0000022471

RECEIVED

2005 JUL 29 P 12: 54

AZ CORP COMMISSION
DOCUMENT CONTROL

31EX

Transcript Exhibit(s)

W-0142A-04-0736

W-0412A-04-0849

EXHIBIT
A-1
Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

Richard L. Sallquist, Esq. (002774)
SALLQUIST & DRUMMOND, P.C.
4500 S. Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Telephone: (602) 224-9222
Fax: (480) 345-0412
Attorneys for Valley Utilities Water Company

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY INC. FOR AN INCREASE IN ITS WATER RATES FOR CUSTOMERS WITHIN MARICOPA COUNTY, ARIZONA.	)	DOCKET NO. W-01412-04-___ **APPLICATION**

Valley Utilities Water Company Inc. (hereinafter "Valley" or the "Company"), by and through the undersigned counsel, hereby submits a rate increase application and in support of said application states as follows:

1. Valley is a corporation duly organized and existing under the laws of the State of Arizona. Its principal place of business is 12540 W. Bethany Home Rd., Litchfield Park, Arizona 85340.

2. Valley is a public service corporation primarily engaged in the business of providing water utility service in its certificated area in portions of Maricopa County, Arizona

3. The Company is presently providing service under the rates and charges authorized by the Commission in Decision No. 62908, dated September 18, 2000.

4. The Company hereby requests the Commission grant an increase in its water rates and charges in two phrases designed to match the present need in Phase One, and the impact of the addition of arsenic treatment plant in Phase Two. The specific proposal is contained in the Schedules attached hereto as Exhibits A and B and incorporated herein for all purposes.

5. The supporting testimony of the Company's rates consultants, Ronald L. Kozoman and Thomas J. Bourassa, are attached hereto as Exhibits C and D and incorporated herein by this reference for all purposes.

6. Proposed Tariff for water service for the requested Phase One increase is appended hereto as Exhibit E and incorporated herein by this reference for all purposes. The Total Arsenic Treatment Adjustment ("TATA") will be inserted in the Tariff when the Commission adopts the precise formula. The specific terms and conditions of that Tariff are hereby requested to be approved by the Commission. The Phase Two Tariff will be issued following the Decision in its matter.

7. The supporting schedules are substantially in the form required by the Commission's Rules and Regulation for rate applications as set forth in ACRR R-14-2-103.

8. In addition to the increased in expenses incurred over the ensuing years, which cause the need for this Application, the Company is in need of major capital improvements to comply with the mandatory requirements regarding removal of arsenic. Those capital expenditures total approximately $1,900,000.

9. The Company proposes Water Infrastructure Finance Authority of Arizona (WIFA) funding for the majority of those improvements. A WIFA Application and a Financing Application before this Commission will be filed within thirty days of this Application.

10. To obtain such financing approvals, it will be necessary for the Company to have sufficient income and cash flow to support that debt service. This Application seeks an Operating Margin of 10.00%, which will provide the requisite debt service coverages and permit funding of the remaining capital items.

11. The Company requests that the Commission issue a Procedural Order setting forth the timetable for processing this Application and also notify the Company of the form of notice it must provide to its customers.

WHEREFORE, the Company respectfully request that the Commission process this Rate Application as expeditiously as practicable, and thereafter issue an order granting the requested relief and such other relief as the Commission may deem appropriate.

Respectfully submitted this 7th day of October 2004.

SALLQUIST & DRUMMOND, P.C.

By_____

Richard L. Sallquist
4500 S. Lakeshore Drive, Suite 339
Tempe, AZ 85282
Attorneys for Valley Utilities Water Company, Inc.

Original and ten copies of the foregoing filed this 7th day of October 2004, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Copies of the foregoing Hand Delivered this 7th day of October, 2004 to:

Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

A

VALLEY UTILITIES WATER COMPANY, INC.

RATE INCREASE APPLICATION

DOCKET NO. W-01412-04-____

SUPPORTING SCHEDULES
PHASES ONE AND TWO

OCTOBER, 2004

EXHIBIT A

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Schedule A-1 Step 1
Page
Witness: Bourassa

Line No.		
1	Fair Value Rate base	$ (540,689)
2		
3	Adjusted Operating Income - Step 1	13,138
4		
5	Current Rate of Return	N/A
6		
7	Required Operating Income (using 10 percent operating margin)	$ 92,835
8		
9	Required Rate of Return on Fair Value Rate Base	N/A
10		
11	Operating Income Deficiency	$ 79,697
12		
13	Gross Revenue Conversion Factor	1.2646
14		
15	Increase in Gross Revenue	
16	Requirement	$ 100,784
17		

18			Present	Proposed	Dollar	Percent
19	Customer		Rates	Rates	Increase	Increase
20	Classification					
21	5/8 Inch	Residential	$ 78,282	$ 91,019	$ 12,737	16.27%
22	3/4 Inch	Residential	232,845	262,147	29,302	12.58%
23	1 Inch	Residential	193,752	217,540	23,789	12.28%
24	5/8 Inch	Commercial	1,316	1,440	124	9.45%
25	1 Inch	Commercial	13,033	14,979	1,946	14.93%
26	1 1/2 Inch	Commercial	11,172	12,196	1,024	9.17%
27	2 Inch	Commercial	225,917	255,367	29,450	13.04%
28	3 Inch	Commercial/Construction	14,290	15,579	1,289	9.02%
29	Miscellaneous Revenues		41,791	41,791	-	0.00%
30	**Revenue Annualization**		-	-	-	0.00%
31	5/8 Inch	Residential	(1,169)	(1,325)		
32	3/4 Inch	Residential	5,541	6,025		
33	1 Inch	Residential	7,723	8,447		
34	1 Inch	Commercial	233	262	30	12.81%
35	2 Inch	Commercial	4,498	4,901	403	8.95%
36	3 Inch	Construction	(4,075)	(4,446)	(370)	9.09%
37					-	0.00%
38	Total of Water Revenues		$825,148	$925,923	$ 99,723	12.09%
39						
40						
41						
42	SUPPORTING SCHEDULES:					
43	B-1 Step 1					
44	C-1 Step 1					
45	C-3 Step 1					
46	H-1 Step 1					
47						
48						

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Schedule A-1 Step 2
Page
Witness: Bourassa

Line No.		
1	Fair Value Rate base	$ 1,243,934
2		
3	Adjusted Operating Income - Step 2	(185,317)
4		
5	Current Rate of Return	-14.90%
6		
7	Required Operating Income (using 10 percent operating margin)	$ 133,102
8		
9	Required Rate of Return on Fair Value Rate Base	N/A
10		
11	Operating Income Deficiency	$ 318,419
12		
13	Gross Revenue Conversion Factor	1.2646
14		
15	Increase in Gross Revenue	
16	Requirement	$ 402,669

	Customer Classification	Step 1 Present Rates	Proposed Rates	Dollar Increase	Percent Increase
21	5/8 Inch Residential	$ 91,019	$131,612	$ 40,593	44.60%
22	3/4 Inch Residential	262,147	376,429	114,282	43.59%
23	1 Inch Residential	217,540	313,680	96,140	44.19%
24	5/8 Inch Commercial	1,440	2,036	595	41.35%
25	1 Inch Commercial	14,979	21,865	6,886	45.97%
26	1 1/2 Inch Commercial	12,196	17,680	5,484	44.96%
27	2 Inch Commercial	255,367	374,217	118,850	46.54%
28	3 Inch Construction	15,579	22,237	6,658	42.74%
29	Miscellaneous Revenues	41,791	41,791	-	0.00%
30	**Revenue Annualization**	-	-	-	0.00%
31	5/8 Inch Residential	(1,325)	(1,917)	(592)	44.70%
32	3/4 Inch Residential	6,025	8,556	2,531	42.02%
33	1 Inch Residential	8,447	12,064	3,617	42.81%
34	5/8 Inch Commercial	262	381	118	45.08%
35	2 Inch Commercial	4,901	7,175	2,275	46.42%
36	3 Inch Construction	(4,446)	(6,364)	(1,919)	43.16%
37	Total of Water Revenues	$925,923	$1,321,442	$ 395,519	42.72%

38
39
40
41 SUPPORTING SCHEDULES:
42 B-1 Step 2
43 C-1 Step 2
44 C-3 Step 2
45 H-1 Step 2
46
47

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Summary of Results of Operations

Exhibit
Schedule A-2
Page 1
Witness: Bourassa

Line No.	Description	Prior Years Ended 12/31/2001	Prior Years Ended 12/31/2002	Test Year Actual 12/31/2003	Test Year Adjusted Step 1 12/31/2003	Test Year Adjusted Step 2 12/31/2003
1	Gross Revenues	$ 548,158	$ 669,042	$ 814,814	$ 827,565	$ 928,349
2						
3	Revenue Deductions and	504,106	737,711	890,063	814,427	1,113,666
4	Operating Expenses					
5						
6	Operating Income	$ 44,052	$ (68,669)	$ (75,249)	$ 13,138	$ (185,317)
7						
8	Other Income and	941	5,196	2,970	-	-
9	Deductions					
10						
11	Interest Expense	2,176	2,780	366	92,902	92,902
12						
13	Net Income	$ 42,817	$ (66,253)	$ (72,645)	$ (79,764)	$ (278,220)
14						
15	Earned Per Average					
16	Common Share	42.82	(66.25)	(72.65)	(79.76)	(278.22)
17						
18	Dividends Per					
19	Common Share	-	-	-	-	-
20						
21	Payout Ratio	-	-	-	-	-
22						
23	Return on Average					
24	Invested Capital	4.08%	-3.09%	-2.39%	-2.63%	-7.06%
25						
26	Return on Year End					
27	Capital	3.12%	-2.28%	-2.30%	-2.74%	-5.90%
28						
29	Return on Average					
30	Common Equity	NA	NA	NA	NA	NA
31						
32	Return on Year End					
33	Common Equity	NA	NA	NA	NA	NA
34						
35	Times Bond Interest Earned					
36	Before Income Taxes	20.68	(24.70)	(156.91)	(21.77)	1.55
37						
38	Times Total Interest and					
39	Preferred Dividends Earned					
40	After Income Taxes	217.45	(63.95)	(647.92)	35.90	1.43
41						
42						
43	SUPPORTING SCHEDULES					
44	C-1					
45	E-2					
46	F-1					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Summary of Capital Structure

Exhibit
Schedule A-3
Page 1
Witness: Bourassa

Line No.	Description:	Prior Years Ended 12/31/2001	Prior Years Ended 12/31/2002	Test Year 12/31/2003	STEP 1 Projected Year 12/31/2004	STEP 2 Projected Year 12/31/2005
1						
2						
3	Long-Term Debt	-	-	-	1,883,600	1,883,600
4						
5	Total Debt	$ -	$ -	$ -	$ 1,883,600	$ 1,883,600
6						
7						
8	Preferred Stock	-	-	-	-	-
9						
10	Common Equity	(274,477)	(340,730)	(413,375)	(413,442)	(373,243)
11						
12						
13	Total Capital & Debt	$ (274,477)	$ (340,730)	$ (413,375)	$ 1,470,158	$ 1,510,357
14						
15						
16	Capitalization Ratios:					
17						
18	Long-Term Debt	0.00%	0.00%	0.00%	128.12%	124.71%
19						
20	Total Debt	0.00%	0.00%	0.00%	128.12%	124.71%
21						
22						
23	Preferred Stock	-	-	-	-	-
24						
25	Common Equity	100.00%	100.00%	100.00%	-28.12%	-24.71%
26						
27						
28	Total Capital	100.00%	100.00%	100.00%	100.00%	100.00%
29						
30						
31	Weighted Cost of					
32	Senior Capital	0.00%	0.00%	0.00%	0.00%	0.00%
33						
34						
35						
36						
37						
38	SUPPORTING SCHEDULES:					
39	E-1					
40	D-1					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		Construction Expenditures	Net Plant Placed in Service	Gross Utility Plant in Service (a)
1				
2	Prior Year Ended 12/31/2001	475,536	187,350	1,820,904
3				
4	Prior Year Ended 12/31/2002	1,705,319	1,801,537	3,622,441
5				
6	Prior Year Ended 12/31/2003	476,483	679,856	4,302,296
7				
8	Projected Year Ended 12/31/2004	63,698	63,698	4,365,994
9				
10	Projected Year Ended 12/31/2005	2,359,600	2,359,600	6,725,594
11				
12	(a) Adjusted			
13				
14				
15	SUPPORTING SCHEDULES:			
16	B-2			
17	E-5			
18	F-3			
19				
20				
21				
22				
23				
24				
25				
26				
27				

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Summary Statements of Cash Flows

Exhibit
Schedule A-5
Page 1
Witness: Bourassa

Line No.		Prior Year Ended 12/31/2001	Prior Year Ended 12/31/2002	Test Year Ended 12/31/2003	Projected Year Present Rates 12/31/2004	Projected Year Proposed Rates Step 1 12/31/2004	Projected Year Proposed Rates Step 2 12/31/2005
5	Cash Flows from Operating Activities						
6	Net Income	$ 42,817	$ (66,253)	$ (72,645)	$ (79,764)	$ (67)	$ 40,200
7	Adjustments to reconcile net income to net cash						
8	provided by operating activities:						
9	Depreciation and Amortization	63,057	109,041	171,262	133,494	133,494	196,218
10	Deferred Income Taxes	3,680	6,096	13,295	-	-	-
11	Accumulated Deferred ITC	-	-	-	-	-	-
12	Changes in Certain Assests and Liabilities:				-	-	-
13	Accounts Receivable	(4,636)	(10,421)	1,327	-	-	-
14	Materials & Supplies	-	(950)	(25,300)	-	-	-
15	Prepaid Expenses	-	-	-	-	-	-
16	Misc Current Assets and Deferred Expense	1,888	1,887	1,888	-	-	-
17	Accounts Payable and Accrued Liabilities	(6,696)	9,572	(5,187)	-	-	-
18	Accrued Income Taxes	1,777	725	5,142	-	-	-
19	Net Cash Flow provided by Operating Activities	$ 101,887	$ 49,697	$ 89,782	$ 53,730	$ 133,427	$ 236,417
20	Cash Flow From Investing Activities:						
21	Capital Expenditures	(475,536)	(1,705,319)	(476,483)	(63,698)	(63,698)	(2,359,600)
22	Plant Held for Future Use	-	-	-			
23	Non-Utility Property	-	-	-			
24	Net Cash Flows from Investing Activities	$ (475,536)	$ (1,705,319)	$ (476,483)	$ (63,698)	$ (63,698)	$ (2,359,600)
25	Cash Flow From Financing Activities						
26	(Decrease) Increase in Net Amounts due to Parent and						
27	Affiliates	(66)	(13,551)	5,000	-	-	-
28	Customer Deposits	2,669	32,387	842	-	-	-
29	Changes in Advances for Construction	706,678	1,516,202	337,359	-	-	-
30	Changes in Contributions for Construction	-	73,317	-	-	-	-
31	Proceeds from Long-Term Debt Borrowing	-	-	-	-	-	1,883,600
32	Repayments of Long-Term Debt	-	-	-	-	-	-
33	Dividends Paid	-	-	-	-	-	-
34	Deferred Financing Costs	-	-	-	-	-	-
35	Proceeds from Additional Paid-in-Capital				-	-	-
36	Net Cash Flows Provided by Financing Activities	$ 709,281	$ 1,608,355	$ 343,201	$ -	$ -	$ 1,883,600
37	Increase(decrease) in Cash and Cash Equivalents	335,632	(47,267)	(43,500)	(9,968)	69,729	(239,583)
38	Cash and Cash Equivalents at Beginning of Year	28,214	363,846	316,579	273,079	273,079	342,808
39	Cash and Cash Equivalents at End of Year	$ 363,846	$ 316,579	$ 273,079	$ 263,111	$ 342,808	$ 103,225
40							
41							
42							
43	SUPPORTING SCHEDULES:						
44	E-3						
45	F-2						

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Summary of Fair Value Rate Base

Exhibit
Schedule B-1 Step 1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base
1		
2	Gross Utility Plant in Service	$ 4,302,296
3	Less: Accumulated Depreciation	1,391,574
4		
5	Net Utility Plant in Service	$ 2,910,722
6		
7	Less:	
8	Advances in Aid of	
9	Construction	3,180,500
10	Contributions in Aid of	
11	Construction - Net of amortization	323,598
12	Customer Meter Deposits	46,999
13	Deferred Income Taxes & Credits	-
14	Investment tax Credits	-
15	Plus:	
16	Unamortized Finance	
17	Charges	-
18	Deferred Tax Assets	-
19	Allowance for Working Capital	99,686
20	Citizens Acquisition Adjustment	-
21		
22	Total Rate Base	$ (540,689)
23		
24		
25		
26	SUPPORTING SCHEDULES:	
27	B-2 Step 1	
28	B-3 (not filed)	
29	B-5 Step 1	
30	E-1	
31		

RECAP SCHEDULES:
A-1 Step 1

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2 Step 1
Page 1
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments Label	Proforma Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	$ 4,313,786	1	(11,490)	$ 4,302,296
3					
4	**Less:**				
5					
6	Accumulated				
7	Depreciation	1,533,754	2	(142,180)	1,391,574
8					
9	Net Utility Plant				
10	in Service	$ 2,780,032			$ 2,910,722
11					
12	**Less:**				
13	Advances in Aid of				
14	Construction	$ 3,180,500			$ 3,180,500
15	Contributions in Aid of				
16	Construction - Net	293,221	3	30,377	323,598
17					
18	Customer Meter Deposits	46,999			46,999
19	Deferred Income Taxes	-			-
20	Investment Tax Credits	-			-
21	**Plus:**				
22					
23	Deferred Tax Assets	-			-
24					
25	Working capital	99,686			99,686
26					
27					
28	Total	$ (641,002)			$ (540,689)
29					
30					
31					
32	SUPPORTING SCHEDULES:				RECAP SCHEDULES:
33	E-1				B-1 Step 1
34	B-2 Step 1, Pages 2-4				
35	B-5				
36					
37					
38					
39					
40					
41					
42					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustment to Plant-In-Service
Adjustment Number 1

Exhibit
Schedule B-2 Step 1
Page 2
Witness: Bourassa

Line No.		
1		
2	Plant Per Schedule B-2, Pages 2a-2f	$ 4,302,296
3	Plant Per E-1 Schedule	4,313,786
4	Adjustment to Plant	$ (11,490)
5		
6		
7		
8		
9		
10		
11		
12		
13		

Valley Utilities Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2 a
Witness: Bourassa

Account No.	Description	Deprec. Rate Thru Sep-00	Deprec. Rate After Sep-00	Staff Plant At 12/31/1998	Allocated Staff 1998 Accum. Depr. (a)	1999 Plant Additions	1999 Plant Adjustments	1999 Adjusted Plant Additions	1999 Plant Retirements	1999 Plant Balance	1999 Depr.
301	Organization Cost	0.00%	0.00%		-			-		-	-
302	Franchise Cost	0.00%	0.00%		-			-		-	-
303	Land and Land Rights	0.00%	0.00%	44,046	26,266			-		44,046	-
304	Structures and Improvements	5.00%	3.33%	8,622	5,142			-		8,622	431
305	Collecting and Impounding Res.	5.00%	2.50%		-			-		-	-
306	Lake River and Other Intakes	5.00%	2.50%		-			-		-	-
307	*Wells and Springs*	5.00%	3.33%	86,255	51,436	4,500		4,500		90,755	4,425
308	Infiltration Galleries and Tunnels	5.00%	6.67%		-			-		-	-
309	Supply Mains	5.00%	2.00%		-			-		-	-
310	Power Generation Equipment	5.00%	5.00%		-			-		-	-
311	Electric Pumping Equipment	5.00%	12.50%	159,186	94,926	4,015		4,015		163,201	8,060
320	Water Treatment Equipment	5.00%	3.33%	701	418			-		701	35
330	Distribution Reservoirs & Standpipe	5.00%	2.22%	241,915	144,260			-		241,915	12,096
331	Transmission and Distribution Mains	5.00%	2.00%	920,695	549,033	761		761		921,456	46,054
333	Services	5.00%	3.33%	30,913	18,434	4,697		4,697		35,610	1,663
334	Meters	5.00%	8.33%	47,191	28,141	11,953		11,953		59,144	2,658
335	Hydrants	5.00%	2.00%	2,182	1,301			-		2,182	109
336	Backflow Prevention Devices	5.00%	6.67%		-			-		-	-
339	Other Plant and Miscellaneous Equipment	5.00%	6.67%		-			-		-	-
340	Office Furniture and Fixtures	5.00%	6.67%	16,281	9,709	5,468		5,468		21,749	951
341	Transportation Equipment	5.00%	20.00%	6,800	4,055			-		6,800	340
342	Stores Equipment	5.00%	4.00%		-			-		-	-
343	Tools and Work Equipment	5.00%	5.00%	11,690	6,971	443		443		12,133	596
344	Laboratory Equipment	5.00%	10.00%		-			-		-	-
345	Power Operated Equipment	5.00%	5.00%	5,599	3,339			-		5,599	280
346	Communications Equipment	5.00%	10.00%		-			-		-	-
347	Miscellaneous Equipment	5.00%	10.00%		-			-		-	-
348	Other Tangible Plant	5.00%	0.00%	4,192	2,500			-		4,192	210
	Plant Held for Future Use			-	-			-		-	-
	TOTAL WATER PLANT			1,586,268	945,930	31,837	-	31,837	-	1,618,105	77,907
	Depreciation/Composite Rate									77,907	4.815%
(a)	Staff Accumulated Depreciation Allocated to Plant.										
	Retirements (excluding land)									-	
	Accumulated Depreciation Balance				$ 945,930					1,023,837	
	Half Year Convention used on depreciation										

Valley Utilities Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2 b
Witness: Bourassa

Account No.	Description	2000 Plant Additions	2000 Plant Adjustments	2000 Adjusted Plant Additions	2000 Plant Retirements	2000 Plant Balance	2000 Deprec.
301	Organization Cost			-		-	-
302	Franchise Cost			-		-	-
303	Land and Land Rights			-		44,046	-
304	Structures and Improvements			-		8,622	395
305	Collecting and Impounding Res.			-		-	-
306	Lake River and Other Intakes			-		-	-
307	Wells and Springs			-		90,755	4,159
308	Infiltration Galleries and Tunnels			-		-	-
309	Supply Mains			-		-	-
310	Power Generation Equipment			-		-	-
311	Electric Pumping Equipment			-		163,201	11,220
320	Water Treatment Equipment			-		701	32
330	Distribution Reservoirs & Standpipe			-		241,915	10,414
331	Transmission and Distribution Mains	416		416		921,872	39,171
333	Services	4,183		4,183		39,793	1,728
334	Meters	10,849		10,849		69,994	3,766
335	Hydrants			-		2,182	93
336	Backflow Prevention Devices			-		-	-
339	Other Plant and Miscellaneous Equipment			-		-	-
340	Office Furniture and Fixtures			-		21,749	1,178
341	Transportation Equipment			-		6,800	595
342	Stores Equipment			-		-	-
343	Tools and Work Equipment			-		12,133	607
344	Laboratory Equipment			-		-	-
345	Power Operated Equipment			-		5,599	280
346	Communications Equipment			-		-	-
347	Miscellaneous Equipment			-		-	-
348	Other Tangible Plant			-		4,192	157
	Plant Held for Future Use			-		-	-
	TOTAL WATER PLANT	15,449	-	15,449	-	1,633,554	73,795
	Depreciation/Composite Rate					73,795	4.517%
(a)	Staff Accumulated Depreciation Allocated to Plant.						
	Retirements (excluding land)					-	
	Accumulated Depreciation Balance					1,097,632	
	Half Year Convention used on depreciation						

Valley Utilities Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2 c
Witness: Bourassa

Account No.	Description	2001 Plant Additions	2001 Plant Adjustments	2001 Adjusted Plant Additions	2001 Plant Retirements	2001 Plant Balance	2001 Deprec.
301	Organization Cost			-		-	-
302	Franchise Cost			-		-	-
303	Land and Land Rights			-		44,046	-
304	Structures and Improvements			-		8,622	287
305	Collecting and Impounding Res.			-		-	-
306	Lake River and Other Intakes			-		-	-
307	Wells and Springs	6,006		6,006		96,761	3,122
308	*Infiltration Galleries and Tunnels*			-		-	-
309	Supply Mains	155,059		155,059		155,059	1,551
310	Power Generation Equipment			-		-	-
311	Electric Pumping Equipment	4,291		4,291		167,492	20,668
320	Water Treatment Equipment			-		701	23
330	Distribution Reservoirs & Standpipe			-		241,915	5,371
331	Transmission and Distribution Mains			-		921,872	18,437
333	Services	4,499		4,499		44,292	1,400
334	Meters	12,360		12,360		82,354	6,345
335	Hydrants			-		2,182	44
336	Backflow Prevention Devices			-		-	-
339	Other Plant and Miscellaneous Equipment			-		-	-
340	Office Furniture and Fixtures	1,688		1,688		23,437	1,507
341	Transportation Equipment			-		6,800	1,360
342	Stores Equipment			-		-	-
343	Tools and Work Equipment	3,447		3,447		15,581	693
344	Laboratory Equipment			-		-	-
345	Power Operated Equipment			-		5,599	280
346	Communications Equipment	-		-		-	-
347	Miscellaneous Equipment			-		-	-
348	Other Tangible Plant			-		4,192	-
	Plant Held for Future Use			-		-	-
	TOTAL WATER PLANT	187,350	-	187,350	-	1,820,904	61,088
	Depreciation/Composite Rate					61,088	3.355%
(a)	Staff Accumulated Depreciation Allocated to Plant.						
	Retirements (excluding land)					-	
	Accumulated Depreciation Balance					1,158,720	
	Half Year Convention used on depreciation						

Valley Utilities Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2 d
Witness: Bourassa

Account No.	Description	2002 Plant Additions	2002 Plant Adjustments	2002 Adjusted Plant Additions	2002 Plant Retirements	2002 Plant Balance	2002 Deprec.
301	Organization Cost			-		-	-
302	Franchise Cost			-		-	-
303	Land and Land Rights			-		44,046	-
304	Structures and Improvements			-		8,622	287
305	Collecting and Impounding Res.			-		-	-
306	Lake River and Other Intakes			-		-	-
307	Wells and Springs	815,985		815,985		912,746	16,808
308	Infiltration Galleries and Tunnels			-		-	-
309	Supply Mains			-		155,059	3,101
310	Power Generation Equipment			-		-	-
311	Electric Pumping Equipment	23,448		23,448		190,940	22,402
320	Water Treatment Equipment	273		273		974	28
330	Distribution Reservoirs & Standpipe	14,907		14,907		256,822	5,536
331	Transmission and Distribution Mains	673,420		673,420		1,595,292	25,172
333	Services	7,118		7,118		51,410	1,593
334	Meters	192,635		192,635		274,989	14,883
335	Hydrants	72,000		72,000		74,182	764
336	Backflow Prevention Devices			-		-	-
339	Other Plant and Miscellaneous Equipment			-		-	-
340	Office Furniture and Fixtures	859		859		24,295	1,592
341	Transportation Equipment			-		6,800	1,360
342	Stores Equipment			-		-	-
343	Tools and Work Equipment	892		892		16,472	801
344	Laboratory Equipment			-		-	-
345	Power Operated Equipment			-		5,599	280
346	Communications Equipment			-		-	-
347	Miscellaneous Equipment			-		-	-
348	Other Tangible Plant			-		4,192	-
	Plant Held for Future Use			-		-	-
	TOTAL WATER PLANT	1,801,537	-	1,801,537	-	3,622,441	94,608
	Depreciation/Composite Rate					94,608	2.612%
(a)	Staff Accumulated Depreciation Allocated to Plant.						
	Retirements (excluding land)					-	
	Accumulated Depreciation Balance					1,253,328	
	Half Year Convention used on depreciation						

Valley Utilities Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2 e
Witness: Bourassa

Account No.	Description	2003 Plant Additions	2003 Plant Adjustments	2003 Adjusted Plant Additions	2003 Plant Retirements	Plant Retirements To Date	2003 Plant Balance	2003 Deprec.
301	Organization Cost			-		-	-	-
302	Franchise Cost			-		-	-	-
303	Land and Land Rights			-		-	44,046	-
304	Structures and Improvements	3,681		3,681		-	12,303	348
305	Collecting and Impounding Res.			-		-	-	-
306	Lake River and Other Intakes			-		-	-	-
307	Wells and Springs	34,202		34,202		-	946,947	30,964
308	Infiltration Galleries and Tunnels			-		-	-	-
309	Supply Mains			-		-	155,059	3,101
310	Power Generation Equipment			-		-	-	-
311	Electric Pumping Equipment	16,233		16,233		-	207,173	24,882
320	Water Treatment Equipment	2,251		2,251		-	3,225	70
330	Distribution Reservoirs & Standpipe	27,218		27,218		-	284,041	6,004
331	Transmission and Distribution Mains	495,731		495,731		-	2,091,023	36,863
333	Services	3,073		3,073		-	54,483	1,763
334	Meters	43,643		43,643		-	318,631	24,724
335	Hydrants	5,906		5,906		-	80,088	1,543
336	Backflow Prevention Devices			-		-	-	-
339	Other Plant and Miscellaneous Equipment			-		-	-	-
340	Office Furniture and Fixtures	9,019		9,019		-	33,314	1,921
341	Transportation Equipment	35,026		35,026		-	41,826	4,863
342	Stores Equipment			-		-	-	-
343	Tools and Work Equipment	3,542		3,542		-	20,015	912
344	Laboratory Equipment			-		-	-	-
345	Power Operated Equipment	331		331		-	5,930	288
346	Communications Equipment			-		-	-	-
347	Miscellaneous Equipment			-		-	-	-
348	Other Tangible Plant			-		-	4,192	-
	Plant Held for Future Use			-		-	-	-
	TOTAL WATER PLANT	679,856	-	679,856	-	-	4,302,296	138,247
	Depreciation/Composite Rate						138,247	3.213%
(a)	Staff Accumulated Depreciation Allocated to Plant.							
	Retirements (excluding land)						-	
	Accumulated Depreciation Balance						1,391,574	
	Half Year Convention used on depreciation							

Valley Utilities Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2 f
Witness: Bourassa

Account No.	Description	Year End Accumulated Depreciation by Account Dec-98 1998	Dec-99 1999	Dec-00 2000	Dec-01 2001	Dec-02 2002	Dec-03 2003
301	Organization Cost	-	-	-	-	-	-
302	Franchise Cost	-	-	-	-	-	-
303	Land and Land Rights	26,266	26,266	26,266	26,266	26,266	26,266
304	Structures and Improvements	5,142	5,573	5,968	6,255	6,542	6,890
305	Collecting and Impounding Res.	-	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-	-
307	Wells and Springs	51,436	55,861	60,020	63,142	79,950	110,914
308	Infiltration Galleries and Tunnels	-	-	-	-	-	-
309	Supply Mains	-	-	-	1,551	4,652	7,753
310	Power Generation Equipment	-	-	-	-	-	-
311	Electric Pumping Equipment	94,926	102,986	114,206	134,875	157,277	182,159
320	Water Treatment Equipment	418	453	485	509	536	606
330	Distribution Reservoirs & Standpipe	144,260	156,356	166,770	172,140	177,676	183,680
331	Transmission and Distribution Mains	549,033	595,086	634,257	652,695	677,866	714,729
333	Services	18,434	20,097	21,825	23,225	24,818	26,581
334	Meters	28,141	30,800	34,566	40,911	55,794	80,518
335	Hydrants	1,301	1,410	1,503	1,547	2,310	3,853
336	Backflow Prevention Devices	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	-	-	-	-	-	-
340	Office Furniture and Fixtures	9,709	10,659	11,838	13,345	14,937	16,858
341	Transportation Equipment	4,055	4,395	4,990	6,350	7,710	12,573
342	Stores Equipment	-	-	-	-	-	-
343	Tools and Work Equipment	6,971	7,567	8,173	8,866	9,667	10,580
344	Laboratory Equipment	-	-	-	-	-	-
345	Power Operated Equipment	3,339	3,619	3,899	4,179	4,459	4,747
346	Communications Equipment	-	-	-	-	-	-
347	Miscellaneous Equipment	-	-	-	-	-	-
348	Other Tangible Plant	2,500	2,709	2,867	2,867	2,867	2,867
	Plant Held for Future Use	-	-	-	-	-	-
	TOTAL WATER PLANT	945,930	1,023,837	1,097,632	1,158,720	1,253,328	1,391,574
	Depreciation/Composite Rate						
(a)	Staff Accumulated Depreciation Allocated to Plant.						
	Retirements (excluding land)						
	Accumulated Depreciation Balance						
	Half Year Convention used on depreciation						

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustment to Accumulated Depreciation
Adjustment Number 2

Exhibit
Schedule B-2 Step 1
Page 3
Witness: Bourassa

Line No.		
1		
2	Accum. Depr. Per Schedule B-2, Pages 2a-2f	$ 1,391,574
3	Accum. Depr. Per E-1 Schedule	1,533,754
4	Adjustment to Accumulated Depreciation	$ (142,180)
5		
6		
7		
8		
9		
10		
11		
12		
13		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustment to Accumulated Amortization of CIAC
Adjustment Number 3

Exhibit
Schedule B-2 Step 1
Page 4
Witness: Bourassa

Line No.					
1	Computation of CIAC Balances				
2					
3	Balance at 12/31/1998 per Decision			$	417,416
4	Additions 1999				-
5	Balance at 12/31/1999			$	417,416
6	Additions 2000				3,365
7	Balance at 12/31/2000			$	420,781
8	Additions 2001				-
9	Balance at 12/31/2001			$	420,781
10	Additions 2002				73,317
11	Balance at 12/31/2002			$	494,098
12	Additions 2003				-
13	Balance at 12/31/2003			$	494,098
14					
15					
16	Computation of Accumulated Amortization CIAC Balances				
17					
18	Balance at 12/31/1998 per Decision			$	88,496
19	Amortization at composite rat	4.815%	1999		20,097
20	Balance at 12/31/1999			$	108,593
21	Amortization at composite rat	4.517%	2000		19,009
22	Balance at 12/31/2000			$	127,602
23	Amortization at composite rat	3.355%	2001		14,116
24	Balance at 12/31/2001			$	141,718
25	Amortization at composite rat	2.612%	2002		12,904
26	Balance at 12/31/2002			$	154,623
27	Amortization at composite rat	3.213%	2003		15,877
28	Balance at 12/31/2003			$	170,500
29					
30	Accum. Amortization Balance per Computation			$	170,500
31	Balance at End of Test Year				200,877
32	Adjustment to Accum. Amort. CIAC			$	(30,377)
33					
34					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Summary of Fair Value Rate Base

Exhibit
Schedule B-1 - Step 2
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base
1		
2	Gross Utility Plant in Service	$ 6,185,896
3	Less: Accumulated Depreciation	1,542,591
4		
5	Net Utility Plant in Service	$ 4,643,305
6		
7	Less:	
8	Advances in Aid of	
9	Construction	3,180,500
10	Contributions in Aid of	
11	Construction - Net of amortization	306,255
12	Customer Meter Deposits	46,999
13	Deferred Income Taxes & Credits	-
14	Investment tax Credits	-
15	Plus:	
16	Unamortized Finance	
17	Charges	-
18	Deferred Tax Assets	-
19	Allowance for Working Capital	134,383
20	Citizens Acquisition Adjustment	-
21		
22	Total Rate Base	$ 1,243,934
23		
24		
25		
26	SUPPORTING SCHEDULES:	
27	B-2 Step 2	
28	B-3 (not filed)	
29	B-5 Step 2	
30		
31		

RECAP SCHEDULES:
A-1 Step 2

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2 Step 2
Page 1
Witness: Bourassa

Line No.		Step 1 Adjusted at end of Test Year	Proforma Adjustments Label	Proforma Adjustments Amount	Step 2 Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	$ 4,302,296	1	1,883,600	$ 6,185,896
3					
4	**Less:**				
5					
6	Accumulated				
7	Depreciation	1,391,574	2	151,017	1,542,591
8					
9	Net Utility Plant				
10	in Service	$ 2,910,722			$ 4,643,305
11					
12	**Less:**				
13	Advances in Aid of				
14	Construction	$ 3,180,500			$ 3,180,500
15	Contributions in Aid of				
16	Construction - Net	323,598	3	(17,344)	306,255
17					
18	Customer Meter Deposits	46,999			46,999
19	Deferred Income Taxes	-			-
20	Investment Tax Credits	-			-
21	**Plus:**				
22					
23	Deferred Tax Assets	-			-
24					
25	Working capital	99,686	4	34,697	134,383
26					
27					
28	Total	$ (540,689)			$ 1,243,934
29					
30					
31					
32	SUPPORTING SCHEDULES:				RECAP SCHEDULES:
33	B-2 Step 2, Page 2				B-1 Step 2
34					
35					
36					
37					
38					
39					
40					
41					
42					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustment to Accumulated Depreciation
Adjustment Number 1

Exhibit
Schedule B-2 Step 2
Page 2
Witness: Bourassa

Line No.		
1	Post Test Year Water Treatment Plant	
2		
3	Asenic Treatment Plant Wells 4, 5, and 6	$ 1,383,600
4	Asenic Treatment Plant Wells 1 and 2	500,000
5	Total Arsenic Treatment Cost	$ 1,883,600
6		
7		
8	Adjustment to Plant in Service	$ 1,883,600
9		
10		
11		
12		
13		
14		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustment to Accumulated Depreciation
Adjustment Number 2

Exhibit
Schedule B-2 Step 2
Page 3
Witness: Bourassa

Line No.

1 Depreciation Expense

Account No.	Description	Original Cost	Rate	Depreciation Expense
301	Organization Cost	$ -	0.00%	$ -
302	Franchise Cost	-	0.00%	-
303	Land and Land Rights	44,046	0.00%	-
304	Structures and Improvements	12,303	3.33%	410
305	Collecting and Impounding Res.	-	2.50%	-
306	Lake River and Other Intakes	-	2.50%	-
307	Wells and Springs	946,947	3.33%	31,533
308	Infiltration Galleries and Tunnels	-	6.67%	-
309	Supply Mains	155,059	2.00%	3,101
310	Power Generation Equipment	-	5.00%	-
311	Electric Pumping Equipment	207,173	12.50%	25,897
320	Water Treatment Equipment	3,225	3.33%	107
330	Distribution Reservoirs & Standpipe	284,041	2.22%	6,306
331	Transmission and Distribution Mains	2,091,023	2.00%	41,820
333	Services	54,483	3.33%	1,814
334	Meters	318,631	8.33%	26,542
335	Hydrants	80,088	2.00%	1,602
336	Backflow Prevention Devices	-	6.67%	-
339	Other Plant and Miscellaneous Equipment	-	6.67%	-
340	Office Furniture and Fixtures	33,314	6.67%	2,222
341	Transportation Equipment	41,826	20.00%	8,365
342	Stores Equipment	-	4.00%	-
343	Tools and Work Equipment	20,015	5.00%	1,001
344	Laboratory Equipment	-	10.00%	-
345	Power Operated Equipment	5,930	5.00%	296
346	Communications Equipment	-	10.00%	-
347	Miscellaneous Equipment	-	10.00%	-
348	Other Tangible Plant	4,192	0.00%	-
	TOTALS	$ 4,302,296		$ 151,017
	Composite Rate	3.51%		

Adjustment to Accumulated Depreciation $ 151,017

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustment to Contributions in Aid of Construction
Adjustment Number 3

Exhibit
Schedule B-2 Step 2
Page 4
Witness: Bourassa

Line No.			
1			
2	Amortization of Contributions in Aid of Construction (CIAC)		
3			
4			
5	CIAC Balance at 12/31/2004	$	494,098
6	Composite Rate from depreciaion schedule (B-2, Page 3)		3.51%
7	Amortization	$	17,344
8			
9			
10	Adjustment to CIAC	$	(17,344)
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustment to Working Capital
Adjustment Number 4

Exhibit
Schedule B-2 Step 2
Page 5
Witness: Bourassa

Line No.			
1			
2			
3	Workig Capital per B-5 Step 2	$	134,383
4	Workig Capital per B-5 Step 1		99,686
5	Increase (decrease)	$	34,697
6			
7			
8			
9	Adjustment to working capital	$	34,697
10			
11			
12			
13			
14			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Computation of Working Capital

Exhibit
Schedule B-5 Step 1
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	68,467
3	Pumping Power (1/24 of Pumping Power)		4,418
4	Material and Supplies Inventories		26,800
5	Prepayments		-
6			
7			
8	Total Working Capital Allowance	$	99,686
9			
10			
11	Working Capital Requested	$	99,686
12			
13			
14	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
15	C-1 Step 1	B-1 Step 1	
16			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Computation of Working Capital

Exhibit
Schedule B-5 Step 2
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	103,164
3	Pumping Power (1/24 of Pumping Power)		4,418
4	Material and Supplies Inventories		26,800
5	Prepayments		-
6			
7			
8	Total Working Capital Allowance	$	134,383
9			
10			
11	Working Capital Requested	$	134,383
12			
13			
14	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
15	C-1 Step 2	B-1 Step 2	
16			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Income Statement

Exhibit
Schedule C-1 Step 1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Label	Step 1 Adjustment	Step 1 Test Year Adjusted Results	Step 1 Proposed Rate Increase	Step 1 Adjusted with Rate Increase
1	**Revenues**						
2	Metered Water Revenues	$ 773,023	4	12,751	$ 785,774	100,784	$ 886,558
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	41,791			41,791		41,791
5		$ 814,814		$ 12,751	$ 827,565	$ 100,784	$ 928,349
6	**Operating Expenses**						
7	Salaries and Wages	$ 253,382	8	(39,169)	$ 214,213		$ 214,213
8	Purchased Water	-			-		-
9	Purchased Power	104,387	5	1,656	106,043		106,043
10	Chemicals	2,225			2,225		2,225
11	Repairs and Maintenance	21,743			21,743		21,743
12	Office Supplies and Expense	30,348			30,348		30,348
13	Outside Services	5,382			5,382		5,382
14	Water Testing	1,599			1,599		1,599
15	Rents	71,493			71,493		71,493
16	Transportation Expenses	39,015			39,015		39,015
17	Insurance - General Liability	9,083			9,083		9,083
18	Insurance - Health and Life	69,194	8c	(10,696)	58,498		58,498
19	Regulatory Commission Expense - Rate Case	1,888	3	28,112	30,000		30,000
20	Miscellaneous Expense	46,526			46,526		46,526
21	Depreciation Expense	171,263	1	(37,769)	133,494		133,494
22	Other Taxes and Licenses	19,291	8b	(1,679)	17,612		17,612
23	Property Taxes	25,424	2	22,834	48,258		48,258
24	Income Tax	17,820		(38,925)	(21,105)	21,087	(18)
25					-		-
26	**Total Operating Expenses**	$ 890,063		$ (75,636)	$ 814,427	$ 21,087	$ 835,514
27	**Operating Income**	$ (75,249)		$ 88,387	$ 13,138	$ 79,697	$ 92,835
28	**Other Income (Expense)**						
29	Interest Income	2,970	6	(2,970)	-		-
30	Other income	-			-		-
31	Income Tax Provision	-			-		
32	Interest Expense	(366)	7	(92,536)	(92,902)		(92,902)
33	Other Expense	-			-		-
34	Gain/Loss Sale of Fixed Assets	-			-		-
35	**Total Other Income (Expense)**	$ 2,604		$ (95,506)	$ (92,902)	$ -	$ (92,902)
36	**Net Profit (Loss)**	$ (72,645)		$ (7,119)	$ (79,764)	$ 79,697	$ (67)
37							
38	SUPPORTING SCHEDULES:					RECAP SCHEDULES:	
39	*C-2 Step 1*					A-1 Step 1	
40	E-2						
41							

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses

Exhibit
Schedule C-2 Step 1
Page 1
Witness: Bourassa

Step 1 - Adjustments to Revenues and Expenses

Line No.		1 Depreciation	2 Property Taxes	3 Rate Case Expense	4 Revenue Annualization	5 Annualization Purchased Power	6 Remove Interest Income	Subtotal
3	Revenues				12,751			12,751
5	Expenses	(37,769)	22,834	28,112		1,656		14,833
8	Operating Income	37,769	(22,834)	(28,112)	12,751	(1,656)	-	(2,082)
11	Interest Expense							-
13	Other Income / Expense						(2,970)	
16	Net Income	37,769	(22,834)	(28,112)	12,751	(1,656)	(2,970)	(2,082)

Step 1 - Adjustments to Revenues and Expenses

Line No.		7 Interest Expense	8 Paryoll Expenses	9	10	11	12	Subtotal
23	Revenues							12,751
25	Expenses		(51,544)					(36,711)
28	Operating Income	-	51,544	-	-	-	-	49,462
31	Interest Expense	(92,536)						(92,536)
34	Other Income / Expense							-
36	Net Income	(92,536)	51,544	-	-	-	-	(43,074)

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Schedule C-2 Step 1
Page 2
Witness: Bourassa

Line No.

1 Depreciation Expense

Account No.	Description	Original Cost	Rate	Depreciation Expense
301	Organization Cost	$ -	0.00%	$ -
302	Franchise Cost	-	0.00%	-
303	Land and Land Rights	44,046	0.00%	-
304	Structures and Improvements	12,303	3.33%	410
305	Collecting and Impounding Res.	-	2.50%	-
306	Lake River and Other Intakes	-	2.50%	-
307	Wells and Springs	946,947	3.33%	31,533
308	Infiltration Galleries and Tunnels	-	6.67%	-
309	Supply Mains	155,059	2.00%	3,101
310	Power Generation Equipment	-	5.00%	-
311	Electric Pumping Equipment	207,173	12.50%	25,897
320	Water Treatment Equipment	3,225	3.33%	107
330	Distribution Reservoirs & Standpipe	284,041	2.22%	6,306
331	Transmission and Distribution Mains	2,091,023	2.00%	41,820
333	Services	54,483	3.33%	1,814
334	Meters	318,631	8.33%	26,542
335	Hydrants	80,088	2.00%	1,602
336	Backflow Prevention Devices	-	6.67%	-
339	Other Plant and Miscellaneous Equipment	-	6.67%	-
340	Office Furniture and Fixtures	33,314	6.67%	2,222
341	Transportation Equipment	41,826	20.00%	8,365
342	Stores Equipment	-	4.00%	-
343	Tools and Work Equipment	20,015	5.00%	1,001
344	Laboratory Equipment	-	10.00%	-
345	Power Operated Equipment	5,930	5.00%	296
346	Communications Equipment	-	10.00%	-
347	Miscellaneous Equipment	-	10.00%	-
348	Other Tangible Plant	4,192	0.00%	-
	TOTALS	$ 4,302,296		$ 151,017

Less: Amortization of Contributions	$ 494,098	3.5465%	(17,523)
Total Depreciation Expense			$ 133,494
Test Year Depreciation Expense			171,263
Increase (decrease) in Depreciation Expense			(37,769)
Adjustment to Revenues and/or Expenses			$ (37,769)

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 2

Exhibit
Schedule C-2 Step 1
Page 3
Witness: Bourassa

Line No.		
1	Property Taxes	
2		
3	Adjusted Revenues in year ended 12/31/03	$ 827,565
4	Adjusted Revenues in year ended 12/31/03	827,565
5	Proposed Revenues	928,349
6	Average of three year's of revenue	$ 861,160
7	Average of three year's of revenue, times 2	$ 1,722,320
8	Add:	
9	Construction Work in Progess at 10%	0
10	Deduct:	
11	Book Value of Transportation Equipment	29,253
12		
13	Total Book Value of Transportation Equipment	$ 29,253
14		
15	Full Cash Value	$ 1,693,067
16	Assessment Ratio	25%
17	Assessed Value	423,267
18	Property Tax Rate	11.13624%
19		
20	Property Tax	47,136
21	Tax on Parcels	1,122
22		
23	Total Property Tax at Proposed Rates	$ 48,258
24	Property Taxes in the test year	25,424
25	Change in Property Taxes	$ 22,834
26		
27		
28	Adjustment to Revenues and/or Expenses	$ 22,834
29		
30		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 3

Exhibit
Schedule C-2 Step 1
Page 4
Witness: Bourassa

Line No.			
1	Rate Case Expense		
2			
3	Rate Case expense	$	150,000
4	Amortization Period (Years)		5
5	Annual Amortization Expense	$	30,000
6	Rate Case Expense in Test Year		1,888
7	Change in Rate Case Expense	$	28,112
8			
9	Adjustment to Revenues and/or Expense	$	28,112
10			
11			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2001
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 4

Exhibit
Schedule C-2 Step 1
Page 5
Witness: Bourassa

Line No.			
1	Revenue Annualization		
2			
3	Revenues from annualization of customers	$	12,751
4			
5			
6	Increase (decrease) in Revenues/ Expenses	$	12,751
7			
8	Adjustment to Revenue and/or Expense	$	12,751
9			
10	Supporting Schedule H-1, page 1		
11			

Valley Utilities Water Company, Inc.
5/8 Inch Residential
Customers to Year End Levels
Test Year Ended December 31, 2003

Exhibit
Schedule C-2
Page 5.1
Witness: Bourassa

Line No.		Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03
1	Year End Number of Customers	243	243	243	243	243	243	243
2	Actual Customers	246	245	247	246	250	250	247
3	Increase in Number of Customers/Bills	(3)	(2)	(4)	(3)	(7)	(7)	(4)
4	Average Revenue / Present Rates	$ 22.18	$ 21.52	$ 20.47	$ 26.99	$ 28.51	$ 31.37	$ 33.41
5	Revenue Annualization / Present Rates	$ (67)	$ (43)	$ (82)	$ (81)	$ (200)	$ (220)	$ (134)
6								
7	Increase in Number of Customers	(3)	(2)	(4)	(3)	(7)	(7)	(4)
8	Average Revenue / Proposed Rates	$ 24.20	$ 23.48	$ 22.32	$ 30.23	$ 32.27	$ 36.15	$ 39.15
9	Revenue Annualization / Proposed Rates	$ (73)	$ (47)	$ (89)	$ (91)	$ (226)	$ (253)	$ (157)
10	Additional Gallons to be Produced	(20,959)	(13,242)	(24,148)	(28,989)	(73,531)	(84,675)	(52,901)
11								
12		Month	Month	Month	Month	Month		Total
13		of	of	of	of	of		Year
14		Aug-03	Sep-03	Oct-03	Nov-03	Dec-03		
15	Year End Number of Customers	243	243	243	243	243		
16	Actual Customers	246	247	248	243	243		
17	Increase in Number of Customers/Bills	(3)	(4)	(5)	-	-		(42)
18	Average Revenue / Present Rates	$ 27.63	$ 32.49	$ 26.09	$ 21.19	$ 23.18		
19	Revenue Annualization / Present Rates	$ (83)	$ (130)	$ (130)	$ -	$ -		$ (1,169)
20								
21	Increase in Number of Customers	(3)	(4)	(5)	-	-		
22	Average Revenue / Proposed Rates	$ 31.09	$ 37.80	$ 29.03	$ 23.12	$ 25.31		
23	Revenue Annualization / Proposed Rates	$ (83)	$ (130)	$ (130)	$ -	$ -		$ (1,325)
24	Additional Gallons to be Produced	(30,050)	(50,876)	(45,819)	-	-		(425,191)

Valley Utilities Water Company, Inc.
3/4 Inch Residential
Customers to Year End Levels
Test Year Ended December 31, 2003

Exhibit
Schedule C-2
Page 5.2
Witness: Bourassa

Line No.		Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03
1	Year End Number of Customers	602	602	602	602	602	602	602
2	Actual Customers	521	530	546	580	593	596	608
3	Increase in Number of Customers/Bills	81	72	56	22	9	6	(6)
4	Average Revenue / Present Rates	$ 27.62	$ 26.19	$ 26.40	$ 33.87	$ 34.23	$ 35.79	$ 38.39
5	Revenue Annualization / Present Rates	$ 2,237	$ 1,885	$ 1,478	$ 745	$ 308	$ 215	$ (230)
6								
7	Increase in Number of Customers	81	72	56	22	9	6	(6)
8	Average Revenue / Proposed Rates	$ 30.09	$ 28.51	$ 28.74	$ 36.97	$ 37.36	$ 39.08	$ 42.50
9	Revenue Annualization / Proposed Rates	$ 2,438	$ 2,053	$ 1,610	$ 813	$ 336	$ 234	$ (255)
10	Additional Gallons to be Produced	590,515	467,424	370,078	236,738	98,633	70,961	(79,631)
11								
12		Month	Month	Month	Month	Month		Total
13		of	of	of	of	of		Year
14		Aug-03	Sep-03	Oct-03	Nov-03	Dec-03		
15	Year End Number of Customers	602	602	602	602	602		
16	Actual Customers	622	605	614	596	602		
17	Increase in Number of Customers/Bills	(20)	(3)	(12)	6	-		211
18	Average Revenue / Present Rates	$ 36.71	$ 40.33	$ 34.13	$ 27.88	$ 31.38		
19	Revenue Annualization / Present Rates	$ (734)	$ (121)	$ (410)	$ 167	$ -		$ 5,541
20								
21	Increase in Number of Customers	(20)	(3)	(12)	6	-		
22	Average Revenue / Proposed Rates	$ 40.24	$ 45.11	$ 37.25	$ 30.38	$ 34.23		
23	Revenue Annualization / Proposed Rates	$ (734)	$ (121)	$ (410)	$ 167	$ -		$ 6,025
24	Additional Gallons to be Produced	(246,739)	(43,050)	(130,864)	44,595	-		1,378,660

Valley Utilities Water Company, Inc.
1 Inch Residential
Customers to Year End Levels
Test Year Ended December 31, 2003

Exhibit
Schedule C-2
Page 5.3
Witness: Bourassa

Line No.		Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03
1	Year End Number of Customers	271	271	271	271	271	271	271
2	Actual Customers	224	233	238	246	259	262	269
3	Increase in Number of Customers/Bills	47	38	33	25	12	9	2
4	Average Revenue / Present Rates	$ 47.19	$ 43.35	$ 43.69	$ 61.47	$ 62.02	$ 66.73	$ 70.67
5	Revenue Annualization / Present Rates	$ 2,218	$ 1,647	$ 1,442	$ 1,537	$ 744	$ 601	$ 141
6								
7	Increase in Number of Customers	47	38	33	25	12	9	2
8	Average Revenue / Proposed Rates	$ 51.43	$ 47.20	$ 47.58	$ 67.50	$ 68.24	$ 74.57	$ 79.46
9	Revenue Annualization / Proposed Rates	$ 2,417	$ 1,794	$ 1,570	$ 1,687	$ 819	$ 671	$ 159
10	Additional Gallons to be Produced	605,568	408,396	360,936	520,446	253,473	213,662	51,521
11								
12		Month	Month	Month	Month	Month		Total
13		of	of	of	of	of		Year
14		Aug-03	Sep-03	Oct-03	Nov-03	Dec-03		
15	Year End Number of Customers	271	271	271	271	271		
16	Actual Customers	270	274	278	271	271		
17	Increase in Number of Customers/Bills	1	(3)	(7)	-	-		157
18	Average Revenue / Present Rates	$ 70.81	$ 86.96	$ 59.54	$ 50.76	$ 55.30		
19	Revenue Annualization / Present Rates	$ 71	$ (261)	$ (417)	$ -	$ -		$ 7,723
20								
21	Increase in Number of Customers	1	(3)	(7)	-	-		
22	Average Revenue / Proposed Rates	$ 79.61	$ 98.14	$ 65.01	$ 55.36	$ 60.35		
23	Revenue Annualization / Proposed Rates	$ 71	$ (261)	$ (417)	$ -	$ -		$ 8,447
24	Additional Gallons to be Produced	25,822	(99,490)	(138,204)	-	-		2,202,130

Valley Utilities Water Company, Inc.
1 Inch Commercial
Customers to Year End Levels
Test Year Ended December 31, 2003

Exhibit
Schedule C-2
Page 5.4
Witness: Bourassa

Line No.		Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03
1	Year End Number of Customers	11	11	11	11	11	11	11
2	Actual Customers	10	10	10	10	11	11	11
3	Increase in Number of Customers/Bills	1	1	1	1	-	-	-
4	Average Revenue / Present Rates	$ 85.97	$ 70.32	$ 68.28	$ 104.25	$ 116.17	$ 122.84	$ 117.81
5	Revenue Annualization / Present Rates	$ 86	$ 70	$ 68	$ 104	$ -	$ -	$ -
6								
7	Increase in Number of Customers	1	1	1	1	-	-	-
8	Average Revenue / Proposed Rates	$ 96.94	$ 79.07	$ 76.65	$ 119.06	$ 133.48	$ 141.55	$ 135.47
9	Revenue Annualization / Proposed Rates	$ 97	$ 79	$ 77	$ 119	$ -	$ -	$ -
10	Additional Gallons to be Produced	32,712	25,601	24,601	41,021	-	-	-
11								
12		Month	Month	Month	Month	Month		Total
13		of	of	of	of	of		Year
14		Aug-03	Sep-03	Oct-03	Nov-03	Dec-03		
15	Year End Number of Customers	11	11	11	11	11		
16	Actual Customers	11	12	11	11	11		
17	Increase in Number of Customers/Bills	-	(1)	-	-	-		3
18	Average Revenue / Present Rates	$ 121.93	$ 96.13	$ 103.18	$ 84.31	$ 85.65		
19	Revenue Annualization / Present Rates	$ -	$ (96)	$ -	$ -	$ -		$ 233
20								
21	Increase in Number of Customers	-	(1)	-	-	-		
22	Average Revenue / Proposed Rates	$ 140.45	$ 109.24	$ 117.76	$ 94.94	$ 96.56		
23	Revenue Annualization / Proposed Rates	$ -	$ (96)	$ -	$ -	$ -		$ 262
24	Additional Gallons to be Produced	-	(37,334)	-	-	-		86,601

Valley Utilities Water Company, Inc.
2 Inch Commercial
Customers to Year End Levels
Test Year Ended December 31, 2003

Exhibit
Schedule C-2
Page 5.5
Witness: Bourassa

Line No.		Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03
1	Year End Number of Customers	46	46	46	46	46	46	46
2	Actual Customers	40	43	44	46	46	46	46
3	Increase in Number of Customers/Bills	6	3	2	-	-	-	-
4	Average Revenue / Present Rates	$ 412.43	$ 414.57	$ 389.94	$ 464.96	$ 405.48	$ 408.09	$ 498.98
5	Revenue Annualization / Present Rates	$ 2,475	$ 1,244	$ 780	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	6	3	2	-	-	-	-
8	Average Revenue / Proposed Rates	$ 449.75	$ 452.34	$ 422.54	$ 513.32	$ 441.35	$ 444.51	$ 554.48
9	Revenue Annualization / Proposed Rates	$ 2,699	$ 1,357	$ 845	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	942,069	473,953	293,581	-	-	-	-
11								
12								
13								
14		Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03		Total Year
15	Year End Number of Customers	46	46	46	46	46		
16	Actual Customers	46	46	46	46	46		
17	Increase in Number of Customers/Bills	-	-	-	-	-		11
18	Average Revenue / Present Rates	$ 439.18	$ 516.67	$ 361.22	$ 343.02	$ 328.58		
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -		$ 4,498
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	$ 482.12	$ 575.89	$ 387.79	$ 365.77	$ 348.30		
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -		$ 4,901
24	Additional Gallons to be Produced	-	-	-	-	-		1,709,603

Valley Utilities Water Company, Inc.
Construction Water
Customers to Year End Levels
Test Year Ended December 31, 2003

Exhibit
Schedule C-2
Page 5.6
Witness: Bourassa

Line No.		Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03
1	Year End Number of Customers	3	3	3	3	3	3	3
2	Actual Customers	6	5	4	5	6	5	3
3	Increase in Number of Customers/Bills	(3)	(2)	(1)	(2)	(3)	(2)	-
4	Average Revenue / Present Rates	$ 471.60	$ 245.30	$ 173.25	$ 178.32	$ 270.79	$ 413.72	$ 298.79
5	Revenue Annualization / Present Rates	$ (1,415)	$ (491)	$ (173)	$ (357)	$ (812)	$ (827)	$ -
6								
7	Increase in Number of Customers	(3)	(2)	(1)	(2)	(3)	(2)	-
8	Average Revenue / Proposed Rates	$ 515.91	$ 266.98	$ 187.73	$ 193.30	$ 295.02	$ 452.25	$ 325.82
9	Revenue Annualization / Proposed Rates	$ (1,548)	$ (534)	$ (188)	$ (387)	$ (885)	$ (904)	$ -
10	Additional Gallons to be Produced	(378,001)	(77,921)	(11,251)	(26,401)	(146,301)	(207,480)	-
11								

12		Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year
13							
14							
15	Year End Number of Customers	3	3	3	3	3	
16	Actual Customers	3	3	3	3	3	
17	Increase in Number of Customers/Bills	-	-	-	-	-	(13)
18	Average Revenue / Present Rates	$ 144.43	$ 279.03	$ 297.75	$ 298.27	$ 333.63	
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -	$ (4,075)
20							
21	Increase in Number of Customers	-	-	-	-	-	
22	Average Revenue / Proposed Rates	$ 156.03	$ 304.08	$ 324.67	$ 325.24	$ 364.14	
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -	$ (4,446)
24	Additional Gallons to be Produced	-	-	-	-	-	(847,355)

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2001
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 5

Exhibit
Schedule C-2 Step 1
Page 6
Witness: Bourassa

Line No.			
1	Power cost adjustment for additonal gallons from annualization of revenues		
2			
3	Test Year Power Costs (after adjustment1b)	$	104,387
4	Gallons sold in Test Year (1,000's)		258,740
5	Cost per 1,000 gallons		0.40344
6	Additonal gallons from annualization in 1,000's		4,104
7			
8	Additional Expense	$	1,656
9			
10			
11	Adjustment to Revenue and/or Expense	$	1,656
12			
13			
14			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2001
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 6

Exhibit
Schedule C-2 Step 1
Page 7
Witness: Bourassa

Line No.			
1	Remove Interest Income to eliminate effects on income taxes		
2			
3	Test Year Interest Income	$	2,970
4			
5			
6	Adjustment to Revenue and/or Expense	$	(2,970)
7			
8			
9			
10			
11			
12			
13			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2 Step 1
Page 8
Witness: Bourassa

Line No.			
1	Interest Expense on new WIFA debt		
2			
3	Annual Interest Expense	$	92,902
4	Interest Expense in Test Year		366
5	Change in Interest Expense	$	92,536
6			
7	Adjustment to Revenues and/or Expense	$	(92,536)
8			
9			
10			
11			
12			
13			
14			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2 Step 1
Page 9
Witness: Bourassa

Line No.				Adjustment Label
1	Salaries and Wages			
2				
3	2004 Projected Salaries and Wages	$	214,213	
4	Test Year Salaies and Wages		253,382	
5	Increase (decrease) in Salaries and Wages	$	(39,169)	
6				
7				
8	Adjustment to Revenues and/or Expense	$	(39,169)	8a
9				
10				
11	Payroll Taxes			
12				
13	2004 Projected PR Taxes	$	17,612	
14	Test Year Payroll Taxes		19,291	
15	Increase (decrease) in PR Taxes	$	(1,679)	
16				
17				
18	Adjustment to Revenues and/or Expense	$	(1,679)	8b
19				
20				
21	Insurance -Health and Life			
22				
23	2004 Projected PR Benefits	$	58,498	
24	Test Year Benefits		69,194	
25	Increase (decrease) in PR Benefits	$	(10,696)	
26				
27				
28	Adjustment to Revenues and/or Expense	$	(10,696)	8c
29				
30				
31				
32				

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3 Step 1
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	13.95%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	20.92%
9		
10	Operating Income % = 100% - Tax Percentage	79.08%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.2646
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		A-1 Step 1
20		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Income Statement

Exhibit
Schedule C-1 Step 2
Page 1
Witness: Bourassa

Line No.		Step1 Adjusted with Rate Increase	Label	Step 2 Adjustment	Step 2 Test Year Adjusted Results	Step 2 Proposed Rate Increase	Step 2 Adjusted with Rate Increase
1	**Revenues**						
2	Metered Water Revenues	$ 886,558			$ 886,558	402,669	$ 1,289,227
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	41,791			41,791		41,791
5		$ 928,349		$ -	$ 928,349	$ 402,669	$ 1,331,018
6	**Operating Expenses**						
7	Salaries and Wages	$ 214,213	4a	45,000	$ 259,213		$ 259,213
8	Purchased Water	-			-		-
9	Purchased Power	106,043			106,043		106,043
10	Chemicals	2,225			2,225		2,225
11	Arsenic Treatment Costs	-	3	216,600	216,600		216,600
12	Repairs and Maintenance	21,743			21,743		21,743
13	Office Supplies and Expense	30,348			30,348		30,348
14	Outside Services	5,382			5,382		5,382
15	Water Testing	1,599			1,599		1,599
16	Rents	71,493			71,493		71,493
17	Transportation Expenses	39,015			39,015		39,015
18	Insurance - General Liability	9,083			9,083		9,083
19	Insurance - Health and Life	58,498	4c	12,289	70,786		70,786
20	Regulatory Commission Expense - Rate Case	30,000			30,000		30,000
21	Miscellaneous Expense	46,526			46,526		46,526
22	Depreciation Expense	133,494	1	62,724	196,218		196,218
23	Other Taxes and Licenses	17,612	4b	3,688	21,300		21,300
24	Property Taxes	48,258	2	11,448	59,706		59,706
25	Income Tax	(18)		(73,595)	(73,613)	84,250	10,636
26							
27	**Total Operating Expenses**	$ 835,514		$ 278,152	$ 1,113,666	$ 84,250	$ 1,197,916
28	**Operating Income**	$ 92,835		$ (278,152)	$ (185,317)	$ 318,419	$ 133,102
29	**Other Income (Expense)**						
30	Interest Income	-			-		-
31	Other income	-			-		-
32	Income Tax Provision	-			-		
33	Interest Expense	(92,902)			(92,902)		(92,902)
34	Other Expense	-			-		-
35	Gain/Loss Sale of Fixed Assets	-			-		-
36	**Total Other Income (Expense)**	$ (92,902)		$ -	$ (92,902)	$ -	$ (92,902)
37	**Net Profit (Loss)**	$ (67)		$ (278,152)	$ (278,220)	$ 318,419	$ 40,200
38							
39	SUPPORTING SCHEDULES:					RECAP SCHEDULES:	
40	C-2 Step 2					A-1 Step 2	
41							
42							

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses

Exhibit
Schedule C-2 Step 2
Page 1
Witness: Bourassa

Step 2 - Adjustments to Revenues and Expenses

Line No.		1	2	3	4	5	6	Subtotal
1				Arsenic Treatment				
2		Depreciation	Property Taxes	Operating Expenses	Payroll Expense			
3	Revenues							-
4								
5	Expenses	62,724	11,448	216,600	60,976			351,748
6								
7	Operating							
8	Income	(62,724)	(11,448)	(216,600)	(60,976)	-	-	(351,748)
9								
10	Interest							
11	Expense							-
12	Other							
13	Income /							
14	Expense							
15								
16	Net Income	(62,724)	(11,448)	(216,600)	(60,976)	-	-	(351,748)
17								
18								

Step 2 - Adjustments to Revenues and Expenses

19								
20		7	8	9	10	11	12	Subtotal
21								
22								
23	Revenues							-
24								
25	Expenses							351,748
26								
27	Operating							
28	Income	-	-	-	-	-	-	(351,748)
29								
30	Interest							
31	Expense							-
32	Other							
33	Income /							-
34	Expense							
35								
36	Net Income	-	-	-	-	-	-	(351,748)
37								
38								

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Schedule C-2 Step 2
Page 2
Witness: Bourassa

Line No.

1 Depreciation Expense

Account No.	Description	Original Cost	Rate	Depreciation Expense
301	Organization Cost	$ -	0.00%	$ -
302	Franchise Cost	-	0.00%	-
303	Land and Land Rights	44,046	0.00%	-
304	Structures and Improvements	12,303	3.33%	410
305	Collecting and Impounding Res.	-	2.50%	-
306	Lake River and Other Intakes	-	2.50%	-
307	Wells and Springs	946,947	3.33%	31,533
308	Infiltration Galleries and Tunnels	-	6.67%	-
309	Supply Mains	155,059	2.00%	3,101
310	Power Generation Equipment	-	5.00%	-
311	Electric Pumping Equipment	207,173	12.50%	25,897
320	Water Treatment Equipment	3,225	3.33%	107
330	Distribution Reservoirs & Standp	284,041	2.22%	6,306
331	Transmission and Distribution Ma	2,091,023	2.00%	41,820
333	Services	54,483	3.33%	1,814
334	Meters	318,631	8.33%	26,542
335	Hydrants	80,088	2.00%	1,602
336	Backflow Prevention Devices	-	6.67%	-
339	Other Plant and Miscellaneous E	-	6.67%	-
340	Office Furniture and Fixtures	33,314	6.67%	2,222
341	Transportation Equipment	41,826	20.00%	8,365
342	Stores Equipment	-	4.00%	-
343	Tools and Work Equipment	20,015	5.00%	1,001
344	Laboratory Equipment	-	10.00%	-
345	Power Operated Equipment	5,930	5.00%	296
346	Communications Equipment	-	10.00%	-
347	Miscellaneous Equipment	-	10.00%	-
348	Other Tangible Plant	4,192	0.00%	-
	TOTALS	$ 4,302,296		$ 151,017

Post Test Year Arsenic Treatment Plant	$ 1,883,600	3.3300%	62,724
Less: Amortization of Contributions	$ 494,098	3.5465%	(17,523)
Total Depreciation Expense			$ 196,218
Test Year Depreciation Expense			133,494
Increase (decrease) in Depreciation Expense			62,724
Adjustment to Revenues and/or Expenses			$ 62,724

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 2

Exhibit
Schedule C-2 Step 2
Page 3
Witness: Bourassa

Line No.		
1	Property Taxes	
2		
3	Proposed Revenues in year ended 12/31/03 - Step 1	$ 928,349
4	Proposed Revenues in year ended 12/31/03 - Step 1	928,349
5	Proposed Revenues - Step 2	1,331,018
6	Average of three year's of revenue	$ 1,062,572
7	Average of three year's of revenue, times 2	$ 2,125,144
8	Add:	
9	Construction Work in Progess at 10%	0
10	Deduct:	
11	Book Value of Transportation Equipment	20,888
12		
13	Total Book Value of Transportation Equipment	$ 20,888
14		
15	Full Cash Value	$ 2,104,256
16	Assessment Ratio	25%
17	Assessed Value	526,064
18	Property Tax Rate	11.13624%
19		
20	Property Tax	58,584
21	Tax on Parcels	1,122
22		
23	Total Property Tax at Proposed Rates - Step 2	$ 59,706
24	Property Taxes - Step 1	48,258
25	Change in Property Taxes	$ 11,448
26		
27		
28	Adjustment to Revenues and/or Expenses	$ 11,448
29		
30		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 3

Exhibit
Schedule C-2 Step 2
Page 4
Witness: Bourassa

Line No.			
1	Arsenic Treatment Operating Expenses		
2			
3	Annual Treament Costs Wells 4, 5, and 6	$	135,400
4	Annual Treament Costs Wells 1 and 2		81,200
5			
6			-
7		$	216,600
8			
9	Adjustment to Revenues and/or Expense	$	216,600
10			
11			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2 Step 2
Page 5
Witness: Bourassa

Line No.				Adjustment Label
1	Salaries and Wages			
2				
3	Step 2 Projected Salaries and Wages	$	259,213	
4	Step 1 Salaries and Wages		214,213	
5	Increase (decrease) in Salaries and Wages	$	45,000	
6				
7				
8	Adjustment to Revenues and/or Expense	$	45,000	8a
9				
10				
11	Payroll Taxes			
12				
13	Step 2 Projected PR Taxes	$	21,300	
14	Step 1 Payroll Taxes		17,612	
15	Increase (decrease) in PR Taxes	$	3,688	
16				
17				
18	Adjustment to Revenues and/or Expense	$	3,688	8b
19				
20				
21	Insurance - Health and Life			
22				
23	Step 2 Projected PR Benefits	$	70,786	
24	Step 1 Benefits		58,498	
25	Increase (decrease) in PR Benefits	$	12,289	
26				
27				
28	Adjustment to Revenues and/or Expense	$	12,289	8c
29				
30				
31				

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3 Step 2
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	13.95%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	20.92%
9		
10	Operating Income % = 100% - Tax Percentage	79.08%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.2646
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		A-1 Step 2
20		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Summary of Cost of Capital

Exhibit
Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	Proposed End of Test Year Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	End of Projected Year Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	1,883,600	128.12%	5.00%	N/A	1,827,331	129.24%	5.00%	N/A
2									
3	Stockholder's Equity	(413,375)	-28.12%	N/A	N/A	(413,442)	-29.24%	N/A	N/A
4									
5	Totals	1,470,225	100.00%		N/A*	1,413,889	100.00%		N/A
6									
7	* 10 percent operating margin requested.								
8									
9	SUPPORTING SCHEDULES:								
10	D-2								
11	D-3								
12	D-4								
13	E-1								
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Cost of Long Term Debt

Exhibit
Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	Adjusted End of Test Year Amount Outstanding	Percent	Interest Rate	Composite Cost	End of Projected Year Amount Outstanding	Percent	Interest Rate	Composite Cost
1									
2	Long-Term Debt WIFA	1,883,600	100.00%	5.00%	5.00%	1,827,331	100.00%	5.00%	5.00%
3									
4									
5									
6									
7									
8									
9									
10	Totals	1,883,600	100.00%		5.00%	1,827,331	100.00%		5.00%
11									
12									
13									
14									
15	Supporting Schdules:								
16	E1								
17									
18									

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

Line No.	Description of Issue	End of Test Year Shares Outstanding	End of Test Year Amount	End of Test Year Dividend Requirement	End of Projected Year Shares Outstanding	End of Projected Year Amount	End of Projected Year Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	SUPPORTING SCHEDULES:			RECAP SCHEDULES:			
18	(a) E-1			(a) D-1			
19							
20							

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Comparative Balance Sheets

Exhibit
Schedule E-1
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2003	Prior Year Ended 12/31/2002	Prior Year Ended 12/31/2001
1	**ASSETS**			
2	Plant In Service	$ 4,313,786	$ 3,633,930	1,832,393
3	Property Held for Future Use	40,000	40,000	40,000
4	Non-Utility Plant	-	-	
5	Construction Work in Progress	-	203,373	299,591
6	Less: Accumulated Depreciation	(1,533,754)	(1,337,787)	(1,204,042)
7	Net Plant	$ 2,820,032	$ 2,539,516	$ 967,942
8				
9	Debt Reserve Fund	$ -	$ -	$ -
10				
11	CURRENT ASSETS			
12	Cash and Equivalents	$ 273,079	$ 316,579	363,846
13	Accounts Receivable, Net	45,304	46,631	36,210
14	Notes/Receivables from Associated Compani	-	5,000	-
15	Materials and Supplies	26,800	1,500	550
16	Prepayments	-	-	-
17	Other Current Assets	-	1,888	3,775
18	Total Current Assets	$ 345,183	$ 371,598	$ 404,381
19				
20	Deferred Debits	$ -	$ -	$ -
21				
22	Other Investments & Special Funds	$ -	$ -	$ -
23				
24	TOTAL ASSETS	$ 3,165,215	$ 2,911,114	$ 1,372,323
25				
26				
27	**LIABILITIES AND STOCKHOLDERS' EQUITY**			
28				
29	Common Equity	$ (413,375)	$ (340,730)	(274,477)
30				
31	Long-Term Debt	$ -	$ -	$ -
32				
33	CURRENT LIABILITIES			
34	Accounts Payable	$ 11,179	$ 15,727	6,269
35	Current Portion of Long-Term Debt	-	-	
36	Payables to Associated Companies	-	-	8,550
37	Customer Deposits	46,999	46,157	13,770
38	Taxes Payable	19,511	14,369	13,644
39	Interest Payable	-	-	
40	Other Current Liabilities	3,123	3,762	3,648
41	Total Current Liabilities	$ 80,812	$ 80,015	$ 45,881
42	DEFERRED CREDITS			
43	Advances in Aid of Construction	$ 3,180,500	$ 2,843,141	$ 1,326,939
44	Accumulated Deferred Income Taxes	24,057	10,762	4,666
45	Contributions In Aid of Construction, Net	293,221	317,926	269,314
46	Accumulated Deferred Income Credits	-	-	-
47	Total Deferred Credits	$ 3,497,778	$ 3,171,829	$ 1,600,919
48				
49	Total Liabilities & Common Equity	$ 3,165,215	$ 2,911,114	$ 1,372,323
50				
51				
52	SUPPORTING SCHEDULES:		RECAP SCHEDULES:	
53	E-5			
54	A-3			
55				

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Comparative Income Statements

Exhibit
Schedule E-2
Page 1
Witness: Bourassa

Line No.		2003	2002	2001
1	**Revenues**			
2	Metered Water Revenues	$ 773,023	$ 625,790	$ 510,593
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	41,791	43,252	37,565
5		$ 814,814	$ 669,042	$ 548,158
6	**Operating Expenses**			
7	Salaries and Wages	$ 253,382	$ 235,090	$ 154,997
8	Purchased Water	-	-	-
9	Purchased Power	104,387	85,971	64,404
10	Chemicals	2,225	2,601	140
11	Repairs and Maintenance	21,743	27,160	9,906
12	Office Supplies and Expense	30,348	27,968	20,040
13	Outside Services	5,382	9,419	4,964
14	Water Testing	1,599	4,440	6,987
15	Rents	71,493	71,481	44,705
16	Transportation Expenses	39,015	29,738	17,396
17	Insurance - General Liability	9,083	7,379	6,253
18	Insurance - health and Life	69,194	50,488	40,106
19	Regulatory Commission Expense - Rat	1,888	7,488	9,703
20	Miscellaneous Expense	46,526	21,082	20,537
21	Depreciation Expense	171,263	109,040	63,057
22	Other Taxes and Licenses	19,291	19,400	16,179
23	Property Taxes	25,424	21,273	19,213
24	Income Tax	17,820	7,693	5,519
25				
26	**Total Operating Expenses**	$ 890,063	$ 737,711	$ 504,106
27	**Operating Income**	$ (75,249)	$ (68,669)	$ 44,052
28	**Other Income (Expense)**			
29	Interest Income	2,970	5,196	941
30	Other income	-	-	-
31	Income Tax Provision	-	-	-
32	Interest Expense	(366)	(2,780)	(2,176)
33	Other Expense	-	-	-
34	Gain/Loss Sale of Fixed Assets	-	-	-
35	**Total Other Income (Expense)**	$ 2,604	$ 2,416	$ (1,235)
36	**Net Profit (Loss)**	$ (72,645)	$ (66,253)	$ 42,817
37				
38				
39	SUPPORTING SCHEDULES:		RECAP SCHEDULES:	
40	C-2		A-1	
41	E-2			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Comparative Statements of Cash Flows

Exhibit
Schedule E-3
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2003	Prior Year Ended 12/31/2002	Prior Year Ended 12/31/2001
1				
2				
3	Cash Flows from Operating Activities			
4	Net Income	$ (72,645)	$ (66,253)	$ 42,817
5	Adjustments to reconcile net income to net cash			
6	provided by operating activities:			
7	Depreciation and Amortization	171,262	109,041	63,057
8	Deferred Income Taxes	13,295	6,096	3,680
9	Accumulated Deferred ITC	-	-	-
10	Changes in Certain Assets and Liabilities:	-	-	-
11	Accounts Receivable	1,327	(10,421)	(4,636)
12	Materials and Supplies Inventory	(25,300)	(950)	-
13	Prepaid Expenses	-	-	-
14	Misc Current Assets and Deferred Expense	1,888	1,887	1,888
15	Accounts Payable and Accrued Liabilities	(5,187)	9,572	(6,696)
16	Accrued Taxes	5,142	725	1,777
17	Net Cash Flow provided by Operating Activities	$ 89,782	$ 49,697	$ 101,887
18	Cash Flow From Investing Activities:			
19	Capital Expenditures	(476,483)	(1,705,319)	(475,536)
20	Plant Held for Future Use	-	-	-
21	Non-Utility Property	-	-	-
22	Net Cash Flows from Investing Activities	$ (476,483)	$ (1,705,319)	$ (475,536)
23	Cash Flow From Financing Activities			
24	(Decrease) Increase in Net Amounts due to Parent and			
25	Affiliates	5,000	(13,551)	(66)
26	Changes in Customer Deposits	842	32,387	2,669
27	Changes in Advances for Construction	337,359	1,516,202	706,678
28	Changes in Contributions for Construction	-	73,317	-
29	Net Proceeds from Long-Term Debt Borrowing	-	-	-
30	Repayments of Long-Term Debt	-	-	-
31	Dividends Paid	-	-	-
32	Deferred Financing Costs	-	-	-
33	Paid in Capital	-	-	-
34	Net Cash Flows Provided by Financing Activities	$ 343,201	$ 1,608,355	$ 709,281
35	Increase(decrease) in Cash and Cash Equivalents	(43,500)	(47,267)	335,632
36	Cash and Cash Equivalents at Beginning of Year	316,579	363,846	28,214
37	Cash and Cash Equivalents at End of Year	$ 273,079	$ 316,579	$ 363,846
38				
39				
40	SUPPORTING SCHEDULES:		RECAP SCHEDULES:	
41				
42				
43				

Test Year Ended December 31, 2003
Statement of Changes in Stockholder's Equity

Schedule E-4
Page 1
Witness: Bourassa

Line No.		Common Stock	Additional Paid-In-Capital	Retained Earnings	Total
1					
2					
3					
4	Balance, December 31, 2000	$ 110,000	$ 4,988	$ (432,283)	$ (317,295)
5					
6	Net Income	-	-	42,817	42,817
7					
4	Balance, December 31, 2001	110,000	4,988	(389,465)	(274,477)
5					
6	Net Income	-	-	(66,253)	(66,253)
7					
8	Balance, December 3, 2002	110,000	4,988	(455,718)	(340,730)
9					
10	Net Income	-	-	(72,645)	(72,645)
11					
12	Balance, December 31, 2003	$ 110,000	$ 4,988	$ (528,363)	$ (413,375)
13					
14	SUPPORTING SCHEDULES:			RECAP SCHEDULES:	
15					
16					
17					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Detail of Plant in Service

Exhibit
Schedule E-5
Page 1
Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2002	Plant Additions, Reclass-ications or or Retirements	Plant Balance at 12/31/2003
1					
2	301	Organization	$ -	$ -	$ -
3	302	Franchises	-	-	-
4	303	Land and Land Rights	44,046	-	44,046
5	304	Structures and Improvements	8,622	3,681	12,303
6	305	Collecting and Impounding Rese	-	-	-
7	306	Lake, River and Other Intakes	-	-	-
8	307	Wells and Springs	912,746	34,202	946,947
9	308	Infiltration Galleries and Tun	-	-	-
10	309	Supply Mains	155,059	-	155,059
11	310	Power Generation Equipment	-	-	-
12	311	Pumping Equipment	190,940	16,233	207,173
13	320	Water Treatment Equipment	974	2,251	3,225
14	330	Distribution Reservoirs and St	256,822	27,218	284,041
15	331	Transmission and Distribution	1,595,292	495,731	2,091,023
16	333	Services	51,410	3,073	54,483
17	334	Meters and Meter Installations	274,989	43,643	318,631
18	335	Hydrants	74,182	5,906	80,088
19	336	Backflow Prevention Devices	-	-	-
20	339	Other Plant and Miscellaneous	-	-	-
21	340	Office Furniture and Equipment	24,295	9,019	33,314
22	341	Transportation Equipment	6,800	35,026	41,826
23	342	Stores Equipment	-	-	-
24	343	Tools, Shop and Garage Equipme	16,472	3,542	20,015
25	344	Laboratory Equipment	-	-	-
26	345	Power Operated Equipment	5,599	331	5,930
27	346	Communication Equipment	-	-	-
28	347	Miscellaneous Equipment	-	-	-
29	348	Other Tangible Plant	4,192	-	4,192
30	348	Other Tangible Plant	-	-	-
31		**Prior Rate Case Adjustments Not Recorded**	11,490		11,490
32					
33					
34		TOTAL WATER PLANT	$ 3,633,930	$ 679,856	$ 4,313,786
35					
36		SUPPORTING SCHEDULES		RECAP SCHEDULES:	
37				A-4	
38				E-1	
39					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Operating Statistics

Exhibit
Schedule E-7
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2003	Prior Year Ended 12/31/2002	Prior Year Ended 12/31/2001
1	WATER STATISTICS:			
2				
3				
4				
5	Total Gallons Sold (in Thousands)	258,740	211,534	181,472
6				
7				
8				
9	Water Revenues from Customer:	$ 773,023	$ 625,790	$ 593,529
10				
11				
12				
13				
14	Year End Number of Customers	1,189	1,046	721
15				
16				
17	Annual Gallons (in Thousands)			
18	Sold Per Year End Customer	217.61	202.23	251.70
19				
20				
21				
22	Annual Revenue per Year End Customer	$ 650.15	$ 598.27	$ 823.20
23				
24	Pumping Cost Per 1,000 Gallons	$ 0.0086	$ 0.4064	$ 0.3549
25	Purchased Water Cost per 1,000 Gallons	$ -	$ -	$ -
26				
27				
28				

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2003	Prior Year Ended 12/31/2002	Prior Year Ended 12/31/2001
1				
2				
3	Federal Income Taxes *	$ 11,885	$ 6,097	$ 4,619
4	State Income Taxes *	5,935	1,596	900
5	Payroll Taxes *	18,544	17,205	11,343
6	Property Taxes **	25,424	21,273	19,213
7				
8	Totals	$ 61,788	$ 46,171	$ 36,075
9				
10				
11	*Computed			
12	**Source: ACC Annual Reports			
13				
14				

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

Line No.

