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BEFORE THE ARIZONA CORPORATION COMMISSION

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RIO VERDE UTILITIES, INC.

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DOCKET NOS. WS-02156A-00-0321 & WS-02156A-0323

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DIRECT TESTIMONY OF DAN L. NEIDLINGER

ON BEHALF OF THE

RIO VERDE COMMUNITY ASSOCIATION

AND

RIO VERDE COUNTRY CLUB

DECEMBER 27, 2000

**BEFORE THE ARIZONA CORPORATION COMMISSION
RIO VERDE UTILITIES, INC.
DOCKET NOS. WS-021561A-00-0321 & WS-02156A-0323**

Direct Testimony of Dan L. Neidlinger

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ARIZONA CORPORATION COMMISSION
RIO VERDE UTILITIES, INC.
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Direct Testimony of Dan L. Neidlinger

INTRODUCTION

Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive, Phoenix, Arizona. I am President of Neidlinger & Associates, Ltd., a consulting firm specializing in utility rate economics.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL QUALIFICATIONS AND EXPERIENCE.

A. A summary of my professional qualifications and experience is included in the attached Statement of Qualifications. In addition to the Arizona Corporation Commission ("ACC" or the "Commission"), I have presented expert testimony before regulatory commissions and agencies in Alaska, California, Colorado, Guam, Idaho, New Mexico, Nevada, Texas, Utah, Wyoming and the Province of Alberta, Canada.

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. I am appearing on behalf of the Rio Verde Community Association ("Association") and the Rio Verde Country Club ("Country Club"), co-intervenors. As discussed by Mr. John P. Williamson in his direct testimony, both of these organizations have a significant economic interest in this case.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

- A. The purpose of my testimony is to provide for the Commission's consideration recommendations on revenue requirements and rate design for both of Rio Verde Utilities' (the "Applicant" or "Company") water and sewer divisions.
- Q. PLEASE PROVIDE A BRIEF SUMMARY OF YOUR RECOMMENDATIONS.
- A. My overall recommendations concerning revenue requirements are summarized on the attached Schedule DLN-1. I am recommending a \$203,100 or 22.25% increase in water revenues and a \$111,667 or 20.72% increase in sewer revenues in contrast with the Company's requested increases of 51% and 40% in water and sewer revenues, respectively. As I shall discuss later, I am recommending that the current rates be adjusted upwardly on a modified across-the-board basis. Finally, I recommend that water and sewer connect fees both be increased to \$2,000. The current level of connect fees would continue to be treated as revenues, but the increases: \$1,500 for water and \$1,000 for sewer, would be treated as contributions-in-aid to plant.
- Q. WERE ANY OF THE RATE BASE OR OPERATING EXPENSE ADJUSTMENTS PROPOSED BY THE ACC STAFF OR RUCO ADOPTED BY YOU IN DEVELOPING YOUR RECOMMENDATIONS?
- A. No. There are a variety of adjustments proposed by both the Staff and RUCO that have merit. These adjustments were not used in the development of my recommended rate base or test year operating expense amounts for either division. Incorporating these adjustments would have the effect of reducing my overall revenue requirement for both the water and sewer divisions.

WATER DIVISION REVENUE REQUIREMENTS

- Q. PLEASE DISCUSS YOUR RECOMMENDATIONS REGARDING ORIGINAL COST ("OCLD") RATE BASE AND ADJUSTED OPERATING INCOME FOR THE WATER OPERATIONS OF THE COMPANY.
- A. As shown on Schedule DLN-2, my recommended OCLD rate base for the water division is \$3,431,714 or \$816,860 less than the Applicant's rate base. My adjusted

operating income, as shown on Schedule DLN-3, is \$230,961 or \$28,700 greater than the Company's adjusted operating income.

