

Direct Testimony

Of

MIKE OSTRANDER

Accounting Department

Financial Analysis Division

Illinois Commerce Commission

Whispering Hills Water Company

Proposed General Increase in Water Rates

Docket No. 10-0110

April 28, 2010

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ADJUSTMENT TO DEFERRED CHARGES
ADJUSTMENT TO CUSTOMER DEPOSITS
ADJUSTMENT TO WORKING CAPITAL

1 **WITNESS IDENTIFICATION**

2 **Q. Please state your name and business address.**

3 A. My name is Mike Ostrander. My business address is 527 East Capitol
4 Avenue, Springfield, Illinois 62701.

5

6 **Q. By whom are you employed and in what capacity?**

7 A. I am currently employed as an Accountant in the Accounting Department
8 of the Financial Analysis Division of the Illinois Commerce Commission
9 ("ICC" or "Commission").

10

11 **Q. Please describe your background and professional affiliations.**

12 A. I received a Bachelor of Business Administration in Accounting from the
13 University of Notre Dame. I am a Certified Public Accountant and a
14 Certified Internal Auditor. I joined the Commission staff ("Staff") in March
15 2006. Prior to joining the Commission, I was employed for three years as
16 a staff accountant in public accounting, seventeen years in private
17 industry with positions ranging from accounting manager to corporate
18 officer encompassing all areas of accounting and internal auditing, and
19 three years as controller of a law firm and software company.

20

21 **Q. Have you previously testified before a regulatory body?**

22 A. Yes, I have testified on several occasions before the Commission.

23

24 **Q. What are your responsibilities in this case?**

25 A. I have been assigned to this case by the Manager of the Accounting
26 Department of the Commission. I am to review the filing of Whispering
27 Hills Water Company (“Whispering Hills” or the “Company”), analyze the
28 underlying data, and propose adjustments when appropriate.

29

30 **Purpose of Testimony**

31 **Q. What is the purpose of your testimony in this proceeding?**

32 A. The purpose of my testimony is to:

33 1) Present Staff’s adjusted operating statement and rate base for
34 Whispering Hills;

35 2) Propose adjustments to the Company’s operating statement
36 and rate base concerning utility plant, accumulated depreciation,
37 deferred charges, customer deposits, working capital; and

38 3) Propose an Original Cost Determination for the Company.

39

40 **Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 1.0?**

41 A. Yes. I prepared the following schedules that reflect data as of, or for the
42 test year ending, December 31, 2008:

43

44 **Revenue Requirement Schedules**

45 Schedule 1.1 Statement of Operating Income with
46 Adjustments

47	Schedule 1.2	Adjustments to Operating Income
48	Schedule 1.3	Rate Base
49	Schedule 1.4	Adjustments to Rate Base
50	Schedule 1.5	Revenue Effect of Adjustments
51	Schedule 1.6	Interest Synchronization Adjustment
52	Schedule 1.7	Gross Revenue Conversion Factor

53

54 Adjustment Schedules

55	Schedule 1.8	Utility Plant – Pro Forma Plant Additions
56	Schedule 1.9	Accumulated Depreciation
57	Schedule 1.10	Deferred Charges
58	Schedule 1.11	Customer Deposits
59	Schedule 1.12	Working Capital

60

61 Revenue Requirement Schedules

62 **Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.1, Statement of**
63 **Operating Income with Adjustments.**

64 A. Schedule 1.1 derives the required revenue at the Staff proposed rate of
65 return. Column (b) presents the Company's pro forma operating
66 statement at present rates for the test year as reflected on its Schedule
67 B. Column (c) reflects the total of all Staff Adjustments shown on ICC
68 Staff Exhibit 1.0, Schedule 1.2. Column (d) reflects the pro forma
69 operating statement at present rates per Staff. Column (e) presents the
70 Company's proposed increase to revenue. Column (f) adjusts revenue to
71 reflect Staff's gross revenue conversion factor. Column (g) is Staff's pro

72 forma operating statement inclusive of the Company's proposed revenue
73 increase. Column (h) presents the necessary change to the Company's
74 proposed revenues to arrive at Staff's proposed revenue requirement
75 reflected in column (i). Line 24 is the difference between current
76 revenues and required revenues as determined by Staff. Line 25 is
77 Staff's calculated percentage change in revenues. Net Operating Income
78 in column (i), line 21, is the product of rate base, line 22, and rate of
79 return, line 23.