1 **The Company does not prepare audited financial statements.**
2
3 1. The Company follows the NARUC system of accounts.
4 2. The Company uses the accrual method of accounting.
5 3. The Company uses the depreciation lives and methods as approved in
6 prior Commission order.
7 4. The Company follows the normalized method for accounting for
8 income taxes and uses the allowed tax depreciation lives and methods
9 for determining income taxes.
10
11
12
13
14
15
16
17
18

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Projected Income Statements - Present & Proposed Rates

Exhibit
Schedule F-1
Page 1
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2004	STEP 1 At Proposed Rates Year Ended 12/31/2004	STEP 2 At Proposed Rates Year Ended 12/31/2004
1	**Revenues**				
2	Metered Water Revenues	$ 773,023	$ 785,774	$ 886,558	$ 1,289,227
3	Unmetered Water Revenues	-	-	-	-
4	Other Water Revenues	41,791	41,791	41,791	41,791
5		$ 814,814	$ 827,565	$ 928,349	$ 1,331,018
6	**Operating Expenses**				
7	Salaries and Wages	$ 253,382	$ 214,213	$ 214,213	$ 259,213
8	Purchased Water	-	-	-	-
9	Purchased Power	104,387	106,043	106,043	106,043
10	Chemicals	2,225	2,225	2,225	2,225
11	Arsenic Treatment Costs				216,600
	Repairs and Maintenance	21,743	21,743	21,743	21,743
12	Office Supplies and Expense	30,348	30,348	30,348	30,348
13	Outside Services	5,382	5,382	5,382	5,382
14	Water Testing	1,599	1,599	1,599	1,599
15	Rents	71,493	71,493	71,493	71,493
16	Transportation Expenses	39,015	39,015	39,015	39,015
17	Insurance - General Liability	9,083	9,083	9,083	9,083
18	Insurance - health and Life	69,194	58,498	58,498	70,786
19	Regulatory Commission Expense - Rate Case	1,888	30,000	30,000	30,000
20	Miscellaneous Expense	46,526	46,526	46,526	46,526
21	Depreciation Expense	171,263	133,494	133,494	196,218
22	Other Taxes and Licenses	19,291	17,612	17,612	21,300
23	Property Taxes	25,424	48,258	48,258	59,706
24	Income Tax	17,820	(21,105)	(18)	10,636
25					
26					
27	**Total Operating Expenses**	$ 890,063	$ 814,427	$ 835,514	$ 1,197,916
28	**Operating Income**	$ (75,249)	$ 13,138	$ 92,835	$ 133,102
29	**Other Income (Expense)**				
30	Interest Income	2,970	-	-	-
31	Other income	-	-	-	-
32	Interest Expense	(366)	(92,902)	(92,902)	-
33	Other Expense	-	-	-	(92,902)
34	Gain/Loss Sale of Fixed Assets	-	-	-	-
35	**Total Other Income (Expense)**	$ 2,604	$ (92,902)	$ (92,902)	$ (92,902)
36	**Net Profit (Loss)**	$ (72,645)	$ (79,764)	$ (67)	$ 40,200
37					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Projected Statements of Changes in Financial Position
Present and Proposed Rates

Exhibit
Schedule F-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2003	At Present Rates Year Ended 12/31/2004	Step 1 At Proposed Rates Year Ended 12/31/2004	Step 2 At Proposed Rates Year Ended 12/31/2005
5	Cash Flows from Operating Activities				
6	Net Income	$ (72,645)	$ (79,764)	$ (67)	$ 40,200
7	Adjustments to reconcile net income to net cash				
8	provided by operating activities:				
9	Depreciation and Amortization	171,262	133,494	133,494	196,218
10	Deferred Income Taxes	13,295			
11	Accumulated Deferred ITC	-			
12	Changes in Certain Assests and Liabilities:	-			
13	Accounts Receivable	1,327			
14	Materials & Supplies	(25,300)			
15	Prepaid Expenses	-			
16	Misc Current Assets and Deferred Expense	1,888			
17	Accounts Payable and Accrued Liabilities	(5,187)	-	-	-
18	Accrued Taxes	5,142			
19	Net Cash Flow provided by Operating Activities	$ 89,782	$ 53,730	$ 133,427	$ 236,417
20	Cash Flow From Investing Activities:				
21	Capital Expenditures	(476,483)	(63,698)	(63,698)	(2,359,600)
22	Plant Held for Future Use	-			
23	Non-Utility Property	-			
24	Net Cash Flows from Investing Activities	$ (476,483)	$ (63,698)	$ (63,698)	$ (2,359,600)
25	Cash Flow From Financing Activities				
26	(Decrease) Increase in Net Amounts due to Parent and		-	-	-
27	Affiliates	5,000			
28	Customer Deposits	842			
29	Changes in Advances for Construction	337,359	-	-	-
30	Changes in Contributions for Construction	-			
31	Proceeds from Long-Term Debt Borrowing		-	-	1,883,600
32	Repayments of Long-Term Debt	-	-	-	-
33	Dividends Paid	-			
	Deferred Financing Costs				
34	Proceeds from Additional Paid-in-Capital	-	-	-	-
35	Net Cash Flows Provided by Financing Activities	$ 343,201	$ -	$ -	$ 1,883,600
36	Increase(decrease) in Cash and Cash Equivalents	$ (43,500)	$ (9,968)	$ 69,729	$ (239,583)
37	Cash and Cash Equivalents at Beginning of Year	316,579	273,079	273,079	342,808
38	Cash and Cash Equivalents at End of Year	$ 273,079	$ 263,111	$ 342,808	$ 103,225
39					
40					
41	SUPPORTING SCHEDULES:				
42	E-3				
43	F-3				
44					
45					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Projected Construction Requirements

Exhibit
Schedule F-3
Page 1
Witness: Bourassa

Line No.	Account Number	Plant Asset:	2004	2005	2006
1					
2	Account				
3	Number	Plant Asset:	2004	2005	2006
4	301	Organization Cost			
5	302	Franchise Cost			
6	303	Land and Land Rights			
7	304	Structures and Improvements			
8	305	*Collecting & Impounding Resrvoirs*		18,500	75,000
9	306	Lake, River and Other Intakes			
10	307	Wells and Springs		191,000	
11	310	Power Generation Equipment			
12	311	Electric Pumping Equipment		65,000	165,000
13	320	Water Treatment Equipment		1,908,600	
14	330	Distribution Reservoirs & Standpipe			
15	331	Transmission and Distribution Mains	15,800		
16	333	Services			
17	334	Meters			
18	335	Hydrants	36,550		
19	339	Plant Structures and Improvements		141,500	
20	340	Office Furniture and Fixtures	11,348		
21	341	Transportation Equipment			
22	343	Tools and Work Equipment			
23	344	Power Operated Equipment			
24	345	Communications Equipment			75,000
25	346	Miscellaneous Equipment		35,000	
26	348	Other Tangible Plant			
27					
28	Total		$ 63,698	$ 2,359,600	$ 315,000
29					
30					
31					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line No.	
1	Property Taxes were computed using the method used by the Arizona Department
2	of Revenue
3	
4	Projected construction expenditures are shown on Schedule F-3.
5	
6	Expense adjustments are shown on Schedule C2, and are explained in the testimony.
7	
8	Accumulated depreciation and depreciation expense were computed at Arizona Corporation
9	Commission allowed rates in Prior Commission Decision. Adjusted test year depreciation
10	depreciation computed uses proposed depreciation rates.
11	
12	Income taxes were computed using statutory state and federal income tax rates.
13	
14	
15	
16	

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Revenue Summary
With Annualized Revenues to Year End Number of Customers
With Step One Rates

Exhibit
Schedule H-1
Page 1
Witness: Kozoman

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8 Inch	Residential	$ 78,282	$ 91,019	$ 12,737	16.27%	9.64%	9.98%
2	3/4 Inch	Residential	232,845	262,147	29,302	12.58%	28.66%	28.74%
3	1 Inch	Residential	193,752	217,540	23,789	12.28%	23.85%	23.85%
4		Subtotal	$ 504,878	$ 570,706	$ 65,828	13.04%	62.15%	62.57%
5								
6	5/8 Inch	Commercial	$ 1,316	$ 1,440	$ 124	9.45%	0.16%	0.16%
7	1 Inch	Commercial	13,033	14,979	1,946	14.93%	1.60%	1.64%
8	1.5 Inch	Commercial	11,172	12,196	1,024	9.17%	1.38%	1.34%
9	2 Inch	Commercial	225,917	255,367	29,450	13.04%	27.81%	28.00%
10								
11		Subtotal	$ 251,438	$ 283,983	$ 32,544	12.94%	30.95%	31.14%
12								
13	3 Inch	Construction	14,290	15,579	1,289	9.02%	1.76%	1.71%
14	Miscellaneous Revenues		41,791	41,791	-	0.00%	5.14%	4.58%
15		Subtotal	$ 812,397	$ 912,058	$ 99,661	12.27%	100.00%	100.00%
16								
17								
18								
19			**Revenue Annualization**					
20								
21	Meter		Present	Proposed	Dollar	Percent	Present Water	Proposed Water
22	Size	Class	Revenues	Revenues	Change	Change	Revenues	Revenues
23	5/8 Inch	Residential	$ (1,169)	$ (1,325)	$ (156)	13.36%	-0.14%	-0.15%
24	3/4 Inch	Residential	5,541	6,025	483	8.73%	0.68%	0.66%
25	1 Inch	Residential	7,723	8,447	724	9.38%	0.95%	0.93%
26								
27		Subtotal	$ 12,096	$ 13,147	$ 1,052	8.69%	1.49%	1.44%
28								
29	5/8 Inch	Commercial	$ -	$ -	$ -			0.00%
30	1 Inch	Commercial	233	262	30	12.81%	0.03%	0.03%
31	1.5 Inch	Commercial	-	-	-			0.00%
32	2 Inch	Commercial	4,498	4,901	403	8.95%	0.55%	0.54%
33								
34		Subtotal	$ 4,731	$ 5,163	$ 432	9.14%	0.58%	0.57%
35								
36	3 Inch	Construction	(4,075)	(4,446)	(370)	9.09%	-0.50%	-0.49%
37								
38	Total Revenue Annualziation		$ 12,751	$ 13,865	$ 1,114	8.73%	1.57%	1.52%
39	Total Water Revenues with Revenue							
40	Annualization		$ 825,148	$ 925,923	$ 100,775	12.21%		
41								

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Analysis of Revenue by Detailed Class
With Step One Rates

Exhibit
Schedule H-2
Page 1
Witness: Kozoman

Line No.	Meter Size, Class			(a) Average Number of Customers at 12/31/2003	Average Consumption	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8 Inch	Residential		247	9,264	$ 26.28	$ 29.27	2.99	11.39%
2	3/4 Inch	Residential		584	10,243	32.94	35.94	3.00	9.12%
3	1 Inch	Residential		258	20,040	60.07	65.62	5.54	9.23%
4	1.5 Inch	Residential							
5		Subtotal		1,089					
6									
7	5/8 Inch	Commercial		7	3,370	15.67	17.04	1.38	8.79%
8	3/4 Inch	Commercial							
9	1 Inch	Commercial		11	38,424	98.53	112.15	13.61	13.81%
10	1.5 Inch	Commercial		6	52,593	153.71	161.53	7.82	5.09%
11	2 Inch	Commercial		45	158,358	415.39	453.34	37.95	9.14%
12	3 Inch	Construction		4	56,780	291.63	317.94	26.31	9.02%
13		Subtotal		73					
14									
15									
16									
17			Totals	1,162					
18									
19									
20									

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Valley Utilities Water Company, Inc.
Customer Count Summary
Test Year Ended December 31, 2003

Exhibit
Schedule H-2
Page 2
Witness: Kozoman

Meter Size	Class	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03
5/8 Inch	Residential	246	245	247	246	250	250	247
3/4 Inch	Residential	521	530	546	580	593	596	608
1 Inch	Residential	224	233	238	246	259	262	269
1.5 Inch	Residential	-	-	-	-	-	-	-
	Subtotal	991	1,008	1,031	1,072	1,102	1,108	1,124
5/8 Inch	Commercial	7	7	7	7	7	7	7
3/4 Inch	Commercial							
1 Inch	Commercial	10	10	10	10	11	11	11
1.5 Inch	Commercial	6	6	6	6	6	6	6
2 Inch	Commercial	40	43	44	46	46	46	46
	Subtotal	63	66	67	69	70	70	70
3 Inch	Construction	6	5	4	5	6	5	3
Totals		1,060	1,079	1,102	1,146	1,178	1,183	1,197

Valley Utilities Water Company, Inc.
Customer Count Summary
Test Year Ended December 31, 2003

Exhibit
Schedule H-2
Page 2.1
Witness: Kozoman

Meter Size		Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Change from Beginning of Year to Year End	Revenues Annual-ized
5/8 Inch	Residential	246	247	248	243	243	(3)	Yes
3/4 Inch	Residential	622	605	614	596	602	81	Yes
1 Inch	Residential	270	274	278	271	271	47	Yes
1.5 Inch	Residential	-	-	-	-	-	-	
	Subtotal	1,138	1,126	1,140	1,110	1,116	125	Yes
5/8 Inch	Commercial	7	7	7	7	7	-	
3/4 Inch	Commercial	-	-	-	-	-	-	
1 Inch	Commercial	11	12	11	11	11	1	Yes
1.5 Inch	Commercial	6	6	6	6	6	-	
2 Inch	Commercial	46	46	46	46	46	6	Yes
		-	-	-	-	-	-	
	Subtotal	70	71	70	70	70	7	Yes
3 Inch	Construction	3	3	3	3	3	(3)	Yes
Totals		1,211	1,200	1,213	1,183	1,189	129	

Valley Utilities Water Company, Inc.
Gallons Sold Summary in 1,000's
Test Year Ended December 31, 2003

Exhibit
Schedule H-2
Page 3
Witness: Kozoman

Meter Size	Class	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03
5/8 Inch	Residential	1,719	1,622	1,491	2,377	2,626	3,024	3,267
3/4 Inch	Residential	3,798	3,441	3,608	6,241	6,499	7,049	8,069
1 Inch	Residential	2,886	2,504	2,603	5,121	5,471	6,220	6,930
1.5 Inch	Residential							
	Subtotal	8,403	7,567	7,703	13,740	14,596	16,293	18,266
5/8 Inch	Commercial	20	17	24	36	26	24	33
3/4 Inch	Commercial							
1 Inch	Commercial	327	256	246	410	511	544	519
1.5 Inch	Commercial	314	269	184	304	295	294	389
2 Inch	Commercial	6,280	6,793	6,459	8,321	7,077	7,132	9,032
	Subtotal	6,941	7,334	6,912	9,071	7,909	7,994	9,973
3 Inch	Construction	756	195	45	66	293	519	179
		16,100	15,096	14,659	22,877	22,797	24,806	28,417

Valley Utilities Water Company, Inc.
Gallons Sold Summary in 1,000's
Test Year Ended December 31, 2003

Exhibit
Schedule H-2
Page 3.1
Witness: Kozoman

Meter Size		Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Percent of Total Water Usage
5/8 Inch	Residential	2,464	3,142	2,273	1,565	1,834	27,403	10.59%
3/4 Inch	Residential	7,674	8,682	6,696	4,430	5,647	71,833	27.76%
1 Inch	Residential	6,972	9,087	5,489	4,029	4,713	62,024	23.97%
1.5 Inch	Residential	-	-	-	-	-	-	0.00%
	Subtotal	17,110	20,910	14,457	10,024	12,193	161,260	62.32%
5/8 Inch	Commercial	30	24	17	17	21	283	0.11%
3/4 Inch	Commercial	-	-	-	-	-	-	0.00%
1 Inch	Commercial	540	448	446	352	358	4,957	1.92%
1.5 Inch	Commercial	332	681	303	194	230	3,787	1.46%
2 Inch	Commercial	7,782	9,402	6,152	5,771	5,469	85,672	33.11%
	Subtotal	8,683	10,554	6,917	6,333	6,078	94,698	36.60%
3 Inch	Construction	1	156	177	178	219	2,782	1.08%
		25,793	31,620	21,551	16,535	18,489	258,740	100.00%

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Bills, Gallons and Percent of Consolidation Factors
by Tiers

Exhibit
Schedule H-2
Page 4
Witness: Kozoman

Line No.	Meter Size	Customer Classification	Break Point for Tiers	Total Number of Bills At this Usage	Total Gallons Sold at this Usage in 1,000's	Total Bills	Total Gallons Sold in 1,000's	Percent of Bills	Percent of Gallons	Percent of Consol-idation Factor
1		**Tier Number 1**								
2	5/8 Inch	Residential	8,000	1,659	6,223	2,958	26,674	56.09%	23.33%	58.64%
3	3/4 Inch	Residential	12,000	4,888	27,238	7,013	70,117	69.70%	38.85%	72.94%
4	1 Inch	Residential	20,000	2,057	16,632	3,095	61,277	66.46%	27.14%	59.75%
5	1.5 Inch	Residential	40,000							
6	5/8 Inch	Commercial	8,000	79	205	84	262	94.05%	78.15%	91.99%
7	3/4 Inch	Commercial	12,000							
8	1 Inch	Commercial	20,000	47	394	129	4,928	36.43%	7.99%	40.02%
9	1.5 Inch	Commercial	40,000	38	818	72	3,774	52.78%	21.68%	57.05%
10	2 Inch	Commercial	64,000	257	4,680	541	85,599	47.50%	5.47%	26.45%
11										
12	3 Inch	Construction	128,000	41	630	49	2,775	83.67%	22.72%	66.51%
13										
14		**Tier Number 2**								
15	5/8 Inch	Residential	12,000	2,173	11,178	2,958	26,674	73.46%	41.91%	75.02%
16	3/4 Inch	Residential	18,000	6,066	44,160	7,013	70,117	86.50%	62.98%	86.28%
17	1 Inch	Residential	30,000	2,482	26,948	3,095	61,277	80.19%	43.98%	73.24%
18	1.5 Inch	Residential	60,800							
19	5/8 Inch	Commercial	12,000	81	224	84	262	96.43%	85.59%	98.47%
20	3/4 Inch	Commercial	18,000							
21	1 Inch	Commercial	30,000	73	1,028	129	4,928	56.59%	20.86%	54.10%
22	1.5 Inch	Commercial	60,800	52	1,483	72	3,774	72.22%	39.29%	71.22%
23	2 Inch	Commercial	96,000	298	8,039	541	85,599	55.08%	9.39%	36.43%
24										
25	3 Inch	Construction	0	46	1,479	49	2,775	93.88%	53.29%	73.52%
26										
27										
28										

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Present and Proposed Rates
With Step One Rates

Exhibit
Schedule H-3
Page 1
Witness: Kozoman

Line No.		Present Rates	Proposed Rates	Percent Change
1	**Monthly Usage Charge for:**			
2	Residential and Commercial	Rounded to two (2) decimal Places		
3	5/8 x 3/4 Inch	$ 9.60	$ 10.37	8.02%
4	3/4 Inch	14.50	15.66	8.00%
5	1 Inch	24.00	25.92	8.00%
6	1 1/2 Inch	48.00	51.85	8.02%
7	2 Inch	77.00	83.18	8.03%
8	3 Inch	144.00	155.55	8.02%
9	4 Inch	240.00	259.25	8.02%
10	6 Inch	480.00	518.50	8.02%
11				
12	Construction (3 inch meter)	144.00	155.55	8.02%
13				
14	Gallons In Minimum			
15	Residential, Commecial, Industrial	-	-	
16				
17	Construction Water	-	-	
18				
19				
20	**Gallons for Rate Tiers**			
21	**Tier 1:** (Gallon upper limit,)			
22	5/8 Inch	25,000	8,000	
23	3/4 Inch	25,000	12,000	
24	1 Inch	25,000	20,000	
25	1 1/2 Inch	25,000	40,000	
26	2 Inch	25,000	64,000	
27	3 Inch	25,000	128,000	
28	4 Inch	25,000	200,000	
29	6 Inch	25,000	400,000	
30	**Tier 2:** (Gallons upper limit, 150% of Tier 1)			
31	5/8 Inch	999,999,999	12,000	
32	3/4 Inch	999,999,999	18,000	
33	1 Inch	999,999,999	30,000	
34	1 1/2 Inch	999,999,999	60,800	
35	2 Inch	999,999,999	96,000	
36	3 Inch	999,999,999	192,000	
37	4 Inch	999,999,999	300,000	
38	6 Inch	999,999,999	600,000	
39	**Tier 3:** (Gallon over)			
40	All	999,999,999	All Gallons	
41			in Excess	
42			of tier 2 above	
43	**Construction Water (All)**	999,999,999	999,999,999	
44				
45				
46		**Present**	**Proposed**	**Percent**
47	**Residential, Commercial, Industrial**	**Rates**	**Rates**	**Change**
48	**Commodity Rates**	Rounded to three (3) decimal Places		
49	First Tier	1.80	1.9800	10.00%
50	Second Tier	2.20	2.4200	10.00%
51	Third Tier	2.20	2.6620	21.00%
52	Fourth Tier	2.20	2.6620	21.00%
53				
54	Construction	2.60	2.8600	10.00%
55				
56				

Valley Utilities Water Company, Inc.
Changes in Representative Rate Schedules
Test Year Ended December 31, 2003
With Step One Rates

Exhibit
Schedule H-3
Page 2
Witness: Kozoman

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	$ 30.00	$ 30.00
2	Establishment (After Hours)	$ 45.00	$ 45.00
3	Reconnection (Deliquent) (b)	$ 40.00	$ 40.00
4	Reconnection (Deliquent and After Hours) (b)	$ 40.00	$ 40.00
5	Meter Test	$ 30.00	$ 30.00
6	Deposit Requirement (Residential)	(a)	(a)
7	Deposit Requirement (None Residential Meter)	(a)	(a)
8	Hydrant Meter Deposit		
9	Deposit Interest	6%	6%
10	Re-Establishment (With-in 12 Months)	(b)	(b)
11	Re-Establishment (After Hours)	(b)	(b)
12	NSF Check (per Rule R14-2-409F)	$ 25.00	$ 25.00
13	Deferred Payment, Per Month	1.50%	1.50%
14	Late Charge per month	$ 10.00	$ 10.00
15	Meter Re-Read (per Rule R14-2-408C)	$ 10.00	$ 10.00
16	Charge of Moving Customer Meter -		
17	Customer Requested per Rule R14-2-405B	Cost	Cost
18	After hours service charge, per Rule R14-2-403D	25.00	30.00
19			
20			
21			
22			
23			
24			
25	(a) Residential - two times the average bill. Non-residential - two and one-half times the average bill.		
26	Interest per Rule R14-2-4-403B.		
27	(b) Per rule R14-2-403D.		
28			
29			
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 (14-2-409.D 5).		
35	ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,		
36	AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES, IF APPLICABLE.		
37			
38	Cost to include labor, materials and parts, overheads and all applicable taxes.		
39			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Current and Proposed Changes in Rates and Services
With Step One Rates

Exhibit
Schedule H-3
Page 3
Witness: Kozoman

Line No.		Present Meter and Service Line Installation Charge **	(a) (b) Proposed Service Line Charge	(a) (b) Proposed Meter Installation Charge	(a) (b) Total Proposed Charge **
1	**Service Charges**				
2	Meter and Service Line Charges				
11	5/8 x 3/4 Inch	$ 455.00	$ 385.00	$ 135.00	$ 520.00
12	3/4 Inch	515.00	385.00	215.00	600.00
13	1 Inch	590.00	435.00	255.00	690.00
14	1 1/2 Inch	820.00	470.00	465.00	935.00
15	2 Inch / Turbine	1,380.00	630.00	965.00	1,595.00
16	2 Inch / Compound	2,010.00	630.00	1,690.00	2,320.00
17	3 Inch / Turbine	1,935.00	805.00	1,470.00	2,275.00
18	3 Inch / Compound	2,650.00	845.00	2,265.00	3,110.00
19	4 Inch / Turbine	3,030.00	1,170.00	2,350.00	3,520.00
20	4 Inch / Compound	3,835.00	1,230.00	3,245.00	4,475.00
21	6 Inch / Turbine	3,535.00	1,730.00	4,545.00	6,275.00
22	6 Inch / Compound	7,130.00	1,770.00	6,280.00	8,050.00
23	8 Inch	At Cost	At Cost	At Cost	At Cost
24	10 Inch	At Cost	At Cost	At Cost	At Cost
25	12 Inch	At Cost	At Cost	At Cost	At Cost

(a) Memo from Marlin Scott, Jr. to Staff of the Arizona Corporation Commission, Dated June 30, 2004. Used Staff highest cost estimate for service lines & meters.

(b) As meters and service lines are now taxable income for income purposes, The Company shall collect income taxes on the meter and service line charges. Any tax collected will be refunded each year that the meter deposit is refunded.

* * PER COMMISSION RULES (R14-2-403.B)

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: 5/8 Inch Residential
With Step One Rates

Exhibit
Schedule H-4
Page 1
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 9.60	$ 10.37	$ 0.77	8.02%
1,000	11.40	12.35	$ 0.95	8.33%
2,000	13.20	14.33	$ 1.13	8.56%
3,000	15.00	16.31	$ 1.31	8.73%
4,000	16.80	18.29	$ 1.49	8.87%
5,000	18.60	20.27	$ 1.67	8.98%
6,000	20.40	22.25	$ 1.85	9.07%
7,000	22.20	24.23	$ 2.03	9.14%
8,000	24.00	26.21	$ 2.21	9.21%
9,000	25.80	28.63	$ 2.83	10.97%
10,000	27.60	31.05	$ 3.45	12.50%
11,000	29.40	33.47	$ 4.07	13.84%
12,000	31.20	35.89	$ 4.69	15.03%
13,000	33.00	38.55	$ 5.55	16.82%
14,000	34.80	41.21	$ 6.41	18.43%
15,000	36.60	43.88	$ 7.28	19.88%
16,000	38.40	46.54	$ 8.14	21.19%
17,000	40.20	49.20	$ 9.00	22.39%
18,000	42.00	51.86	$ 9.86	23.48%
19,000	43.80	54.52	$ 10.72	24.48%
20,000	45.60	57.19	$ 11.59	25.41%
21,000	47.40	59.85	$ 12.45	26.26%
22,000	49.20	62.51	$ 13.31	27.05%
23,000	51.00	65.17	$ 14.17	27.79%
24,000	52.80	67.83	$ 15.03	28.47%
25,000	54.60	70.50	$ 15.90	29.11%
26,000	56.80	73.16	$ 16.36	28.80%
27,000	59.00	75.82	$ 16.82	28.51%
28,000	61.20	78.48	$ 17.28	28.24%
29,000	63.40	81.14	$ 17.74	27.99%
30,000	65.60	83.81	$ 18.21	27.75%
31,000	67.80	86.47	$ 18.67	27.53%
32,000	70.00	89.13	$ 19.13	27.33%
33,000	72.20	91.79	$ 19.59	27.14%
34,000	74.40	94.45	$ 20.05	26.95%
35,000	76.60	97.12	$ 20.52	26.78%
36,000	78.80	99.78	$ 20.98	26.62%
Average Usage				
9,264	$ 26.28	$ 29.27	$ 2.99	11.39%
Median Usage				
1,000	$ 11.40	$ 12.35	$ 0.95	8.33%

Present Rates:			
Monthly Minimum:		$	9.60
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	25,000	$	1.80
Up to	999,999,999	$	2.20
Up to	999,999,999	$	2.20
Over	1,000,000,000	$	2.20

Proposed Rates:			
Monthly Minimum:		$	10.37
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	8,000	$	1.980
Up to	12,000	$	2.420
Over	12,001	$	2.662
Over	12,001	$	2.662

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: 3/4 Inch Residential
With Step One Rates

Exhibit
Schedule H-4
Page 2
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 14.50	$ 15.66	$ 1.16	8.00%
1,000	16.30	17.64	$ 1.34	8.22%
2,000	18.10	19.62	$ 1.52	8.40%
3,000	19.90	21.60	$ 1.70	8.54%
4,000	21.70	23.58	$ 1.88	8.66%
5,000	23.50	25.56	$ 2.06	8.77%
6,000	25.30	27.54	$ 2.24	8.85%
7,000	27.10	29.52	$ 2.42	8.93%
8,000	28.90	31.50	$ 2.60	9.00%
9,000	30.70	33.48	$ 2.78	9.06%
10,000	32.50	35.46	$ 2.96	9.11%
11,000	34.30	37.44	$ 3.14	9.15%
12,000	36.10	39.42	$ 3.32	9.20%
13,000	37.90	41.84	$ 3.94	10.40%
14,000	39.70	44.26	$ 4.56	11.49%
15,000	41.50	46.68	$ 5.18	12.48%
16,000	43.30	49.10	$ 5.80	13.39%
17,000	45.10	51.52	$ 6.42	14.24%
18,000	46.90	53.94	$ 7.04	15.01%
19,000	48.70	56.60	$ 7.90	16.23%
20,000	50.50	59.26	$ 8.76	17.35%
21,000	52.30	61.93	$ 9.63	18.41%
22,000	54.10	64.59	$ 10.49	19.39%
23,000	55.90	67.25	$ 11.35	20.30%
24,000	57.70	69.91	$ 12.21	21.16%
25,000	59.50	72.57	$ 13.07	21.97%
26,000	61.70	75.24	$ 13.54	21.94%
27,000	63.90	77.90	$ 14.00	21.91%
28,000	66.10	80.56	$ 14.46	21.88%
29,000	68.30	83.22	$ 14.92	21.85%
30,000	70.50	85.88	$ 15.38	21.82%
31,000	72.70	88.55	$ 15.85	21.80%
Average Usage				
10,243	$ 32.94	$ 35.94	$ 3.00	9.12%
Median Usage				
8,500	$ 29.80	$ 32.49	$ 2.69	9.03%

Present Rates:			
Monthly Minimum:		$	14.50
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	25,000	$	1.80
Up to	999,999,999	$	2.20
Up to	999,999,999	$	2.20
Over	1,000,000,000	$	2.20

Proposed Rates:			
Monthly Minimum:		$	15.66
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	12,000	$	1.980
Up to	18,000	$	2.420
Over	18,001	$	2.662
Over	18,001	$	2.662

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: 1 Inch Residential
With Step One Rates

Exhibit
Schedule H-4
Page 3
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 24.00	$ 25.92	$ 1.92	8.00%
1,000	25.80	27.90	$ 2.10	8.14%
2,000	27.60	29.88	$ 2.28	8.26%
3,000	29.40	31.86	$ 2.46	8.37%
4,000	31.20	33.84	$ 2.64	8.46%
5,000	33.00	35.82	$ 2.82	8.55%
6,000	34.80	37.80	$ 3.00	8.62%
7,000	36.60	39.78	$ 3.18	8.69%
8,000	38.40	41.76	$ 3.36	8.75%
9,000	40.20	43.74	$ 3.54	8.81%
10,000	42.00	45.72	$ 3.72	8.86%
11,000	43.80	47.70	$ 3.90	8.90%
12,000	45.60	49.68	$ 4.08	8.95%
13,000	47.40	51.66	$ 4.26	8.99%
14,000	49.20	53.64	$ 4.44	9.02%
15,000	51.00	55.62	$ 4.62	9.06%
16,000	52.80	57.60	$ 4.80	9.09%
17,000	54.60	59.58	$ 4.98	9.12%
18,000	56.40	61.56	$ 5.16	9.15%
19,000	58.20	63.54	$ 5.34	9.18%
20,000	60.00	65.52	$ 5.52	9.20%
21,000	61.80	67.94	$ 6.14	9.94%
22,000	63.60	70.36	$ 6.76	10.63%
23,000	65.40	72.78	$ 7.38	11.28%
24,000	67.20	75.20	$ 8.00	11.90%
25,000	69.00	77.62	$ 8.62	12.49%
26,000	71.20	80.04	$ 8.84	12.42%
27,000	73.40	82.46	$ 9.06	12.34%
28,000	75.60	84.88	$ 9.28	12.28%
29,000	77.80	87.30	$ 9.50	12.21%
30,000	80.00	89.72	$ 9.72	12.15%
31,000	82.20	92.38	$ 10.18	12.39%
Average Usage				
20,040	$ 60.07	$ 65.62	$ 5.54	9.23%
Median Usage				
12,500	$ 46.50	$ 50.67	$ 4.17	8.97%

Present Rates:			
Monthly Minimum:		$	24.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	25,000	$	1.80
Up to	999,999,999	$	2.20
Up to	999,999,999	$	2.20
Over	1,000,000,000	$	2.20

Proposed Rates:			
Monthly Minimum:		$	25.92
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	20,000	$	1.980
Up to	30,000	$	2.420
Up to	30,001	$	2.662
Over	30,001	$	2.662

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: 5/8 Inch Commercial
With Step One Rates

Exhibit
Schedule H-4
Page 4
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 9.60	$ 10.37	$ 0.77	8.02%
1,000	11.40	12.35	$ 0.95	8.33%
2,000	13.20	14.33	$ 1.13	8.56%
3,000	15.00	16.31	$ 1.31	8.73%
4,000	16.80	18.29	$ 1.49	8.87%
5,000	18.60	20.27	$ 1.67	8.98%
6,000	20.40	22.25	$ 1.85	9.07%
7,000	22.20	24.23	$ 2.03	9.14%
8,000	24.00	26.21	$ 2.21	9.21%
9,000	25.80	28.63	$ 2.83	10.97%
10,000	27.60	31.05	$ 3.45	12.50%
11,000	29.40	33.47	$ 4.07	13.84%
12,000	31.20	35.89	$ 4.69	15.03%
13,000	33.00	38.55	$ 5.55	16.82%
14,000	34.80	41.21	$ 6.41	18.43%
15,000	36.60	43.88	$ 7.28	19.88%
16,000	38.40	46.54	$ 8.14	21.19%
17,000	40.20	49.20	$ 9.00	22.39%
18,000	42.00	51.86	$ 9.86	23.48%
19,000	43.80	54.52	$ 10.72	24.48%
20,000	45.60	57.19	$ 11.59	25.41%
21,000	47.40	59.85	$ 12.45	26.26%
22,000	49.20	62.51	$ 13.31	27.05%
23,000	51.00	65.17	$ 14.17	27.79%
24,000	52.80	67.83	$ 15.03	28.47%
25,000	54.60	70.50	$ 15.90	29.11%
26,000	56.80	73.16	$ 16.36	28.80%
27,000	59.00	75.82	$ 16.82	28.51%
28,000	61.20	78.48	$ 17.28	28.24%
29,000	63.40	81.14	$ 17.74	27.99%
30,000	65.60	83.81	$ 18.21	27.75%
31,000	67.80	86.47	$ 18.67	27.53%
Average Usage				
3,370	$ 15.67	$ 17.04	$ 1.38	8.79%
Median Usage				
2,500	$ 14.10	$ 15.32	$ 1.22	8.65%

Present Rates:			
Monthly Minimum:		$	9.60
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	25,000	$	1.80
Up to	999,999,999	$	2.20
Up to	999,999,999	$	2.20
Over	1,000,000,000	$	2.20

Proposed Rates:			
Monthly Minimum:		$	10.37
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	8,000	$	1.980
Up to	12,000	$	2.420
Over	12,001	$	2.662
Over	12,001	$	2.662

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: 1 Inch Commercial
With Step One Rates

Exhibit
Schedule H-4
Page 5
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 24.00	$ 25.92	$ 1.92	8.00%
1,000	25.80	27.90	$ 2.10	8.14%
2,000	27.60	29.88	$ 2.28	8.26%
3,000	29.40	31.86	$ 2.46	8.37%
4,000	31.20	33.84	$ 2.64	8.46%
5,000	33.00	35.82	$ 2.82	8.55%
6,000	34.80	37.80	$ 3.00	8.62%
7,000	36.60	39.78	$ 3.18	8.69%
8,000	38.40	41.76	$ 3.36	8.75%
9,000	40.20	43.74	$ 3.54	8.81%
10,000	42.00	45.72	$ 3.72	8.86%
11,000	43.80	47.70	$ 3.90	8.90%
12,000	45.60	49.68	$ 4.08	8.95%
13,000	47.40	51.66	$ 4.26	8.99%
14,000	49.20	53.64	$ 4.44	9.02%
15,000	51.00	55.62	$ 4.62	9.06%
16,000	52.80	57.60	$ 4.80	9.09%
17,000	54.60	59.58	$ 4.98	9.12%
18,000	56.40	61.56	$ 5.16	9.15%
19,000	58.20	63.54	$ 5.34	9.18%
20,000	60.00	65.52	$ 5.52	9.20%
21,000	61.80	67.94	$ 6.14	9.94%
22,000	63.60	70.36	$ 6.76	10.63%
23,000	65.40	72.78	$ 7.38	11.28%
24,000	67.20	75.20	$ 8.00	11.90%
25,000	69.00	77.62	$ 8.62	12.49%
26,000	71.20	80.04	$ 8.84	12.42%
27,000	73.40	82.46	$ 9.06	12.34%
28,000	75.60	84.88	$ 9.28	12.28%
29,000	77.80	87.30	$ 9.50	12.21%
30,000	80.00	89.72	$ 9.72	12.15%
31,000	82.20	92.38	$ 10.18	12.39%
32,000	84.40	95.04	$ 10.64	12.61%
33,000	86.60	97.71	$ 11.11	12.82%
34,000	88.80	100.37	$ 11.57	13.03%
35,000	91.00	103.03	$ 12.03	13.22%
36,000	93.20	105.69	$ 12.49	13.40%
37,000	95.40	108.35	$ 12.95	13.58%
38,000	97.60	111.02	$ 13.42	13.75%
39,000	99.80	113.68	$ 13.88	13.91%
40,000	102.00	116.34	$ 14.34	14.06%
41,000	104.20	119.00	$ 14.80	14.21%
42,000	106.40	121.66	$ 15.26	14.35%
43,000	108.60	124.33	$ 15.73	14.48%
44,000	110.80	126.99	$ 16.19	14.61%
45,000	113.00	129.65	$ 16.65	14.73%
46,000	115.20	132.31	$ 17.11	14.85%
47,000	117.40	134.97	$ 17.57	14.97%
Average Usage				
38,424	$ 98.53	$ 112.15	$ 13.61	13.81%
Median Usage				
26,500	$ 72.30	$ 81.25	$ 8.95	12.38%

Present Rates:

Monthly Minimum:		$	24.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	25,000	$	1.80
Up to	999,999,999	$	2.20
Up to	999,999,999	$	2.20
Over	1,000,000,000	$	2.20

Proposed Rates:

Monthly Minimum:		$	25.92
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	20,000	$	1.980
Up to	30,000	$	2.420
Over	30,001	$	2.662
Over	30,001	$	2.662

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: 1.5 Inch Commercial
With Step One Rates

Exhibit
Schedule H-4
Page 6
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 48.00	$ 51.85	$ 3.85	8.02%
1,000	49.80	53.83	$ 4.03	8.09%
2,000	51.60	55.81	$ 4.21	8.16%
3,000	53.40	57.79	$ 4.39	8.22%
4,000	55.20	59.77	$ 4.57	8.28%
5,000	57.00	61.75	$ 4.75	8.33%
6,000	58.80	63.73	$ 4.93	8.38%
7,000	60.60	65.71	$ 5.11	8.43%
8,000	62.40	67.69	$ 5.29	8.48%
9,000	64.20	69.67	$ 5.47	8.52%
10,000	66.00	71.65	$ 5.65	8.56%
11,000	67.80	73.63	$ 5.83	8.60%
12,000	69.60	75.61	$ 6.01	8.64%
13,000	71.40	77.59	$ 6.19	8.67%
14,000	73.20	79.57	$ 6.37	8.70%
15,000	75.00	81.55	$ 6.55	8.73%
16,000	76.80	83.53	$ 6.73	8.76%
17,000	78.60	85.51	$ 6.91	8.79%
18,000	80.40	87.49	$ 7.09	8.82%
19,000	82.20	89.47	$ 7.27	8.84%
20,000	84.00	91.45	$ 7.45	8.87%
30,000	104.00	111.25	$ 7.25	6.97%
31,000	106.20	113.23	$ 7.03	6.62%
32,000	108.40	115.21	$ 6.81	6.28%
33,000	110.60	117.19	$ 6.59	5.96%
34,000	112.80	119.17	$ 6.37	5.65%
35,000	115.00	121.15	$ 6.15	5.35%
36,000	117.20	123.13	$ 5.93	5.06%
37,000	119.40	125.11	$ 5.71	4.78%
38,000	121.60	127.09	$ 5.49	4.51%
39,000	123.80	129.07	$ 5.27	4.26%
40,000	126.00	131.05	$ 5.05	4.01%
41,000	128.20	133.47	$ 5.27	4.11%
42,000	130.40	135.89	$ 5.49	4.21%
43,000	132.60	138.31	$ 5.71	4.31%
44,000	134.80	140.73	$ 5.93	4.40%
45,000	137.00	143.15	$ 6.15	4.49%
46,000	139.20	145.57	$ 6.37	4.58%
47,000	141.40	147.99	$ 6.59	4.66%
48,000	143.60	150.41	$ 6.81	4.74%
49,000	145.80	152.83	$ 7.03	4.82%
50,000	148.00	155.25	$ 7.25	4.90%
51,000	150.20	157.67	$ 7.47	4.97%
52,000	152.40	160.09	$ 7.69	5.05%
53,000	154.60	162.51	$ 7.91	5.12%
54,000	156.80	164.93	$ 8.13	5.18%
55,000	159.00	167.35	$ 8.35	5.25%
56,000	161.20	169.77	$ 8.57	5.32%
Average Usage				
52,593	$ 153.71	$ 161.53	$ 7.82	5.09%
Median Usage				
35,500	$ 116.10	$ 122.14	$ 6.04	5.20%

Present Rates:			
Monthly Minimum:		$	48.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	25,000	$	1.80
Up to	999,999,999	$	2.20
Up to	999,999,999	$	2.20
Over	1,000,000,000	$	2.20

Proposed Rates:			
Monthly Minimum:		$	51.85
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	40,000	$	1.980
Up to	60,800	$	2.420
Up to	60,801	$	2.662
Over	60,801	$	2.662

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: 2 Inch Commercial
With Step One Rates

Exhibit
Schedule H-4
Page 7
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 77.00	$ 83.18	$ 6.18	8.03%
1,000	78.80	85.16	$ 6.36	8.07%
2,000	80.60	87.14	$ 6.54	8.11%
3,000	82.40	89.12	$ 6.72	8.16%
4,000	84.20	91.10	$ 6.90	8.19%
5,000	86.00	93.08	$ 7.08	8.23%
6,000	87.80	95.06	$ 7.26	8.27%
7,000	89.60	97.04	$ 7.44	8.30%
8,000	91.40	99.02	$ 7.62	8.34%
9,000	93.20	101.00	$ 7.80	8.37%
10,000	95.00	102.98	$ 7.98	8.40%
11,000	96.80	104.96	$ 8.16	8.43%
12,000	98.60	106.94	$ 8.34	8.46%
13,000	100.40	108.92	$ 8.52	8.49%
14,000	102.20	110.90	$ 8.70	8.51%
15,000	104.00	112.88	$ 8.88	8.54%
16,000	105.80	114.86	$ 9.06	8.56%
17,000	107.60	116.84	$ 9.24	8.59%
18,000	109.40	118.82	$ 9.42	8.61%
19,000	111.20	120.80	$ 9.60	8.63%
20,000	113.00	122.78	$ 9.78	8.65%
30,000	133.00	142.58	$ 9.58	7.20%
40,000	155.00	162.38	$ 7.38	4.76%
50,000	177.00	182.18	$ 5.18	2.93%
60,000	199.00	201.98	$ 2.98	1.50%
70,000	221.00	224.42	$ 3.42	1.55%
80,000	243.00	248.62	$ 5.62	2.31%
90,000	265.00	272.82	$ 7.82	2.95%
100,000	287.00	297.99	$ 10.99	3.83%
120,220	331.48	351.81	$ 20.33	6.13%
130,000	353.00	377.85	$ 24.85	7.04%
140,100	375.22	404.73	$ 29.51	7.87%
150,400	397.88	432.15	$ 34.27	8.61%
161,200	421.64	460.90	$ 39.26	9.31%
Average Usage				
158,358	$ 415.39	$ 453.34	$ 37.95	9.14%
Median Usage				
62,500	$ 204.50	$ 206.93	$ 2.43	1.19%

Present Rates:			
Monthly Minimum:		$	77.00
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	25,000	$	1.80
Up to	999,999,999	$	2.20
Up to	999,999,999	$	2.20
Over	1,000,000,000	$	2.20

Proposed Rates:			
Monthly Minimum:		$	83.18
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	64,000	$	1.980
Up to	96,000	$	2.420
Over	96,001	$	2.662
Over	96,001	$	2.662

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: Construction Water 3" Inch Meter
With Step One Rates

Exhibit
Schedule H-4
Page 8
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 144.00	$ 155.55	$ 11.55	8.02%
1,000	146.60	158.41	$ 11.81	8.06%
2,000	149.20	161.27	$ 12.07	8.09%
3,000	151.80	164.13	$ 12.33	8.12%
4,000	154.40	166.99	$ 12.59	8.15%
5,000	157.00	169.85	$ 12.85	8.18%
6,000	159.60	172.71	$ 13.11	8.21%
7,000	162.20	175.57	$ 13.37	8.24%
8,000	164.80	178.43	$ 13.63	8.27%
9,000	167.40	181.29	$ 13.89	8.30%
10,000	170.00	184.15	$ 14.15	8.32%
11,000	172.60	187.01	$ 14.41	8.35%
12,000	175.20	189.87	$ 14.67	8.37%
13,000	177.80	192.73	$ 14.93	8.40%
14,000	180.40	195.59	$ 15.19	8.42%
15,000	183.00	198.45	$ 15.45	8.44%
16,000	185.60	201.31	$ 15.71	8.46%
17,000	188.20	204.17	$ 15.97	8.49%
18,000	190.80	207.03	$ 16.23	8.51%
19,000	193.40	209.89	$ 16.49	8.53%
20,000	196.00	212.75	$ 16.75	8.55%
30,000	222.00	241.35	$ 19.35	8.72%
40,000	248.00	269.95	$ 21.95	8.85%
50,000	274.00	298.55	$ 24.55	8.96%
60,000	300.00	327.15	$ 27.15	9.05%
70,000	326.00	355.75	$ 29.75	9.13%
Average Usage				
56,780	$ 291.63	$ 317.94	$ 26.31	9.02%
Median Usage				
7,500	$ 163.50	$ 177.00	$ 13.50	8.26%

Present Rates:

Monthly Minimum:		$ 144.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	999,999,999	$ 2.60
Up to	999,999,999	$ 2.60
Up to	999,999,999	$ 2.60
Over	1,000,000,000	$ 2.60

Proposed Rates:

Monthly Minimum:		$ 155.55
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	999,999,999	$ 2.860
Up to	999,999,999	$ 2.860
Over	999,999,999	$ 2.860
Over	999,999,999	$ 2.860

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 5/8 Inch Residential

Exhibit
Schedule H-5
Page 1
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
-	-	3	1	3	2	2	4	2	4	2	1	3	12	39	39
1	1,000	7	9	15	5	9	9	9	14	9	13	18	14	131	170
1,001	2,000	22	24	25	13	12	11	11	13	11	13	26	13	194	364
2,001	3,000	17	21	29	18	14	11	10	21	16	24	26	26	233	597
3,001	4,000	22	33	23	17	14	18	16	22	10	18	20	25	238	835
4,001	5,000	34	28	32	15	23	12	16	10	22	14	22	12	240	1,075
5,001	6,000	27	21	21	12	11	12	16	17	9	14	24	16	200	1,275
6,001	7,000	25	16	16	17	18	16	10	14	15	15	27	16	205	1,480
7,001	8,000	16	16	20	22	12	12	9	13	3	19	13	24	179	1,659
8,001	9,000	6	20	9	18	15	10	9	10	8	16	11	16	148	1,807
9,001	10,000	10	12	13	8	10	8	10	10	12	15	8	8	124	1,931
10,001	11,000	8	10	13	16	19	8	7	11	12	13	7	12	136	2,067
11,001	12,000	9	10	4	14	9	8	11	11	7	9	5	9	106	2,173
12,001	13,000	10	3	6	9	12	11	6	9	9	5	4	2	86	2,259
13,001	14,000	6	6	5	8	11	12	5	9	13	10	6	6	97	2,356
14,001	15,000	5	2	1	5	6	10	8	7	7	4	3	5	63	2,419
15,001	16,000	4	1	2	9	6	9	7	9	13	5	5	3	73	2,492
16,001	17,000	3	2	3	4	6	7	6	9	11	7	2	3	63	2,555
17,001	18,000	4	1	2	6	6	6	7	4	8	4	3	5	56	2,611
18,001	19,000	1	3	-	1	5	7	10	1	1	5	2	1	37	2,648
19,001	20,000	2	1	1	6	3	3	7	2	6	7	2	3	43	2,691
20,001	21,000		1	1	4	4	6	8	2	3	1	1	3	34	2,725
21,001	22,000		1		4	4	5	5	2	4	1		1	27	2,752
22,001	23,000	2		2	2	3	2	3	4	2	5			25	2,777
23,001	24,000	1			1	2	6	4	4	5			1	24	2,801
24,001	25,000				1	1	4	4	1	3	1	2		17	2,818
25,001	26,000	1	1		3		4	3		2	3			17	2,835
26,001	27,000						3	2	3	5	1		1	15	2,850
27,001	28,000				2		2	3		1		2	2	12	2,862
28,001	29,000				-			3		2				5	2,867
29,001	30,000		1			2	2	3		2			1	11	2,878
30,001	31,000						4	2			1		1	8	2,886
31,001	32,000						1	2		1				4	2,890
32,001	33,000				1			1		3				5	2,895
33,001	34,000	1			1	2	-	1	1	1				7	2,902
34,001	35,000					1	1	1	1	1				5	2,907
35,001	36,000					1		1			1			3	2,910
36,001	37,000					1		1	1				1	4	2,914
37,001	38,000					2	1		1	1	1			6	2,920
38,001	39,000					1	1		1					3	2,923
39,001	40,000			1				1	1	1		1	-	5	2,928
40,001	41,000													-	2,928

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 5/8 Inch Residential

Exhibit
Schedule H-5
Page 1.1
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
41,001	42,000							1	1		1			3	2,931
42,001	43,000				1			1						2	2,933
43,001	44,000				1	1	1					-		3	2,936
44,001	45,000							1		1	-			2	2,938
45,001	46,000					1								1	2,939
46,001	47,000						1							1	2,940
47,001	48,000					1		1						2	2,942
48,001	49,000							1						1	2,943
49,001	50,000													-	2,943
50,001	51,000									1	1			2	2,945
51,001	52,000									1				1	2,946
52,001	53,000						2							2	2,948
53,001	54,000													-	2,948
54,001	55,000							1						1	2,949
55,001	56,000													-	2,949
56,001	57,000													-	2,949
57,001	58,000								2					2	2,951
58,001	59,000		1					1						2	2,953
59,001	60,000								1					1	2,954
60,001	61,000													-	2,954
61,001	62,000													-	2,954
62,001	63,000													-	2,954
63,001	64,000												1	1	2,955
64,001	65,000									1				1	2,956
65,001	66,000									1				1	2,957
79,001	80,000									1				1	2,958
	Totals	246	245	247	246	250	250	247	246	247	248	243	243	2,958	Median Billing

Average Usage	9,264
Median Usage	1,000
Average # Customers	247
Change in Number of Customers	(3)

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 3/4 Inch Residential

Exhibit
Schedule H-5
Page 2
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
-	-	21	15	18	14	18	9	8	5	4	10	13	5	140	140
1	1,000	25	33	32	38	46	47	42	52	29	17	22	18	401	541
1,001	2,000	29	37	31	23	33	24	20	26	16	28	29	21	317	858
2,001	3,000	35	36	35	26	20	28	28	26	20	28	46	24	352	1,210
3,001	4,000	37	42	42	24	20	31	22	30	15	20	43	27	353	1,563
4,001	5,000	33	49	60	27	30	22	35	20	27	40	45	43	431	1,994
5,001	6,000	46	51	55	30	24	31	29	28	34	36	63	45	472	2,466
6,001	7,000	52	66	64	37	31	28	23	28	18	41	63	45	496	2,962
7,001	8,000	51	41	46	33	33	26	18	32	24	41	47	60	452	3,414
8,001	9,000	39	29	44	47	28	23	27	28	32	43	51	52	443	3,857
9,001	10,000	32	45	23	32	32	31	29	27	24	38	32	49	394	4,251
10,001	11,000	29	21	22	36	25	30	22	21	30	36	37	45	354	4,605
11,001	12,000	19	13	18	24	31	21	19	26	28	34	21	29	283	4,888
12,001	13,000	15	21	12	30	26	27	26	28	22	20	17	21	265	5,153
13,001	14,000	11	7	15	23	16	23	21	32	23	32	13	15	231	5,384
14,001	15,000	11	6	1	17	23	20	22	21	27	27	13	21	209	5,593
15,001	16,000	5	3	4	13	23	15	25	20	27	18	11	18	182	5,775
16,001	17,000	4	2	9	20	22	17	14	26	18	13	4	10	159	5,934
17,001	18,000	4	3	3	16	16	20	14	13	18	9	5	11	132	6,066
18,001	19,000	4	2	2	10	16	15	20	14	13	5	4	9	114	6,180
19,001	20,000	4	4	1	9	9	11	10	10	15	7	4	8	92	6,272
20,001	21,000	2	1	1	4	9	16	12	13	18	7	2	4	89	6,361
21,001	22,000	2			3	12	5	13	7	10	10	1	1	64	6,425
22,001	23,000	3	1	3	2	7	6	5	8	14	4	2	2	57	6,482
23,001	24,000	3		1	3	6	5	7	6	9	9	2	2	53	6,535
24,001	25,000			1	5	4	10	9	12	12	3	1	4	61	6,596
25,001	26,000				2	2	6	7	3	11	5		1	37	6,633
26,001	27,000	1			2	6	4	11	4	7	6		1	42	6,675
27,001	28,000				3		5	8	7	4	6		1	34	6,709
28,001	29,000			1	3	3	3	8	6	7	1			32	6,741
29,001	30,000				4		3	8	6	3	2	1	2	29	6,770
30,001	31,000				3	3	1	9	3	3	2	1	1	26	6,796
31,001	32,000						3	4	3	1	1			12	6,808
32,001	33,000	2			1	1	3	2	2	5	1		3	20	6,828
33,001	34,000	1			1	2	2	4	3	2	1			16	6,844
34,001	35,000					2	2	3	3	3	1			14	6,858
35,001	36,000				2	1	7	3	6	3	1	1		24	6,882
36,001	37,000	1		1		1		2	1	2	1	1	1	11	6,893
37,001	38,000				1	1	1	1	2	3	2			11	6,904
38,001	39,000					2	1		1	1				5	6,909
39,001	40,000		0				2	1		3				6	6,915
40,001	41,000					1	1	1	3	1	1			8	6,923

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 3/4 Inch Residenti

Exhibit
Schedule H-5
Page 2.1
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
42,001	43,000				1	1	2	1	2	2	1			10	6,938
43,001	44,000						1	2						3	6,941
44,001	45,000				1					3				4	6,945
45,001	46,000					1	1	1			2			5	6,950
46,001	47,000					1		1		2			1	5	6,955
47,001	48,000						1		2					3	6,958
48,001	49,000							1		1				2	6,960
49,001	50,000					1	2	3	1	1				8	6,968
50,001	51,000							1	1					2	6,970
51,001	52,000		1				2	1			1			5	6,975
52,001	53,000								1					1	6,976
53,001	54,000				1		1		1	1				4	6,980
54,001	55,000									1	1			2	6,982
55,001	56,000													-	6,982
56,001	57,000							1		1				2	6,984
57,001	58,000				2									2	6,986
58,001	59,000							1		1				2	6,988
59,001	60,000			1	1									2	6,990
60,001	61,000													-	6,990
61,001	62,000													-	6,990
62,001	63,000				1				1	1				3	6,993
63,001	64,000				1			1		1				3	6,996
64,001	65,000		1		1									2	6,998
65,001	66,000													-	6,998
66,001	67,000												1	1	6,999
67,001	68,000											1		1	7,000
68,001	69,000										1			1	7,001
69,001	70,000					1								1	7,002
70,001	71,000													-	7,002
71,001	72,000													-	7,002
72,001	73,000													-	7,002
73,001	74,000													-	7,002
74,001	75,000													-	7,002
75,001	76,000									1				1	7,003
76,001	77,000													-	7,003
77,001	78,000													-	7,003
78,001	79,000													-	7,003
79,001	80,000													-	7,003
80,001	81,000					1								1	7,004

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 3/4 Inch Residential

Exhibit
Schedule H-5
Page 2.2
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
81,001	82,000													-	7,004
82,001	83,000				1									1	7,005
83,001	84,000									1				1	7,006
84,001	85,000				1					1				2	7,008
85,001	86,000													-	7,008
86,001	87,000					1								1	7,009
87,001	88,000													-	7,009
88,001	89,000													-	7,009
89,001	90,000				1									1	7,010
90,001	91,000													-	7,010
91,001	92,000													-	7,010
92,001	93,000													-	7,010
93,001	94,000													-	7,010
94,001	95,000													-	7,010
95,001	96,000													-	7,010
96,001	97,000													-	7,010
97,001	98,000													-	7,010
98,001	99,000													-	7,010
99,001	100,000													-	7,010
108,260	108,260								1					1	7,011
116,300	116,300												1	1	7,012
133,100	133,100													-	7,012
143,090	143,090										1			1	7,013
	Totals	521	530	546	580	593	596	608	622	605	614	596	602	7,013	Median
										Average Usage				10,243	Billing
										Median Usage				8,500	3,507
										Average # Customers				584	
										Change in Number of Customers				81	

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 1 Inch Residential

Exhibit
Schedule H-5
Page 3
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
-	-	4	7	10	3	11	4	2	4	1	8	4	6	64	64
1	1,000	17	13	17	21	24	21	29	26	12	9	8	6	203	267
1,001	2,000	13	11	11	8	6	19	6	8	9	8	8	6	113	380
2,001	3,000	7	12	7	6	4	3	8	6	10	10	6	2	81	461
3,001	4,000	8	13	14	2	5	4	7	3	4	5	15	8	88	549
4,001	5,000	10	9	11	8	4	6	3	8	2	13	12	8	94	643
5,001	6,000	13	19	16	7	6	9	4	7	10	14	22	11	138	781
6,001	7,000	7	19	13	11	13	7	13	8	6	7	11	14	129	910
7,001	8,000	15	17	20	8	6	6	5	10	8	12	30	18	155	1,065
8,001	9,000	9	9	10	4	4	4	5	6	4	14	13	11	93	1,158
9,001	10,000	14	10	15	9	9	8	5	5	8	5	12	10	110	1,268
10,001	11,000	9	12	11	10	11	7	2	7	11	12	9	20	121	1,389
11,001	12,000	13	8	13	6	9	5	4	9	4	6	12	15	104	1,493
12,001	13,000	15	8	6	5	9	6	8	7	9	11	6	8	98	1,591
13,001	14,000	6	4	4	14	4	6	6	3	5	7	6	6	71	1,662
14,001	15,000		7	10	9	6	6	8	8	5	8	3	7	77	1,739
15,001	16,000	4	4	1	5	4	3	5	2	4	6	7	18	63	1,802
16,001	17,000	6	2	3	5	2	3	1	6	6	7	8	5	54	1,856
17,001	18,000	3	5	5	6	7	5	9	10	10	4	10	8	82	1,938
18,001	19,000	6	8	4	2	5	3	3	3	6	10	6	5	61	1,999
19,001	20,000	3	4	2	6	5	7	6	5	4	5	2	9	58	2,057
20,001	21,000	5	3	2	3	2	9	4	2	5	3	5	6	49	2,106
21,001	22,000	2	6	4	6	11	6	4	1	6	4	2	5	57	2,163
22,001	23,000	2	4	2	5	3	6	6	2	2	5	5	3	45	2,208
23,001	24,000	2	1		4	6	7	7	8	3	5	4	3	50	2,258
24,001	25,000	2	1	2	6	4	4	4	2	4	6	3	3	41	2,299
25,001	26,000	3	2	2	1	7	4	4	6	4	6	3	2	44	2,343
26,001	27,000	5	1	3	6	4	2	1	3	3	6	2	8	44	2,387
27,001	28,000	1	2	1	7	3	2	4	1	3		1	4	29	2,416
28,001	29,000			3	4	3	5	2	5	3	2	2	3	32	2,448
29,001	30,000	1	1	2	3	2	3	6	2	2	3	7	2	34	2,482
30,001	31,000			2	3	3	6	7	7	3	3		1	35	2,517
31,001	32,000	1	1	2	1	2	3	6	3	2	2	2	1	26	2,543
32,001	33,000	1		2	1	1	1	2	3	4	1	1		17	2,560
33,001	34,000	1	1		3	2	2	4	3	2	5		2	25	2,585
34,001	35,000	1	1		1	4	3	3	5	6			1	25	2,610
35,001	36,000	1	1		1	3	2	1	3	2	1	3	2	20	2,630
36,001	37,000		1		2	1	5	2	2	2	2	4	4	25	2,655
37,001	38,000	1			2	4		1	2	2	5	2	3	22	2,677
38,001	39,000			1		1	2	1	1	3	1	2	1	13	2,690
39,001	40,000			1	3	2		2	1	5	1		3	18	2,708
40,001	41,000				2	2	1	1	2	3	2		1	14	2,722

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 1 Inch Residential

Exhibit
Schedule H-5
Page 3.1
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
41,001	42,000	1	1		1	2	3	1	4	3				16	2,738
42,001	43,000	2	2	2	1	1	1	3	4	6	2	2		26	2,764
43,001	44,000	1		1	1	1	1	3	3	6	4		1	22	2,786
44,001	45,000	1			3	2	1	3	2		1	1		14	2,800
45,001	46,000	1						3			2	1		7	2,807
46,001	47,000				2	4	4	2	2	2	1	2		19	2,826
47,001	48,000	1		1	3	2	1	4		1			2	15	2,841
48,001	49,000	1			2		5	2	2		1		1	14	2,855
49,001	50,000					1	2		1		2	1		7	2,862
50,001	51,000		1			1	3	2	2	1	1			11	2,873
51,001	52,000					3		2	1	3	1			10	2,883
52,001	53,000		1		1	1			1	2	1			7	2,890
53,001	54,000				1	2	2	2		2	1	1		11	2,901
54,001	55,000	1							1	1	1	1	1	6	2,907
55,001	56,000	1			1		2		3	1	2			10	2,917
56,001	57,000						2	3	1	2			1	9	2,926
57,001	58,000				2		1	2	1				1	7	2,933
58,001	59,000							2		3	1			6	2,939
59,001	60,000	1					2	1		4	1			9	2,948
60,001	61,000								2		1			3	2,951
61,001	62,000								2		1			3	2,954
62,001	63,000				1			1			1			3	2,957
63,001	64,000					1	1			2				4	2,961
64,001	65,000		1		1	2	1	1	1					7	2,968
65,001	66,000					1		1	2		1			5	2,973
66,001	67,000					1				1				2	2,975
67,001	68,000					1	1	1	1	1				5	2,980
68,001	69,000				1	1	1	2						5	2,985
69,001	70,000						1	1		1				3	2,988
70,001	71,000			2		1		1	1					5	2,993
71,001	72,000					1				1				2	2,995
72,001	73,000				1			1						2	2,997
73,001	74,000	1						1		3			1	6	3,003
74,001	75,000							3	1	1	1			6	3,009
75,001	76,000								1	1				2	3,011
76,001	77,000	1				2	1							4	3,015
77,001	78,000						1							1	3,016
78,001	79,000					1								1	3,017
79,001	80,000						1	1			1		1	4	3,021
80,001	81,000								2					2	3,023

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 1 Inch Residential

Exhibit
Schedule H-5
Page 3.2
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
81,001	82,000							1		1				2	3,025
82,001	83,000				1			1	1	1				4	3,029
83,001	84,000													-	3,029
84,001	85,000						1		1					2	3,031
85,001	86,000						1	1	2					4	3,035
86,001	87,000							1		1				2	3,037
87,001	88,000													-	3,037
88,001	89,000						1							1	3,038
89,001	90,000				1				1					2	3,040
90,001	91,000				1					1				2	3,042
91,001	92,000							1	1					2	3,044
92,001	93,000													-	3,044
93,001	94,000									1	1			2	3,046
94,001	95,000								1	1	1			3	3,049
95,001	96,000							1						1	3,050
96,001	97,000													-	3,050
97,001	98,000													-	3,050
98,001	99,000						1				1			2	3,052
99,001	100,000					1			1					2	3,054
100,660	100,660								1					1	3,055
102,150	102,150								1					1	3,056
103,070	103,070					1								1	3,057
103,800	103,800									1				1	3,058
105,440	105,440						1							1	3,059
105,970	105,970										1			1	3,060
107,710	107,710												1	1	3,061
107,770	107,770									1				1	3,062
108,950	108,950								1					1	3,063
109,660	109,660										1			1	3,064
110,390	110,390									1				1	3,065
110,410	110,410										1			1	3,066
111,190	111,190						1							1	3,067
114,260	114,260								1					1	3,068
114,540	114,540							1						1	3,069
115,100	115,100											1		1	3,070
116,270	116,270				1									1	3,071
116,860	116,860						1							1	3,072
117,200	117,200									1				1	3,073
119,200	119,200											1		1	3,074
122,220	122,220											1		1	3,075

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 1 Inch Residential

Exhibit
Schedule H-5
Page 3.3
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
123,760	123,760									1		1		2	3,077
126,420	126,420								1	0				1	3,078
126,680	126,680									1				1	3,079
127,630	127,630									1	0			1	3,080
130,490	130,490									1				1	3,081
135,230	135,230												1	1	3,082
139,930	139,930						1							1	3,083
143,340	143,340							1						1	3,084
153,840	153,840									1				1	3,085
178,010	178,010									1				1	3,086
242,900	242,900						1							1	3,087
273,600	273,600					1								1	3,088
290,600	290,600							1						1	3,089
317,100	317,100									1				1	3,090
320,560	320,560												1	1	3,091
321,660	321,660													-	3,091
355,300	355,300								1					1	3,092
462,300	462,300				1									1	3,093
506,700	506,700									1				1	3,094
511,260	511,260									1				1	3,095
	Totals	224	233	238	246	259	262	269	270	274	278	271	271	3,095	Median Billing

Average Usage	20,040
Median Usage	12,500
Average # Customers	258
Change in Number of Customers	47

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 5/8 Inch Commercial

Exhibit
Schedule H-5
Page 4
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
-	-													-	-
1	1,000	1	2	1	1	1	1	1	1	1	1	1	1	13	13
1,001	2,000	2	2	3	1	1	1	1	2	1	3	2	3	22	35
2,001	3,000	2	1	1	1	2	2	1		1		2		13	48
3,001	4,000		1		1	1	1	2	2	2	2	1	1	14	62
4,001	5,000					1				1	1	1	1	5	67
5,001	6,000	2					1							3	70
6,001	7,000		1	1					1					3	73
7,001	8,000				2		1	1		1			1	6	79
8,001	9,000													-	79
9,001	10,000			1										1	80
10,001	11,000					1								1	81
11,001	12,000													-	81
12,001	13,000				1				1					2	83
13,001	14,000							1						1	84
14,001	15,000													-	84
15,001	16,000													-	84
	Totals	7	7	7	7	7	7	7	7	7	7	7	7	84	Median
										Average Usage				3,370	Billing
										Median Usage				2,500	42
										Average # Customers				7	
										Change in Number of Customers				-	

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 1 Inch Commercial

Exhibit
Schedule H-5
Page 5
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
-	-					1								1	1
1	1,000													-	1
1,001	2,000											1	1	2	3
2,001	3,000	1	1									1	1	4	7
3,001	4,000		1	1							1	1		4	11
4,001	5,000	1		2	1			1	1	1				7	18
5,001	6,000	1	1						1					3	21
6,001	7,000					1								1	22
7,001	8,000										1		1	2	24
8,001	9,000		1											1	25
9,001	10,000			1	1		1	1		1				5	30
10,001	11,000						1		1			1		3	33
11,001	12,000							1						1	34
12,001	13,000										1		1	2	36
13,001	14,000	1								1		1		3	39
14,001	15,000					1								1	40
15,001	16,000													-	40
16,001	17,000												1	1	41
17,001	18,000										1			1	42
18,001	19,000				1	1								2	44
19,001	20,000			1			1					1		3	47
20,001	21,000								1		1			2	49
21,001	22,000	1	1				1							3	52
22,001	23,000	1	1			1								3	55
23,001	24,000				1		1		1	1		1		5	60
24,001	25,000									1				1	61
25,001	26,000						1					2		3	64
26,001	27,000			1				1					1	3	67
27,001	28,000				1			1		1				3	70
28,001	29,000										1			1	71
29,001	30,000		1						1					2	73
30,001	31,000	1												1	74
31,001	32,000													-	74
32,001	33,000			1									1	2	76
33,001	34,000													-	76
34,001	35,000						1	1						2	78
35,001	36,000			1									1	2	80
36,001	37,000					1			1		1			3	83
37,001	38,000		1					1						2	85
38,001	39,000													-	85
39,001	40,000													-	85
40,001	41,000			1						1				2	87

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 1 Inch Commercial

Exhibit
Schedule H-5
Page 5.1
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
41,001	42,000					1								1	88
42,001	43,000							1						1	89
43,001	44,000				1					1	1			3	92
44,001	45,000				1					1				2	94
45,001	46,000						1							1	95
46,001	47,000													-	95
47,001	48,000		1				1			1				3	98
48,001	49,000												1	1	99
49,001	50,000					1							1	2	101
50,001	51,000										1	1		2	103
51,001	52,000	1												1	104
52,001	53,000	1							1					2	106
53,001	54,000				1									1	107
54,001	55,000													-	107
55,001	56,000				1									1	108
56,001	57,000					1								1	109
57,001	58,000													-	109
58,001	59,000													-	109
59,001	60,000													-	109
60,001	61,000													-	109
61,001	62,000										1			1	110
62,001	63,000													-	110
63,001	64,000													-	110
64,001	65,000													-	110
65,001	66,000													-	110
66,001	67,000													-	110
67,001	68,000							1						1	111
68,001	69,000													-	111
69,001	70,000			1										1	112
70,001	71,000													-	112
71,001	72,000													-	112
72,001	73,000													-	112
73,001	74,000													-	112
74,001	75,000													-	112
75,001	76,000													-	112
76,001	77,000													-	112
77,001	78,000		1							1				2	114

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 1 Inch Commercial

Exhibit
Schedule H-5
Page 5.2
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
87,001	88,000								1					1	115
88,001	89,000													-	115
89,001	90,000													-	115
90,001	91,000													-	115
91,001	92,000									1				1	116
92,001	93,000													-	116
93,001	94,000													-	116
94,001	95,000													-	116
95,001	96,000													-	116
96,001	97,000							1						1	117
97,001	98,000													-	117
98,001	99,000													-	117
99,001	100,000													-	117
107,040	107,040						1							1	118
108,440	108,440								1					1	119
112,970	112,970					1								1	120
122,620	122,620	1												1	121
125,240	125,240												1	1	122
129,710	129,710				1									1	123
151,860	151,860					1								1	124
160,690	160,690								1					1	125
161,060	161,060							1						1	126
163,870	163,870										1			1	127
175,560	175,560											1		1	128
199,640	199,640						1							1	129
	Totals	10	10	10	10	11	11	11	11	12	11	11	11	129	Median Billing

Average Usage	38,424
Median Usage	26,500
Average # Customers	11
Change in Number of Customers	1

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 1.5 Inch Commerc

Exhibit
Schedule H-5
Page 6
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
-	-	1	1	1	1	1	1		1			1	1	9	9
1	1,000													-	9
1,001	2,000													-	9
2,001	3,000													-	9
3,001	4,000													-	9
4,001	5,000													-	9
5,001	6,000													-	9
6,001	7,000										1			1	10
7,001	8,000													-	10
8,001	9,000													-	10
9,001	10,000													-	10
10,001	11,000													-	10
11,001	12,000													-	10
12,001	13,000													-	10
13,001	14,000													-	10
14,001	15,000													-	10
15,001	16,000		1											1	11
16,001	17,000													-	11
17,001	18,000													-	11
18,001	19,000			1										1	12
19,001	20,000													-	12
20,001	21,000													-	12
21,001	22,000													-	12
22,001	23,000													-	12
23,001	24,000										1	1		2	14
24,001	25,000						1	1						2	16
25,001	26,000													-	16
26,001	27,000					1								1	17
27,001	28,000			1					1			1	1	4	21
28,001	29,000	1					1	1			1			4	25
29,001	30,000									1				1	26
30,001	31,000													-	26
31,001	32,000					1								1	27
32,001	33,000		1					1					1	3	30
33,001	34,000				1				1					2	32
34,001	35,000				1				1			1		3	35
35,001	36,000	1								1				2	37
36,001	37,000													-	37
37,001	38,000													-	37
38,001	39,000			1										1	38
39,001	40,000													-	38
40,001	41,000			1							1		1	3	41

