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April 29, 2004

Carole Washburn, Executive Secretary  
Washington Utilities and Transportation Commission  
1300 South Evergreen Park Drive SW  
Olympia, WA 98504-7250

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RECORDS MANAGEMENT  
94 APR 29 PM 3:28  
STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION

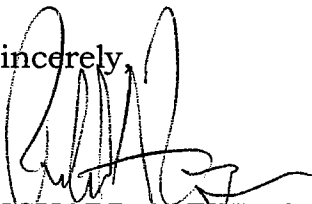
Re: WUTC v. American Water Resources, Inc. – Docket Nos. UW-031284, UW-010961, and UW-031596 (consolidated)

Dear Ms. Washburn:

Enclosed are the Responses to Bench Requests 9 and 10. Pursuant to the Commission's Order in this matter, ten copies are provided.

Electronic copies were provided to ALJ Karen Caille and Accounting Advisor Robert Damron on April 28, 2004.

Sincerely,



RICHARD A. FINNIGAN

RAF/km  
Enclosures

cc: Virgil Fox  
Julia Parker  
Lisa Watson

Docket No. UW-031284/UW-010961 (Consolidated)  
Company Responses to WUTC Bench Requests  
Prepared by: Julia M. Parker (360) 748-0217  
April 29, 2004

9. Provide a one-page summary in the format of the attachment to this bench request, showing the after federal income tax net operating income and net rate base of each of the individual items listed. Each individual adjustment, which has an effect on net operating income, should include the effect of federal income tax. For purposes of this bench request, use the effective federal income tax rate after all adjustments and proposed rate/revenue increases or decreases.

Company BR-9:

See attached.

**AMERICAN WATER RESOURCES, INC.  
SUMMARY PRO FORMA INCOME STATEMENT  
FOR THE 12 MONTHS ENDED JUNE 30, 2003**

| Line<br>No. | Description                                    | Source           |
|-------------|--|------------------|
|             | (A)  |                  |
| 1           | <b>ACTUAL RESULTS OF OPERATIONS</b>            | Input            |
|             | <b><u>RESTATING ADJUSTMENTS</u></b>            |                  |
| 2           | RA-01 Remove Non-Operating Income              | Input            |
| 3           | RA-02 Remove IRS Penalty                       | Input            |
| 4           | RA-03 Remove Accounting Expenses               | Input            |
| 5           | RA-04 Remove Non-Recurring Legal Exp.          | Input            |
| 6           | RA-05 Remove Out-of-Period Exp. Re: View Royal | Input            |
| 7           | RA-06 Regulatory Liability - 010961            | Input            |
| 8           | RA-07 Amort. of Misc. Deferred Debit           | Input            |
| 9           | RA-08 Dedicated Checking Adjustment            | Input            |
| 10          | RA-09 Adjust CIAC & Accum. Amort.              | Input            |
| 11          | RA-10 Restate for Anticipated Surch Collection | Input            |
| 12          | RA-11 Adjust for Acquisition Adjustment        | Input            |
| 13          | <b>TOTAL RESTATING ADJUSTMENTS</b>             | Ln 2 thru Ln 12  |
| 14          | <b>RESTATED RESULTS OF OPERATIONS</b>          | Ln 1 + Ln 13     |
|             | <b><u>PRO FORMA ADJUSTMENTS</u></b>            |                  |
| 15          | P-01 Adjust for Over-Stated Revenues           | Input            |
| 16          | P-02 Docket 010961 Decrease                    | Input            |
| 17          | P-03 Adjust Salaries & Related Payroll Exp.    | Input            |
| 18          | P-04 Pro Forma Debt Adjustment                 | Input            |
| 19          | P-05 Payroll Offset Adj. - Acct. 010961        | Input            |
| 20          | P-06 Manager's Salary                          | Input            |
| 21          | P-07 Pierce County Permitting Fees             | Input            |
| 22          | P-08 Site Assessment Compensation              | Input            |
| 23          | P-09 Increase Rate Case Expense                | Input            |
| 24          | P-10 Employee Cola                             | Input            |
| 25          | RB-1 Adjust to BEOY Rate Base                  | Input            |
| 26          | RB-2 Remaining Surcharge (See R-10)            | Input            |
| 27          | RB-3 GOS View Royal                            | Input            |
| 28          | RB-4 GOS Birchfield                            | Input            |
| 29          | RB-5 Regulatory Liability Amortization         | Input            |
| 30          | <b>TOTAL PRO FORMA ADJUSTMENTS</b>             | Ln 15 thru Ln 29 |