80

81 **Q. Please describe Schedule 1.2, Adjustments to Operating Income.**

82 A. Schedule 1.2 identifies Staff's adjustment to Operating Income. The
83 source of each adjustment is shown in the heading of each column.
84 Column (k) from page 2 is carried forward to ICC Staff Exhibit 1.0,
85 Schedule 1.1, column (c).

86

87 **Q. Please describe Schedule 1.3, Rate Base.**

88 A. Schedule 1.3 compiles Staff's rate base. Column (b) reflects the
89 Company's proposed rate base. Column (c) summarizes Staff's
90 adjustments to rate base. Column (d) is the net of columns (b) and (c)
91 and reflects Staff's computed rate base.

92

93 **Q. Please describe Schedule 1.4, Adjustments to Rate Base.**

94 A. Schedule 1.4 identifies Staff's adjustments to rate base. The source of
95 each adjustment is shown in the heading of each column. Column (k) is
96 carried forward to ICC Staff Exhibit 1.0, Schedules 1.3, column (c).

97

98 **Revenue Effect of Adjustments**

99 **Q. Please describe Schedule 1.5, Revenue Effect of Adjustments.**

100 A. Schedule 1.5 identifies the approximate effect of each Staff adjustment on
101 the Company's revenue requirement. Schedule 1.5 is not the
102 development of Staff's revenue requirement. Rather, it is an analysis that
103 is intended to assist in identifying the relative monetary significance of
104 each Staff adjustment.

105

106 **Interest Synchronization**

107 **Q. Please describe Schedule 1.5, Interest Synchronization Adjustment.**

108 A. Schedule 1.5 computes the interest component of revenue requirement.
109 The interest expense (component) is computed by multiplying the rate
110 base by weighted cost of debt. The calculated interest expense is then
111 compared to the interest expense used by the Company in its
112 computation of test year income tax expense. The tax effect of the
113 difference in interest expense is the adjustment for interest
114 synchronization. The effect of this adjustment is to ensure that the
115 revenue requirement reflects the tax savings generated by the interest
116 component of the revenue requirement.

117

118 **Gross Revenue Conversion Factor**

119 **Q. Please describe Schedule 1.6, Gross Revenue Conversion Factor.**

120 A. Schedule 1.6 presents Staff's proposed gross revenue conversion factor
121 ("GRCF"). The GRCF is applied to the operating income deficiency to
122 derive the change in revenue requirement. It is based upon the applicable
123 federal tax rate, state income tax rate, and uncollectible rate. The GRCF
124 is used in the calculation of the revenue requirement in columns (f)
125 through (h) of the corresponding Schedule 1.1.

126

127 **Adjustment to Utility Plant – Pro Forma Plant Additions**

128 **Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.7, Adjustment to**
129 **Utility Plant – Pro Forma Plant Additions.**

130 A. Schedule 1.7 presents my proposed adjustment to utility plant and related
131 accumulated depreciation, accumulated deferred income taxes and
132 depreciation expense for disallowed pro forma plant additions.

133

134 **Q. Please explain your rationale for disallowing certain pro forma plant**
135 **additions.**

136 A. My adjustment to utility plant is to disallow those 2009 pro forma plant
137 additions that are not known and measurable in accordance with 83 Ill.
138 Adm. Code 287.40. Whispering Hills has not properly applied the known
139 and measurable standard since pro forma plant additions need to be

140 reasonably certain to occur subsequent to the 2008 historical test year
141 and within 12 months after the filing date of the tariffs and where the
142 amounts of the additions are determinable. Whispering Hills included in
143 the pro forma plant additions the actual costs of plant additions through
144 June 30, 2009 plus an estimate of costs through December 31, 2009
145 which represents double the amount of actual costs through the first half
146 of 2009. Since the estimated costs for the July – December 2009 period
147 are merely a repetition of the additions for the prior six months, they are
148 not known and measurable and are therefore being disallowed via
149 Schedule 1.7.

150

151 **Adjustment to Accumulated Depreciation**

152 **Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.8, Adjustment to**
153 **Accumulated Depreciation.**

154 A. Schedule 1.8 presents my proposed adjustment to properly reflect the
155 increase of accumulated depreciation during the post-test year time
156 period.