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 1.5 Inch Commerc

Exhibit
Schedule H-5
Page 6.1
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
41,001	42,000						1							1	42
42,001	43,000					1								1	43
43,001	44,000							1						1	44
44,001	45,000													-	44
45,001	46,000				1									1	45
46,001	47,000													-	45
47,001	48,000									1		1		2	47
48,001	49,000					1								1	48
54,001	55,000		1											1	49
55,001	56,000													-	49
56,001	57,000				1									1	50
57,001	58,000													-	50
58,001	59,000			1										1	51
59,001	60,000													-	51
60,001	61,000											1		1	52
61,001	62,000													-	52
62,001	63,000													-	52
63,001	64,000												1	1	53
64,001	65,000													-	53
65,001	66,000												1	1	54
69,001	70,000						1							1	55
70,001	71,000	1												1	56
71,001	72,000													-	56
72,001	73,000													-	56
73,001	74,000										1			1	57
74,001	75,000	1												1	58
75,001	76,000													-	58
76,001	77,000		1											1	59
88,001	89,000								1					1	60
89,001	90,000		1											1	61
104,500	104,500	1												1	62
107,600	107,600									1				1	63
109,000	109,000							1						1	64
114,600	114,600									1				1	65
130,100	130,100										1			1	66
130,400	130,400						1							1	67
134,400	134,400				1									1	68
146,100	146,100					1								1	69
148,000	148,000								1					1	70
151,000	151,000							1						1	71
346,000	346,000									1				1	72
	Totals	6	6	6	6	6	6	6	6	6	6	6	6	72	Median Billing

Average Usage	52,593
Median Usage	35,500
Average # Customers	6
Change in Number of Customers	-

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 2 Inch Commercial

Exhibit
Schedule H-5
Page 7
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
-	-	2	1	1	4	1		2	1				2	14	14
1	1,000	6	6	1	2	7	3	2		1				28	42
1,001	2,000	4			1	3		2		1				11	53
2,001	3,000			2	5		2	3	2					14	67
3,001	4,000		1	1	4	2	5		1					14	81
4,001	5,000		1		1	2	1	2	1				1	9	90
5,001	6,000				1		1		3			1		6	96
6,001	7,000				1		1				3			5	101
7,001	8,000	1	1											2	103
8,001	9,000							1	2					3	106
9,001	10,000			1			1		2	2				6	112
10,001	11,000	1	1					1		1		2		6	118
11,001	12,000		2	1					1	1				5	123
12,001	13,000					1			1	1				3	126
13,001	14,000							1		1	2		1	5	131
14,001	15,000	1	1	1					1	2		1	2	9	140
15,001	16,000											2		2	142
16,001	17,000										1	1	1	3	145
17,001	18,000				1	1				2	1			5	150
18,001	19,000			1								1		2	152
19,001	20,000						1							1	153
20,001	21,000	1	1				2			1				5	158
21,001	22,000						1				2	1		4	162
22,001	23,000			2	1							1		4	166
23,001	24,000			1				1		1	1		1	5	171
24,001	25,000					1				1				2	173
25,001	26,000											1		1	174
26,001	27,000			1							1		1	3	177
27,001	28,000		1						1		1	2	2	7	184
28,001	29,000	1							1		2	2		6	190
29,001	30,000			1		1						1		3	193
30,001	31,000							1					1	2	195
31,001	32,000		1			1								2	197
32,001	33,000										1	2		3	200
33,001	34,000			1		1				1		1	1	5	205
34,001	35,000										2			2	207
35,001	36,000										1			1	208
36,001	37,000									1			1	2	210
37,001	38,000													-	210
38,001	39,000	1			1								1	3	213
39,001	40,000			1		1								2	215
40,001	41,000											1	2	3	218

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 2 Inch Commercial

Exhibit
Schedule H-5
Page 7.1
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
41,001	42,000											1	1	2	220
42,001	43,000	1					1			1	1	1		5	225
43,001	44,000				2								3	5	230
44,001	45,000													-	230
45,001	46,000			1				1		1				3	233
46,001	47,000				1				1					2	235
47,001	48,000			1									1	2	237
48,001	49,000													-	237
49,001	50,000							1	1				1	3	240
50,001	51,000							1	1	1				3	243
51,001	52,000							1						1	244
52,001	53,000				1									1	245
53,001	54,000			1										1	246
54,001	55,000								1					1	247
55,001	56,000													-	247
56,001	57,000			1										1	248
57,001	58,000					1								1	249
58,001	59,000													-	249
59,001	60,000						1							1	250
60,001	61,000	1											1	2	252
61,001	62,000						1							1	253
62,001	63,000			1							1			2	255
63,001	64,000	1											1	2	257
64,001	65,000													-	257
65,001	66,000				1					2				3	260
66,001	67,000													-	260
67,001	68,000			1										1	261
68,001	69,000													-	261
69,001	70,000				1							1		2	263
70,001	71,000		1			2							1	4	267
71,001	72,000													-	267
72,001	73,000				1									1	268
73,001	74,000													-	268
74,001	75,000		1					1						2	270
75,001	76,000										1			1	271
76,001	77,000								1					1	272
77,001	78,000						1					1		2	274
78,001	79,000													-	274
79,001	80,000													-	274
80,001	81,000		1											1	275

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 2 Inch Commercial

Exhibit
Schedule H-5
Page 7.2
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
81,001	82,000													-	275
82,001	83,000											1		1	276
83,001	84,000	1												1	277
84,001	85,000												1	1	278
85,001	86,000			1										1	279
86,001	87,000			1				1						2	281
87,001	88,000	1										1		2	283
88,001	89,000									1				1	284
89,001	90,000									1				1	285
90,001	91,000		1											1	286
91,001	92,000			1			1							2	288
92,001	93,000					1		1			1			3	291
93,001	94,000										1	1		2	293
94,001	95,000					1	1							2	295
95,001	96,000			1							1	1		3	298
96,001	97,000		1								1			2	300
97,001	98,000									1	1	1		3	303
98,001	99,000											1		1	304
99,001	100,000											1		1	305
103,700	103,700											1		1	306
104,200	104,200												1	1	307
107,300	107,300			2				1						3	310
108,020	108,020												1	1	311
109,300	109,300									1				1	312
110,100	110,100											1		1	313
112,000	112,000			1			1							2	315
112,400	112,400					1								1	316
112,400	112,400	1												1	317
113,000	113,000						1							1	318
113,300	113,300	1												1	319
115,500	115,500												1	1	320
116,400	116,400			1				1						2	322
116,730	116,730						1							1	323
118,100	118,100						1							1	324
119,200	119,200											1		1	325
119,240	119,240						1							1	326
119,530	119,530											1		1	327
120,220	120,220										1			1	328

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 2 Inch Commercial

Exhibit
Schedule H-5
Page 7.3
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
121,200	121,200						1							1	329
121,300	121,300				1									1	330
121,400	121,400									1				1	331
121,500	121,500			2			1							3	334
123,760	123,760											1		1	335
124,200	124,200					1								1	336
125,100	125,100		1											1	337
125,400	125,400	1												1	338
125,500	125,500								1					1	339
125,700	125,700												1	1	340
125,900	125,900		1											1	341
126,400	126,400										1			1	342
126,400	126,400										1			1	343
126,500	126,500		1								1			2	345
127,700	127,700									1				1	346
129,000	129,000		1	1										2	348
129,200	129,200				1									1	349
129,220	129,220		1									1		2	351
130,000	130,000					1								1	352
131,620	131,620		1									1		2	354
131,700	131,700	1												1	355
132,100	132,100											1		1	356
133,100	133,100		1											1	357
133,100	133,100			1										1	358
133,300	133,300							1						1	359
133,910	133,910												1	1	360
134,800	134,800												1	1	361
137,800	137,800									1				1	362
138,020	138,020											1		1	363
138,500	138,500						1							1	364
138,900	138,900												1	1	365
140,100	140,100										1			1	366
140,800	140,800											1		1	367
141,300	141,300							1						1	368
142,600	142,600		1											1	369
143,800	143,800	1												1	370
144,300	144,300										1			1	371
145,100	145,100					1								1	372
146,700	146,700												1	1	373
147,160	147,160		1											1	374
147,400	147,400									1				1	375

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 2 Inch Commercial

Exhibit
Schedule H-5
Page 7.4
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
148,400	148,400								1					1	376
150,400	150,400		1											1	377
151,100	151,100								1					1	378
154,100	154,100			1										1	379
158,400	158,400											1		1	380
161,200	161,200							1						1	381
161,420	161,420		1											1	382
161,700	161,700					1								1	383
162,300	162,300							1						1	384
164,700	164,700												1	1	385
165,200	165,200										1			1	386
165,600	165,600						1							1	387
169,500	169,500				1									1	388
169,700	169,700							1						1	389
170,400	170,400												1	1	390
170,800	170,800								1					1	391
174,100	174,100												1	1	392
174,200	174,200						1							1	393
174,800	174,800							1						1	394
175,900	175,900					1								1	395
177,400	177,400				1									1	396
177,700	177,700								1					1	397
179,000	179,000									1				1	398
179,700	179,700	1												1	399
180,700	180,700								1					1	400
182,300	182,300								1					1	401
186,000	186,000										1			1	402
186,800	186,800				1									1	403
189,200	189,200								1					1	404
189,400	189,400	1												1	405
189,470	189,470										1			1	406
189,500	189,500								1					1	407
190,200	190,200	1												1	408
202,100	202,100			1										1	409
205,000	205,000			1										1	410
207,800	207,800									1				1	411
210,100	210,100		1											1	412
212,800	212,800			1										1	413
213,600	213,600		1											1	414
213,600	213,600		1											1	415
215,500	215,500					1								1	416
216,400	216,400					1								1	417
218,700	218,700							1						1	418

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 2 Inch Commercial

Exhibit
Schedule H-5
Page 7.5
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
218,800	218,800												1	1	419
221,300	221,300									1				1	420
226,700	226,700									1				1	421
227,700	227,700									1				1	422
231,400	231,400		1											1	423
232,300	232,300				1									1	424
232,900	232,900										1			1	425
235,200	235,200					1								1	426
235,200	235,200							1						1	427
236,300	236,300	1												1	428
242,700	242,700				1									1	429
242,800	242,800											1		1	430
242,900	242,900						1							1	431
243,000	243,000										1			1	432
243,000	243,000		1											1	433
244,200	244,200										1			1	434
245,300	245,300						1							1	435
245,900	245,900									1				1	436
246,100	246,100						1							1	437
247,460	247,460						1							1	438
248,100	248,100	1												1	439
250,900	250,900		1											1	440
251,400	251,400				1									1	441
253,000	253,000	1												1	442
255,200	255,200			1										1	443
255,400	255,400						1							1	444
258,200	258,200								1					1	445
261,200	261,200		1			1								2	447
261,720	261,720						1							1	448
267,900	267,900				1									1	449
270,600	270,600								1					1	450
273,600	273,600					1								1	451
276,200	276,200										1			1	452
276,900	276,900								1					1	453
277,600	277,600							1						1	454
277,900	277,900							1						1	455
278,160	278,160					1								1	456
278,700	278,700									1				1	457
282,100	282,100												1	1	458
288,300	288,300						1							1	459
290,600	290,600							1						1	460
291,600	291,600	1												1	461
292,420	292,420					1								1	462

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 2 Inch Commercial

Exhibit
Schedule H-5
Page 7.6
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
295,160	295,160							1						1	463
296,500	296,500			1										1	464
299,100	299,100					1								1	465
302,300	302,300					1								1	466
302,700	302,700								1					1	467
307,500	307,500										1			1	468
309,420	309,420							1						1	469
311,500	311,500			1										1	470
316,000	316,000												1	1	471
316,100	316,100				1									1	472
317,100	317,100										1			1	473
319,900	319,900								1					1	474
320,560	320,560												1	1	475
321,660	321,660										1			1	476
322,900	322,900							1						1	477
323,500	323,500												1	1	478
324,500	324,500										1			1	479
325,600	325,600								1					1	480
325,890	325,890	1												1	481
327,590	327,590								1					1	482
334,820	334,820												1	1	483
335,920	335,920										1			1	484
347,400	347,400								1					1	485
355,300	355,300								1					1	486
358,400	358,400									1				1	487
359,860	359,860								1					1	488
363,800	363,800						1							1	489
370,400	370,400	1												1	490
374,120	374,120								1					1	491
382,000	382,000										1			1	492
382,200	382,200												1	1	493
383,320	383,320								1					1	494
397,200	397,200								1					1	495
409,300	409,300				1									1	496
429,660	429,660							1						1	497
445,400	445,400						1							1	498
462,300	462,300				1									1	499
474,800	474,800					1								1	500
503,060	503,060							1						1	501
506,600	506,600									1				1	502
506,700	506,700									1				1	503
511,260	511,260									1				1	504
515,200	515,200							1						1	505

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: 2 Inch Commercial

Exhibit
Schedule H-5
Page 7.7
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
525,520	525,520									1				1	506
533,490	533,490									1				1	507
550,220	550,220			1										1	508
593,100	593,100								1					1	509
634,000	634,000									1				1	510
678,700	678,700							1						1	511
718,330	718,330			1										1	512
728,100	728,100					1								1	513
779,510	779,510			1										1	514
791,300	791,300										1			1	515
817,160	817,160	1												1	516
831,400	831,400						1							1	517
838,000	838,000												1	1	518
871,100	871,100											1		1	519
876,200	876,200				1									1	520
876,300	876,300						1							1	521
876,400	876,400											1		1	522
881,400	881,400				1									1	523
918,400	918,400			1										1	524
930,400	930,400				1									1	525
933,600	933,600									1				1	526
937,400	937,400								1					1	527
941,800	941,800	1												1	528
945,800	945,800							1						1	529
968,700	968,700						1							1	530
977,400	977,400							1						1	531
1,011,600	1,011,600					1								1	532
1,031,200	1,031,200							1						1	533
1,032,000	1,032,000											1		1	534
1,041,600	1,041,600					1								1	535
1,060,800	1,060,800				1									1	536
1,078,500	1,078,500		1											1	537
1,088,500	1,088,500				1									1	538
1,143,800	1,143,800	1												1	539
1,845,400	1,845,400									1				1	540
1,985,000	1,985,000		1											1	541
	Totals	40	43	44	46	46	46	46	46	46	46	46	46	541	Median
										Average Usage				158,358	Billing
										Median Usage				62,500	271
										Average # Customers				45	
										Change in Number of Customers				6	

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: Construction Wate 3" Inch Meter

Exhibit
Schedule H-5
Page 8
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
-	-	1			1		1	1	2	1	1	1	1	10	10
1	1,000							1	1					2	12
1,001	2,000			1	1	1						1		4	16
2,001	3,000													-	16
3,001	4,000			1			1							2	18
4,001	5,000		1			1							1	3	21
5,001	6,000	2				1								3	24
6,001	7,000													-	24
7,001	8,000		1											1	25
8,001	9,000		1											1	26
9,001	10,000													-	26
10,001	11,000													-	26
11,001	12,000													-	26
12,001	13,000				1		1							2	28
13,001	14,000													-	28
14,001	15,000			1										1	29
15,001	16,000													-	29
16,001	17,000													-	29
17,001	18,000													-	29
18,001	19,000													-	29
19,001	20,000		1											1	30
20,001	21,000													-	30
21,001	22,000					1								1	31
22,001	23,000													-	31
23,001	24,000													-	31
24,001	25,000													-	31
25,001	26,000			1	1						1			3	34
26,001	27,000				1									1	35
27,001	28,000	1												1	36
28,001	29,000													-	36
29,001	30,000	1												1	37
30,001	31,000													-	37
31,001	32,000													-	37
32,001	33,000													-	37
33,001	34,000													-	37
34,001	35,000													-	37

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Meter Size and Zone: Construction Wate 3" Inch Meter

Exhibit
Schedule H-5
Page 8.1
Witness: Kozoman

Usage From:	Usage To:	Month of Jan-03	Month of Feb-03	Month of Mar-03	Month of Apr-03	Month of May-03	Month of Jun-03	Month of Jul-03	Month of Aug-03	Month of Sep-03	Month of Oct-03	Month of Nov-03	Month of Dec-03	Total Year	Cumul-ative Billing
35,001	36,000													-	37
36,001	37,000													-	37
37,001	38,000									1				1	38
72,001	73,000					1								1	39
108,800	108,800						1							1	40
118,300	118,300									1				1	41
151,900	151,900										1			1	42
154,800	154,800		1											1	43
176,500	176,500											1		1	44
178,100	178,100							1						1	45
187,100	187,100					1								1	46
214,300	214,300												1	1	47
393,900	393,900						1							1	48
688,000	688,000	1												1	49
	Totals	6	5	4	5	6	5	3	3	3	3	3	3	49	Median
										Average Usage				56,780	Billing
										Median Usage				7,500	25
										Average # Customers				4	
										Change in Number of Customers				(3)	

B

VALLEY UTILITIES WATER COMPANY, INC.

RATE INCREASE APPLICATION

DOCKET NO. W-01412-04-____

SUPPORTING SCHEDULES
PHASES TWO-H SCHEDULES

OCTOBER, 2004

EXHIBIT B

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Revenue Summary
With Annualized Revenues to Year End Number of Customers
With Step Two Rates

Exhibit
Schedule H-1
Page 1
Witness: Kozoman

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8 Inch	Residential	$ 91,019	$ 131,612	$ 40,593	44.60%	9.98%	10.11%
2	3/4 Inch	Residential	262,147	376,429	114,282	43.59%	28.74%	28.92%
3	1 Inch	Residential	217,540	313,680	96,140	44.19%	23.85%	24.10%
4		Subtotal	$ 570,706	$ 821,722	$ 251,016	43.98%	62.57%	63.13%
5								
6	5/8 Inch	Commercial	$ 1,440	$ 2,036	$ 595	41.35%	0.16%	0.16%
7	1 Inch	Commercial	14,979	21,865	6,886	45.97%	1.64%	1.68%
8	1.5 Inch	Commercial	12,196	17,680	5,484	44.96%	1.34%	1.36%
9	2 Inch	Commercial	255,367	374,217	118,850	46.54%	28.00%	28.75%
10								
11		Subtotal	$ 283,983	$ 415,797	$ 131,815	46.42%	31.14%	31.95%
12								
13	3 Inch	Commercial/Construction	15,579	22,237	6,658	42.74%	1.71%	1.71%
14	Miscellaneous Revenues		41,791	41,791	-	0.00%	4.58%	3.21%
15		Subtotal	$ 912,058	$ 1,301,547	$ 389,488	42.70%	100.00%	100.00%
16								
17								
18								
19			**Revenue Annualization**					
20								
21	Meter		Present	Proposed	Dollar	Percent	Present Water	Proposed Water
22	Size	Class	Revenues	Revenues	Change	Change	Revenues	Revenues
23	5/8 Inch	Residential	$ (1,325)	$ (1,917)	$ (592)	44.70%	-0.15%	-0.15%
24	3/4 Inch	Residential	6,025	8,556	2,531	42.02%	0.66%	0.66%
25	1 Inch	Residential	8,447	12,064	3,617	42.81%	0.93%	0.93%
26								
27		Subtotal	$ 13,147	$ 18,703	$ 5,556	42.26%	1.44%	1.44%
28								
29	5/8 Inch	Commercial	$ -	$ -	$ -			0.00%
30	1 Inch	Commercial	262	381	118	45.08%	0.03%	0.03%
31	1.5 Inch	Commercial	-	-	-			0.00%
32	2 Inch	Commercial	4,901	7,175	2,275	46.42%	0.54%	0.55%
33								
34		Subtotal	$ 5,163	$ 7,556	$ 2,393	46.35%	0.57%	0.58%
35								
36	3 Inch	Commercial/Construction	(4,446)	(6,364)	(1,919)	43.16%	-0.49%	-0.49%
37								
38	Total Revenue Annualziation		$ 13,865	$ 19,895	$ 6,030	43.49%	1.52%	1.53%
39	Total Water Revenues with Revenue							
40	Annualization		$ 925,923	$ 1,321,442	$ 395,519	42.72%		
41								

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Analysis of Revenue by Detailed Class
With Step Two Rates

Exhibit
Schedule H-2
Page 1
Witness: Kozoman

Line No.	Meter Size, Class		(a) Average Number of Customers at 12/31/2003	Average Consumption	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8 Inch	Residential	247	9,264	$ 29.27	$ 42.26	12.99	44.39%
2	3/4 Inch	Residential	584	10,243	35.94	51.53	15.59	43.39%
3	1 Inch	Residential	258	20,040	65.62	94.40	28.79	43.87%
4	1.5 Inch	Residential						
5		Subtotal	1,089					
6								
7	5/8 Inch	Commercial	7	3,370	17.04	24.08	7.04	41.30%
8	3/4 Inch	Commercial						
9	1 Inch	Commercial	11	38,424	112.15	163.59	51.45	45.88%
10	1.5 Inch	Commercial	6	52,593	161.53	233.86	72.34	44.78%
11	2 Inch	Commercial	45	158,358	453.34	663.94	210.60	46.46%
12	3 Inch	Commercial/Construction	4	56,780	317.94	453.81	135.87	42.74%
13		Subtotal	73					
14								
15								
16								
17		Totals	1,162					
18								
19								
20								

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Present and Proposed Rates
With Step Two Rates

Exhibit
Schedule H-3
Page 1
Witness: Kozoman

Line No.		Present Rates	Proposed Rates	Percent Change
1	**Monthly Usage Charge for:**	Rounded to two (2) decimal Places		
2	Residential and Commercial			
3	5/8 x 3/4 Inch	$ 10.37	$ 14.16	36.55%
4	3/4 Inch	15.66	21.38	36.53%
5	1 Inch	25.92	35.38	36.50%
6	1 1/2 Inch	51.85	70.78	36.51%
7	2 Inch	83.18	113.54	36.50%
8	3 Inch	155.55	212.33	36.50%
9	4 Inch	259.25	353.88	36.50%
10	6 Inch	518.50	707.75	36.50%
11		-		
12	Construction (3 inch meter)	155.55	212.33	36.50%
13				
14	Gallons In Minimum			
15	Residential, Commecial, Industrial	-	-	
16				
17	Construction Water	-	-	
18				
19				
20	**Gallons for Rate Tiers**			
21	**Tier 1:** (Gallon upper limit,)			
22	5/8 Inch	8,000	8,000	
23	3/4 Inch	12,000	12,000	
24	1 Inch	20,000	20,000	
25	1 1/2 Inch	40,000	40,000	
26	2 Inch	64,000	64,000	
27	3 Inch	128,000	128,000	
28	4 Inch	200,000	200,000	
29	6 Inch	400,000	400,000	
30	**Tier 2:** (Gallons upper limit, 150% of Tier 1)		-	
31	5/8 Inch	12,000	12,000	
32	3/4 Inch	18,000	18,000	
33	1 Inch	30,000	30,000	
34	1 1/2 Inch	60,800	60,800	
35	2 Inch	96,000	96,000	
36	3 Inch	192,000	192,000	
37	4 Inch	300,000	300,000	
38	6 Inch	600,000	600,000	
39	**Tier 3:** (Gallon over)			
40	All	999,999,999	All Gallons	
41			in Excess	
42			of tier 2 above	
43	**Construction Water (All)**	999,999,999	999,999,999	
44				
45				
46		**Present**	**Proposed**	**Percent**
47	**Residential, Commercial, Industrial**	**Rates**	**Rates**	**Change**
48	**Commodity Rates**	Rounded to three (3) decimal Places		
49	First Tier	1.980	2.9440	48.69%
50	Second Tier	2.420	3.5990	48.72%
51	Third Tier	2.662	3.9580	48.69%
52	Fourth Tier	2.662	3.9580	48.69%
53		-	-	
54	Construction	2.860	4.2530	48.71%
55				
56				

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: 5/8 Inch Residential
With Step Two Rates

Exhibit
Schedule H-4
Page 1
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 10.37	$ 14.16	$ 3.79	36.55%
1,000	12.35	17.10	$ 4.75	38.49%
2,000	14.33	20.05	$ 5.72	39.90%
3,000	16.31	22.99	$ 6.68	40.97%
4,000	18.29	25.94	$ 7.65	41.80%
5,000	20.27	28.88	$ 8.61	42.48%
6,000	22.25	31.82	$ 9.57	43.03%
7,000	24.23	34.77	$ 10.54	43.49%
8,000	26.21	37.71	$ 11.50	43.88%
9,000	28.63	41.31	$ 12.68	44.29%
10,000	31.05	44.91	$ 13.86	44.64%
11,000	33.47	48.51	$ 15.04	44.93%
12,000	35.89	52.11	$ 16.22	45.19%
13,000	38.55	56.07	$ 17.51	45.43%
14,000	41.21	60.02	$ 18.81	45.64%
15,000	43.88	63.98	$ 20.11	45.82%
16,000	46.54	67.94	$ 21.40	45.99%
17,000	49.20	71.90	$ 22.70	46.13%
18,000	51.86	75.86	$ 23.99	46.27%
19,000	54.52	79.81	$ 25.29	46.38%
20,000	57.19	83.77	$ 26.59	46.49%
21,000	59.85	87.73	$ 27.88	46.59%
22,000	62.51	91.69	$ 29.18	46.68%
23,000	65.17	95.65	$ 30.47	46.76%
24,000	67.83	99.60	$ 31.77	46.83%
25,000	70.50	103.56	$ 33.07	46.90%
26,000	73.16	107.52	$ 34.36	46.97%
27,000	75.82	111.48	$ 35.66	47.03%
28,000	78.48	115.44	$ 36.95	47.09%
29,000	81.14	119.39	$ 38.25	47.14%
30,000	83.81	123.35	$ 39.55	47.19%
31,000	86.47	127.31	$ 40.84	47.23%
Average Usage				
9,264	$ 29.27	$ 42.26	$ 12.99	44.39%
Median Usage				
1,000	$ 12.35	$ 17.10	$ 4.75	38.49%

Present Rates:			
Monthly Minimum:		$	10.37
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	8,000	$	1.980
Up to	12,000	$	2.420
Up to	12,001	$	2.662
Over	12,001	$	2.662

Proposed Rates:			
Monthly Minimum:		$	14.16
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	8,000	$	2.944
Up to	12,000	$	3.599
Over	12,001	$	3.958
Over	12,001	$	3.958

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: 3/4 Inch Residential
With Step Two Rates

Exhibit
Schedule H-4
Page 2
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 15.66	$ 21.38	$ 5.72	36.53%
1,000	17.64	24.32	$ 6.68	37.89%
2,000	19.62	27.27	$ 7.65	38.98%
3,000	21.60	30.21	$ 8.61	39.87%
4,000	23.58	33.16	$ 9.58	40.61%
5,000	25.56	36.10	$ 10.54	41.24%
6,000	27.54	39.04	$ 11.50	41.77%
7,000	29.52	41.99	$ 12.47	42.24%
8,000	31.50	44.93	$ 13.43	42.64%
9,000	33.48	47.88	$ 14.40	43.00%
10,000	35.46	50.82	$ 15.36	43.32%
11,000	37.44	53.76	$ 16.32	43.60%
12,000	39.42	56.71	$ 17.29	43.86%
13,000	41.84	60.31	$ 18.47	44.14%
14,000	44.26	63.91	$ 19.65	44.39%
15,000	46.68	67.51	$ 20.83	44.61%
16,000	49.10	71.10	$ 22.00	44.81%
17,000	51.52	74.70	$ 23.18	45.00%
18,000	53.94	78.30	$ 24.36	45.16%
19,000	56.60	82.26	$ 25.66	45.33%
20,000	59.26	86.22	$ 26.95	45.48%
21,000	61.93	90.18	$ 28.25	45.62%
22,000	64.59	94.13	$ 29.55	45.75%
23,000	67.25	98.09	$ 30.84	45.86%
24,000	69.91	102.05	$ 32.14	45.97%
25,000	72.57	106.01	$ 33.43	46.07%
26,000	75.24	109.97	$ 34.73	46.16%
27,000	77.90	113.92	$ 36.03	46.25%
28,000	80.56	117.88	$ 37.32	46.33%
29,000	83.22	121.84	$ 38.62	46.40%
30,000	85.88	125.80	$ 39.91	46.47%
31,000	88.55	129.76	$ 41.21	46.54%
Average Usage				
10,243	$ 35.94	$ 51.53	$ 15.59	43.39%
Median Usage				
8,500	$ 32.49	$ 46.40	$ 13.91	42.83%

Present Rates:			
Monthly Minimum:		$	15.66
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	12,000	$	1.980
Up to	18,000	$	2.420
Up to	18,001	$	2.662
Over	18,001	$	2.662
Proposed Rates:			
Monthly Minimum:		$	21.38
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	12,000	$	2.944
Up to	18,000	$	3.599
Over	18,001	$	3.958
Over	18,001	$	3.958

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: 1 Inch Residential
With Step Two Rates

Exhibit
Schedule H-4
Page 3
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 25.92	$ 35.38	$ 9.46	36.50%
1,000	27.90	38.32	$ 10.42	37.36%
2,000	29.88	41.27	$ 11.39	38.11%
3,000	31.86	44.21	$ 12.35	38.77%
4,000	33.84	47.16	$ 13.32	39.35%
5,000	35.82	50.10	$ 14.28	39.87%
6,000	37.80	53.04	$ 15.24	40.33%
7,000	39.78	55.99	$ 16.21	40.74%
8,000	41.76	58.93	$ 17.17	41.12%
9,000	43.74	61.88	$ 18.14	41.46%
10,000	45.72	64.82	$ 19.10	41.78%
11,000	47.70	67.76	$ 20.06	42.06%
12,000	49.68	70.71	$ 21.03	42.33%
13,000	51.66	73.65	$ 21.99	42.57%
14,000	53.64	76.60	$ 22.96	42.80%
15,000	55.62	79.54	$ 23.92	43.01%
16,000	57.60	82.48	$ 24.88	43.20%
17,000	59.58	85.43	$ 25.85	43.38%
18,000	61.56	88.37	$ 26.81	43.55%
19,000	63.54	91.32	$ 27.78	43.71%
20,000	65.52	94.26	$ 28.74	43.86%
21,000	67.94	97.86	$ 29.92	44.04%
22,000	70.36	101.46	$ 31.10	44.20%
23,000	72.78	105.06	$ 32.28	44.35%
24,000	75.20	108.66	$ 33.46	44.49%
25,000	77.62	112.26	$ 34.64	44.62%
26,000	80.04	115.85	$ 35.81	44.75%
27,000	82.46	119.45	$ 36.99	44.86%
28,000	84.88	123.05	$ 38.17	44.97%
29,000	87.30	126.65	$ 39.35	45.08%
30,000	89.72	130.25	$ 40.53	45.17%
31,000	92.38	134.21	$ 41.83	45.28%
Average Usage				
20,040	$ 65.62	$ 94.40	$ 28.79	43.87%
Median Usage				
12,500	$ 50.67	$ 72.18	$ 21.51	42.45%

Present Rates:			
Monthly Minimum:		$	25.92
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	20,000	$	1.980
Up to	30,000	$	2.420
Up to	30,001	$	2.662
Over	30,001	$	2.662

Proposed Rates:			
Monthly Minimum:		$	35.38
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	20,000	$	2.944
Up to	30,000	$	3.599
Up to	30,001	$	3.958
Over	30,001	$	3.958

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: 5/8 Inch Commercial
With Step Two Rates

Exhibit
Schedule H-4
Page 4
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 10.37	$ 14.16	$ 3.79	36.55%
1,000	12.35	17.10	$ 4.75	38.49%
2,000	14.33	20.05	$ 5.72	39.90%
3,000	16.31	22.99	$ 6.68	40.97%
4,000	18.29	25.94	$ 7.65	41.80%
5,000	20.27	28.88	$ 8.61	42.48%
6,000	22.25	31.82	$ 9.57	43.03%
7,000	24.23	34.77	$ 10.54	43.49%
8,000	26.21	37.71	$ 11.50	43.88%
9,000	28.63	41.31	$ 12.68	44.29%
10,000	31.05	44.91	$ 13.86	44.64%
11,000	33.47	48.51	$ 15.04	44.93%
12,000	35.89	52.11	$ 16.22	45.19%
13,000	38.55	56.07	$ 17.51	45.43%
14,000	41.21	60.02	$ 18.81	45.64%
15,000	43.88	63.98	$ 20.11	45.82%
16,000	46.54	67.94	$ 21.40	45.99%
17,000	49.20	71.90	$ 22.70	46.13%
18,000	51.86	75.86	$ 23.99	46.27%
19,000	54.52	79.81	$ 25.29	46.38%
20,000	57.19	83.77	$ 26.59	46.49%
21,000	59.85	87.73	$ 27.88	46.59%
22,000	62.51	91.69	$ 29.18	46.68%
23,000	65.17	95.65	$ 30.47	46.76%
24,000	67.83	99.60	$ 31.77	46.83%
25,000	70.50	103.56	$ 33.07	46.90%
26,000	73.16	107.52	$ 34.36	46.97%
27,000	75.82	111.48	$ 35.66	47.03%
28,000	78.48	115.44	$ 36.95	47.09%
29,000	81.14	119.39	$ 38.25	47.14%
30,000	83.81	123.35	$ 39.55	47.19%
31,000	86.47	127.31	$ 40.84	47.23%
Average Usage				
3,370	$ 17.04	$ 24.08	$ 7.04	41.30%
Median Usage				
2,500	$ 15.32	$ 21.52	$ 6.20	40.47%

Present Rates:			
Monthly Minimum:		$	10.37
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	8,000	$	1.980
Up to	12,000	$	2.420
Up to	12,001	$	2.662
Over	12,001	$	2.662
Proposed Rates:			
Monthly Minimum:		$	14.16
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	8,000	$	2.944
Up to	12,000	$	3.599
Over	12,001	$	3.958
Over	12,001	$	3.958

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: 1 Inch Commercial
With Step Two Rates

Exhibit
Schedule H-4
Page 5
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 25.92	$ 35.38	$ 9.46	36.50%
1,000	27.90	38.32	$ 10.42	37.36%
2,000	29.88	41.27	$ 11.39	38.11%
3,000	31.86	44.21	$ 12.35	38.77%
4,000	33.84	47.16	$ 13.32	39.35%
5,000	35.82	50.10	$ 14.28	39.87%
6,000	37.80	53.04	$ 15.24	40.33%
7,000	39.78	55.99	$ 16.21	40.74%
8,000	41.76	58.93	$ 17.17	41.12%
9,000	43.74	61.88	$ 18.14	41.46%
10,000	45.72	64.82	$ 19.10	41.78%
11,000	47.70	67.76	$ 20.06	42.06%
12,000	49.68	70.71	$ 21.03	42.33%
13,000	51.66	73.65	$ 21.99	42.57%
14,000	53.64	76.60	$ 22.96	42.80%
15,000	55.62	79.54	$ 23.92	43.01%
16,000	57.60	82.48	$ 24.88	43.20%
17,000	59.58	85.43	$ 25.85	43.38%
18,000	61.56	88.37	$ 26.81	43.55%
19,000	63.54	91.32	$ 27.78	43.71%
20,000	65.52	94.26	$ 28.74	43.86%
21,000	67.94	97.86	$ 29.92	44.04%
22,000	70.36	101.46	$ 31.10	44.20%
23,000	72.78	105.06	$ 32.28	44.35%
24,000	75.20	108.66	$ 33.46	44.49%
25,000	77.62	112.26	$ 34.64	44.62%
26,000	80.04	115.85	$ 35.81	44.75%
27,000	82.46	119.45	$ 36.99	44.86%
28,000	84.88	123.05	$ 38.17	44.97%
29,000	87.30	126.65	$ 39.35	45.08%
30,000	89.72	130.25	$ 40.53	45.17%
31,000	92.38	134.21	$ 41.83	45.28%
32,000	95.04	138.17	$ 43.12	45.37%
33,000	97.71	142.12	$ 44.42	45.46%
34,000	100.37	146.08	$ 45.71	45.55%
35,000	103.03	150.04	$ 47.01	45.63%
36,000	105.69	154.00	$ 48.31	45.70%
37,000	108.35	157.96	$ 49.60	45.78%
38,000	111.02	161.91	$ 50.90	45.85%
39,000	113.68	165.87	$ 52.19	45.91%
40,000	116.34	169.83	$ 53.49	45.98%
41,000	119.00	173.79	$ 54.79	46.04%
Average Usage				
38,424	$ 112.15	$ 163.59	$ 51.45	45.88%
Median Usage				
26,500	$ 81.25	$ 117.65	$ 36.40	44.80%

Present Rates:			
Monthly Minimum:		$	25.92
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	20,000	$	1.980
Up to	30,000	$	2.420
Up to	30,001	$	2.662
Over	30,001	$	2.662
Proposed Rates:			
Monthly Minimum:		$	35.38
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	20,000	$	2.944
Up to	30,000	$	3.599
Over	30,001	$	3.958
Over	30,001	$	3.958

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: 1.5 Inch Commercial
With Step Two Rates

Exhibit
Schedule H-4
Page 6
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 51.85	$ 70.78	$ 18.93	36.51%
1,000	53.83	73.72	$ 19.89	36.96%
2,000	55.81	76.67	$ 20.86	37.37%
3,000	57.79	79.61	$ 21.82	37.76%
4,000	59.77	82.56	$ 22.79	38.12%
5,000	61.75	85.50	$ 23.75	38.46%
6,000	63.73	88.44	$ 24.71	38.78%
7,000	65.71	91.39	$ 25.68	39.08%
8,000	67.69	94.33	$ 26.64	39.36%
9,000	69.67	97.28	$ 27.61	39.62%
10,000	71.65	100.22	$ 28.57	39.87%
11,000	73.63	103.16	$ 29.53	40.11%
12,000	75.61	106.11	$ 30.50	40.34%
13,000	77.59	109.05	$ 31.46	40.55%
14,000	79.57	112.00	$ 32.43	40.75%
15,000	81.55	114.94	$ 33.39	40.94%
16,000	83.53	117.88	$ 34.35	41.13%
17,000	85.51	120.83	$ 35.32	41.30%
18,000	87.49	123.77	$ 36.28	41.47%
19,000	89.47	126.72	$ 37.25	41.63%
20,000	91.45	129.66	$ 38.21	41.78%
30,000	111.25	159.10	$ 47.85	43.01%
31,000	113.23	162.04	$ 48.81	43.11%
32,000	115.21	164.99	$ 49.78	43.21%
33,000	117.19	167.93	$ 50.74	43.30%
34,000	119.17	170.88	$ 51.71	43.39%
35,000	121.15	173.82	$ 52.67	43.48%
36,000	123.13	176.76	$ 53.63	43.56%
37,000	125.11	179.71	$ 54.60	43.64%
38,000	127.09	182.65	$ 55.56	43.72%
39,000	129.07	185.60	$ 56.53	43.79%
40,000	131.05	188.54	$ 57.49	43.87%
50,000	155.25	224.53	$ 69.28	44.62%
60,000	179.45	260.52	$ 81.07	45.18%
70,000	205.88	299.81	$ 93.94	45.63%
80,000	232.50	339.39	$ 106.90	45.98%
90,000	259.12	378.97	$ 119.86	46.26%
Average Usage				
52,593	$ 161.53	$ 233.86	$ 72.34	44.78%
Median Usage				
35,500	$ 122.14	$ 175.29	$ 53.15	43.52%

Present Rates:			
Monthly Minimum:		$	51.85
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	40,000	$	1.980
Up to	60,800	$	2.420
Up to	60,801	$	2.662
Over	60,801	$	2.662

Proposed Rates:			
Monthly Minimum:		$	70.78
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	40,000	$	2.944
Up to	60,800	$	3.599
Up to	60,801	$	3.958
Over	60,801	$	3.958

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: 2 Inch Commercial
With Step Two Rates

Exhibit
Schedule H-4
Page 7
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 83.18	$ 113.54	$ 30.36	36.50%
1,000	85.16	116.48	$ 31.32	36.78%
2,000	87.14	119.43	$ 32.29	37.05%
3,000	89.12	122.37	$ 33.25	37.31%
4,000	91.10	125.32	$ 34.22	37.56%
5,000	93.08	128.26	$ 35.18	37.80%
6,000	95.06	131.20	$ 36.14	38.02%
7,000	97.04	134.15	$ 37.11	38.24%
8,000	99.02	137.09	$ 38.07	38.45%
9,000	101.00	140.04	$ 39.04	38.65%
10,000	102.98	142.98	$ 40.00	38.84%
11,000	104.96	145.92	$ 40.96	39.03%
12,000	106.94	148.87	$ 41.93	39.21%
13,000	108.92	151.81	$ 42.89	39.38%
14,000	110.90	154.76	$ 43.86	39.55%
15,000	112.88	157.70	$ 44.82	39.71%
16,000	114.86	160.64	$ 45.78	39.86%
17,000	116.84	163.59	$ 46.75	40.01%
18,000	118.82	166.53	$ 47.71	40.15%
19,000	120.80	169.48	$ 48.68	40.29%
20,000	122.78	172.42	$ 49.64	40.43%
30,000	142.58	201.86	$ 59.28	41.58%
40,000	162.38	231.30	$ 68.92	42.44%
50,000	182.18	260.74	$ 78.56	43.12%
60,000	201.98	290.18	$ 88.20	43.67%
70,000	224.42	323.55	$ 99.13	44.17%
80,000	248.62	359.54	$ 110.92	44.61%
90,000	272.82	395.53	$ 122.71	44.98%
100,000	297.99	432.96	$ 134.97	45.29%
120,220	351.81	512.99	$ 161.17	45.81%
130,000	377.85	551.70	$ 173.85	46.01%
140,100	404.73	591.67	$ 186.94	46.19%
150,400	432.15	632.44	$ 200.29	46.35%
161,200	460.90	675.19	$ 214.28	46.49%
170,400	485.39	711.60	$ 226.21	46.60%
180,700	512.81	752.37	$ 239.56	46.71%
190,200	538.10	789.97	$ 251.87	46.81%
202,100	569.78	837.07	$ 267.29	46.91%
205,000	577.50	848.55	$ 271.05	46.93%
207,800	584.95	859.63	$ 274.68	46.96%
Average Usage				
158,358	$ 453.34	$ 663.94	$ 210.60	46.46%
Median Usage				
62,500	$ 206.93	$ 297.54	$ 90.61	43.79%

Present Rates:			
Monthly Minimum:		$	83.18
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	64,000	$	1.980
Up to	96,000	$	2.420
Up to	96,001	$	2.662
Over	96,001	$	2.662

Proposed Rates:			
Monthly Minimum:		$	113.54
Gallons in Minimum			-
Charge Per 1,000 Gallons			
Up to	64,000	$	2.944
Up to	96,000	$	3.599
Over	96,001	$	3.958
Over	96,001	$	3.958

Valley Utilities Water Company, Inc.
Bill Comparison Present and Proposed Rates
Meter Size and Zone: Construction Water
With Step Two Rates

Exhibit
Schedule H-4
Page 8
Witness: Kozoman

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 155.55	$ 212.33	$ 56.78	36.50%
1,000	158.41	216.58	$ 58.17	36.72%
2,000	161.27	220.84	$ 59.57	36.94%
3,000	164.13	225.09	$ 60.96	37.14%
4,000	166.99	229.34	$ 62.35	37.34%
5,000	169.85	233.60	$ 63.75	37.53%
6,000	172.71	237.85	$ 65.14	37.72%
7,000	175.57	242.10	$ 66.53	37.89%
8,000	178.43	246.35	$ 67.92	38.07%
9,000	181.29	250.61	$ 69.32	38.24%
10,000	184.15	254.86	$ 70.71	38.40%
11,000	187.01	259.11	$ 72.10	38.56%
12,000	189.87	263.37	$ 73.50	38.71%
13,000	192.73	267.62	$ 74.89	38.86%
14,000	195.59	271.87	$ 76.28	39.00%
15,000	198.45	276.13	$ 77.68	39.14%
16,000	201.31	280.38	$ 79.07	39.28%
17,000	204.17	284.63	$ 80.46	39.41%
18,000	207.03	288.88	$ 81.85	39.54%
19,000	209.89	293.14	$ 83.25	39.66%
20,000	212.75	297.39	$ 84.64	39.78%
30,000	241.35	339.92	$ 98.57	40.84%
40,000	269.95	382.45	$ 112.50	41.67%
50,000	298.55	424.98	$ 126.43	42.35%
60,000	327.15	467.51	$ 140.36	42.90%
61,000	330.01	471.76	$ 141.75	42.95%
62,000	332.87	476.02	$ 143.15	43.00%
63,000	335.73	480.27	$ 144.54	43.05%
64,000	338.59	484.52	$ 145.93	43.10%
65,000	341.45	488.78	$ 147.33	43.15%
66,000	344.31	493.03	$ 148.72	43.19%
67,000	347.17	497.28	$ 150.11	43.24%
68,000	350.03	501.53	$ 151.50	43.28%
69,000	352.89	505.79	$ 152.90	43.33%
70,000	355.75	510.04	$ 154.29	43.37%
71,000	358.61	514.29	$ 155.68	43.41%
72,000	361.47	518.55	$ 157.08	43.45%
73,000	364.33	522.80	$ 158.47	43.50%
74,000	367.19	527.05	$ 159.86	43.54%
75,000	370.05	531.31	$ 161.26	43.58%
76,000	372.91	535.56	$ 162.65	43.62%
77,000	375.77	539.81	$ 164.04	43.65%
78,000	378.63	544.06	$ 165.43	43.69%
79,000	381.49	548.32	$ 166.83	43.73%
80,000	384.35	552.57	$ 168.22	43.77%
81,000	387.21	556.82	$ 169.61	43.80%
82,000	390.07	561.08	$ 171.01	43.84%
83,000	392.93	565.33	$ 172.40	43.88%
84,000	395.79	569.58	$ 173.79	43.91%
85,000	398.65	573.84	$ 175.19	43.94%
86,000	401.51	578.09	$ 176.58	43.98%
87,000	404.37	582.34	$ 177.97	44.01%
88,000	407.23	586.59	$ 179.36	44.04%
89,000	410.09	590.85	$ 180.76	44.08%
90,000	412.95	595.10	$ 182.15	44.11%
Average Usage				
56,780	$ 317.94	$ 453.81	$ 135.87	42.74%
Median Usage				
7,500	$ 177.00	$ 244.23	$ 67.23	37.98%

Present Rates:

Monthly Minimum:		$ 155.55
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	999,999,999	$ 2.860
Up to	999,999,999	$ 2.860
Up to	999,999,999	$ 2.860
Over	1,000,000,000	$ 2.860

Proposed Rates:

Monthly Minimum:		$ 212.33
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	999,999,999	$ 4.253
Up to	999,999,999	$ 4.253
Over	999,999,999	$ 4.253
Over	999,999,999	$ 4.253

C

VALLEY UTILITIES WATER COMPANY, INC.

RATE INCREASE APPLICATION

DOCKET NO. W-01412-04-____

PRE-FILED TESTIMONY OF

THOMAS J. BOURASSA

OCTOBER, 2004

EXHIBIT C

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

A. I am a Certified Public Accountant and am self-employed, providing consulting services to utility companies as well as general accounting services. I have a B.S. in Chemistry/Accounting from Northern Arizona University (1980) and an M.B.A. with an emphasis in Finance from the University of Phoenix (1991).

Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR WORK AND REGULATORY EXPERIENCE?

A. Yes. I was employed by High-Tech Institute, Inc., and served as controller and chief financial officer, prior to becoming a private consultant. Prior to working for High-Tech Institute, I worked as a division controller for the Apollo Group, Inc. Before joining the Apollo Group, I was employed at Kozoman & Kermode, CPAs. In that position, I prepared compilations and other write-up work for water and wastewater utilities, as well as tax returns.

In my private practice, I have prepared and/or assisted in the preparation of several water and wastewater utility rate applications before the Arizona Corporation Commission ("Commission"), including Vail Water Company, E&T Water Company, Ponderosa Utility Company, Diablo Village Water Company, New River Utility Company, Far West Water & Sewer, Sedona Venture Water and Sewer, Bella Vista Water Company, Rio Verde Utilities, Gold Canyon Sewer Company, Green Valley Water Company, the Town of Oro Valley, Beardsley Water Company, Livco Water and Sewer Company, Pine Water Company, and Arizona-American Water Company.

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

A. I am testifying in this proceeding on behalf of the applicant, Valley Utilities Water Company ("Valley Utilities" or "the Company"). Valley Utilities is seeking increases in its rates and charges for water utility service in its certificated service area in Maricopa County.

II. OVERVIEW OF THE COMPANY'S APPLICATION.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I will testify in support of the Company's proposed rates. I am sponsoring Schedules A through F, which are filed concurrently herewith in support of the Company's application. I was responsible for the preparation of these schedules based on my investigation and review of the relevant books and records for the Company.

Ronald L. Kozoman discusses the Company's proposed rate design in his direct testimony and sponsors the Company's H schedules. The Company has not prepared a cost of service study, so schedules G are omitted.

Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.

A. The test year used by Valley Utilities is the 12-month period which ended December 31, 2003. The Company is proposing a two step increase and requests a 10 percent operating margin for each step. Since the Company has negative equity, a meaningful cost of capital cannot be determined.

In the first step, the Company proposes a 10 percent operating margin which will provide revenues sufficient to service proposed WIFA debt on new arsenic treatment plant. The new arsenic treatment plant is required to meet the Federal Environmental Protection Agency standard for arsenic, effective January 2006. The Company has also proposed certain pro forma adjustments to take into

account known and measurable changes to rate base, expenses and revenues. These pro forma adjustments are consistent with normal ratemaking and with the Commission's rules and regulations. They are also necessary to obtain a normal or realistic relationship between revenues, expenses and rate base.

In Step 1, no operating costs of the new arsenic treatment plant, including depreciation, are included in the revenue requirement.

The Company's fair value rate base in Step 1 is approximately -$540,700. As I testified, the Company is requesting a 10 percent operating margin in Step 1. Since the Company's rate base is negative, the resulting return is not meaningful. The increase in revenues to provide a ten percent operating margin approximately $101,800, an increase of approximately 12.2 percent over the adjusted and annualized test year revenues.

In the second step, the Company also proposes a ten percent operating margin. Operating expenses in Step 2 include the operating costs of the new arsenic treatment plant. An adjuster mechanism is proposed for recovery of the arsenic treatment operating costs. I will discuss the adjuster later in my testimony.

The Company's fair value rate base in Step 2 is approximately –$1,244,000. Based on a 10 percent operating margin, the resulting return on fair value rate base in Step 2 is approximately 10.7 percent. The increase in revenues to provide a ten percent operating margin approximately $403,000, an increase of approximately 43.4 percent over the Step 1 adjusted and annualized test year revenues.

Q. WHY IS THE COMPANY FILING FOR RATE INCREASES AT THIS TIME?

A. The Company's last rate increase was approved on September 18, 2000 (Decision 62908) using a test year ending December 31, 1998. Since that time, the

Company has made significant investments in plant, and various operating expenses have increased. The Company also faces a significant investment in arsenic water treatment plant and arsenic treatment costs in order to meet the new EPA arsenic standard. Consequently, rate increases are necessary to ensure that the Company has the ability to service debt related to the new arsenic treatment plant, recover arsenic treatment costs, as well as opportunity to earn a fair return on the fair value of its utility plant and property devoted to public service.

Q. WHY DIDN'T VALLEY UTILITIES SEEK RATE RELIEF EARLIER?

A. The Company has diligently sought expert advice and was only recently able to make a decision on the type of treatment best suited to Valley Utilities. See the direct testimony of Robert Prince.

Q. WHAT CONCLUSIONS DO YOU DRAW FROM THESE NUMBERS?

A. The costs associated with operating the Valley Utilities system have and will outpace the revenues gained from customer growth and cost savings from more efficient operations. Further, the Company currently does not currently have the ability to service debt on the new arsenic treatment plant as well as pay the associated arsenic treatment operating costs.

III. SUMMARY OF A, E AND F SCHEDULES.

Q. MR. BOURASSA, LET'S TURN TO THE COMPANY'S SCHEDULES. PLEASE DESCRIBE THE SCHEDULES LABELED AS A, E, AND F.

A. As you will recall, the Company has proposed a two step rate increase. To that end, I have prepared a Step 1 and Step 2 schedule, where applicable. Thus, you will find a Step1 and Step 2 schedule for A-1, B-2, B-5, C-1, and C-2. Step 1 proposed rates provide for revenues to provide the Company the ability to service debt on the new arsenic treatment plant. Step 2 proposed rates provide revenues

sufficient for the Company to recover operating expenses associated with the new arsenic treatment plant. I will discuss both the Step 1 and Step 2 schedules.

The A-1 Step 1 Schedule is a summary of the rate base, adjusted Step 1 operating income, current rate of return, required rate of return, operating income deficiency, and the increase in gross revenue. A 10 percent operating margin is requested. Revenues at present and proposed Step 1 rates and customer classifications are also shown on this schedule.

The A-1 Step 2 Schedule is a summary of the rate base, adjusted Step 2 operating income, current rate of return, required rate of return, operating income deficiency, and the increase in gross revenue. A 10 percent operating margin is requested. Revenues at present and proposed Step 2 rates and customer classifications are also shown on this schedule.

The A-2 Schedule is a summary of results of operations for the test year, prior years, and a projected year at present rates and proposed rates. The projected year is shown at the Step 1 and Step 2 rates.

Schedule A-3 contains the Company's capital structure for the test year and the two prior years.

Schedule A-4 contains the plant construction, and plant in service for the test year and prior years. The projected plant additions are also shown on this schedule.

Schedule A-5 is the summary of the Company's changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates. A separate column is shown for the projected year at Step1 and Step 2 rates.

The E Schedules are based on the Company's actual operating results, as reported by the Company in annual reports filed with the Commission. The E-1

Schedule contains the comparative balance sheet data the years 2001, 2002, and 2003.

Schedule E-2, page 1, contains the income statement for the years 2001, 2002, and 2003.

Schedule E-3 contains the statements of changes in the Company's financial position for the test year and the two prior years.

Schedule E-4 provides the changes in stockholder's equity.

Schedule E-5 contains the Company's plant in service at the end of the test year, and one year prior to the end of the test year.

Schedule E-7 contains operating statistics for the years ended December 31, 2001, December 31, 2002, and December 31, 2003.

Schedule E-8 contains the taxes charged to operations.

The accountant's notes to the financial statements and the financial assumptions used in preparing the rate filing schedules are shown on Schedules E-9 and F-4, respectively, in accordance with the Commission's standard filing requirements. The Company does not prepare audited financial statements.

Schedule F-1 contains the results of operations at the present rates (actual and adjusted), and at proposed rates. A separate column is shown for the Step1 and Step 2 proposed rates.

Schedule F-2 contains the summary of changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates. Changes in financial position for the Step 1 and Step 2 proposed rates are also shown.

Schedule F-4 shows the Company's projected construction requirements for 2004, 2005, and 2006.

Schedule F-4 contains the assumptions used in developing the adjustments

and projections contained in the rate filing.

Q. WOULD YOU PLEASE DISCUSS THE D SCHEDULES?

A. The D-1 schedule shows the summary of the cost of capital. Since the Company's equity is negative, a meaningful cost of capital cannot be determined. A 10 percent operating margin is requested. The D-1 and D-2 schedules reflect the proposed WIFA debt necessary to finance the new arsenic treatment plant.

IV. RATE BASE (B SCHEDULES).

Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE LABELED AS THE B SCHEDULES?

A. Yes. I will start with schedules B-5, which is the working capital allowance. There are two schedules B-5, one for Step 1 and one for Step 2. The results produced by the "formula method" of computing the working capital allowance are shown on each.

Q. PLEASE CONTINUE.

A. The Company did not file schedule B-3 and B-4. The Company is requesting its original cost rate base be used as its fair value rate base.

Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO THE ORIGINAL COST RATE BASE?

A. Yes. Again, you will find a Step 1 and Step 2 schedules B-2. The schedule B-2 Step 1, shows adjustments to the original cost rate base proposed for Step 1. Schedules B-2 Step 1, pages 2 through 4 are the supporting schedules. These adjustments are, in summary:

Step 1 adjustment number 1 decreases plant for an unrecorded plant adjustment from the prior rate case.

Step 1 adjustment number 2 decreases accumulated depreciation by the

amount of the difference between the book balance of accumulated depreciation at the end of the test year and the computed accumulated depreciation balance using the depreciation rates approved in the prior case. Schedule B-2, pages 2a through 2f provide support for the computed depreciation balance.

Step 1 adjustment number 3 reduces contributions-in-aid of construction (CIAC) by the amount of the difference between the book balance of accumulated amortization at the end of the test year and the computed accumulated amortization balance.

Q. PLEASE CONTINUE.

A. Schedules B-2 Step 2, pages 2 through 5 are the supporting schedules. These adjustments are, in summary:

Step 2 adjustment number 1 increases plant for the proposed new arsenic treatment plant.

Step 2 adjustment number 2 increase accumulated depreciation by a full additional year of accumulated depreciation on plant in service at the end of the test year using the Company proposed depreciation rates.

Q. DOES THE ADDITONAL DEPECIATION INCLUDE DEPRECIATION ON THE PROPOSED NEW ARSENIC TRESTMENT PLANT?

A. No. Including depreciation on the new plant would assume that the rates proposed in Step 1 included the depreciation expense on this plant. Since they do not, it would not be proper to include an additional year of accumulated depreciation in rate base.

Q. PLEASE CONTINUE.

Step 2 adjustment number 3 increases contributions-in-aid of construction (CIAC) by a full year of additional amortization at the composite depreciation rate. The composite depreciation rate employed is based on the Company

proposed depreciation rates.

Q. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON STEP 1 AND STEP 2 SCHEDULE B-2 REFLECT THE LAST COMMISSION RATE ORDER?

A. Yes. The plant shown on Schedule B-2 started with the Commission-determined plant from the last rate case. Plant additions and retirements since the test year in that case have been added to and deducted from total plant shown on schedule B-2. The B-2 schedules, pages 2a through 2f, show the details for the recomputed accumulated depreciation through the end of the test year using half-year convention for depreciation.

Q. HOW WAS THE PROPOSED "FAIR VALUE" RATE BASE SHOWN ON A-1 DETERMINED?

A. The fair value rate base ("FVRB") shown on Schedule A-1 Step 1 and A-1 Step 2 are based on original cost rate base.

V. INCOME STATEMENT (C SCHEDULES).

Q. LET'S MOVE ON TO THE C SCHEDULES. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO THE INCOME STATEMENT AS SHOWN ON SCHEDULES C-1 AND C-2.

A. Again, there are schedules for the Step 1 and Step 2. The details of the adjustments are shown on schedules C-2 for Step 1 and Step 2. The adjustments are then carried forward to the C-1 schedules for Step 1 and Step 2, respectively. The schedules C-1 contain the adjusted test year income statements for Step1 and Step 2.

The following is a summary of adjustments for Schedule C-1 Step 1:

Step 1 adjustment 1 annualizes depreciation expense. The proposed

depreciation rate for each component of utility plant is shown on Schedule C-2 Step 1, page 2. The depreciation rates approved in the prior rate case was 5 percent for all plant. In the instant case, the Company is proposing to use the depreciation rates by asset class rather than the same rate for all classes of plant. The proposed depreciation rates are those typically recommended by Commission Staff.

The Step 1 adjustment labeled as 2 increases the property taxes based on proposed revenues.

Q. HOW DID YOU COMPUTE THE PROPERTY TAXES AT PROPOSED RATES?

A. To determine full cash value, I used the method employed by the Arizona Department of Revenue - Centrally Valued Properties ("ADOR" or "the Department"). This method determines full cash value by using twice the average of three years of revenue, plus an addition for CWIP and a deduction for the book value of transportation equipment. In the instant case, I used two times the adjusted revenues for 2003, and the Step 1 revenues at proposed rates. The assessed value (25 percent of full cash value) was then multiplied by the property tax rate to determined adjusted property tax expense.

Q. IS THIS SYNCHRONIZATION OF PROPERTY TAX EXPENSE WITH REVENUES PROPER RATE MAKING?

A. Yes. Like income taxes, property taxes must be adjusted to ensure that the new rates are sufficient to produce the authorized return on rate base. For this reason, the Commission has repeatedly utilized proposed revenue increases to determine an appropriate level of property tax expense to be recovered through rates. In fact, the methodology I utilized is consistent with the recent Arizona-American Water decision (Decision 67093) where two years of adjusted test year revenues

and one year of proposed revenues were used to determine full cash value. In that rate proceeding, the Commission concluded that "Staff calculated property taxes using its proposed adjusted test year revenues twice and its recommended revenues once to calculate a three year average of revenues. We agree with Staff that using only historical revenues to calculate property taxes to include in the cost of service fails to capture the effects of future revenue from new rates, and can result in an understatement or overstatement of property tax expense." Decision 67093 at 9-10.

Q. MR. BOURASSA, ISN'T THERE A LAG FROM THE TIME NEW RATES CHARGED CUSTOMERS GO INTO EFFECT AND THE DATE ON WHICH PROPERTY TAXES ARE ACTUALLY PAID?

A. Yes. As an example, if new rates for the Company went into effect on January 1, 2005, property taxes based on these new rates would first appear on the property tax bill received in September 2006. However, the Company should be accruing property taxes to match the revenues collected. Thus, there is no mismatch between revenues and expenses. Moreover, the property taxes resulting from my calculation are based on only a portion of proposed revenues. To properly consider the future impact of the rate increases, I should have computed the proposed property taxes based only on proposed revenues rather than averaging proposed and historic revenues. Consequently, this adjustment is conservative.

Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE INCOME STATEMENT ADJUSTMENTS.

A. Step 1 adjustment 3 shows the rate case expense. The Company is proposing to amortize rate case expense over five years.

Q. WHY IS THE COMPANY PROPOSING TO USE A FIVE-YEAR AMORTIZATION PERIOD?

A. This is approximately the time period since the last rate case.

Q. PLEASE CONTINUE.

Step 1 adjustment 4 annualizes revenues to the year-end number of customers for each meter size. This adjustment is intended to increase revenues on the basis that the number of customers at year end were receiving service during the entire 12 months of the test year. The annualization was based on the number of customers at the end of the test year, compared to the actual number of customers on each size meter during each month of the test year. Average revenues by month were computed for the test year for each meter size. The average revenues were then multiplied by the increase (or decrease) in number of customers for each month of the test year.

Step 1 adjustment 5 annualizes purchased power costs based on the additional gallons sold by annualizing revenues to the year-end number of customers.

Step 1 adjustment 6 removes other revenues to eliminate the effects on the determination of the revenue requirement.

Step 1 adjustment 7 increases interest expense for the interest on the proposed WIFA debt.

Step 1 adjustment 8 (labeled as 8a, 8b, and 8c) annualizes wages and salaries, payroll taxes, and employee health and life expenses reflecting wage increases and personnel changes that occurred in 2004. The Company reduced it's payroll by one full time employee in May 2004.

Q. PLEASE CONTINUE.

A. The following is a summary of adjustments for Schedule C-1 Step 2:

Step 2 adjustment number 1 annualizes depreciation expense. The proposed depreciation rate for each component of utility plant is shown on

Schedule C-2 Step 2, page 2. The depreciation rates are the same as proposed in Step 1. Depreciation expense in Step 2 includes depreciation on the new arsenic treatment plant.

The Step 2 adjustment number 2 increases the property taxes based on proposed revenues.

Q. HOW DID YOU COMPUTE THE PROPERTY TAXES AT PROPOSED RATES?

A. I used the same methodology described previously for computing property taxes in Step 1. In the instant case, I used two times the proposed revenues for Step 1, and the Step 2 revenues at proposed rates as the revenue components.

Q. PLEASE CONTNUE.

A. Step 2 adjustment 3 reflects the proposed arsenic treatment operating costs.

Step 2 adjustment 4 (labeled as 4a, 4b, and 4c) annualizes wages and salaries, payroll taxes, and employee health and life expenses reflecting an additional employee necessary to operate the water plant.

VI. ARSENIC TREATMENT COST ADJUSTMENT MECHANISM.

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSED ARSENIC TREATMENT COST ADJUSTMENT MECHANISM.

A. The Company is proposing an adjustment mechanism for recovery of increases in arsenic treatment costs. The arsenic treatment cost included in operating expenses will serve as the base amount for calculating the amount to be recovered or refunded when increases or decreases in this expense are incurred in future years.

Q. HAVE YOU PREPARED A SAMPLE CALCULATION FOR THESE ADJUSTMENT MECHANISMS?

A. Yes. Attached to this testimony as Exhibit 1 is sample calculations for the arsenic

treatment cost adjustment mechanism. The numbers do not reflect the actual numbers in the instant case and are used for illustrative purposes.

Under both the adjustment mechanism, the second step calculates the amounts included in base rates. Thus, if a difference in expense is merely due to a difference in water sold, then there would be no adjustment.

Q. PLEASE EXPLAIN HOW THE PROPOSED ARESNIC TREATMENT COST ADJUSTMENT MECHANISM WILL WORK?

A. Whenever the Company's arsenic treatment expense increases or decreases from the amount adopted by this Commission in the instant case (or any subsequent case), the Company will file a schedule with the Commission setting forth an adjustment per 1,000 gallons designed to recover or refund the increased or decreased expense based on the following procedure:

Step 1 - The total, test year annualized arsenic treatment expense included in operating expenses in the Company's last general rate case will serve as the arsenic treatment expense base ("ATEB") for determining the increase or decrease in arsenic treatment water costs to the recovered from or refunded to ratepayers. A unitized arsenic treatment expense base ("UATEB") will be calculated by dividing the total test year ATEB by the total test year annualized gallons sold. The ATWEB unit will be in dollars per gallon sold.

Step 2 - In a subsequent year, the actual gallons sold in the year will be multiplied by the ATWEB to determine the annualized "test year based" expense ("ATYBE") recovered from ratepayers through base rates approved in the instant case.

Step 3 – The ATYBE will be compared to the actual cost incurred during the year. The difference will be referred to as the total arsenic treatment adjustment ("TATA"). Computing the ATYBE and comparing it to the actual

cost will ensure that the cost included in the base rates remains constant in future years. If the result is higher than the ATYBE, the TATA will be the amount to be recovered during the following year. If the ATYBE is lower, the TATA will be the amount to be refunded during the following year.

Step 4 - A unitized arsenic treatment adjustment ("UATA") will be determined by dividing the TATA by the gallons sold during the year. The result will then be multiplied by 1,000 and rounded to the nearest whole cent. The UATA (in 1,000's) must be at least $0.01 per 1,000 gallons (rounded up or down by 1/2 cent) before any adjustment is made on the customer bills.

Q. WHAT WILL BE THE AMOUNT APPEARING ON THE CUSTOMER'S BILL?

A. The arsenic treatment adjustment charge ("ATAC") on the customer bill will be equal to the UATA times the actual gallons used (in 1,000's), including any gallons included in the minimum charge.

Q. ARE THERE ANY OTHER PROVISIONS OF THE ARSENIC TREATMENT COST ADJUSTMENT MECHANISM?

A. Yes. The Company will keep track of the amounts recovered or refunded via the ATAC during the year and will maintain a balancing account to insure the TATA is not over or under collected or refunded. Further, all revised/new schedules for determination of the TATA and the UATA filed with the Commission will be accompanied by work papers prepared by the Company in a format approved by Staff and will be in sufficient detail to enable the Commission to test the accuracy of the Company's calculations.

Q. WILL THE ADOPTION OF THIS ADJUSTMENT MECHANISM LEAD TO A SIGNIFICANT AMOUNT OF ADDITIONAL WORK?

A. No, it will be relatively easy to determine the TATA each year and to compute the

amount of the charge or credit, as the case may be, that is applied to the customer's bill. It should also be easy for Staff to verify the calculation.

Q. WHAT IS THE COMPANY'S JUSTIFICATION FOR IMPLEMENTING THESE ADJUSTMENT MECHANISMS?

A. Cost-adjustment mechanisms first appeared in the electric and gas industries to help utilities contend with rising fuel costs. These mechanisms are now widely used in ratemaking for water utilities in a number of states, especially in connection with purchased power, purchased water and various taxes. These mechanisms allow utilities to pass along cost increases or decreases that are essentially out of a utility's control. The closer match between costs and customer bills reduces regulatory lag and creates a more efficient price signal. It also helps to ensure the utility has an opportunity to earn its authorized rate of return. Thus, adjustment mechanisms benefit both utilities and their customers.

In the instant case, the amount that the Company must pay for arsenic treatment is a significant portion of its operations and maintenance cost, approximately 18 percent of total operating expenses.

Q. HAS THE LEGISLATURE INDICATED THAT ADJUSTMENT MECHANISMS SHOULD BE AVAILABLE TO WATER UTILITIES?

A. Yes. In fact, A.R.S. § 40-370 currently authorizes water utilities to apply to the Commission for approval of surcharges to recover increases in specific, readily identifiable costs beyond the control of the utility, including purchased water, purchased power and property taxes. In this case, the Company is asking for approval of its arsenic treatment adjustment mechanism in the context of a general rate case in order to minimize any disputes regarding the Company's ability to implement these mechanisms.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

Valley Utilites Water Company
Arsenic Treament Adjustment Mechanism Example

Exhibit 1
Witness: Bourassa

Line No.			Formula			
1	**Step 1**					
2	Annualized Test Year Arsenic Treatment Cost Base Expense	ATEB		$	250,000	
3	Annualized Test Year Gallons Sold	ATYGS			258,740,206	gallons
4	*Unitized Arsenic Treatment Expense Base*	UATEB	ATEB **divided by** ATYG		0.00096622	per gallon
5						
6	**Step 2**					
7	Actual Gallons Sold in Current Year	AGSCY			323,425,257	gallons
8	Annualized Test Year Based Expense	ATYBE	AGSCY **times** UATEB	$	312,500	
9						
10	**Step 3**					
11	Actual Current Year Arsenic Treatment Expense	ACYATE		$	335,000	
12	Total Arsenic Treatment Adjustment	TATA	ACYATE **less** ATYBE	$	22,500	
13						
14	**Step 4**					
15	Unitized Arsenic Treatment Adjustment	UATA	TATA **divided by** AGSCY **times** 1,000	$	0.00006957	per gallon
16	Unitized Arsenic Treatment Adjustment in 1,000's gallons			$	0.07	per 1,000 gallons
17						
18						

D

VALLEY UTILITIES WATER COMPANY, INC.

RATE INCREASE APPLICATION

DOCKET NO. W-01412-04-____

PRE-FILED TESTIMONY OF

RONALD L. KOZOMAN

OCTOBER, 2004

EXHIBIT D

DIRECT TESTIMONY OF

RONALD L. KOZOMAN

I. Identification of witness

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. Ronald L. Kozoman, 1605 W. Mulberry Drive, Phoenix, Arizona 85015.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am self employed and provide consulting services to utility companies.

Q. HAVE YOU PREPARED A RESUME OF YOUR PROFESSIONAL EDUCATIONAL AND WORK EXPERIENCE?

A. Yes. A copy is attached as Appendix A to this testimony.

Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR REGULATORY EXPERIENCE?

A. Yes. I was employed by the Illinois Commerce Commission ("ICC") from 1977 to 1981 in various accounting and management positions. While with the ICC, I testified as the ICC Staff's expert witness on cost of capital, rate base and operating income in rate cases involving Commonwealth Edison Company, Illinois Bell Telephone, and other major Illinois utility companies.

I was first retained by the Arizona Corporation Commission ("Commission" or "ACC") in 1981 as a consultant to prepare Commission Staff's cost of capital testimony for the Southwest Gas Corporation and Southern Union Gas Company rate cases. I later became Chief Rate Analyst for the Commission. As Chief Rate Analyst, I was responsible for supervising all of the Commission's rate analysts and utility auditors. While with the Commission, I testified on cost of capital concerning Sun City West Utilities, Continental Telephone Company of California, and Mountain Bell Telephone (now Qwest), among others.

I have also testified as an independent consultant, on behalf of utility companies, utility consumers, and regulatory agencies. I was also an instructor in the areas of public utility accounting and general regulatory practices for the National Association of Regulatory Utility Commissioners at its Annual Regulatory Studies Program, held at Michigan State University in East Lansing, Michigan. In years past, I taught Revenue Requirements accounting, and Regulatory Accounting Methods, Applications under changing Regulatory and Market Conditions, and Cost of Service.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Valley Utilities Water Company ("the Company" or "the Applicant").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will testify for the Company in support of the proposed rates.

Q. WHAT SCHEDULES ARE YOU TESTIFYING TO?

A. I am testifying to the H Schedules.

II. Rate Design

Q. HOW IS THE COMPANY PROPOSING TO SPREAD THE PROPOSED RATE INCREASES?

A. The proposed rate increases will be spread across the board, as much as possible. That is, the uniform percentage increase will be applied to the monthly minimums. Additionally, the two tier commodity rate will be changed to three tier rates to assist in conservation.

Customers using larger quantities of water will experience a higher rate increase due to the three tier rates rate design.

Q. WHAT IS THE RATE INCREASE AS A PERCENTAGE AT THE VALLEY UTILTIES WATER COMPANY?

A. The rate increase is approximately 12% over the existing rates.

Q. WHAT ARE THE PRESENT RATES FOR VALLEY UTILTIES WATER COMPANY?

A. The monthly charges at present rates are listed below.

Meter Size	Monthly Minimum	Gallons Included in Monthly Minimum
5/8 x 3/4	$ 9.60	0
3/4	$ 14.50	0
1	$ 24.00	0
1 1/2	$ 48.00	0
2	$ 77.00	0
3	$ 144.00	0
4	$ 240.00	0
6	$ 480.00	0

The commodity charge per 1,000 gallons for Valley Utilities Water Company is $1.80 per 1,000 gallons for the first 25,000 gallons, and $2.20 per 1,000 gallons for usage above 25,000. The rate for construction water is $2.60 per 1,000 gallons, regardless of usage.

Q. WHAT ARE THE PROPOSED RATES?

A. The monthly minimum charges for the proposed rates are:

Meter Size	Monthly Minimum	Gallons Included in Monthly Minimum
5/8 x 3/4	$ 10.37	0
3/4	$ 15.66	0
1	$ 25.92	0
1 1/2	$ 51.85	0
2	$ 83.18	0
3	$ 155.55	0
4	$ 259.25	0
6	$ 518.50	0

The commodity charge per 1,000 gallons is $1.98 per 1,000 gallons for the first tier rates, $2.42 per 1,000 gallons for the second tier rate, and $2.662 for the third tier.

The tiers for each meter size are based on flow capacity and differ. I selected the first tier for the 5/8 meter based on approximately 86% of average usage. I based the tier or break-over points on the flow capacity on the flow per minute of the 5/8 inch meter, which is 20 gallons. The tiers or break-over points for the larger meters are computed in a ratio to the flow capacity of the larger meter. Thus, if the first tier or break-over point for a 5/8 inch meter is 8,000 gallons, the 1 inch meter, which can flow 50 gallons per minute would have its first tier or break-over point set at 20,000 and is computed as follows 8,000 x (50/20) = 20,000.

The tiers are as follows:

Meter Size	Gallons in First Tier	Gallons in Second Tier

5/8 x ¾	8,000	12,000
3/4	12,000	18,000
1	20,000	30,000
1 1/2	40,000	60,800
2	64,000	96,000
3	128,000	192,000
4	200,000	300,000
6	400,000	600,000

The proposed commodity charge for construction water is $2.86 per 1,000 gallons, with no tiers.

The increase in the commodity rate averages 10% for the first tier, and 106% for the second tier. The third tier represent an increase of 21% over the existing second tier rate.

Q. WHY DID YOU DECIDE TO USE 86% OF THE AVERAGE USAGE FOR THE FIRST TIER FOR THE 5/8 INCH METER? WOULDN'T THE USE OF 75% OR 60% RESULT IN GREATER CONSERVATION?

A. I chose to use a higher percentage because the customers already have a two tier rate structure, and are familiar with inverted prices. If you examine the average usage for a 5/8 inch meter user, you will note that the average usage is approximately 9,000 gallons per month. That usage is relatively low.

Yes, the Company wants customers to conserve, but the Company doesn't want to cause a hardship on its customers.

Q. WHAT IS THE IMPACT ON RESIDENTIAL CUSTOMERS USING THE MONTHLY AVERAGE WATER USING AND ON A 3/4 INCH METER?

A. Residential customers on the system, on a 5/8 inch meter who consumes the average quantity of water (9,264 per month) will experience a rate increase of $2.99 per month, or an increase of approximately 11%. The present bill for a residential customer on a 3/4 inch meter is $32.94, while the proposed bill is $35.94 (excluding sales taxes). This is for usage of 10,243 gallons per month, and represents an increase of $3.00 or approximately 9.0%. Other meter sizes and average usage, along with the present and proposed rates (also excluding sales taxes) are shown on Schedule H-2.

Q. WOULD YOU PLEASE EXPLAIN WHAT IS SHOWN ON SCHEDULE H-1?

A. The H-1 Schedule shows the revenues at present and proposed rates from each class of customer, and the annualization of revenues if the number of customers changed during the year.

Q. WHY DON'T THE PROPOSED REVENUES SHOWN ON SCHEDULE H-1 MATCH THE REVENUE SHOWN MR. BOURASSA'S SCHEDULE A-1, THE REVENUE REQUIREMENT LINE, AND SCHEDULE C-1 THE LINE LABELED AS RATE INCREASE?

A. There is an imbalance between the revenues per the bill count schedules and the General Ledger, with the bill count schedules showing less revenue. I did not include this difference as a reconciling item. Thus, if I attempted to match Mr. Bourassa's revenue requirement shown on Schedule A-1, I would be producing more revenue than the actual revenue requirement, due to not using the difference between the bill count and the General Ledger revenues as a reconciling item..

Q. WOULD YOU PLEASE EXPLAIN WHAT IS SHOWN ON SCHEDULE H-2?

A. The H-2 Schedule shows the rate increase based on the average annual usage for each customer class, or meter size. The billing to each average user is a present and proposed rates.

Q. WHAT IS CONTAINED ON THE H-3 SCHEDULES?

A. Schedule H-3 contains both the present and proposed rates. The Schedule also shows the dollar increase, and percentage increase, by customer class.

Q. WHAT IS CONTAINED ON THE H-4 SCHEDULES?

A. Schedule H-4 shows the billing at both present and proposed rates based on various usage levels. The Schedule also shows the dollar increase and percentage increase at various usage levels.

Q. AND, WHAT IS SHOWN ON THE H-5 SCHEDULE?

A. The H-5 Schedules contain the usage for each class of customer or meter size during the test year. These schedules are commonly referred to as the bill count schedules, as the schedules show usage by various classes of customers during the test year.

At the bottom of each H-5 Schedule, I have listed a median usage number in the column headed Cumulative Billing. That number is a reference as to the number billings divided by two. It has no meaning other that the number of billings divided by 2. The median usage is located under the column labeled as Total Year.

Q. IS THE COMPANY PROPOSING ANY CHANGE IN ITS OTHER TARIFF CHARGES?

A. Yes. The Company is proposing to increase the meter/service line charge to match the charges shown on the Arizona Corporation Commission Staff memo of Marlin Scott, Jr. of June 30, 2004. Additionally, the Company proposes to collect the income tax on the meter/service line charge, as these charges are now taxable income. Refunds of the meter/service line charge will include a refund of the original income tax collected spread over the refund period.

Q. DOES THIS PROPOSED CHANGE IN METER FEES IMPACT REVENUE?

A. No. When a meter and service line are installed, the other side of the entry is to (1) increase meter deposits (a deduction from rate base), or (2) increase advances in aid of construction, also a deduction from rate base. Thus the increase in the charges is revenue neutral.

III. Step Two Rates

Q. WHY IS THE COMPANY REQUESTING THE STEP II RATES?

A. The Step II Rates are intended to recover the operating expense of the Treatment Plant associated with the Arsenic removal. The Company cannot afford to wait a full year while incurring these operating expenses, and then request recovery on a go forward basis. Instead, the Company proposes that the Step I rates be instituted to recover the

debt service on the Arsenic Treatment Plant. When the Arsenic Treatment Plant is in service and operational, the Company proposes that the Step II rates to recover the operating expenses associated with the plant be authorized.