Q. WHY DID YOU REDUCE GROSS UTILITY PLANT BY \$745,354?

A. In 1995, the Company constructed a 740,000 gallon water storage facility known as the Asher Hill Tank. The cost of this facility, including related pumping and mains, was \$1,187,058. This facility was clearly constructed with the future in mind since it is was completely unnecessary to serve Rio Verde and, when coupled with the other 300,000 gallon storage tank, it has the capacity to serve several times the customers taking water service during 1999. Accordingly, I am recommending that 62.79% of the cost of the Asher Hill Tank be disallowed for ratemaking purposes. The details supporting the 62.79% calculation are provided on Schedule DLN-4.

Q. ISN'T IT UNUSUAL FOR A WATER COMPANY TO CONSTRUCT LARGE, BACKBONE FACILITIES THAT ARE PRIMARILY BUILT TO SERVE FUTURE DEVELOPMENT WITHOUT SEEKING SIGNIFICANT UP-FRONT MONIES FROM THE DEVELOPER THROUGH EITHER REFUNDABLE ADVANCES OR CONTRIBUTIONS?

A. Yes, it is when one considers the relatively diminutive size of the Company in 1995 and financial impact that a water plant addition of this magnitude might have on its water rate base and, accordingly, its water rates at that time. At December 31, 1994, the Company was serving some 900 customers. The total net book value of water utility plant in service at that date was approximately \$1,520,000. In 1995, the Company decided to invest an additional \$1,187,000 of its own funds in the Asher Hill Tank project with little, if any, evaluation as to the effect of this investment on the water rates of its customers. This one project increased net utility water plant by 78%! If unable or unwilling to bear the cost of this investment itself, the Company should have asked the developer to finance, via advances or contributions, a significant portion of the cost of the Asher Hill Tank. Since it did not, it placed the risk of development squarely on the shoulders of its shareholders and customers. In this case, the Company is asking that all of the risk of development be assigned to its

current customers. This is wrong, in my view, since the shareholders, not the ratepayers, should logically assume the burden of either imprudent financing policies or excess capacity.

Q. HAD THE COMPANY ENTERED INTO A REFUNDABLE ADVANCE AGREEMENT WITH THE DEVELOPER TO FINANCE THE ASHER HILL FACILITY, WOULD A CAPACITY ADJUSTMENT HAVE BEEN NECESSARY IN THIS CASE?

A. No. A properly constructed advance-in-aid agreement would have eliminated the need for such an adjustment. Similarly, had the Company sought, at that time, adequate increases in connection fees to fund this otherwise uneconomic expansion, the excess capacity of the Asher Hill Tank would have been largely recovered at this time through customer growth.

Q. PLEASE EXPLAIN SCHEDULE DLN-4.

A. Schedule DLN-4 shows the detail supporting the capacity adjustment to the Asher Hill Tank. The calculation is based on the guidelines prescribed by the Arizona Department of Environmental Quality ("ADEQ") and adopted by the engineering staff of the ACC. To determine water storage requirements, one must first calculate pumping capability, excluding the largest well. The Company has four potable water wells with a total pumping capability of 1,461 gallons per minute ("GPM"). When the largest well of 682 GPM is deducted, the net pumping capability is 779 GPM or 46,740 gallons per hour ("GPH"). This net production capability is over twice the average GPH demand during the peak month of November 1999. Under ADEQ standards for minimum storage requirements (R18-4-503) the Company has a zero storage requirement. However, one must also give consideration to peak demands and fire flow when determining storage requirements. As indicated on Schedule DLN-4, a peaking factor of 2 times average demand was used in the calculation as well as a four-hour fire flow allowance of 288,000 gallons. The calculated water storage requirement under these assumptions is only 282,967 gallons or 653,033 gallons less

than the available capacity of 936,000 gallons. Accordingly, excess storage capacity is 62.79% of available capacity.

Q. HOW SHOULD THIS EXCESS CAPACITY BE TREATED FROM AN ACCOUNTING PERSPECTIVE?

A. The \$754,354 of plant and associated accumulated depreciation of \$102,773 should be reclassified to plant held for future use. This preserves the ability of the Applicant to earn a full return on its investment if and as it becomes "used and useful". Annually, the Company should transfer this plant to plant in service accounts based upon an updated storage requirement calculation using the assumptions previously discussed.