157

158 **Q. Please explain your rationale for increasing accumulated**
159 **depreciation during the post-test year time period.**

160 A. Whispering Hills has not properly reflected both known and measurable
161 increases and decreases that impact “net” utility plant investment from
162 known and measurable changes that occurred from January 2009 through

163 June 2009. Net utility plant investment represents the difference between
164 gross plant additions less the total change to accumulated depreciation.
165 Whispering Hills, through its pro forma plant additions adjustments, has
166 reflected increases to gross utility plant during the post-test year period
167 through June 30, 2009. However, plant should also be offset by the
168 known changes to accumulated depreciation through June 30, 2009.

169

170 **Adjustment to Deferred Charges**

171 **Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.9, Adjustment to**
172 **Deferred Charges.**

173 A. Schedule 1.9 presents my proposed adjustment to remove deferred
174 charges from rate base.

175

176 **Q. Please explain why you are removing deferred charges from rate**
177 **base.**

178 A. I am removing deferred charges from rate base because the Commission
179 has not authorized the deferral. The instructions to Account 186,
180 Miscellaneous Deferred Debits, require the Commission's authority for the
181 deferral of costs. Whispering Hills has included these deferred costs in
182 rate base because these costs do not recur regularly in one year or recur
183 every several years and it is important to match the costs incurred in the
184 same period as the revenues are realized. (Company response to Staff
185 data request JMO 3.06.)

186

187 Court opinions from *BPII*¹ and Appellate Court – Third District, 3-04-0092,
188 *IAWC v. ICC*, Slip Op. (July 13, 2005), pp. 17-18, have established and
189 affirmed the Commission’s test year rule (only expenses incurred during
190 the test year can be used to offset revenue accrued during that year) and
191 by which, the Commission has not allowed the deferral and amortization
192 of operating expenses. Commission practice established in Dockets Nos.
193 98-0895 and 02-0690 have followed the court opinions and have not
194 allowed the deferral and amortization of costs other than tank painting.

195

196 **Adjustment to Customer Deposits**

197 **Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.10, Adjustment to**
198 **Customer Deposits.**

199 A. Schedule 1.10 presents my proposed adjustment to correct Whispering
200 Hill’s presentation of customer deposits as an addition to rate base.

201

202 **Q. Please explain your rationale for correcting Whispering Hills’**
203 **presentation of customer deposits as an addition to rate base.**

204 A. In the Company’s rate base schedule, Schedule C, customer deposits are
205 identified as an addition to rate base (having a debit general ledger
206 account balance). The Company’s support for customer deposits, as

¹ *Business and Professional People for the Public Interest v. Illinois Commerce Commission*, 146 Ill. 2d 175, 237-247 (1991) ("BPI II").

207 reflected in its response to Staff data request JMO 1.01, shows that
208 customer deposits have a credit general ledger account balance and
209 should be reflected as a reduction to rate base. Customer deposits
210 represent funds received from customers as security against potential
211 losses arising from failure to pay for water service. Because these funds
212 are provided by customers, they are a cost-free source of capital and
213 should be reflected as a reduction to rate base.

214

215 **Adjustment to Working Capital**

216 **Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.11, Adjustment to**
217 **Working Capital.**

218 A. Schedule 1.11 presents my proposed adjustment to working capital for the
219 removal of real estate taxes and to incorporate the effects of other Staff-
220 proposed adjustments. Whispering Hills calculated its working capital
221 requirements using the 1/8th method based on the operating expenses
222 presented in its filing. Staff has no objection to the use of this method.
223 However, Staff has removed real estate taxes where payment is deferred
224 for more than a year resulting in an extended payment lag. In addition,
225 Staff has proposed adjustments to operating expense components of the
226 working capital proposed by Whispering Hills. Therefore, working capital
227 has changed accordingly as shown on Schedule 1.11 to reflect Staff's
228 proposed adjustments to Whispering Hills' expenses. This adjustment

229 should be updated to reflect the operating expenses approved by the
230 Commission.

231

232 **Original Cost Determination**

233 **Q. Why is an Original Cost Determination finding necessary?**

234 A. Requirements for preservation of records are associated with an original
235 cost determination. 83 Ill. Adm. Code 615, The Preservation of Records
236 of Water Utilities, Appendix A, contains requirements for the preservation
237 of specific records. For example, journal vouchers and journal entries
238 which support plant accounts are to be maintained "7 years prior to date
239 as of which original cost of plant has been unconditionally determined or
240 approved by this Commission in" an original cost determination
241 proceeding or a rate case.