Q. HOW CAN THE COMMISSION BE ASSURED THAT THE COMPANY WON'T OVER OR UNDER COLLECT THE OPERATING EXPENSES ASSOCIATED WITH OPERATION OF THE ARSENIC TREATMENT PLANT?

A. The Commission can be assured that the Company will not over or under collect the Arsenic Treatment Costs by authorizing an Adjustment Clause to monitor the recovery of these costs. With an Adjuster Clause, if the Company over or under collects the arsenic treatment costs, the over or under recovery will be collected or refunded the following year. The adjuster clause account can be treated as a balancing account. The Company will provide the Commission with a report as soon as possible after the close of the year detailing the operating expenses and recovery of these operating expenses associated with the Arsenic Treatment Costs.

Currently it is estimated that the Arsenic Treatment Costs will total $216,600 for the first full year of operation. I have increased the Step I rates to recover this amount and related expenses in the proposed Step II rates. The Step Two rates are premised on the same quantity of water that was sold during the test year. If the amount of water actually sold when Step II rates are authorized varies from the quantity sold during the test year, the Company will collect the base cost per unit of water, and there could be a over or under collection of these costs. The adjuster will take care of the difference in water sales.

By authorizing an Arsenic Treatment Adjuster, either as a balancing account, the Company will report the expense incurred and the revenue collected from the Step II

rates. The Company would propose that the under or over collection of these costs be computed as soon as possible after the year end close. Any over or under collection would be rolled into the succeeding year as either a refund or as an additional charge to customers that will be refunded or collected in the following year.

Q. WHAT IS THE RATE INCREASE PERCENTAGE PROPOSED FOR THE STEP TWO RATE INCREASE?

A. The Step Two rates will increase approximately 43%.

Q. WHAT ARE THE PROPOSED STEP II COMMODITY RATES?

A. The first tier rate of $1.98 per thousand gallons would be increased to $2.94. The second tier rates would increase from $2.42 per thousand gallons to $3.599. The third tier rates would increase from $2.662 to $3.958 per thousand gallons. The commodity rate increases are approximately 49%.

I have also increased the monthly minimums by approximately 37%.

Q. WHY NOT ASSIGN ALL COSTS TO THE COMMODITY RATE, AS THE COST IS TO TREAT WATER?

A. I agree that the costs are to treat the commodity, however, there is a substantial fixed cost in the treatment expense. These costs won't decrease or increase substantially if the volume of commodity sold is higher or lower than in the test year. Thus, you have to recover the some of the fixed costs in the monthly minimum.

The second reason for including some of the costs in the monthly minimum is the fact that by going to three tier rates some conservation is expected.

Q. WHAT ARE PROPOSED STEP II MONTHLY MINIMUM CHARGES?

A. The proposed monthly minimums are:

Meter Size	Monthly Minimum	Gallons Included in Monthly Minimum
5/8 x 3/4	$14.16	0
3/4	$21.38	0
1	$35.38	0
1 1/2	$70.78	0
2	$113.54	0
3	$212.33	0
4	$353.88	0
6	$707.75	0

Q. WILL THESE PROPOSED STEP ONE AND STEP TWO RATE INCREASES ADD ANY RISK TO THE COMPANY'S STABILITY OF REVENUES?

A. Yes. Any rate increase can result in conservation by customers, which results in the Company not achieving its authorized revenue requirement. So, yes there is added risk. Add another tier to the rate design and the risk is greatly increased.

Q. I NOTE THAT MR. BOURASSA HAS A PROFORMA ADJUSTMENT FOR THE REVENUE ANNUALIZATION, FOR THE NUMBER OF CUSTOMERS TO THE

END OF THE YEAR. HOWEVER, THERE IS NO PROFORMA ADJUSTMENT FOR THE REVENUE ANNUALIZATION IN THE STEP TWO RATES. COULD YOU EXPLAIN WHY THERE ISN'T A PROFORMA ADJUSTMENT?

A. Yes. The total present and proposed revenues in the Step One rate increase, includes the the revenue annualization at present and proposed rates. The Step Two rate workbook includes the annualization of these same customers, at proposed Step One and Step Two rates. Thus, it not necessary to separately include a proforma adjustment for the revenue annualization. Mr. Bourassa's proposed revenues for Step Two include the customers to year end at proposed rates.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

APPENDIX A

RESUME OF RONALD L. KOZOMAN, CPA

EMPLOYMENT EXPERIENCE

10/1/93 TO PRESENT	SELF-EMPLOYED	
1988 TO 9/30/93	KOZOMAN & KERMODE CPA's, PARTNER	
1986-1988	KOZOMAN & KERMODE, CPA'S PC, PRESIDENT	
1982-1986	TROUPE KEHOE WHITEAKER & KENT CPA's PARTNER AND UTILITY CONSULTANT	
	RESPONSIBLE FOR OVERALL MANAGEMENT OF FIRM'S PHOENIX, ARIZONA OFFICE	
1981-1982	ARIZONA CORPORATION COMMISSION	CHIEF UTILITY RATE ANALYST

TESTIFIED ON COST OF CAPITAL, RATE BASE AND INCOME STATEMENTS; FINANCING MATTERS; ANALYSIS OF RATE ORDERS; SUPERVISION OF AUDITING AND RATE ANALYST SECTIONS. TESTIFIED IN CASES INVOLVING ENERGY, WATER AND COMMUNICATION COMPANIES.

1977-1981	ILLINOIS COMMERCE COMMISSION	ACCOUNTANT III,IV, V, & EXECUTIVE V

AUDITS OF UTILITIES' FINANCIAL STATEMENTS, PREPARATION OF EXHIBITS AND TESTIMONY, AND CROSS-EXAMINATION OF UTILITIES' WITNESSES.

TESTIFIED IN CASES INVOLVING ENERGY, WATER AND COMMUNICATION COMPANIES.

SOUTHERN ILLINOIS UNIVERSITY	ACCOUNTING FACULTY
NORTHERN ILLINOIS UNIVERSITY	ACCOUNTING FACULTY
INDIANA UNIVERSITY	ACCOUNTING FACULTY
MACMURRAY COLLEGE	ACCOUNTING FACULTY

ARIZONA CERTIFIED PUBLIC ACCOUNTANT

EDUCATION: BACHELOR OF SCIENCE - NORTHERN ILLINOIS UNIVERSITY
MASTER OF SCIENCE - NORTHERN ILLINOIS UNIVERSITY

FRATERNITY BETA ALPHA PSI, PROFESSIONAL ACCOUNTING ACADEMIC

YEARS

FROM-TO	INSTITUTION	MAJOR	DEGREE	DATE	
1959-61	JOLIET JUNIOR COLLEGE	ACCOUNTING	ASSOCIATE	6-61	
1961-63	NORTHERN ILLINOIS UNIVERSITY	ACCOUNTING	B.S.	6-63	
1963-65	NORTHERN ILLINOIS UNIVERSITY	BUS. ED.	M.S.	6-65	
1967	CERTIFIED PUBLIC ACCOUNTANT, ILLINOIS			9-67	
1980	LICENSED ACCOUNTANT, ILLINOIS (065-012256)			5-80	Inactive Status
1983	LICENSED ACCOUNTANT, ARIZONA (3805-R)			2-83	

REGULATORY AND WORK EXPERIENCE

10/1/93 TO PRESENT — SELF EMPLOYED

FEB. 1988 TO 9/30/93 — PARTNER, KOZOMAN AND KERMODE, CPA's

FEB. 1986 - JAN. 1988 — PRESIDENT, KOZOMAN AND KERMODE P.C., CPA's

OCT. 1982 TO JAN. 1986: PHOENIX OFFICE; JOB TITLE: PARTNER
TROUPE KEHOE WHITEAKER & KENT

1981 TO 1982 — CHIEF RATE ANALYST, UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

1977 TO 1981 — ACCOUNTANT III - NOVEMBER 1977
ACCOUNTANT IV - APRIL 1979
ACCOUNTANT V - AUGUST 1980
EXECUTIVE V - MARCH 1981
ILLINOIS COMMERCE COMMISSION - SPRINGFIELD, ILLINOIS

DUTIES INCLUDED AUDIT OF UTILITIES' BOOKS AND RECORDS IN CONNECTION WITH RATE INCREASES, PREPARATION OF EXHIBITS AND TESTIMONY CONCERNING RATE INCREASES, CROSS-EXAMINATION OF UTILITIES' WITNESSES ON RATE MATTERS, TESTIMONY AS EXPERT WITNESS FOR STAFF'S POSITION ON UTILITY FINANCIAL STATEMENTS AND RATE NEEDS, AND EXAMINATION OF TESTIMONY AND DATA ON SUNDRY MATTERS (SEE ATTACHED SHEET FOR SUMMARY).

1974 TO 1977: — ASSOCIATE PROFESSOR, MACMURRAY COLLEGE
JACKSONVILLE, ILLINOIS

DUTIES INCLUDED TEACHING COURSES IN ELEMENTARY, INTERMEDIATE AND ADVANCED ACCOUNTING, COST ACCOUNTING, INCOME TAXES, AUDITING, AND MANAGERIAL ACCOUNTING.

1969 TO 1974: — INSTRUCTOR, SOUTHERN ILLINOIS UNIVERSITY
CARBONDALE, ILLINOIS

TAUGHT FINANCIAL AND MANAGERIAL ACCOUNTING AND ACCOUNTING FOR NON-BUSINESS MAJORS.

JAN. 1973 TO APRIL 1973: ACCOUNTANT (PART-TIME), HORWATH & HORWATH
946 WEST MAIN STREET, CARBONDALE, ILLINOIS

PREPARED TAX RETURNS (STATE AND FEDERAL) FOR INDIVIDUALS AND BUSINESSES.

1967 TO 1969: ASSISTANT PROFESSOR, INDIANA UNIVERSITY
DIVISION OF GENERAL & TECHNICAL STUDIES
FORT WAYNE, INDIANA

TAUGHT COURSES IN ACCOUNTING AND BUSINESS; SERVED AS ACTING DEPARTMENT CHAIRMAN.

1965 TO 1967: INSTRUCTOR, SOUTHERN ILLINOIS UNIVERSITY
CARBONDALE, ILLINOIS

TAUGHT FINANCIAL AND MANAGERIAL ACCOUNTING.

PUBLICATIONS

LECTURE GUIDE TO SUPPLEMENT ACCOUNTING FOR CONTROL AND DECISIONS
HOLMES, MEIER & PABST, BUSINESS PUBLICATIONS, INC.
PUBLISHED BY STIPES PUBLISHING CO., 1971.

AN OVERVIEW OF A RATECASE, COPYRIGHT NUMBER 256 639, PRIVATELY PUBLISHED MANUAL FOR UTILITIES. PRESENTED TO MEDIA THROUGH OUT THE STATE OF ARIZONA, 1986.

SPEECHES

"RATE BASE AND OPERATING EXPENSES," 5TH ANNUAL NEW MEXICO STATE UNIVERSITY UTILITIES CONFERENCE, ALBUQUERQUE, OCTOBER 1982.

"REVENUE REQUIREMENTS" 1987 - 2001, "ACCOUNTING FOR NON-ACCOUNTANTS, 1987 - 2001, COST OF SERVICE AND RATE DESIGN 1995, NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS (NARUC) ANNUAL STUDIES FACULTY HELD IN LANSING, MICHIGAN FOR REGULATORY COMMISSION PERSONNEL EMPLOYEES AND UTILITY PERSONNEL.

INSTRUCTOR FOR THE NEW YORK PUBLIC SERVICE COMMISSION 1995. TOPICS INCLUDED CONSTRUCTION WORK IN PROGRESS VS. ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION, COST OF CAPITAL, AND DEFERRED INCOME TAXES.

A CHRONOLOGICAL SUMMARY OF MY WORK EXPERIENCE WITH THE ILLINOIS COMMERCE
COMMISSION IS PROVIDED BELOW.

COMPANY	DOCKET NO.	FUNCTION
CIPS (ELECTRIC & GAS)	77-0375	1. CROSS-EXAMINED RESPONDENT'S WITNESSES. 2. AUDITED RESPONDENT'S RECORDS.
MONARCH GAS	77-0709 (GAS)	1. CROSS-EXAMINED RESPONDENT'S WITNESSES. 2. PROPOSED ADJUSTMENTS INVOLVING MATERIALS SUPPLIES AND PENSIONS. 3. AUDITED RESPONDENT'S RECORDS.
IOWA-ILLINOIS GAS & ELECTRIC	78-0075 (ELECTRIC & GAS)	1. CROSS-EXAMINED RESPONDENT'S WITNESSES. 2. SPONSORED RATE BASE AND INCOME STATEMENT EXHIBITS AND ASSOCIATED ADJUSTMENTS. 3. WROTE REPLY BRIEF. 4. AUDITED RESPONDENT'S RECORDS.
INTERSTATE POWER (ELECTRIC & GAS)	78-0203 & 78-0161	1. CROSS-EXAMINED RESPONDENT'S WITNESSES. 2. SPONSORED ADJUSTMENTS TO FUEL INVENTORY 3. AUDITED RESPONDENT'S RECORDS.
TOWN GAS CO.	78-0285 (GAS)	1. CROSS-EXAMINED RESPONDENT'S WITNESSES. 2. SPONSORED RATE BASE, INCOME STATEMENTS, COST OF CAPITAL AND ASSOCIATED ADJUSTMENTS. 3. ANALYZED IMPACT OF DEFERRED INCOME TAXES ON CONSUMERS' RATES. 4. AUDITED RESPONDENT'S RECORDS.
ILLINOIS POWER	78-0071	1. PREPARED CROSS-EXAMINATION QUESTIONS FOR STAFF COUNSEL. 2. SPONSORED ADJUSTMENTS TO FUEL INVENTORIES, MAINTENANCE EXPENSE AND COST OF CAPITAL COMPONENTS. 3. AUDITED RESPONDENT'S RECORDS.
ILLINOIS BELL TELEPHONE	80-0010	1. PREPARED CROSS-EXAMINATION QUESTIONS FOR STAFF COUNSEL. 2. SPONSORED RATE BASE, INCOME STATEMENT, AND COST OF CAPITAL USING DOUBLE LEVERAGE. 3. PROJECT LEADER FOR CASE. 4. SUPERVISED AUDIT OF RESPONDENT'S RECORDS.
COMMONWEALTH EDISON	80-0546	1. INTERIM AND MAIN CASE, FINANCIAL INTEGRITY, ANALYSIS OF FINANCIAL COVERAGES -

		ACTUAL AND PROJECTED. 2. PREPARED CROSS-EXAMINATION QUESTIONS FOR ASSISTANT ATTORNEY GENERAL. 3. SPONSORED RATE BASE, INCOME STATEMENT, AND COST OF CAPITAL. 4. PROJECT LEADER FOR CASE. 5. SUPERVISED AUDIT OF RESPONDENT'S RECORDS.
TOWN GAS CO.	81-0113	1. CROSS-EXAMINED RESPONDENT'S WITNESSES. 2. SUPERVISED AUDIT OF RESPONDENT'S RECORDS. 3. SPONSORED COST OF CAPITAL EXHIBITS AND TESTIMONY.
CONTINENTAL TELEPHONE CO. OF ILLINOIS	81-0014	1. COST OF CAPITAL TESTIMONY.
GENERAL TELEPHONE CO. OF ILLINOIS	81-0443	1. EXAMINED STATION CONNECTION EXPENSING.

SUNDRY CASES

PURCHASED GAS AND FUEL CLAUSE RECONCILIATIONS FOR:

MONARCH GAS COMPANY

TOWN GAS COMPANY

UNION ELECTRIC COMPANY

GAS UTILITIES, INC.

ADOPTION OF UNIFORM SYSTEM OF ACCOUNTS 78-0579 FOR RADIO COMMON CARRIERS (MOBILE TELEPHONE) - CASE DISMISSED.

GENERAL ORDER 210, UNIFORM FILING REQUIREMENTS FOR LARGER UTILITIES - FORECASTED TEST YEAR - ORDER ENTERED AND ADOPTED.

A CHRONOLOGICAL SUMMARY OF MY WORK EXPERIENCE WITH THE ARIZONA CORPORATION
COMMISSION IS PROVIDED BELOW.

COMPANY	DOCKET NO.	FUNCTION
SOUTHERN UNION GAS	U-1240-81-148	COST OF CAPITAL TESTIMONY*
SOUTHWEST GAS CORP.	U-1551-81-206	COST OF CAPITAL TESTIMONY*

CONTINENTAL TELEPHONE CO. OF THE WEST	U-1541-81-385	TESTIFIED ON PROPOSED RATES FOR EXPENSING STATION CONNECTIONS.
SUN CITY WEST UTILITIES	U-2334-81-008	COST OF CAPITAL
SOUTHWEST GAS CO.	U-1551-82-010	COST OF CAPITAL
CONTINENTAL TELEPHONE CO. OF CALIFORNIA	U-1896-81-391	COST OF CAPITAL
TUCSON ELECTRIC POWER	U-1933-81-033	RATE INCREASE
MOUNTAIN BELL	9981-E-1051-81-406	COST OF CAPITAL
SOUTHWEST GAS CO.	U-1551-82-034	COST OF CAPITAL
SUN CITY SEWER & WATER	U-2276-81-333	COST OF CAPITAL
SOUTHERN UNION GAS		COST OF CAPITAL*
MOUNTAIN BELL		ALL ADJUSTMENTS TO RATE BASE AND INCOME STATEMENT. PROPOSED ACCELERATED AMORTIZATION OF INSIDE WIRING.*

*TESTIFIED AS CONSULTANT.

CHRONOLOGICAL SUMMARY OF MY WORK EXPERIENCE WITH TROUPE KEHOE WHITEAKER &
KENT IS PROVIDED BELOW:

COMPANY/CLIENT	FUNCTION
WEST END WATER COMPANY	TESTIFIED FOR APPLICANT ON RATE BASE, INCOME STATEMENT, COST OF CAPITAL AND RATE DESIGN.
SUNRISE WATER COMPANY	TESTIFIED FOR APPLICANT ON RATE BASE, INCOME STATEMENT, COST OF CAPITAL AND RATE DESIGN.
BIG PARK WATER COMPANY	TESTIFIED FOR APPLICANT ON RATE BASE, INCOME STATEMENT, COST OF CAPITAL AND RATE DESIGN IN BOTH INTERIM AND MAIN CASES. TESTIFIED FOR APPLICANT ON FINANCING AND PHASED-IN RATE INCREASES.
CAREFREE WATER COMPANY	TESTIFIED FOR APPLICANT ON RATE BASE,

	INCOME STATEMENT, COST OF CAPITAL AND RATE DESIGN.
BLACK BILL & DONEY PARK WATER USERS' ASSOCIATION	TESTIFIED FOR APPLICANT ON RATE BASE, INCOME STATEMENT, RATE OF RETURN AND RATE DESIGN IN BOTH INTERIM AND MAIN CASES. TESTIFIED FOR APPLICANT ON SPECIAL ASSESSMENTS, HOOK-UP FEES, CAPITAL CREDITS AND PUMPING POWER ADJUSTER.
FLORENCE GARDENS UTILITY CO.	TESTIFIED FOR APPLICANT ON RATE BASE, INCOME STATE MENT RATE OF RETURN AND RATE DESIGN FOR WATER AND SEWER.
BOULDER CAREFREE SEWER CORP.	TESTIFIED FOR APPLICANT ON COST OF CAPITAL AND AMORTIZATION OF CONTRI-BUTIONS.
WEST END WATER COMPANY	TESTIFIED FOR APPLICANT ON COST OF CAPITAL AND AMORTIZATION OF CONTRIBUTIONS.
ARIZONA PUBLIC SERVICE CO.	DEVELOPMENT OF PUBLIC RELATIONS MANUAL TO EXPLAIN A RATE CASE TO THE NEWS MEDIA.
NEW MEXICO CORP. COMMISSION - GENERAL TELEPHONE COMPANY OF THE SOUTHWEST.	TESTIFIED FOR COMMISSION ON APPLICANT'S PROPOSED RATE BASE AND INCOME STATEMENT.
DEPARTMENT OF THE NAVY - PACIFIC GAS & ELECTRIC	EVALUATION OF APPLICANT'S AND CALIFORNIA COMMISSION STAFF'S RATE CASE FILINGS.
SUNDRY CLIENTS	TESTIFIED ON VALUATION OF WATER UTILITIES BEFORE THE ARIZONA DEPARTMENT OF REVENUE, CENTRALLY VALUED PROPERTIES.

A CHRONOLOGICAL SUMMARY OF MY WORK EXPERIENCE WITH KOZOMAN & KERMODE CPA's
IS PROVIDED BELOW:

COMPANY/CLIENT	FUNCTION
NEW MEXICO CORP. COMMISSION - CONTINENTAL TELEPHONE CO. OF THE WEST.	TESTIFIED FOR COMMISSION ON APPLICANT'S COST OF CAPITAL.
NEW MEXICO CORP. COMMISSION - WESTERN NEW MEXICO TELEPHONE COMPANY.	TESTIFIED FOR COMMISSION ON APPLICANT'S COST OF CAPITAL.
BERMUDA WATER COMPANY	TESTIFIED FOR APPLICANT ON RATE CASE AND FINANCING.
BELLA VISTA RANCHES	TESTIFIED FOR APPLICANT ON COST OF

(BELLA VISTA WATER CO.)	CAPITAL, COST OF SERVICE, RATE DESIGN, AND CONSOLIDATION OF THREE COMPANIES.
TUCSON SOUTH WATER COMPANY	TESTIFIED FOR APPLICANT ON INTERIM / EMERGENCY RATE INCREASE.
CITIZEN'S UTILITIES COMPANY	TESTIFIED FOR APPLICANT ON COST OF CAPITAL FOR ITS TELEPHONE OPERATIONS.
PUEBLO DEL SOL WATER COMPANY/ ARIZONA WATER COMPANY TRANSFER	TESTIFIED FOR BELLA VISTA WATER COMPANY, INC. ON BENEFITS TO RATEPAYERS OF PUEBLO DEL SOL WATER COMPANY AND BELLA VISTA WATER COMPANY, INC. IF BELLA VISTA WATER COMPANY, INC. WERE TO PURCHASE PUEBLO DEL SOL WATER COMPANY.
METROPOLITAN WATER COMPANY	TESTIFIED ON COST OF CAPITAL AND COST OF SERVICE STUDIES.
PONDEROSA UTILITY CORP.	FINANCING OF DEBT AND EQUITY
BIG PARK WATER COMPANY	RATE ADJUSTMENT, COST OF CAPITAL COST OF SERVICE, RATE BASE, INCOME STATEMENT, PROPOSED RATES, AND FINANCING
METROPOLITAN WATER COMPANY	FINANCING USING DEBT WITH A PAYMENT IN LIEU OF REVENUES CHARGE RATHER THAN TRADITIONAL LINE EXTENSION AGREEMENT
VOYAGER WATER COMPANY (FORMERLY TUCSON SOUTH WATER COMPANY)	RATE ADJUSTMENT, COST OF CAPITAL RATE BASE, INCOME STATEMENT AND PROPOSED RATES. FINANCING.
NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS	ANNUAL REGULATORY STUDIES PROGRAM 1987 - 1993 INSTRUCTOR REVENUE REQUIREMENTS
ARIZONA SIERRA UTILITY COMPANY	RATE ADJUSTMENT, COST OF CAPITAL, COST OF SERVICE, RATE BASE, INCOME STATEMENT, PROPOSED RATES, AND FINANCING FOR WATER AND SEWER
CAVE CREEK SEWER COMPANY	REQUEST FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY
GOODMAN WATER COMPANY	REQUEST FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY
AVRA WATER CO-OP, INC.	INTERIM/EMERGENCY RATES AND FINANCING
CAVE CREEK SEWER COMPANY	RATE ADJUSTMENT, COST OF CAPITAL, RATE DESIGN
GOLD CANYON SEWER COMPANY	REQUEST FOR A CERTIFICATE OF CONVENIENCE

	AND NECESSITY
DESERT HILLS WATER COMPANY	COST OF CAPITAL, RATE DESIGN FOR RATE ADJUSTMENT
WILLOW VALLEY WATER COMPANY	COST OF CAPITAL, REBUTTAL TESTIMONY ON ACCUMULATION DEPRECIATION, CONSERVATION AND ELASTICITY, RATE DESIGN.
QUAIL CREEK WATER COMPANY	CERTIFICATE OF CONVENIENCE AND NECESSITY
AVRA WATER CO-OP, INC.	DEBT SERVICE REQUIREMENTS, PERMANENT RATES, CONSERVATION AND PRICE ELASTICITY
RIO VERDE UTILITIES, INC.	COST OF CAPITAL, RATE DESIGN, RATE BASE, INCOME STATEMENT
CHAPARRAL CITY WATER COMPANY	COST OF CAPITAL, RATE DESIGN, RATE BASE, INCOME STATEMENT, ADJUSTER MECHANISM FOR PURCHASED CAP WATER AND PURCHASED ELECTRIC POWER
RIGBY WATER COMPANY	COST OF CAPITAL, RATE DESIGN, RATE BASE, INCOME STATEMENT
BIG PARK WATER COMPANY	COST OF CAPITAL, RATE DESIGN, RATE BASE INCOME STATEMENT
CONSOLIDATED WATER UTILITIES	COST OF CAPITAL, DEBT SERVICE, RATE DESIGN, RATE BASE
UTILITY MANAGEMENT & OPERATION SERVICES	EMERGENCY RATES
RESIDENTIAL SEWAGE WORKS	EMERGENCY RATES
UTILITY MANAGEMENT & OPERATION	DEBT SERVICE, RATE BASE, INCOME STATEMENT, AND RATE DESIGN
RESIDENTIAL SEWAGE WORKS	DEBT SERVICE, RATE BASE, INCOME STATEMENT, AND RATE DESIGN
BOULDERS CAREFREE SEWER CO.	REQUIRED RATE OF RETURN
BELLA VISTA WATER COMPANY	COST OF CAPITAL, RATE BASE, INCOME STATEMENT
RURAL METRO - YUMA AMBULANCE	TESTIFIED AS A CONSULTANT TO ARIZONA DEPARTMENT OF HEALTH ON RATE OF RETURN
PARADISE VALLEY WATER COMPANY	RATES FOR GOLF COURSE
PUEBLO DEL SOL WATER COMPANY	ORDER TO SHOW CAUSE

GOLDEN SHORES WATER COMPANY	RATE BASE, INCOME STATEMENT, COST OF CAPITAL
WILLOW VALLEY WATER COMPANY	RATE BASE, INCOME STATEMENT, COST OF CAPITAL

A CHRONOLOGICAL SUMMARY OF MY SELF-EMPLOYED WORK EXPERIENCE IS PROVIDED BELOW:

ROOSEVELT LAKE RESORT, INC.	RATE BASE, INCOME STATEMENT, COST OF CAPITAL
RIO VERDE UTILITIES, INC.	RATE BASE, INCOME STATEMENT, COST OF CAPITAL FOR WATER AND SEWER
DONEY PARK WATER	RATE BASE, INCOME STATEMENT, RATE DESIGN, AND TIER FOR C0-OP CAPITAL
PARADISE VALLEY WATER COMPANY	RATE DESIGN AND COST OF SERVICE STUDY
BOULDERS CAREFREE SEWER CORP.	RATE BASE, INCOME STATEMENT, COST OF CAPITAL, AND RATE DESIGN FOR SEWER
RANCHO VISTOSO WATER COMPANY	RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN, AND PROPOSED ADJUSTMENT MECHANISM TO RECOVER COSTS OF PUMPING POWER, TREATED AND/OR UNTREATED CAP WATER AND/OR RECHARGE WATER
PARADISE VALLEY WATER CO.	RATE DESIGN AND COST OF SERVICE STUDY AND COST OF CAPITAL
CAMP VERDE WATER SYSTEM	RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN, AND PROPOSED ADJUSTMENT MECHANISM TO RECOVER COSTS OF TREATED WATER
FAR WEST WATER COMPANY	RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN
TURNER RANCHES	RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN
APPALOOSA WATER	APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY
FAR WEST WATER COMPANY	REHEARING ON PROPERTY TAXES
NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS	ANNUAL REGULATORY STUDIES PROGRAM 1991 - 1998 INSTRUCTOR ACCOUNTING FOR NON ACCOUNTANTS, REVENUE

	REQUIREMENTS, COST OF SERVICE, AND ACCOUNTING IN A DE-REGULATED WORLD
VAIL WATER COMPANY	RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN
SANTA CRUZ WATER PALO VERDE UTILITIES	CERTIFICATE OF CONVENIENCE & NECESSITY
GOLDEN SHORES WATER	RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN
BELLA VISTA WATER AND NICKSVILLE WATER	RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN, COST OF SERVICE STUDY, CONSOLIDATION OF WATER COMPANIES
FAR WEST WATER AND SEWER INC.	EMERGENCY RATES
VAIL WATER COMPANY	EMERGENCY RATES
SEDONA VENTURE, WATER AND SEWER	RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN
FAR WEST WATER AND SEWER INC.	RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN, COST OF SERVICE STUDY
VAIL WATER COMPANY	RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN
RIO VERDE UTILITIES, INC.	COST OF CAPITAL, RATE DESIGN, AND COST OF SERVICE STUDY
AVRA WATER CO-OP, INC.	RATE BASE, INCOME STATEMENT, COST OF CAPITAL, RATE DESIGN, COST OF SERVICE STUDY
GOLD CANYON SEWER COMPANY	COST OF CAPITAL, AND RATE DESIGN
GREEN VALLEY WATER COMPANY	COST OF CAPITAL, COST OF SERVICE STUDY, AND RATE DESIGN
NEW RIVER UTILITY	RATE BASE, INCOME STATEMENT, AND RATE DESIGN
BELLA VISTA WATER COMPANY	RATE DESIGN, COST OF SERVICE STUDY, AND COST OF CAPITAL
ARIZONA AMERICAN	RATE DESIGN FOR TEN WASTEWATER AND WATER UTILITIES IN ARIZONA

E

VALLEY UTILITIES WATER COMPANY, INC.

DOCKET W-01412

TARIFF

Issued _____ Effective _____

ISSUED BY:

Robert L. Prince
Valley Utilities Water Company, Inc.
12540 W. Bethany Home Road
Litchfield Park, Arizona 85340

93055.00000.136

EXHIBIT E

Applies to all **WATER** service areas

PART ONE
STATEMENT OF CHARGES
WATER SERVICE

I. RATES

In Opinion and Order No. _____, dated _____ __, 200_, the Commission approved the following rates and charges to become effective with _____ _, 200_ usage.

Meter Size Inches	Usage Included in Minimum Charge Gallons	Minimum Charge Per Month
A. All Services		
5/8" X 3/4" Meter	-0-	10.37
3/4" Meter	-0-	15.66
1" Meter	-0-	25.92
1 1/2" Meter	-0-	51.85
2" Meter	-0-	83.18
3" Meter	-0-	155.55
4" Meter	-0-	259.25
6" Meter	-0-	518.50

ISSUED BY:

Robert L. Prince
Valley Utilities Water Company, Inc.
12540 W. Bethany Home Road
Litchfield Park, Arizona 85340

Applies to all **WATER** service areas

PART ONE
STATEMENT OF CHARGES
WATER SERVICE

B. Tiers

	Tier 1	Tier 2	Tier 3
5/8" X 3/4" Meter	0-8,000	8,001-12,000	Over 12,001
3/4" Meter	0-12,000	12,001-18,000	Over 18,001
1" Meter	0-20,000	20,001-30,000	Over 30,001
1 1/2" Meter	0-40,000	40,001-60,800	Over 60,801
2" Meter	0-64,000	64,001-96,000	Over 96,001
3" Meter	0-128,000	128,001-192,000	Over 192,001
4" Meter	0-200,000	200,001-300,000	Over 300,001
6" Meter	0-400,000	400,001-600,000	Over 600,001

C. Commodity Charges

THE RATE FOR USE IN ADDITION TO THE MINIMUM STATED ABOVE SHALL BE THE SAME FOR ALL SIZES OF METERS. ADDITIONAL USAGE SHALL BE AT THE RATE PER 1,000 GALLONS AS FOLLOWS:

Tier	Rate/1000
1	$1.98
2	$2.42
3	$2.662

D. Construction Water
Above Meter Charges, plus all Water at $2.86 per 1,000 gallons

Issued _____ Effective _____

ISSUED BY:

Robert L. Prince
Valley Utilities Water Company, Inc.
12540 W. Bethany Home Road
Litchfield Park, Arizona 85340

Applies to all **WATER** service areas

PART ONE
STATEMENT OF CHARGES
WATER SERVICE

E. Fire Sprinkler Service[1, 2]

4" Meter	-0-	$20.00
6" Meter	-0-	$34.00
8" Meter	-0-	$50.00

FIRE PROTECTION RATES INCLUDE WATER FOR FIREFIGHTING PURPOSES ONLY. OTHER CONSUMPTION THROUGH FIRE PROTECTION FACILITIES WILL BE ESTIMATED BY THE COMPANY AND BILLED AT GENERAL SERVICE RATES.

[1] See "Fire Hydrant and Interior Fire Sprinkler Service", Sheet No. 14.
[2] Rates authorized in Decision No. 55587, dated June 4, 1987.

ISSUED BY:

Robert L. Prince
Valley Utilities Water Company, Inc.
12540 W. Bethany Home Road
Litchfield Park, Arizona 85340

Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

II. TAXES AND ASSESSMENTS

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-409(D)(5).

Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

III. ADDITIONAL CHARGES

A. Establishment of Service per Rule R14-2-403D (new customer charge, in addition to E, K and L below)	$ 30.00
1. If after hours	$ 45.00
B. Re-establishment of Service per Rule R14-2-403D (same customer, same location within 12 months)	$ Note[3]
C. Reconnection of Service per Rule R14-2-403D	$ 40.00

[3] Number of months off system times the monthly minimum.

Issued _____ Effective _____

ISSUED BY:

Robert L. Prince
Valley Utilities Water Company, Inc.
12540 W. Bethany Home Road
Litchfield Park, Arizona 85340

Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

D.	Charge for moving meter at customer request per Rule R14-2-405B	Cost[4]
E.	Minimum Deposit Requirement per Rule R14-2-403B	
	1. Residential customer	(2 times estimated average monthly bill)
	2. Non residential customer	(2-1/2 times estimated maximum monthly bill)
	3. Deposit Interest	6.0%
F.	Meter test per Rule R14-2-408F	$ 30.00
G.	Meter Reread per Rule R14-2-408C	$ 10.00
H.	Charge for NSF Check per Rule R14-2-409F	$ 25.00

[4] See Sheet No. 9.

Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

I.	Deferred Payment Finance Charge, per month	1.5%
J.	Late Payment Charge, Per Month	10.00[5] [6] [7]

[5] This charge shall not apply if the customer has arranged for a Deferred Payment Plan.
[6] Bills for utility services are due and payable when rendered. Any payment not received within fifteen (15) days from the date the bill was rendered shall be considered delinquent and subject to the termination policy set forth in the Company's rate tariff. All late payment penalties shall be billed on the customer's next regularly scheduled billing. If the customer fails to pay the late payment penalty by the due date on the next billing, the customer will receive a ten (10) day termination notice. If the customer does not pay the late payment penalty by that date the service will be terminated. Service shall be terminated only for that service for which the customer is delinquent or is in violation. All customers whose service is terminated for failure to pay the late payment penalty are subject to the Company's reconnection charges set forth in the Company's tariff.
[7] Rate authorized in Decision No. 56682, dated October 25, 1989.

Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

K. Service Line Tariff and Meter Advance Policy, Refundable per Rule R14-2-405B:

5/8" X 3/4" Meter	520.00
3/4" Meter	600.00
1" Meter	690.00
1 1/2" Meter	935.00
2" Turbine Meter	1,595.00
2" Compound Meter	2,320.00
3" Turbine Meter	2,275.00
3" Compound Meter	3,110.00
4" Turbine Meter	3,520.00
4" Compound Meter	4,475.00
6" Turbine Meter	6,275.00
6" Compound Meter	8,050.00
8" and Larger	Cost

L. Main Extension Tariff, per Rule R14-2-406B Cost[8]

[8] See Sheet No. 9.

ISSUED BY:

Robert L. Prince
Valley Utilities Water Company, Inc.
12540 W. Bethany Home Road
Litchfield Park, Arizona 85340

93055.00000.136

Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

IV. PERMITTED COSTS

A. Costs shall be verified by invoice.

B. For services that are provided by the Company at costs, cost shall include labor, materials, other charges incurred, and overhead not to exceed 10%. However, prior to any such service being provided, the estimated cost of such service will be provided by the Company to the customer. After review of the cost estimate, the customer will pay the amount of the estimated cost to the Company.

C. In the event that the actual cost is less than the estimated cost, the Company will refund the excess to the customer within 30 days after completion of the provision of the service or after Company's receipt of invoices, timesheets or other related documents, whichever is later.

D. In the event the actual cost is more than the estimated cost, the Company will bill the customer for the amount due within 30 days after completion of the provision of the service or after the Company's receipt of invoices, timesheets or other related documents, whichever is later. The amount so billed will be due and payable 30 days after the invoice date. However, if the actual cost is more than five percent (5%) greater than the total amount paid, the customer will only be required to pay five percent (5%) more than the total amount paid, unless the Company can demonstrate that the increased costs were beyond its control and could not be foreseen at the time the estimate for the total amount paid was made.

Applies to all **WATER** service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

E. At the customer's request, the Company shall make available to the customer all invoices, timesheets or related documents that support the cost for providing such service.

F. Permitted costs shall include any State or Federal income taxes that are or may be payable by the Company as a result of any tariff or contract for water facilities under which the Customer advances or contributes funds or facilities to the Company.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

I. CROSS-CONNECTION CONTROL

A. Purpose.

To protect the public water supply in the Company's water supply in the Company's water system from the possibility of contamination caused by backflow through unprotected cross-connections by requiring the installation and periodic testing of backflow-prevention assemblies pursuant to the provisions of the Arizona Administrative Code, Title 14, Chapter 2, Section 405.B.6 as adopted by the Arizona Corporation Commission, and Title 18, Chapter 4, Section 115, as adopted by the Arizona Department of Environmental Quality, as those regulations may be revised from time to time.

B. Inspections.

The customers shall cooperate fully with the Company in its efforts to investigate and determine the degree of potential health hazard to the public water supply which may result from conditions existing on the customer's premises.

C. Requirements.

In compliance with the Rules and Regulations of the Arizona Corporation Commission and the Arizona Department of Environmental Quality, specifically A.A.C. R14-2-405.B.6 and A.A.C. R18-4-115 relating to backflow prevention:

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

1. The Company may require a customer to pay for and have installed, maintain, test and repair a backflow-prevention assembly if A.A.C. R18-4-115.B or C applies.

2. A backflow-prevention assembly required to be installed by the customer under this tariff shall comply with the requirements set forth in A.A.C. R18-4-115.D and E.

3. The Company shall give any customer who is required to install and/or test a backflow-prevention assembly written notice of said requirement. If A.A.C. R14-2-410.B.1.a. is not applicable, the customer shall be given thirty (30) days in which to comply with this notice. If the customer can show good cause as to why he cannot install the device within thirty (30) days, the Company or the Arizona Corporation Commission Staff may grant additional time for this requirement.

4. Testing shall be in conformance with the requirements of A.A.C. R18-4-115.F. The Company shall not require an unreasonable number of tests.

5. The customer shall provide the Company with records of installation and testing. For each backflow-prevention assembly, these records shall include:

a. assembly identification number and description;
b. location;
c. date(s) of test(s);
d. description of repairs made by tester; and
e. tester's name and certificate number.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

II. FIRE HYDRANT, INTERIOR FIRE SPRINKLER SERVICE AND INTERRUPTIBLE SERVICE

The Company will provide Fire Protection Service under the following conditions:

A. Facility Specifications

The size, location, number, and technical specifications of facilities used to provide Fire Protection Service shall be prescribed by the Fire Protection Service Customer, developer, or any authorized agency having jurisdiction over those facilities, so long as:

1. Those facilities do not adversely affect the Company's ability to provide General Service, and

2. The maximum diameter of the service connection is not larger than the diameter of the main to which the service is connected, and

3. In the case of a fire hydrant, that the facilities are located in the public right of way, and

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

4. In the case of a fire sprinkler system, that the sprinkler system is separate from the General Service facilities, unless the Company has specifically approved an integrated system and Company-approved check valves are installed.

B. Construction Specifications; Ownership of Facilities; Relocation

Fire hydrants, and all valves, pipe fittings and appurtenances related to the hydrant shall be installed to Company's specifications under non-refundable Advances in Aid of Construction by the Developer or Fire Protection Service Customer and shall become the property of the Company.

Fire sprinkler systems up to a mutually-agreed upon point of interconnection shall be installed to the Company's construction specifications under non-refundable Advances in Aid of Construction by the Developer for Fire Protection Service Customer, and shall become the property of the Company. The installation, maintenance and operation of fire sprinkler systems within the Customer's facility, and beyond the point of interconnection, shall be the responsibility of the Customer.

Relocation costs of any Company-owned fire protection facilities shall be paid by the Customer or the party requesting relocation. Relocation cost includes cost incurred due to moving facilities to accommodate reconstruction, widening, realignment, or grade changes to alleys, streets, roads, or highways.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

C. Interruptible Service; Company's Liability Limitations

The Company will supply only such water at such pressures as may be available from time to time as a result of the normal operation of its water system. The Company will maintain a minimum water pressure of 20 p.s.i. and will not guarantee a specific gallons per minute flow rate at any public fire hydrants or fire sprinkler service. In the event service is interrupted, irregular or defective, or fails from causes beyond the Company's control or through ordinary negligence of its employees or agents, the Company will not be liable for any injuries or damages arising therefrom.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

III. MULTI-UNIT SERVICE

A. Separate Meter Required

All multiple unit developments requesting water service from the Company, whether residential or commercial, including but not limited to townhouses, condominiums, offices, shopping centers, and industrial facilities but not including residential apartment complexes or recreational vehicle parks in which the average occupancy of individual spaces, in the sole opinion of the Company, is estimated to be less than six months, shall be required to obtain a separate and metered water service connection. Developments requiring water service for common facilities shall receive said service only through a separate, appropriately sized, meter.

B. Existing Master Meters Grandfathered

Master meter service shall not be provided to facilities other than those receiving master metered service as of the effective date of this tariff.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

IV. TERMINATION OF WATER SERVICE FOR NON-PAYMENT OF WASTEWATER BILL

Company customers who also receive wastewater service from Litchfield Park Service Company ("LPSCO") are hereby notified that the Companies have been authorized by the Commission that in the event the wastewater bill of LPSCO is not paid in a timely fashion, and following notice by both Companies, the water service from Valley may be terminated. Water service will not be restored until the customer pays to LPSCO the delinquent balance, plus all-Reconnection of Service and Deposit Requirements pursuant to the LPSCO Tariff, and the payment to the Company of the applicable Reconnection of Service charges pursuant to the Company's Tariff PART ONE-SECTION III. Please see the LPSCO tariff in this regard.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

V. CURTAILMENT PLAN FOR VALLEY UTILITIES WATER COMPANY.

ADEQ Public Water System Number: 07079

Valley Utilities Water Company ("Company") is authorized to curtail water service to all customers, within its certificated area under the terms and conditions listed in this tariff.

This curtailment plan shall become part of the Arizona Department of Environmental Quality Emergency Operations Plan for the Company.

The Company shall notify its customers of this new tariff as part of its next regularly scheduled billing after the effective date of the tariff or no later than sixty (60) days after the effective date of the tariff.

The Company shall provide a copy of the curtailment tariff to any customer, upon request.

Stage 1 Exists When:

Company is able to maintain water storage in the system at 100 percent of capacity and there are no known problems with its well production or water storage in the system.

Restrictions: Under Stage 1, Company is deemed to be operating normally and no curtailment is necessary.

Notice Requirements: Under Stage 1, no notice is necessary.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

Stage 2 Exists When:

a. Company's water storage or well production has been less than 80 percent of capacity for at least 48 consecutive hours, and

b. Company has identified issues such as steadily declining water table, an increased draw-down threatening pump operations, or poor water production creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.
Restrictions: Under Stage 2, the Company may request the customers to voluntarily employ water conservation measures to reduce water consumption by approximately 50 percent. Outside watering should be limited to essential water, dividing outside watering on some uniform basis (such as even and odd days) and eliminating outside watering on weekends and holidays.
Notice Requirements: Under Stage 2, the Company is required to notify customers by delivering written notice door to door at each service address, or by United States first class mail to the billing address or, at the Company's option both. Such notice shall notify the customers of the general nature of the problem and the need to conserve water.

Stage 3 Exists When:

a. Company's total water storage or well production has been less than 50 percent of capacity for at least 24 consecutive hours, and

b. Company has identified issues such as a steadily declining water table, increased draw down threatening pump operations, or poor water production, creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

Restrictions: Under Stage 3, Company shall request the customer to voluntarily employ water conservation measures to reduce daily consumption by approximately 50 percent. All outside watering should be eliminated, except livestock, and indoor water conservation techniques should be employed whenever possible. Standpipe service shall be suspended.

Notice Requirements:

1. Company is required to notify customers by delivering written notice to each service address, or by United States first class mail to the billing address or, at the Company's option both. Such Notice shall notify the customers of the general nature of the problem and the need to conserve water.

2. Beginning with Stage 3, Company shall post at least four signs showing the curtailment stage. Signs shall be posted at noticeable locations, like at the well sites and at the entrance to the major subdivision served by the Company.

3. Company shall notify the Consumer Services Section of the Utilities Division of the Corporation Commission at least 12 hours prior to entering stage 3.

Once Stage 3 has been reached, the Company must begin to augment the supply of water by either hauling or through an emergency interconnect with an approved water supply in an attempt to maintain the curtailment at a level no higher than stage three until a permanent solution has been implemented.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

Stage 4 Exists When:

a. Company's total water storage or well production has been less than 25 percent of capacity for at least 12 consecutive hours, and

b. Company has identified issues such as a steadily declining water table, increased draw down threatening pump operations, or poor water production, creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.

Restrictions: Under Stage 4, Company shall inform the customers of a **mandatory** restriction to employ water conservation measures to reduce daily consumption. Failure to comply will result in customer disconnection. The following uses of water shall be prohibited:

- Irrigation of outdoor lawns, trees, shrubs, or any plant life is prohibited
- Washing of any vehicle is prohibited
- The use of water for dust control or any outdoor cleaning uses is prohibited
- The use of drip or misting systems of any kind is prohibited
- The filling of any swimming pool, spas, fountains or ornamental pools is prohibited
- The use of construction water is prohibited
- Restaurant patrons shall be served water only upon request
- Any other water intensive activity is prohibited

The Company's operation of its standpipe service is prohibited. The addition of additional service lines and meter installations is prohibited.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

Notice Requirements:

1. Company is required to notify customers by delivering written notice to each service address, or by United States first class mail to the billing address or, at the Company's option, both. Such notice shall notify the customers of the general nature of the problem and the need to conserve water.
2. Company shall post at least four (4) signs showing curtailment stage. Signs shall be posted at noticeable locations, like at the well sites and at the entrance to the major subdivision served by the Company.
3. Company shall notify the Consumer Services Section of the Utilities Division of the Corporation Commission at least 12 hours prior to entering Stage 4.

Customers who fail to comply with cessation of outdoor use provisions will be given a written notice to end all outdoor use. Failure to comply with in two (2) working days of receipt of the notice will result in temporary loss of service until an agreement can be made to end unauthorized use of outdoor water. To restore service, the customer shall be required to pay all authorized reconnection fees. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.

Once Stage 4 has been reached, the Company must augment the supply of water by hauling or through an emergency interconnect from an approved supply in an attempt to maintain the supply until a permanent solution has been implemented.

Applies to all **WATER** service areas

PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

VI. RULES AND REGULATIONS

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. A.A.C. R14-2-401 through A.A.C. R14-2-411 will be controlling of Company procedures, unless specific Commission Order(s) provide otherwise.

EXHIBIT
A-2
Admitted

Richard L. Sallquist, Esq. (002677)
SALLQUIST & DRUMMOND, P.C.
4500 S. Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Telephone: (480) 839-5202
Fax: (480) 345-0412
Attorneys for Valley Utilities Water Company, Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AUTHORITY TO ISSUE PROMISSORY NOTE(S) AND OTHER EVIDENCES OF INDEBTEDNESS PAYABLE AT PERIODS OF MORE THAN TWELVE MONTHS AFTER THE DATE OF ISSUANCE.	)	DOCKET NO. W-01412A-04___ **APPLICATION**

Valley Utilities Water Company, Inc. ("Valley" or the "Company"), by and through undersigned counsel, respectfully states the following in support of this Application:

1. Valley is a corporation duly organized and existing under the laws of the State of Arizona. Its principal place of business is 12540 W. Bethany Home Rd., Litchfield Park, Arizona 85340.

2. Valley is a public service corporation primarily engaged in the business of providing water utility service in its certificated area in portions of Maricopa County, Arizona.

3. Valley seeks herein Commission approval for the issuance of promissory note(s) and other evidences of indebtedness in the original amount of up to $1,926,100.

4. Valley proposes to use the proceeds of the financing to purchase or construct certain plant and equipment necessary to treat and remove the arsenic from water produced by its existing wells. The details of the proposed construction projects are contained in the Narasimham Consulting Services, Inc.'s Arsenic Treatment Study, dated May 2004, attached hereto as **Attachment A** and are incorporated herein by this reference for all purposes.

5. The Company filed its application with Water Infrastructure Finance Authority of Arizona (WIFA) in the amount of $1,926,100 in the Fall of 2004, and the Company is on the WIFA 2005 Priority List. That loan will be utilized for the funding of the WIFA projects as described on **Attachment A**. The terms and conditions of that loan are expected to be a twenty year Promissory Note and Deed of Trust bearing an approximately 5.0% interest rate with monthly payments of $12, 711, and annual debt service of $152, 536. The Promissory Note and Deed of Trust are anticipated to be the standard WIFA documents and will be filed with the Commission upon issuance.

6. The Company has filed a permanent Rate Application, which increases will, among other things, support debt service for the WIFA loan as requested herein.

7. Additionally, the Company has filed an application for a Hook-Up Fee Tariff ("HUF"). All of the receipts from HUF's will be used to reduce the WIFA loan principal on the Arsenic Treatment System. It is estimated that approximately $550,000 will be recovered from the HUF's, which receipts are more fully set forth in **Attachment B** and incorporated herein by this reference for all purposes.

8. The Company will file a Motion to Consolidate and Rate Application with the Financing Application in a separate filing. The Company proposes to not consolidate the HUF Tariff Application with these matters, but to let the Tariff go into effect pursuant to A.R.S. § 40-367. This will permit the Company to collect the HUF's from the customer additions during the twelve-month pendency of the Rate Application.

9. Attached as **Attachment C** and incorporated herein by reference for all purposes are Valley's compiled financial statements as of December 31, 2003.

10. Attached hereto as **Attachment D**, and incorporated herein by this reference for all purposes, is a proforma capital structure before and after the financing.

11. Attached as **Attachment E** and incorporated herein for all purposes is a form of the Resolution of the Valley's Board of Directors authorizing this application and the issuance of the Promissory Note(s) and the evidences of indebtedness.

12. Valley will provide notice of the filing of this Application in conformity with A.R.S. § 40-302 in the form attached as **Attachment F** and incorporated herein by this reference, which exhibit contains the form of the Notice of Publication to be filed with the Commission, or in such other form as ordered by the Commission.

13. In Valley's opinion the purpose to which proceeds of the issuance of the Promissory Note(s) and evidences of indebtedness will be applied as set forth above are lawful, and within its powers and are compatible with the public interest, with sound financial practices, and with the proper performance of the Company of service as a public service corporation and will not impair its ability to perform that service. The Company is further of the opinion that the issuance of the Promissory Note(s) and evidences of indebtedness as herein contemplated are reasonably necessary or appropriate for the aforementioned purposes. To the extent that such purposes may be considered reasonably chargeable to operating expenses or to income, the Company requests that they be permitted by the Commission in the order sought hereby.

WHEREFORE, Valley requests that the Commission make such inquiry or investigation that the Commission may deem necessary and appropriate; make the findings required by A.R.S. § 40-301 and § 40-302 relative to the purposes of issuing the Promissory Note(s) and evidences of indebtedness as herein stated; and thereafter make an immediately effective order (i) authorizing the Company to issue the Promissory Note(s) and entry into the proposed evidences of indebtedness, in the same manner and for the purposes herein contemplated, (ii) stating that the issuance of the Promissory Note(s) and evidences of indebtedness are reasonably necessary or appropriate for the

purposes set forth above, (iii) stating that such purposes are within those permitted by A.R.S. § 40-301, and (iv) approving such purposes to the extent that they may be considered reasonably chargeable to operating expenses or income.

Respectfully submitted this 24th day of November, 2004.

SALLQUIST & DRUMMOND, P.C.

By _____

Richard L. Sallquist
4500 S. Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Attorneys for Valley Utilities Water Company, Inc.

Original and ten copies of the foregoing filed this 24th day of November, 2004, with

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

93055.00000.138

Copies of the foregoing Hand Delivered this 29th day of November, 2004 to:

Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

93055.00000.138

LIST OF EXHIBITS

ATTACHMENT	DESCRIPTION
A	FINANCING DETAILS
B	HUF COMPUTATION
C	FINANCIAL STATEMENTS
D	PRO FORMA CAPITAL STRUCTURE
E	BOARD OF DIRECTORS RESOLUTION
F	NOTICE OF PUBLICATION

VALLEY UTILITIES WATER COMPANY INC.

WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA

ARSENIC TREATMENT STUDY

FINAL REPORT

WIFA TASK ASSIGNMENT
TA DW 023-2003

May 2004

NCS
Narasimhan Consulting Services, Inc.
3150 N. 24th Street, Suite D-104
Phoenix, AZ 85016
(602) 629-0206

ATTACHMENT A

TABLE OF CONTENTS

Section No. & Title — Page #

1.0 BACKGROUND 1
- 1.1 Report Organization 1
- 1.2 Definitions of Terms Used in Treatment Processes 1

2.0 OBJECTIVES 2

3.0 GROUNDWATER QUALITY 2
- 3.1 Impact of Other Parameters 2
- 3.2 Valley Utilities Wells 3

4.0 TECHNOLOGY ASSESSMENT 4
- 4.1 Adsorption 4
  - 4.1.1 Adsorption using Granular Iron Based Media 5
  - 4.1.2 Iron modified Activated Alumina Adsorption Media 6
- 4.2 Partial Stream Treatment 6

5.0 SITE SPECIFIC IMPLEMENTATION 7

6.0 PILOT TEST RESULTS 8

7.0 PILOT TESTING CONCLUSIONS AND ANTICIPATED PROCESS PERFORMANCE 10

8.0 IMPLEMENTATION STRATEGY 11
- 8.1 Treatment Options 11
- 8.2 Non-Treatment (Blending) Option 17

9.0 RECOMMENDED ALTERNATIVE 18
- 9.1 Site Criteria and Piping 18
- 9.2 Pumping Requirements 19
- 9.3 Sanitary Sewer Connection 19

10.0 SUMMARY AND RECOMMENDATIONS 19

LIST OF TABLES

Table #	Title	Page #
1	Valley Utilities Wells Water Quality	3
2	Ground Water Quality During Pilot Testing	8
3	Design Criteria for Single Vessel Full Flow Arsenic Adsorption Facility for Valley Utilities Wells	12
4	Full Flow Single Vessel GIM Treatment Costs for Valley Utilities Wells	13
5	Design Criteria for Dual Vessel Partial Flow Arsenic Adsorption Facility for Valley Utilities Wells	15
6	Dual Vessel Partial Flow GIM Treatment Costs for Valley Utilities Wells	16
7	Design Criteria for Dual Vessel Partial Flow (with Two Parallel Trains) Arsenic Adsorption Facility for Valley Utilities Wells	17
8	Comparison of Valley Utilities Wells Arsenic Treatment Costs	18

LIST OF FIGURES

Figure No.	Title	Page #
1	Schematic of a Single Vessel GIM Treatment System	After Page 5
2	Schematic of a Dual Vessel GIM Treatment System	After Page 5
3	Arsenic Breakthrough in GFH Media	After Page 9
4	Fluoride Removal in GFH Media	After Page 9
5	Silica Removal in GFH Media	After Page 9
6	Iron Release in GFH Media	After Page 10
7	Layout of a Dual Vessel Facility at Reservoir Site	After Page 18

ARSENIC TREATMENT STUDY

Valley Utilities Water Company
WIFA TA DW 023-2003

1.0 BACKGROUND

The Valley Utilities currently depends solely on groundwater sources for its potable water needs. Based on the historical analytical data, three Valley Utilities wells contain elevated levels of arsenic. Valley Utilities has identified that Wells 4, 5 and 6 will likely require arsenic treatment to comply with the new arsenic MCL. Wells 4 and 5 constitute POE 002 and Well 6 constitutes POE 003. Currently, Wells 4 and 5 feed the onsite reservoir (Reservoir No. 1) and Well 6 feeds the reservoir (Reservoir No. 2) located at the northwest intersection of El Mirage Rd. and Maryland Ave. (approximately 0.5 miles southeast of the well site). All three wells are located at the Reservoir No.1 site. Valley Utilities is planning on constructing another reservoir in the service area.

1.1 Report Organization

This report includes an overview of the treatment technologies under consideration, pilot testing results and treatment recommendations. A detailed discussion of existing water quality is also presented. Section 8.0 of the report presents the implementation options for the Valley wells along with the recommended strategy. Preliminary facility layouts and design criteria are also presented.

1.2 Definitions of Terms Used in Treatment Processes

Adsorbate: The molecule or contaminant (arsenic, nitrate) that accumulates, or adsorbs, at the interface (solid and liquid or solid and gas) during adsorption processes is called the adsorbate.

Adsorbent: The solid on which adsorption occurs is called the adsorbent (adsorption media or IX).

Bed Volume (BV): The volume of media in an adsorption vessel (expressed as ft^3 or gallons).

Breakthrough: Breakthrough is the appearance of an unwanted contaminant at an unacceptable concentration in the effluent. The breakthrough for arsenic is defined at 8 ppb (80% of MCL) or some other target levels.

Backwash: Backwash is the process in which a countercurrent flow to fluidize the bed is passed through the media in order to remove accumulated particles (inert solids) from the media and to achieve bed expansion. During this process, the contaminants adsorbed on the media are not removed (as with regeneration).

Empty Bed Contact Time (EBCT): EBCT is the theoretical time the water is in contact with the adsorption media (computed as the BV divided by the flow rate through a vessel).

Exhaustion: Exhaustion is the depletion of the adsorptive capacity of the media in the service mode.

Run Length: Run length is the number of BVs of water treated to reach exhaustion, or a specified treatment objective.

2.0 OBJECTIVES

The specific objectives of the study were:

1. To perform a water quality and treatment evaluation of the Valley Utilities wells.
2. To design and conduct a pilot study to evaluate the most feasible treatment alternative available for arsenic removal.
3. To evaluate the results of the pilot study.
4. To identify implementation options, establish facility design criteria, and treatment costs for the most effective technology.

3.0 GROUNDWATER QUALITY

3.1 Impact of Other Parameters

This section provides an overview of the co-occurring constituents that impact arsenic removal and the levels at which these contaminants are of concern, particularly for adsorption processes. A summary of these key parameters is presented below:

- Silica is the most significant competing anion that interferes with arsenic removal in an arsenic removal system that utilizes adsorption. Silica (SiO_2), at levels above 30 mg/L, can cause an impact on adsorption processes.
- Trace levels of phosphorus (0.1-0.2 mg/L), reported as total phosphorus, can significantly impact adsorption using granular iron media. If phosphorus levels are greater than 0.2 mg/L, granular iron media will not be an acceptable treatment technology.
- Fluoride significantly impacts arsenic removal in iron modified activated alumina adsorption systems as it competes for the adsorption sites along with arsenic. Fluoride levels greater than 1.3 mg/L can impact arsenic adsorption systems.
- Alkalinity and pH can impact chemical feed parameters for technologies requiring pH adjustment. As pH levels rise above 8.0, the media loses its positive charge and more silicate ions are present, both significantly reducing adsorption capacity.
- Constituents such as chlorides, sulfates, and bicarbonates may not individually pose any significant impact to adsorption systems. However, when present in high concentrations (TDS >750 mg/L), they may be sorbed to the arsenic removal media due to the principles of mass action.
- High levels of iron (>0.5 mg/L) and manganese (>0.05 mg/L) may plug and foul the adsorption systems, particularly if sufficient oxidation occurs before the treatment system.
- Based on the observations from recent pilot studies, vanadium, if present in concentrations similar to arsenic in source water, may cause a reduction in the adsorption capacity.

3.2 Valley Utilities Wells

Historical water quality data (1988-to-date), with four data points, was provided by Valley Utility personnel. The statistical distribution of constituent levels was calculated and is presented below in Table 1.

Table 1: Valley Utilities Wells Water Quality

Constituent	Units	Concentration	No of samples
pH	-	7.8	3
Arsenic	ppb	14	4
TDS	mg/L	273	3
Alkalinity	mg/L	125	3
Fluoride	mg/L	1.1	3
Nitrate	mg/L	2.9	4
Calcium	mg/L	25	3
Chloride	mg/L	42	4
Hardness	mg/L	94	4
Iron	mg/L	0.10	3
Magnesium	mg/L	10	3
Manganese	mg/L	0.018	3
Sodium	mg/L	59	3
Sulfate	mg/L	44	3
Chromium	mg/L	0.015	2
Silica as SiO_2	mg/L	26	3

Note: Maximum concentrations reported for arsenic, nitrate, and chromium; average concentrations reported for other parameters

It is noted that the water quality data shown in Table 1 represents the blended water for the Wells 4, 5 and 6. The water quality in Wells 4, 5 and 6 is similar as they belong to the same aquifer. No significant variation in water quality exists except for pH. Based on four data points, the pH values in the well water ranged from 7.5 to 8.1 with an average of 7.8. The arsenic levels in the well water ranged from 12-14 ppb. In general, the groundwater is low in TDS (average 273 mg/L), hardness (94 mg/L), alkalinity (125 mg/L) and nitrate (2.9 mg/L). The average of three silica (as SiO_2) samples was 26 mg/L. No other significant interfering contaminants such as phosphate, chloride, or TDS are present at levels of concern and favorable water quality conditions for arsenic removal are anticipated. Historical data was not available for vanadium; therefore, vanadium levels in the well water were closely monitored during the pilot study. It was found that the vanadium levels were consistently below 10 ppb, not considered to be an impact on arsenic treatment.

Historically, there have been seasonal variations in the flow rates from the wells operated by the Valley Utilities. Typically, the well production is higher during the summer than in winter. Based on a conversation with Valley Utilities personnel, the range of flows for Wells No.4, 5 and 6 are 110-400 gpm, 300-500 gpm, and 350-600 gpm, respectively. The maximum combined flow from the three wells can be 1500 gpm (during peak demand scenarios). Therefore, the treatment system would be designed to treat 1500 gpm of total well flow.

4.0 TECHNOLOGY ASSESSMENT

Arsenic removal technologies under consideration include various adsorption media such as alumina, iron composite, and other metallic sorbents. A description of each treatment technology is included in the following sections. All of these technologies may be considered by Valley Utilities, though there are some significant differences in operational criteria such as the level of chemicals used, amount of flexibility provided for future changes in technology, waste streams that are generated, and simplicity of operation. Discussions regarding these operational issues are also presented in the following sections.

4.1 Adsorption

Adsorption refers to the accumulation of material at the interface between two phases (water and solid media). As water containing ionized arsenic passes through an adsorption column, arsenic sorbs to the solid media due to surface attractive forces. Adsorption media for arsenic removal are activated alumina and granular iron media. During adsorption, water is passed continuously through a column containing adsorption media. Over a period of time, the capacity of the adsorption media is exhausted, and it needs to be regenerated or replaced. Since media regeneration is tedious and generates hazardous wastes, regenerating adsorption media is not recommended. The alternative option is throw-away adsorption media, which eliminates the complexities associated with regeneration. The throw away media needs to be disposed of properly and should not leach arsenic beyond its regulatory limits.

Several types of adsorbents are either commercially available or are in research and development stages for potential arsenic removal. Established adsorption media include activated alumina, iron modified activated alumina (Fe-AA), granular iron media (GIM), and other composites using zinc, copper, and titanium. Of these products GIM and Fe-AA are the most proven, established, and commercially available. GIM has the added advantage of performing well at higher pH levels (7-8) and is a viable process without the use of pH reduction chemicals. It is anticipated that in coming years other media will become available with similar properties, but for the purposes of this evaluation, GIM will be used as the baseline adsorption technology. Based on experience, a system that is designed for GIM can be replaced with an alternate, more effective, media in the future without any major physical modifications. One significant advantage of the adsorption process is its flexibility (ability to accommodate more cost-effective adsorbents in the future).

4.1.1 Adsorption using Granular Iron Based Media

GIM such as granular ferric hydroxide (GFH) or Bayoxide E-33 are effective in removing arsenic utilizing a fixed bed adsorption process. Recent tests conducted in the Valley have shown that the adsorptive capacity of granular iron media is several magnitudes greater than the alumina based sorbents.

Results from pilot scale studies indicated that an EBCT of 2.5 minutes is required for effective arsenic removal. Previous testing conducted in Phoenix, Arizona on an influent with 10 ppb arsenic showed that with an EBCT of 2.5 minutes and without pH adjustment (ambient pH of 7.9), GFH treated approximately 89,000 BVs (155 continuous operational days) of water before arsenic breakthrough occurred (NCS, 2000). Similar tests conducted at Metro Water, Tucson, AZ on an influent with 11 ppb arsenic showed that with an EBCT of 2.5 minutes and no pH adjustment (ambient pH of 6.9), GFH treated > 45,000 BVs (78 continuous operational days) of water before arsenic breakthrough occurred (NCS, 2001). A full-scale GFH facility that treats 1.5 mgd of groundwater with 17 ppb arsenic and a pH of 7.7 (Well 280) was put into operation in June 2003 in the City of Phoenix. Other full scale facilities are planned in Phoenix, Scottsdale, and El Paso, Texas, using a similar design and media.

Phosphorus levels >0.2 mg/L and pH levels >8.0 can significantly impact the performance of iron based media. Silica also impacts performance, but not as significantly as it does for alumina based sorbents. The media can be used on a throw-away basis and hazardous wastes are not generated.

Various GIM treatment configuration options using a single vessel or two vessels in series are possible based on water quality, feasibility of partial stream treatment, and the level of redundancy required. These treatment configuration options are shown below.

1. For wells with influent arsenic levels ≥18 ppb and pH <8.0, single pass GIM treatment without pH adjustment with full-flow treatment is recommended. The column(s) are operated to 8-10 ppb arsenic breakthrough before the media is replaced. The schematic of a single pass GIM treatment system without pH adjustment is shown in Figure 1.

2. For wells with influent arsenic levels <18 ppb and pH ≤8.0, two vessels in a series GIM system without pH adjustment with partial stream treatment is recommended. The lead (first) column is operated to a breakthrough of 9-10 ppb at which time the effluent arsenic concentration is 3 ppb in the lag (second) column. The media in the lead column is then replaced. All of the water that needs to be treated is passed through the second column when the media is being replaced in the lead column. After media replacement, the lag column will become the lead column and vice versa. The schematic of a two vessel GIM treatment system without pH adjustment is shown in Figure 2. Based on pilot tests conducted at the Valley Utilities reservoir site, a two vessel system with 15 ppb influent arsenic would treat 180,000 BVs before media replacement (312 days of operation).

Figure 1: **Schematic of a Single Vessel GIM Treatment System**

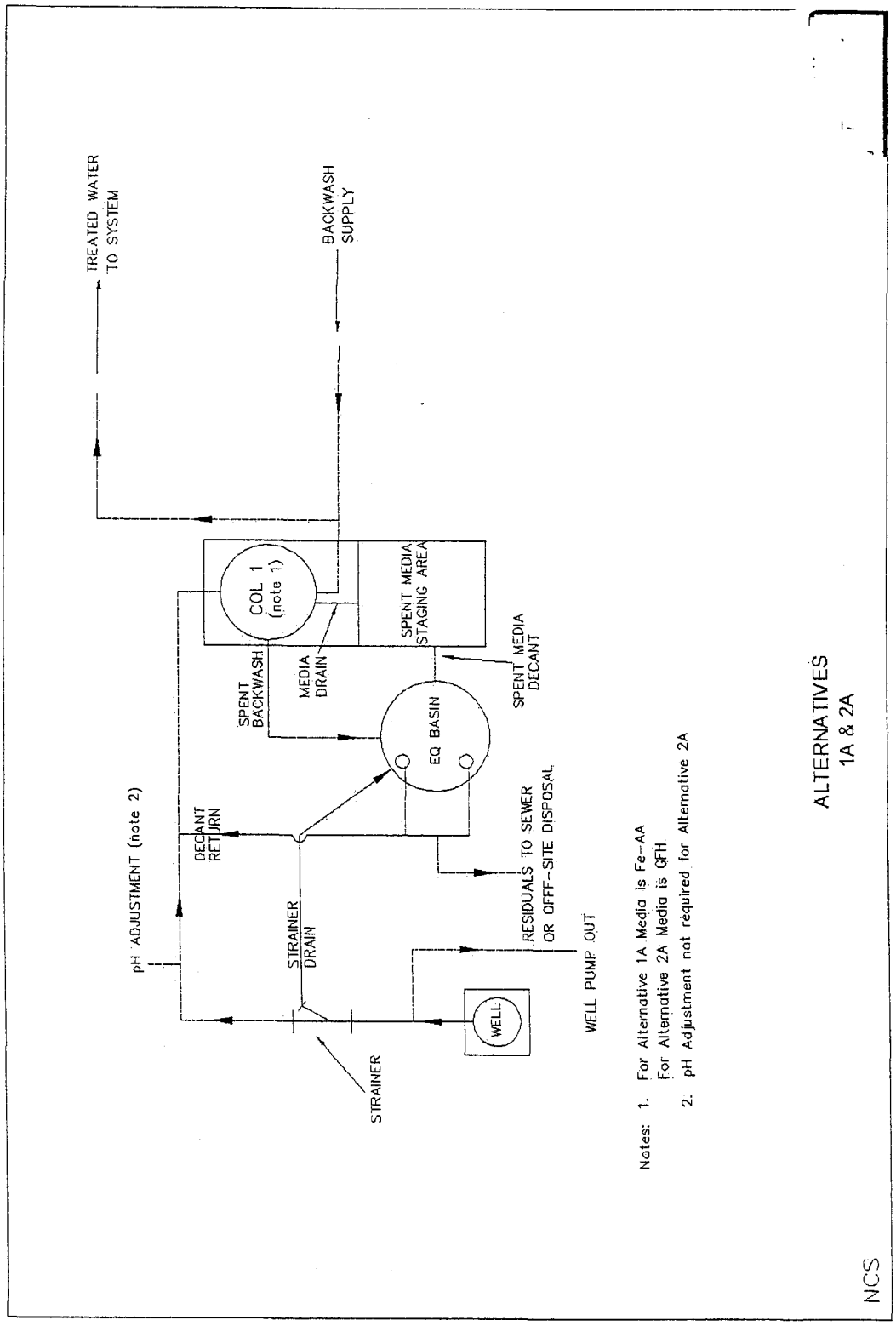
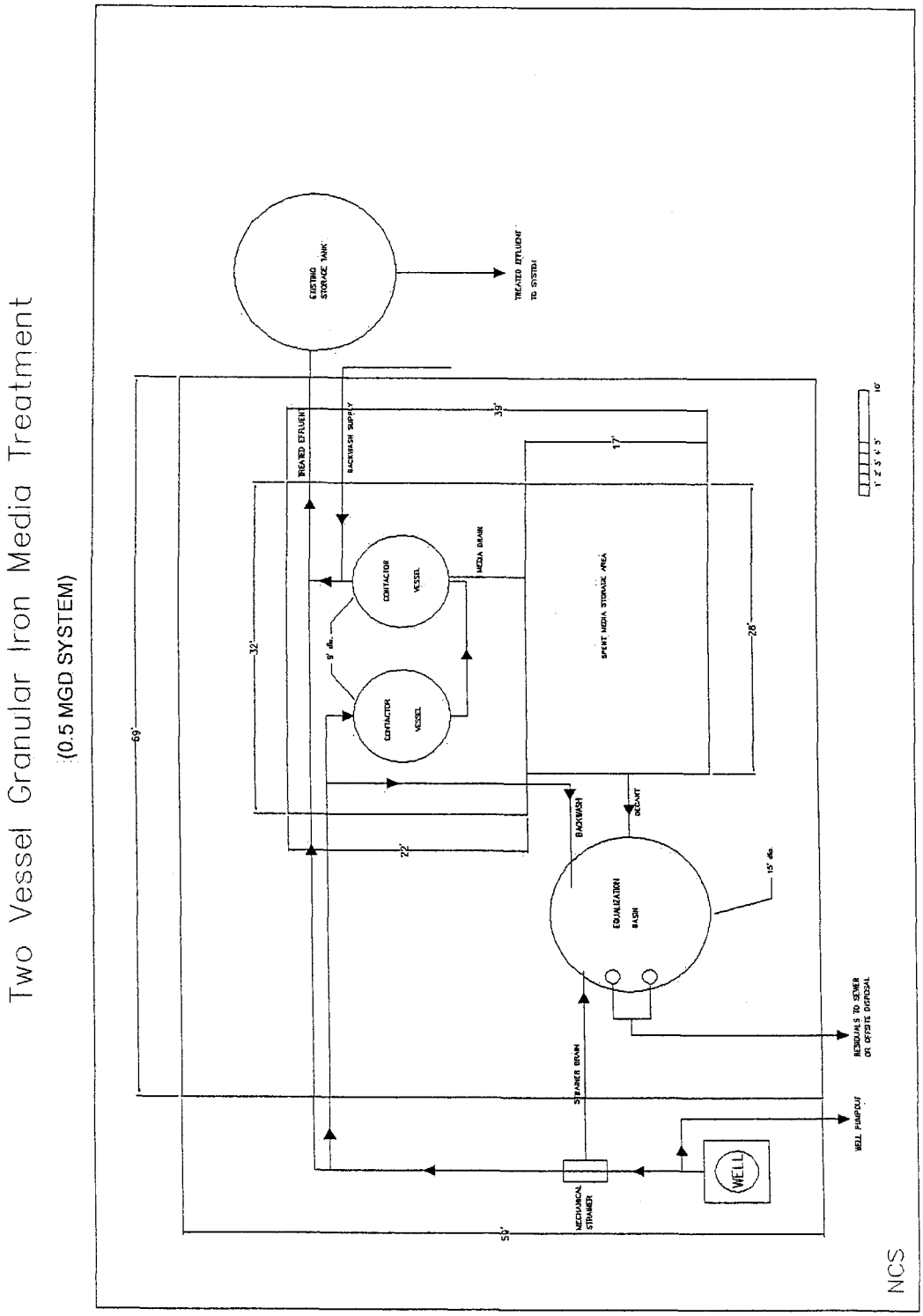


Figure 2: **Schematic of a Dual Vessel GIM Treatment System**



4.1.2 Iron modified Activated Alumina Adsorption Media

Iron-enhanced activated alumina (Fe-AA) media has run lengths significantly greater than those for conventional AA. pH adjustment to approximately 6.8 is necessary. Field scale tests have shown that effective removal rates and long column run lengths can be achieved in local groundwater supplies, as discussed below.

Previous testing conducted in Phoenix, Arizona on an influent with 14 ppb arsenic demonstrated that with an EBCT of 5 minutes and with pH adjustment to less than 7.0, Fe-AA treated approximately 18,500 BVs (64 continuous days of operation) of water before arsenic breakthrough occurred (NCS, 2000). Similar tests conducted at Metro Water, Tucson, AZ on an influent with 23 ppb arsenic showed that with an EBCT of 5.0 minutes and without pH adjustment (ambient pH of 6.9), Fe-AA treated approximately 26,000 BVs (90 continuous days of operation) of water treatment before arsenic breakthrough occurred (NCS, 2001). Lower silica levels were present at the Tucson site, which resulted in longer filter runs.

Fe-AA can also be used on a throw-away basis once the adsorptive capacity is exhausted. The media would be replaced periodically. Residuals handling for throw-away Fe-AA requires a small concrete staging area to stockpile the media prior to its landfill disposal.

Various Fe-AA treatment configuration options using a single vessel or two vessels in series are possible, similar to the GIM systems discussed above.

4.2 Partial Stream Treatment

The concept of partial stream treatment can be used to meet the target treated water arsenic value of 8 ppb. This can save costs in comparison to treating the whole flow, particularly when the well water arsenic level is only slightly above the current MCL. Under this scenario, a portion of the flow is treated while the remaining flow is bypassed and blended back with the treated flow. This is generally economical up to a partial treatment flow equal to approximately 75% of the total well capacity. After this point, the costs of media consumption, controls, piping, meters, and control valves will offset the reduced costs of partial treatment. A sample calculation to determine treated water flow based on well water arsenic concentration is presented below for a well with an influent arsenic level of 15 ppb and a flow of 1 MGD (the target arsenic level after partial stream treatment and blending would be 8 ppb).

$$\text{Treatment Plant Flow (mgd)} = \frac{(As_{well} \times Q_{well} - Q_{well} \times As_{POE})}{As_{well} - As_{effluent}} \qquad \text{(Equation 1)}$$

$$= \frac{(15 \times 1 - 1 \times 8)}{15 - 3}$$

$$= 0.58 \text{ MGD}$$

Where:

Treatment Plant Flow (MGD) = size of the partial stream arsenic treatment facility

As_{well}	=	arsenic level in well to be treated (ppb)
Q_{well}	=	well flow rate (MGD)
As_{POE}	=	target arsenic level at point of entry in blended effluent (generally 80% of MCL)
$As_{effluent}$	=	effluent arsenic level in WTP (3 ppb - this is for this example only)

The advantages of partial stream treatment include lower pressure ratings for the treatment system, lower treatment costs, smaller facilities, and reduced O&M costs. Partial stream treatment can be used for any type of adsorption media. Depending on the groundwater arsenic level, a portion of the flow is treated in the series configuration. Partial stream treatment may be considered for GIM processes using a target arsenic level in treated water of 3 ppb. For CF technology, partial stream treatment can be considered using a treated water effluent level of 5 ppb.

5.0 SITE SPECIFIC IMPLEMENTATION

In general, adsorption processes are more economical for treatment systems less than 2 MGD with moderate arsenic concentrations (arsenic < 18 ppb), particularly where pH adjustment is not required. Also, a partial flow treatment concept is applicable to wells with arsenic levels less than 18 ppb. Based on this premise, the following mitigation strategies were evaluated for the Valley Utilities wells:

A. Treatment Options
   1. Single vessel full flow adsorption treatment for the arsenic-impacted Valley Utilities wells (Well No. 4, 5 and 6). The combined facility would be located at Reservoir No. 1. Existing pipelines would be utilized to deliver flows from the treatment facility to Reservoir No. 1 and 2.
   2. Dual vessel partial flow adsorption treatment for the arsenic-impacted Valley Utilities Wells (Well No. 4, 5 and 6). The combined facility would be located at Reservoir No. 1. Existing pipelines would be utilized to deliver flows from the treatment facility to Reservoir No. 1 and 2.

B. Non-Treatment (Blending) Option
   1. Blend with water from the Airline Well Field owned by the Litchfield Park Service Company (LPSCO) at their new reservoir to be located 0.5 miles east of the Valley Utilities Reservoir No. 1. Dedicated pipelines would be required to deliver the water to the Airline Well Field Reservoir and back to the Valley Utilities reservoirs (Reservoir No. 1 and 2). Additional pumping costs would be incurred and LPSCO would charge for the O&M of the facility at dollars per every 1000 gallons delivered basis.

