reconciling mechanism (Settlement at § 1.10).

Under the Settlement, the Company will use a composite property tax rate of 2.4386 percent to determine the property tax included within its Gas System Enhancement Plan filings (Settlement at § 1.11).

Pursuant to the Settlement, prior to the next winter heating season (November 2016-March 2017), the Company will provide public interest benefits of $100,000 for incremental wireless heating controls and associated demand reduction programs[12] for low- and moderate-income residential gas heating consumers in its service territories in consultation with DOER and the Low-Income Network (Settlement at § 1.12).[13] No portion of this amount is recoverable from the Company's ratepayers (Settlement at § 1.12).

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[12] While the Settlement does not define "incremental" for purposes of this provision, the Department interprets this to mean that the $100,000 in wireless heating controls and associated demand reduction programs will be in addition to any installations or programs proposed within the Company's 2016-2018 Three Year Energy Efficiency Plan, as approved in Liberty Utilities (New England Natural Gas Company) Corp., D.P.U. 15-163 (January 28, 2016). Additionally, the Settlement does not address the treatment of any energy efficiency savings or benefits related to these installations and programs. The Company should maintain a separate accounting for any costs, benefits, or savings associated with this $100,000 in installations and programs.

[13] The Company shall submit, as part of its next base rate filing, a summary of the $100,000 expenditures, including a breakdown of spending on the wireless heating controls and demand reduction programs instituted under the provision.

F. Settlement Conditions

The Settlement states that it: (1) shall not constitute an admission by any party that any allegation or contention in this proceeding is true or false; and (2) establishes no principles and, except as to those issues resolved by approval of this Settlement, shall not foreclose any party from making any contention in any future proceedings (Settlement at §§ 2.1-2.2). The Settlement provides that the settling parties agree that the content of Settlement negotiations, including work papers and documents produced in connection with the Settlement, is confidential (Settlement at § 2.3). The Settlement also states that all offers of settlement are without prejudice to the position of any party or participant presenting such offer or participating in such discussion and that the content of settlement negotiations are not to be used in any manner with these or other proceedings involving the parties to this Settlement (Settlement at § 2.3).

The settling parties state that the intent is for the Company's customers to receive the full benefit of the matters addressed in the Settlement, not any substitute regulatory treatment of lesser value, and that the terms of the Settlement shall not be interpreted to diminish the intended customer benefit (Settlement at § 2.4). The Settlement prohibits the Company from recovering more than once any charges collected under this Settlement or in any other rate, charge, or tariff the Company collects, and requires a full refund with interest as soon as reasonably possible in the event that such over-recovery is discovered (Settlement at § 2.8).

The terms of the Settlement provide that the Department shall have its usual jurisdiction to implement the terms of the Settlement (Settlement at § 2.7). The Settlement provides that

nothing in the Settlement shall be construed to limit the Attorney General's right to petition the Department for a review of the Company under G.L. c. 164, § 93, or other laws or regulations, or to pursue any cause of action related to the Settlement in court under G.L. c. 164, § 93A (Settlement at §§ 2.7, 2.9).

The Settlement provides that its provisions are not severable and that the Settlement is conditioned on approval in full by the Department (Settlement at § 2.5). The Settlement provides that it shall be effective upon its approval by the Department, and should the Department not approve the Settlement in its entirety by February 16, 2016, the Settlement states that it shall be deemed withdrawn and not constitute any part of the record in this proceeding or be used for any other purpose (Settlement at §§ 2.6, 2.10).

IV. STANDARD OF REVIEW

In assessing the reasonableness of an offer of settlement, the Department reviews all available information to ensure that the settlement is consistent with Department precedent and the public interest. Fall River Gas Company, D.P.U. 96-60 (1996); Essex County Gas Company, D.P.U. 96-70 (1996); Boston Edison Company, D.P.U. 92-130-D, at 5 (1996); Bay State Gas Company, D.P.U. 95-104, at 14-15 (1995); Boston Edison Company, D.P.U. 88-28/88-48/89-100, at 9 (1989). A settlement among the parties does not relieve the Department of its statutory obligation to conclude its investigation with a finding that a just and reasonable outcome will result. D.P.U. 95-104, at 15; D.P.U. 88-28/88-48/89-100, at 9.