242

243 **Q. What is your recommendation regarding an Original Cost**
244 **Determination in this proceeding?**

245 A. Having reviewed plant additions since the last rate case and having found
246 no material errors, I recommend the Commission order state:

247 **It is further ordered that the \$5,018,285 original cost of**
248 **plant for Whispering Hills at December 31, 2008, as**
249 **reflected on the Company's Schedule C, column Per**
250 **Books, is unconditionally approved as the original cost**
251 **of plant.**

252

253 **Conclusion**

254 **Q. Does this conclude your prepared direct testimony?**

255 **A. Yes, it does.**

Whispering Hills Water Company
Adjustments to Operating Income
 For the Test Year Ending December 31, 2008

Line No.	Description	Interest Synchronization (Sch. 1.6)	Pro Forma Plant (Sch. 1.8)	Maintenance & General Expenses (Sch. 2.1)	Add-On Tax (Sch. 2.2)	Rate Case Expense (Sch. 2.3)	Test Year Expenses (Sch. 2.4)	WSC Allocation Factor (Sch. 2.5)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(j)	(k)
1	Water Service Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Miscellaneous Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	(7,049)	-	-	-	-	(7,049)
6	General Expenses	-	-	(4,129)	-	(29,204)	(72,104)	(5,033)	(110,470)
7	Depreciation	-	(2,995)	-	-	-	-	-	(2,995)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	-	-	(1,723)	-	-	-	(1,723)
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	-	(2,995)	(11,178)	(1,723)	(29,204)	(72,104)	(5,033)	(122,237)
17	State Income Tax	780	219	816	126	2,132	5,264	367	9,704
18	Federal Income Tax	3,369	944	3,523	543	9,205	22,726	1,586	41,896
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	4,149	(1,832)	(6,839)	(1,054)	(17,867)	(44,114)	(3,080)	(70,637)
21	NET OPERATING INCOME	\$ (4,149)	\$ 1,832	\$ 6,839	\$ 1,054	\$ 17,867	\$ 44,114	\$ 3,080	\$ 70,637

Whispering Hills Water Company
Adjustments to Operating Income
 For the Test Year Ending December 31, 2008

Line No.	Description	Subtotal (page 1)	Operations Employee Expenses (Sch. 2.6)	Corporate Employee Expenses (Sch. 2.7)	(Source)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(j)	(k)
1	Water Service Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Miscellaneous Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	(7,049)	(27,899)	-	-	-	-	-	(34,948)
6	General Expenses	(110,470)	(2,061)	43,712	-	-	-	-	(68,819)
7	Depreciation	(2,995)	-	-	-	-	-	-	(2,995)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	(1,723)	(7,030)	-	-	-	-	-	(8,753)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	(122,237)	(36,990)	43,712	-	-	-	-	(115,515)
17	State Income Tax	9,704	2,700	(3,191)	-	-	-	-	9,213
18	Federal Income Tax	41,896	11,659	(13,777)	-	-	-	-	39,778
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(70,637)	(22,631)	26,744	-	-	-	-	(66,524)
21	NET OPERATING INCOME	\$ 70,637	\$ 22,631	\$ (26,744)	\$ -	\$ -	\$ -	\$ -	\$ 66,524

Whispering Hills Water Company
Rate Base
 For the Test Year Ending December 31, 2008

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. B)	Staff Adjustments (Sch 1.4)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 5,251,395	\$ (155,408)	\$ 5,095,987
2	Less: Accumulated Depreciation	(1,329,312)	(85,711)	(1,415,023)
3	-	-	-	-
4	Net Plant	3,922,083	(241,119)	3,680,964
5	Additions to Rate Base			
6	Cash Working Capital	79,558	(15,515)	64,043
7	Customer Deposits	295	(590)	(295)
8	Adjustment to Rate Base Allocations	11,264	(10,579)	685
9	Deferred Charges	18,893	(18,893)	(0)
10	-	-	-	-
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(137,406)	-	(137,406)
18	Accumulated Deferred Income Taxes	(441,485)	(1,161)	(442,646)
19	-	-	-	-
20	-	-	-	-
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 3,453,202</u>	<u>\$ (287,858)</u>	<u>\$ 3,165,344</u>

Whispering Hills Water Company
Adjustments to Rate Base
 For the Test Year Ending December 31, 2008