31 **PRO FORMA RESULTS OF OPERATIONS**

32 **NOI & REV. (EXCESS) OR DEFICIENCY**

33 **RESULTS AT PROPOSED RATES**

PAGE 1 OF 1  
Ln 14 + Ln 30

Calculated

Ln 31 + Ln 32

| Net<br>Operating<br>Income<br>(B) | Rate<br>Base<br>(C) | Revenue<br>(Excess) Or<br>Deficiency<br>At 0.00%<br>(D) |
|-----------------------------------|---------------------|---|
| <b>\$53,290</b>                   | <b>\$920,616</b>    |   |
| -8,886                            |                     | 0   |
| 2,078                             |                     | 0   |
| 2,883                             |                     | 0   |
| 2,322                             |                     | 0   |
| 37,364                            |                     | 0   |
| 0                                 |                     | 0   |
| 0                                 | 6,467               |   |
| 0                                 | 36,366              |   |
| 0                                 | -59,515             |   |
| 0                                 | -267,661            |   |
| -5,091                            | 176,974             |   |
| <b>\$30,670</b>                   | <b>-\$107,369</b>   |   |
| <b>\$83,960</b>                   | <b>\$813,247</b>    |   |
| -883                              |                     | 0   |
| -63,181                           |                     | 0   |
| -38,266                           |                     | 0   |
| 7,673                             |                     | 0   |
| 0                                 |                     | 0   |
| -31,139                           |                     | 0   |
| -1,672                            |                     | 0   |
| -5,075                            |                     | 0   |
| -11,214                           |                     | 0   |
| -8,664                            |                     | 0   |
| 0                                 |                     | 0   |
| 0                                 |                     | 0   |
| 0                                 |                     | 0   |
| 0                                 |                     | 0   |
| 0                                 |                     | 0   |
| <b>-\$152,421</b>                 | <b>\$0</b>          |   |

|                  |                  |            |
|------------------|------------------|------------|
|                  |                  |            |
| <b>-\$68,461</b> | <b>\$813,247</b> |            |
| <b>\$0</b>       |                  | <b>\$0</b> |
| <b>-\$68,461</b> | <b>\$813,247</b> |            |
|                  |                  |            |

—

**Rate  
of  
Return**

**(E)**

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**5.79%**

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**10.32%**

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|               |
|---------------|
|               |
| <b>-8.42%</b> |
|               |
| <b>-8.42%</b> |
|               |

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Docket No. UW-031284/UW-010961 (Consolidated)  
Company Responses to WUTC Bench Requests  
Prepared by: Julia M. Parker (360)748-0217  
April 28, 2004

10. Provide a schedule showing the per books tax calculation resulting in the per books tax amount of \$16,652. Show the net operating income and all adds and deducts to net operating income required to achieve taxable income. Indicate for each add or deduct, whether the amounts relate to operating or non-operating income or expenses. Indicate the tax rate or tax schedule used to derive the per books federal income taxes.

Company BR-10:

See attached schedule which shows the methodology applied to calculate the per books tax amount. Please note that an error was made in the original calculations that cannot be recreated which resulted in the \$16,652 expense, and original worksheets cannot be located.

The methodology shown in the attached schedule however is the methodology used regardless of the result.

**American Water Resources, Inc.**

**Reconciliation of Book to Taxable Income**

|                                       |                |
|---------------------------------------|----------------|
| Net Income Per Books Tax Year 2002    | 342,401        |
| Add: Federal Income Tax               | <u>54,017</u>  |
| Net Income Before Tax - Tax Year 2002 | <u>396,418</u> |

Income Subject to Tax not recorded on books

|                          |       |           |
|--------------------------|-------|-----------|
| CIAC Service Connections | 4,041 | Operating |
|--------------------------|-------|-----------|

Expenses Recorded on Books not Deducted on Return

|                       |       |           |
|-----------------------|-------|-----------|
| Estimated Tax Penalty | 1,842 | Operating |
|-----------------------|-------|-----------|

Income Recorded on Books Not Included on Return

|   |          |               |
|---|----------|---------------|
| Book over Tax Gain on the Sale of Plant | (38,356) | Non-Operating |
|---|----------|---------------|

Deductions on Return Not Included on Books

|                             |                |           |
|-----------------------------|----------------|-----------|
| Depreciation tax over books | (11,624)       | Operating |
| Amortization tax over books | <u>(7,749)</u> | Operating |

Taxable Income Before Net Operating Loss Carryforward

|                              |                |
|------------------------------|----------------|
| Net Operating Loss Deduction | 344,572        |
| Taxable Income               | <u>181,453</u> |

Tax calculation

|           |     |               |
|-----------|-----|---------------|
| 50,000.00 | 15% | 7,500         |
| 25,000.00 | 25% | 6,250         |
| 25,000.00 | 34% | 8,500         |
| 81,453.00 | 39% | <u>31,767</u> |
|           |     | <u>54,017</u> |

**Allocation of Tax to Operating/Nonoperating Income**

|                    | Total            | Taxable Op<br>Revenue | Taxable Gain<br>on Sale |
|--------------------|------------------|-----------------------|-------------------------|
| Taxable Income     | 344,572          | 47,378                | 297,194                 |
| Net Operating Loss | <u>(163,119)</u> | -                     | <u>(163,119)</u>        |
|                    | 181,453          | 47,378                | 134,075                 |
|                    | 29.77%           | <u>54,019</u>         | <u>39,914</u>           |

29.77% Effective Tax Rate