Q. HOW DID YOU DETERMINE YOUR RECOMMENDED WORKING CAPITAL ALLOWANCE OF \$66,003?

A. I used a balance sheet method for determining working capital allowances for both divisions. The calculated total company allowance of \$112,147 was allocated to each division based on operating expenses—58.85% water and 41.15% sewer.

Q. WHY DID YOU ELIMINATE FROM RATE BASE UNAMORTIZED FINANCING COSTS OF \$12,904 AND THE \$129,039 DEBT RESERVE FUND ASSOCIATED WITH NEW DEBT FINANCING?

A. These are not, in my judgment, appropriate rate base items. However, they should be considered in determining the cost of debt. Accordingly, I have increased the cost of the proposed debt financing from 9.75% to 10.87% in developing my recommended weighted cost of capital of 10.80% for the water division.

Q. DID YOU ADOPT THE COMPANY'S CAPITAL STRUCTURE IN DETERMINING YOUR WEIGHTED COST OF CAPITAL?

A. Yes. The Company's capital structure reasonably recognizes the fact that it is the Company's plan to convert short-term advances from its parent company into long-term debt. Moreover, its capital structure is more efficient from an overall ratemaking

perspective since the additional debt provides for a lower cost of capital and a reduced effective income tax rate.

Q. WHAT COST OF EQUITY DID YOU USE IN YOUR WEIGHTED COST OF CAPITAL CALCULATION?

A. I used the ACC Staff's recommended cost of equity of 11%.

Q. IS THE \$26,059 DEPRECIATION ADJUSTMENT SHOWN ON SCHEDULE DLN-3 SUBSTANTIALLY ATTRIBUTABLE TO YOUR ASHER HILL TANK ADJUSTMENT?

A. Yes.

Q. HAVE YOU ADJUSTED TEST YEAR WATER CONNECT FEE REVENUES TO REFLECT THE FACT THAT THE COMPANY IS ADDING NEW WATER CUSTOMERS AT THE RATE OF 80 PER YEAR?

A. No. Although I haven't made this adjustment, the Commission should consider the fact that the Company is adding customers to both its water and sewer divisions at a rate that is higher than that reflected by the Staff, RUCO or the Company. The Company's adjusted water and sewer connect fees are based on 70 new customers per year. Over the past three years, the water division has averaged 84 new customers and the sewer division has averaged 76 new customers. Additionally, in response to a data request from the Association and Country Club, RVCA-10, the Company estimated that 89 new water customers and 101 new sewer customers would begin taking service during the year 2000.

SEWER DIVISION REVENUE REQUIREMENTS

Q. PLEASE DISCUSS YOUR RECOMMENDATIONS ON OCLD RATE BASE AND ADJUSTED OPERATING INCOME FOR THE SEWER OPERATIONS OF THE COMPANY.

A. As shown on Schedule DLN-5, my recommended OCLD rate base for the sewer division is \$2,288,410 or \$679,120 less than the Company's recommendation. My adjusted operating income (Schedule DLN-6) is \$173,884 or \$9,542 less than that of the Company.

Q. PLEASE EXPLAIN YOUR \$368,671 PROPOSED ADJUSTMENT TO GROSS UTILITY PLANT.

A. The Company's OCLD rate base reflects a 35% excess capacity adjustment to the Company's \$3,686,714 wastewater treatment facility. The assumptions underlying the Company's excess capacity calculation are flawed. For instance, one assumes that there are 3.6 occupants per household. This belies the fact that Rio Verde and Tonto Verde developments are essentially retirement communities with typically 2 occupants per household and in many instances only 1 occupant. In my view, the excess capacity adjustment to the treatment plant should be increased from 35% to 45%.