To assist in developing and evaluating the implementation alternatives listed above, pilot testing was conducted to develop design and operating criteria specific to Valley Utilities. Pilot tests were conducted at the Reservoir No. 1 site between March and September 2003. The findings from these tests have been utilized for developing full scale design criteria for the Valley Utilities arsenic-impacted wells. A discussion of these pilot testing activities is presented below.

6.0 PILOT TEST RESULTS

Pilot testing of adsorption media was conducted at the Valley Utilities Reservoir No. 1 site. A GIM adsorption product, GFH, was tested at the site to verify the media performance, develop design criteria, and assess the impacts of other water quality parameters on arsenic removal. The pilot test was conducted at an average ambient pH level of 7.8. The results of the pilot testing activities are presented below to develop conclusions that can be applied to the design of an arsenic treatment facility.

During the pilot study, additional groundwater quality data was collected to establish the characteristics of the Valley Utilities wells, as shown in Table 2.

Table 2: Ground Water Quality during Pilot Testing

		Average	Minimum	Maximum	90th Percentile
pH	Std. Units	7.8	7.6	8.0	8.0
Arsenic	ppb	12	9	20	15
Fluoride	mg/L	0.7	0.6	1	0.8
Silica	mg/L as Si	11.2	7.6	16.1	12.7
Iron	mg/L	0.14	0.03	0.32	0.30
Phosphate	mg/L as P	<0.05	<0.05	<0.05	<0.05
TDS	mg/L	311	295	328	324
Alkalinity	mg/L as $CaCO_3$	128	126	130	129
Vanadium	mg/L	<0.010	<0.010	<0.010	<0.010

During the pilot testing duration, the well water arsenic levels in well water ranged from 9 ppb to 20 ppb, with an 90th percentile level of 15 ppb. The operating pH levels ranged from 7.6 to 8.0, with an average value of 7.8. Fluoride levels ranged from 0.6 to 1.0 mg/L, with an average level of 0.7 mg/L. Silica levels ranged from 7.6 to 16.1 mg/L, with an average level of 11.2 mg/L. Iron levels ranged from 0.03 to 0.32 mg/L, with an average level of 0.14 mg/L. Phosphorus was not detected in the well water. Vanadium levels were consistently less than 0.010 mg/L. The average TDS and alkalinity levels in the well water were 311 mg/L and 128 mg/L as $CaCO_3$, respectively. The well water quality during the pilot study was found to be similar to the historical well water quality presented in Section 3.2.

The GFH column was tested continuously for approximately six months (04/03/03 to 09/19/03) to the maximum extent possible with 9% of down time. The GFH unit was an 8-inch diameter column

with a media depth of 2.0 feet and operated at a flow rate of 2.0 gpm, corresponding to a hydraulic loading rate (HLR) of 5.75 gpm/ft^2 and an EBCT of 2.5 minutes. The column was operating at a very high pressure of 80 psi.

Based on previous experience, results from a 2.5 minute EBCT contactor are similar to results from contactors with greater EBCT values, as far as treatment capacity or BVs treated. This is due to the reaction time between arsenic and the media, which is optimized at 2.5 minutes. Therefore, higher EBCTs were not tested in the evaluation. The pilot results can be adjusted to determine design parameters for full scale facilities with an EBCT of 2.5 minutes per contactor. Well water and treated water were analyzed twice a week for arsenic, silica, iron, pH, fluoride and total phosphorus.

Arsenic in the Salt River Valley aquifer is present primarily as oxidized As(V) species. In the event some As(III) is present, prechlorination with 0.5-1.0 mg/L prior to treatment will oxidize As(III) to As(V). Based on previous experience, it is also known that the media does not exhibit any significant chlorine demand, other than during initial startup. In the final facility design, the influent water to the arsenic treatment system will have provisions to be chlorinated.

Arsenic breakthrough, as a function of BVs treated for GFH, is shown in Figure 3. It was observed that the GFH column treated arsenic to below detection limits (<2 ppb) up to 10,000 BVs (corresponding to 18 days of continuous operation) with two intermittent periods of shutdown for a total of 12 hours. Before 32,000 BVs, the arsenic level in the effluent increased to 8 ppb rapidly. This arsenic breakthrough was found to be coincidental with iron leakage through the media bed. This occurred due to iron leakage from the 50 micron prefilter which was plugged after 60 days of continuous operation. Also, operating the test column at a high system pressure caused the approximately 25% media compaction. Therefore backwashing the media bed was deemed necessary to expand the media. After replacing the filter and media backwash, normal operation of the column was resumed. Another such event was observed at 75,000 BVs when the arsenic levels in the effluent was 22 ppb. Therefore, another backwash was performed during June (after 75,000 BVs) to expand the media bed.

A total of 90,000 BVs were treated before the arsenic levels in the effluent reached the maximum level of 6 ppb. After 90,000 BVs, the test was terminated. If the pilot tests results are extrapolated, it can be predicted that a total of 120,000 BVs can be treated prior to complete arsenic breakthrough (defined as an arsenic level of 8 ppb in the effluent).

During the initial desk-top analyses, based on the historical well water quality, it was speculated that fluoride may impact arsenic removal. Fluoride removal through the media and its impact on arsenic removal was closely monitored. Figure 4 presents the fluoride breakthrough curve for GFH media. No fluoride removal through the media was observed, and therefore it did not impact arsenic removal.

Figure 5 presents the silica removal curve through the GFH media. It was observed that silica did not impact arsenic removal. At an ambient pH of 7.7 to 8.0, silica is predominantly present as a negatively charged ion (silicate) and therefore may compete for adsorption sites on the media. In this operating pH range, silica levels greater than 50 mg/L (as SiO_2) can impact arsenic removal. But, the very low silica levels (<20 mg/L as Si) in the Valley Utilities wells did not seem to impact arsenic

Figure 3: Arsenic Breakthrough for GFH Adsorption Media

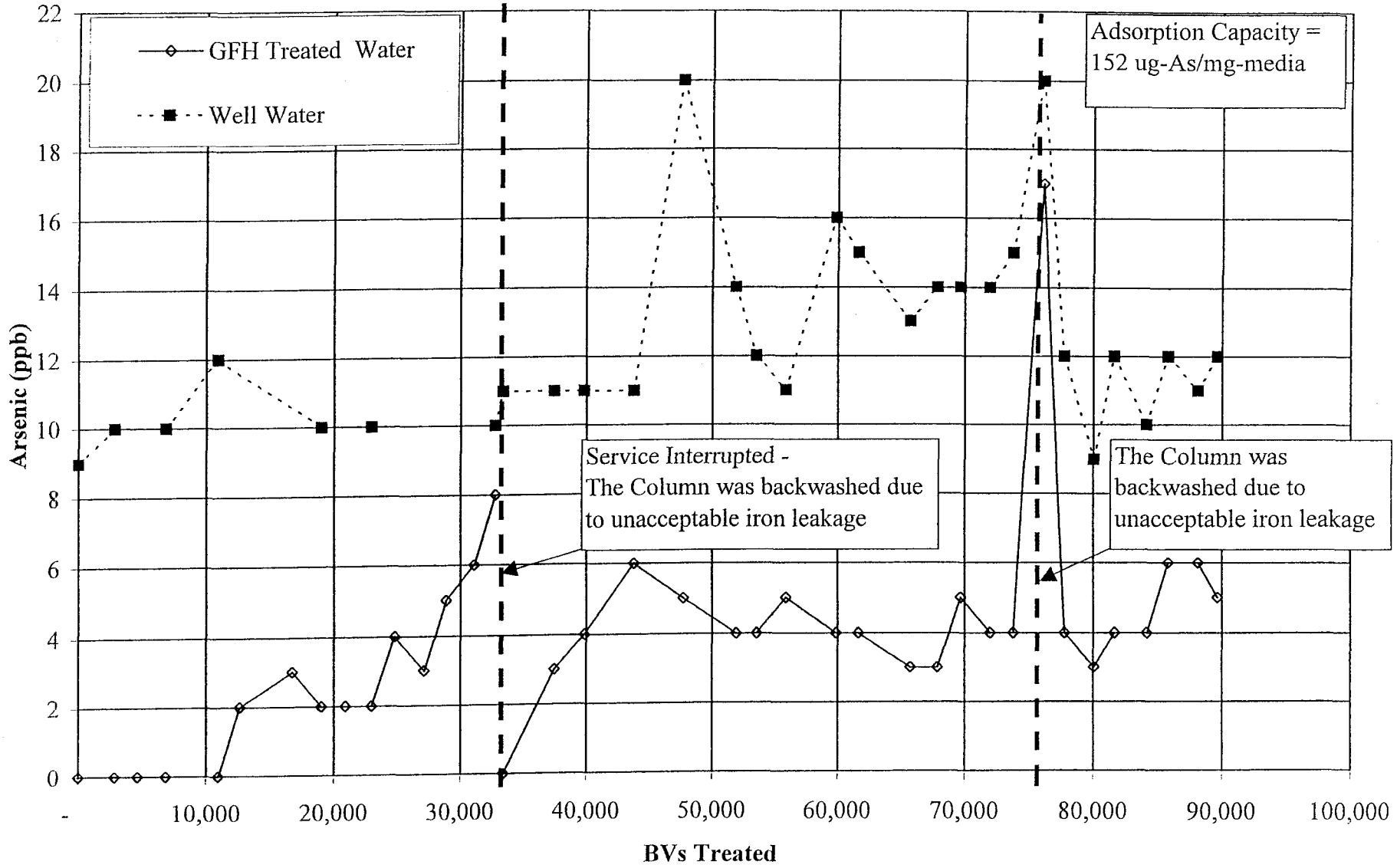


Figure 4: Fluoride Removal in GFH Media

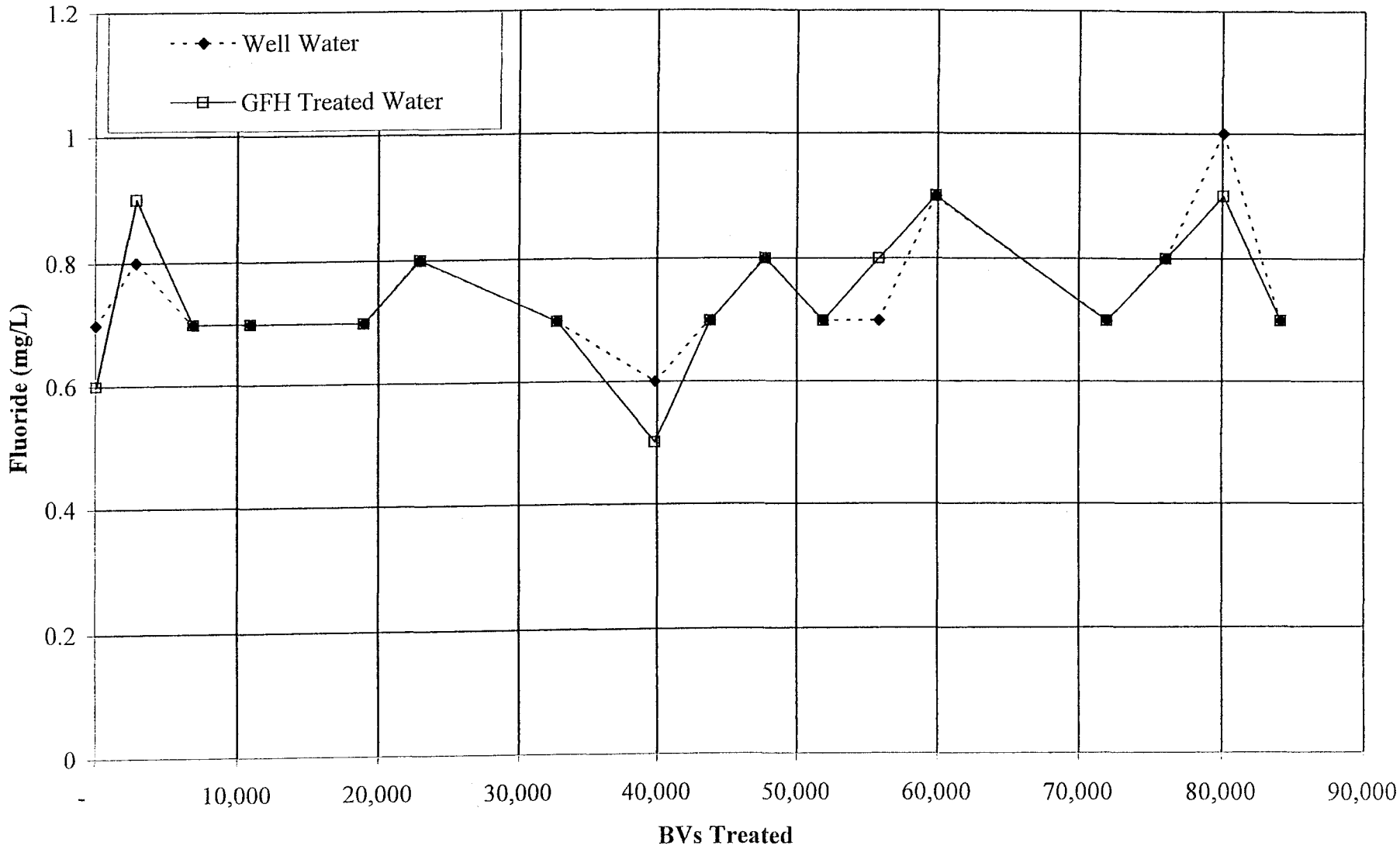
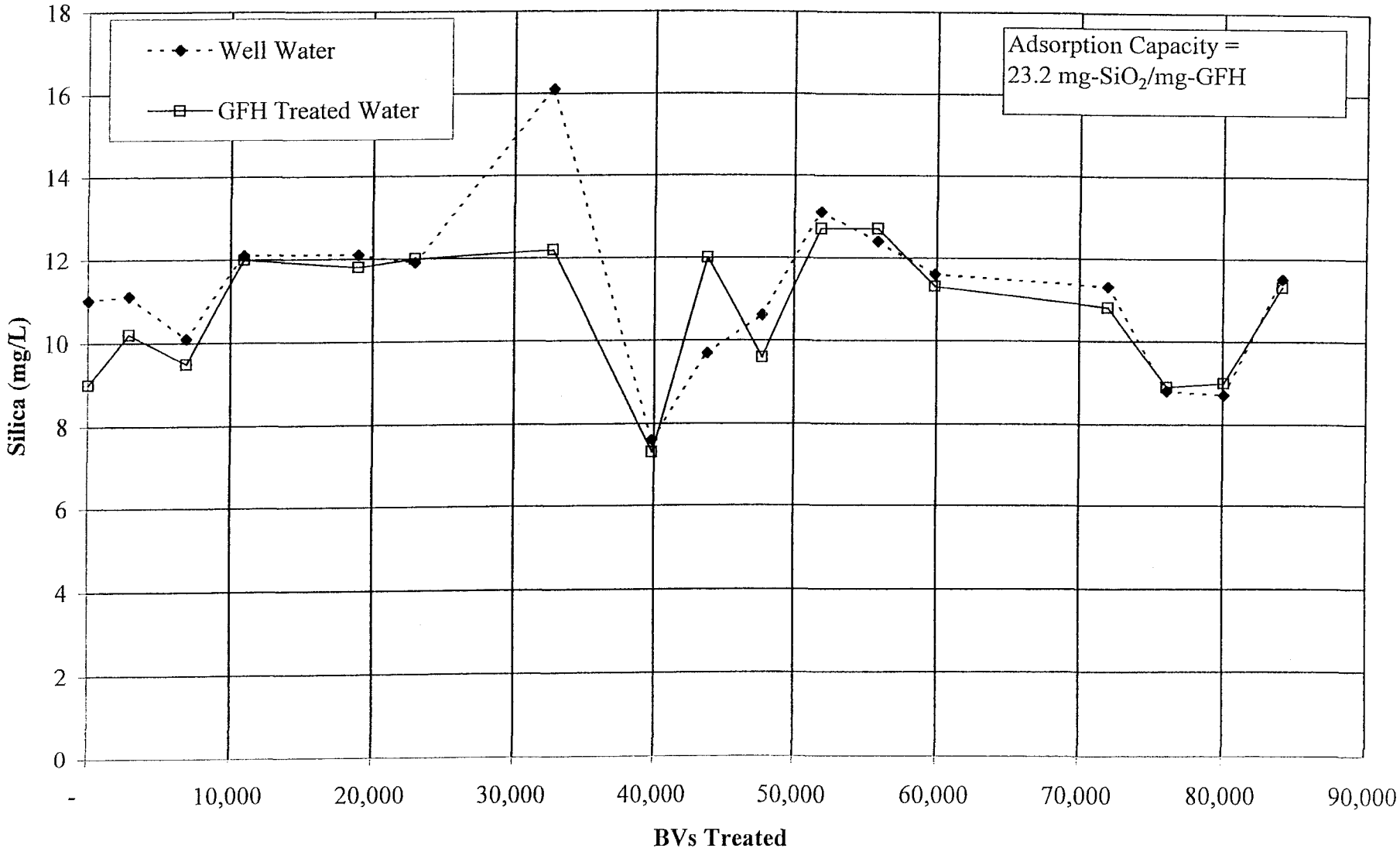


Figure 5: Silica Removal in GFH Media



removal. As observed in Figure 5, there was an initial (up to 10,000 BVs) 15% removal of silica through the media bed. Beyond 10,000 BVs, ambient well water silica levels reached an equilibrium with the solid phase (adsorption on the media) silica levels and no silica removal was observed.

Figure 6 presents the iron release data for the GFH media. Due to continuous operation of the media under high water pressure (80 psi), significant levels of iron were observed in the treated water after 30,000 BVs. Significant media compaction (more than 25% of the media bed) was also observed. The column was then backwashed to relax and expand the media bed. Iron levels in the treated effluent returned to ambient levels after backwash. After 75,000 BVs, the media was again backwashed to allow media expansion and avoid iron release in the effluent.

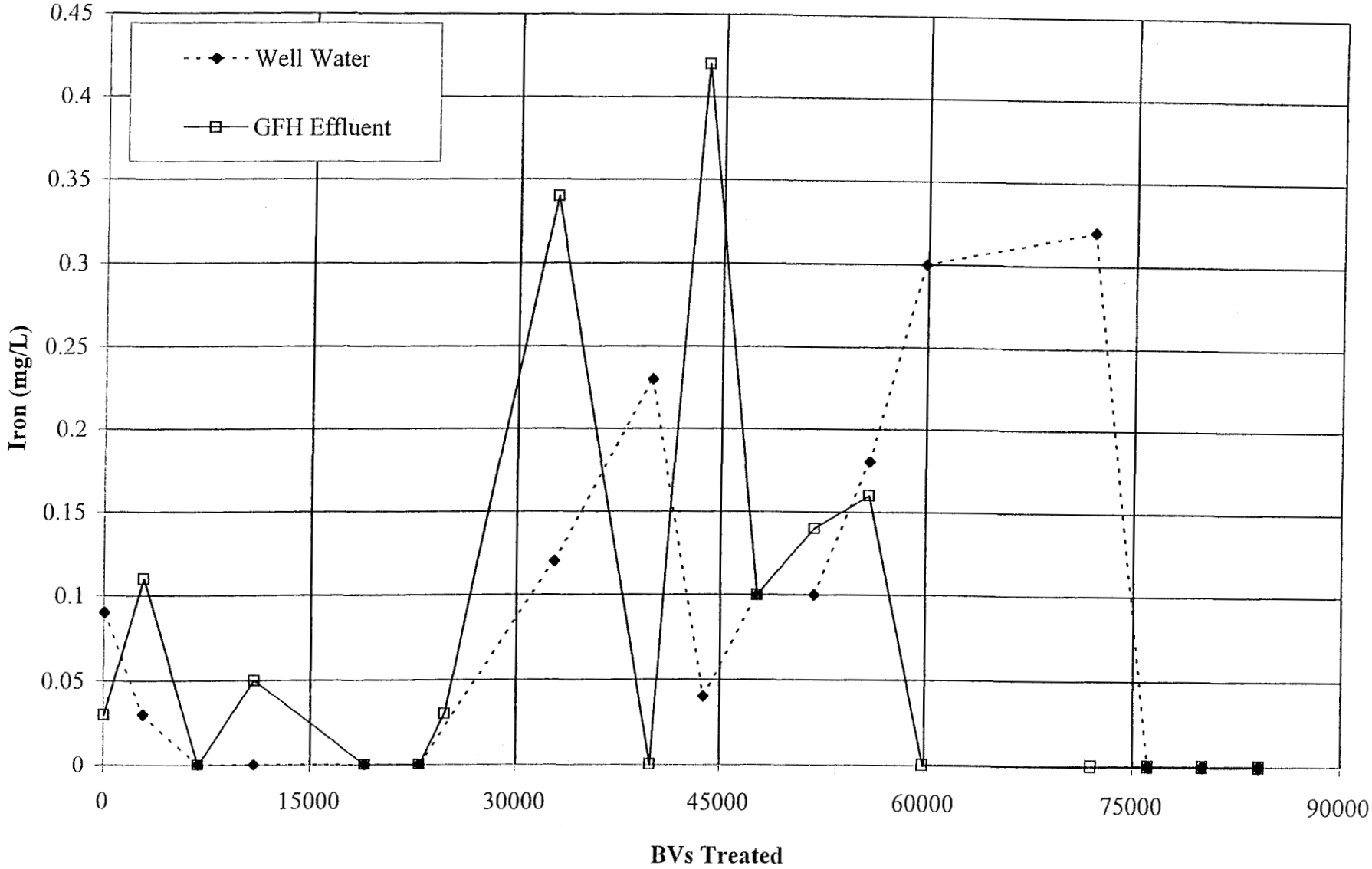
7.0 PILOT TESTING CONCLUSIONS AND ANTICIPATED PROCESS PERFORMANCE

Pilot test results were used to develop design criteria for the full scale facilities. No concurrent contaminants appear to significantly impact arsenic removal in GIM media. The Valley Utilities tested wells have low silica levels, moderate fluoride levels, and low vanadium levels, along with an ambient pH level below 8.0. The water quality in these wells makes iron media adsorption a feasible arsenic treatment technology.

For a single vessel GIM system, the adsorption column is operated until the effluent arsenic level reaches 8-10 ppb (80-100% of MCL). At this point, the media in the column is replaced. Based on the pilot test results, approximately 120,000 BVs are expected to be treated at ambient pH levels of 7.8 before the treated arsenic level reaches 10 ppb. This corresponds to a media changeout frequency of 347 days at a 60% well utilization rate for an average well arsenic level of 15 ppb. If the pH is reduced to 6.8 prior to the treatment system, it is estimated that run lengths would increase by 25%, based on previous experience at other sites. This would reduce O&M costs associated with media replacement. A carbon dioxide system could be used for pH reduction, if sulfuric acid use is a concern at the well site.

For a two vessel GIM system, the adsorption contactors are operated in sequence as water is treated through the first contactor (lead column) and through the next contactor (lag column). The contactors operate in series until effluent arsenic levels from the lag column reach 3 ppb. This, in most cases, is coincidental with an effluent arsenic level of 10 ppb in the lead column. At this point, the media in the lead column is replaced. Media replacement typically takes two to three days. After the media replacement, the valving in the system is arranged such that the lead contactor assumes the lag position and hence the fresh media is in the lag position. Due to this arrangement, longer run lengths than a single vessel system are possible and media replacement frequency is reduced. Based on previous experience, at least 50% greater run lengths can be achieved with a two vessel system. Based on the pilot test results, approximately 180,000 BVs are expected to be treated at ambient pH levels of 7.8 before the treated arsenic level in the lead column reaches 10 ppb. This corresponds to a media changeout frequency of 520 days at a 60% well utilization rate for an average well arsenic level of 15 ppb.

Figure 6: Iron Release in GFH Media



8.0 IMPLEMENTATION STRATEGY

The treatment and blending alternatives presented in Section 5.0 are further developed below, using the findings from the pilot tests. These include treatment of impacted wells using GIM adsorption or blending with the Airline wells at the new reservoir site. Due to the location of the wells at the Reservoir No. 1 site, all treatment facilities would be constructed at this reservoir site.

There are three wells (Wells No. 4, 5 and 6) located at the Reservoir No. 1 site. All three wells have similar water quality. The combined maximum flow for the three wells is approximately 1500 gpm. Based on the historical data provided by Valley Utilities, the maximum arsenic level (from four samples) was 14 ppb. However, based on the data collected during the pilot study, the 90th percentile level of arsenic in the wells (during the seven-month period) is 15 ppb and is considered for evaluation purposes. The range of arsenic levels during the pilot study was 9 to 20 ppb, with an average of 12 ppb. The design flow for the arsenic treatment facility is 1500 gpm.

8.1 Treatment Options

Option A1 - Single vessel full flow adsorption treatment for the three-impacted wells at the Reservoir No. 1 site

Since all the three wells are located at the Reservoir No. 1, the proposed treatment facility would be located at this reservoir site. After treatment, existing pipeline would be utilized to deliver the portion of the flow to the Reservoir No. 2. The design flow for the facility is 1500 gpm with a design arsenic level of 15 ppb. Under this treatment configuration, the full flow would be treated until each media contactor reaches an effluent arsenic level of 8 ppb. Based on the pilot study, GFH media is estimated to treat arsenic to a level of 8 ppb after 120,000 BVs, which corresponds to 208 days of continuous operation (or 346 days at 60% utilization rate).

For a 1500 gpm arsenic treatment facility, two 12-ft diameter vessels are required to achieve an EBCT of 2.5 minutes at a design loading rate of 6.8 gpm/ft^2. A media depth of 2.4 ft. would be provided in each vessel. No pH adjustment would be required and the treatment facility would operate at an ambient pH of 7.9. The media would be backwashed every month. The volume of the initial backwash (backwash of the virgin media after installation) would be approximately 13 BVs. The volume for the subsequent backwashes for bed relaxation during the operation would be 8-10 BVs. A steel tank would be used for backwash recovery. Spent media would be stored on-site in a holding bin or a concrete staging area and disposed to a municipal landfill as it would not be considered hazardous. The media would be replaced after 120,000 BVs are treated (every 346 days at an utilization rate of 60%). Table 3 provides a preliminary designed criteria for Option A1.

Table 3: Design Criteria for Single Vessel Full Flow Arsenic Adsorption Facility for Valley Utilities Wells

Design Parameter/Operating Condition	Value
Well Flow Rate, gpm	1500
Treatment System Flow Rate, gpm	1500
Design Influent Arsenic Level, ppb	15
No. of Adsorption Vessels	2
Diameter of Adsorption Vessel, ft.	12
Hydraulic Loading Rate per Vessel, gpm/ft^2	6.8
Contact Time, minutes	3.0
Media Depth, ft.	2.3
Media Volume in Each Vessel, gallons	3750
Operating pH	Ambient (~7.9)
Backwash Volume for each Backwash, BVs	13

Cost Evaluation. Treatment costs including capital, annual O&M, total annualized, 20-year present worth, and annualized costs/1000 gallons were calculated for the proposed full stream GIM treatment facility for Wells 4, 5 and 6. These estimated treatment costs are presented in Table 4.
Capital and annual O&M costs for single vessel full flow GIM treatment for the Valley Utilities wells would be $1,201,100 and $250,600, respectively. Annualized costs would be $355,300 ($0.75/1000 gallons of the combined well production). Costs were annualized using a 6% differential interest rate and 20 year amortization period.

Table 4: Full Flow Single Vessel GIM Treatment Costs for Valley Utilities Wells

Capital Costs Summary	GIM System for 1500 gpm
Residuals Handling Facilities	$128,000
Prefiltration	$28,000
GFH System Facilities	$329,400
Concrete Support for Treatment Vessels	$58,300
Piping, I&C, Electrical, Yard Piping Allowances	$194,200
Total Facility Cost, $	$738,000
Site Aesthetics, $	$184,500
Contingency, 20%	$184,500
Taxes & Bonding, 8.5%	$94,100
Total Estimated GFH Facility Cost	**$1,201,100**
Well Utilization Rate	60%
Total Annual O&M Costs	**$250,600**
20-yr present worth	**$4,075,500**

If an operating pH of 6.8 is utilized, the capital costs would increase by $100,000 ($1,301,100) while the annual O&M costs would decrease to $200,500 (20% reduction). The resulting annualized costs are $313,900 ($0.66/1000 gallons of combined well production). Future reductions in adsorption media pricing and operating strategies where some flows are diverted from the treatment plant during the initial stages of the GIM column run (when arsenic levels are low) would result in additional savings in adsorption media replacement costs. These concepts will be further explored during the final design phase.

Option A2 - Two vessel partial flow adsorption treatment for the three-impacted wells at the Reservoir No. 1 site.

As described in Section 4.1.1, partial flow treatment is applicable to the Valley Utilities arsenic impacted wells. The design arsenic level is 15 ppb. Therefore, the treated flow calculated according to Equation 1 is 875 gpm. The proposed treatment facility would be located at the Reservoir No. 1 site. After treatment, existing pipeline would be utilized to deliver the portion of the flow to the Reservoir No. 2. Under this treatment configuration, the lead (first) column would be operated to a breakthrough of 9-10 ppb at which time the effluent arsenic concentration would be 3 ppb in the lag (second) column. The media in the lead column would then be replaced. All of the water that needs to be treated would be passed through the second column when the media is being replaced in the lead column. It usually takes two to three days for media replacements. After media replacement, the lag column would become the lead column and vice versa. Based on the pilot study,

GFH media is estimated to treat 180,000 BVs (50% more than the single vessel breakthrough) before complete arsenic breakthrough is observed. This corresponds to a total of 312 days of continuous operation (or 520 days at 60% utilization rate). Under this implementation strategy, three different treatment sub-options are considered. These options are:

1. One treatment train with two 12-ft diameter vessels in series with no redundancy during media changeout and equipment malfunctioning.
2. One treatment train with two 12-ft diameter vessels in series with an additional 12-ft diameter vessel (total three vessels) to provide redundancy under media changeout and equipment malfunctioning.
3. Two parallel treatment trains with two 9-ft diameter vessels in series

For a 1500 gpm arsenic treatment facility, two 12-ft diameter vessels would be required to achieve a systemwide EBCT of 5.0 minutes (2.5 minutes EBCT through each vessel) at a design loading rate of 7.0 gpm/ft^2. A media depth of 2.4 ft. would be provided in each vessel. No pH adjustment would be required and the treatment facility would operate at an ambient pH of 7.9. The media would be backwashed every month. The backwash volume would be approximately 13 BVs from the initial backwash (after media installation) and approximately 8-10 BVs from the subsequent backwashes for media expansion. A steel tank would be used for backwash recovery. Spent media would be stored on-site in a holding bin or a concrete staging area and disposed to a municipal landfill as it would not be considered hazardous. The media would be replaced after 180,000 BVs are treated (every 312 days). This configuration does not provide any redundancy. To achieve redundancy and flexibility of operation, an additional 12-ft vessel can be provided to be utilized under media changeout or breakdown scenarios. Table 5 provides a preliminary design criteria for Option A2.

Table 5: Design Criteria for Dual Vessel Partial Flow Arsenic Adsorption Facility for Valley Utilities Wells

Design Parameter/Operating Condition	Value
Well Flow Rate, gpm	1500
Treatment System Flow Rate, gpm	875
Design Influent Arsenic Level, ppb	15
No. of Treatment Train	1
No. of Adsorption Vessels per Train	2
Diameter of Adsorption Vessel, ft.	12
Hydraulic Loading Rate per Vessel, gpm/ft^2	6.8
Contact Time through each Vessel, minutes	2.5
Total System Contact Time, minutes	5.0
Media Depth, ft.	2.4
Media Volume in Each Vessel, gallons	3750
Operating pH	Ambient (~7.8)
Backwash Volume for each Backwash, BVs	13

Cost Evaluation. Treatment costs including capital, annual O&M, total annualized, 20-year present worth, and annualized costs/1000 gallons were calculated for the proposed partial stream GIM treatment facility for Wells 4, 5 and 6. The estimated treatment costs are presented in Table 6.

Capital and annual O&M costs for a dual vessel full flow GIM treatment for the Valley Utilities wells would be $1,283,600 and $196,300, respectively. Annualized costs would be $281,200 ($0.59/1000 gallons of the combined well production). Costs were annualized using a 6% differential interest rate and 20 year amortization period. If an additional 12-ft vessel is also utilized to achieve redundancy, the capital and O&M costs would be $1,609,400 and $172,400, respectively.

Table 6: Dual Vessel Partial Flow Treatment GIM Treatment Costs for Valley Utilities Wells

Capital Costs Summary	GIM System for 875 gpm
Residuals Handling Facilities	$128,000
Prefiltration	$28,000
GFH System Facilities	$363,500
Concrete Support for Treatment Vessels	$61,400
Piping, I&C, Electrical, Yard Piping Allowances	$207,800
Total Facility Cost	$788,700
Site Aesthetics, 25%	$197,200
Contingency, 20%	$197,200
Taxes & Bonding, 8.5%	$100,600
Total Estimated GFH Facility Cost	**$1,283,700**
Well Utilization Rate	60%
Total Annual O&M Costs	**$169,300**
20-yr present worth	**$3,225,600**

If an operating pH of 6.8 is utilized, the capital costs would increase by $100,000 ($1,383,700) while the annual O&M costs would decrease to $135,400 (20% reduction). The resulting annualized costs would be $256,000 ($0.54/1000 gallons of well production). Future reductions in adsorption media pricing and operating strategies where some flows are diverted from the treatment plant during the initial stages of the GIM column run (when arsenic levels are low) would result in additional savings in adsorption media replacement costs. These concepts will be further explored during the final design phase.

As an alternative under Option A2, two treatment trains with two 9-ft diameter vessels in each train (total of four 9-ft diameter vessels) can be designed. A design criteria for such a configuration is presented in Table 7. Each treatment train will treat approximately 440 gpm (50% of 875 gpm) and will achieve a systemwide EBCT of 5.0 minutes (2.5 minutes EBCT through each vessel) at a design loading rate of 7.0 gpm/ft^2. The estimated capital and O&M costs of this treatment configuration is $1,764,900 and $189,500, respectively. This alternative would provide flexibility in operation. Given the combination of well flows entering the treatment facility and seasonal variations in the well flows, one of the treatment train can be taken out of service, if the influent flows are less than or equal to 750 gpm (50% of 1500 gpm). Therefore, this alternative will also allow Valley Utilities to economically treat smaller flows using only one treatment train during non-peak demand scenarios.

Table 7: Design Criteria for Dual Vessel Partial Flow (with Two Parallel Trains) Arsenic Adsorption Facility for Valley Utilities Wells

Design Parameter/Operating Condition	Value
Total Well Flow Rate, gpm	1,500
Treatment System Flow Rate, gpm	875
Design Influent Arsenic Level, ppb	15
No. of Treatment Train	2
No. of Adsorption Vessels per Train	2
Flow to Each Treatment Train, gpm	440
Diameter of Adsorption Vessel, ft.	9
Hydraulic Loading Rate per Vessel, gpm/ft^2	6.9
Contact Time through each Vessel, minutes	2.5
Total System Contact Time, minutes	5.0
Media Depth, ft.	2.3
Media Volume in Each Vessel, gallons	1,100
Operating pH	Ambient (~7.8)
Backwash Volume for each Backwash, BVs	13

8.2 Non-Treatment (Blending) Option (B1)

Under this alternative, the Valley Utilities wells would be blended with water from the Airline well field (owned by LPSCO). LPSCO is currently planning on constructing a new reservoir which will be located 0.25 miles north of Bethany Homes Rd. on El Mirage Rd. The new reservoir will be fed from the wells in the Airline Well field. A dedicated pipeline from the new LPSCO reservoir to the Valley Utilities reservoirs would be constructed. The arsenic-impacted well water from Valley Utilities wells would be blended with the low-arsenic Airline wells to meet an arsenic level of 8 ppb at the POE.

Additional pumping costs would be incurred in transporting water from the LPSCO reservoir to the Valley reservoirs. The capital and installation cost for the boosters pumps is estimated to be $250,000. The total pipeline costs for transporting water is estimated to be $307,000. LPSCO has preliminary indicated that the Valley Utilities would be charged $1.10 to $1.30 per 1000 gallons of the water supplied by LPSCO.

In the future, if the arsenic level in the Airline well water increases to greater than 10 ppb, LPSCO will construct a new arsenic treatment facility at the new reservoir site. Under such a scenario, the

water from LPSCO may not be suitable for blending and Valley Utilities would be required to install treatment anyway. Further, since the costs of the non-treatment alternative is almost twice the treatment alternative, it does not appear to be a viable option. Also, from future demand and operational flexibility perspective, it would be more appropriate for Valley Utilities to own an arsenic treatment facility to meet future increasing demands while complying with the new Arsenic regulation.

9.0 RECOMMENDED ALTERNATIVE

A comparison of capital, O&M, and annualized costs for each of the two treatment options is presented in Table 8. Costs for options A2, the partial flow treatment scenario, are significantly less than option A1. The partial flow GIM treatment option with pH adjustment is the most economical alternative with an overall annual cost of $0.59/1000 gallons. Further, media replacement costs will likely be lower in the future as the market develops for GIM. For these reasons, GIM with pH reduction to 6.8 is the recommended treatment system for the Valley Utilities wells. A combined facility would be constructed at the reservoir site to treat Well Nos. 4, 5 and 6. Figure 7 presents the layout a dual vessel facility at the reservoir site.

Table 8: Comparison of Valley Utilities Well Treatment Costs

Implementation Option	Operating pH	Capital Costs	Annual O&M Costs	Annual Costs ($/1,000 gallons)
A1 - Full Flow GIM Treatment of Well 4, 5 and 6	ambient	$1,201,100	$250,600	$0.75
	6.8	$1,301,100	$200,500	$0.66
A2 - Partial Flow GIM Treatment of Well 4, 5 and 6	Ambient	$1,283,700	$169,300	$0.59
	6.8	$1,383,600	$135,400	$0.54

9.1 Site Criteria and Piping

The arsenic treatment facility is proposed to be installed at the existing reservoir site (Reservoir No. 1) located on the north side of the Valley Utilities main office on Bethany Homes Road. The onsite reservoir has a total capacity of 500,000 gallons. All three wells under consideration (Wells No. 4, 5, and 6) are also located at the site. There appears to be sufficient space available at the existing reservoir site to construct a 1500 gpm arsenic treatment facility.

Wells 4, 5, and 6 combine into one collector line. A part of the flow (approximately 40%) from this collector line is supplied to an offsite reservoir (Reservoir No. 2) located 0.25 miles southeast of the site. The remaining 60% of the flow enters the Reservoir No. 1. The flow from the collector line would be supplied to the proposed arsenic treatment facility. After treatment, a portion of the treated flow would be supplied to the Reservoir No. 2 using the existing pipeline. It is anticipated that insignificant site piping would have to be performed.

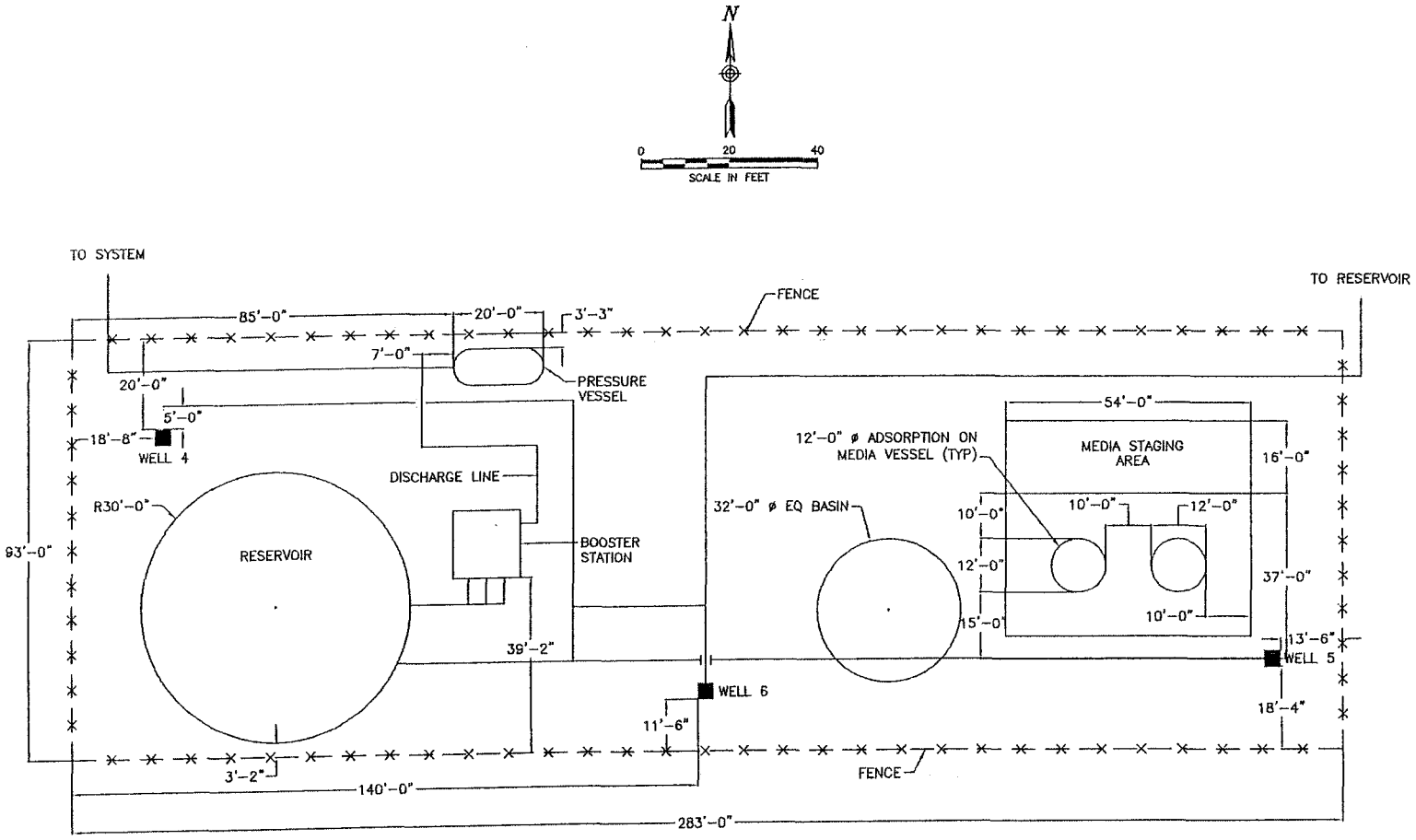


FIGURE 7 - LAYOUT OF A DUAL VESSEL FACILITY AT RESERVOIR SITE

9.2 Pumping Requirements

All three wells (Wells No. 4, 5, and 6) at the site discharge water to the reservoirs at a low pressure. Additional pumping may be required to provide sufficient head for an arsenic treatment facility. Pumping costs are included in the arsenic treatment costs discussed earlier. The maximum allowable head loss through the arsenic treatment facility is 15 psi. Therefore, a low lift pump station providing a minimum of 20 psi of pressure may be required. The existing booster station would not be modified to deliver water into the system.

9.3 Sanitary Sewer Connection

A sanitary sewer connection to dispose of the backwash and rinse streams collected at the backwash equalization basin would be required at the arsenic treatment facility. A small diameter force main (4-inch or 6-inch) would be installed from the equalization basin to the nearest manhole (location to be verified in final design).

10.0 SUMMARY AND RECOMMENDATIONS

Partial stream GIM with pH reduction to 6.8 is the recommended treatment system for the Valley Utilities wells. The GIM treatment option has significantly lower O&M ($135,400) and annual costs ($0.54 per 100 gallons of treated water) than the other treatment options. A 875-gpm partial flow GIM arsenic treatment facility would be constructed at the Reservoir No. 1 site to treat Well Nos. 4, 5, and 6. To obtain system redundancy and flexibility in operation, a two train treatment system utilizing a total of four 9-ft diameter vessels is recommended. The treated water would be blended with the bypassed flow to maintain an arsenic level of 8 ppb in the reservoir at all times. In order for Valley Utilities to comply with the new arsenic MCL of 10 ppb, the GIM treatment facility would need to be completed and online by January 2006.

ATTACHMENT B

HOOK-UP FEE COMPUTATION

Arsenic Treatment System

Location	Capacity	Cost
Well Nos. 4, 5, and 6	1,500 GPM	$1,383,600
Well Nos. 1 and 2	500 GPM	$542,500
Total	2,000GPM	$1,926,100

Capacity required per Customer	1.15 GPM
Customers ATS will Serve	1,750
Average Cost per Customer	$1,100
Total Customers Served by ATS	1,750
Existing Customers	1,250
New Customers to be Served by ATS	500
Receipts from HUF's	$550,000

(500 X $1,100 = $550,000)

Valley Utilities Water Company, Inc.
Balance Sheet
As of December 31, 2003

Line No.		
1	**ASSETS**	
2	Plant In Service	$ 4,313,786
3	Property Held for Future Use	40,000
4	Non-Utility Plant	-
5	Construction Work in Progress	-
6	Less: Accumulated Depreciation	(1,533,754)
7	Net Plant	$ 2,820,032
8		
9	Debt Reserve Fund	$ -
10		
11	CURRENT ASSETS	
12	Cash and Equivalents	$ 273,079
13	Accounts Receivable, Net	45,304
14	Notes/Receivables from Associated Companies	-
15	Materials and Supplies	26,800
16	Prepayments	-
17	Other Current Assets	-
18	Total Current Assets	$ 345,183
19		
20	Deferred Debits	$ -
21		
22	Other Investments & Special Funds	$ -
23		
24	TOTAL ASSETS	$ 3,165,215
25		
26		
27	**LIABILITIES AND STOCKHOLDERS' EQUITY**	
28		
29	Common Equity	$ (413,375)
30		
31	Long-Term Debt	$ -
32		
33	CURRENT LIABILITIES	
34	Accounts Payable	$ 11,179
35	Current Portion of Long-Term Debt	-
36	Payables to Associated Companies	-
37	Customer Deposits	46,999
38	Taxes Payable	19,511
39	Interest Payable	-
40	Other Current Liabilities	3,123
41	Total Current Liabilities	$ 80,812
42	DEFERRED CREDITS	
43	Advances in Aid of Construction	$ 3,180,500
44	Accumulated Deferred Income Taxes	24,057
45	Contributions In Aid of Construction, Net	293,221
46	Accumulated Deferred Income Credits	-
47	Total Deferred Credits	$ 3,497,778
48		
49	Total Liabilities & Common Equity	$ 3,165,215

ATTACHMENT C

Valley Utilities Water Company, Inc.
Income Statement
Year Ended December 31, 2003

Line No.			
1	**Revenues**		
2	Metered Water Revenues	$	773,023
3	Unmetered Water Revenues		-
4	Other Water Revenues		41,791
5		$	814,814
6	**Operating Expenses**		
7	Salaries and Wages	$	253,382
8	Purchased Water		-
9	Purchased Power		104,387
10	Chemicals		2,225
11	Repairs and Maintenance		21,743
12	Office Supplies and Expense		30,348
13	Outside Services		5,382
14	Water Testing		1,599
15	Rents		71,493
16	Transportation Expenses		39,015
17	Insurance - General Liability		9,083
18	Insurance - health and Life		69,194
19	Regulatory Commission Expense - Rate Case		1,888
20	Miscellaneous Expense		46,526
21	Depreciation Expense		171,263
22	Other Taxes and Licenses		19,291
23	Property Taxes		25,424
24	Income Tax		17,820
25			
26	**Total Operating Expenses**	$	890,063
27	**Operating Income**	$	(75,249)
28	**Other Income (Expense)**		
29	Interest Income		2,970
30	Other income		-
31	Income Tax Provision		-
32	Interest Expense		(366)
33	Other Expense		-
34	Gain/Loss Sale of Fixed Assets		-
35	**Total Other Income (Expense)**	$	2,604
36	**Net Profit (Loss)**	$	(72,645)

Valley Utilities Water Company, Inc.
Statement of Cash Flows
Year Ended December 31, 2003

Line No.			
1			
2			
3	Cash Flows from Operating Activities		
4	Net Income	$	(72,645)
5	Adjustments to reconcile net income to net cash		
6	provided by operating activities:		
7	Depreciation and Amortization		171,262
8	Deferred Income Taxes		13,295
9	Accumulated Deferred ITC		-
10	Changes in Certain Assets and Liabilities:		-
11	Accounts Receivable		1,327
12	Materials and Supplies Inventory		(25,300)
13	Prepaid Expenses		-
14	Misc Current Assets and Deferred Expense		1,888
15	Accounts Payable and Accrued Liabilities		(5,187)
16	Accrued Taxes		5,142
17	Net Cash Flow provided by Operating Activities	$	89,782
18	Cash Flow From Investing Activities:		
19	Capital Expenditures		(476,483)
20	Plant Held for Future Use		-
21	Non-Utility Property		-
22	Net Cash Flows from Investing Activities	$	(476,483)
23	Cash Flow From Financing Activities		
24	(Decrease) Increase in Net Amounts due to Parent and		
25	Affiliates		5,000
26	Changes in Customer Deposits		842
27	Changes in Advances for Construction		337,359
28	Changes in Contributions for Construction		-
29	Net Proceeds from Long-Term Debt Borrowing		-
30	Repayments of Long-Term Debt		-
31	Dividends Paid		-
32	Deferred Financing Costs		-
33	Paid in Capital		-
34	Net Cash Flows Provided by Financing Activities	$	343,201
35	Increase(decrease) in Cash and Cash Equivalents		(43,500)
36	Cash and Cash Equivalents at Beginning of Year		-
37	Cash and Cash Equivalents at End of Year	$	(43,500)

Valley Utilities Water Company, Inc.
Proforma Capital Structure

Line No.	Item of Capital	Dollar Amount	Percent of Total
1	Long-Term Debt	1,926,100	127.33%
2			
3	Stockholder's Equity	(413,375)	-27.33%
4			
5	Totals	1,512,725	100.00%
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
29			

ATTACHMENT D

CERTIFICATE OF SECRETARY

I, the undersigned, being the Secretary of Valley Utilities Water Company. Inc. do hereby certify the foregoing to be duly adopted resolutions of the Corporation's Board of Directors as adopted at a Special Meeting of the Directors held on October 7, 2004.

By:_____
Secretary

93055.00000.142

ATTACHMENT E

VALLEY UTILITIES WATER COMPANY, INC.

RESOLUTION OF THE BOARD OF DIRECTORS

October 7, 2004

The President reported on the need for certain facilities needed to provide arsenic treatment within the service area of the Corporation, the long-term financing of those facilities and the need for an Arizona Corporation Commission Order authorizing that financing. Discussion of those matters ensured.

Thereafter, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that the Board hereby authorizes the officers of the Corporation to file an Application with the Water Infrastructure Authority of Arizona (WIFA) for a loan at terms favorable to the Corporation for the purpose of funding construction of certain arsenic treatment facilities, and

FURTHER RESOLVED, that the Board hereby authorizes the officers of the Company to seek long term financing from WIFA in an amount not to exceed $1, 926,100 for the purpose of funding the plant and equipment described in Exhibit A hereto, and

FURTHER RESOLVED, that the Board hereby authorized the officers of the Corporation to file an Application with the Arizona Corporation Commission for authority to increase its rates and charges such that the Company's operating expenses, debt service, and reasonable rate of return on its rate base can be duly recovered, and

FURTHER RESOLVED, that the Board hereby authorizes the officers of the Corporation to file an application with the Arizona Corporation Commission for authority to issue promissory note(s) and evidence of indebtedness upon the terms and conditions hereinbelow mentioned and the filing of any and all amendments and supplements to said application, and

FURTHER RESOLVED, that upon receiving the requisite authority from the Arizona Corporation Commission, and subject to other legal requirements, the Corporation shall issue Promissory Note(s) and such evidence of long-term indebtedness for up to $1, 926,100 under terms and conditions advantageous to the Corporation for the purpose of funding certain plant and equipment additions, as herein above described, and

FURTHER RESOLVED, that the proper officers of the Corporation be, and each of them hereby is, authorized to deliver promissory notes and other evidence of indebtedness upon receipt by the Corporation of the full purchase price or loan proceeds therefore, all in the manner and in the terms and conditions provided in the above-mentioned resolutions, and

FURTHER RESOLVED, that the proper officers of the Corporation be and each of them hereby is, authorized, in the name and on behalf of the Corporation, to conduct any and all negotiations, to make any and all arrangements, do and perform any and all acts and things and to execute and deliver any and all officer's certificates and other documents and instruments as they deem necessary or appropriate in order to consummate the issuance and otherwise to effectuate the purposes of each and all of the foregoing resolutions.

Richard L. Sallquist (002677)
SALLQUIST & DRUMMOND, P.C.
4500 S. Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Telephone: (480) 839-5202
Fax: (480) 345-0412
Attorneys for Valley Utilities Water Company, Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AUTHORITY TO ISSUE PROMISSORY NOTE(S) AND OTHER EVIDENCES OF INDEBTEDNESS PAYABLE AT PERIODS OF MORE THAN TWELVE MONTHS AFTER THE DATE OF ISSUANCE.	)	DOCKET NO. W-01412A-04-___ **NOTICE OF PUBLICATION**

STATE OF ARIZONA)
)ss
County of Maricopa)

I, Robert Prince, President of Valley Utilities Water Company, Inc. hereby file the original Affidavit of Publication attached hereto as Attachment 1 and incorporated herein by reference for all purposes, as published by _____, a newspaper of general circulation in the area subject to the application, said application being completed on the date set forth in the attached Affidavit of Publication.

DATED this ____ day of _____, 2004.

VALLEY UTILITIES WATER COMPANY, INC.

By:_____
Robert Prince, President

93055.00000.144

ATTACHMENT F

The foregoing instrument was acknowledged before me this ____ day of _____, 2004, by Robert Prince.

_____
Notary Public

My Commission Expires:

_____

Original and ten copies of the foregoing filed this ___ day of _____, 2004:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

_____

PUBLIC NOTICE
OF
AN APPLICATION FOR AN ORDER AUTHORIZING
THE ISSUANCE OF PROMISSORY NOTE (S) AND
OTHER EVIDENCE OF INDEBTEDNESS
BY
VALLEY UTILITIES WATER COMPANY INC.

Valley Utilities Water Company, Inc. (Applicant) has filed an Application with the Arizona Corporation Commission (Commission) for an order authorizing Applicant to issue up to $1,926,100 in promissory notes and other evidence of indebtedness. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona, and Applicant's offices at 12540 W. Bethany Home Road, Litchfield Park, Arizona 85340.

Intervention in the Commission's proceedings on the Application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon the Applicant and which, at a minimum, shall contain the following information:

1. The name, address and telephone of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.

2. A short statement of the proposed intervenor's interest in the proceedings.

3. Whether the proposed intervenor desires a formal evidentiary hearing on the Application and the reasons for such a hearing.

4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice.

If you have any questions or concerns about this application of have any objections to its approval, or wish to make a statement in support of it, you may contact the Consumer Services Section of the Commission at 1200 West Washington, Phoenix, Arizona 85007 or call 1-800-222-7000.

93055-00000.141

EXHIBIT 1 TO ATTACHMENT F

EXHIBIT
A-3
admitted

Richard L. Sallquist
Sallquist & Drummond, P.C.
Tempe Office
4500 S. Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Phone: (480) 839-5202
Fax: (480) 345-0412

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY INC. FOR AN INCREASE IN ITS WATER RATES FOR CUSTOMERS WITHIN MARICOPA COUNTY, ARIZONA	DOCKET NO. W-01412A-04-0736
IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AUTHORITY TO ISSUE PROMISSORY NOTE(S) AND OTHER EVIDENCES OF INDEBTEDNESS PAYABLE AT PERIODS OF MORE THAN TWELVE MONTHS AFTER THE DATE OF ISSUANCE.	DOCKET NO. W-01412A-04-0849 **NOTICE OF FILING**

Valley Water Utilities Company, by and through its undersigned counsel, hereby provides this Notice of Filing on behalf of the Company of the Rebuttal Testimonies of Robert L. Prince, Ronald L. Kozoman and Thomas J. Bourassa in this proceeding.

Respectfully submitted this 6th day of June 2005.

SALLQUIST & DRUMMOND, P.C.

By: _____
Richard L. Sallquist
SALLQUIST & DRUMMOND, P.C.
4500 S. Lakeshore Drive, Suite 339
Tempe, AZ 85282
Attorneys for Valley Utilities Water Company, Inc.

93055.00000.172

Original and fifteen copies of the foregoing filed this 6th day of June 2005:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

A copy of the foregoing mailed/hand delivered this 6th day of June 2005, to:

Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

K. Robert Janis
13043 W. Sierra Vista Drive
Glendale, Arizona 85307

TCCrownover
James Shade
P.O. Box 363
Litchfield Park Arizona 85340

William Clark
P.O. Box 810
Litchfield Park, Arizona 85340

VALLEY WATER UTILITIES COMPANY
DOCKET NOS. W-01412A-04-00736 7 0849

REBUTTAL TESTIMONY
OF
ROBERT L. PRINCE

FILED
JUNE 6,2005

REBUTTAL TESTIMONY OF ROBERT L. PRINCE

Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A. My name is Robert L. Prince. My business address is 12540 W Bethany Home Road, Litchfield Park, Arizona 85340. I am President of Valley Water Utilities Company.

Q. HAVE YOU PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE APPLICANT, VALLEY WATER UTILITIES COMPANY ("VALLEY" OR "COMPANY")?

A. No, I have not.

Q. HAVE YOU REVIEWED THE TESTIMONIES FILED BY STAFF'S WITNESSES IN THIS PROCEEDING?

A. Yes I have.

Q. DO YOU HAVE CONCERNS WITH ANY OF THE STAFF'S RECOMMENDATIONS?

A. Yes I do, and Messrs. Kozoman and Bourassa will address those concerns.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to comment on certain aspects of the Staff's proposal on rate design. Mr. Kozoman will again speak to the technical difficulties the Company has, but I would like to address several practical considerations.

Q. DO YOU BELIEVE THAT THE STAFF RECOMMENDED RATE DESIGN, THAT RESULTS IN A LOWERING OF THE RATES FOR CUSTOMERS CONSUMING LESS THAN 3,000 GALLONS PER MONTH, IS APPROPRIATE FOR THE VALLEY SYSTEM?

Q. Absolutely not. I believe it is not only inappropriate for these customers, but will also cause numerous problems for them and the Company.

Q. WOULD YOU PLEASE SUMMARIZE YOUR CUSTOMER BASE AND THE VARIOUS METER SIZES?

A. As of April, 2005, Valley's residential bill count was as follows: 5/8 X ¾ inch – 257 versus 247 for the test year; ¾ inch – 613 versus 584 for the test year; and 1 inch – 321 versus 258 for the test year. The total meter count for residential meters was 1,192 versus 1,089. The percentage of ¾ inch meters to the total residential count is 51%. Of the 51% (613 meters) 535 of them are in the middle to upper income areas of our service area with the cost of housing ranging from the mid $150,000 to over $400,000. Of this group 400 or 75% are in the three year old Dreaming Summit Subdivision where homes are reselling from $265,000 to over $400,000. This is not where a "life line rate" or inverted rate should be utilized.

Q. WHERE ARE THE 5/8 BY 3/4 INCH METERS LOCATED ON YOUR SYSTEM?.

A. Nearly 100% of the 5/8 X ¾ inch meters are serving mobile homes in parks or very small lots with a much lower income clientele. Assuming all of the ¾ inch meters are placed in the Staff-proposed inverted rate structure, two things will happen. First, there will be no incentive for conservation and consumption will go up causing the unintended consequence of potentially violating the ADEQ mandated GPCD that has been established for Valley. Secondly, with these meters at a lower rate, existing 1-inch customers may demand a downsizing of meter sizes, which would cause a destabilization of cash flow and endless monitoring so as to prevent "over revving" of the smaller meters and doing damage that could substantially impact revenue as well as O&M costs to the Company. The consequences of this type of rate structure are unacceptable to Valley and is not consistent with appropriate rate-making policy for the industry. The Commission should also note the American Water Works Association study on inverted rates and the negative impact to conservation.

Q. ARE THERE OTHER UNWANTED ADVERSE CONSEQUENCES ON THE COMPANY AS A RESULT OF THE PROPOSED REDESIGN?

A. Yes, the Staff at the Commission should be aware that removing the appropriate financial costs from one segment of the community and placing it on another will not sit well with those arbitrarily assigned to carry the burden, and is not an appropriate "wealth transfer" by the Commission. These rates, as designed by Staff, will cause more problems and financial burdens not just for the Company but for the customers and the Commission in resolving complaints and disputes over meter capacity when downsizing requests start appearing.

Q. HOW COULD THIS RATE DESIGN RESULT IN ADVERSE CONSEQUENCES TO THE COMPANY'S CUSTOMERS?

A. Valley is obligated to collect its newly authorized "Arsenic Impact Fees" on all new meters installations. In the event a customer should elect to have a smaller meter installed to

enjoy the "life-line rate", that customer will be assessed the appropriate Arsenic Impact Fee. That, of course, is not revenue to the Company, but is an unintended consequence of this flawed rate design. Secondly, this design results in revenue instability to the Company by reducing revenue. That is not healthy for the Company or its customers, especially this Company with its lower equity position.

Q. WHAT WOULD YOU PROPOSED AS THE APPROPRIATE RATE DESIGN?

A. I strongly believe that at whatever revenue level the Commission authorizes, a rate design similar to that contained in Mr. Kozoman's testimony would be the appropriate design.

Q. DOES THAT COMPLETE YOUR REBUTTAL TESTIMONY?

A. Yes it does.

VALLEY WATER UTILITIES COMPANY

DOCKET NOS. W-01412A-04-0736 & 0849

REBUTTAL TESTIMONY OF

RONALD L. KOZOMAN

June 6, 2005

I. INTRODUCTION, PURPOSE AND SUMMARY.

Q. PLEASE STATE YOUR NAME AND ADDRESS?

A. My name is Ronald L. Kozoman and my business address is 1605 W. Mulberry Drive, Phoenix, AZ 85015.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct testimony was submitted in support of the initial application in this docket.

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. I will provide opposing testimony in response to the direct filing by Arizona Corporation Commission Utilities Division Staff ("Staff") More specifically, my testimony relates to rate design and the proposed new rates for water for Valley Utilities Water Company.

II. ACC STAFF PROPOSED RATE DESIGN:

Q. WHAT ARE THE PRESENT MONTHLY MINIMUMS AND IS MONTHLY MINIMUMS IS STAFF RECOMMENDING?

A. The present and Staff proposed rates are listed below:

The present monthly minimums are:

Meter Size	Monthly Minimum
5/8 x 3/4 inch	$9.60
3/4 inch	$14.50

1 inch	$24.00
1 1/2 inch	$48.00
2 inch	$77.00
3 inch	$144.00
4 inch	$240.00
6 inch	$480.00

Construction water sold through a 3 inch meter has a monthly minimum of $144.00.

The Staff proposed monthly minimums are:

Meter Size	Monthly Minimum
5/8 x 3/4inch	$11.24
3/4 inch	$16.87
1 inch	$26.10
1 1/2 inch	$56.10
2 inch	$89.94
3 inch	$179.87

4 inch	$281.05
6 inch	$562.10

The percentage increase for the monthly minimums ranges from 17% to approximately 25%. Staff proposes no monthly minimum for construction water sold through 3" meters.

Q. WHAT ARE THE COMMODITY RATES STAFF IS RECOMMENDING?

A. Staff is recommending three tiered rates for the residential customers on 5/8 x 3/4 inch and 3/4 inch, which are $1.50 for the first 3,000 gallons, $2.31 for commodity usage from 3,001 to 10,000, and $2.53 for all usage above 10,000.

Customers on larger meters have just two tiers at $2.31 and $2.53. The commercial 5/8 x 3/4 and 3/4 inch meter has commodity rates of $2.30 and 2.53.

Q. ARE THERE PROBLEMS WITH THE STAFF PROPOSED RATE DESIGN, AND WOULD YOU DISCUSS THE PROBLEMS?

A. Yes there are some problems.

The major problem I have with Staff's proposed rates is that the lifeline or low income commodity rates in the first tier for the residential customers on 5/8 x 3/4 inch and 3/4 inch meters. Staff is proposing the three tier rate for residential customers only, and the first tier is available only for the residential customers on smaller meters. All other customers have a two tier rate design.

Q. WHY ARE YOU CALLING STAFF'S FIRST TIER FOR RESIDENTIAL CUSTOMERS ON 5/8 INCH AND 3/4 INCH METERS A LOW INCOME OR LIFELINE RATE?

A. Because that's what this rate really is. A quick read of American Water Works Association Manual M34, Chapters 1 through 4 spells out what a lifeline or low income rate is. Staff's first tier rate is a lifeline or low income rate. The old saying, if it walks like a duck, quacks like a duck, it probably is a duck, is quite true in this instance.

Q. WELL, WHAT IS A "LIFELINE" RATE?

A. By definition, a lifeline rate is intended to provide a minimum volume of water service at a reduced cost to residential customers that find it difficult to afford water service due to their income levels. In its Manual 34, *Alternative Rates*, at pages 10 through 15, the AWWA provides the following recommendations concerning lifeline rates and similar types of discounted rates for water service:

First, lifeline rates should be offered only to residential customers who meet certain income eligibility requirements. The reason for this recommendation is obvious: discounted rates, such as those proposed by Staff, are contrary to basic cost of service principles and are not economically efficient. Discounted rates produce a subsidy that must be recovered by means of higher rates in other usage blocks. Those customers then pay more than their cost of service.

Second, the AWWA states that lifeline rates and similar types of discounted rates should not be considered unless the local cost of water service is high relative to other,

similar water utilities, or where a significant percentage of residential customers are believed to be unable to afford water service. There is no indication in Mr. Rogers" direct testimony that Staff examined whether these circumstances are present.

Third, the AWWA states that lifeline rates and similar types of discounted rates should not be used in areas where there are water shortages or where water use is a concern. The AWWA states that the use of life-line rates "may encourage greater use among the eligible customers and therefore be inconsistent with the need to reduce water consumption. In this case, the benefits to customers whose water costs might be reduced would have to be weighed against water use concerns." AWWA, M34 at 11. The AWWA also states that these types of discounted rates "provide no conservation or water reduction incentive to those that receive the subsidy. Since water is sold below cost, the pricing incentive to reduce consumption is lessened. The impact on demand should be carefully considered in areas where water supplies are scarce." *Id.* at 13.

Since I have not done a cost of service study in the instant case, I can't prove that water is being sold below cost. But discounting the first tier (3,000 gallons as recommended by Staff) for residential customers on smaller meters will result in the Company experiencing a loss at this level of consumption. I say this based on other companies for which I have prepared a cost of service study.

In this case, although the Company is not facing water supply shortages, it is located within the Phoenix Active Management Area, which was designated by the Legislature as part of the Groundwater Management Act to ensure that water resources are efficiently managed and conserved.

In short, selling water at discount, as Staff proposes, is contrary to public policy.

Q. WHAT'S WRONG WITH OFFERING A LIFELINE OR LOW INCOME RATE?

A. The problem is Staff recommends this lifeline or low income rate to all residential customers on small meters. Lifeline or low income rate should only be provided to customers who can't afford the water rates. Staff has provided no study that all residential customers on smaller meters need a lifeline or low income rate.

The current commodity rate is $1.80. Staff recommends for residential customers on the smaller meters to actually reduce the commodity rate to $1.50. That is not a conservation message. When the operating and maintenance for arsenic treatment are included in rates, customers will be thoroughly confused, as the rate will have to go up. The commodity rate was $1.80, then the commodity rate is reduced to $1.50, finally, the commodity rate will have to be raised to accommodate the arsenic operating and maintenance costs. What kind of message is that to the Company's customers? (No other class of customer is recommended for this lower first tier.) I am of the opinion that it is not good rate making procedure or policy to lower rates when the overall dollar amount of rates are being raised.

Q. ARE THERE OTHER PROBLEMS WITH THE STAFF RECOMMENDED RATE DESIGN?

A. Yes. Another problem with Staff's rate is the rate for the commercial class on a 5/8 inch meter. The rate of $2.30 differs from all other classes, which pay $2.31 for this same tier rate. Charging a different price to one specific customer class, is quite unusual. Normally when a cost of service study is completed, one derives a single cost per 1,000 gallons for all the water, unless specific circumstances are present. There is no specific circumstance in the instant case that I am aware of. Staff proposes different break points based on meter size.

Additionally, I can't duplicate Staff's revenue requirement of $957,511. Inputting Staff's rates, I derive only $950,809.

I do not disagree with Staff's proposal to set break over points based on meter size. Under Staff's rate design, the larger the meter, the higher the break-over point.

Q. WHAT ARE STAFF'S PROPOSED BREAK-OVER POINTS?

A. The break-over point are listed below.

	Break-over Point	
	One	Two
5/8" Inch Residential. Customers	3,000	7,000
3/4 Inch Residential Customers	10,000	10,000
5/8 Inch Commercial Customers	18,000	

3 /4 Inch Commercial Customers	18,000
1 Inch Res.and Comm. Customers	50,359
1 1/2 Inch Res.and Comm. Customers	126,054
2 Inch Res. and Comm. Customers	151,256
3 Inch Res. and Comm. Customers	403,274
4 Inch Res. and Comm. Customers	453,722
6 Inch Res. and Comm. Customers	1,260,313

III. Company's Rate DESIGN.

Valley Utility Water Company's Rate Design Proposal.

Q. WOULD YOU PLEASE SUMMARIZE THE COMPANY'S PROPOSED RATE DESIGN FOR WATER?

A. Yes. The Company is still proposing a rate design based on three tier rates, applicable to all customers except construction water. In my opinion, one or two customer classes should not get the benefit of discounted rates.

Q. WHAT ARE THE PRESENT COMMODITY RATES FOR VALLEY UTILTIES WATER COMPANY?

A. The commodity charge per 1,000 gallons for Valley Utilities Water Company is $1.80 per 1,000 gallons for the first 25,000 gallons, and $2.20 per 1,000 gallons for usage above 25,000. The rate for construction water is $2.60 per 1,000 gallons, regardless of usage.

Q. WHAT ARE THE PROPOSED REBUTTAL RATES?

A. The monthly minimum charges for the proposed rates are:

Meter Size	Monthly Minimum	Gallons Included in Monthly Minimum
5/8 x 3/4	$ 10.56	0
3/4	$ 15.95	0
1	$ 26.40	0
1 1/2	$ 52.80	0
2	$ 84.70	0
3	$ 158.40	0
4	$ 264.00	0
6	$ 528.00	0

Construction water through a 3 inch meter will have a monthly minimum of $158.40.

The above rates represent a 10% increase over existing monthly minimums.

The commodity charge per 1,000 gallons is $2.01 per 1,000 gallons for the first tier rates, $2.457 per 1,000 gallons for the second tier rate, and $2.774 for the third tier, for all customers except the construction water sales. Construction water is priced at $2.94 per 1,000 gallons.

The commodity rates have been increased approximately 12% for tiers one and two, and approximately 25% for tier three.

Q. WHAT ARE THE COMPANY'S PROPOSED BREAK OVER POINTS?

A. The break over points are the same as requested in the Direct Filing. The break over points are listed below:

	Break Over Point	
	One	Two
5/8 x 3/4 Inch Meter	8,000	12,000
3/4 Inch Meter	12,000	18,000
1 Inch Meter	20,000	30,000
1 1/2 Inch Meter	40,000	60,800
2 Inch Meter	64,000	96,000
3 Inch Meter	128,000	192,000
4 Inch Meter	200,000	300,000
6 Inch Meter	400,000	600,000.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Present and Proposed Rates
Rebuttal

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Kozoman

Line No.		Present Rates	Proposed Rates	Percent Change
1	**Monthly Usage Charge for:**			
2	**Residential and Commercial**	Rounded to two (2) decimal Places		
3	5/8 x 3/4 Inch	$ 9.60	$ 10.56	10.00%
4	3/4 Inch	14.50	15.95	10.00%
5	1 Inch	24.00	26.40	10.00%
6	1 1/2 Inch	48.00	52.80	10.00%
7	2 Inch	77.00	84.70	10.00%
8	3 Inch	144.00	158.40	10.00%
9	4 Inch	240.00	264.00	10.00%
10	6 Inch	480.00	528.00	10.00%
11				
12	Construction (3 inch meter)	144.00	158.40	10.00%
13				
14	**Gallons In Minimum**			
15	Residential, Commecial, Industrial	-	-	
16				
17	Construction Water	-	-	
18				
19				
20	**Gallons for Rate Tiers**			
21	**Tier 1: (Gallon upper limit,)**			
22	5/8 Inch	25,000	8,000	
23	3/4 Inch	25,000	12,000	
24	1 Inch	25,000	20,000	
25	1 1/2 Inch	25,000	40,000	
26	2 Inch	25,000	64,000	
27	3 Inch	25,000	128,000	
28	4 Inch	25,000	200,000	
29	6 Inch	25,000	400,000	
30	**Tier 2: (Gallons upper limit, 150% of Tier 1)**			
31	5/8 Inch	999,999,999	12,000	
32	3/4 Inch	999,999,999	18,000	
33	1 Inch	999,999,999	30,000	
34	1 1/2 Inch	999,999,999	60,800	
35	2 Inch	999,999,999	96,000	
36	3 Inch	999,999,999	192,000	
37	4 Inch	999,999,999	300,000	
38	6 Inch	999,999,999	600,000	
39	**Tier 3: (Gallon over)**			
40	All	999,999,999	All Gallons	
41			in Excess	
42			of tier 2 above	
43	Construction Water (All)	999,999,999	999,999,999	
44				
45				
46		**Present**	**Proposed**	**Percent**
47	**Residential, Commercial, Industrial**	**Rates**	**Rates**	**Change**
48	**Commodity Rates**	Rounded to three (3) decimal Places		
49	First Tier	$ 1.80	$ 2.010	11.67%
50	Second Tier	2.20	2.457	11.68%
51	Third Tier	2.20	2.744	24.73%
52	Fourth Tier	2.20	2.744	24.73%
53				
54	Construction	2.60	2.904	11.69%
55				
56				

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Analysis of Revenue by Detailed Class
Rebuttal

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Kozoman

Line No.	Meter Size, Class		(a) Average Number of Customers at 12/31/2003	Average Consumption	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8 Inch	Residential	247	9,264	$ 26.28	$ 29.75	$ 3.47	13.21%
2	3/4 Inch	Residential	584	10,243	32.94	36.54	3.60	10.93%
3	1 Inch	Residential	258	20,040	60.07	66.70	6.63	11.03%
4	1.5 Inch	Residential	-					
5		Subtotal	1,089					
6								
7	5/8 Inch	Commercial	7	3,370	$ 15.67	$ 17.33	$ 1.67	10.65%
8	3/4 Inch	Commercial	-					
9	1 Inch	Commercial	11	38,424	98.53	114.29	15.75	15.99%
10	1.5 Inch	Commercial	6	52,593	153.71	164.14	10.44	6.79%
11	2 Inch	Commercial	45	158,358	415.39	463.07	47.69	11.48%
12	3 Inch	Construction	4	56,780	291.63	323.29	31.66	10.86%
13		Subtotal	73					
14								
15								
16								
17		Totals	1,162					
18								
19								
20								

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Present and Proposed Rates
Rebuttal

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Kozoman

Line No.		Present Rates	Proposed Rates	Percent Change
1	**Monthly Usage Charge for:**			
2	**Residential and Commercial**	Rounded to two (2) decimal Places		
3	5/8 x 3/4 Inch	$ 9.60	$ 10.56	10.00%
4	3/4 Inch	14.50	15.95	10.00%
5	1 Inch	24.00	26.40	10.00%
6	1 1/2 Inch	48.00	52.80	10.00%
7	2 Inch	77.00	84.70	10.00%
8	3 Inch	144.00	158.40	10.00%
9	4 Inch	240.00	264.00	10.00%
10	6 Inch	480.00	528.00	10.00%
11				
12	Construction (3 inch meter)	144.00	158.40	10.00%
13				
14	**Gallons In Minimum**			
15	Residential, Commecial, Industrial	-	-	
16				
17	Construction Water	-	-	
18				
19				
20	**Gallons for Rate Tiers**			
21	**Tier 1: (Gallon upper limit,)**			
22	5/8 Inch	25,000	8,000	
23	3/4 Inch	25,000	12,000	
24	1 Inch	25,000	20,000	
25	1 1/2 Inch	25,000	40,000	
26	2 Inch	25,000	64,000	
27	3 Inch	25,000	128,000	
28	4 Inch	25,000	200,000	
29	6 Inch	25,000	400,000	
30	**Tier 2: (Gallons upper limit, 150% of Tier 1)**			
31	5/8 Inch	999,999,999	12,000	
32	3/4 Inch	999,999,999	18,000	
33	1 Inch	999,999,999	30,000	
34	1 1/2 Inch	999,999,999	60,800	
35	2 Inch	999,999,999	96,000	
36	3 Inch	999,999,999	192,000	
37	4 Inch	999,999,999	300,000	
38	6 Inch	999,999,999	600,000	
39	**Tier 3: (Gallon over)**			
40	All	999,999,999	All Gallons	
41			in Excess	
42			of tier 2 above	
43	Construction Water (All)	999,999,999	999,999,999	
44				
45				
46		**Present**	**Proposed**	**Percent**
47	**Residential, Commercial, Industrial**	**Rates**	**Rates**	**Change**
48	**Commodity Rates**	Rounded to three (3) decimal Places		
49	First Tier	$ 1.80	$ 2.010	11.67%
50	Second Tier	2.20	2.457	11.68%
51	Third Tier	2.20	2.744	24.73%
52	Fourth Tier	2.20	2.744	24.73%
53				
54	Construction	2.60	2.904	11.69%
55				
56				

VALLEY WATER UTILITIES COMPANY

DOCKET NOS. W-01412A-04-0736 & 0849

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

June 6, 2005

I. INTRODUCTION, PURPOSE AND SUMMARY.

Q. PLEASE STATE YOUR NAME AND ADDRESS?

A. My name is Thomas J. Bourassa and my business address is 139 W. Wood Drive, Phoenix, AZ 85029.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct testimony was submitted in support of the initial application in this docket.

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. I will provide rebuttal testimony in response to the direct filings by Arizona Corporation Commission Utilities Division Staff ("Staff"). More specifically, my rebuttal testimony relates to rate base and income statement for Valley Utilities Water Company ("Company" or "Valley").

Q. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING IN THIS REBUTTAL TESTIMONY FOR THE COMPANY?

A. The Company is requesting an increase in revenues of $116,952, an increase of 14.09% for a total revenue requirement of $944,162.

Q. HOW DOES THIS COMPARE WITH THE COMPANY'S DIRECT FILING?

A. In the direct filing, the Company requested twp step increase. In Step 1, the Company requested and increase in revenues of $100,784, an increase of 12.18% for a total Step 1 revenue requirement of $928,349. In Step 2, the Company requested and increase in revenues of $402,669, an increase of 43.37% over the

Step 1 revenue requirement for a total revenue requirement of $1,331,018. The total (combined Step 1 and Step 2) requested increase over adjusted test year revenues was $503,453, and increase of 60.84% for a total revenue requirement of $1,331,081.

Q. WHY IS THE REVENUE REQUIREMENT IN THE REBUTTAL FILING DIFFERENT THAN IN THE DIRECT FILING?

A. The revenue requirement has changed for a three primary reasons. First, the Company has dropped its request for a two step increase. Second, the Company has adopted a number of adjustments recommended by Staff including Staff's proposal for an arsenic recovery surcharge mechanism ("ARSM") covering the debt service on arsenic treatment plant. Third, the Company proposes a surcharge mechanism for recovery of the arsenic treatment operating and maintenance costs. As a result, the Company's proposed operating expenses (combined Step 1 and Step 2) have decreased approximately $300,000 compared to the adjusted test year expense of $1,113,666 in Step 2.