Line No.	Description	Working Capital (Sch. 1.12)	Pro Forma Plant (Sch. 1.8)	Accumulated Depreciation (Sch. 1.9)	Deferred Charges (Sch. 1.10)	Customer Deposits (Sch. 1.11)	WSC Allocation Factor (Sch. 2.5)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(k)
1	Gross Plant in Service	\$ -	\$ (155,408)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (155,408)
2	Less: Accumulated Depreciation	-	6,624	(92,335)	-	-	-	-	(85,711)
3		-	-	-	-	-	-	-	-
4	Net Plant	-	(148,784)	(92,335)	-	-	-	-	(241,119)
5	Additions to Rate Base								-
6	Working Capital	(15,515)	-	-	-	-	-	-	(15,515)
7	Customer Deposits	-	-	-	-	(590)	-	-	(590)
8	Adjustment to Rate Base Allocations	-	-	-	-	-	(10,579)	-	(10,579)
9	Deferred Charges	-	-	-	(18,893)	-	-	-	(18,893)
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base								-
17	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
18	Accumulated Deferred Income Taxes	-	(1,161)	-	-	-	-	-	(1,161)
19		-	-	-	-	-	-	-	-
20	Deferred Federal Income Taxes	-	-	-	-	-	-	-	-
21	Deferred State Income Taxes	-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (15,515)	\$ (149,945)	\$ (92,335)	\$ (18,893)	\$ (590)	\$ (10,579)	\$ -	\$ (287,858)

Whispering Hills Water Company
Revenue Effect of Adjustments
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Exhibit (b)	TOTAL REVENUE EFFECT		
			Per Company		Per Staff
			Amount (c)	Amount (d)	% (e)
1	Company Proposed Revenue Increase		(1) \$ 572,551	\$ 572,551	
2	Staff Rate of Return Applied to Company Rate Base	7.79% (2)		\$ (68,701)	-31.6%
3	Staff Return On Equity	9.82% (2)			
4	Staff Adjustments:				
5	Test Year Expenses	ICC Staff Ex. 1.0, Schedule 2.4		(73,367)	-33.8%
6	Operations Employee Expenses	ICC Staff Ex. 1.0, Schedule 2.6		(37,638)	-17.3%
7	Rate Case Expense	ICC Staff Ex. 1.0, Schedule 2.3		(29,715)	-13.7%
8	Pro Forma Plant	ICC Staff Ex. 1.0, Schedule 1.8		(19,113)	-8.8%
9	Maintenance and General Expenses	ICC Staff Ex. 1.0, Schedule 2.1		(11,374)	-5.2%
10	Accumulated Depreciation	ICC Staff Ex. 1.0, Schedule 1.9		(9,894)	-4.6%
11	WSC Allocation Factor	ICC Staff Ex. 1.0, Schedule 2.5		(5,122)	-2.4%
12	Deferred Charges	ICC Staff Ex. 1.0, Schedule 1.10		(2,025)	-0.9%
13	Add-On Tax	ICC Staff Ex. 1.0, Schedule 2.2		(1,753)	-0.8%
14	Working Capital	ICC Staff Ex. 1.0, Schedule 1.12		(1,663)	-0.8%
15	WSC Allocation Factor	ICC Staff Ex. 1.0, Schedule 2.5		(1,134)	-0.5%
16	Customer Deposits	ICC Staff Ex. 1.0, Schedule 1.11		(63)	0.0%
17	Interest Synchronization	ICC Staff Ex. 1.0, Schedule 1.6		451	0.2%
18	Corporate Employee Expenses	ICC Staff Ex. 1.0, Schedule 2.7		44,479	20.5%
19	STAFF ADJUSTMENTS TOTALS			(147,931)	-68.1%
20	Gross Revenue Conversion Factor Adjustment		(3)	(723)	-0.3%
21	Rounding			(1)	0.0%
22	Total Revenue Effect of Staff's Proposals			(217,356)	-100.0%
23	Staff Proposed Revenue Increase		(4) \$	355,195	
24	Pro Forma Present Revenue		(5) 679,432	(6) 679,432	
25	Total Proposed Revenue		(7) \$ 1,251,983	(8) \$ 1,034,627	
26	Percentage Revenue Increase		(9) 84%	(10) 52%	

Sources:

- (1) Source: ICC Staff Ex. 1.0, Schedule 1.1, column (e), line 3
- (2) Source: ICC Staff Ex. 1.0, Worksheet ROR
- (3) Source: ICC Staff Ex. 1.0, Schedule 1.1, column (f), line 3
- (4) Source: ICC Staff Ex. 1.0, Schedule 1.1, column (i), line 24
- (5) Source: ICC Staff Ex. 1.0, Schedule 1.1, column (b), line 3
- (6) Source: ICC Staff Ex. 1.0, Schedule 1.1, column (d), line 3
- (7) Source: ICC Staff Ex. 1.0, Schedule 1.1, columns (b) + (e), line 3
- (8) Source: ICC Staff Ex. 1.0, Schedule 1.1, column (i), line 3
- (9) Source: ICC Staff Ex. 1.0, Schedule 1.5, column (c), line 1 divided by column (c), line 24
- (10) Source: ICC Staff Ex. 1.0, Schedule 1.1, column (i), line 24 divided by column (d), line 3

Whispering Hills Water Company
 Interest Synchronization Adjustment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)
1	Gross Plant in Service	\$ 3,165,344 (1)
2	Weighted Cost of Debt	3.47% (2)
3	Synchronized Interest Per Staff	109,837
4	Company Interest Expense	<u>120,525</u> (3)
5	Increase (Decrease) in Interest Expense	<u>(10,688)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 7.300%	<u>\$ 780</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 34.000%	<u>\$ 3,369</u>

(1) Source: ICC Staff Ex. 1.0, Schedule 1.3, Column (d).

(2) Source: ICC Staff Exhibit 3.0, Schedule 3.1.

(3) Source: Company Schedule B, page 1, column "Pro Forma Present"

Whispering Hills Water Company
Gross Revenue Conversion Factor
 For the Test Year Ending December 31, 2008

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	1.7233%	<u>0.017233</u>	
3	State Taxable Income		0.982767	1.000000
4	State Income Tax	7.3000%	<u>0.071742</u>	<u>0.073000</u>
5	Federal Taxable Income		0.911025	0.927000
6	Federal Income Tax	34.0000%	<u>0.309749</u>	<u>0.315180</u>
7	Operating Income		<u>0.601276</u>	<u>0.611820</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.663130</u>	<u>1.634468</u>

Whispering Hills Water Company
Adjustment to Utility Plant - Pro Forma Plant Additions
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Gross Utility Plant (b)	Accumulated Depreciation (c)	Accumulated Deferred Taxes (d)	Depreciation Expense (e)
1	Amount per Staff	77,703	(3,416)	(1,161)	3,416
2	Amount per Company	<u>233,111</u>	<u>(10,040)</u>	-	<u>6,411</u>
3	Staff Proposed Adjustment (Line 1 - Line 2)	<u>\$ (155,408)</u>	<u>\$ 6,624</u>	<u>\$ (1,161)</u>	<u>\$ (2,995)</u>

Sources:

Column (b): Staff Ex. 1.0, Schedule 1.8, page 2

Column (c): Staff Ex. 1.0, Schedule 1.8, page 3

Column (d): Staff Ex. 1.0, Schedule 1.8, page 4

Column (e): Staff Ex. 1.0, Schedule 1.8, page 5

Whispering Hills Water Company
Adjustment to Utility Plant - Pro Forma Plant Additions
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	2009 Invoices (b)	2009 Capitalized Labor (c)	2009 Other Additions (d)	Total Pro Forma Additions (e)
1	Land & Land Rights - General Plant	\$ (1,000)	\$ -	\$ (2)	\$ (1,002)
2	Structures & Improvements - Source of Supply	18,512	-	-	18,512
3	Structures & Improvements - General Plant	732	-	-	732
4	Wells & Springs	-	2,345	-	2,345
5	Supply Mains	3,672	-	-	3,672
6	Water Treatment Equipment	-	2,428	-	2,428
7	Distribution Reservoirs & Standpipes	171	266	-	437
8	Transmission & Distribution Mains	5,402	6,192	2,174	13,768
9	Service Lines	25,987	-	-	25,987
10	Meters	(451)	-	-	(451)
11	Meter Installations	-	6,650	-	6,650
12	Hydrants	480	-	-	480
13	Office Structures & Improvements	-	-	50	50
14	Office Furniture & Equipment	-	-	(15)	(15)
15	Tool Shop & Misc. Equipment	983	-	(4)	979
16	Communication Equipment	250	-	(2)	248
17	Transportation Equipment	362	-	4,145	4,507
18	Mainframe Computer	-	-	11	11
19	Mini Computers	-	-	(87)	(87)
20	Computer Systems	-	-	(1,553)	(1,553)
21	Microcomputer Systems	-	-	7	7
22	Total Pro Forma Plant Additions per Staff (Sum of Lines 1 through 21)	<u>\$ 55,099</u>	<u>\$ 17,880</u>	<u>\$ 4,724</u>	77,703
23	Total Pro Forma Plant Additions per Company			(1) <u>233,111</u>	
24	Disallowed Pro Forma Plant Additions (Line 22 - Line 23)				<u>\$ (155,408)</u>