Q. HAVE YOU MADE ANY CALCULATIONS IN SUPPORT OF THIS ADDITIONAL ADJUSTMENT?

A. Yes. I have performed sewer capacity calculations using two approaches. These calculations are provided on Schedule DLN-7. The first is based on effluent. Since the Company does not keep records of influent flows into the treatment plant, I calculated influent using measured effluent for the peak month of March 1999. Under this approach, peak daily flows were 347,827 gallons per day ("gpd") or 49.69% of capacity. The second approach is based on customers and is similar to that used by the Company except I assumed 2 occupants per household rather than 3.6. Under this latter approach, calculated peak daily flows were 378,900 gpd or 54.13% of capacity. After reviewing these calculations, I conclude that a 55% capacity factor is reasonable for ratemaking purposes in this case.

- Q. WOULD YOUR RECOMMENDATIONS CONCERNING THE ACCOUNTING TREATMENT OF THIS ADJUSTMENT BE THE SAME AS THOSE PROFFERED WITH RESPECT TO THE ASHER HILL TANK ADJUSTMENT?
- A. Yes. Again, this would preserve the Company's ability to recover its investment, plus return, if and as it becomes fully "used and useful" in the future.
- Q. WHY DID YOU REDUCE DEFERRED INCOME TAXES BY \$46,190?
- A. This adjustment reverses the pro forma adjustment made by the Company to increase deferred income taxes in connection with its 35% treatment plant capacity adjustment. The effect of the Company's adjustment is to recognize income tax benefits due to a calculated increase in timing differences in depreciation. The Company never actually received these benefits. Accordingly, it would be improper, in my view, to provide the ratepayers with these additional deferred tax benefits.
- Q. ARE YOUR PROPOSED RATE BASE ADJUSTMENTS TO WORKING CAPITAL, UNAMORTIZED FINANCE COSTS AND DEBT RESERVE FUND BASED ON THE SAME LOGIC AS PREVIOUSLY DISCUSSED FOR COMPARABLE ADJUSTMENTS TO THE RATE BASE OF THE WATER DIVISION?
- A. Yes. My weighted cost of capital calculation for the sewer division is based on a cost of debt for the current and proposed lending of 10.98% and 10.87%. Again, I have adopted the Company's capital structure for the reasons previously discussed. Applying Staff's recommended cost of equity of 11%, my weighted cost of capital for the sewer division is 10.96%.

RATE DESIGN

- Q. PLEASE EXPLAIN YOUR PROPOSED WATER RATES SHOWN ON SCHEDULE DLN-8.
- A. My proposed rates provide for increases to the residential, commercial and irrigation classes of customers of approximately 24%, 31% and 21%, respectively. To promote

greater revenue stability, all monthly service charges have been increased by a greater percentage than the commodity rate. This is true for both potable and irrigation water service. The larger relative percentage increase for the commercial class is due to disproportionately greater increases in monthly service charges for the larger meters. The recommended increases in monthly service charges for the larger meters, although less than those proposed by the Company, are, to a large extent, supported by the Company's cost of service analysis.

Q. WHAT IS THE EFFECT OF YOUR PROPOSED RATES ON THE MONTHLY BILL OF A TYPICAL RESIDENTIAL CUSTOMER?

A. Residential customers' average water usage during the test year was 10,636 gallons. At present rates, the bill, exclusive of revenue taxes, is \$19.33. At my proposed rates the bill is \$24.00 – an increase of 24%.

Q. WHY ARE YOU RECOMMENDING A 76% INCREASE FOR STANDPIPE AND CONSTRUCTION WATER USAGE?

A. Standpipe and construction water service is a temporary service that is typically provided by most water utilities at great inconvenience. This is a premium service that commands a premium price.

Q. WHAT ARE YOUR RECOMMENDATIONS WITH RESPECT TO SEWER RATES?

A. My proposed sewer rates are shown on Schedule DLN-9. The proposed increase for residential customers is \$6.90 per month or 20%. Larger percentage increases are recommended for commercial customers, specifically restaurants since they typically produce large quantities of hard-to-treat sewerage.