Similarly, due to these various adjustments, Valley's rebuttal Original Cost Rate Base ("OCRB"), has decreased. The OCRB decreased by $1,787,442 from the direct filing Step 2 OCRB to $(543,488) primarily due to the Company eliminating the request for rate base treatment of the new arsenic treatment plant.

II. <u>REVENUE REQUIREMENT</u>.

Q. WHAT ARE THE REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY AND STAFF?

A. The proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct*	$1,331,081	$ 100,784	60.84%
Staff	$ 957,510	$ 129,946	15.70%
Company Rebuttal	$ 944,162	$ 116,597	14.09%

* 2nd Step of Two Step Proposal

Q. HOW WAS THE INCREASE IN THE REVENUE REQUIREMENT DETERMINED?

A. The Company's calculation of the revenue requirement is shown on rebuttal schedule A-1. Because the rate base is negative, the Company is requesting a revenue requirement based on a 10 percent operating margin. This is the minimum margin the Company considers sufficient for insuring the Company meets its operating needs and to attract capital. It should be noted, however, that the proposed revenue requirement does not include the operating and maintenance costs for arsenic treatment. I will discuss the impacts of arsenic remediation later in my testimony.

Q. WHAT KINDS ON FINANCIAL NEEDS DOES THE COMPANY HAVE A GOING FORWARD BASIS?

A. They include the ability to pay its operating expenses, fund capital improvements not funded by advances in aid of construction ("AIAC") and contributions in aid of construction ("CIAC"), refund AIAC, refund customer meter deposits, pay for unexpected changes in operating expenses or unplanned capital improvements, meet its debt obligations, and maintain an ability to attract new capital (debt and/or equity).

Q. DOES THE REVENUE REQUIREMENT INCLUDE ARSENIC OPERATING AND MAINTNANCE COSTS?

A. No. The Company expects arsenic and maintenance costs to be $216,600 annually. These costs are not included in the revenue requirement because the Company proposes an arsenic operating and maintenance recovery surcharge mechanism ("AOMRSM"). I will discuss the AOMRSM in later in my testimony.

Q. DOES STAFF'S RECOMMENDED REVNUE REQUIREMENT INCLUDE ARSENIC OPERATING AND MAINTENANCE COSTS?

A. No. Staff readily admits their revenue requirement does not include arsenic operating and maintenance costs. *See* Response to Company Data Request 2 attached at Exhibit 1.

Q. DOES THE REVENUE REQUIREMENT INCLUDE DEPRECIATION ON THE NEW ARSENIC TREATMENT PLANT?

A. No. Further, the AOMRSM proposed by the Company does not include depreciation expense. Depreciation expense on the new arsenic treatment plant is expected to be nearly $63,000 per year.

Q. DOES THE REVENUE REQUIREMENT PROVIDE TO SUFFICIENT CASH FLOWS TO SERVICE THE PROPOSED LOAN ON THE NEW ARSENIC TREATMENT PLANT?

A. No. Neither the revenue requirement of the Company nor Staff provides sufficient revenues. Without recovery of the arsenic operating and maintenance costs, the Company will not meet its debt obligations and refund obligations on its AIAC

and meter deposits. Staff appears to have recognized this and has proposed the Commission consider an ARSM to cover the loan principle and interest payments for the proposed loan from the Water Infrastructure Finance Authority ("WIFA"), as well as a gross-up for taxes. See Direct Testimony of Dennis Rogers (Rogers Dt.) at 27. The Company agrees with the need for an ARSM. I will discuss the ARSM further later in my testimony.

III. RATE BASE.

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS?

A. The rate bases proposed by all parties in the case are as follows:

	OCRB	FVRB
Company-Direct*	$1,243,934	$1,243,934
Staff	$(539,804)	$(539,804)
Company Rebuttal	$(543,488)	$(543,488)

* 2nd Step of Two Step Proposal

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?

A. The Company's rebuttal rate base adjustments to OCRB are shown on rebuttal schedule B-2, page 2. Rebuttal schedule B-2, page 1, shows the rebuttal OCRB. Since the Company no longer proposes a two step increase, only one B-2 schedule is shown. As you will recall, the Company's step 2 rate base included the costs of

the new arsenic treatment plant as well as an adjustment to accumulated depreciation and accumulated amortization of CIAC.

The Company accepts Staff recommendation to capitalize $775 of miscellaneous expense for a company sign. B-2 adjustment 1 to plant in service reflects this adjustment.

The Company's B-2 adjustment 2 adjusts working capital to the rebuttal calculated working capital shown on rebuttal schedule B-5.

IV. INCOME STATEMENT.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?

A. The Company rebuttal adjustments are detailed on rebuttal schedule C-2, pages 1-8. The rebuttal income statement with adjustments is shown on rebuttal schedule C-1. The Company has accepted all of Staff's expense adjustments. Some adjustments are slightly different than Staff's and are based on the Company's calculations. The slight differences are in depreciation expense, property tax expense, and income tax expense.

In rebuttal adjustment number one, the Company proposes to annualize depreciation expense including capitalized expenses for a sign. Depreciation expense has increased slightly from the Company's direct filing due to the proposed increased to plant in service. Depreciation expense between the Company and Staff differ by a few dollars.

Q. PLEASE CONTINUE.

A. In rebuttal adjustment number two, the Company proposes to adjust property taxes to reflect the increase in Company's proposed rebuttal revenues. Property tax has increased $444 over the direct filing and is lower than Staff's proposed amount by approximately $40. The reason for this is Staff's revenue requirement is higher than the Company's by approximately $12,000.

Rebuttal adjustment three reflects the Company's adoption of Staff's recommended adjustment to reduce repairs and maintenance by $1,113.

Rebuttal adjustment four reflects the Company's adoption of Staff's recommended adjustment to increase water testing expense by $2,415.

Rebuttal adjustment five reflects the Company's adoption of Staff's recommended adjustment to reduce transportation expense by $12,799.

Rebuttal adjustment six reflects the Company's adoption of Staff's recommended adjustment to reduce miscellaneous expense by $17,076.

Rebuttal adjustment seven removes interest expense on the proposed WIFA debt for the arsenic treatment plant to eliminate its affect on income taxes.

Rebuttal adjustment eight increase income taxes to reflect the Company's rebuttal proposed income taxes. I should note the income taxes computed by Staff appears to have an error and are overstated.

V. ARSENIC RECOVERY SURCHARGE MECHANISM

Q. DOES STAFF SUPPORT AN ARSENIC RECOVERY SURCHARGE MECHANISM?

A. Yes. Staff supports an arsenic recovery surcharge mechanism ("ARSM"). However, Staff does not propose the ARSM be approved in this filing. Staff

suggests the Company be required to make subsequent filing for consideration by the Commission. *See* Direct Testimony of Dennis R. Rogers ("Rogers Dt.") at 27.

Q. PLEASE EXPLAIN THE ARSENIC RECOVERY SURCHARGE MECHANISM PROPOSED BY STAFF AND ADOPTED BY THE COMPANY?

A. The ARSM is designed to recover the principle and interest on the company's proposed WIFA loan. It includes a gross up for income taxes because the surcharge would be considered revenue. Without the gross-up for income taxes, the ARSM not provide the cash flow to pay the principle and interest.

Q. DOES THE COMPANY SUPPORT AN ARSM?

A. Yes. Staff's calculated incremental revenue required to service the WIFA loan is shown on Staff schedule DRR-20. The Company agrees with this approach. However, unlike Staff, the Company believes the ARSM can be approved now in form and does not require a subsequent filing by the Company for consideration by the Commission for approval. The Company does believe that a subsequent filing providing the final details of the revenue requirement for principle and interest obligations on the WIFA loan and incremental income taxes is necessary.

Q. HOW WOULD THE ARSM WORK?

A. Each year, the incremental revenue requirement will be divided by the total equivalent 5/8 inch meter customers at the end of the prior year. This will result in the annual 5/8 inch meter ARSM surcharge amount. This result will then be divided by 12 to derive the monthly 5/8 inch meter ARSM surcharge amount.. For larger meters, the 5/8 inch monthly ARSM surcharge amount will be

multiplied by the meter capacity factor to determine the charge for that meter size. The ARSM will be shown as a separate charge on the customer bill.

The Company will maintain a balancing account to insure the Company does not over or under collect. Each year the Company will provide Staff a detailed calculation of the monthly surcharge as well as provide an accounting of the amount collected during the year.

Q. HAS THE COMPANY PREPARED CALCULATIONS BASED ON THE TEST YEAR?

A. Yes. Rebuttal exhibit 2, attached hereto, shows the calculations and the results based on the proposed WIFA loan using the test year end number of customers. The monthly arsenic recovery surcharge will be $8.76 for a 5/8 inch meter based on the test year end number of customers

Q. HOW WILL THIS IMPACT THE AVERAGE 5/8 INCH CUSTOMER BILL?

A. Rebuttal exhibit 3 shows the average 5/8 inch customer bill will increase by 37.94% over present rates as a result of the ARSM. The impacts on other meter sizes are also shown in the exhibit.

Q. WHY DOES THE CALCULATION OF THE SURHARGE NEED TO BE PERFORMED ANNUALLY?

A. Because of the need to adjust for customer growth. Growth will cause the surcharge amount to decrease from year to year because the incremental revenue requirement will be spread over a larger number of customers.

Q. HOW MUCH CUSTOMER GROWTH HAS OCCURRED SINCE THE

END OF THE TEST YEAR?

A. Approximately 100 customers. This reflects an annual growth of less than 10 percent.

Q. HAS THE WIFA LOAN BEEN FINALIZED?

A. No. The financing application for the WIFA loan has been consolidated in this docket and requires Commission approval. Thus, the Company will provide final calculations of the incremental revenue increase to Staff as well as an initial calculation of the annual and monthly surcharge by meter size subsequent to approval of the ARSM in this docket.

Q. IF THE COMPANY IS NOT ALLOWED RECOVERY OF THE DEBT SERVICE COSTS ON WIFA LOAN, WILL THE COMPANY BE ABLE TO MEET ITS OBLIGATIONS?

A. No. As I have discussed, the annual arsenic treatment costs are projected to be $216,600 annually. The Company will not only have insufficient cash to service the WIFA debt, but it will fall out of compliance with the WIFA requirements for a minimum debt service coverage of 1.2.

Rebuttal Exhibit 4, page 1, attached hereto, demonstrates that under the Company's proposed revenue requirement and without recovery of the projected arsenic O&M costs, the debt service coverage with drop from 1.38 to .28. A DSC below 1.00 indicates the Company cannot service its debt obligations.

Q. WHY HAVE YOU INCLUDED REFUNDS OF AIAC IN YOUR DEBT SERVICE COVERAGE CALCULATIONS?

A. Because this is a form of debt obligation to the Company. The exhibit shows the

DSC will still be inadequate even if AIAC refunds are ignored. My understanding is that lenders do consider AIAC refund obligations in determining financial eligibility. Never-the-less, in either case, the Company will be in violation of the WIFA loan requirements.

Q. PLEASE CONTINUE.

A. Rebuttal Exhibit 4, page 2 also demonstrates the Staff proposed revenue requirement fails to provide sufficient cash flow. Without recovery of the projected arsenic O&M costs, the debt service coverage with drop from 1.45 to .34.

Q. AREN'T THE ARSENIC O&M COSTS PROJECTED COSTS?

A. Yes. However, Staff has found them to be a reasonable estimate. *See* Direct Testimony of Marlin Scott Jr. ("Scott Dt.") at 2-3 of EXHIBIT MSJ-B. Thus, my analysis is reasonable. Even of the actual O&M costs are half of the projected amount, the Company would not be able to meet its debt obligations. Rebuttal Exhibit 5, page 1, attached hereto, demonstrates that under the Company's proposed revenue requirement and without recovery of the half of the projected arsenic O&M costs, the debt service coverage with drop from 1.38 to .83. Rebuttal Exhibit 5, page 2, also demonstrates the Staff proposed revenue requirement fails to provide sufficient cash flow even at half the projected arsenic O&M costs. Without recovery of the projected arsenic O&M costs, the debt service coverage with drop from 1.45 to .90.

Q. WHAT DO YOU CONCLUDE FROM THE ANALYSIS SHOWN IN REBUTTAL EXHIBITS 4 AND 5?

A. The arsenic operating and maintenance costs cannot simply be ignored and the ARSM is required to afford the Company an opportunity to meet its debt obligations.

Q. IS THERE ANY REASON TO DELAY APPROVAL OF THE ARSM TO A SUBSEQUENT FILING?

A. No. The method of determining the surcharge amount is specific. While the final WIFA loan has not been finalized, the financing application seeks approval of a maximum $1,926,100. In addition, the number of customers has increased from the end of the test year. Thus, the Company has provided the maximum impact of the ARSM for consideration. The Company would provide its initial calculations to Staff for review before implementing the surcharge.

Staff admits the WIFA financing is necessary and the only course of action for the Company in addressing its arsenic treatment issues and Staff appears to believe that if the ARSM is approved, the Company will have sufficient cash flows in the future to meet its obligations. *See* Rogers Dt. at 26.

Q. DO YOU AGREE WITH STAFF?

A. I agree the approval of the ARSM is necessary and should be approved. I do not agree that approval of the ARSM will solve the issue of dealing with the arsenic operating and maintenance costs which will likely cause net losses and provide insufficient cash flows for operating expenses.

Q. HASN'T THE COMPANY APPLIED FOR A HOOK-UP FEE ("HUF") TO HELP FUND THE NEW ARSENIC TREATMENT PLANT?

A. Yes. These funds could be used to offset the incremental revenue requirement

and thus lower the ARSM. This could be done annually. The problem with dependence upon the hook-up fee ("HUF") is that it is not a predictable funding source. Further, if additional arsenic treatment plant is needed to handle customer growth, the HUF should first be allocated to the additional plant and any funds left over should offset the incremental revenue requirement.

Q. CAN THE HUF BE USED FOR OPERATING EXPENSES?

A. No. The HUF can only to be used for plant, not operating expenses.

VI. ARSENIC OPERATING AND MAINTENANCE RECOVERY SURCHARGE MECHANISM

Q. PLEASE EXPLAIN THE COMPANY'S PROPOSAL FOR AN ARSENIC OPERATING AND MAINTENANCE RECOVERY SURCHARGE MECHANISM.

A. The Company proposes an arsenic operating and maintenance recovery surcharge mechanism ("AOMRSM") to recover costs associated with arsenic remediation. As I have testified, the projected amounts are over $216,000. However, as I have acknowledged, these costs are projected. The Company believes a surcharge mechanism is the best mechanism to recover these costs since a surcharge mechanism, by design, will only allow the Company to recover actual costs.

Q. HOW WOULD THE AOMRSM WORK?

A. The Company would determine a cost per 1,000 gallons by dividing the actual arsenic O&M costs for the year by the annual gallons sold (in 1,000 gallons). The total surcharge on the monthly customer bill will be the product of the surcharge per 1,000 gallons times the customer's monthly water usage (in 1,000

gallons) and will be shown separately on the customer's bill.

The Company would maintain a balancing account to insure the Company did not over or under collect. Each year the Company will provide Staff a detailed calculation of the surcharge as well as provide an accounting of the amount collected during the year.

Q. HAS THE COMPANY PREPARED CALCUALTIONS SHOWING THE IMPACT OF THE AOMRSM?

A. Yes. Yes. Rebuttal Exhibit 6, attached hereto, shows the calculations. The AOMSM charge per 1,000 will be $0.84 per 1,000 gallons based on the test year gallons sold and using the projected $216,600 arsenic O&M costs. As shown on rebuttal exhibit 6, the impact on an average 5/8 inch customer bill will be $7.77 , for a combined increase of 42.94% over present rates. As shown on rebuttal exhibit 3, the total impact of the ARSM and the AOMRSM on an average 5/8 inch customer bill will be $14.23 ($6.46 plus $7.77), for a combined increase of 67.55%.

Q. DOES THE COMPANY NEED THE AOMSM IF THE ARSM IS APPROVED?

A. Yes. The Company will experience net losses if the actual arsenic O&M expenses exceed $160,000 annually. Current estimates are over 216,000 annually. Staff has recommended the Company institute a plan that would produce a positive equity position by December 31, 2010. *See* Rogers Dt at 20. The denial of the AOMRSM is likely to sink the Company into a greater negative equity position. Exhibit 7, attached hereto, illustrates the financial impact of arsenic operating and

maintenance costs. As the exhibit shows, the net loss will be over $57,000.

Even if the actual arsenic O&M costs are less than $160,000 annually, the Company will experience only marginal improvements in its equity position which it cannot afford since equity at the end of the test year was negative by over $413,000.

Q. IT APPEARS EXHBIT 6 SHOWS THE OMPANY WILL HAVE A DSC OF 1.20 EVEN WITHOUT RECOVER OF THE ARSENIC O&M COSTS, IS THAT CORRECT?

A. Yes. However, without recovery of the arsenic O&M costs, the company will be ill equiped to handle any unexpected changes in its operating expenses. A DSC on the cusp of the WIFA loan requirements does not leave much room for error.

Q. DO YOU HAVE ANY OTHER COMMENTS?

A. Yes. The Company should not be denied recovery of expenses it incurs for the benefit of its ratepayers.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

ARIZONA CORPORATION COMMISSION STAFF'S
RESPONSE TO VALLEY UTILITIES WATER COMPANY, INC.'S
DATA REQUEST NO. 1
DOCKET NOS. WS-01412A-04-0736 & WS-01412A-04-0849.
May 25, 2005

1. Q. Admit or deny the arsenic O&M costs of $216,600 proposed by the Company were found to be reasonable by Staff.

   A. Staff found the Company's proposed arsenic O&M costs of $216,000 to be a reasonable projection of arsenic O&M costs. Response: Dennis Rogers

2. Q. Please identify wherein the Staff's direct testimony and/or schedules, the $216,000 or arsenic O&M costs are included in operating expenses and the revenue requirement proposed by Staff.

   A. Staff did not include arsenic O&M costs in its recommended revenue requirement. Response: Dennis Rogers

3. Q. Admit or deny the Staff recommended revenue requirement does not include recovery of arsenic O&M costs.

   A. Refer to response no. 2. Response: Dennis Rogers

4. Q. Admit or deny the Staff recommendations for the arsenic surcharge recovery mechanism do not include recovery of the arsenic O&M costs.

   A. Staff's recommended arsenic surcharge recovery mechanism does not include a provision for recovery of arsenic O&M costs. Response: Dennis Rogers

5. Q. Please explain how the Company can meet Staff's recommendation to increase the equity position to 40 percent of total capital without recovery of the arsenic O&M costs in rates.

   A. Staff expects the Company to develop a capital plan that is consistent with all reasonable operating and management projects. Response: Dennis Rogers

6. Q. Admit of deny based on Staff's recommended revenue requirement and operating income, without recovery of the arsenic O&M costs, the equity position of the Company will not increase, but rather it will decrease.

   A. Staff cannot predict future outcomes for the Company's equity position. Response: Dennis Rogers

7. Q. Please provide your workpapers in electronic format. Please provide two sets. One for Mr. Bourassa and one for Mr. Kozoman.

   A. Two data disks are attached. Response: Dennis Rogers

EXHIBIT 1

Valley Utilities Water Company
Calculation of Arsenic Recovery Surcharge Mechanism (ARSM)

Exhibit 2
Witness: Bourassa

Line No.			
1	Prinicple Payment (1)	$	57,539
2	Gross Revenue Conversion factor (2)		1.4495
3	Revenue Required to cover the Principle (1) times (2) equals (3)	$	83,403
4	Interest Payment (4)		94,998
5			
6	Total Increase in Revenue Requirement (3) plus (4) euals (5)	$	178,401
7			
8			
9			
10			
11			
12	5/8 Inch	250	1.00	250.00
13	3/4 Inch	602	1.50	903.00
14	1 Inch	282	2.50	705.00
15	1 1/2 Inch	6	5.00	30.00
16	2 Inch	46	8.00	368.00
17	2 Inch	3	15.00	45.00
18	Total (6)	1,189		2,301.00
19				
20	Annual Arsenic Recovery Surcharge [(5) divided by (6) equals (7)]	$	77.53
21	Monthly Arsenic Recovery Surcharge [(7) divided by 12 (rounded)]	$	6.46
22			
23	Arsenic Recovery Surcharge by Meter Size		
24			
25			
26			
27	5/8 Inch	$ 6.46	1.00	$ 6.46
28	3/4 Inch	6.46	1.50	9.69
29	1 Inch	6.46	2.50	16.15
30	1 1/2 Inch	6.46	5.00	32.30
31	2 Inch	6.46	8.00	51.68
32	3 Inch	6.46	15.00	96.90
33			
34			
35			
36			

Meter Size	# of Customers at TY End	AWWA Capacity Factor	Equivalent # of 5/8 Inch Customers

Meter Size	Equivalent 5/8 Inch Surcharge	AWWA Capacity Factor	Arsenic Recovery Surcharge

Valley Utilities Water Company
Analysis of Impact of ARSM on Average Bill

Exhibit 3
Witness: Bourassa

Line No.	Meter Size	Class	Average Use	Present Rates	Proposed Rates	% Increase	ARSM (1)	Proposed Bill With ARSM	% Increase	AOMRSM (2)	Proposed Bill With ARSM and AOMRSM	% Increase
1												
2												
3												
4												
5	5/8 Inch	Residential	9,251	$ 26.25	$ 29.75	13.33%	$ 6.46	$ 36.21	37.94%	$ 7.77	$ 43.98	67.55%
6	3/4 Inch	Residential	10,134	32.74	36.54	11.61%	9.69	46.23	41.20%	8.51	54.74	67.20%
7	1 Inch	Residential	19,749	59.55	66.70	12.01%	16.15	82.85	39.13%	16.59	99.44	66.98%
8												
9												
10	5/8 Inch	Commercial	3,369	15.66	17.33	10.66%	6.46	23.79	51.92%	2.83	26.62	69.99%
11	1 Inch	Commercial	38,207	98.05	114.29	16.56%	16.15	130.44	33.03%	32.09	162.53	65.77%
12	1 1/2 Inch	Commercial	52,593	153.70	164.14	6.79%	32.30	196.44	27.81%	44.18	240.62	56.55%
13	2 Inch	Commercial	158,299	415.26	463.07	11.51%	51.68	514.75	23.96%	132.97	647.72	55.98%
14												
15	(1) Arsenic Recovery Surcharge Mechanism for receovery of debt service on WIFA loan.											
16	(2) Arsenic Operating and Maintenance Recovery Surcharge Mechanism. Commodity cost per 1,000 gallons is								$ 0.84			
17												

Valley Utilities Water Company
Financial Analysis
Using Company Proposed Increase without ARSM

Exhibit 4
Witness: Bourassa
Page 1

Line No.		Company Proposed	Projected Arsenic O&M Expense Impacts	Company Proposed With Arsenic O&M
1				
2				
3	Operating Revenues	$ 944,162		$ 944,162
4				
5	Operating Expenses	$ 673,758	$ 216,600	$ 890,358
6	Depreciation & Amortization	133,545	62,724	196,269
7	Income Taxes	42,442	(42,392)	50
8	Operating Income	$ 94,416		$ (142,516)
9				
10	**Debt Service Coverage ("DSC")**			
11				
12	Operating Income	$ 94,416		$ (142,516)
13	Depreciation & Amortization	133,545		196,269
14	Income Taxes	42,442		50
15	Total	$ 270,403		$ 53,803
16				
17				
18	Interest Expense	$ 94,998		$ 94,998
19	Repayment of Principle	57,539		57,539
20	Refunds of AIAC during TY	43,000		43,000
21	Total Debt Service	$ 195,537		$ 195,537
22				
23	DSC	1.38		0.28
24				
25	DSC	1.77		0.35
26	(without consideration of AIAC refunds)			
27				

Valley Utilities Water Company
Financial Analysis
Using Staff Proposed Increase without ARSM

Exhibit 4
Witness: Bourassa
Page 2

Line No.		Staff Proposed	Projected Arsenic O&M Expense Impacts	Staff Proposed With Arsenic O&M
1				
2				
3	Operating Revenues	$ 957,511		$ 957,511
4				
5	Operating Expenses	$ 673,955	$ 216,600	$ 890,555
6	Depreciation & Amortization	133,543	62,724	196,267
7	Income Taxes*	54,262	(54,212)	50
8	Operating Income	$ 95,751		$ (129,361)
9				
10	**Debt Service Coverage ("DSC")**			
11				
12	Operating Income	$ 95,751		$ (129,361)
13	Depreciation & Amortization	133,543		196,267
14	Income Taxes	54,262		50
15	Total	$ 283,556		$ 66,956
16				
17				
18	Interest Expense	$ 94,998		$ 94,998
19	Repayment of Principle	57,539		57,539
20	Refunds of AIAC during TY	43,000		43,000
21	Total Debt Service	$ 195,537		$ 195,537
22				
23	DSC	1.45		0.34
24				
25	DSC	1.86		0.44
26	(without consideration of AIAC refunds)			
27				

Valley Utilities Water Company
Financial Analysis
Using Company Proposed Increase without ARSM

Exhibit 5
Witness: Bourassa
Page 1

Line No.		Company Proposed	Projected Arsenic O&M Expense Impacts	Company Proposed With Arsenic O&M
1				
2				
3	Operating Revenues	$ 944,162		$ 944,162
4				
5	Operating Expenses	$ 673,758	$ 108,300	$ 782,058
6	Depreciation & Amortization	133,545	62,724	196,269
7	Income Taxes	42,442	(42,392)	50
8	Operating Income	$ 94,416		$ (34,216)
9				
10	**Debt Service Coverage ("DSC")**			
11				
12	Operating Income	$ 94,416		$ (34,216)
13	Depreciation & Amortization	133,545		196,269
14	Income Taxes	42,442		50
15	Total	$ 270,403		$ 162,103
16				
17				
18	Interest Expense	$ 94,998		$ 94,998
19	Repayment of Principle	57,539		57,539
20	Refunds of AIAC during TY	43,000		43,000
21	Total Debt Service	$ 195,537		$ 195,537
22				
23	DSC	1.38		0.83
24				
25	DSC	1.77		1.06
26	(without consideration of AIAC refunds)			
27				

Valley Utilities Water Company
Financial Analysis
Using Staff Proposed Increase without ARSM

Exhibit 5
Witness: Bourassa
Page 2

Line No.		Sraff Proposed	Projected Arsenic O&M Expense Impacts	Staff Proposed With Arsenic O&M
1				
2				
3	Operating Revenues	$ 957,511		$ 957,511
4				
5	Operating Expenses	$ 673,955	$ 108,300	$ 782,255
6	Depreciation & Amortization	133,543	62,724	196,267
7	Income Taxes*	54,262	(54,212)	50
8	Operating Income	$ 95,751		$ (21,061)
9				
10	**Debt Service Coverage ("DSC")**			
11				
12	Operating Income	$ 95,751		$ (21,061)
13	Depreciation & Amortization	133,543		196,267
14	Income Taxes	54,262		50
15	Total	$ 283,556		$ 175,256
16				
17				
18	Interest Expense	$ 94,998		$ 94,998
19	Repayment of Principle	57,539		57,539
20	Refunds of AIAC during TY	43,000		43,000
21	Total Debt Service	$ 195,537		$ 195,537
22				
23	DSC	1.45		0.90
24				
25	DSC	1.86		1.15
26	(without consideration of AIAC refunds)			
27				

Exhibit 6
Witness: Bourassa

Valley Utilities Water Company

Calculation of the Arsenic Operating and Maintenance Recovery Surcharge Mechanism (AOMRSM)

Line No.			
1	Arsenic Operating and Maintenance Costs (1)	$	216,600
2			
3	Gallons Sold during Test Year in 1,000's (2)		258,740
4			
5	Arsenic Recovery Surcharge per 1,000 gallons (1) divided by (2) equals (3)	$	0.84

Line No.	Meter Size	Class	Average Use	Present Rates	Proposed Rates	% Increase	AOMRSM (4)	Proposed Bill With ARSM	% Increase
6									
7									
8									
9									
10									
11									
12	5/8 Inch	Residential	9,251	$ 26.25	$ 29.75	13.33%	$ 7.77	$ 37.52	42.94%
13	3/4 Inch	Residential	10,134	32.74	36.54	11.61%	8.51	45.05	37.61%
14	1 Inch	Residential	19,749	59.55	66.70	12.01%	16.59	83.29	39.86%
15									
16									
17	5/8 Inch	Commercial	3,369	15.66	17.33	10.66%	2.83	20.16	28.74%
18	1 Inch	Commercial	38,207	98.05	114.29	16.56%	32.09	146.38	49.30%
19	1 1/2 Inch	Commercial	52,593	153.70	164.14	6.79%	44.18	208.32	35.54%
20	2 Inch	Commercial	158,299	415.26	463.07	11.51%	132.97	596.04	43.53%
21									
22	(4) equals average use divided by 1,000 times (3)								
23									

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Income Statement
Analysis of Impact on Arsenic O&M Costs

Exhibit 7
Page 1
Witness: Bourass

Line No.		Rebuttal Adjusted with Rate Increase	Label	Adjustment	Results
1	**Revenues**				
2	Metered Water Revenues	$ 902,371			$ 902,371
3	ARSM Revenues		A	178,401	178,401
4	Unmetered Water Revenues	-			-
5	Other Water Revenues	41,791			41,791
6		$ 944,162		$ 178,401	$ 1,122,563
7	**Operating Expenses**				
8	Salaries and Wages	$ 214,213			$ 214,213
9	Purchased Water	-			-
10	Purchased Power	106,043			106,043
11	Chemicals	2,225			2,225
12	Arsenic Operating and Maintenance	-	B	216,600	216,600
13	Repairs and Maintenance	20,630			20,630
14	Office Supplies and Expense	30,348			30,348
15	Outside Services	5,382			5,382
16	Water Testing	4,014			4,014
17	Rents	71,493			71,493
18	Transportation Expenses	26,216			26,216
19	Insurance - General Liability	9,083			9,083
20	Insurance - Health and Life	58,498			58,498
21	Regulatory Commission Expense - Rate Case	30,000			30,000
22	Miscellaneous Expense	29,450			29,450
23	Depreciation Expense	133,545	C	62,724	196,269
24	Other Taxes and Licenses	17,612			17,612
25	Property Taxes	48,552			48,552
26	Income Tax	42,442	E	(42,392)	50
27		-			-
28	**Total Operating Expenses**	$ 849,746		$ 236,932	$ 1,086,678
29	**Operating Income**	$ 94,416		$ (58,531)	$ 35,885
30	**Other Income (Expense)**				
31	Interest Income	-			-
32	Other income	-			-
33	Income Tax Provision				-
34	Interest Expense	-	D	(92,902)	(92,902)
35	Other Expense	-			-
36	Gain/Loss Sale of Fixed Assets	-			-
37	**Total Other Income (Expense)**	$ -		$ (92,902)	$ (92,902)
38	**Net Profit (Loss)**	$ 94,416		$ (151,433)	$ (57,017)
39					
40	**(A)** Incremental Revenue from ARSM				
41	**(B)** Arsenic Treatment Operating and Maintenance				
42	**(C)** Depreciation on Aresenic Treatment Plant				
43	**(D)** Interest Expense on WIFA Loan				
44	**(E)** Change in Income Tax Expense				
45					
46					
47	**Debt Service Coverage ("DSC")**				
48	Operating Income				35,885
49	Depreciation & Amortization				196,269
50	Income Taxes				50
51	Total				232,205
52					
53	Interest Expense				$ 92,902
54	Repayment of Principle				57,539
55	Refunds of AIAC during TY				43,000
56	Total Debt Service				$ 193,441
57					
58	DSC				1.20
59					
60	DSC				1.54
61	(without consideration of AIAC refunds)				

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Summary of Fair Value Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base
1		
2	Gross Utility Plant in Service	$ 4,303,069
3	Less: Accumulated Depreciation	1,391,574
4		
5	Net Utility Plant in Service	$ 2,911,495
6		
7	Less:	
8	Advances in Aid of	
9	Construction	3,180,500
10	Contributions in Aid of	
11	Construction - Net of amortization	323,598
12	Customer Meter Deposits	46,999
13	Deferred Income Taxes & Credits	-
14	Investment tax Credits	-
15	Plus:	
16	Unamortized Finance	
17	Charges	-
18	Deferred Tax Assets	-
19	Allowance for Working Capital	96,114
20	Citizens Acquisition Adjustment	-
21		
22	Total Rate Base	$ (543,488)
23		
24		
25		
26	SUPPORTING SCHEDULES:	
27	Rebuttal B-2	
28	Rebuttal B-5	
29		
30		
31		

RECAP SCHEDULES:
Rebuttal A-1

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments Label	Proforma Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	$ 4,302,296	1	773	$ 4,303,069
3					
4	**Less:**				
5					
6	Accumulated				
7	Depreciation	1,391,574			1,391,574
8					
9	Net Utility Plant				
10	in Service	$ 2,910,722			$ 2,911,495
11					
12	**Less:**				
13	Advances in Aid of				
14	Construction	$ 3,180,500			$ 3,180,500
15	Contributions in Aid of				
16	Construction - Net	323,598			323,598
17					
18	Customer Meter Deposits	46,999			46,999
19	Deferred Income Taxes	-			-
20	Investment Tax Credits	-			-
21	**Plus:**				
22					
23	Deferred Tax Assets	-			-
24					
25	Working capital	99,686	2	(3,572)	96,114
26					
27					
28	Total	$ (540,689)			$ (543,488)
29					
30					
31					
32	SUPPORTING SCHEDULES:				RECAP SCHEDULES:
33	Rebuttal B-2				Rebuttal B-1
34	Rebuttal B-5				
35					
36					
37					
38					
39					
40					
41					
42					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustment to Plant-In-Service
Adjustment Number 1

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

Line No.			
1			
2	Reclass Miscellaneous Expense to Office Equipment for Company Sign		
3	Per Staff Adjustment #1 on DRR-5		
4			
5	Conoaby Sign	$	773
6			
7			
8	Adjustment to Plant in Service	$	773
9			
10			
11			
12			
13			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustment to Accumulated Depreciation
Adjustment Number 2

Exhibit
Schedule B-2 Step 1
Page 3
Witness: Bourassa

Line No.		
1		
2	Accum. Depr. Per Schedule B-2, Pages 2a-2f	$ 1,391,574
3	Accum. Depr. Per E-1 Schedule	1,533,754
4	Adjustment to Accumulated Depreciation	$ (142,180)
5		
6		
7		
8		
9		
10		
11		
12		
13		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustment to Accumulated Amortization of CIAC
Adjustment Number 3

Exhibit
Schedule B-2 Step 1
Page 4
Witness: Bourassa

Line No.					
1	Computation of CIAC Balances				
2					
3	Balance at 12/31/1998 per Decision			$	417,416
4	Additions 1999				-
5	Balance at 12/31/1999			$	417,416
6	Additions 2000				3,365
7	Balance at 12/31/2000			$	420,781
8	Additions 2001				-
9	Balance at 12/31/2001			$	420,781
10	Additions 2002				73,317
11	Balance at 12/31/2002			$	494,098
12	Additions 2003				-
13	Balance at 12/31/2003			$	494,098
14					
15					
16	Computation of Accumulated Amortization CIAC Balances				
17					
18	Balance at 12/31/1998 per Decision			$	88,496
19	Amortization at composite rate	4.815%	1999		20,097
20	Balance at 12/31/1999			$	108,593
21	Amortization at composite rate	4.517%	2000		19,009
22	Balance at 12/31/2000			$	127,602
23	Amortization at composite rate	3.355%	2001		14,116
24	Balance at 12/31/2001			$	141,718
25	Amortization at composite rate	2.612%	2002		12,904
26	Balance at 12/31/2002			$	154,623
27	Amortization at composite rate	3.213%	2003		15,877
28	Balance at 12/31/2003			$	170,500
29					
30	Accum. Amortization Balance per Computation			$	170,500
31	Balance at End of Test Year				200,877
32	Adjustment to Accum. Amort. CIAC			$	(30,377)
33					
34					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Computation of Working Capital

Exhibit
Schedule B-5 Step 1
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	64,895
3	Pumping Power (1/24 of Pumping Power)		4,418
4	Material and Supplies Inventories		26,800
5	Prepayments		-
6			
7			
8	Total Working Capital Allowance	$	96,114
9			
10	Working Capital Requested per Co. Direct Filing		99,686
11			
12	Increase (decrease) in Working Capital Allowance	$	(3,572)
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	Rebuttal C-1	Rebuttal B-1	
17			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Adjusted Results	Label	Rebuttal Adjustment	Rebuttal Test Year Adjusted Results	Rebuttal Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**						
2	Metered Water Revenues	$ 785,774			$ 785,774	116,597	$ 902,371
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	41,791			41,791		41,791
5		$ 827,565		$ -	$ 827,565	$ 116,597	$ 944,162
6	**Operating Expenses**						
7	Salaries and Wages	$ 214,213			$ 214,213		$ 214,213
8	Purchased Water	-			-		-
9	Purchased Power	106,043			106,043		106,043
10	Chemicals	2,225			2,225		2,225
11	Repairs and Maintenance	21,743	3	(1,113)	20,630		20,630
12	Office Supplies and Expense	30,348			30,348		30,348
13	Outside Services	5,382			5,382		5,382
14	Water Testing	1,599	4	2,415	4,014		4,014
15	Rents	71,493			71,493		71,493
16	Transportation Expenses	39,015	5	(12,799)	26,216		26,216
17	Insurance - General Liability	9,083			9,083		9,083
18	Insurance - Health and Life	58,498			58,498		58,498
19	Regulatory Commission Expense - Rate Case	30,000			30,000		30,000
20	Miscellaneous Expense	46,526	6	(17,076)	29,450		29,450
21	Depreciation Expense	133,494	1	52	133,545		133,545
22	Other Taxes and Licenses	17,612			17,612		17,612
23	Property Taxes	48,258	2	293	48,552		48,552
24	Income Tax	(21,105)	7	27,388	6,283	36,158	42,442
25					-		-
26	**Total Operating Expenses**	$ 814,427		$ (840)	$ 813,587	$ 36,158	$ 849,746
27	**Operating Income**	$ 13,138		$ 840	$ 13,978	$ 80,438	$ 94,416
28	**Other Income (Expense)**						
29	Interest Income	-			-		-
30	Other income	-			-		-
31	Income Tax Provision	-			-		
32	Interest Expense	(92,902)	8	92,902	-		-
33	Other Expense	-			-		-
34	Gain/Loss Sale of Fixed Assets	-			-		-
35	**Total Other Income (Expense)**	$ (92,902)		$ 92,902	$ -	$ -	$ -
36	**Net Profit (Loss)**	$ (79,764)		$ 93,742	$ 13,978	$ 80,438	$ 94,416
37							
38	SUPPORTING SCHEDULES:					RECAP SCHEDULES:	
39	Rebuttal C-2					Rebuttal A-1	
40							
41							

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	Subtotal
1				Repairs and	Water	Transportation	Miscellaneous	
2		Depreciation	Property Taxes	Maintenance Expense	Testing Expense	Expense	Expense	
3	Revenues							-
4								
5	Expenses	52	293	(1,113)	2,415	(12,799)	(17,076)	(28,228)
6								
7	Operating							
8	Income	(52)	(293)	1,113	(2,415)	12,799	17,076	28,228
9								
10	Interest							
11	Expense							-
12	Other							
13	Income /							
14	Expense							
15								
16	Net Income	(52)	(293)	1,113	(2,415)	12,799	17,076	28,228
17								
18								
19		Adjustments to Revenues and Expenses						
20		7	8	9	10	11	12	Subtotal
21								
22		Interest Expense	Income Taxes					
23	Revenues							-
24								
25	Expenses		27,388					(840)
26								
27	Operating							
28	Income	-	(27,388)	-	-	-	-	840
29								
30	Interest							
31	Expense	92,902						92,902
32	Other							
33	Income /							-
34	Expense							
35								
36	Net Income	92,902	(27,388)	-	-	-	-	93,742
37								
38								

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 2

Exhibit
Schedule C-2 Step 1
Page 3
Witness: Bourassa

Line No.		
1	Property Taxes	
2		
3	Adjusted Revenues in year ended 12/31/03	$ 827,565
4	Adjusted Revenues in year ended 12/31/03	827,565
5	Proposed Revenues	944,162
6	Average of three year's of revenue	$ 866,431
7	Average of three year's of revenue, times 2	$ 1,732,861
8	Add:	
9	Construction Work in Progess at 10%	0
10	Deduct:	
11	Book Value of Transportation Equipment	29,253
12		
13	Total Book Value of Transportation Equipment	$ 29,253
14		
15	Full Cash Value	$ 1,703,608
16	Assessment Ratio	25%
17	Assessed Value	425,902
18	Property Tax Rate	11.13624%
19		
20	Property Tax	47,429
21	Tax on Parcels	1,122
22		
23	Total Property Tax at Proposed Rates	$ 48,552
24	Property Taxes in the test year	48,258
25	Change in Property Taxes	$ 293
26		
27		
28	Adjustment to Revenues and/or Expenses	$ 293
29		
30		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 3

Exhibit
Schedule C-2 Step 1
Page 4
Witness: Bourassa

Line No.			
1	Repairs and Maintenance Expense		
2			
3	Staff Adjustment #1 per DRR-9	$	(1,113)
4			
5			
6			
7			
8			
9	Adjustment to Revenues and/or Expense	$	(1,113)
10			
11			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2001
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 4

Exhibit
Schedule C-2 Step 1
Page 5
Witness: Bourassa

Line No.			
1	Water Testing Expense		
2			
3	Staff Adjustment #2 per DRR-10	$	2,415
4			
5			
6			
7			
8	Adjustment to Revenue and/or Expense	$	2,415
9			
10	Supporting Schedule H-1, page 1		
11			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2001
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 5

Exhibit
Schedule C-2 Step 1
Page 6
Witness: Bourassa

Line No.		
1	Transportation Expenses	
2		
3	Staff Adjustment #3 per DRR-11	$ (12,799)
4		
5		
6		
7		
8		
9		
10	Adjustment to Revenue and/or Expense	$ (12,799)
11		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2001
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 6

Exhibit
Schedule C-2 Step 1
Page 7
Witness: Bourassa

Line No.			
1	Miscellaneous Expenses		
2			
3	Staff Adjustment #4A per DRR-12 Recruitment Fees	$	(4,850)
4	Staff Adjustment #4B per DRR-12 Directors Fees		(9,000)
5	Staff Adjustment #4C per DRR-12 Telephone Expense		(590)
6	Staff Adjustment #4D per DRR-12 Company Sign		(773)
7	Staff Adjustment #4E per DRR-12 High School Fund Raiser		(250)
8	Staff Adjustment #4F per DRR-12 Gym Expenses		(1,613)
9	Total	$	(17,076)
10			
11	Adjustment to Revenue and/or Expense	$	(17,076)
12			
13			
14			
15			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2 Step 1
Page 8
Witness: Bourassa

Line No.		
1		
2	Interest Expense	
3		
4	Remove Interest Expense to eliminate effect on revenue requirement	$ (92,902)
5		
6		
7		
8		
9		
10		
11	Adjustment to Revenue and/or Expense	$ 92,902
12		
13		
14		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2 Step 1
Page 9
Witness: Bourassa

Line No.								
1					2.70%	0.80%	7.65%	27.31
2		Annual Wages	Unempl base	State UE	Fed UE	Fed tax	Benefits	
3	Bob Prince	68,900	7,000	189	56	5,271	18,81	
4	Barbara Prince	31,200	7,000	189	56	2,387	8,52	
5	Scott Keith	40,013	7,000	189	56	3,061	10,92	
6	Matt Prince	52,000	7,000	189	56	3,978	14,20	
7	Lisa Mycke	22,100	7,000	189	56	1,691	6,03	
8	Total	214,213	35,000	945	280	16,387	58,49	
9								
10								
11								
12								
13								

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	24.04%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	31.01%
9		
10	Operating Income % = 100% - Tax Percentage	68.99%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.4495
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rebuttal A-1
20		

Richard L. Sallquist
Sallquist, Drummond & O'Connor, P.C.
Tempe Office
4500 S. Lakeshore Drive, Suite 339
Tempe, Arizona 85282
Phone: (480) 839-5202
Fax: (480) 345-0412

EXHIBIT
A-4
Admitted

RECEIVED
2005 JUL -5 P 2: 24
AZ CORP COMMISSION
DOCUMENT CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY INC. FOR AN INCREASE IN ITS WATER RATES FOR CUSTOMERS WITHIN MARICOPA COUNTY, ARIZONA	DOCKET NO. W-01412A-04-0736
IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AUTHORITY TO ISSUE PROMISSORY NOTE(S) AND OTHER EVIDENCES OF INDEBTEDNESS PAYABLE AT PERIODS OF MORE THAN TWELVE MONTHS AFTER THE DATE OF ISSUANCE.	DOCKET NO. W-01412A-04-0849 **NOTICE OF FILING**

Valley Water Utilities Company, by and through its undersigned counsel, hereby provides this Notice of Filing on behalf of the Company of the Rejoinder Testimonies of Ronald L. Kozoman and Thomas J. Bourassa in this proceeding.

Respectfully submitted this 5th day of July 2005.

SALLQUIST, DRUMMOND & O'CONNOR, P.C.

By: _____
Richard L. Sallquist
SALLQUIST, DRUMMOND & O'CONNOR, P.C.
4500 S. Lakeshore Drive, Suite 339
Tempe, AZ 85282
Attorneys for Valley Utilities Water Company, Inc.

93055.00000.175

Original and fifteen copies of the foregoing filed this 5th day of July 2005:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

A copy of the foregoing mailed/hand delivered this 5th day of July 2005, to:

Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

K. Robert Janis
13043 W. Sierra Vista Drive
Glendale, Arizona 85307

T. C. Crownover
James Shade
P.O. Box 363
Litchfield Park Arizona 85340

William Clark
P.O. Box 810
Litchfield Park, Arizona 85340

93055.00000.175

VALLEY WATER UTILITIES COMPANY

DOCKET NOS. W-01412A-04-00736 7 0849

REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

July 5, 2005

I. INTRODUCTION, PURPOSE AND SUMMARY.

Q. PLEASE STATE YOUR NAME AND ADDRESS?

A. My name is Thomas J. Bourassa and my business address is 139 W. Wood Drive, Phoenix, AZ 85029.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct and rebuttal testimony was submitted in support of the initial application in this docket.

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

A. I will provide rejoinder testimony in response to the surrebuttal filing by Arizona Corporation Commission Utilities Division Staff ("Staff"). More specifically, the rate base and income statement for Valley Utilities Water Company ("Company" or "Valley").

Q. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING IN THIS REJOINDER TESTIMONY FOR THE COMPANY?

A. The Company is requesting an increase in revenues of $129,946, an increase of 15.70% for a total revenue requirement of $957,511. The Company is also requesting an arsenic recovery surcharge mechanism ("ARSM") to enable the Company to meet its principle and interest obligations on the proposed WIFA loan and income taxes. The revenue amount for the ARSM is $185,236. The surcharge will increase revenues from $957,511 to $1,142,747. The total increase in revenues over the adjusted test year revenues is $315,182, an increase of 38.08%.

Q. HOW DOES THIS COMPARE WITH THE COMPANY'S REBUTTAL FILING?

A. In the rebuttal filing, the Company requested increase in revenues was $166,597, an increase of 14.07% for a total revenue requirement of $944,162. The ARSM revenues proposed in rebuttal was $178,401. The ARSM request increased the rebuttal proposed revenues from $944,162 to $1,122,563. The total increase in revenues over the adjusted test year revenues was $294,998, an increase of 36.64%.

Q. WHY IS THE REVENUE REQUIREMENT IN THE REJOINDER FILING DIFFERENT THAN IN THE REBUTTAL FILING?

A. The revenue requirement has changed to reflect the correct income tax rate. The tax rate is higher when the revenues from the proposed ARSM are considered. Thus, it is necessary to increase the revenue requirement as well as the required revenues from the ARSM. The proposed increase in the revenue requirement is now exactly the same as Staff's. The proposed revenues for the ARSM by the Company and Staff differ only slightly. The Company's ARSM revenues are $185,236 while Staff's is $185,247.

II. REVENUE REQUIREMENT.

Q. WHAT ARE THE REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY AND STAFF?

A. The proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct*	$1,331,081	$ 503,453	60.84%

Staff Direct**	$ 957,511	$ 129,946	15.70%
Staff Surrebuttal**	$ 957,511	$ 129,946	15.70%
Company Rebuttal**	$ 944,162	$ 116,597	14.09%
Company Rejoinder**	$ 957,511	$ 129,946	14.09%

* 2nd Step of Two Step Proposal
** Excluding ARSM revenues

Please note that the revenue requirements do not include the ARSM revenues. The proposed revenues including ARSM revenues for the Company and Staff are as follows:

	Proposed Revenues	Revenue Incr.	% Increase
Company-Direct*	$1,331,081	$ 503,453	60.84%
Staff Direct	$1,142,758	$ 315,193	38.09%
Staff Surrebuttal	$1,142,758	$ 315,193	38.09%
Company Rebuttal	$1,122,563	$ 294,998	35.65%
Company Rejoinder	$1,142,747	$ 315,182	38.09%

* 2nd Step of Two Step Proposal

Q. DOES STAFF RECOMMEND APPROVAL OF THE ARSM IN THIS DOCKET?

A. Yes. My understanding was that Staff was recommending a subsequent filing necessary for approval of the ARSM. *See* Rebuttal Testimony of Thomas J. Bourassa ("Bourassa Rb.") at 7-8. However, it appears that Staff is recommending approval in this docket rather than require a subsequent approval in

another filing. *See* Surrebuttal Testimony of Dennis A. Rogers ("Rogers Sb.") at 5.

Q. DOES THE PROPOSED REVENUES INCLUDE ARSENIC OPERATING AND MAINTNANCE COSTS?

A. No. As I have previously testified, the Company projects arsenic operating and maintenance costs to be $216,600 annually. *See* Bourassa Rb. at 10. These costs are not included in the proposed revenues. The Company continues to propose an arsenic operating and maintenance recovery surcharge mechanism ("AOMRSM") for recovery of actual costs. The Company is not proposing recovery of estimated costs. I will discuss the AOMRSM in later in my testimony.

Q. DOES STAFF'S RECOMMENDED REVENUES INCLUDE ARSENIC OPERATING AND MAINTENANCE COSTS?

A. No.

Q. DO THE PROPOSED REVENUES PROVIDE TO SUFFICIENT CASH FLOWS TO SERVICE THE PROPOSED LOAN ON THE NEW ARSENIC TREATMENT PLANT AS WELL AS THE ARSENIC OPERATING AND MAINTENANCE COSTS?

A. No, not if the projected arsenic treatment operating costs are $216,600. The Company will experience a net loss and there will be a cash shortfall of nearly $40,000. In addition, equity will drop further negative. I will discuss this later in my testimony.

III. RATE BASE.

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS?

A. The rate bases proposed by all parties in the case are as follows:

	OCRB	FVRB
Company-Direct*	$1,243,934	$1,243,934
Staff	$(539,804)	$(539,804)
Staff Surrebttal	$(539,804)	$(539,804)
Company Rebuttal	$(543,488)	$(543,488)
Company Rejoinder	$(543,488)	$(543,488)

* 2nd Step of Two Step Proposal

Q. IT APPEARS THE PROPOSED RATE BASES HAVE NOT CHANGED. IS THAT CORRECT?

A. Yes. The Company has not proposed any rejoinder adjustments to rate base. The Company has accepted all of Staff's recommended rate base adjustments. The difference with Staff is due to a difference in each of the party's working capital.

IV. INCOME STATEMENT.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?

A. The Company rebuttal adjustments are detailed on rebuttal schedule C-2, pages 1-5. The rejoinder income statement with adjustments is shown on rejoinder schedule C-1. As I have testified, although the Company has accepted all of

Staff's expense adjustments. The slight differences are in depreciation expense, property tax expense, and income tax expense.

Rejoinder adjustment number one shows the Company's proposed rate increase. This is the same amount as proposed by Staff and produces an approximate 10 percent operating margin.

Rejoinder adjustment number two shows the increase in revenues required for the ARSM. The Company's number is slightly lower than Staff's.

Rejoinder adjustment number three reflects property taxes at proposed revenues. Proposed revenues include both the rate increase and the ARSM revenues. The property tax calculation reflects the recently passed Arizona legislation (HB 2779) which reduces the property tax assessment ratio by 5 percent over 10 years. That is, ½ of one percent for each of the next 10 years starting in 2006. The Company's calculation employs a two year reduction from 25% to 24%.

Rejoinder adjustment four increases interest expense to reflect interest on the proposed WIFA loan. This adjustment is necessary to account for interest expense effects on income taxes.

Rejoinder adjustments five increase income taxes to reflect the Company's rejoinder proposed income taxes.

V. ARSENIC RECOVERY SURCHARGE MECHANISM

Q. DOES STAFF SUPPORT AN ARSENIC RECOVERY SURCHARGE MECHANISM?

A. Yes. As I testified above, my previous understanding was Staff did not propose

the ARSM be approved in this filing, rather a subsequent filing was necessary. *See* Direct Testimony of Dennis A. Rogers ("Rogers Dt.") at 27. My current understanding is that Staff recommends approval in this docket consistent with other Accelerated Cost Recovery mechanisms previously authorized by the Commission. *See* Rogers Sb. at 5. Thus, both the Company and Staff are in agreement on the ARSM.

Q. HAVE YOU CACLULATED THE IMPACT OF THE ARSM ON RATES USING THE COMPANY'S REJOINDER ARSM REVENUES?

A. Yes. The impact on rates is shown in Rejoinder Exhibit 1, attached hereto. I followed the same methodology to determine the required ARSM revenues and the monthly amount by meter size described in my rebuttal testimony. *See* Bourassa Rb. at 8.

Q. WHAT IS THE IMPACT THE AVERAGE 5/8 INCH CUSTOMER BILL?

A. Rejoinder Exhibit 1 shows the average 5/8 inch customer bill will increase by 38.58% over present rates as a result of the ARSM. The impacts on other meter sizes are also shown in the exhibit.

VI. ARSENIC OPERATING AND MAINTENANCE RECOVERY SURCHARGE MECHANISM

Q. THE COMPANY CONTINUES TO PROPOSE AN ARSENIC OPERATING AND MAINTENANCE RECOVERY SURCHARGE MECHANISM. CORRECT?

A. Yes. The Company continues to propose an arsenic operating and maintenance recovery surcharge mechanism ("AOMRSM") to recover actual costs associated

with arsenic remediation.

Q. DOES STAFF SUPPORT THE PROPOSED AOMRSM?

A. No. Staff recommends the Company file another rate case application after the costs become known and measurable. *See* Rogers Sb. at 6. Staff witness Mr. Rogers asserts the Company is requesting recovery of estimated costs. He also asserts that until the costs are known and measurable, Staff does not have any opportunity to ascertain with any degree of confidence the reasonableness of the charges and whether they are accounting for properly. *See* Rogers Sb. at 6.

Q. DO YOU AGREE?

A. No. Although both Staff and the Company are in agreement that the $216,600 of costs is a reasonable estimate, the Company would not begin recovery until actual costs are incurred. The $216,600 was used as the basis for computing the impact on rates in my rebuttal testimony. In reality, the actual AOMRSM surcharge would be computed once the actual costs are incurred. The Company proposes to collect the AOMRSM in the year following.

I also disagree that the reasonableness and accounting of charges cannot be monitored by Staff. The costs are narrowly defined to operational costs for arsenic treatment. Further, during the collection of the surcharge, the Commission can require periodic reporting of collections and accounting of the costs.

Q. PLEASE EXPLAIN HOW THE COMPANY WILL ONLY COLLECT ACTUAL COSTS.

A. During the first year, the Company would not collect any surcharge. After the first year, when actual costs are known and measurable, the Company would perform a

calculation of the AOMRSM. I described the methodology in my rebuttal testimony. *See* Bourassa Rb. at 13. The calculation as well as a full accounting of the arsenic operating and maintenance costs would be submitted to Staff before collection would begin. Further, the Company would agree to an annual or semi-annual accounting of the amount collected via the surcharge.

Q. HAS THE COMPANY PREPARED CALCULATIONS SHOWING THE IMPACT OF THE AOMRSM USING THE REJOINDER REVENUE REQUIREMENT?

A. Yes. Rejoinder Exhibit 2, attached hereto, shows the calculations. The AOMSM charge per 1,000 will be $0.84 per 1,000 gallons and the test year gallons sold using the projected $216,600 arsenic O&M costs. As shown on rebuttal exhibit 2, the impact on an average 5/8 inch customer bill will be $7.77, for a total increase including both the base rate increase and the ARSM charge of 68.15% over present rates.

Q. EVEN IF THE COMPANY IS ALLOWED RECOVERY OF THE DEBT SERVICE COSTS THROUGH THE ARSM, WILL THE COMPANY BE ABLE TO MEET ITS OBLIGATIONS?

A. No. The Company will not have sufficient cash to service the WIFA debt and fund arsenic operating and maintenance costs. Rejoinder Exhibit 3, attached hereto, shows, the Company will have a negative cash flow of nearly $40,000.

Q. EXCUSE ME MR. BOURASSA, BUT DOESN'T YOUR DEBT SERVICE COVERAGE ("DSC") CALCULATION IN THE EXHIBIT SHOW THE COMPANY WILL BE IN COMPLIANCE WITH THE WIFA LOAN

REQUIREMENTS?

A. Yes. It shows at DSC of 1.28 and WIFA requires a DSC minimum 1.2. However, there will be insufficient cash flow to pay both the debt and arsenic operating and maintenance costs. The Company will be left with a choice of either not paying its debt or to under fund arsenic treatment operating costs. This leaves the Company in a position of possibility falling out of compliance with the arsenic standard and endangering the public health and safety.

Q. ARE THERE OTHER SOURCES OF CASH AVAILABLE TO THE COMPANY?

A. No. The shareholder does not have the financial capability to fund short falls of this magnitude, especially for two to three years until the Company can get a decision on arsenic operating cost recovery in a subsequent case. Forcing the shareholder to fund shortfalls by infusing equity which will only be wiped out by losses is equivalent to a taking of the shareholder's property.

Q. DOESN'T THE COMPANY HAVE AN OBLIGATION TO SERVE?

A. Yes. However, in order to meet that obligation, the Company will have to reduce operating expenses which may have serious impacts on water provisioning to its customers. Denying recovery of expenses necessary for the provision of water service does not send a positive message to utilities attempting to maintain a high quality of service and proactively addressing system needs.

Q. IF THE AOMRSM IS DENIED, WHAT ALTERNATIVES SHOULD BE AFFORDED THE COMPANY?

A. The Company should be given an accounting order to allow the arsenic operating

and maintenance costs to be deferred and considered for recovery in a subsequent rate filing.

Q. DO YOU HAVE ANY OTHER COMMENTS?

A. Yes. As I pointed out in my rebuttal testimony, Staff recommends the Company implement a plan to produce a positive equity position by 2010. Denying the Company recovery of expenses necessary for the provision of water service is counter to this goal.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

Valley Utilities Water Company
Calculation of Arsenic Recovery Surcharge Mechanism (ARSM)
and Impact on Rates

Exhibit 1
Rejoinder
Witness: Bourassa

Calculation of Arsenic Recovery Surcharge Mechanism (ARSM)

Line No.			
3	Prinicple Payment (1)	$	57,539
4	Gross Revenue Conversion factor (2)		1.5683
5	Revenue Required to cover the Principle (1) times (2) equals (3)	$	90,237
6	Interest Payment (4)		94,998
8	Total Increase in Revenue Requirement (3) plus (4) euals (5)	$	185,236

Line No.	Meter Size	# of Customers at TY End	AWWA Capacity Factor	Equivalent # of 5/8 Inch Customers
14	5/8 Inch	250	1.00	250.00
15	3/4 Inch	602	1.50	903.00
16	1 Inch	282	2.50	705.00
17	1 1/2 Inch	6	5.00	30.00
18	2 Inch	46	8.00	368.00
19	2 Inch	3	16.00	48.00
20	Total (6)	1,189		2,304.00

Line No.			
22	Annual Arsenic Recovery Surcharge [(5) divided by (6) equals (7)]	$	80.40
23	Monthly Arsenic Recovery Surcharge [(7) divided by 12 (rounded)]	$	6.70

Arsenic Recovery Surcharge by Meter Size

Line No.	Meter Size	Equivalent 5/8 Inch Surcharge	AWWA Capacity Factor	Arsenic Recovery Surcharge
29	5/8 Inch	$ 6.70	1.00	$ 6.70
30	3/4 Inch	6.70	1.50	10.05
31	1 Inch	6.70	2.50	16.75
32	1 1/2 Inch	6.70	5.00	33.50
33	2 Inch	6.70	8.00	53.60
34	3 Inch	6.70	16.00	107.20

Impact on Rates

Line No.	Meter Size	Class	Average Use	Present Rates	Proposed Rates	% Increase	ARSM	Proposed Bill With ARSM	% Increase
40	5/8 Inch	Residential	9,251	$ 26.28	$ 29.72	13.09%	$ 6.70	$ 36.42	38.58%
41	3/4 Inch	Residential	10,134	32.94	36.44	10.63%	10.05	46.49	41.14%
42	1 Inch	Residential	19,749	60.07	66.50	10.70%	16.75	83.25	38.59%
45	5/8 Inch	Commercial	3,369	15.67	17.30	10.40%	6.70	24.00	53.16%
46	1 Inch	Commercial	38,207	98.53	115.49	17.21%	16.75	132.24	34.21%
47	1 1/2 Inch	Commercial	52,593	153.71	164.28	6.88%	33.50	197.78	28.67%
48	2 Inch	Commercial	158,299	415.39	471.04	13.40%	53.60	524.64	26.30%

Valley Utilities Water Company
Analysis of Impact of ARSM on Average Bill

Exhibit 2
Rejoinder
Witness: Bourassa

Line No.	Meter Size	Class	Average Use	Present Rates	Proposed Rates	% Increase	ARSM (1)	Proposed Bill With ARSM	% Increase	AOMRSM (2)	Proposed Bill With ARSM and AOMRSM	% Increase
5	5/8 Inch	Residential	9,251	$ 26.28	$ 29.72	13.09%	$ 6.70	$ 36.42	38.58%	$ 7.77	$ 44.19	68.15%
6	3/4 Inch	Residential	10,134	32.94	36.44	10.63%	10.05	46.49	41.14%	8.51	55.00	66.98%
7	1 Inch	Residential	19,749	60.07	66.50	10.70%	16.75	83.25	38.59%	16.59	99.84	66.20%
10	5/8 Inch	Commercial	3,369	15.67	17.30	10.40%	6.70	24.00	53.16%	2.83	26.83	71.22%
11	1 Inch	Commercial	38,207	98.53	115.49	17.21%	16.75	132.24	34.21%	32.09	164.33	66.79%
12	1 1/2 Inch	Commercial	52,593	153.71	164.28	6.88%	33.50	197.78	28.67%	44.18	241.96	57.41%
13	2 Inch	Commercial	158,299	415.39	471.04	13.40%	53.60	524.64	26.30%	132.97	657.61	58.31%

15 (1) Arsenic Recovery Surcharge Mechanism for receovery of debt service on WIFA loan. See Exhibit 1 for calculation.
16 (2) Arsenic Operating and Maintenance Recovery Surcharge Mechanism. Commodity cost per 1,000 gallons is $ 0.84

18	Arsenic Operating and Maintenance Costs (A)	$ 216,600
20	Gallons Sold during Test Year in 1,000's (B)	258,740
22	Arsenic Recovery Surcharge per 1,000 gallons (A) divided by (B) equals (C)	$ 0.84

Valley Utilities Water Company
Financial Analysis

Exhibit 3
Witness: Bourassa
Page 1

Line No.		Company Proposed	Projected Arsenic O&M Expense Impacts	Company Proposed With Arsenic O&M
1				
2				
3	Operating Revenues *	$ 1,142,747		$ 1,142,747
4				
5	Operating Expenses	$ 675,400	$ 216,600	$ 892,000
6	Depreciation & Amortization	133,545	62,724	196,269
7	Income Taxes	86,534	(86,484)	50
8	Operating Income (3)	$ 247,268		$ 54,428
9				
10	**Debt Service Coverage ("DSC")**			
11				
12	Operating Income	$ 247,268		$ 54,428
13	Depreciation & Amortization	133,545		196,269
14	Income Taxes	86,534		50
15	Total (1)	$ 467,347		$ 250,747
16				
17				
18	Interest Expense (4)	$ 94,998		$ 94,998
19	Repayment of Principle	57,539		57,539
20	Refunds of AIAC during TY (5)	43,000		43,000
21	Total Debt Service (2)	$ 195,537		$ 195,537
22				
23	DSC [1 divided by 2]	2.39		**1.28**
24				
25	DSC [1 minus 5 divided by 2]	3.06		1.64
26	(without consideration of AIAC refunds)			
27				
28	**Cash Flow Calculation**			
29				
30	Cash Inflows			
31	Net Income (loss) [3 minus 4]	$ 152,270		$ (40,570)
32	Depreciation & Amortization	133,545		196,269
33	Total Cash Inflows (6)	$ 285,815		$ 155,699
34				
35	Cash Outflows			
36	Interest Expense	$ 94,998		$ 94,998
37	Repayment of Principle	57,539		57,539
38	Refunds of AIAC	43,000		43,000
39	Total Cash Outflows (7)	$ 195,537		$ 195,537
40				
41	Net Cash (6 minus 7 equals 8)	$ 90,278		**$ (39,838)**
42				
43	* Includes ARSM revenues for WIFA debt service			
44				

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rejoinder Schedule A-1
Page 1
Witness: Bourassa

Line No.		
1	Fair Value Rate base	$ (543,488)
2		
3	Adjusted Operating Income - Step 1	94,731
4		
5	Current Rate of Return	N/A
6		
7	Required Operating Income (operating margin approach)	$ 247,268
8		
9	Required Rate of Return on Fair Value Rate Base	N/A
10		
11	Operating Income Deficiency	$ 152,537
12		
13	Gross Revenue Conversion Factor	1.5683
14		
15	Increase in Gross Revenue	
16	Requirement (Staff Recommended)	$ 239,222

17						
18	**Excluding ARSM Revenues**		Present	Proposed	Dollar	Percent
19	Customer		Rates	Rates *	Increase	Increase
20	Classification					
21	5/8 Inch	Residential	$ 78,282	$ 93,492	$ 15,210	19.43%
22	3/4 Inch	Residential	232,845	267,771	34,927	15.00%
23	1 Inch	Residential	193,752	223,612	29,860	15.41%
24	5/8 Inch	Commercial	1,316	1,463	147	11.20%
25	1 Inch	Commercial	13,033	15,578	2,545	19.53%
26	1 1/2 Inch	Commercial	11,172	12,563	1,391	12.45%
27	2 Inch	Commercial	225,917	268,068	42,150	18.66%
28	3 Inch	Commercial/Construction	14,290	16,386	2,097	14.67%
29	Miscellaneous Revenues		41,791	41,791	-	0.00%
30	**Revenue Annualization**					
31	5/8 Inch	Residential	(1,169)	(1,348)	(180)	15.39%
32	3/4 Inch	Residential	5,541	6,112	571	10.30%
33	1 Inch	Residential	7,723	8,568	845	10.95%
34	5/8 Inch	Commercial	-	-		
35	1 Inch	Commercial	233	268	35	15.18%
36	1 1/2 Inch	Commercial	-	-		
37	2 Inch	Commercial	4,498	5,089	591	13.14%
38	3 Inch	Construction	(4,075)	(4,686)	(611)	14.99%
39					-	0.00%
40	Total of Water Revenues		$825,148	$954,728	$ 129,580	15.70%

41
42 * Excludes ARSM revenues.
43
44

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rejoinder Schedule A-1
Page 2
Witness: Bourassa

Line No.	**Including ARSM Revenues**		Present Rates	Proposed Rates *	Dollar Increase	Percent Increase
1						
2	Customer					
3	Classification					
4	5/8 Inch	Residential	$ 78,282	$ 113,310	$ 35,029	44.75%
5	3/4 Inch	Residential	232,845	338,252	105,407	45.27%
6	1 Inch	Residential	193,752	275,453	81,702	42.17%
7	5/8 Inch	Commercial	1,316	2,026	710	53.97%
8	1 Inch	Commercial	13,033	17,739	4,706	36.11%
9	1 1/2 Inch	Commercial	11,172	14,975	3,803	34.04%
10	2 Inch	Commercial	225,917	297,065	71,148	31.49%
11	3 Inch	Commercial/Construction	14,290	21,639	7,350	51.43%
12	Miscellaneous Revenues		41,791	41,791	-	0.00%
13	**Revenue Annualization**					
14	5/8 Inch	Residential	(1,169)	(1,630)	(461)	39.47%
15	3/4 Inch	Residential	5,541	8,233	2,692	48.57%
16	1 Inch	Residential	7,723	11,198	3,475	45.00%
17	5/8 Inch	Commercial	-	-		
18	1 Inch	Commercial	233	318	86	36.78%
19	1 1/2 Inch	Commercial	-	-		
20	2 Inch	Commercial	4,498	5,679	1,180	26.24%
21	3 Inch	Construction	(4,075)	(6,080)	(2,004)	49.19%
22					-	0.00%
23	Total of Water Revenues		$825,148	$1,139,970	$ 314,821	38.15%
24						
25	• Includes ARSM revenues.					
26						
27	SUPPORTING SCHEDULES:					
28	Rebuttal B-1					
29	Rebuttal C-1					
30	Rebuttal C-3					
31	Rebuttal H-1					
32						
33						
34						
35						
36						
37						
38						
39						
40						
41						
42						
43						
44						

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Summary of Fair Value Rate Base

Exhibit
Rejoinder Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base
1		
2	Gross Utility Plant in Service	$ 4,303,069
3	Less: Accumulated Depreciation	1,391,574
4		
5	Net Utility Plant in Service	$ 2,911,495
6		
7	Less:	
8	Advances in Aid of	
9	Construction	3,180,500
10	Contributions in Aid of	
11	Construction - Net of amortization	323,598
12	Customer Meter Deposits	46,999
13	Deferred Income Taxes & Credits	-
14	Investment tax Credits	-
15	Plus:	
16	Unamortized Finance	
17	Charges	-
18	Deferred Tax Assets	-
19	Allowance for Working Capital	96,114
20	Citizens Acquisition Adjustment	-
21		
22	Total Rate Base	$ (543,488)
23		
24		
25		
26	SUPPORTING SCHEDULES:	
27	Rejoinder B-2	
28	Rejoinder B-5	
29		
30		
31		

RECAP SCHEDULES:
Rejoinder A-1

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 1
Witness: Bourassa

Line No.		Rebuttal Adjusted at End of Test Year	Proforma Adjustments Label	Proforma Adjustments Amount	Rejoinder Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	$ 4,303,069			$ 4,303,069
3					
4	**Less:**				
5					
6	Accumulated				
7	Depreciation	1,391,574			1,391,574
8					
9	Net Utility Plant				
10	in Service	$ 2,911,495			$ 2,911,495
11					
12	**Less:**				
13	Advances in Aid of				
14	Construction	$ 3,180,500			$ 3,180,500
15	Contributions in Aid of				
16	Construction - Net	323,598			323,598
17					
18	Customer Meter Deposits	46,999			46,999
19	Deferred Income Taxes	-			-
20	Investment Tax Credits	-			-
21	**Plus:**				
22					
23	Deferred Tax Assets	-			-
24					
25	Working capital	96,114			96,114
26					
27					
28	Total	$ (543,488)			$ (543,488)
29					
30					
31					
32	SUPPORTING SCHEDULES:				RECAP SCHEDULES:
33	Rejoinder B-5				Rejoinder B-1
34					
35					
36					
37					
38					
39					
40					
41					
42					

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Computation of Working Capital

Exhibit
Rejoinder Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	64,895
3	Pumping Power (1/24 of Pumping Power)		4,418
4	Material and Supplies Inventories		26,800
5	Prepayments		-
6			
7			
8	Total Working Capital Allowance	$	96,114
9			
10	Working Capital Requested per Co. Rebuttal Filing		96,114
11			
12	*Increase (decrease) in Working Capital Allowance*	$	(0)
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	Rejoinder C-1	Rejoinder B-2	
17			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 1
Witness: Bourassa

Line No.		Rebuttal Test Year Adjusted Results	Label	Adjustment	Rejoinder Test Year with Rate Increase		Adjustment	Rejoinder Adjusted with Rate Increase & ARSM
1	**Revenues**							
2	Metered Water Revenues	$ 785,774	1	129,946	$ 915,720			$ 915,720
3	Arsenic Recovery Surcharge (ARSM) Revenues				-	2	185,236	185,236
4	Unmetered Water Revenues	-			-			-
5	Other Water Revenues	41,791			41,791			41,791
6		$ 827,565		$ 129,946	$ 957,511		$ 185,236	$ 1,142,747
7	**Operating Expenses**							
8	Salaries and Wages	$ 214,213			$ 214,213			$ 214,213
9	Purchased Water	-			-			-
10	Purchased Power	106,043			106,043			106,043
11	Chemicals	2,225			2,225			2,225
12	Repairs and Maintenance	20,630			20,630			20,630
13	Office Supplies and Expense	30,348			30,348			30,348
14	Outside Services	5,382			5,382			5,382
15	Water Testing	4,014			4,014			4,014
16	Rents	71,493			71,493			71,493
17	Transportation Expenses	26,216			26,216			26,216
18	Insurance - General Liability	9,083			9,083			9,083
19	Insurance - Health and Life	58,498			58,498			58,498
20	Regulatory Commission Expense - Rate Case	30,000			30,000			30,000
21	Miscellaneous Expense	29,450			29,450			29,450
22	Depreciation Expense	133,545			133,545			133,545
23	Other Taxes and Licenses	17,612			17,612			17,612
24	Property Taxes	48,552	3	1,641	50,193			50,193
25	Income Tax	6,283	5	47,552	53,835	5	32,699	86,534
26		-			-			-
27	**Total Operating Expenses**	$ 813,587		$ 49,193	$ 862,780		$ 32,699	$ 895,479
28	**Operating Income**	$ 13,978		$ 80,753	$ 94,731		$ 152,537	$ 247,268
29	**Other Income (Expense)**							
30	Interest Income	-			-			-
31	Other income	-			-			-
32	Income Tax Provision	-			-			
33	Interest Expense	-			-	4	(94,998)	(94,998)
34	Other Expense	-			-			-
35	Gain/Loss Sale of Fixed Assets	-			-			-
36	**Total Other Income (Expense)**	$ -		$ -	$ -		$ (94,998)	$ (94,998)
37	**Net Profit (Loss)**	$ 13,978		$ 80,753	$ 94,731		$ 57,539	$ 152,270
38								
39	SUPPORTING SCHEDULES:						RECAP SCHEDULES:	
40	Rejoinder C-2						Rejoinder A-1	
41								
42								

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses

Exhibit
Rejoinder Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1 Revenue Increase	2 Arsenic Recovery Surcharge	3 Propery Taxes	4 Interest Expense on WIFA Loan	5 Income Taxes	6 INTENTIONALLY LEFT BLANK	Subtotal
3	Revenues	129,946	185,236					315,182
5	Expenses			1,641		47,552		49,193
7–8	Operating Income	129,946	185,236	(1,641)	-	(47,552)	-	265,989
10–11	Interest Expense				(94,998)			(94,998)
12–14	Other Income / Expense							
16	Net Income	129,946	185,236	(1,641)	(94,998)	(47,552)	-	170,991

Adjustments to Revenues and Expenses

Line No.		7	8	9	10	11	12	Subtotal
23	Revenues							315,182
25	Expenses							49,193
27–28	Operating Income	-	-	-	-	-	-	265,989
30–31	Interest Expense							(94,998)
32–34	Other Income / Expense							-
36	Net Income	-	-	-	-	-	-	170,991

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Line No.		
1	Proposed Increase in the Revenue Requirement	
2		
3		
4	Proposed Increase (approximately 10 percent operating margin approach)	$ 129,946
5		
6		
7		
8		
9		
10	Increase (derease) in revenues	$ 129,946
11		
12		
13		
14		
15		
16		
17	SUPPORTING SCHEDULE:	
18	Rejoinder A-1	
19		
20		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Arsenic Recovery Surcharge Revenues		
2			
3			
4	Prinicple Payment (1)	$	57,539
5	Gross Revenue Conversion factor (2)		1.5683
6	Revenue Required to cover the Principle (1) times (2) equals (3)	$	90,237
7	Interest Payment (4)		94,998
8			
9	Total Increase in Revenue Requirement (3) plus (4) euals (5)	$	185,236
10			
11			
12	Adjustment to Revenues and/or Expenses	$	185,236
13			
14			
15			
16			
17			
18			
19			
20			

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 3

Exhibit
Schedule C-2 Step 1
Page 4
Witness: Bourassa

Line No.		
1	Property Taxes	
2		
3	Adjusted Revenues in year ended 12/31/03	$ 827,565
4	Adjusted Revenues in year ended 12/31/03	827,565
5	Proposed Revenues	1,142,747
6	Average of three year's of revenue	$ 932,626
7	Average of three year's of revenue, times 2	$ 1,865,251
8	Add:	
9	Construction Work in Progess at 10%	0
10	Deduct:	
11	Book Value of Transportation Equipment	29,253
12		
13	Total Book Value of Transportation Equipment	$ 29,253
14		
15	Full Cash Value	$ 1,835,998
16	Assessment Ratio	24%
17	Assessed Value	440,640
18	Property Tax Rate	11.13624%
19		
20	Property Tax	49,071
21	Tax on Parcels	1,122
22		
23	Total Property Tax at Proposed Rates	$ 50,193
24	Rebuttal Property Taxes in the test year	48,552
25	Change in Property Taxes	$ 1,641
26		
27		
28	Adjustment to Revenues and/or Expenses	$ 1,641
29		
30		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Adjustments to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2 Step 1
Page 5
Witness: Bourassa

Line No.		
1	Interest Expense	
2		
3	Interest Expense on WIFA Loan	$ 94,998
4		
5		
6		
7		
8		
9	Adjustment to Revenues and/or Expense	$ (94,998)
10		
11		

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Computation of Gross Revenue Conversion Factor

Exhibit
Rejoinder Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	29.27%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	36.24%
9		
10	Operating Income % = 100% - Tax Percentage	63.76%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.5683
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rejoinder A-1
20		

REJOINDER TESTIMONY OF

RONALD L. KOZOMAN

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. Ronald L. Kozoman, 1605 W. Mulberry Drive, Phoenix, Arizona 85015.

Q. YOU ARE THE SAME RONALD L. KOZOMAN WHO SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THIS DOCKET?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will testify for Valley Utilities Water Inc. (the "Company") concerning the surrebuttal testimony of Mr. Dennis Rogers of the Arizona Corporation Commission ("ACC) Staff relating to his proposed rates.

Q. BEFORE YOU BEGIN YOUR REJOINDER TESTIMONY, DO YOU WANT TO MAKE AN APOLOGE TO MR. ROGERS FOR A STATEMENT IN YOUR REBUTTAL TESTIMONY?

A. Yes. I would like to apologize to Mr. Rogers regarding my rebuttal testimony that his rates did not produce his proposed revenue requirement. When I corrected my inputs of Mr. Rogers' rates in the rate book I used to compute Staff's revenues, I can now match his revenue recommendation.