Sources:

Column (b): Response to Staff data request JMO 1.01, tab "wp - I - GL Additions - WH", column M

Column (c): Response to Staff data request JMO 1.01, tab "wp - I - GL Additions - WH", column N

Column (d): Response to Staff data request JMO 1.01, tab "wp - I - GL Additions - WH", column O

Column (e): Sum of columns (b) through (d)

(1) Response to Staff data request JMO 1.01, tab "wp - I - GL Additions"

Whispering Hills Water Company
Adjustment to Utility Plant - Pro Forma Plant Additions
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Accumulated Depreciation per Staff (b)	Accumulated Depreciation Adjustment (c)
1	Structures & Improvements - Source of Supply	\$ (772)	
2	Structures & Improvements - General Plant	(31)	
3	Wells & Springs	(51)	
4	Supply Mains	(69)	
5	Water Treatment Equipment	(87)	
6	Distribution Reservoirs & Standpipes	(8)	
7	Transmission & Distribution Mains	(260)	
8	Service Lines	(865)	
9	Meter	28	
10	Meter Installations	(295)	
11	Hydrants	(19)	
12	Office Structures & Improvements	(2)	
13	Office Furniture & Equipment	1	
14	Tool Shop & Misc. Equipment	(72)	
15	Communication Equipment	(19)	
16	Transportation Equipment	(1,127)	
17	Mainframe Computer	(2)	
18	Mini Computers	12	
19	Computer Systems	222	
20	Microcomputer Systems	(1)	
21	Pro Forma Accumulated Depreciation per Staff (Sum of Lines 1 through 20)	<u>\$ (3,416)</u>	\$ (3,416)
22	Pro Forma Accumulated Depreciation per Company		(1) <u>(10,040)</u>
23	Staff Adjustment (Line 21 - Line 22)		<u>\$ 6,624</u>

Sources:

Column (b): Staff Ex. 1.0, Schedule 1.8, page 5, column (d)

(1) Response to Staff data request JMO 1.01, tab "wp - I - GL Additions WH", column Y

Whispering Hills Water Company
Adjustment to Utility Plant - Pro Forma Plant Additions
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Accumulated Def. Taxes Adjustment (b)	Accumulated Def. Taxes per Staff (c)
1	Pro Forma Accumulated Deferred Taxes Adjustment per Company		(1) \$ -
2	Pro Forma Plant Depreciation Expense per Staff	\$ 3,416	(2)
3	Federal Income Tax Rate	<u>-34%</u>	
4	Estimated Accumulated Deferred Tax Adjustment (Line 2 x Line 3)	<u>\$ (1,161)</u>	<u>(1,161)</u>
5	Estimated Accumulated Deferred Taxes per Staff (Line 1 - Line 4)		<u>\$ (1,161)</u>

Sources:

- (1) Company Schedule C, page 1, column "Pro Forma Adjustments", line 7
- (2) Staff Ex. 1.0, Schedule 1.8, page 5, column (d), line 21

Whispering Hills Water Company
Adjustment to Utility Plant - Pro Forma Plant Additions
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Total Allowed Pro Forma Additions (b)	Test Year Depreciation Rate (c)	Depreciation Expense (d)
1	Structures & Improvements - Source of Supply	\$ 18,512	4.17%	\$ 772
2	Structures & Improvements - General Plant	732	4.17%	31
3	Wells & Springs	2,345	2.17%	51
4	Supply Mains	3,672	1.89%	69
5	Water Treatment Equipment	2,428	3.57%	87
6	Distribution Reservoirs & Standpipes	437	1.92%	8
7	Transmission & Distribution Mains	13,768	1.89%	260
8	Service Lines	25,987	3.33%	865
9	Meter	(451)	6.21%	(28)
10	Meter Installations	6,650	4.44%	295
11	Hydrants	480	3.95%	19
12	Office Structures & Improvements	50	3.33%	2
13	Office Furniture & Equipment	(15)	5.26%	(1)
14	Tool Shop & Misc. Equipment	979	7.31%	72
15	Communication Equipment	248	7.69%	19
16	Transportation Equipment	4,507	25.00%	1,127
17	Mainframe Computer	11	14.29%	2
18	Mini Computers	(87)	14.29%	(12)
19	Computer Systems	(1,553)	14.29%	(222)
20	Microcomputer Systems	7	10.00%	1
21	Pro Forma Plant Depreciation Expense per Staff (Sum of Lines 1 through 20)			\$ 3,416
22	Pro Forma Plant Depreciation Expense per Company		(1)	6,411
23	Staff Adjustment (Line 21 - Line 22)			<u>\$ (2,995)</u>