Q. WHY ARE YOU RECOMMENDING AN INCREASE IN THE EFFLUENT RATE THAT IS SLIGHTLY LESS THAN THE OVERALL INCREASE IN SEWER REVENUES OF 20%?

A. My recommended effluent rate is \$0.94 per thousand gallons or 17.5% higher than the current rate of \$0.80. The Company's recommendation that the effluent rate should be greater than the pump irrigation rate is illogical since, by definition, effluent rates should never exceed the market proxy which is the pump irrigation rate. Moreover, it is well documented that effluent is inferior to pump water for golf course use due to its higher salinity content and the fact that a greater relative amount of effluent is needed to avoid salt accumulations that damage turf grasses. For these reasons, effluent should be priced at a discount from pump irrigation rates rather than at a premium. In this case, my recommended discount is \$0.10 per thousand gallons or approximately 10% from my recommended pump irrigation rate of \$1.04. This pricing is consistent with the current rates that also provide for a discount of approximately 10%.

WATER AND SEWER CONNECT FEES

Q. WHY ARE YOU RECOMMENDING THAT CONNECT FEES BE INCREASED?

A. As evidenced in this case, the plant costs related to expansion of the Company's system to serve new development are high. The average net utility plant in service per customer, including my recommended adjustments, exceeds \$3,800 for water and \$3,600 for sewer; costs to serve new customers are logically greater than these embedded costs. The Company has partially recognized this fact by requiring developers to contribute parcel water and sewer plant. However, additional contributions from new customers through increased connect fees are needed to insure that such expansion does not unfairly burden present customers. As shown on Schedule DLN-10, I am recommending that water and sewer connect fees both be increased to \$2,000. From an accounting standpoint, the current water and sewer connect fees of \$500 and \$1,000, respectively, would continue to be recorded as revenues but that the increased charges, \$1,500 for water and \$1,000 for sewer, be recorded as contributions.

Q. WHY NOT TREAT ALL CONNECT FEES AS CONTRIBUTIONS?

A. The water and sewer rate increases warranted in this case are significant.

Reclassifying the current level of connect fees from revenues to contributions-in-aid at this time is not reasonable since it would require an increase in monthly rates and charges to customers just to maintain current revenue levels. For instance, a 13% increase in monthly sewer rates would be required to replace the \$70,000 of sewer connect fees recorded as revenues during the test year. The proposed dual treatment for connect fees is a balanced approach that maintains the current level of revenue support while providing for additional contributions to offset the high levels of excess plant that the Company has chosen to construct.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

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REVENUE REQUIREMENTS SUMMARY

| DESCRIPTION | TOTAL COMPANY | WATER DIVISION | SEWER DIVISION |
|------------------------------|------------------|-------------------|-------------------|
| Original Cost Rate Base | \$5,720,123 | \$3,431,714 | \$2,288,410 |
| Test Year Operating Income | 404,845 | 230,961 | 173,884 |
| Current Rate of Return | 7.08% | 6.73% | 7.60% |
| Required Rate of Return | 10.86% | 10.80% | 10.96% |
| Operating Income Requirement | \$621,388 | \$370,683 | \$250,705 |
| Operating Income Deficiency | 216,543 | 139,722 | 76,821 |
| Revenue Conversion Factor | 1.4536 | 1.4536 | 1.4536 |
| Increase in Gross Revenues | \$314,768 | \$203,100 | \$111,667 |
| Test Year Revenues | \$1,451,862 | \$912,925 | \$538,937 |
| Percentage Increase | 21.68% | 22.25% | 20.72% |