Q. WOULD YOU PROVIDE AN A BRIEF SUMMARY OF YOUR REJOINDER TESTIMONY ON RATES?

A. Yes. The Company still disagrees with Mr. Rogers recommended rate design, particularly the low income, lifeline, or nondiscretionary water use with a tier that is available only for residential customers on 5/8 x 3/4 inch meters and 3/4 inch meters. Staff proposed three tier rates, but only for the residential customers on 5/8 x 3/4 inch meters and 3/4 inch meters. All other customers, except the construction class on the three inch meter, would have two tiered rates.

The Company proposes three tier rates for all customers, except the construction customer class on the three inch meter.

Q. BUT DOESN'T MR. ROGERS TESTIFY THAT THE COMMISSION HAS ADOPTED HIS THREE TIER RATE DESIGN FOR ARIZONA AMERICAN WATER COMPANY?

A. Yes, he does. Because the Commission adopted Staff's proposed rate design for Arizona American Water Company, doesn't mean that I agree that it the best rate design.

He also testifies that I proposed a three tier rate for the smaller residential customer class in Rio Rico Utilities.

Q. YOU RECOMMENDED A THREE TIER RATE FOR THE RESIDENTIAL CUSTOMERS ON SMALLER METERS FOR RIO RICO UTILITY, WHY?

A. To have some chance that the Administrative Law Judge would adopt my proposed rate design, which spread the rate increase as uniformly as possible, and also adhered to my cost of service study in that case as much as possible. Rio Rico Utilities had a single tier rate, prior to the last Commission Decision.

Mr. Rogers, who was also a witness in that case, proposed a three tier rate design for Rio Rico which didn't spread the rate increase as uniformly as the three tier rate design that I proposed. Additionally, the Residential Utility Consumers Office

("RUCO") was recommending a rate design that transferred a high dollar amount of their proposed rate increase to customers on larger sized meters. Thus, I had to provide an alternative to the Administrative Law Judge.

And recently I submitted a three tier rate design for Chaparral City Water Company (Docket No.W-01223A-04-0616). This was also done to provide a choice to the Administrative Law Judge.

Q. WHAT IS YOUR MAJOR OBJECTION WITH STAFF'S RECOMMENDED RESIDENTIAL FIRST TIER RATE DESIGN?

A. I am of the opinion that lower rates are acceptable for customers who actually need a life line, low income, or a nondiscretionary water use (or whatever you chose to call it) rate. But, I don't think it is appropriate to offer a life line, low income or nondiscretionary water use rate to all residential customers on a particular meter sizes.

It doesn't make sense to create a subsidy for certain classes of customers when there is no support for such a subsidy. Staff has never provided, in this case, or other cases, any study supporting why residential customers on 5/8 inch and 3/4 inch meters need a lower rate. The lower first tier rate is just an attempt reduce the rate increase on these residential classes.

The purpose of three tier rates is to encourage conservation, not create subsidies, or design rates that favor a particular class of customer. Lowering the present commodity rate from $1.80 to $1.50 is just not a conservation message.

Conservation begins with the first and the last gallon sold to customers. Providing lower first tier rates greatly weakens the conservation message.

If the purpose of three tier rates is not to encourage conservation, why are three tier rates being proposed?

Q. WHAT MESSAGE DOES STAFF'S THREE TIER RATES GIVE TO CUSTOMERS?

A. The message is that Company can produce the first 3,000 gallons of water for residential customers at a lower cost than it can produce additional gallons. However, as long as you don't need additional production capacity, the cost of producing water is for all purposes uniform.

Q. DO YOU HAVE A COST OF SERVICE STUDY IN THE INSTANT CASE TO SUPPORT THAT CONCLUSION?

A. No, I don't. But I have never seen a cost of service study that shows it is less expensive to produce the first 3,000 gallons compared to additional gallons, assuming that production capacity is not a problem.

Q. HAVE ARE YOU PREPARED REJOINDER SCHEDULES IN THE INSTANT CASE?

A. Yes. There are two sets of Rejoinder Schedules, consisting of Schedules H-1, H-2, and H-3. The first set of Rejoinder Schedules contains the rates and resulting revenues based on the Company's Rejoinder revenue requirement, without the loan surcharge for the Arsenic Recovery Surcharge Mechanism ("ARSM").

The second set of Rejoinder Schedules contains the rates and resulting revenues based on the Company's Rejoinder revenue requirement, with the loan surcharge for the ARSM.

Q. HAVE THE MONTHLY MINIMUMS CHANGED FROM WHAT WAS PROPOSED IN THE REBUTTAL PHASE OF YOUR TESTIMONY?

A. No, the minimums remain the same as proposed in my Rebuttal. The proposed monthly minimums, without the ARSM charge are:

Meter Size	Monthly Minimum	Gallons Included in Monthly Minimum
5/8 x 3/4	$ 10.56	0
3/4	$ 15.95	0
1	$ 26.40	0
1 1/2	$ 52.80	0
2	$ 84.70	0
3	$ 158.40	0
4	$ 264.00	0
6	$ 528.00	0

Q. ARE YOU PROPOSING NEW COMMODITY RATES IN THIS TESTIMONY?

A. Yes. The commodity rates are $2.00, $2.50 and $2.86 per 1,000 gallons for tiers one, two and three respectively. These rates are applicable to all water sales expect construction water sales. The water sold for Construction is priced at $3.10 per thousand for all water.

Q. ARE YOU PROPOSING DIFFERENT BREAK-OVER POINTS FOR THE TIERS THAN YOU PREVIOUSLY USED?

A. No.

Q. WHAT ARE THE PROPOSED MONTHLY MINIMUMS WHICH INCLUDE THE ARSM FOR THE LOAN TO SECURE ARESENIC TREATMENT PLANT?

A. The proposed monthly minimums, with the ARSM charge are:

Meter Size	***Monthly Minimum***	**Gallons Included in Monthly Minimum**
5/8 x 3/4	$ 17.26	0
3/4	$ 26.00	0
1	$ 43.13	0
1 1/2	$ 86.30	0
2	$ 138.30	0
3	$ 265.60	0
4		0
6		0

I have omitted surcharge rates for the 4 and 6 inch meters, as there are no customers on these meter sizes. The surcharge for the 4 inch meter would be 25 times the surcharge for the 5/8 inch meter, which is $6.70, or $167.50. The surcharge for the 6 inch meter would be 50 times the surcharge for the 5/8 inch meter.

Q. IS THERE ANY ADDITIONAL INCREASE IN THE COMMODITY RATES WITH THE SURCHARGE RATES?

A. No.

Q. HAVE YOU COMPARED YOUR PROPOSED RATES TO STAFF PROPOSED RATES?

A. Yes. The comparison is shown on Exhibit 1.

Q. WOULD YOU EXPLAIN WHAT IS CONTAINED ON THIS EXHIBIT?

A. On page one of Exhibit 1 the Company's present and proposed rates are shown. I have listed the proposed monthly minimums without the ARSM charge, and with the ARSM charge. Additionally I have included the break-over points for each size meter, and the commodity rates.

On Page two of Exhibit 1, the Staff's proposed monthly minimums, break-over points for each meter size, and the commodity rates, without the ARSM charge and with the ARSM charge are shown.

Q. WOULD YOU PLEASE EXPLAIN WHAT IS SHOWN ON PAGES 3 AND 4 OF EXHIBIT ONE?

A. Page 3 contains a comparison of the Company's proposed rates compared to the Staff's proposed rates for residential customers on 5/8 inch and 3/4 meters at various usage levels. This comparison includes the ARSM charge. Page 4 is a comparison of rates for the residential 1 inch customers at various usage levels, and a similar comparison for commercial customers on the 2 inch meters.

Q. HOW COME THE COMPANY'S PROPOSED RATE INCREASES FOR THE 5/8 AND 3/4 INCH RESIDENTIAL CUSTOMERS ARE LOWER IN DOLLARS AND PERCENT THAN STAFF'S? THIS IS TRUE FOR THE USAGE UP TO 2,000 GALLONS, YET STAFF RECOMMENDS A LOWER PRICED TIER FOR THE RESIDENTIAL FIRST TIER?

A. Staff recommends more of an increase in the monthly minimum, without the ARSM surcharge than the Company. (The Company's ARSM surcharge is approximately the same as the Staff's). Staff's increase in the monthly minimum is greater than the savings from the lower commodity rate for the first tier. The Company's lower increase in the monthly minimum has more risk, because as the customers conserve, the revenue received from customers will be lower.

Q. WHAT HAPPENS AFTER USAGE OF 2,000 GALLONS?

A, The Company's proposed rates are higher than Staff's.

Q. IS THIS WHAT YOU WERE REFERRING TO A CONSERVATION MESSAGE FOR BOTH THE FIRST AND LAST GALLON SOLD TO A CUSTOMER?

A. Yes. The customer can't affect a saving in the monthly minimum. The only savings the customer can bring about is to use less water.

Q. IS THIS ALSO TRUE FOR THE RESIDENTIAL CUSTOMER ON A 1 INCH METER, AND THE COMMERCIAL CUSTOMER ON A 2 INCH METER?

A. Yes.

Q. THEN THE DIFFERENCE IS DUE TO A MIX OF THE MONTHLY MINIMUMS INCREASES AND THE INCREASES IN THE COMMODITY RATES?

A. Yes.

Q. AND YOU PREVIOUSILY TESTIFIED SAID THAT INCREASING THE MONTHLY MINIMUMS IS LESS RISKY THAN INCREASING THE COMMODITY RATES?

A. Yes.

Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY?

A. Yes, it does.

Valley Utilities Water Company Inc.
Comparision of Company's Present & Rejoinder Proposed and
and ACC Staff's Proposed Surrebuttal Rates
Test Year Ended December 31, 2003
W-014212-04-076 & W-01442A-0849

Exhibit 1
Page 1
Witness: Kozoman

Line No.	Meter Size	Present Rates Monthly Minimums	Breakover Tier 1	Breakover Tier 2	Breakover Tier 3	Rate for Tier 1	Rate for Tier 2	Rate for Tier 3
1	5/8" x 3/4"	$ 9.60	25,000	25,001		$ 1.80	$ 2.20	
2	3/4"	$ 14.50	25,000	25,001		1.80	2.20	
3	1"	$ 24.00	25,000	25,001		1.80	2.20	
4	1 1/2"	$ 48.00	25,000	25,001		1.80	2.20	
5	2"	$ 77.00	25,000	25,001		1.80	2.20	
6	3"	$ 144.00	25,000	25,001		1.80	2.20	
7	4"	$ 240.00	25,000	25,001		1.80	2.20	
8	6"	$ 480.00	25,000	25,001		1.80	2.20	
9	3" Construction	$ 144.00	*All Water is priced at*				2.60	
10								
11		Company's						
12		Rejoinder						
13		Proposed						
14		Rates						
15		**Without**	Monthly					
16		**ARSM**	Minimums					
17		**Surcharge**	Percent-					
18	Meter	Monthly	age	Breakover	Breakover	Breakover	Rate for	Rate for	Rate for
19	Size	Minimums	Increase	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 3
20	5/8" x 3/4"	$ 10.56	10.00%	8,000	12,000	12,001	$ 2.000	$ 2.500	$ 2.860
21	3/4"	$ 15.95	10.00%	12,000	18,000	18,001	2.000	2.500	2.860
22	1"	$ 26.40	10.00%	20,000	30,000	30,001	2.000	2.500	2.860
23	1 1/2"	$ 52.80	10.00%	40,000	60,800	60,801	2.000	2.500	2.860
24	2"	$ 84.70	10.00%	64,000	96,000	96,001	2.000	2.500	2.860
25	3"	$ 158.40	10.00%	128,000	192,000	192,001	2.000	2.500	2.860
26	4"	$ 264.00	10.00%	200,000	300,000	300,001	2.000	2.500	2.860
27	6"	$ 528.00	10.00%	400,000	600,000	600,001	2.000	2.500	2.860
28	3" Construction	$ 158.40	10.00%	All Water is priced at			3.100		
29									
30		Company's						
31		Rejoinder						
32		Proposed						
33		Rates						
34		**With**	Monthly					
35		**ARSM**	Minimums					
36		**Surcharge**	Percent-					
37	Meter	Monthly	age	Breakover	Breakover	Breakover	Rate for	Rate for	Rate for
38	Size	Minimums	Increase	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 3
39	5/8" x 3/4"	$ 17.26	79.79%	8,000	12,000	12,001	$ 2.000	$ 2.500	$ 2.860
40	3/4"	26.00	79.31%	12,000	18,000	18,001	2.000	2.500	2.860
41	1"	43.15	79.79%	20,000	30,000	30,001	2.000	2.500	2.860
42	1 1/2"	86.30	79.79%	40,000	60,800	60,801	2.000	2.500	2.860
43	2"	138.30	79.61%	64,000	96,000	96,001	2.000	2.500	2.860
44	3"	265.60	84.44%	128,000	192,000	192,001	2.000	2.500	2.860
45	4" (a)	431.50		200,000	300,000	300,001	2.000	2.500	2.860
46	6" (a)	863.00		400,000	600,000	600,001	2.000	2.500	2.860
47	3" Construction	265.60	84.44%	All Water is priced at			3.100		
48	(a) No Customers on this meter size.								

Valley Utilities Water Company Inc.
Comparision of Company's Present & Rejoinder Proposed and
and ACC Staff's Proposed Surrebuttal Rates
Test Year Ended December 31, 2003
W-014212-04-076 & W-01442A-0849

Exhibit 1
Page 2
Witness: Kozoman

Data From Surrebutal Schedule DDR-17

Line No.	Meter Size	ACC Staff's Proposed Rates **Without** Estimated ARSM Surcharge Monthly Minimums	Monthly Minimums Percentage Increase	Breakover Tier 1	Breakover Tier 2	Breakover Tier 3	Rate for Tier 1	Rate for Tier 2	Rate for Tier 3
1	5/8" x 3/4" Res	11.24	17.08%	3,000	10,000	10,001	$ 1.50	$ 2.31	$ 2.53
2	3/4" Res	16.87	16.34%	3,000	10,000	10,001	1.50	2.31	2.53
3	5/8" Com	11.24	17.08%	18,000	18,001		2.31	2.53	
4	3/4" Com	16.87	16.34%	18,000	18,001		2.31	2.53	
5	1"	28.10	17.08%	50,359	50,360		2.31	2.53	
6	1 1/2"	56.21	17.10%	126,054	126,055		2.31	2.53	
7	2"	89.94	16.81%	151,258	151,259		2.31	2.53	
8	3"	179.87	24.91%	403,274	403,275		2.31	2.53	
9	4"	281.05	17.10%	453,722	453,723		2.31	2.53	
10	6"	562.10	17.10%	1,260,313	1,260,314		2.31	2.53	
11	8"	899.36	N/A						
12	10"	1,292.83	N/A						
13	12"	2,147.03	N/A						
14	3" Const.	179.87	24.91%	All Water is priced at			3.02		
15									
16									
17									

Rate Data From Surrebutal Schedule DDR-17
ARSM Surcharge from Rebuttal Schedule DDR-16

18									
19		ACC Staff's Proposed							
20		Rates							
21		**With**	Monthly						
22		Estimated	Minimums						
23		ARSM	Percent-						
24	Meter	Monthly	age	Breakover	Breakover	Breakover	Rate for	Rate for	Rate for
25	Size	Minimums	Increase	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 3
26	5/8" x 3/4" Res	17.95	86.98%	3,000	10,000	10,001	$ 1.50	$ 2.31	$ 2.53
27	3/4" Res	26.93	85.72%	3,000	10,000	10,001	1.50	2.31	2.53
28	5/8" Com	17.95	86.98%	18,000	18,001		2.31	2.53	
29	3/4" Com	26.93	85.72%	18,000	18,001		2.31	2.53	
30	1"	44.87	86.96%	50,359	50,360		2.31	2.53	
31	1 1/2"	89.75	86.98%	126,054	126,055		2.31	2.53	
32	2"	143.61	86.51%	151,258	151,259		2.31	2.53	
33	3"	280.50	94.79%	403,274	403,275		2.31	2.53	
34	4" (a)			453,722	453,723		2.31	2.53	
35	6" (a)			1,260,313	1,260,314		2.31	2.53	
36	8" (a)								
37	10" (a)								
38	12" (a)								
39	3" Const.	280.50	94.79%	All Water is priced at			3.02		

40 (a) Estimated ARSM Not Included for this Meter Size, as there are No Customers on this meter size.

Valley Utilities Water Company Inc.
Comparision of Company's Present & Rejoinder Proposed and
and ACC Staff's Proposed Surrebuttal Rates
Test Year Ended December 31, 2003
W-014212-04-076 & W-01442A-0849

Exhibit 1
Page 3
Witness: Kozoman

Residential 5/8 x 3/4 Inch Customer

Line No.	Water Usage	Present Rates	Company Proposed Rates With ARSM Surcharge	Dollar Increase	Percent Increase	Staff Proposed Rates With ARSM Surcharge	Dollar Increase	Percent Increase
1	-	$ 9.60	$ 17.26	$ 7.66	79.79%	$ 17.95	$ 8.35	86.98%
2	1,000	11.40	19.26	7.86	68.95%	19.45	8.05	70.61%
3	2,000	13.20	21.26	8.06	61.06%	20.95	7.75	58.71%
4	3,000	15.00	23.26	8.26	55.07%	22.45	7.45	49.67%
5	4,000	16.80	25.26	8.46	50.36%	24.76	7.96	47.38%
6	5,000	18.60	27.26	8.66	46.56%	27.07	8.47	45.54%
7	6,000	20.40	29.26	8.86	43.43%	29.38	8.98	44.02%
8	7,000	22.20	31.26	9.06	40.81%	31.69	9.49	42.75%
9	8,000	24.00	33.26	9.26	38.58%	34.00	10.00	41.67%
10	9,000	25.80	35.76	9.96	38.60%	36.31	10.51	40.74%
11	10,000	27.60	38.26	10.66	38.62%	38.62	11.02	39.93%
12	15,000	36.60	51.84	15.24	41.64%	51.27	14.67	40.08%
13	20,000	45.60	66.14	20.54	45.04%	63.92	18.32	40.18%
14	25,000	54.60	80.44	25.84	47.33%	76.57	21.97	40.24%
15	30,000	65.60	94.74	29.14	44.42%	89.22	23.62	36.01%
16			(a)					

17 (a) Does Not Include Estimated Operation & Maintenance Expenses for Arsenic Treatment
18
19 **Residential 3/4 Inch Customer**

20–25	Water Usage	Present Rates	Company Proposed Rates With ARSM Surcharge	Dollar Increase	Percent Increase	Staff Proposed Rates With ARSM Surcharge	Dollar Increase	Percent Increase
26	-	$ 14.50	$ 26.00	$ 11.50	79.31%	$ 26.93	$ 12.43	85.72%
27	1,000	16.30	28.00	11.70	71.78%	28.43	12.13	74.42%
28	2,000	18.10	30.00	11.90	65.75%	29.93	11.83	65.36%
29	3,000	19.90	32.00	12.10	60.80%	31.43	11.53	57.94%
30	4,000	21.70	34.00	12.30	56.68%	33.74	12.04	55.48%
31	5,000	23.50	36.00	12.50	53.19%	36.05	12.55	53.40%
32	6,000	25.30	38.00	12.70	50.20%	38.36	13.06	51.62%
33	7,000	27.10	40.00	12.90	47.60%	40.67	13.57	50.07%
34	8,000	28.90	42.00	13.10	45.33%	42.98	14.08	48.72%
35	9,000	30.70	44.00	13.30	43.32%	45.29	14.59	47.52%
36	10,000	32.50	46.00	13.50	41.54%	47.60	15.10	46.46%
37	15,000	41.50	57.50	16.00	38.55%	60.25	18.75	45.18%
38	20,000	50.50	70.72	20.22	40.04%	72.90	22.40	44.36%
39	25,000	59.50	85.02	25.52	42.89%	85.55	26.05	43.78%
40	30,000	70.50	99.32	28.82	40.88%	98.20	27.70	39.29%
41			(a)					

42 (a) Does Not Include Estimated Operation & Maintenance Expenses for Arsenic Treatment

Valley Utilities Water Company Inc.
Comparision of Company's Present & Rejoinder Proposed and
and ACC Staff's Proposed Surrebuttal Rates
Test Year Ended December 31, 2003
W-014212-04-076 & W-01442A-0849

Exhibit 1
Page 4
Witness: Kozoman

Residential 1 Inch Customer

Line No.	Water Usage	Present Rates	Company Proposed Rates With ARSM Surcharge	Dollar Increase	Percent Increase	Staff Proposed Rates With ARSM Surcharge	Dollar Increase	Percent Increase
1	-	$ 24.00	$ 43.15	$ 19.15	79.79%	$ 44.87	$ 20.87	86.96%
2	1,000	25.80	45.15	19.35	75.00%	47.18	21.38	82.87%
3	2,000	27.60	47.15	19.55	70.83%	49.49	21.89	79.31%
4	3,000	29.40	49.15	19.75	67.18%	51.80	22.40	76.19%
5	4,000	31.20	51.15	19.95	63.94%	54.11	22.91	73.43%
6	5,000	33.00	53.15	20.15	61.06%	56.42	23.42	70.97%
7	6,000	34.80	55.15	20.35	58.48%	58.73	23.93	68.76%
8	7,000	36.60	57.15	20.55	56.15%	61.04	24.44	66.78%
9	8,000	38.40	59.15	20.75	54.04%	63.35	24.95	64.97%
10	9,000	40.20	61.15	20.95	52.11%	65.66	25.46	63.33%
11	10,000	42.00	63.15	21.15	50.36%	67.97	25.97	61.83%
12	15,000	51.00	73.15	22.15	43.43%	79.52	28.52	55.92%
13	20,000	60.00	83.15	23.15	38.58%	91.07	31.07	51.78%
14	25,000	69.00	95.65	26.65	38.62%	102.62	33.62	48.72%
15	30,000	80.00	108.15	28.15	35.19%	114.17	34.17	42.71%
16	40,000	102.00	136.75	34.75	34.07%	137.27	35.27	34.58%
17	50,000	124.00	165.35	41.35	33.35%	160.37	36.37	29.33%
18	60,000	146.00	193.95	47.95	32.84%	185.59	39.59	27.12%
19			(a)					

20 (a) Does Not Include Estimated Operation & Maintenance Expenses for Arsenic Treatment

21

22 **Commercial 2 Inch Customer**

23			Company			Staff		
24			Proposed			Proposed		
25			Rates			Rates		
26			With			With		
27	Water	Present	ARSM	Dollar	Percent	ARSM	Dollar	Percent
28	Usage	Rates	Surcharge	Increase	Increase	Surcharge	Increase	Increase
29	10,000	$ 95.00	$ 158.30	$ 63.30	66.63%	$ 166.71	$ 71.71	75.48%
30	20,000	113.00	178.30	65.30	57.79%	189.81	76.81	67.97%
31	30,000	133.00	198.30	65.30	49.10%	212.91	79.91	60.08%
32	40,000	155.00	218.30	63.30	40.84%	236.01	81.01	52.26%
33	50,000	177.00	238.30	61.30	34.63%	259.11	82.11	46.39%
34	60,000	199.00	258.30	59.30	29.80%	282.21	83.21	41.81%
35	70,000	221.00	281.30	60.30	27.29%	305.31	84.31	38.15%
36	80,000	243.00	306.30	63.30	26.05%	328.41	85.41	35.15%
37	90,000	265.00	331.30	66.30	25.02%	351.51	86.51	32.65%
38	100,000	287.00	357.74	70.74	24.65%	374.61	87.61	30.53%
39	150,000	397.00	500.74	103.74	26.13%	490.11	93.11	23.45%
40	200,000	507.00	643.74	136.74	26.97%	616.33	109.33	21.56%
41	250,000	617.00	786.74	169.74	27.51%	742.83	125.83	20.39%
42	300,000	727.00	929.74	202.74	27.89%	869.33	142.33	19.58%
43	350,000	837.00	1,072.74	235.74	28.16%	995.83	158.83	18.98%
44	400,000	947.00	1,215.74	268.74	28.38%	1,122.33	175.33	18.51%
45	450,000	1,057.00	1,358.74	301.74	28.55%	1,248.83	191.83	18.15%
46	500,000	1,167.00	1,501.74	334.74	28.68%	1,375.33	208.33	17.85%
47	550,000	1,277.00	1,644.74	367.74	28.80%	1,501.83	224.83	17.61%
48	600,000	1,387.00	1,787.74	400.74	28.89%	1,628.33	241.33	17.40%
49	650,000	1,497.00	1,930.74	433.74	28.97%	1,754.83	257.83	17.22%
50			(a)					

51 (a) Does Not Include Estimated Operation & Maintenance Expenses for Arsenic Treatment

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Revenue Summary
With Annualized Revenues to Year End Number of Customers
Rejoinder Rates Without ARSM Surcharge

Exhibit
Rejoinder Schedule H-1
Page 1
Witness: Kozoman

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8 Inch	Residential	$ 78,282	$ 93,492	$ 15,210	19.43%	9.64%	9.94%
2	3/4 Inch	Residential	232,845	267,771	34,927	15.00%	28.66%	28.46%
3	1 Inch	Residential	193,752	223,612	29,860	15.41%	23.85%	23.77%
4		Subtotal	$ 504,878	$ 584,875	$ 79,997	15.84%	62.15%	62.17%
5								
6	5/8 Inch	Commercial	$ 1,316	$ 1,463	$ 147	11.20%	0.16%	0.16%
7	1 Inch	Commercial	13,033	15,578	2,545	19.53%	1.60%	1.66%
8	1.5 Inch	Commercial	11,172	12,563	1,391	12.45%	1.38%	1.34%
9	2 Inch	Commercial	225,917	268,068	42,150	18.66%	27.81%	28.50%
10								
11		Subtotal	$ 251,438	$ 297,672	$ 46,234	18.39%	30.95%	31.64%
12								
13	3 Inch	Construction	$ 14,290	$ 16,386	$ 2,097	14.67%	1.76%	1.74%
14	Miscellaneous Revenues		41,791	41,791	-	0.00%	5.14%	4.44%
15		Subtotal	$ 812,397	$ 940,725	$ 128,328	15.80%	100.00%	100.00%
16								
17								
18								
19	Revenue Annualization							
20								
21	Meter		Present	Proposed	Dollar	Percent	Present Water	Proposed Water
22	Size	Class	Revenues	Revenues	Change	Change	Revenues	Revenues
23	5/8 Inch	Residential	$(1,168.54)	$(1,348.37)	$ (179.82)	15.39%	-0.14%	-0.14%
24	3/4 Inch	Residential	5,541	6,112	571	10.30%	0.68%	0.65%
25	1 Inch	Residential	7,723	8,568	845	10.95%	0.95%	0.91%
26								
27		Subtotal	$ 12,096	$ 13,332	$ 1,237	10.22%	1.49%	1.42%
28								
29	5/8 Inch	Commercial						
30	1 Inch	Commercial	$ 233	$ 268	$ 35	15.18%	0.03%	0.03%
31	1.5 Inch	Commercial						
32	2 Inch	Commercial	4,498	5,089	591	13.14%	0.55%	0.54%
33								
34		Subtotal	$ 4,731	$ 5,357	$ 626	13.24%	0.58%	0.57%
35								
36	3 Inch	Construction	(4,075)	(4,686)	(611)	14.99%	-0.50%	-0.50%
37								
38	Total Revenue Annualziation		$ 12,751	$ 14,003	$ 1,251.86	9.82%	1.57%	1.49%
39	Total Water Revenues with Revenue							
40	Annualization		$ 825,148	$ 954,728	$ 129,580	15.70%		
41								

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Analysis of Revenue by Detailed Class
Rejoinder Rates Without ARSM Surcharge

Exhibit
Rejoinder Schedule H-2
Page 1
Witness: Kozoman

Line No.	Meter Size, Class		(a) Average Number of Customers at 12/31/2003	Average Consumption	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8 Inch	Residential	247	9,264	$ 26.28	$ 29.72	$ 3.44	13.11%
2	3/4 Inch	Residential	584	10,243	32.94	36.44	3.50	10.62%
3	1 Inch	Residential	258	20,040	60.07	66.50	6.43	10.70%
4	1.5 Inch	Residential						
5		Subtotal	1,089					
6								
7	5/8 Inch	Commercial	7	3,370	$ 15.67	$ 17.30	$ 1.63	10.43%
8	3/4 Inch	Commercial						
9	1 Inch	Commercial	11	38,424	99	115	17	17.21%
10	1.5 Inch	Commercial	6	52,593	154	164	11	6.88%
11	2 Inch	Commercial	45	158,358	415	471	56	13.40%
12	3 Inch	Construction	4	56,780	292	334	43	14.67%
13		Subtotal	73					
14								
15								
16								
17		Totals	1,162					
18								
19								
20								
21								

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Present and Proposed Rates
Rejoinder Rates Without ARSM Surcharge

Exhibit
Rejoinder Schedule H-3
Page 1
Witness: Kozoman

Line No.		Present Rates	Proposed Rates	Percent Change
1	**Monthly Usage Charge for:**			
2	Residential and Commercial	Rounded to two (2) decimal Places		
3	5/8 x 3/4 Inch	$ 9.60	$ 10.56	10.00%
4	3/4 Inch	14.50	15.95	10.00%
5	1 Inch	24.00	26.40	10.00%
6	1 1/2 Inch	48.00	52.80	10.00%
7	2 Inch	77.00	84.70	10.00%
8	3 Inch	144.00	158.40	10.00%
9	4 Inch	240.00	264.00	10.00%
10	6 Inch	480.00	528.00	10.00%
11		-	-	0.00%
12	Construction (3 inch meter)	144.00	158.40	10.00%
13				
14	Gallons In Minimum			
15	Residential, Commecial, Industrial	-	-	
16				
17	Construction Water	-	-	
18				
19				
20	**Gallons for Rate Tiers**			
21	**Tier 1:** (Gallon upper limit,)			
22	5/8 Inch	25,000	8,000	
23	3/4 Inch	25,000	12,000	
24	1 Inch	25,000	20,000	
25	1 1/2 Inch	25,000	40,000	
26	2 Inch	25,000	64,000	
27	3 Inch	25,000	128,000	
28	4 Inch	25,000	200,000	
29	6 Inch	25,000	400,000	
30	**Tier 2:** (Gallons upper limit, 150% of Tier 1)			
31	5/8 Inch	999,999,999	12,000	
32	3/4 Inch	999,999,999	18,000	
33	1 Inch	999,999,999	30,000	
34	1 1/2 Inch	999,999,999	60,800	
35	2 Inch	999,999,999	96,000	
36	3 Inch	999,999,999	192,000	
37	4 Inch	999,999,999	300,000	
38	6 Inch	999,999,999	600,000	
39	**Tier 3:** (Gallon over)			
40	All	999,999,999	All Gallons	
41			in Excess	
42			of tier 2 above	
43	**Construction Water (All)**	999,999,999	999,999,999	
44				
45				
46		**Present**	**Proposed**	**Percent**
47	**Residential, Commercial, Industrial**	**Rates**	**Rates**	**Change**
48	**Commodity Rates**	Rounded to three (3) decimal Places		
49	First Tier	$ 1.80	$ 2.00	11.11%
50	Second Tier	2.20	2.50	13.64%
51	Third Tier	2.20	2.86	30.00%
52	Fourth Tier	2.20	2.86	30.00%
53				
54	Construction	2.60	3.10	19.23%

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Revenue Summary
With Annualized Revenues to Year End Number of Customers
Rejoinder Rates with ARSM Surcharge

Exhibit
Rejoinder Schedule H-1
Page 1
Witness: Kozoman

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8 Inch	Residential	$ 93,492	$ 113,310	$ 19,819	21.20%	9.94%	10.10%
2	3/4 Inch	Residential	267,771	338,252	70,481	26.32%	28.46%	30.14%
3	1 Inch	Residential	223,612	275,453	51,841	23.18%	23.77%	24.54%
4		Subtotal	$ 584,875	$ 727,016	$ 142,141	24.30%	62.17%	64.78%
5								
6	5/8 Inch	Commercial	$ 1,463	$ 2,026	$ 563	38.46%	0.16%	0.18%
7	1 Inch	Commercial	15,578	17,739	2,161	13.87%	1.66%	1.58%
8	1.5 Inch	Commercial	12,563	14,975	2,412	19.20%	1.34%	1.33%
9	2 Inch	Commercial	268,068	297,065	28,998	10.82%	28.50%	26.47%
10								
11		Subtotal	$ 297,672	$ 331,806	$ 34,133	11.47%	31.64%	29.57%
12								
13	3 Inch	Construction	$ 16,386	$ 21,639	$ 5,253	32.06%	1.74%	1.93%
14	Miscellaneous Revenues		41,791	41,791	-	0.00%	4.44%	3.72%
15		Subtotal	$ 940,725	$ 1,122,251	$ 181,526	19.30%	100.00%	100.00%
16								
17								
18								
19	Revenue Annualization							
20								
21	Meter		Present	Proposed	Dollar	Percent	Present Water	Proposed Water
22	Size	Class	Revenues	Revenues	Change	Change	Revenues	Revenues
23	5/8 Inch	Residential	$(1,348.37)	$ (1,629.77)	$ (281.40)	20.87%	-0.14%	-0.15%
24	3/4 Inch	Residential	6,112	8,233	2,121	34.69%	0.65%	0.73%
25	1 Inch	Residential	8,568	11,198	2,630	30.69%	0.91%	1.00%
26								
27		Subtotal	$ 13,332	$ 17,801	$ 4,469	33.52%	1.42%	1.59%
28								
29	5/8 Inch	Commercial						
30	1 Inch	Commercial	$ 268	$ 318	$ 50	18.75%	0.03%	0.03%
31	1.5 Inch	Commercial						
32	2 Inch	Commercial	5,089	5,679	590	11.59%	0.54%	0.51%
33								
34		Subtotal	$ 5,357	$ 5,997	$ 640	11.94%	0.57%	0.53%
35								
36	3 Inch	Construction	(4,686)	(6,080)	(1,394)	29.74%	-0.50%	-0.54%
37								
38	Total Revenue Annualziation		$ 14,003	$ 17,718	$ 3,715.15	26.53%	1.49%	1.58%
39	Total Water Revenues with Revenue							
40	Annualization		$ 954,728	$ 1,139,970	$ 185,242	19.40%		
41								

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Analysis of Revenue by Detailed Class
Rejoinder Rates with ARSM Surcharge

Exhibit
Rejoinder Schedule H-2
Page 1
Witness: Kozoman

Line No.	Meter Size, Class		(a) Average Number of Customers at 12/31/2003	Average Consumption	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8 Inch	Residential	247	9,264	$ 29.72	$ 36.42	$ 6.70	22.54%
2	3/4 Inch	Residential	584	10,243	36.44	46.49	10.05	27.58%
3	1 Inch	Residential	258	20,040	66.50	83.25	16.75	25.19%
4	1.5 Inch	Residential						
5		Subtotal	1,089					
6								
7	5/8 Inch	Commercial	7	3,370	$ 17.30	$ 24.00	$ 6.70	0.39
8	3/4 Inch	Commercial			-	-	-	-
9	1 Inch	Commercial	11	38,424	115	132	17	0.15
10	1.5 Inch	Commercial	6	52,593	164	198	34	0.20
11	2 Inch	Commercial	45	158,358	471	525	54	0.11
12	3 Inch	Construction	4	56,780	334	442	107	0.32
13		Subtotal	73					
14								
15								
16								
17		Totals	1,162					
18								
19								
20								
21								

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2003
Present and Proposed Rates
Rejoinder Rates with ARSM Surcharge

Exhibit
Rejoinder Schedule H-3
Page 1
Witness: Kozoman

Line No.		Present Rates	Proposed Rates	Percent Change
1	**Monthly Usage Charge for:**			
2	Residential and Commercial	Rounded to two (2) decimal Places		
3	5/8 x 3/4 Inch	$ 10.56	$ 17.26	63.45%
4	3/4 Inch	15.95	26.00	63.01%
5	1 Inch	26.40	43.15	63.45%
6	1 1/2 Inch	52.80	86.30	63.45%
7	2 Inch	84.70	138.30	63.28%
8	3 Inch	158.40	265.60	67.68%
9	4 Inch	264.00	431.50	63.45%
10	6 Inch	528.00	863.00	63.45%
11		-	-	0.00%
12	Construction (3 inch meter)	158.40	265.60	67.68%
13				
14	Gallons In Minimum			
15	Residential, Commecial, Industrial	-	-	
16				
17	Construction Water	-	-	
18				
19				
20	**Gallons for Rate Tiers**			
21	**Tier 1:** (Gallon upper limit.)			
22	5/8 Inch	8,000	8,000	
23	3/4 Inch	12,000	12,000	
24	1 Inch	20,000	20,000	
25	1 1/2 Inch	40,000	40,000	
26	2 Inch	64,000	64,000	
27	3 Inch	128,000	128,000	
28	4 Inch	200,000	200,000	
29	6 Inch	400,000	400,000	
30	**Tier 2:** (Gallons upper limit, 150% of Tier 1)			
31	5/8 Inch	12,000	12,000	
32	3/4 Inch	18,000	18,000	
33	1 Inch	30,000	30,000	
34	1 1/2 Inch	60,800	60,800	
35	2 Inch	96,000	96,000	
36	3 Inch	192,000	192,000	
37	4 Inch	300,000	300,000	
38	6 Inch	600,000	600,000	
39	**Tier 3:** (Gallon over)			
40	All	999,999,999	All Gallons	
41		-	in Excess	
42		-	of tier 2 above	
43	**Construction Water (All)**	999,999,999	999,999,999	
44				
45				
46		**Present Rates**	**Proposed Rates**	**Percent Change**
47	**Residential, Commercial, Industrial**			
48	**Commodity Rates**	Rounded to three (3) decimal Places		
49	First Tier	$ 2.00	$ 2.00	0.00%
50	Second Tier	2.50	2.50	0.00%
51	Third Tier	2.86	2.86	0.00%
52	Fourth Tier	2.86	2.86	0.00%
53				
54	Construction	3.10	3.10	0.00%

EXHIBIT
A-5
Admitted

SALLQUIST & DRUMMOND, P.C.
ATTORNEYS AT LAW
TEMPE OFFICE
4500 S. LAKESHORE DRIVE
SUITE 339
TEMPE, ARIZONA 85282

RICHARD L. SALLQUIST

PHONE (602) 224-9222
FACSIMILE (480) 345-0412
E-MAIL dick@sd-law.com

January 4, 2005

Colleen Ryan
Arizona Corporation Commission
Docket Control
1200 W. Washington
Phoenix, AZ 85007

Re: Valley Utilities Water Company; Docket No. W-01412A-04-0849

Dear Ms. Ryan:

Enclosed please find the original and 15 copies of the Affidavit of Publication in the subject Docket.

In the event we can provide additional information regarding this matter, please do not hesitate to call.

Sincerely,

Richard L. Sallquist

Enclosures

Cc: Robert Prince
Ron Kozoman
Tom Broussa

93055.00000.152

THE RECORD REPORTER

~ SINCE 1914 ~

1505 N. Central Avenue, Suite 200, Phoenix, Arizona 85004-1725
Telephone (602) 417-9900 / Fax (602) 417-9910

STEPHANIE SAWYER
SALLQUIST & DRUMMOND, P.L.L.C.
2525 E ARIZONA BILTMORE CIR #117
PHOENIX, AZ 85016

RR#: 760049

AFFIDAVIT OF PUBLICATION

Reference #:

Notice Type: MN Miscellaneous Notice

Ad Description: VALLEY UTILITIES WATER COMPANY INC. APPLICATION FOR ISSUANCE OF PROMISSORY NOTES

I, WENDY COOPER, am authorized by the publisher as agent to make this affidavit. Under oath, I state that the following is true and correct.

THE RECORD REPORTER is a newspaper of general circulation published Monday, Wednesday and Friday except legal holidays, in the County of Maricopa, State of Arizona. The copy hereto attached is a true copy of the advertisement as published on the following dates:

12/20/04

Wendy Cooper

Subscribed and sworn to before me on the 20th day of December, 2004

Diane M. Heuel

OFFICIAL SEAL
DIANE M. HEUEL
Notary Public State of Arizona
MARICOPA COUNTY
My Comm. Expires Oct 31 2006

PUBLIC NOTICE OF AN APPLICATION FOR AN ORDER AUTHORIZING THE ISSUANCE OF PROMISSORY NOTE(S) AND OTHER EVIDENCE OF INDEBTEDNESS BY VALLEY UTILITIES WATER COMPANY INC.

Valley Utilities Water Company, Inc. (Applicant) has filed an Application with the Arizona Corporation Commission (Commission) for an order authorizing Applicant to issue up to $1,926,100 in promissory notes and other evidence of indebtedness. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona, and Applicant's offices at 12540 W. Bethany Home Road, Litchfield Park, Arizona 85340.

Intervention in the Commission's proceedings on the Application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon the Applicant and which, at a minimum, shall contain the following information:

1. The name, address and telephone of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding.
3. Whether the proposed intervenor desires a formal evidentiary hearing on the Application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intevene must be filed on, or before, the 15th day of this notice.

If you have any questions or concerns about this application or have any objections to its approval, or wish to make a statement in support of it, you may contact the Consumer Services Section of the Commission at 1200 West Washington, Phoenix, Arizona 85007 or call 1-800-222-7000.

12/20/2004

RR-760049#

Richard L. Sallquist
Sallquist & Drummond, P.C.
Tempe Office
4500 S. Lakeshore Drive
Suite 339
Tempe, Arizona 85282
Phone: (480) 839-5202
Fax: (480) 345-0412

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY INC. FOR AN INCREASE IN ITS WATER RATES FOR CUSTOMERS WITHIN MARICOPA COUNTY, ARIZONA	DOCKET NO. W-01412A-04-0736
IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AUTHORITY TO ISSUE PROMISSORY NOTE(S) AND OTHER EVIDENCES OF INDEBTEDNESS PAYABLE AT PERIODS OF MORE THAN TWELVE MONTHS AFTER THE DATE OF ISSUANCE.	DOCKET NO. W-01412A-04-0849 **AFFIDAVIT OF MAILING**

STATE OF ARIZONA)
)ss
County of Maricopa)

1. I am Robert L. Prince, President of Valley Utilities Water Company, Inc. My business address is 12540 West Bethany Home Road, Litchfield Park, Arizona 85340.

2. On February 9, 2005, I caused the Notice in the form attached hereto as Attachment 1 and incorporated herein by reference for all purposes, to be mailed by first class mail, postage prepaid, to all customers of record with the Company's February billings.

3. On February 16, 2005, I caused the Notice in the form attached hereto as Attachment 2 and incorporated herein by reference for all purposes, to be mailed by first class mail, postage prepaid, to all customers of record with the Company's February billings

4. Further affiant sayeth naught.

DATED this 29 day of March, 2005.

VALLEY UTILITIES WATER COMPANY, INC

By: _____
Robert L. Prince, President

The foregoing instrument was acknowledged before me this 29 day of March, 2005, by Robert L. Prince.

_____
Notary Public

My Commission Expires:

June 13, 2008

SANDRA L. DEVLAEMINCK
Notary Public - Arizona
Maricopa County
My Commission Expires
June 13, 2008

Original and fifteen copies of the foregoing filed this 30th day of March, 2005:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

93055.00000.162

A copy of the foregoing
mailed/hand delivered this
30th day of March, 2005, to:

Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

93055.00000.162

PUBLIC NOTICE OF HEARING ON THE RATE APPLICATION OF VALLEY UTILITIES WATER COMPANY INC. DOCKET NO. W-01412A-04-0736

On October 7, 2004, Valley Utilities Water Company, Inc. ("Company") filed an application with the Arizona Corporation Commission ("Commission") for an increase in its water rates. The Company has proposed a two-step increase in rates that would increase the average residential customer's rates by approximately 68.13 percent. Copies of the application and proposed tariffs are available at the Company's offices, 12540 W. Bethany Home Road, Litchfield Park, AZ, and the Commission's offices for public inspection during regular business hours.

The Commission will hold a hearing on this matter beginning **July 14, 2005, at 10:00 a.m.**, at the Commission's offices, 1200 West Washington, Phoenix, Arizona. Public comments will be taken on the first day of the hearing.

The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene. Intervention shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. Persons desiring to intervene must file a written motion to intervene with the Commission no later than **April 29, 2005.** The motion to intervene must be sent to the Company or its counsel and to all parties of record, and must contain the following:

1. The name, address, and telephone number of the proposed intervenor and of any party upon whom service of documents is to be made if different from the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer of the Company, a shareholder of the Company, etc.)
3. A statement certifying that a copy of the motion to intervene has been mailed to the Company or its counsel and to all parties of record in the case.

The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the application or from filing written comments in the record of the case. You will not receive any further notice of this proceeding unless you request it.

If you have any questions about this application, wish to file written comments on the application, or want further information on intervention, you may contact the Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix, Arizona 85007, or call 1-800-222-7000.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Linda Hogan, at LHogan@admin.cc.state.az.us, voice phone number 602/542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.

ATTACHMENT 1

VALLEY UTILITIES WATER CO., INC.

February 10, 2005

To Our Valued Customers,

This letter is to inform you of what the future holds for Valley Utilities Water Company, Inc. ("VUWCO") and you as our customers. Recently, you received the notice of our Rate Increase Request that was filed with the Arizona Corporation Commission. Water providers, from the smallest to the very largest, have been impacted by an unfunded mandate from the federal government regarding arsenic removal from drinking water.

Arsenic is a naturally occurring compound found in the ground and is water soluble. It is found in well water and surface water, streams, rivers and lakes. Arsenic has been in the drinking water of the people who live in the western United States for as long as people have lived in the region. Arsenic is highly poisonous in large quantities and is used in the production of insecticides, pesticides, glass, semiconductors and even some medicines. The Maximum Contaminant Level (MCL) for drinking water has been 50 parts per **billion** (ppb) since the federal government set the limit in 1942. At the end of President Clinton's administration, in 1999, an Executive Order was issued and the Environmental Protection Agency ("EPA") lowered the MCL on arsenic to 10 ppb. VUWCO has wells that have been tested at 11 ppb to 14 ppb and the water produced by these wells must be treated in order to meet the new standard.

In September of 2003, VUWCO completed a six month pilot study to ascertain the most effective method of treatment. This study looked at the best available technology, efficiency of treatment, operating and maintenance (O&M) costs as well as capitol costs. The study was conducted by Narisimahn Consulting Services, Inc. ("NCS"), a premiere consulting engineering company that specializes in water quality. In order to minimize the cost of the study, VUWCO partnered with Litchfield Park Service Co. ("LPSCO"), a larger local utility and the Water Infrastructure Financing Authority ("WIFA"), a government agency dedicated to providing grants and low interest loans to improve water and waste water systems throughout Arizona.

Commissioners and staff of the Arizona Corporation Commission ("ACC") have been proactive in encouraging regulated public service corporations serving water across Arizona to address the issue of arsenic remediation in drinking water. The ACC has hosted seminars to help affected utilities regarding financing, rate structure and where information and technology assistance could be obtained.

The cost to VUWCO, based on the engineering study done by NCS, is estimated to be $1,926,100.00. This will require a rate increase in order to service the debt. The estimated capitol cost may add approximately $25.00 per month to the average residential water bill. VUWCO, as well as the ACC, recognizes that this is a serious impact to a family's budget, but the alternative is noncompliance. The Arizona Department of Environmental Quality ("ADEQ") and the EPA have stated that noncompliance is unacceptable. There is no alternative, we must comply.

The timetable is short and the impact is large. Financing requirements, agency approvals and construction schedules must be met in order to comply with the January 23, 2006 deadline. VUWCO has made application to WIFA and has been placed on the funding priority list for 2005. We have made application for a rate increase in order to service the debt that we will incur by implementing an effective arsenic removal system. Also, VUWCO is very active in participating in all available programs and professional associations to stay on the cutting edge of arsenic removal technology. We are constantly looking for new technologies that satisfy the need and reduce the cost.

All of us at Valley Utilities will continue to work hard to provide safe and dependable water service to your homes and we will work just as hard to keep the costs as low as possible. Thank you for taking the time to read this letter. Please feel free to call and ask any questions that you may have.

Sincerely,

Robert L. Prince

12540 WEST BETHANY HOME RD./LITCHFIEL PARK, AZ 85340 / PHONE 623-935-1100

ATTACHMENT 2

THE RECORD REPORTER

~ SINCE 1914 ~

1505 N. Central Avenue, Suite 200, Phoenix, Arizona 85004-1725
Telephone (602) 417-9900 / Fax (602) 417-9910

STEPHANIE SAWYER
SALLQUIST & DRUMMOND, P.L.L.C.
2525 E ARIZONA BILTMORE CIR #117
PHOENIX, AZ 85016

AFFIDAVIT OF PUBLICATION

Reference #: 93055-00000

Notice Type: MN Miscellaneous Notice

Ad Description: VALLEY UTILITIES WATER COMPANY, INC. RATE APPLICATION HEARING

I, WENDY COOPER, am authorized by the publisher as agent to make this affidavit. Under oath, I state that the following is true and correct.

THE RECORD REPORTER is a newspaper of general circulation published Monday, Wednesday and Friday except legal holidays, in the County of Maricopa, State of Arizona. The copy hereto attached is a true copy of the advertisement as published on the following dates:

03/04/05

Wendy Cooper

Subscribed and sworn to before me on the 4th day of March, 2005

Diane M. Heuel

OFFICIAL SEAL
DIANE M. HEUEL
Notary Public State of Arizona
MARICOPA COUNTY
My Comm. Expires Oct 31 2006

RR#: 788266

PUBLIC NOTICE OF HEARING ON THE RATE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC.
DOCKET NO. W-01412A-04-0736

On October 7, 2004, Valley Utilities Water Company, Inc. ("Company") filed an application with the Arizona Corporation Commission ("Commission") for an increase in its water rates. The Company has proposed a two-step increase in rates that would increase the average residential customer's rates by approximately 68.13 percent. Copies of the application and proposed tariffs are available at the Company's offices 12540 W. Bethany Home Road, Litchfield Park, Arizona 85340 and the Commission's offices for public inspection during regular business hours.

The Commission will hold a hearing on this matter beginning July 14, 2005, at 10:00 a.m., at the Commission's offices, 1200 West Washington, Phoenix, Arizona. Public comments will be taken on the first day of the hearing.

The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene. Intervention shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. Persons desiring to intervene must file a written motion to intervene with the Commission no later than April 29, 2005. The motion to intervene must be sent to the Company or its counsel and to all parties of record, and must contain the following:

1. The name, address, and telephone number of the proposed intervenor and of any party upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer of the Company, a shareholder of Company, etc.).
3. A statement certifying that a copy of the motion to intervene has been mailed to the Company or its counsel and to all parties of record in the case.

The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the application or from filing written comments in the record of the case. You will not receive any further notice of this proceeding unless you request it.

If you have any questions about this application, with to file written comments on the application, or want further information on intervention, you may contact the Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix, Arizona 85007, or call 1-800-222-7000.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting ADA Coordinator, Linda Hogan, at LHogan@admin.cc.state.az.us, voice phone number 602/542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.

03/04/2005

RR-788266#

ALL-STATE LEGAL®
EXHIBIT
S-1
Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AN INCREASE IN ITS WATER RATES FOR CUSTOMERS WITHIN MARICOPA COUNTY, ARIZONA.	DOCKET NO. W-01412A-04-0736
IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AUTHORITY TO ISSUE PROMISSORY NOTE(S) AND OTHER EVIDENCES OF INDEBTEDNESS PAYABLE AT PERIODS OF MORE THAN TWELVE MONTHS AFTER THE DATE OF ISSUANCE.	DOCKET NO. W-01412A-04-0849

DIRECT TESTIMONY

OF

MARLIN SCOTT, JR.

UTILITIES ENGINEER

UTILITIES DIVISION

MAY 11, 2005

TABLE OF CONTENTS

Page

EXECUTIVE SUMMARY i

Conclusions
Recommendations

DIRECT TESTIMONY

Introduction 1
Purpose of Testimony 2
Engineering Reports 2

EXHIBIT MSJ – A, Rate Case Engineering Report

A. Location of Company 1
B. Description of Water System 1
C. Water Use 3
D. Growth 4
E. MCESD Compliance 4
F. ADWR Compliance 5
G. ACC Compliance 5
H. Pro Forma Plant Adjustment 5
I. Depreciation Rates 5
J. Service Line and Meter Installation Charges 6
K. Curtailment Plan Tariff 6

FIGURES

A-1. Maricopa County Map 8
A-2. Certificated Area 9
B-1. System Schematic 10
C-1. Water Use 11
D-1. Growth 11

TABLES

E-1. Water Testing Cost 12
I-1. Depreciation Rates 13
J-1. Service Line and Meter Installation Charges 14

ATTACHMENT

K-1. Curtailment Plan Tariff 15

EXHIBIT MSJ – B, Financing Engineering Report

Financing for Arsenic Treatment Plant 1

EXECUTIVE SUMMARY
VALLEY UTILITIES WATER COMPANY, INC.
DOCKET NO. W-01412A-04-0736
&
DOCKET NO. W-01412A-04-0849

CONCLUSIONS

A. The Valley Utilities Water Company, Inc. ("Company") has a water loss of 1.96% which is within acceptable limits.

B. The Company's current well source and storage capacity are adequate to serve the present customer base and reasonable growth.

C. The Maricopa County Environmental Service Department ("MCESD") has reported no major deficiencies and based on data submitted to MCESD, MCESD has determined that the Company's system, PWS No. 07-079, is currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

D. The Company reported the arsenic concentrations for its Well No. 1 at 12 ppb, Well No. 2 at 12 ppb, Well No. 3 at 7 ppb, Well No. 4 at 12 ppb, Well No. 5 at 13 ppb and Well No. 6 at 11 ppb. The Company has submitted a financing application, under Docket No. W-01412A-04-0849, requesting financing approval to purchase and construct water treatment facilities for arsenic removal. (See RECOMMENDATION No. 6.)

E. The Company is located in the Arizona Department of Water Resources Phoenix Active Management Area ("AMA") and is in compliance with AMA water use and monitoring requirements.

F. The Company has no outstanding Arizona Corporation Commission compliance issues.

RECOMMENDATIONS

1. Staff recommends its average annual cost of $4,014 be adopted for the water testing expense in this proceeding.

2. Staff recommends that $1,883,600 of reported post-test year plant items not be included in rate base.

3. Staff recommends that the Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners category presented in Table I-1 on a going forward basis.

4. Staff recommends the acceptance of the Company's proposed service line and meter installation charges.

5. Staff recommends that the Company file a Curtailment Plan Tariff in the form of Attachment K-1. This tariff shall be docketed as a compliance item in this case within 45 days of the effective date of an order in this proceeding for review and certification by Staff.

6. Staff concludes that the arsenic treatment facilities being proposed in the financing application are appropriate and recommends the estimated capital costs and operation & maintenance costs be used for purposes of the financing request.

INTRODUCTION

Q. Please state your name, place of employment and job title.

A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Utilities Engineer.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since November 1987.

Q. Please list your duties and responsibilities.

A. As a Utilities Engineer, specializing in water and wastewater engineering, my responsibilities include: the inspection, investigation, and evaluation of water and wastewater systems; preparing reconstruction cost new and/or original cost studies, cost of service studies and investigative reports; providing technical recommendations and suggesting corrective action for water and wastewater systems; and providing written and oral testimony on rate applications and other cases before the Commission.

Q. How many companies have you analyzed for the Utilities Division?

A. I have analyzed approximately 395 companies covering various responsibilities for the Utilities Division.

Q. Have you previously testified before this Commission?

A. Yes, I have testified in 44 proceedings before this Commission.

Q. What is your educational background?

A. I graduated from Northern Arizona University in 1984 with a Bachelor of Science degree in Civil Engineering Technology.

Q. Briefly describe your pertinent work experience.

A. Prior to my employment with the Commission, I was Assistant Engineer for the City of Winslow, Arizona, for about two years. Prior to that, I was a Civil Engineering Technician with the U.S. Public Health Service in Winslow for approximately six years.

Q. Please state your professional membership, registrations, and licenses.

A. I am a member of the National Association of Regulatory Utility Commissioners ("NARUC") Staff Subcommittee on Water.

PURPOSE OF TESTIMONY

Q. Were you assigned to provide Staff's engineering analysis and recommendation for the Valley Utilities Water Company, Inc. ("Company") in this proceeding?

A. Yes. I reviewed the Company's rates and financing applications and I inspected the water system on March 11, 2005. This testimony and the attached Exhibits MSJ-A and MSJ-B present Staff's engineering evaluations.

ENGINEERING REPORTS

Q. Please describe the attached Engineering Reports, Exhibits MSJ-A and MSJ-B.

A. Exhibit MSJ-A presents the details and analyses of Staff's findings for the rate case portion, and is attached to this direct testimony. Exhibit MSJ-A contains the following major topics: (1) a description of the water system and the processes, (2) water use, (3) growth, (4) compliance with the rules of the Maricopa County Environmental Services

Department, Arizona Department of Water Resources, and the Arizona Corporation Commission, (5) pro forma plant adjustments, (6) depreciation rates, (7) service line and meter installation charges, and (8) curtailment plan tariff.

Exhibit MSJ-B presents Staff's findings for the financing case portion, and is attached to this direct testimony. Exhibit MSJ-B contains the discussion for the financing application to fund the purchase and construction of arsenic treatment plant.

Staff's conclusions and recommendations from these engineering reports are contained in the **"EXECUTIVE SUMMARY"** above.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Engineering Report
For
Valley Utilities Water Company, Inc.
Docket No. W-01412A-04-0736 (Rates)

April 13, 2005

A. LOCATION OF VALLEY UTILITIES WATER COMPANY, INC. ("COMPANY")

The Company serves a community located within a County strip, just east of Luke Air Force Base, in the Phoenix West Valley. Figure A-1 shows the location of the Company within Maricopa County and Figure A-2 shows the approximate five square-miles of certificated area.

B. DESCRIPTION OF WATER SYSTEM

The water system was field inspected on March 11, 2005, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Scott Keith, representing the Company.

The operation of the water system consisted of six wells, five storage tanks, four booster stations and a distribution system serving over 1,200 customers during the test year of 2003. A system schematic is shown in Figure B-1 with detailed plant facility descriptions as follows:

Table 1. Well Data

Well #	ADWR ID No.	Pump Hp Submersibles	* Flow Rate (GPM)	Casing Size & Depth	Meter Size	Year Drilled
#1	55-639720	20	60	12" x 580'	3"	1946
#2	55-639721	30	125	10" x 600'	3"	1969
#3	55-639723	30	110	8" x 400'	4"	1968
#4	55-639722	30	130	12" x 840'	4"	1971
#5	55-503273	60	325	20" x 811'	6"	1982
#6	55-580082	125	310	12" x 710'	8"	2002
		TOTAL:	1,060 GPM			

* Note: Flow rates in gallons per minute ("GPM") as of March 2005.

Table 2. Storage Tanks

Capacity (Gallons)	Quantity (Each)	Location
560,000	1	@ Maryland Booster Station
200,000	1	@ Bethany Hills West
100,000	3	Two tanks at Glendale Yard & one tank at Lux Yard
Totals: 1,060,000 gal.	5	

Table 3. Booster Systems

Location	Plant Facilities	Storage Tanks (From Table 2)
Glendale Yard	50, 40 & 20-Hp booster pumps	Two 100,000 gal. storage tanks
(Wells #1 & #2)	5,000 gal. pressure tank	
Lux Yard	30-Hp booster pumps, 2 each	100,000 gal. storage tank
(Well #3)	20-Hp booster pump	
	5,000 gallon pressure tank	
Bethany Hills West	40-Hp booster pumps, 3 each	200,000 gal. storage tank
(Wells #4, #5 & #6)	7,500 gal. pressure tank	
Maryland Booster Station	50,50, 15 & 15-Hp booster pumps	560,000 gal. storage tank
	10,000 gal. pressure tank	

Table 4. Water Mains

Diameter	Material	Length
4-inch	AC & PVC	10,000 ft.
6-inch	AC & DIP	53,485 ft.
8-inch	AC & DIP	28,786 ft.
10-inch	DIP	2,952 ft.
12-inch	AC & DIP	2,992 ft.
	Total:	98,215 ft.

Table 5. Customer Meters

Size	Quantity
5/8 x 3/4-inch	256
3/4-inch	593
1- inch	308
1-1/2-inch	6
2-inch	43
3-inch	4
Total:	1,210

Table 6. Fire Hydrants

Size	Quantity
Standard	85

Table 7. Structures & Treatment Equipment

Structures & Treatment Equipment
Wells #1 & #2: Liquid chlorination unit and 175 kW diesel generator
Well #3: Liquid chlorination unit
Well #4: Liquid chlorination unit
Maryland Booster Station: Tablet chlorination unit and 125 kW diesel generator

C. WATER USE

Water Sold

Based on the information provided by the Company, water use for the year 2003 is presented in Figure C-1. Customer consumption experienced a high monthly average water use of 882 gallons per day ("GPD") per connection and a low monthly average water use of 388 GPD per connection for an average annual use of 632 GPD per connection.

Non-Account Water

Non-account water should be 10% or less. The Company reported 271,203,090 gallons pumped and 265,896,450 gallons sold, resulting in a water loss of 1.96%. This 1.96% is within the acceptable limits.

System Analysis

The water system's current source capacity of 1,060 GPM and storage capacity of 1,060,000 gallons is adequate to serve the present customer base and reasonable growth.

D. GROWTH

Figure D-1 depicts the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission.. During the test year 2003, the Company had over 1,200 customers and it is projected that the Company could have approximately 1,580 customers by December 2008.

E. MARICOPA COUNTY ENVIRONMENTAL SERVICES DEPARTMENT ("MCESD") COMPLIANCE

Compliance

MCESD reported the Company's system, PWS No. 07-079, has no major deficiencies and based on data submitted to MCESD; MCESD has determined that this system is currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Company reported its water testing expense at $1,599 for the 2003 test year. Staff has reviewed this reported amount and has made adjustments to determine its average annual cost of $4,014 as shown in Table E-1. Staff recommends an average annual cost of $4,014 be adopted for this proceeding.

Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The date for compliance with the new MCL is January 23rd, 2006.

The Company reported the arsenic concentrations for its Well No. 1 at 12 ppb, Well No. 2 at 12 ppb, Well No. 3 at 7 ppb, Well No. 4 at 12 ppb, Well No. 5 at 13 ppb and Well No. 6 at 11 ppb. The Company has submitted a financing application, under Docket No. W-01412A-04-0849, requesting a Water Infrastructure Finance Authority of Arizona ("WIFA") loan approval to

purchase and construct water treatment facilities for arsenic removal. (See EXHIBIT MSJ-B.) The Arizona Corporation Commission ("ACC") recently approved an Arsenic Impact Fee Tariff for the Company in Decision No. 67669, dated March 9, 2005, to help pay for debt service and/or principle on the requested WIFA loan.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company is located in the Phoenix Active Management Area ("AMA") and is subject to AMA reporting and conservation requirements. Since the Company pumps less than 250 acre-feet of water per year, it is considered a small provider by ADWR and is subject to conservation rules. The Company is required to monitor and report water use. ADWR reported that the Company has complied with its water use and monitoring requirements.

G. ACC COMPLIANCE

According to the Utilities Division Manager of Compliance, the Company has no outstanding ACC compliance issues.

H. PRO FORMA PLANT ADJUSTMENT

Post-Test Year Plant

In its rate application filing, the Company submitted $1,883,600 worth of post-test year plant for arsenic treatment plant facilities for its Well Nos. 1, 2, 4, 5 and 6. At the time of its inspection (March 11, 2005), Staff noted that these treatment facilities had not been constructed. Therefore, Staff recommends that the reported post-test year plant items not be included in rate base.

I. DEPRECIATION RATES

The Company has been using a depreciation rate of 2.50% in every National Association of Regulatory Utility Commissioners ("NARUC") plant category. In recent orders, the Commission has been shifting away from the use of a composite rate in favor of individual depreciation rates by NARUC category. (For example, a uniform 2.50% composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table I-1 and it is recommended that the Company use these depreciation rates by individual NARUC category on a going forward basis.

J. SERVICE LINE AND METER INSTALLATION CHARGES

The Company has requested changes to its service line and meter installation charges. These charges are refundable advances and the Company's proposed charges are within Staff's recommended range for these charges. Therefore, Staff recommends the acceptance of the Company's proposed installation charges which includes the use of actual cost for meter sizes of 8-inch and larger as shown in Table J-1.

K. CURTAILMENT PLAN TARIFF

A Curtailment Plan Tariff ("CPT") is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events. Since the Company does not have this type of tariff, this rate proceeding provides an opportune time to prepare and file such a tariff.

The Company filed a standard CPT with its rate application. The Company filed Staff's standard CPT template which is geared toward small water systems. Staff is proposing an alternative tariff form that is similar to Class A (large) company approved tariffs. Staff has attached this alternative tariff as Attachment K-1.

Staff recommends that the Company file a CPT in the form of the attached. This tariff shall be docketed as a compliance item under this same docket number within 45 days of the effective date of an order in this proceeding for review and certification by Staff.

FIGURES

Maricopa County Map ..... Figure A-1

Certificated Area ..... Figure A-2

System Schematic ..... Figure B-1

Water Use ..... Figure C-1

Growth ..... Figure D-1

TABLES

Water Testing Cost ..... Table E-1

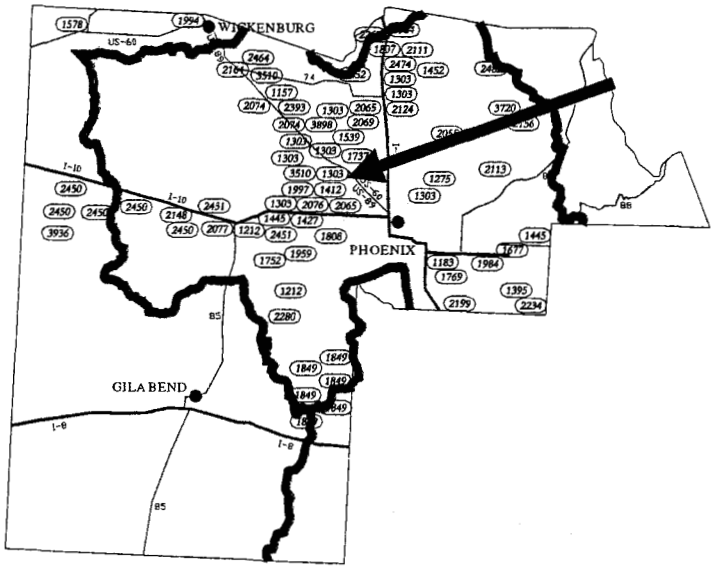
Depreciation Rates ..... Table I-1

Service Line and Meter Installation Charges ..... Table J-1

ATTACHMENT

Curtailment Plan Tariff ..... Attachment K-1

MARICOPA COUNTY



1997 ADAMAN MUTUAL WATER COMPANY
1578 AGUILA WATER SERVICES, INC.
2077 ALLENVILLE WATER COMPANY, INC.
1303 ARIZONA-AMERICAN WATER COMPANY
1445 ARIZONA WATER COMPANY
2074 BEARDSLEY WATER COMPANY, INC.
1275 BERNEIL WATER COMPANY
1964 BLACK CANYON RETREAT WATER COMPANY
1994 CABALLEROS WATER COMPANY, INC.
1452 CAVE CREEK WATER COMPANY
2113 CHAPARRAL CITY WATER COMPANY
2393 CHAPARRAL WATER COMPANY
3510 CIRCLE CITY WATER COMPANY L.L.C.
1752 CLEARWATER UTILITIES COMPANY, INC.
1984 DAIRYLAND WATER CORPORATION
2124 DESERT HILLS WATER COMPANY, INC.
3936 EAGLETAIL WATER COMPANY LC
1959 GRANDVIEW WATER COMPANY, INC.
2234 H2O, INC.
2055 JAMES P. PAUL WATER COMPANY
1769 KYRENE WATER COMPANY
2452 LAKE PLEASANT WATER COMPANY
1427 LITCHFIELD PARK SERVICE COMPANY
2267 MCADAMS WATER COMPANY
1849 MOBILE WATER COMPANY
2164 MORRISTOWN WATER COMPANY
1737 NEW RIVER UTILITY COMPANY
2199 PIMA UTILITY COMPANY
2464 PUESTA DEL SOL WATER COMPANY
1395 QUEEN CREEK WATER COMPANY
3898 RANCHO CABRILLO WATER COMPANY
1808 RIGBY WATER COMPANY
2156 RIO VERDE UTILITIES, INC.
1539 ROSE VALLEY WATER COMPANY
2111 SABROSA WATER COMPANY
1183 SENDE VISTA WATER COMPANY, INC.
2474 SHANGRI-LA ASSOCIATES, INC.
2280 SOUTH RAINBOW VALLEY WATER COOPERATIVE
2069 SUNRISE WATER COMPANY, INC.
2076 TIERRA BUENA WATER COMPANY
2483 TONTO HILLS UTILITY COMPANY
1677 TURNER RANCHES WATER & SANITATION COMPANY
1212 VALENCIA WATER COMPANY
1412 VALLEY UTILITIES WATER COMPANY, INC.
2148 VALLEY VIEW WATER COMPANY, INC.
2451 WATER UTILITY OF GREATER BUCKEYE, INC.
2450 WATER UTILITY OF GREATER TONOPAH, INC.
3720 WATER UTILITY OF NORTHERN SCOTTSDALE, INC.
1157 WEST END WATER COMPANY
2065 WILHOIT WATER COMPANY, INC.
1807 WRANGLERS ROOST WATER COMPANY

Figure A-1. Maricopa County Map

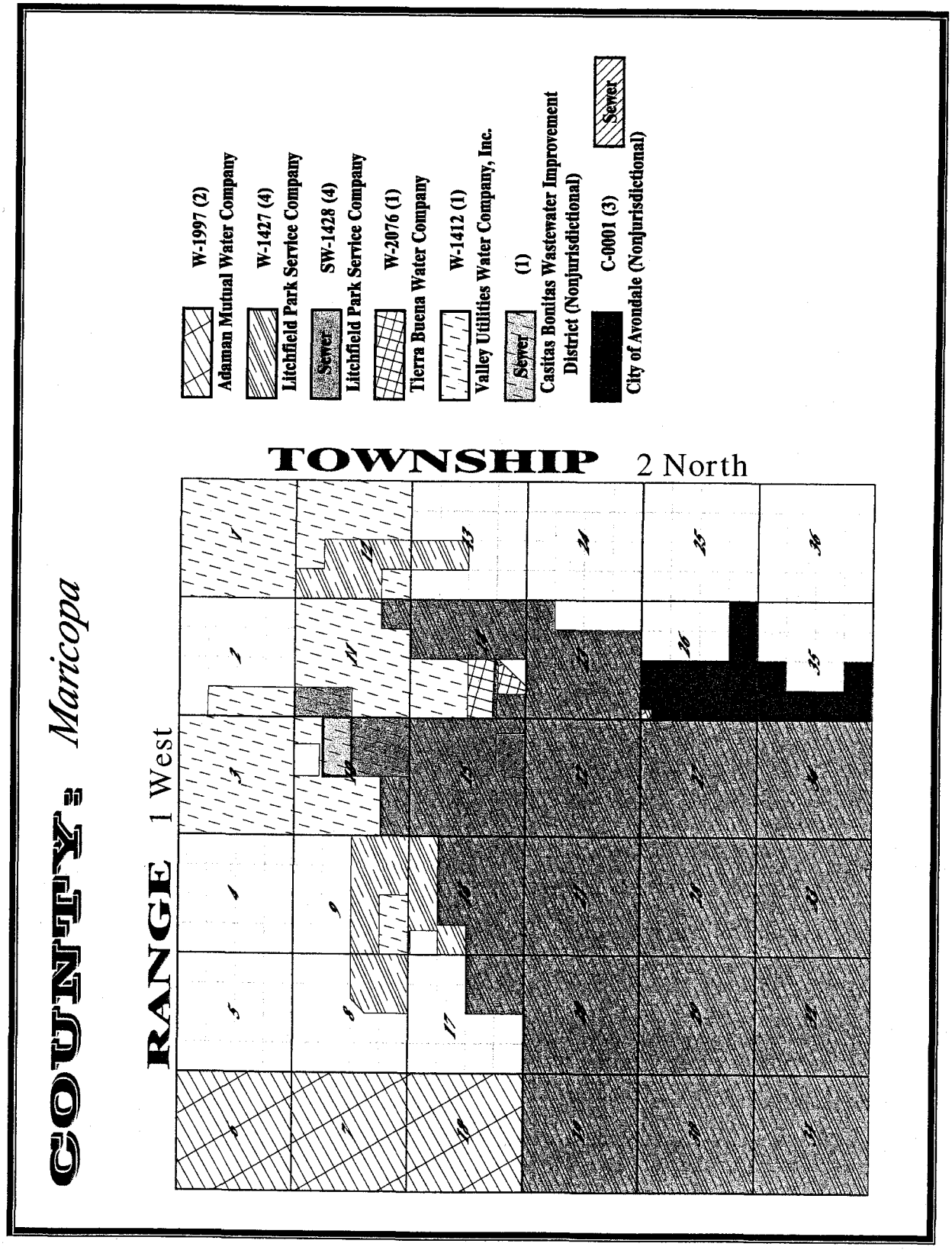


Figure A-2. Certificated Area

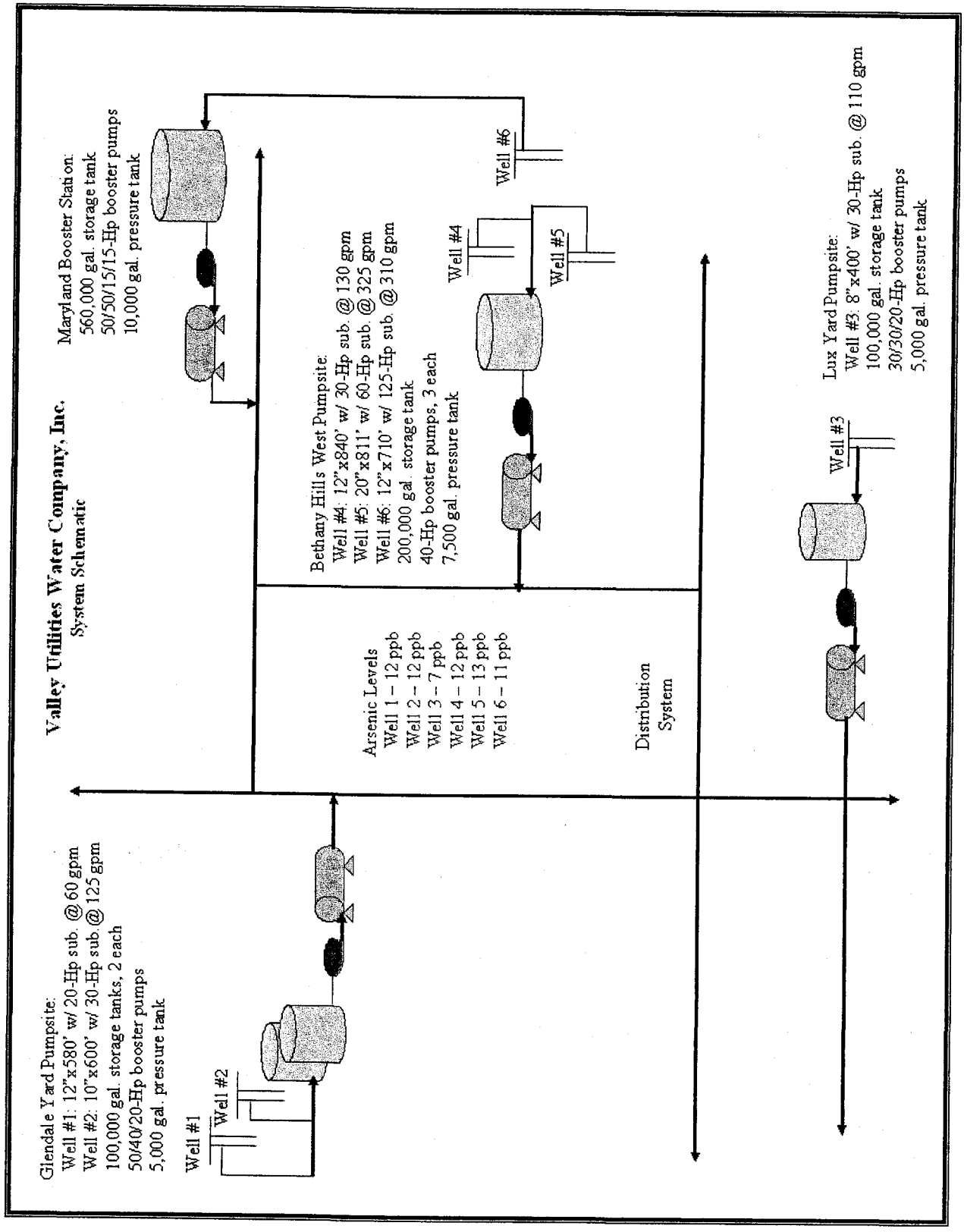


Figure B-1. System Schematic

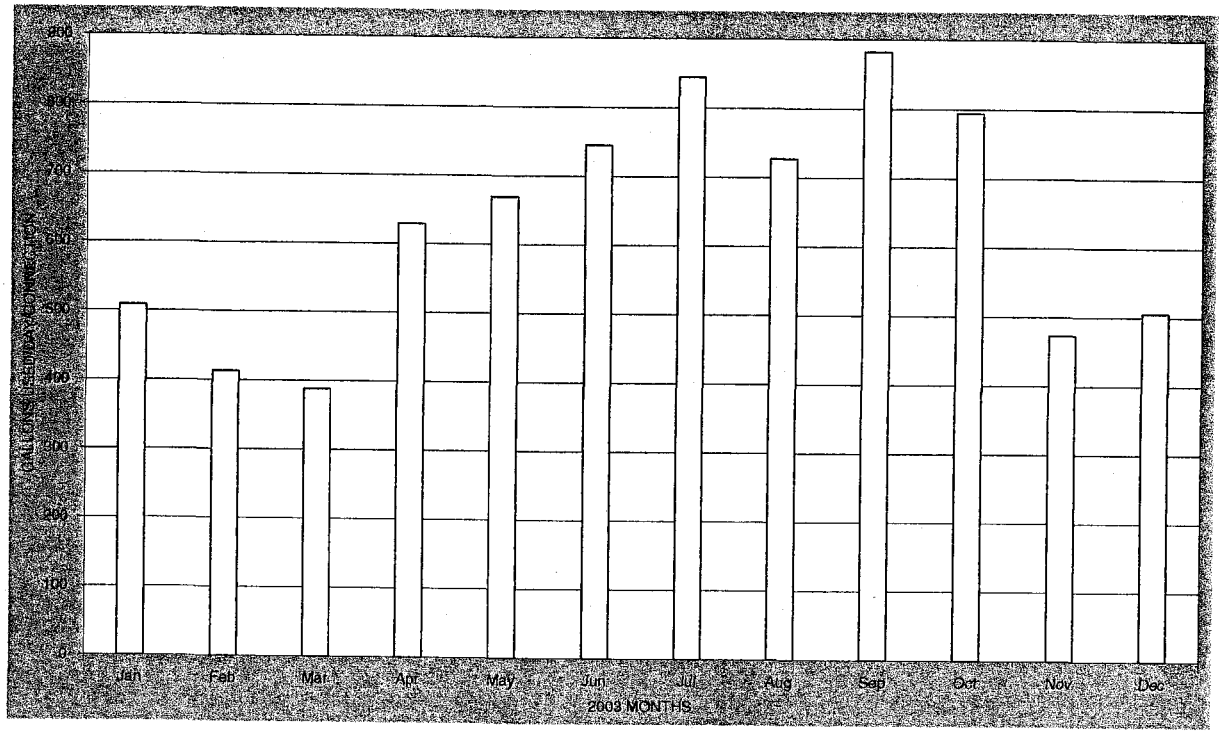


Figure C-1. Water Use

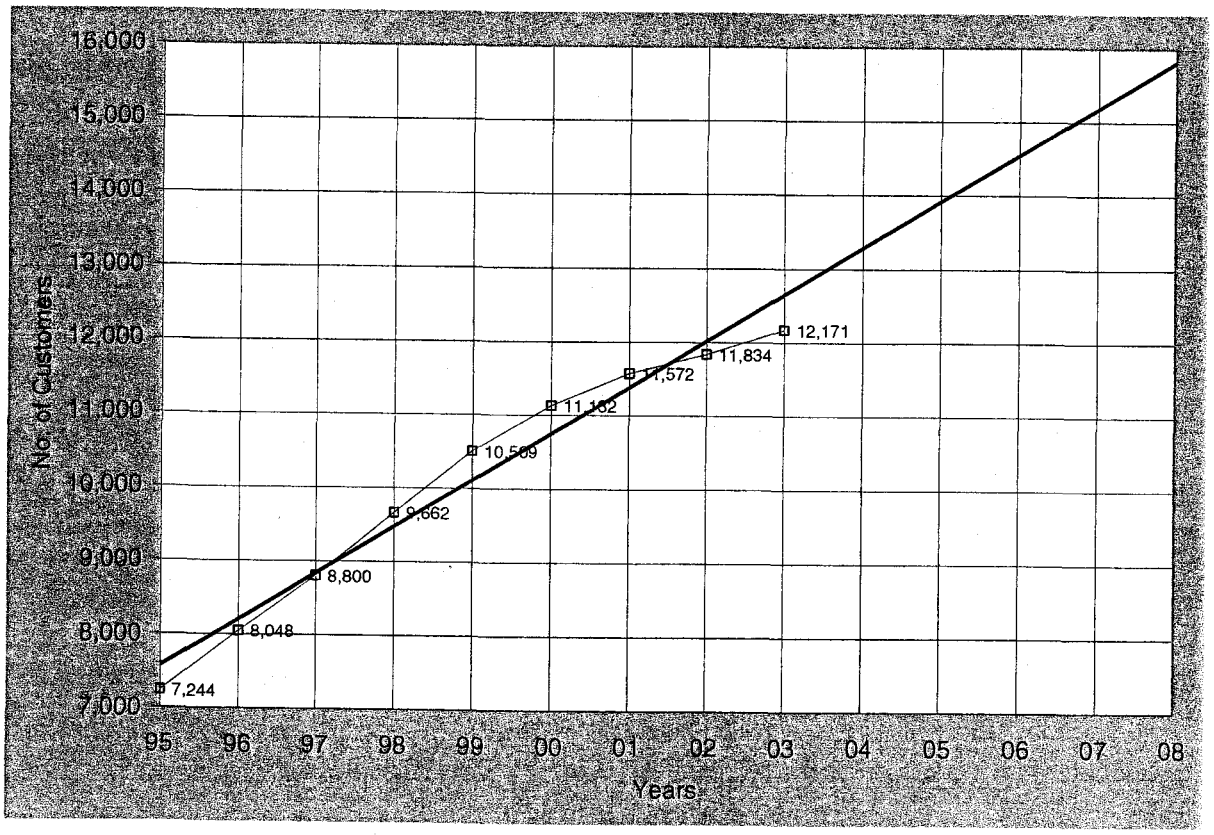


Figure D-1. Growth

Table E-1. Water Testing Cost

Monitoring for 3 POEs	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Total coliform – 5 samples/month	$15	180	$2,700	$900
Inorganics – per 3 years	MAP	MAP	MAP	MAP
Radiochemical – per 4 years	MAP	MAP	MAP	MAP
Phase II and V:				
Nitrate – 4 samples per year	$20	12	$240	$80
Nitrite – once per period	MAP	MAP	MAP	MAP
Asbestos – per 9 years	MAP	MAP	MAP	MAP
MAP – IOCs, SOCs, & VOCs	MAP	MAP	MAP	$2,734
Lead & Copper – 20 samples/3-years	$45	20	$900	$300
Total				**$4,014**

Note: ADEQ - MAP invoice for the 2005 Calendar Year is $2,734.00 for 1,200 service connections.