It is well established that the Department's goals for utility rate structure are efficiency, simplicity, continuity, fairness, and earnings stability. D.P.U. 95-104, at 15; Bay State Gas

Company, D.P.U. 92-111, at 283 (1992); see also Massachusetts Electric Company, D.P.U. 95-40, at 144-45 (1995). The Department has previously accepted settlements which include cost allocation and/or rate design when such settlements were consistent with the Department's goals. D.P.U. 96-60; D.P.U. 96-70; D.P.U. 95-104, at 15; Massachusetts Electric Company, D.P.U. 91-52 (1991).

V. ANALYSIS AND FINDINGS

The Department has reviewed the Settlement and Amendment in light of the evidence regarding the appropriate revenue requirement for the Company, including the Company's initial filing and responses to information requests as well as the comments submitted in this proceeding. The Settlement and Amendment, taken as a whole, provides for a level of additional revenues and an allocation of costs that are consistent with findings that might reasonably have been made by the Department. Based on this review, the Department finds that the Settlement and its associated Amendment produces a level of revenues consistent with the establishment of just and reasonable rates and an allocation of costs consistent with the requirements of G.L. c. 164, § 94I. The Department therefore concludes that the Settlement and its associated Amendment is consistent with both applicable law and the public interest and results in just and reasonable rates because it represents a reasonable resolution of the many issues in this proceeding. NSTAR Electric Company, D.T.E. 03-121, at 49 (2004).[14] Accordingly, the Settlement along with its associated Amendment is approved.

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[14] As the Department has noted in the past, the Settlement's confidentiality provision set out in the Settlement at § 2.3 does not bind the Department or preclude its inquiry as events may warrant. Cambridge Electric Light Company/Commonwealth Electric

In accordance with the terms of the Settlement, the Department's acceptance does not constitute a determination as to the merits of any allegations or contentions made in this proceeding not expressly covered by the Settlement. In addition, the Department's acceptance does not establish a precedent for future filings, whether ultimately settled or adjudicated.

This Order is intended to be, and shall be construed to be, a final order of the Department issued pursuant to G.L. c. 25, § 5, and expressly does not form, and may not be considered to form, a contract binding on the Department or the Commonwealth of Massachusetts. In ruling on the Settlement, the Department has exercised its regulatory authority under G.L. c. 164, §§ 76, 94, and 94I; the Department's approval of the Settlement does not operate to make the Department a party to the Settlement.

Notwithstanding any agreements reached by the settling parties, the Department may enforce any of the commitments or obligations provided in the Settlement Agreement and the terms of this Order under its regulatory authority, including G.L. c. 165, § 4 and G.L. c. 164, §§ 76, 94, and 94I, and not as a matter of contract law.

With the approval of the Settlement, the Company is directed to file new tariffs to be effective March 1, 2016. The Department directs that the Company make such a compliance filing consistent with the terms of the Settlement.

VI. ORDER

Accordingly, after due notice, public hearing, and consideration, it is

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Company, D.T.E. 04-114/03-118, at 6 n.4 (2005); Boston Edison Company, D.T.E. 03-117-A (Phase II) at 5. n.6 (2004). To the extent that the parties intend the assertion of confidentiality to be a motion for protective treatment, it is premature.

ORDERED: That the Joint Motion for Approval of Settlement Agreement, submitted by Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty Utilities, the Attorney General of the Commonwealth of Massachusetts, the Department of Energy Resources, and the Low-Income Weatherization and Fuel Assistance Program Network on December 15, 2015, is GRANTED and the Settlement Agreement, as amended on January 25, 2016, is therefore APPROVED; and it is

FURTHER ORDERED: That tariffs M.D.P.U. Nos. 1000C, 1001B, 1002I, 1003C through 1024C, and 1025A, filed by Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty Utilities on July 15, 2015, to become effective August 1, 2015, are DISALLOWED; and it is

FURTHER ORDERED: That Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty Utilities shall file new schedules of rates and charges as required by this Order and shall design all rates in compliance with this Order; and it is

FURTHER ORDERED: That Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty Utilities shall comply with all other orders and directives contained in this Order.

By Order of the Department,

/s/
Angela M. O'Connor, Chairman

/s/
Jolette A. Westbrook, Commissioner

/s/
Robert E. Hayden, Commissioner

An appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part. Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of the twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. G.L. c. 25, § 5.