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ORIGINAL COST RATE BASE - WATER DIVISION

| DESCRIPTION | PER COMPANY FILING | PROPOSED ADJUST. | ADJUSTED AMOUNT |
|-------------------------------------|--------------------------|---------------------|--------------------|
| Gross Utility Plant in Service | \$6,619,373 | (\$745,354) | \$5,874,019 |
| Less: Accumulated Depreciation | 1,158,669 | (102,773) | 1,055,896 |
| Net Utility Plant in Service | \$5,460,704 | (\$642,581) | \$4,818,123 |
| Less: | | | |
| Contributions - Net of Amortization | \$1,269,935 | | 1,269,935 |
| Meter Deposits | 120,684 | | 120,684 |
| Deferred Income Taxes | 61,793 | | 61,793 |
| Total Deductions | \$1,452,412 | \$0 | \$1,452,412 |
| Plus: | | | |
| Working Capital Allowance | \$98,339 | (\$32,336) | 66,003 |
| Unamortized Finance Costs | 12,904 | (12,904) | 0 |
| Debt Reserve Fund | 129,039 | (129,039) | 0 |
| Total Additions | \$240,282 | (\$174,279) | \$66,003 |
| Total Rate Base | \$4,248,574 | (\$816,860) | \$3,431,714 |

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ADJUSTED OPERATING INCOME - WATER DIVISION

| DESCRIPTION | PER COMPANY FILING | PROPOSED ADJUST. (1) | ADJUSTED AMOUNT |
|-----------------------------|--------------------------|-------------------------|--------------------|
| Total Water Revenues | \$953,199 | | \$953,199 |
| Operating Expenses | 750,938 | (28,700) | 722,238 |
| Operating Income | \$202,261 | \$28,700 | \$230,961 |
| NOTE: | | | |
| (1) Depreciation Adjustment | | (\$26,059) | |
| Income Tax Adjustment | | (2,641) | |
| Total Adjustment | | (\$28,700) | |

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WATER STORAGE CAPACITY ADJUSTMENT

| <u>PUMPING CAPABILITY ADJUSTED FOR LARGEST WELL</u> | | |
|--|-----------------------------------|---------------------------------|
| DESCRIPTION | GALLONS PER MINUTE | GALLONS PER HOUR |
| Potable Water Wells: | | |
| Well No. 1 | 301 | |
| Well No. 2 | 682 | |
| Well No. 4 | 112 | |
| Well No. 6 | 366 | |
| Total | 1,461 | 87,660 |
| Less: Largest Well | (682) | |
| Net Pumping Capability | 779 | 46,740 |

| <u>CALCULATION OF EXCESS STORAGE CAPACITY</u> | |
|--|------------------|
| DESCRIPTION | AMOUNT |
| Current Storage Capacity - Gallons | 1,040,000 |
| Less: Storage Level Adjustment | (104,000) |
| Storage Capacity Available | 936,000 |
| Peak Potable Water Sales: | |
| November 1999 Sales - Gallons | 16,373,410 |
| Average Hourly Demand | 22,741 |
| Peaking Factor | 2.00 |
| Adjusted Hourly Peak | 45,482 |
| 4 Hour Demand | (181,927) |
| 4 Hour Fire Flow Allowance | (288,000) |
| Total 4 Hour Demand | (469,927) |
| Net Pumping Capability - 4 Hours | 186,960 |
| Storage Requirement | 282,967 |
| Excess Storage Capacity | 653,033 |
| Percent | 62.79% |

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ORIGINAL COST RATE BASE - SEWER DIVISION

| DESCRIPTION | PER COMPANY FILING | PROPOSED ADJUST. | ADJUSTED AMOUNT |
|-------------------------------------|--------------------------|---------------------|--------------------|
| Gross Utility Plant in Service | \$5,494,303 | (\$368,671) | \$5,125,632 |
| Less: Accumulated Depreciation | 878,277 | (33,597) | 844,680 |
| Net Utility Plant in Service | \$4,616,026 | (\$335,074) | \$4,280,952 |
| Less: | | | |
| Contributions - Net of Amortization | \$1,943,194 | | 1,943,194 |
| Deferred Income Taxes | 141,682 | (46,190) | 95,492 |
| Total Deductions | \$2,084,876 | (\$46,190) | \$2,038,686 |
| Plus: | | | |
| Working Capital Allowance | \$64,924 | (\$18,780) | \$46,144 |
| Unamortized Finance Costs | 29,016 | (29,016) | 0 |
| Debt Reserve Fund | 342,440 | (342,440) | 0 |
| Total Additions | \$436,380 | (\$390,236) | \$46,144 |
| Total Rate Base | \$2,967,530 | (\$679,120) | \$2,288,410 |