Sources:

Column (b): Staff Ex. 1.0, Schedule 1.8, page 2, column (e)

Column (c): Response to Staff data request JMO 1.01, tab "wp - I - GL Additions - WH", column X

Column (d): Column (b) x (c)

(1) Staff Ex. 1.0, Schedule 1.8, page 2, column (e), line 8 x 2.75% (composite depreciation rate)

Whispering Hills Water Company
Adjustment to Accumulated Depreciation
For the Test Year Ending December 31, 2008

Line No.	Description (a)	2008 Depreciation Expense (b)
1	Gross Utility Plant	(1) \$ 129,638
2	Vehicles	(2) 24,979
3	Computers	(2) <u>30,053</u>
4	Sum of Lines 1 through 3	184,670
5	Number of Years	<u>0.5</u>
6	Accumulated Depreciation Adjustment (Line 4 x Line 5)	<u>\$ (92,335)</u>

Sources:

- (1) Response to Staff data request JMO 1.01, tab "wp - r7 - 2008"
- (2) Response to Staff data request JMO 1.01, tab "wp - f - depr"

Whispering Hills Water Company
Adjustment to Deferred Charges
For the Test Year Ending December 31, 2008

<u>Line No.</u>	<u>Description</u> (a)	<u>Amount</u> (b)	<u>Sources</u> (c)
1	Amount per Staff	\$ (0)	Staff Ex. 1.0, Sch. 1.10, page 2 of 2, column (c), line 7
2	Amount per Company	<u>18,893</u>	Staff Ex. 1.0, Sch. 1.10, page 2 of 2, column (c), line 1
3	Staff Proposed Adjustment	<u>\$ (18,893)</u>	Line 1 less Line 2

Whispering Hills Water Company
Adjustment to Deferred Charges
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Deferred Charges Adjustment (b)	Deferred Charges (c)
1	Deferred Charges per Company	(1)	\$ 18,893
2	Relocation Expenses	\$ (79)	(2)
3	Employee Fees	(200)	(2)
4	Tank Maintenance & Repair	(15,189)	(2)
5	Volatile Organic Compound Testing	<u>(3,427)</u>	(2)
6	Deferred Charges Adjustment (Sum of Lines 2 through 5)	<u>\$ (18,893)</u>	<u>(18,893)</u>
7	Deferred Charges per Staff (Line 1 + Line 6)		<u>\$ (0)</u>

Sources:

- (1) Company Schedule C, page 1, column "Per Books", line 10
- (2) Response to Staff data request JMO 3.06

Whispering Hills Water Company
Adjustment to Customer Deposits
For the Test Year Ending December 31, 2008

<u>Line No.</u>	<u>Description</u> (a)	<u>Amount</u> (b)	<u>Sources</u> (c)
1	Amount per Staff	\$ (295)	Response to Staff data request JMO 1.01, tab "Linked TB"
2	Amount per Company	<u>295</u>	Company Schedule C, page 1, column "Per Books", line 8
3	Staff Proposed Adjustment	<u><u>\$ (590)</u></u>	Line 1 less Line 2

Whispering Hills Water Company
Adjustment to Working Capital
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Source (c)
1	Maintenance Expenses	\$ 330,924	Schedule 1.1, column (d), line 5
2	General Expense	161,520	Schedule 1.1, column (d), line 6
3	Taxes Other Than Income	31,498	Schedule 1.1, column (d), line 9
4	Less Real Estate Taxes	<u>(11,600)</u>	Response to Staff data request JMO 1.01, tab "Linked TB"
5	Operating Expenses Subject to Working Capital Allowance	512,342	Sum of lines 1, 2, 3, and 4
6	Divisor (1/8)	<u>0.125</u>	
7	Working Capital Allowance Per Staff	64,043	Line 5 times line 6
8	Working Capital Allowance Per Company	<u>79,558</u>	Company Schedule C, column "As Adjusted"
9	Staff Adjustment	<u>\$ (15,515)</u>	Line 7 less line 8