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ADJUSTED OPERATING INCOME - SEWER DIVISION

| DESCRIPTION | PER COMPANY FILING | PROPOSED ADJUST. (1) | ADJUSTED AMOUNT |
|-----------------------------|--------------------------|-------------------------|--------------------|
| Total Sewer Revenues | \$611,278 | | \$611,278 |
| Operating Expenses | 427,852 | 9,542 | 437,394 |
| Operating Income | \$183,426 | (\$9,542) | \$173,884 |
| NOTE: | | | |
| (1) Depreciation Adjustment | | (\$17,057) | |
| Income Tax Adjustment | | 26,599 | |
| Total Adjustment | | \$9,542 | |

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SEWER CAPACITY CALCULATIONS

| DESCRIPTION | AMOUNT |
|------------------------------------|---------------|
| EFFLUENT BASIS CALCULATION: | |
| Maximum Effluent - March, 1999 | 6,829,000 |
| Gallons Per Day | 220,290 |
| Loss Factor | 5.00% |
| Calculated Influent | 231,885 |
| Peaking Factor | 1.50 |
| Peak Daily Flows | 347,827 |
| Plant Capacity - Gallons Per Day | 700,000 |
| Peak Flows/Capacity | 49.69% |
| Excess Capacity | 50.31% |
| CUSTOMER BASIS CALCULATION: | |
| Total Customers | 1,263 |
| Maximum Gallons/Day= 2.0x100 | 200 |
| Total Flows | 252,600 |
| Peaking Factor | 1.50 |
| Peak Daily Flows | 378,900 |
| Plant Capacity - Gallons Per Day | 700,000 |
| Peak Flows/Capacity | 54.13% |
| Excess Capacity | 45.87% |

RIO VERDE UTILITIES, INC.
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PROPOSED REVENUES AND RATES - WATER DIVISION

| DESCRIPTION | PRESENT RATES | PROPOSED RATES | INCREASE | PERCENT INCREASE |
|---|------------------|--------------------|------------------|---------------------|
| REVENUES - WATER SALES: | | | | |
| Residential | \$280,993 | \$347,090 | \$66,097 | 23.52% |
| Commercial | 42,270 | 55,444 | 13,174 | 31.17% |
| Irrigation | 589,662 | 713,491 | 123,829 | 21.00% |
| Total Water Sales | \$912,925 | \$1,116,025 | \$203,100 | 22.25% |
| RATES: | | | | |
| <u>Potable Water</u> | | | | |
| Monthly Service Charges: (1) | | | | |
| 5/8", 3/4" & 1" Meters | \$7.00 | \$9.00 | \$2.00 | 28.57% |
| 2" | 40.00 | 80.00 | 40.00 | 100.00% |
| 4" | 50.00 | 100.00 | 50.00 | 100.00% |
| 6" | 100.00 | 200.00 | 100.00 | 100.00% |
| Commodity Charge - Per 1,000 Gal. | \$1.28 | \$1.41 | \$0.13 | 10.16% |
| <u>Irrigation Water</u> | | | | |
| Monthly Service Charges: (1) | | | | |
| 6" Meters | \$100.00 | \$200.00 | \$100.00 | 100.00% |
| 6" Meters - Potable | 100.00 | 200.00 | 100.00 | 100.00% |
| 8" Meters | 200.00 | 400.00 | 200.00 | 100.00% |
| 12" Meters | 400.00 | 800.00 | 400.00 | 100.00% |
| Commodity Charge - Per 1,000 Gal. | \$0.88 | \$1.04 | \$0.16 | 18.18% |
| Irrigation Surcharge - Potable Water | 0.40 | 0.37 | -0.03 | -7.50% |
| <u>Standpipe & Construction Water</u> | \$1.28 | \$2.25 | \$0.97 | 75.78% |

NOTE:

(1) Present Rates Include 1,000 Gallons; No Gallons Included in Proposed Rates

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PROPOSED REVENUES AND RATES - SEWER DIVISION

| DESCRIPTION | PRESENT RATES | PROPOSED RATES | INCREASE | PERCENT INCREASE |
|-------------------------------------|--------------------------|---------------------------|------------------|-----------------------------|
| SEWER SERVICE REVENUES: | | | | |
| Residential | \$477,360 | \$574,177 | \$96,817 | 20.28% |
| Domestic Commercial | 16,350 | 21,800 | 5,450 | 33.33% |
| Commercial - Restaurants | 1,800 | 3,600 | 1,800 | 100.00% |
| Effluent | 43,427 | 51,027 | 7,600 | 17.50% |
| Total Sewer Service Revenues | \$538,937 | \$650,604 | \$111,667 | 20.72% |
| RATES: | | | | |
| Monthly Residential | \$34.00 | \$40.90 | \$6.90 | 20.29% |
| Monthly Domestic Commercial | 75.00 | 100.00 | 25.00 | 33.33% |
| Monthly Commercial - Restaurants | 75.00 | 150.00 | 75.00 | 100.00% |
| Effluent - Per 1,000 Gallons | 0.80 | 0.94 | 0.14 | 17.50% |

RIO VERDE UTILITIES, INC.
Docket Nos. WS-02156A-00-0321 & WS-021561A-0323

PROPOSED WATER AND SEWER CONNECT FEES

| DESCRIPTION | PRESENT FEES | PROPOSED FEES (1) | INCREASE | PERCENT INCREASE |
|--------------------|-------------------------|------------------------------|-----------------|-----------------------------|
| Water Connect Fee | \$500 | \$2,000 | \$1,500 | 300.00% |
| Sewer Connect Fee | 1,000 | 2,000 | 1,000 | 100.00% |

NOTE:

(1) Recommended Treatment:

Water Revenues - \$500

Water Plant Contributions - \$1,500

Sewer Revenues - \$1,000

Sewer Plant Contributions - \$1,000

DAN L. NEIDLINGER

SUMMARY STATEMENT OF QUALIFICATIONS

I. General:

Mr. Neidlinger is President of Neidlinger & Associates, Ltd., a Phoenix consulting firm specializing in utility rate economics and financial management. During his consulting career, he has managed and performed numerous assignments related to utility ratemaking and energy management.

II. Education:

Mr. Neidlinger was graduated from Purdue University with a Bachelor of Science degree in Electrical Engineering. He also holds a Master of Science degree in Industrial Management from Purdue's Krannert Graduate School of Management. He is a licensed Certified Public Accountant in Arizona and Ohio.

III. Consulting Experience:

Mr. Neidlinger has presented expert testimony on financial, accounting, cost of service and rate design issues in regulatory proceedings throughout the western United States involving companies from every segment of the utility industry. Testimony presented to these regulatory bodies has been on behalf of commission staffs, applicant utilities, industrial intervenors and consumer agencies. He has also testified in a number of civil litigation matters involving utility ratemaking and once served as a Special Master to a Nevada court in a lawsuit involving a Nevada public utility.

Mr. Neidlinger has performed feasibility studies related to energy management including cogeneration, self-generation, peak shaving and load-shifting analyses for clients with large electric loads. In addition, he has conducted electric and gas privatization studies for U.S. Army installations and assisted these and other consumer clients in contract negotiations with utility providers of electric, gas and wastewater service.

Mr. Neidlinger has extensive experience in the costing and pricing of utility services. During his consulting career, he has been responsible for the design and implementation of utility rates for over 30 electric, gas, water and wastewater utility clients ranging in size from 50 to 25,000 customers.

IV. Professional Affiliations:

Professional affiliations include the American Institute of Certified Public Accountants and the Association of Energy Engineers.