Table I-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	10	10.00

Table J-1. Service Line and Meter Installation Charges

Meter Size	Current Charges	Proposed Service Line Charges	Proposed Meter Charges	**RECOMMENDED Total Proposed Charges**
5/8 x3/4-inch	$455	$385	$135	$520
3/4-inch	$515	$385	$215	$600
1-inch	$590	$435	$255	$690
1-1/2-inch	$820	$470	$465	$935
2-inch Turbine	$1,380	$630	$965	$1,595
2-inch Compound	$2,010	$630	$1,690	$2,320
3-inch Turbine	$1,935	$805	$1,470	$2,275
3-inch Compound	$2,650	$845	$2,265	$3,110
4-inch Turbine	$3,030	$1,170	$2,350	$3,520
4-inch Compound	$3,835	$1,230	$3,245	$4,475
6-inch Turbine	$3,535	$1,730	$4,545	$6,275
6-inch Compound	$7,130	$1,770	$6,280	$8,050
8-inch & Larger	At Cost	At Cost	At Cost	At Cost

Attachment K-1

CURTAILMENT TARIFF FOR VALLEY UTILITIES WATER COMPANY, INC.
PWS No. 07-079

APPLICABILITY:

To all customers served by **Valley Utilities Water Company, Inc.** ("Company") where the Company determines that temporary water shortages might lead to water system outages, whether caused by drought, fire or other disaster, diminishing supplies, contamination, equipment failure, increased demands or other causes.

PURPOSE:

To implement procedures to cause all customers, regardless of customer class, to reduce water use by compliance with specified water conservation measures and other actions required to reduce each customer's normal water use.

NOTICE OF CURTAILMENT IMPLEMENTATION:

The Company will notify customers of the need to curtail water use, the stage of curtailment implemented, and the extent of curtailment required, by using one or more of the most appropriate methods listed below, as determined by the Company:

1. A notice published in a local newspaper of general circulation that serves the targeted area.
2. A bill insert or a notice on the customer's monthly bill.
3. Radio and television announcements in the targeted area.
4. Signs, leaflets, or other means of providing public notice as determined by the Company.

The Company will notify the customers when such curtailment is no longer needed.

CURTAILMENT STAGES:

Stage One:

Voluntary water use reduction by customers of 25% or less, as specified by the Company, by adhering to the following practices:

1. No washing of streets, sidewalks, driveways, parking lots, service station aprons or other exterior features.
2. No washing of automobiles, trucks, trailers, trailer houses or any type of mobile equipment.
3. Exterior landscape watering not more frequently than once every 2 days.

4. Exterior landscape automatic watering timers reduced from their normal duration setting.
5. No filling of swimming or wading pools.
6. Restaurants to serve drinking water only upon request.
7. Hotels, motels and other temporary lodging facilities to notify their customers that towels and linens will be washed upon request only, and that their water use should be limited.
8. Use of water from fire hydrants only in case of fire.
9. Do not waste water. *EXAMPLES:* Do not let water run down streets and repair any leaking plumbing fittings.
10. Reduce other water uses such that the targeted reduction from the customer's historic water use is achieved.

Stage Two:

Voluntary water use reduction by customers of more than 25%, as specified by the Company, by adhering to the practices listed under Stage One and the following practices:

1. Exterior landscape watering not more frequently than once every 3 days.
2. Exterior landscape automatic watering timers further reduced from their normal duration setting.
3. Reduce other water uses such that the targeted reduction from the customer's historic water use is achieved.
4. No use of construction water services for dust control, soil compaction, or similar purposes, unless required by the Maricopa County Environmental Services Department, the Arizona Department of Environmental Quality, or other agency with jurisdiction over air quality.

Stage Three:

Mandatory water use reduction by customers to a level specified by the Company to meet health and safety requirements, by adhering to the practices listed under Stage One and Stage Two and the following practices:

1. Exterior landscape watering not more frequently than once every 4 days.
2. Exterior landscape automatic watering timers reduced from their normal duration setting.
3. Reduce other water uses such that the targeted water use reduction is achieved.
4. No use of construction water services.
5. Have on hand a minimum of a 3-day emergency supply of drinking water.

Stage Four:

Mandatory water use reductions by customers, when Stage Three conditions are expected to last longer than two months, by adhering to the practices listed under Stage One through Stage Three, together with the Targeted Water Use Reduction Levels set forth below.

EXEMPTIONS AND APPEALS:

Reductions under Stages One, Two, Three and Four do not apply to water directly used for public health and safety purposes.

A customer who wishes an exemption from the targeted water use reduction must submit a written request to the Company within ten days of the Company's notice of curtailment. Following review of the request, the Company will decide whether the targeted water use reduction for that customer should be changed. The Company's decision shall be final.

TARGETED WATER USE REDUCTION LEVEL:

All water bills rendered during a Stage Four curtailment will show the customer's targeted water use reduction percentage, together with all other information the Company considers necessary for the customer to achieve the targeted water use reduction level. If the water bill shows that the customer used water above the targeted water use level, the water bill will include a notice to the customer to end all outdoor water use and that failure to comply will result in temporary loss of service. If the customer exceeds the targeted water use level in the following month, the water bill for that month will include a notice to the customer that water service will be terminated for failure to comply with the curtailment procedures imposed by the Company during supply shortages unless the customer agrees to take actions satisfactory to the Company to end unauthorized use of water. A customer's water service will not be terminated for this type of failure to comply without first receiving notice from the Company of its intent to terminate service.

If a customer does not take corrective actions satisfactory to the Company and water service is subsequently terminated and such customer believes water service was terminated in error, the customer should call the Company's local office to discuss the basis of the Company's termination of water service with a customer service representative or office manager. If a customer believes that water service was terminated improperly, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.

TERMS AND CONDITIONS:

Any customer whose service is terminated for failure to comply with the specific actions required shall not have service restored until such customer demonstrates compliance with such specific actions, satisfactory to the Company, and pays any past due water charges plus a reconnection charge as provided for in the appropriate tariff schedule.

SPECIAL PROVISIONS:

1. This curtailment plan shall become part of the Arizona Department of Environmental Quality Emergency Operations Plan for the Company.

2. The Company shall notify its customers of this new tariff as part of its next regularly scheduled billing after the effective date of the tariff or no later than sixty (60) days after the effective date of the tariff.

3. The Company shall provide a copy of the curtailment tariff to any customer, upon request.

4. If curtailment efforts do not reduce water use sufficiently and localized water shortages result, the Company will inform the customers of the availability of alternative water supplies in other areas of the Company's water system or neighboring water systems.

5. The Company shall notify the Consumer Service Section of the Utilities Division of the Arizona Corporation Commission as least twelve (12) hours prior to entering either of curtailment Stages 2, 3, or 4. The notification to the Consumer Service Section shall include the cause, present conditions, and expected duration for the water service curtailment.

MEMORANDUM

DATE: April 14, 2005

TO: Dennis Rogers
Public Utilities Analyst IV
Utilities Division

FROM: Marlin Scott, Jr. MSJ
Utilities Engineer
Utilities Division

RE: Valley Utilities Water Company, Inc.
Docket No. W-01412A-04-0849 (Financing)

Introduction

Valley Utilities Water Company, Inc. ("Company") has submitted a financing application to fund the purchase and construction of arsenic treatment plant. The Company operates a water system in the Phoenix West Valley in Maricopa County.

Existing Water System

The Company's system serves a community located within a County strip, just east of Luke Air Force Base and consists of six wells, five storage tanks, four booster stations and a distribution system serving approximately 1,250 service connections. The arsenic concentrations reported are; Well Nos. 1, 2 and 4 at 12 ppb, Well No. 3 at 7 ppb, Well No. 5 at 13 ppb and Well No. 6 at 11 ppb.

Financing Application

The Company is requesting financing approval for a $1,926,100 loan from the Water Infrastructure Finance Authority ("WIFA"). This loan is needed to finance the purchase and construction of arsenic removal equipment to meet the new arsenic standard. The cost estimate in the financing request was produced by Narasimham Consulting Services, Inc, ("Narasimham"), a consulting firm hired by the Company. Narasimham conducted an arsenic treatment study for the Company using treatment model methods presented in the Arizona Department of Environmental Quality's Arsenic Master Plan ("AMP") guidelines. A pilot study was conducted at Company Well Nos. 4, 5 and 6 from April 2003 to September 2003 and a final study report, titled "Arsenic Treatment Study – Final Report" was completed in May 2004. The study recommended using absorption media

treatment method with a total treatment system cost of $1,926,100 for treatment of five of the six wells. A breakdown cost of the arsenic treatment systems are as follows:

Capital and Operation & Maintenance ("O&M") Costs Summary

A. Arsenic Treatment Systems for Well Nos. 4, 5 and 6:

1. Capital Cost:

Residuals handling facilities	$ 28,000
Prefiltration	$ 28,000
GFH system facilities	$ 363,500
Concrete support for treatment vessels	$ 61,400
Piping, I&C, electrical, yard piping allowances	$ 207,800
Sub-total facility cost:	$ 788,700
Site aesthetics, 25%	$ 197,175
Contingency, 20%	$ 197,175
Taxes & bonding, 8.5%	$ 100,550
pH adjustment to 6.8, treatment allowance	$ 100,000
Total estimated GFH facility cost:	$1,383,600

2. Annual O&M cost: $135,400

B. Arsenic Treatment Systems for Well Nos. 1 and 2:

1. Capital Cost:

Modular treatment equipment (For 3 vessel system)	$ 500,000
Taxes & bonding, 8.5%	$ 42,500
Total facility cost:	$ 542,500

2. Annual O&M cost: $81,200

C. Summaries:

1. Total Estimated Capital Cost: $1,926,100
2. Total Estimated Annual O&M Cost: $216,600

The Company evaluated other options like blending and drilling/deepening new wells in order to meet the new arsenic standard, but due to the high arsenic concentration and its fluctuation in this particular area, treating the water source seems to be the only available solution.

Conclusion and Recommendation

Narasimham conducted an arsenic treatment study for the Company and recommended using the absorption media treatment method to reduce arsenic levels in five of the Company's six wells. Staff concludes that the arsenic treatment facilities are appropriate and the estimated capital costs and O&M costs presented herein are reasonable for purposes of this financing request.

EXHIBIT
S-2
Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION OF	)	DOCKET NO. W-01412A-04-0736
VALLEY UTILITIES WATER COMPANY INC.	)	
FOR RATE ADJUSTMENTS IN ITS WATER	)	
RATES AND FINANCING AUTHORIZATION	)	DOCKET NO. W-01412A-04-0849

DIRECT

TESTIMONY

OF

DENNIS R. ROGERS

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 11, 2005

TABLE OF CONTENTS

Page

Introduction 1

Background 2

Consumer Service 3

Engineering 3

Order of Testimony 4

Valley Utilities Water Company, Inc. 6

Summary Of Proposed Revenues 6

Rate Base 9

Fair Value Rate Base 9
Rate Base Summary 9
Rate Base Adjustment No. 2 – Working Capital Allowance 10

Operating Income 11

Operating Income Summary 11
Operating Income Adjustment No. 1 – Repairs and Maintenance; Lawn Services 11
Operating Income Adjustment No. 2 – Water Testing Expense 12
Operating Income Adjustment No. 3 – Transportation Expense. 12
Operating Income Adjustment No. 4A – Miscellaneous Expense: Recruitment Fees 13
Operating Income Adjustment No. 4B – Miscellaneous Expense: Director's 14
Operating Income Adjustment No. 4C – Miscellaneous Expenses: Telephone Expense 14
Operating Income Adjustment No. 4D – Miscellaneous Expense: Company Sign 15
Operating Income Adjustment No. 4E – Miscellaneous Expense: High School Fund Raiser 15
Operating Income Adjustment No. 4F – Miscellaneous Expense: Gym Expenses 16
Operating Income Adjustment No. 5 – Depreciation Expense 16
Operating Income Adjustment No. 6 – Property Tax Expense 17
Operating Income Adjustment No. 7 – Income Tax Expense 18

Rate Design 18

Recommendations 20

SCHEDULES

RATE APPLICATION

Revenue Requirement DRR-1
Gross Revenue Conversion Factor DRR-2
Rate Base DRR-3
Summary of Rate Base Adjustments DRR-4
Rate Base Adjustment No. 1 – Office Furniture and Equipment DRR-5
Rate Base Adjustment No. 2 – Cash Working Capital Allowance DRR-6
Income Statement – Test Year and Staff Recommended DRR-7
Summary of Operating Income Adjustments – Test Year DRR-8
Operating Income Adjustment No. 1 – Repairs and Maintenance DRR-9
Operating Income Adjustment No. 2 – Water Testing Expense DRR-10

Operating Income Adjustment No. 3 – Transportation Expense DRR-11
Operating Income Adjustment No. 4A thru 4F – Miscellaneous Expenses DRR-12
Operating Income Adjustment No. 5 – Depreciation Expense DRR-13
Operating Income Adjustment No. 6 – Property Tax Expense DRR-14
Operating Income Adjustment No. 7 – Income Tax DRR-15
Rate Design DRR-16
Minimum Monthly Charges and Commodity Rates DRR-17
Typical Bill Analysis Average and Median Usage Costs DRR-18

FINANCE APPLICATION

Financial Analysis Month 12, 2003 ..... DRR-19
Cost of Capital Summary DRR-20
Selected Financial Data Including Immediate Effects of Proposed Debt DRR-21
Calculation of Incremental Revenue Required for WIFA Loan to Preserve Cash Flow . DRR-22
Selected Financial Data With Staff Recommended Arsenic Remedial Cost Recovery .. DRR-23
Calculation of Staff Recommended ARCR Surcharge by Meter Size DRR-24
Table A – Conversion Factor Table DRR-25

ATTACHMENTS

Instructions to Calculate the Annual Surcharge Revenue Requirement ..... Table A- DRR
Consumer Services ..... MEMORANDUM

EXECUTIVE SUMMARY
VALLEY UTILITIES WATER COMPANY, INC.
WATER AND FINANCING APPLICATIONS
DOCKET NO. W-01412A-04-0736
DOCKET NO. W-01412A-04-0849

The direct testimony of Staff witness Dennis R. Rogers addresses the following issues:

Background.- Valley Utilities Water Company, Inc. ("Valley" or "Company") is a certificated Arizona based company that provides water utility service to approximately 1,189 customers in Maricopa County, Arizona.

On October 7, 2004, Valley filed an application for a permanent rate increase for its water customers comprised of a two-step phased-in rate increase to provide for adequate operating margins to cover increased capital and operating expenditures necessitated by the Environmental Protection Agency's ("EPA") mandated arsenic reduction requirements from 50 parts per billion ("ppb") to 10 ppb by January 23, 2006. The Company states that it incurred operating income of $13,138 during the Test Year ended December 31, 2003.

On November 26, 2004, Valley filed an application for authority to issue promissory notes and evidences of indebtedness in the original amount of up to $1,926,100. The Company proposes to use the proceeds of the financing to purchase or construct plant and equipment necessary to treat and remove arsenic from water produced by its existing wells.

On March 17, 2005, Valley filed a motion to consolidate the proceedings for the requests for rates and debt authorization citing interrelationships between the filings. On March 23, 2005, a Procedural Order was issued by the presiding administrative law judge granting consolidation.

The Company proposes to phase-in a rate increase of $503,453, or 60.8 percent, in two steps, increasing revenues from $827,565 to $1,331,018. In the first step, the Company requests a $100,784, or 12.19 percent, increase over test year revenues. The incremental step one revenue is intended to cover the proposed WIFA financing. Step one revenues of $928,349 would produce an operating margin of 10.0 percent, or $92,835. The Company proposes a negative $540,691 fair value rate base for step one. In step two, to be issued following the decision, the Company proposes an additional $402,669 revenue increase to cover arsenic treatment operating expenses and an adjustor mechanism with an annual true-up. Step two revenue of $1,331,018 would produce operating income of $133,102 for a 10.7 percent rate of return on a fair value rate base of $1,243,934.

Revenue Requirement – Since the Staff adjusted rate base is negative $539,804, Staff recommends that the Commission authorize a 10 percent operating margin, or $95,751. Staff's recommendation represents a $129,946, or 15.70 percent, revenue increase from $827,565 to $957,511. Staff's recommended revenue exceeds the Company's proposed step one revenue by $29,162. Staff's recommended rates would increase the typical ¾-inch residential water bill with a median usage of 7,500 gallons, from $28.00 to $31.76, for an increase of $3.76 or 13.45 percent.

Financing - Staff further recommends that the Commission authorize the proposed WIFA loan in the amount of $1,926,100 for the construction of arsenic treatment facilities.

Arsenic Remediation Surcharge Mechanism - Staff further recommends that the Commission approve an Arsenic Remediation Surcharge Mechanism ("ARSM"). The ARSM provides a framework for establishing a surcharge to service new debt and related income tax expense. The ARSM requires the Company to make a separate filing for Commission consideration before a surcharge becomes effective. The ARSM facilitates the Company securing a WIFA loan and estimates the surcharge necessary to service the loan and preserve the Company's cash flow. The ARSM is consistent with the mechanism previously authorized by the Commission in Decision No. 76163, dated August 10, 2003, for Mountain Glen Water Services, Inc. The monthly surcharge for the typical 3/4-inch customer would be approximately $10.06.

Equity - Staff further recommends that the Company file a plan for approval by Staff to progressively increase its equity position on an annual basis until equity represents 40 percent of total capital.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Dennis R. Rogers. I am a Public Utilities Analyst IV employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst IV.

A. I am responsible for the examination and verification of financial and statistical information included in utility rate applications, developing revenue requirements, designing rates, preparing written reports and/or testimonies and related schedules that present Staff's recommendations to the Commission. I am also responsible for testifying at formal hearings on these matters.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Business Administration with an emphasis in Accounting from Arizona State University.

I have participated in multiple rate, financing and other regulatory proceedings. I attended the National Association of Regulatory Utility Commissioners Utilities Rate School, and have attended seminars and courses in utility regulation and utility accounting and finance.

I began employment with the Commission as a utilities regulatory analyst in May 2001. Prior to joining the Commission, I worked at the Department of Revenue in the Taxpayer Assistance Section.

Q. What is the scope of your testimony in this case?

A. I am presenting Staff's analysis and recommendations regarding Valley Utilities Water Company, Inc.'s ("Valley" or "Company") consolidated applications for a permanent rate increase and financing approval in the areas of rate base, operating income, revenue requirement, and rate design. Staff witness Mr. Marlin Scott Jr. is presenting Staff's engineering analysis and recommendations. Staff member Bradley Morton was responsible for the Consumer Services Report (Attachment C).

Q. What is the basis of Staff's recommendations?

A. I performed a regulatory audit of Valley's application and records. The regulatory audit consisted of examining and testing financial information, accounting records, and other supporting documentation and verifying that the accounting principles applied were in accordance with the Commission adopted National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").

BACKGROUND

Q. Please review the background of this application.

A. Valley is a certificated Arizona-based company that provides water utility service in Maricopa County, Arizona. The Company served approximately 1,189 water customers during the Test Year ended December 31, 2003.

On October 7, 2004, Valley filed an application for a permanent rate increase. On November 12, 2004, Staff filed a letter declaring the application sufficient. On November 26, 2004, Valley filed an application for the approval for the issuance of promissory note(s) and other evidences of indebtedness in the original amount of up to $1,926,100 to be used for facilities required to meet the new Environmental Protection Agency's

("EPA") mandated arsenic reduction from 50 parts per billion to 10 parts per billion by January 2006.

On March 17, 2005, Valley filed a Motion to Consolidate the proceedings for the requests for rates and debt authorization. On March 23, 2005, a Procedural Order was issued granting Valley's request for consolidation.

CONSUMER SERVICE

Q. Please provide a brief history of customer complaints, customer responses to the proposed rate increase, the Company's corporate standing with the Corporations Division and government impositions.

A. Staff reviewed the Commission's records and found four complaints during the past three years. 2002 – One complaint – customer didn't request a transfer of service from builder, service was disconnected. Company billed after hours installation charges, which the builder split with the customer. The customer was satisfied. 2003 – Zero complaints. 2004 – Three complaints – 1. One customer questioned high costs for mainline and arsenic treatment. 2. One customer questioned meter re-read charge on his bill. 3. One customer was disconnected for an insufficient funds check. The Company is in good standing with Corporations Division. The Company is current on all property and sales taxes.

ENGINEERING

Q. Is the Company meeting water quality and conservation requirements?

A. The Company is currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4. The Company is located within the Arizona Department of Water Resources Phoenix Active Management Area ("AMA") and is in compliance with the AMA reporting and conservation requirements.

ORDER OF TESTIMONY

Q. Briefly summarize how your testimony is organized.

A. My testimony is organized to first present Staff's analysis and recommendations for the rate increase application followed by an analysis and recommendation concerning Valley's financing applications, including a recommended Arsenic Remediation Surcharge Mechanism. Following these discussions is a complete set of schedules.

RATE INCREASE

VALLEY UTILITIES WATER COMPANY, INC.

Q. Please review the background of the Valley Utilities Water Company, Inc.

A. Valley's provides service to approximately 1,189 customers in Maricopa County, Arizona. Its current rates were approved in Decision No. 62908, dated September 18, 2000. That order authorized a revenue requirement of $432,301 on a negative $292,898 rate base.

Q. What are the primary reasons stated by the Company for requesting both a permanent rate increase and a financing authorization?

A. The Company's application states that since its last rate case "... the Company has made significant investments in plant, and various operating expenses have increased."[1] "Consequently, rate increases are necessary to ensure that the Company has the ability to service debt related to the new arsenic treatment plant, recover arsenic treatment costs, as well as opportunity to earn a fair return on the fair value of its utility plant and property devoted to public service."[2] The Company proposes funding via the Water Infrastructure Financing Authority of Arizona ("WIFA") for the necessary capital improvements.

SUMMARY OF PROPOSED REVENUES

Q. Please summarize the Company's filings.

A. The Company proposes to phase-in a rate increase of $503,453, or 60.8 percent, in two steps increasing revenues from $827,565 to $1,331,018. In the first step, the Company requests a $100,784, or 12.19 percent, increase over test year revenues. The incremental step one revenue is intended to cover the proposed WIFA financing. Step one revenues of $928,349 would produce an operating margin of 10.0 percent, or $92,835. The Company proposes a negative $540,689 fair value rate base for step one. In step two, twelve months later, the Company proposes an

[1] W-01412A-04-0736 Prefiled Testimony Thomas Bourassa, Exhibit C, page 4.
[2] Id. Page 4

additional $402,669 revenue increase to cover arsenic treatment operating expenses and an adjustor mechanism with an annual true-up. Step two revenue of $1,331,018 would produce operating income of $133,102 for a 10.7 percent rate of return on a fair value rate base of $1,243,934.

Q. Please summarize Staff's recommended revenue.

A. Since the Staff adjusted original cost rate base is negative $539,804, Staff recommends that the Commission authorize a 10 percent operating margin, or $95,751. A rate of return calculation is not meaningful on a negative rate base. Staff's recommendation represents a $129,946, or 15.70 percent, revenue increase from $827,565 to $957,511.

Q. Please summarize the rate base and operating income recommendations and adjustments addressed in your testimony.

A. My testimony addresses the following issues:

Cash Working Capital Allowance – This adjustment increases Cash Working Capital Allowance by $114. This adjustment reflects application of the formula method to Staff adjusted test year expenses.

Repairs and Maintenance – This adjustment removes $1,113 or 50 percent of the Company's lawn care service to allocate the costs applicable to the business and the shareholder's home.

Water Testing Costs – This adjustment increases water testing expense by $2,415 to reflect a normalized amount.

Transportation Expense – This adjustment decreases expenses by $12,799 to remove non-recurring costs due to the acquisition of a vehicle to replace the one previously leased.

Recruitment Expenses – This adjustment decreases expenses by $4,850 to remove non-recurring recruitment expenses.

Director's Fees – This adjustment decreases expenses by $9,000 to reflect a normalized amount.

Telephone Expense – This adjustment decreases telephone expenses by $590 to reflect the removal of non-business related long distance calls.

Company Sign – This reclassifies $773 from expense to plant for the cost to purchase a company sign.

High School Fund Raiser – This adjustment decreases Miscellaneous Expenses by $250 to reflect the removal of high school fund raiser activities, a cost unnecessary for the provision of service.

Gym Expense – This adjustment decreases miscellaneous expenses by $1,613 to reflect removal of personal gym expenses.

Depreciation Expense – This adjustment increases depreciation expenses by $49 to reflect the reclassification of a company sign for $773 from expense to plant in service.

Property Taxes – This adjustment increases Property Tax Expense by $423 to reflect Staff recommended revenues.

Income Tax Expense – This adjustment increases Test Year Income Tax Expense by $28,270 to reflect application of statutory state and federal income tax rates to Staff's taxable income.

RATE BASE

Fair Value Rate Base

Q. Has the Company prepared a schedule showing the elements of Reconstruction Cost New Rate Base ("RCND")?

A. No. The Company requested to waive the RCND schedule filing requirement. Therefore, Staff evaluated the original cost rate base as the fair value rate base ("FVRB").

Rate Base Summary

Q. Please summarize Staff's adjustments to the rate base shown on Schedule DRR-4.

A. Staff's adjustments to the rate base resulted in a net increase of $887, from a negative $540,691 to a negative $539,804. This decrease reflects capitalization of an erroneously recorded expense and an increase to the Cash Working Capital Allowance resulting from application of the formula method to Staff's recommended operating expenses.

Rate Base Adjustment No. 1 – Company Sign

Q. Did the Company properly record the costs it incurred to acquire a new sign for its offices?

A. No. The Company paid $773 for a new sign for customer display in front of its offices. The Company recorded the expenditure as an expense. Under the USOA, the transaction

should have been capitalized as plant in service. As a result, the Company's test year expenses are overstated and its plant and depreciation expense are understated.

Q. What adjustments does Staff recommend to correct the error?

A. Office Furniture and Equipment should be increased by $773 and Miscellaneous Expense decreased by $773. Depreciation Expense should increase by $49 to recognition depreciation on the capitalized cost, and Accumulated Depreciation should be adjusted to reflect the addition using the half-year convention[3]. Staff adjustments are shown on Schedules DRR-3, DRR-4, DRR-8, DRR-12 and DRR-13.

Rate Base Adjustment No. 2 – Working Capital Allowance

Q. What is the Company proposing for Working Capital Allowance?

A. Valley is proposing a Working Capital Allowance composed of $26,800 for Supplies Inventory and $72,885 for Cash Working Capital using the formula method for a total Working Capital Allowance of $99,685.

Q. Does Staff agree with the Company's proposed amount for a Cash Working Capital Allowance?

A. Staff agrees with the Company's use of the formula method to calculate a Cash Working Capital; however, Staff recommends a different amount due to its different recommended amounts for certain operating expenses. Staff's calculation of cash working capital allowance is shown on Schedule DRR-5. Staff's calculation of cash working capital is $72,999 or $114 more than the $72,885 proposed by the Company.

[3] The adjustment to Accumulated Depreciation is de minimus.

Q. What is Staff recommending?

A. Staff recommends a Working Capital Allowance of $99,799 to reflect Staff's adjustments to Test Year expenses as shown on Schedule DRR-3.

OPERATING INCOME

Operating Income Summary

Q. What are the results of Staff's analysis of Test Year revenues, expenses and operating income?

A. As shown on Schedules DRR-7 and DRR-8 Staff's analysis resulted in Test Year revenues of $827,565, expenses of $814,662 and an operating income of $12,903.

Operating Income Adjustment No. 1 – Repairs and Maintenance; Lawn Services

Q. What is the Company proposing for Lawn Service Costs?

A. The Company is proposing $2,226 for Lawn Service Costs.

Q. Does the Lawn Service expensed by the Company provide services for both the Company and the attached private residence?

A. Yes. The Company's offices are located within the shareholder's domicile. The front of the house serves as a drive up for customers conducting business at the walk-up window. It is appropriate that the customers pay for only that portion of the lawn service charges that directly benefit that area.

Q. What is Staff recommending?

A. Staff recommends removing one-half of the Test Year service costs resulting in a decrease of $1,113 in operating expenses as shown on Schedules DRR-8 and DRR-9

Operating Income Adjustment No. 2 – Water Testing Expense

Q. Did Staff determine a normalized level for Water Testing Expenses?

A. Yes. Since the level of required testing varies between years, water testing expense should be normalized. Staff's calculation of normalized water testing expense of $4,014 is presented in Exhibit MSJ-A, Page 4 of the testimony of Staff witness Mr. Marlin Scott, Jr.

Q. How much Water Testing Expenses did the Company incur for the Test Year?

A. The Test Year Water Testing Expenses were $1,599.

Q. What is Staff recommending?

A. Staff recommends increasing Water Testing Expenses by $2,415, from $1,599 to $4,014 as shown on Schedules DRR-8 and DRR-10.

Operating Income Adjustment No. 3 – Transportation Expense.

Q. Does the Company's Transportation Expense include non-arm's length transactions between the Company and its shareholder?

A. Yes. The Company's transportation expenses included charges for a leased vehicle that was purchased by the shareholder and leased back to the Company.

Q. Are the lease payments for this vehicle continuing in the future?

A. No. The Company is no longer leasing this vehicle. The Company has purchased a vehicle to replace the leased vehicle, and the purchased vehicle is included in rate base.

Q. Does the Company's Transportation Expense include out-of-test year costs?

A. Yes. The Company paid for a two-year registration for a vehicle during the test year and has included the entire amount in test year expenses.

Q. Should the registration cost for two years be included in rates?

A. No. Allowing the registration for two years in cost of service overstates average cost and allows the Company to double recover. The Company's accounting is inconsistent with that prescribed by the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA"). The proper accounting is to accrue one-twenty-fourth of the vehicle registration fee each month. For rate-making purposes an annualized amount, or twelve payments, should be recognized.

This adjustment decreases expenses by $12,799 to remove non-recurring costs due to the acquisition of a truck to replace the one previously leased.

Q. What does Staff recommend?

A. Staff recommends removing these non-recurring lease payments paid to the Company's shareholder and removing one-half of the registration fee for a total disallowance of $12,799 as shown on Schedule DRR-8 and DRR-11.

Operating Income Adjustment No. 4A – Miscellaneous Expense: Recruitment Fees

Q. Did the Company incur any one-time recruitment expenses during the test year?

A. Yes. The Company has provided Staff with documentation showing that it incurred $4,850 in recruitment expenses for a key employee such as air fare, meals, and moving expenses during the Test Year.

Q. What is Staff recommending?

A. Staff recommends decreasing Miscellaneous Expenses by $4,850 for non-recurring recruitment expenses during the Test Year as shown on Schedules DRR-8 and DRR-12.

Operating Income Adjustment No. 4B – Miscellaneous Expense: Director's

Q. What is the Company proposing for Director's Fees?

A. The Company is proposing its actual paid and recorded Test Year amount.

Q. Were the Director's Fees paid during the Test Year only for the Test Year services?

A. No. The Company paid director's fees in the test year as a catch up for previous years as well advances for future services.

Q. What is the proper accounting and rate-making treatment for recording expenses?

A. Under the USOA expense should be recognized in the period incurred regardless of the period paid, that is, accrual accounting is required. For rate-making purposes, only on-going average cost should be recognized. Therefore, only the expenses incurred in the test year should be recognized.

Q. What is Staff recommending?

A. Staff recommends decreasing Director Fees expenses by $9,000, from $12,500 to $3,500 as shown on Schedules DRR-8 and DRR-12 to allow a normalized amount for Directors Fees.

Operating Income Adjustment No. 4C – Miscellaneous Expenses: Telephone Expense

Q. Did the Company record some Telephone Expenses that were not business related?

A. Yes. The Company recorded some long distance employee personal calls and did not propose a pro forma adjustment to remove these non-utility costs. The Company's claimed costs are inappropriate for rate-making, and, again, the Company has not followed the USOA for recording transactions.

Q. What is Staff recommending?

A. Staff recommends removing $590 of identified long distance Telephone Expenses that were not utility related as shown on Schedules DRR-8 and DRR-12.

Operating Income Adjustment No. 4D – Miscellaneous Expense: Company Sign

Q. Did the Company properly record costs it incurred to acquire a new sign for its offices?

A. No. As previously discussed the Company expensed instead of capitalizing the $773 cost for a new sign for customer display in front of its offices. As a result, the Company's test year expenses are overstated by $773.

Q. What is Staff recommending for Miscellaneous Expense to correct the error?

A. Staff recommends decreasing Miscellaneous Expense decreased by $773 as shown Schedules DRR-8 and DRR-12.

Operating Income Adjustment No. 4E – Miscellaneous Expense: High School Fund Raiser

Q. Did the Company include miscellaneous expenses for a high school fund raiser that it sponsored in its revenue requirement?

A. Yes. The Company's application requests recovery of $250 for a high school fund raiser that it sponsored.

Q. Did the Company record this expense in accordance with the USOA?

A. No. The Company recorded this cost in the Miscellaneous Expense account. The proper account for recording this cost is Miscellaneous Nonutility Expenses. This is an expense that is not necessary for the provision of service, and it should not be included in the

revenue requirement. A Company representative agreed that this was cost an inadvertent charged to the Company.

Q. What does Staff recommend?

A. Staff recommends that Miscellaneous Expenses be reduced by $250 for the fund raising payment as shown on Schedules DRR-8 and DRR-12.

Operating Income Adjustment No. 4F – Miscellaneous Expense: Gym Expenses

Q. Does the Company's application request recovery of Gym Membership Expenses for its employees?

A. Yes. The Company revenue requirement includes $1,613 recorded for Gym Membership Expenses during the Test Year.

Q. Does employee Gym Membership Expenses represent costs that should be paid for by its customers?

A. No. Gym Membership Expenses are not necessary for the provision of service, and they should not be included in the revenue requirement.

Q. What does Staff recommend?

A. Staff recommends that Miscellaneous Expenses be reduced by $1,613 to reflect the removal of personal expenses shown on Schedules DRR-8 and DRR-12.

Operating Income Adjustment No. 5 – Depreciation Expense

Q. What is the Company proposing for Depreciation Expense?

A. The Company is proposing $151,017 for Depreciation Expense.

Q. What is Staff recommending concerning Depreciation Expense?

A. Staff recommends increasing Test Year Depreciation Expense by $49 from $151,017 to $151,066 to account for the cost ($773) of the sign transfer from expense to plant in service.

Operating Income Adjustment No. 6 – Property Tax Expense

Q. What is the Company proposing for the Property Tax Expense?

A. The Company is proposing $48,258 for Property Tax Expense.

Q. How did the Company determine this amount?

A. The Company used a modified version of the Arizona Department of Revenue ("ADOR") method. The Company's modified method uses a three-year revenue figure which is the average of two times the Company's Test Year adjusted revenues for the year ending December 31, 2003, and the Company's proposed revenues. This calculation is shown on Schedule C-2, Step 1, Page 3 of the Company's filing.

Q. What method does Staff recommend for calculating Property Tax Expense?

A. Staff recommends a modified version of the ADOR Method that is the same as the Company's. This is a method originally devised by Staff, and the Commission has adopted this method in previous decisions.

Q. What Property Tax Expense results from applying this method and using Staff's recommended revenue?

A. The resulting Staff recommended property tax expense is $48,681 or $423 greater than the $48,258 proposed by the Company. Calculation of the adjustment and recommended tax are shown on Schedules DDR-8 and DRR-14.

Operating Income Adjustment No. 7 – Income Tax Expense

Q. What is the Company proposing for the Income Tax Expense?

A. The Company is proposing a negative $804 Income Tax Expense for the Test Year.

Q. What is Staff recommending for test year Income Tax Expense?

A. Staff recommends test year Income Tax Expense of $7,165. Staff's calculation is based on application of the statutory state and federal income tax rates to Staff's adjusted taxable income. Staff's calculation results in an adjustment to increase test year Income Tax Expense by $28,270 from a negative $21,270 to $7,165 as shown on Schedules DRR-8 and DRR-15.

RATE DESIGN

Q. Please summarize the present rate design.

A. The present monthly customer charges vary by meter size as follows: 5/8 x ¾ inch $9.60; ¾-inch, $14.50; 1-inch, $24.00; 1½ -inch, $48.00; 2-inch, $77.00; 3-inch, $144.00; 4-inch, $240.00; and 6-inch, $250.00. No gallons are included in the customer charge. The present commodity rate is $1.80 per 1,000 gallons for all consumption up to 25,000 gallons and $2.20 per 1,000 gallons for all consumption greater than 25,000 gallons. A flat rate of $2.60 per 1,000 gallons applies to 3-inch meters for commercial construction.

Q. Please summarize the Company's proposed step one rate design.

A. The Company's proposed step one monthly customer charges by meter size are as follows: 5/8 x ¾-inch, $10.37; ¾-inch, $15.66; 1-inch, $25.92; 1½-inch, $51.85; 2-inch, $83.18; 3-inch, $155.55; 4-inch, $259.25 and 6-inch, $518.50. No gallons are included in the customer charge. The Company proposes a three tier commodity rate with breakover points that graduate by meter size. The first, second, and third tier rates are $1.98, $2.42,

and $2.662 per 1,000 gallons, respectively. A flat rate of $2.86 per 1,000 gallons is proposed for 3-inch meters for commercial construction.

Q. Please summarize the Company's proposed step two rate design.

A. The Company's proposed step two monthly customer charges by meter size are as follows: 5/8 x ¾-inch, $14.16; ¾-inch, $21.38; 1-inch, $35.38; 1½-inch, $70.78; 2-inch, $113.54; 3-inch, $212.33; 4-inch, $353.88 and 6-inch, $707.75. No gallons are included in the customer charge. The Company proposes a three tier commodity rate with break over points that graduate by meter size. The first, second, and third tier rates are $2.9440, $3.5990, and $3.9580 per 1,000 gallons, respectively. A flat rate of $4.2530 per 1,000 gallons is proposed for 3-inch meters for commercial construction.

Q. Please summarize Staff's recommended rate design.

A. Staff recommends an inverted tier rate structure that includes three tiers for the residential 5/8 x ¾-inch and ¾-inch meter customers and two tiers for all others. The additional tier for the residential 5/8 x ¾-inch and ¾-inch meters is for the first 3,000 gallons. Except for the 3,000 gallon breakover point, breakover points graduate by meter size. Staff's recommended rates acknowledge water use patterns by meter size and in total to encourage efficient consumption. Efficient water use is encouraged by producing a higher customer bill with increased consumption or a larger meter. Staff's recommended rates are presented on Schedules DRR-16 and DRR-17. Typical bills for average and median use under present, Company proposed, and Staff recommended rates are presented on Schedule DRR-18.

Q. What is the rate impact on a 3/4-inch meter residential customer using a median consumption of 7,500 gallons?

A. As shown on the Typical Bill Analysis Schedule DRR-18, a residential 3/4-inch meter customer with median consumption of 7,500 gallons would experience a $3.76, or 13.45 percent increase in his/her monthly bill from $28.00 to $31.76 under Staff's recommended rates.

RECOMMENDATIONS:

Q. What is Staff recommending?

A. Staff recommends that the Commission authorize a 10 percent operating margin. Staff recommended operating margin of 10 percent would require a revenue increase of $129,946 or 15.70 percent, from $827,565 to $957,511. Staff's recommended rates would increase the typical ¾-inch residential water bill with a median usage of 7,500 gallons, from $28.00 to $31.76, for an increase of $3.76 or 13.45 percent.

Staff further recommends that the Company make all reasonable efforts to institute operating policies that would remove any and all transactions between Company and its owners that are not arms length transactions.

Staff further recommends that the Company institute a plan that would produce a positive equity position by December 31, 2010. This plan should be filed with Docket Control within 90 days from the date of the Commission's decision.

Staff recommends adoption of the Company's Proposed Service Line and Meter Installation Charges.

Staff recommends that the Company file a curtailment tariff within 45 days after the effective date of any decision and order pursuant to this application. The tariff shall be filed with Docket Control as a compliance item in this case for Staff review and certification.

FINANCING APPLICATION

Q. Did Staff conduct an analysis of the Company's request for authorization to borrow $1,926,100 from the Water Infrastructure Finance Authority of Arizona ("WIFA") to purchase and/or construct arsenic removal facilities?

A. Yes. Staff analysis is presented below:

Introduction

On November 26, 2004, Valley Utilities Water Company, Inc. ("Valley Utilities" or "Applicant") filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to borrow $1,926,100 from the Water Infrastructure Finance Authority of Arizona ("WIFA") to purchase and/or construct arsenic removal equipment.

Notice

Valley Utilities notified its customers by mailing to each customer a notification on February 9, 2005. A copy of this notice is attached.

Background

On January 23, 2001, the Environmental Protection Agency ("EPA") reduced the drinking water maximum contaminant level of arsenic from 50 parts per billion ("ppb") to 10 ppb. All community water systems and non-transient non-community water systems need to comply with the new federal rule by the January 23, 2006 deadline.

Purpose of the Financing

The purpose of the $1,926,100 loan from WIFA is to provide Valley Utilities with sufficient funds to purchase/construct the necessary arsenic removal equipment to comply with the federal arsenic rule.

The Applicant obtained the services of the Narasimham Consulting Services, Inc. to develop details of the necessary construction projects. The actual amount to purchase and/or construct arsenic removal equipment may be higher or lower than the amount that the Applicant is seeking to finance.

Engineering Conclusions

Staff concludes that the arsenic treatment facilities being proposed in this financing application are appropriate and recommends that the estimated capital costs and operation and maintenance costs be used for purposes of processing the financing request.

Description of the Proposed Financing

The term of the proposed $1,926,100 WIFA loans is 20 years. The maximum interest rate chargeable is the prime rate plus 200 basis points. WIFA will require that the assets of Valley Utilities serve as collateral for the loan. WIFA sets the interest rate the Wednesday before a loan closing. Debt service coverage ("DSC") of at least 1.2 is required for a loan. Payments on the loan begin six months after WIFA provides the monies to the Applicant. Monthly payments on the loan comprise both principal and interest. WIFA initially calculates the monthly payment based on the maximum amount of the loan independently

of the amount of the first draw down. WIFA may adjust the monthly payment amounts if the borrower ends up requiring a total amount less than the maximum amount of the loan.

Financial Analysis

The financial analysis is based on Staff's proposed rates in the accompanying rate proceeding. Schedule DRR-21, attached, presents selected financial information reflecting Staff's recommended rates and pro forma information reflecting the inclusion of the estimated $1,926,100 WIFA loans at 5 percent per annum. Valley Utilities Water Company's capital structure before the WIFA loans is composed of 100.0 percent negative equity. The Applicant's capital structure after the WIFA loans would be composed of 6.3 percent short-term debt, 121.1 percent long-term debt, and 27.3 percent negative equity.

The debt service coverage ratio represents the number of times internally generated cash will cover required principal and interest payments on long-term debt. A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations.

The times interest earned ratio ("TIER") represents the number of times earnings will cover interest expense on a long-term debt. A TIER greater than 1.0 means that operating income is greater than interest expense.

Schedule DRR-21, column B, shows that the pro forma effect on Valley's financial ratios of obtaining a $1,926,100 WIFA loan at an interest rate of 5.0 percent and implementation of Staff's recommended permanent rates is to produce a TIER of 1.58 and a DSC of 1.86. Column C, shows the pro forma effect of an annual surcharge providing sufficient revenue

to maintain the Applicant's pre-loan cash flow. The surcharge revenue improves DSC from 1.86 to 3.07 and TIER from 1.58 to 3.53.

Calculation of the required additional cash flow to maintain the Applicant's pre-loan cash flow is shown on Schedule DRR-22. The Applicant would need $185,247 of incremental revenue composed of $94,998 for interest expense, $57,539 for principal and $32,710 for income taxes on that incremental revenue to maintain its pre-loan cash flow.

The Applicant's proposed loan exacerbates the Applicant's negative equity with a debt burden, an undesirable event. However, there are no other known options for Valley Utilities to finance the purchase/construction of the arsenic removal equipment required to comply with the EPA's maximum contaminant level. Non-compliance may result in delivery of unsafe water and other consequences that may have detrimental operational and financial impacts on the Applicant. A mitigating factor is that the pro forma ratio DSC and TIER indicate that Valley Utilities would have adequate earnings and cash flows to meet all obligations.

Compliance

There were no compliance issues at the Commission with the Applicant as of April 26, 2005.

Conclusion and Recommendations

Staff concludes that the purchase and/or construction of arsenic removal equipment is necessary for Valley Utilities to comply with the federal rule that requires reducing the arsenic level in the drinking water to a maximum of 10 ppb by January 23, 2006.

Staff concludes that its recommended permanent rates are intended to provide an operating margin to enable the Company to turn around its negative equity position and is insufficient to meet additional debt service obligations of the proposed WIFA debt.

Staff concludes that the issuance of an estimated $1,926,100 debt on the terms described in the filing would result in the Applicant having a higher than normal leveraged capital structure. However, Staff also recognizes that there are no other known options for Valley Utilities to finance the purchase/construction of the necessary arsenic removal equipment to deliver safe drinking water. Not complying with the federal arsenic rule may have detrimental operational and financial impacts on the Applicant.

Staff recommends that Valley Utilities file in Docket Control an arsenic removal surcharge tariff application that would enable the Applicant to meet its principal and interest obligations on the proposed WIFA loan and income taxes on the surcharge.

Staff recommends that the Applicant follow the same methodology presented in Table A - DRR to calculate the incremental revenue needed to meet its interest, principal and incremental income tax obligations on the WIFA loan using actual loan amounts and use the result to develop its arsenic removal surcharge tariff application. The increase in revenue calculation should be included in the arsenic removal surcharge tariff application.

Staff recommends approval of Valley Utilities' request for authorization to obtain financing on the terms and conditions described in the application with the understanding that the Commission will subsequently also consider an arsenic removal surcharge to enable the Applicant to meet its principal and interest obligations on the proposed WIFA loan, and incremental income taxes on the surcharge.

Staff further recommends ordering Valley Utilities to provide to the file in Docket Control copies of its calculation of revenue requirement for principal and interest obligations on the WIFA loan and incremental income taxes on the surcharge within 60 days after the loan agreement is signed by both WIFA and the Applicant.

Staff further recommends authorizing the Applicant to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends ordering Valley Utilities to provide to the Utilities Division Compliance Section copies of all executed financing documents within 60 days after the loan agreement is signed.

Staff further recommends that the Company be denied using any portion of the loan to pay for incurred operating or other expenses.

Q. Does this conclude your testimony?

A. Yes, it does.

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
DIRECT TESTIMONY OF DENNIS R. ROGERS

TABLE OF CONTENTS TO SCHEDULES DRR

SCH #	TITLE
DRR-1	Revenue Requirement
DRR-2	Gross Revenue Conversion Factor
DRR-3	Fair Value Rate Base - Original Cost
DRR-4	Summary of Rate Base Adjustments
DRR-5	Rate Base Adjustment #1- Office Furniture and Equipment
DRR-6	Rate Base Adjustment #2- Cash Working Capital Allowance
DRR-7	Operating Income - Test Year
DRR-8	Summary of Operating Income Adjustments - Test Year
DRR- 9	Operating Adjustment #1 - Repairs and Maintenance
DRR-10	Operating Adjustment #2 - Water Testing Expense
DRR-11	Operating Adjustment #3 - Transporation Expense
DRR-12	Operating Adjustment #4A - Recruitment Fees
DRR-12	Operating Adjustment #4B - Diretors Fees
DRR-12	Operating Adjustment #4C - Telephone Expenses
DRR-12	Operating Adjustment #4D - Company Sign
DRR-12	Operating Adjustment #4E - High School Fund Raiser
DRR-12	Operating Adjustment #4F - Gym Expenses Raiser
DRR-13	Operating Adjustment #5 - Depreciation Expense
DRR-14	Operating Adjustment #6 - Property Tax Expense
DRR-15	Operating Adjustment #7 - Income Taxes
DRR-16	Rate Design
DRR-17	Minimum Monthly Charges and Commodity Rates
DRR-18	Typical Bill Analysis
DRR-19	Financial Analysis Month 12, 2003
DRR-20	Cost of Capital Summary
DRR-21	Selected Financial Data Including Immediate Effects of Proposed Debt
DRR-22	Calculation of Incremental Required for Wifa Loan to Preserve Cash Flow
DRR-23	Selected Financial Data Including Immediate Effects of Proposed Debt With Staff Recommended ARCM
DRR-24	Calculation of Staff Recommended ARCM Surcharge by Meter Size
DRR-25	Table A - Conversion Factor Table

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) PHASE ONE COMPANY ORIGINAL COST FAIR VALUE	(B) PHASE TWO COMPANY ORIGINAL COST FAIR VALUE	(C) STAFF ORIGINAL COST FAIR VALUE
1	Adjusted Rate Base	$ (540,691)	$ 1,243,934	$ (539,804)
2	Adjusted Operating Income (Loss)	$ 13,138	$ (185,317)	$ 12,903
3	Current Rate of Return (L2 / L1)	N/A	-14.90%	N/A
4	Required Rate of Return	N/A	N/A	N/A
5	Required Operating Income	$ 92,835	$ 133,102	$ 95,751
6	Operating Income Deficiency (L5 - L2)	$ 79,697	$ 318,419	$ 82,848
7	Gross Revenue Conversion Factor	1.26459	1.2646	1.56848
8	Required Revenue Increase (L7 * L6)	$ 100,784	$ 402,669	**$ 129,946**
9	Adjusted Test Year Revenue	$ 827,565	$ 928,349	$ 827,565
10	Proposed Annual Revenue (L8 + L9)	$ 928,349	$ 1,331,018	$ 957,511
11	Required Increase in Revenue (%)	12.18%	43.37%	15.70%
12	Rate of Return on Common Equity (%)	N/A	N/A	N/A

References:
Column (A): Company Schedules A-1, A-2, & D-1
Column (B): Company Schedules A-1 Step 2, C-1 Step 2, & B-1 Step 2
Column (B): STAFF Schedules DRR-2, DRR-3, DRR-7

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17)	36.2442%			
5	Subtotal (L3 - L4)	63.7558%			
6	**Revenue Conversion Factor (L1 / L5)**	1.568484			
	Calculation of Uncollecttible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	36.2442%			
9	One Minus Combined Income Tax Rate (L7 - L8)	63.7558%			
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	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 44)	31.4689%			
16	Effective Federal Income Tax Rate (L14 x L15)	29.2762%			
17	Combined Federal and State Income Tax Rate (L13 +L16)	36.2442%			
18	Required Operating Income (Schedule DRR-1, Line 5)	$ 95,751			
19	Adjusted Test Year Operating Income (Loss) (Schedule DRR-7, Line 51)	$ 12,903			
20	Required Increase in Operating Income (L18 - L19)		$ 82,848		
21	Income Taxes on Recommended Revenue (Col. (D), L43)	$ 54,262			
22	Income Taxes on Test Year Revenue (Col. (B), L43)	$ 7,165			
23	Required Increase in Revenue to Provide for Income Taxes (L21 - L22)		$ 47,098		
24	Recommended Revenue Requirement (Schedule DRR-1, Line 10)	$ 957,511			
25	Uncollectible Rate (Line 10)	0.0000%			
26	Uncollectible Expense on Recommended Revenue (L24 * L25)	$ -			
27	Adjusted Test Year Uncollectible Expense	$ -			
28	Required Increase in Revenue to Provide for Uncollectible Exp. (L26 - L27)		$ -		
29	Total Required Increase in Revenue (L20 + L23 + L28)		$ 129,946		
	Calculation of Income Tax:	Test Year		STAFF Recommended	
30	Revenue (Schedule DRR-9, Col. (C), Line 5 & Sch. DRR-1, Col. (B), Line 10)	$ 827,565		$ 957,510	
31	Operating Expenses Excluding Income Taxes	$ 793,322		$ 793,322	
32	Synchronized Interest (L47)	$ -		$ -	
33	Arizona Taxable Income (L30 - L31 - L32)	$ 34,243		$ 164,188	
34	Arizona State Income Tax Rate	6.9680%		6.9680%	
35	Arizona Income Tax (L33 x L34)		$ 2,386		$ 11,441
36	Federal Taxable Income (L33 - L35)	$ 31,857		$ 152,747	
37	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ 4,779		$ 7,500	
38	Federal Tax on Second Income Bracket ($51,001 - $75,000) @ 25%	$ -		$ 6,250	
39	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -		$ 8,500	
40	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -		$ 20,571	
41	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -		$ -	
42	Total Federal Income Tax		$ 4,779		$ 42,821
43	Combined Federal and State Income Tax (L35 + L42)		$ 7,165		$ 54,262
44	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				31.4689%
	Calculation of Interest Synchronization:				
45	Rate Base (Schedule DRR-3, Col. (C), Line 17)	$ (539,804)			
46	Weighted Average Cost of Debt (Schedule DRR-19, Col. TP, L1 + L2)	0.00%			
47	Synchronized Interest (L45 X L46)	$ -			

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-3

FAIR VALUE RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED PHASE ONE	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 4,302,296	$ 773	$ 4,303,069
2	Less: Accumulated Depreciation	1,391,574	-	1,391,574
3	Net Plant in Service	$ 2,910,722	$ 773	$ 2,911,495
	LESS:			
4	Contributions in Aid of Construction (CIAC)	$ 494,098	$ -	$ 494,098
5	Less: Accumulated Amortization	170,500	-	170,500
6	Net CIAC	323,598	-	323,598
7	Advances in Aid of Construction (AIAC)	3,180,501	-	3,180,501
8	Customer Deposits	46,999	-	46,999
9	Meter Advances	-	-	-
10	Deferred Income Tax Credits	-	-	-
	ADD:			
11	Cash Working Capital	72,885	114	72,999
12	Prepayments	-	-	-
13	Supplies Inventory	26,800	-	26,800
14	Projected Capital Expenditures	-	-	-
15	Deferred Debits	-	-	-
16	Intentionally left blank	-	-	-
17	**Original Cost Rate Base**	$ (540,691)	$ 887	**$ (539,804)**

References:
Column (A), Company Schedule B-1
Column (B): Schedule DRR-4
Column (C): Column (A) + Column (B)

SUMMARY OF FAIR VALUE ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED PHASE ONE	[B] ADJ #1	[C] ADJ #2	[D] STAFF ADJUSTED
	PLANT IN SERVICE:			Company Sign	Cash Working Capital	
1		**Intangible Plant**				
2	301.00	Organization	$ -	$ -	$ -	$ -
3	302.00	Franchises	-	-	-	-
4	303.00	Land	44,046	-	-	44,046
5		**Subtotal Intangible**	44,046	-	-	44,046
6						
7		**Source of Supply**				
8	304.00	Structures & Improvements	12,303	-	-	12,303
9	305.00	Collecting and Impounding Res.	-	-	-	-
10	306.00	Lake River and Other Intakes	-	-	-	-
11	307.00	Wells and Springs	946,947	-	-	946,947
12	308.00	Infiltration Galleries and Tunnels	-	-	-	-
13	309.00	Supply Mains	155,059	-	-	155,059
14	310.00	Power Generating Equipment	-	-	-	-
15	311.00	Electric Pumping Equipment	207,173	-	-	207,173
16	312.00	Collecting & Impounding Reservoirs	-	-	-	-
17	313.00	Lakes, Rivers, Other Intakes	-	-	-	-
18		**Subtotal Source of Supply**	1,321,482	-	-	362,232
19						
20		**Water Treatment**				
21	320.00	Water Treatment Equipment	3,225	-	-	3,225
22	321.00	Structures & Improvements	-	-	-	-
23	323.00	*Other Power Production*	-	-	-	-
24	325.00	Electric Pumping Equipment	-	-	-	-
25	326.00	Diesel Pumping Equipment	-	-	-	-
26	328.10	Gas Engine Pumping Equipment	-	-	-	-
27		**Subtotal Water Treatment**	3,225	-	-	3,225
28						
29		**Transmission & Distribution**				
30	330.00	Distribution Reservoirs & Standpipe	284,041	-	-	284,041
31	331.00	Transmission and Distribution Mains	2,091,023	-	-	2,091,023
32	332.00	Services	54,483	-	-	54,483
33	334.00	Meters	318,631	-	-	318,631
34	335.00	Hydrants	80,088	-	-	80,088
35	336.00	Backflow Prevention Devices	-	-	-	-
36	339.00	Other Plant and Miscellaneous Equipment	-	-	-	-
37		**Subtotal Transmission & Distribution**	2,828,266	-	-	2,828,266
38						
39		**General Plant**				
40	340.00	Office Furniture and Equipment	33,314	773	-	34,087
41	340.10	**Leasehold Improvements**	-			-
42	341.00	Transportation Equipment	41,826	-	-	41,826
43	342.00	Stores Equipment	-	-	-	-
44	343.00	*Tools and Work Equipment*	20,015	-	-	20,015
45	344.00	Laboratory Equipment	-	-	-	-
46	345.00	Power Operated Equipment	5,930	-	-	5,930
47	346.00	Communications Equipment	-	-	-	-
48	347.00	Miscellaneous Equipment	-	-	-	-
49	349.00	Other Tangible Plant	4,192	-	-	4,192
50		Plant Held for Future Use				
51		**Subtotal General Plant**	105,277	773	-	106,050
52						
53		**Total**	4,302,296	773	-	4,303,069
54	Add:					
55			-	-	-	-
56			-	-	-	-
57	Less:					
58			-	-	-	-
59			-	-	-	-
60	Total Plant in Service		$ 4,302,296	$ 773	$ -	$ 4,303,069
61	Less: Accumulated Depreciation		1,391,574	-	-	1,391,574
62	Net Plant in Service (L59 - L 60)		$ 2,910,722	$ 773	$ -	$ 2,911,495
63						
64	*LESS:*					
65	*Contributions in Aid of Construction (CIAC)*		$ 494,098	$ -	$ -	$ 494,098
66	Less: Accumulated Amortization		170,500	-	-	170,500
67	Net CIAC (L25 - L26)		323,598	-	-	323,598
68	Advances in Aid of Construction (AIAC)		3,180,501	-	-	3,180,501
69	Customer Deposits		46,999	-	-	46,999
70	Meter Advances (Included in AIAC total - $285,682)		-	-	-	-
71	Deferred Income Tax Credits		-	-	-	-
72						
73	*ADD:*					
74	Cash Working Capital Allowance		72,885	-	114	72,999
75	Prepayments		-	-	-	-
76	Supplies Inventory		26,800	-	-	26,800
77	Projected Capital Expenditures		-	-	-	-
78	Deferred Debits		-	-	-	-
79	Intentionally left blank		-	-	-	-
80	**Original Cost Rate Base**		$ (540,691)	$ 773	$ 114	$ (539,804)

ADJ #		References:
1	Company Sign	Schedule DRR-5
2	Cash Working Capital Allowance	Schedule DRR-6

VALLEY UTILITIES WATER COMPANY, INC. Schedule DRR-5

Docket Nos. W-01412A-04-0736 & W-01412A-04-0849

Test Year Ended December 31, 2003

RATE BASE ADJUSTMENT #1 - OFFICE FURNITURE AND EQUIPMENT

LINE NO.	Office Furniture and Equipment		
1	Office Furniture and Equipment - Company's Test Year	$	33,314
2	Add: Reclass Company Utility Sign to Rate Base		773
3	Staff Recommended Office Furniture and Equipment	$	34,087

REFERENCES:
Line 1: Company Schedule B-2, Step 1, Page 2e
Line 2: Testimony, DRR
Line 3: Line 1 plus Line 2

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-6

RATE BASE ADJUSTMENT #2 - CASH WORKING CAPITAL ALLOWANCE

LINE NO.	DESCRIPTION	[A] AMOUNTS	[B]	[C]	[D]	[E]
1	Total Operating Expenses		$ 861,760			
2	Less:					
3	Income Taxes	7,165				
4	Property Taxes	48,747				
5	Other Taxes	17,612				
6	Depreciation Before CIAC	151,066				
7	Amortization of CIAC	(17,523)				
8	Purchased Water	-				
9	Purchased Pumping Power	106,043				
10	Total Deductions		$ 313,109			
11	Expenses - Other (L1 - L9)			$ 548,650		
12	One-eighth			0.125		
13	Sub-total (L10 * L11)				$ 68,581	
14	Purchased Water		$ -			
15	Purchased Pumping Power		106,043			
16	Sub-total (L14 * L15)			$ 106,043		
17	One-twenty-fourth			0.04167		
18	Sub-total (L16 * L17)				4,418	
19	Cash Working Capital Allowance - STAFF (L13+ L18)					$ 72,999
20	Cash Working Capital Allowance - Company					72,885
21	**STAFF Adjustment**					**$ 114**

REFERENCES:
Lines 1 through 9: Schedule DRR-7
Line 20: Company Schedule B-5
Line 21: Line 19 - Line 20: Testimony DRR

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-7

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED PHASE ONE	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*					
2	Metered Water Sales	$ 785,774	$ -	$ 785,774	$ 129,946	$ 915,720
3	Water Sales - Unmetered	-	-	-	-	-
4	Other Operating Revenue	41,791	-	41,791	-	41,791
5	**Total Operating Revenues**	$ 827,565	$ -	$ 827,565	$ 129,946	$ 957,511
6	*OPERATING EXPENSES:*					
7	Salaries & Wages Employees	$ 214,213	$ -	$ 214,213	$ -	$ 214,213
8	Purchased Water	-	-	-	-	-
10	Purchased Pumping Power	106,043	-	106,043	-	106,043
11	Chemicals	2,225	-	2,225	-	2,225
12	Repairs and Maintenance	21,743	(1,113)	20,630	-	20,630
13	Office Supplies and Expense	30,348	-	30,348	-	30,348
14	Outside Services	5,382	-	5,382	-	5,382
15	Water Testing	1,599	2,415	4,014	-	4,014
16	Rents	71,493	-	71,493	-	71,493
17	Transportation Expense	39,015	(12,799)	26,216	-	26,216
18	Insurance - General Liability	9,083	-	9,083	-	9,083
19	Insurance - Health and Life	58,498	-	58,498	-	58,498
20	Regulatory Comm. Exp. - Rate Ca:	30,000	-	30,000	-	30,000
21	Miscellaneous Expense	46,526	(17,076)	29,450	-	29,450
22	Depreciation Expense	151,017	49	151,066	-	151,066
23	Amortization of CIAC	(17,523)	-	(17,523)	-	(17,523)
24	Other Taxes and Licenses	17,612	-	17,612	-	17,612
25	Property Taxes	48,258	489	48,747	-	48,747
26	Income Tax	(21,105)	28,270	7,165	47,098	54,262
27	**Total Operating Expenses**	$ 814,427	$ 235	$ 814,662	$ 47,098	$ 861,760
28	**Operating Income (Loss)**	$ 13,138	$ (235)	$ 12,903	$ 82,848	$ 95,751

References:
Column (A): Company Schedule C-1
Column (B): Schedule DRR-8
Column (C): Column (A) + Column (B)
Column (D): Schedules DRR-1 and DRR-2
Column (E): Column (C) + Column (D)

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-8

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED PHASE ONE	[B] ADJ #1 Lawn Care	[C] ADJ #2 Water Testing	[D] ADJ #3 Transporation Expenses	[E] ADJ #4 Recruitment Nonrecurring	[F] ADJ #4A Director's Fees	[G] ADJ #4B Telephone Non related	[H] ADJ #4C Company Sign Nonrecurring	[I] ADJ #4D High School Fund Raiser	[J] ADJ #4E Gym Expenses	[K] ADJ #5 Depreciation Expense	[L] ADJ #6 Property Taxes	[M] ADJ #7 Income Taxes	[N] STAFF ADJUSTED
1	*REVENUES:*														
2	Metered Water Sales	$ 785,774	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 785,774
3	Water Sales - Unmetered	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Other Operating Revenue	41,791	-	-	-	-	-	-	-	-	-	-	-	-	41,791
5	**Total Operating Revenues**	$ 827,565	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 827,565
6															
7	*OPERATING EXPENSES:*														
8	Salaries & Wages Employees	$ 214,213	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 214,213
9	Purchased Water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Purchased Pumping Power	106,043	-	-	-	-	-	-	-	-	-	-	-	-	106,043
12	Chemicals	2,225	-	-	-	-	-	-	-	-	-	-	-	-	2,225
13	Repairs and Maintenance	21,743	(1,113)	-	-	-	-	-	-	-	-	-	-	-	20,630
14	Office Supplies and Expense	30,348	-	-	-	-	-	-	-	-	-	-	-	-	30,348
15	Outside Services	5,382	-	-	-	-	-	-	-	-	-	-	-	-	5,382
16	Water Testing	1,599	-	2,415	-	-	-	-	-	-	-	-	-	-	4,014
17	Rents	71,493	-	-	-	-	-	-	-	-	-	-	-	-	71,493
18	*Transportation Expense*	39,015	-	-	(12,799)	-	-	-	-	-	-	-	-	-	26,216
19	Insurance - General Liability	9,083	-	-	-	-	-	-	-	-	-	-	-	-	9,083
20	Insurance - Health and Life	58,498	-	-	-	-	-	-	-	-	-	-	-	-	58,498
21	Regulatory Comm. Exp. - Rate Case	30,000	-	-	-	-	-	-	-	-	-	-	-	-	30,000
22	Miscellaneous Expense	46,526	-	-	-	(4,850)	(9,000)	(590)	(773)	(250)	(1,613)	-	-	-	29,450
23	Depreciation Expense	151,017	-	-	-	-	-	-	-	-	-	49	-	-	151,066
24	Amortization of CIAC	(17,523)	-	-	-	-	-	-	-	-	-	-	-	-	(17,523)
25	Other Taxes and Licenses	17,612	-	-	-	-	-	-	-	-	-	-	-	-	17,612
26	Property Taxes	48,258	-	-	-	-	-	-	-	-	-	-	489	-	48,747
27	Income Tax	(21,105)	-	-	-	-	-	-	-	-	-	-	-	28,270	7,165
28															
29	**Total Operating Expenses**	$ 814,427	$ (1,113)	$ 2,415	$ (12,799)	$ (4,850)	$ (9,000)	$ (590)	$ (773)	$ (250)	$ (1,613)	$ 49	$ 489	$ 28,270	$ 814,662
30	**Operating Income (Loss)**	$ 13,138	$ 1,113	$ (2,415)	$ 12,799	$ 4,850	$ 9,000	$ 590	$ 773	$ 250	$ 1,613	$ (49)	$ (489)	$ (28,270)	$ 12,903

ADJ #		References:
1	Repair and Maintenance	Schedule DRR-9
2	Water Testing Expenses	Schedule DRR-10
3	Transportation Expenses	Schedule DRR-11
4A	Recruitment Expenses	Schedule DRR-12
4B	Director's Fees	Schedule DRR-12
4C	Telephone Expense	Schedule DRR-12
4D	Company Sign	Schedule DRR-12
4E	Fund Raising	Schedule DRR-12
4F	Gym Memberships	Schedule DRR-12
5	Depreciation Expense	Schedule DRR-13
6	Property Tax	Schedule DRR-14
7	Income Tax	Schedule DRR-15

VALLEY UTILITIES WATER COMPANY, INC.

Schedule DRR-9

Docket Nos. W-01412A-04-0736 & W-01412A-04-0849

Test Year Ended December 31, 2003

OPERATING INCOME ADJUSTMENT #1 - REPAIRS AND MAINTENANCE

LINE NO.	Repairs & Maintenance		
1	Repairs & Maintenance - Company's Test Year	$	21,743
2	Less: 1/2 of Lawn Service Expenses		1,113
3	Staff Recommended Repairs & Maintenance	$	20,630

REFERENCES:
Line 1: Company Schedule C-1, Step 1, Page 1, Line 11
Line 2: Testimony, DRR
Line 3: Line 1 minus Line 2

VALLEY UTILITIES WATER COMPANY, INC.

Schedule DRR-10

Docket Nos. W-01412A-04-0736 & W-01412A-04-0849

Test Year Ended December 31, 2003

OPERATING INCOME ADJUSTMENT #2 - WATER TESTING EXPENSE

LINE NO.	Water Testing Expense		
1	Per Company Application, Schedule C-1	$	1,599
2	Per Staff's Calculation		4,014
3	Difference	$	2,415
4	Staff Recommended Increase to Water Testing Expense	$	2,415

REFERENCES:
Line 1: Company Schedule C-1, Step 1, Page 1, Line 14
Line 2: Testimony DRR
Line 3: Line 2 minus Line 1
Line 4: Testimony DRR

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-11

OPERATING ADJUSTMENT #3 - TRANSPORATION EXPENSE

Line No.	Transportation Expense				
1	Per Company Application, Schedule C-1			$	39,015
2	Less:				
3	Terminated Lease	$	12,420		
4	2003 GMC Two Year Vehicle Registration - 1/2 of $757.16		379	$	12,799
5	Staff Recommended Tansporation Expenses			$	26,216

REFERENCES:
Line 1: Company Schedule C-1, Step 1, Page 1, Line 16
Line 2 thru Line 4: Testimony, DRR
Line 3: Line 1 minus Line 4

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-12

OPERATING INCOME ADJUSTMENT #4 - MISCELLANEOUS EXPENSES

LINE NO.	ADJUSTMENT No.	MISCELLANEOUS EXPENSES		
1		Per Company Application		$ 46,526
		Less: Staff Adjustments		
2	4A	Recruitment Fees	$ 4,850	
3	4B	Directors Fees	9,000	
4	4C	Telephone Expenses	590	
5	4D	Company Sign	773	
6	4E	High School Fund Raiser	250	
7	4F	Gym Expenses	1,613	17,076
8		Staff Recommended		$ 29,450

REFERENCES:
Line 1: Company Schedule C-1, Step 1, Page 1, Line 20
Lines 2 thru 7: Testimony DRR
Line 8: Line 1 minus Line 7

VALLEY UTILITIES WATER COMPANY, INC.

Schedule DRR-13

Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

OPERATING INCOME ADJUSTMENT #5 - DEPRECIATION EXPENSE

LINE NO.	Depreciation Expense	
1	Per Company Application, Schedule C-2	$ 133,494
2	Add: Reclassification Company Sign	49
3	Staff Recommended Depreciation Expense	$ 133,543
4	Staff Recommended Increase to Depreciation Expense	$ 49

REFERENCES:
Line 1: Company Schedule C-2, Step 1, Page 2, Line 50
Line 2: Testimony - DRR
Line 3: Line 2 plus Line 1
Line 4: Testimony DRR

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-14

OPERATING ADJUSTMENT #6 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Staff Adjusted Test Year Revenues - 2003	$ 827,565		$ 827,565
2	Weight Factor			2
3	Subtotal (Line 1 * Line 2)			$ 1,655,130
4	Staff Recommended Revenue			954,682
5	Subtotal (Line 4 + Line 5)			2,609,812
6	Number of Years			3
7	Three Year Average (Line 5 / Line 6)			869,937
8	Department of Revenue Mutilplier			2
9	Revenue Base Value (Line 7 • Line 8)			1,739,875
10	Plus: 10% of CWIP - 2003			-
11	Less: Net Book Value of Licensed Vehicles			29,253
12	Full Cash Value (Line 9 + Line 10 - Line 11)			1,710,622
13	Assessment Ratio			0.25
14	Assessment Value (Line 12 * Line 13)			427,655
15	Composite Property Tax Rate (Per Company Schedule C-2, Step 1, Page 3, Line 18)			11.1362%
16	Subtotal: Staff Proposed Property Tax Expense (Line 14 • Line 15)			$ 47,625
17	Add: Tax on Parcels [Per Company Schedule C-2, Step 1, Page 3, Line 21]			1,122
18	Staff Proposed Propery Tax Expense [Line 16 + Line 17]			$ 48,747
19	Company Proposed Property Tax			48,258
20	Staff Recommended Increase to Property Tax Expense			$ 489

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-15

OPERATING INCOME ADJUSTMENT #7 - INCOME TAXES

Line No.	Income Tax	
1	Staff Calculated Income Tax, Per Staff Schedule DRR-2, Line 43	$ 7,165
2	Income Tax, Per Company Schedule C-1	(21,105)
3	Increase/(Decrease) to Income Tax Expense	$ 28,270

RATE DESIGN

Monthly Usage Charge Residential and Commercial	Present Rates	Company Phase Two	Staff Recommended	Estimated ARSM
5/8" x 3/4" Meter	9.60	14.16	11.24	$ 6.71
3/4" Meter	14.50	21.38	16.87	$ 10.06
1" Meter	24.00	35.38	28.10	$ 16.77
1½" Meter	48.00	70.78	56.21	$ 33.54
2" Meter	77.00	113.54	89.94	$ 53.67
3" Meter	144.00	212.33	179.87	$ 100.63
4" Meter	240.00	353.88	281.05	Not Used
6" Meter	480.00	707.75	562.10	Not Used
8" Meter			899.36	Not Used
10" Meter			1,292.83	Not Used
12" Meter			2,417.03	Not Used
Commerical Construction 3"	144.00	212.33	179.87	$ 100.63

Commodity Charges	Present		Company Proposed: Phase Two			Staff Recommended					
No Gallons Included in any Minimum	1st Tier	2nd Tier	1st Tier	2nd Tier	3rd Tier	1st Tier	Upper Limit	2nd Tier	Upper Limit	3rd Tier	Upper Limit
Excess of Minimum - per 1,000 Gallons	$ 1.80	$ 2.20	$ 2.9400	$ 3.5990	$ 3.9580						
Residential 5/8" Meter	25,000	Infinite	8,000	12,000	Infinite	$ 1.50	3,000	$ 2.31	10,000	$ 2.53	Infinite
Commercial 5/8" Meter	25,000	Infinite	8,000	12,000	Infinite	$ 2.30	18,000	$ 2.58	Infinite		
Residential 3/4" Meter	25,000	Infinite	12,000	18,000	Infinite	$ 1.50	3,000	$ 2.31	10,000	$ 2.53	Infinite
Commercial 3/4" Meter	25,000	Infinite	12,000	18,000	Infinite	$ 2.30	18,000	$ 2.58	Infinite		
Residential and Commercial											
1" Meter	25,000	Infinite	20,000	30,000	Infinite	$ 2.31	50,359	$ 2.53	Infinite		
1½" Meter	25,000	Infinite	40,000	60,800	Infinite	$ 2.31	126,054	$ 2.53	Infinite		
2" Meter	25,000	Infinite	64,000	96,000	Infinite	$ 2.31	151,256	$ 2.53	Infinite		
3" Meter	25,000	Infinite	128,000	192,000	Infinite	$ 2.31	403,274	$ 2.53	Infinite		
4" Meter	25,000	Infinite	200,000	300,000	Infinite	$ 2.31	453,722	$ 2.53	Infinite		
6" Meter	25,000	Infinite	400,000	600,000	Infinite	$ 2.31	1,260,313	$ 2.53	Infinite		
8" Meter											
10" Meter											
12" Meter											
Commerical Construction 3" Flat Rates	$ 2.60		$ 4.25				$ 3.02				

Service Line and Meter Installation Charges

	Present Rates	Company Proposed Phase Two			Staff Recommended		
Residential and Commercial	Total	Service Line	Meter Install.	Total	Service Line	Meter Install.	Total
5/8" x 3/4" Meter	455.00	385.00	135.00	520.00	385.00	135.00	520.00
3/4" Meter	515.00	385.00	215.00	600.00	385.00	215.00	600.00
1" Meter	590.00	435.00	255.00	690.00	435.00	255.00	690.00
1½" Meter	820.00	470.00	465.00	935.00	470.00	465.00	935.00
2" Turbine Meter	1,380.00	630.00	965.00	1,595.00	630.00	965.00	1,595.00
2" Compound Meter	2,010.00	630.00	1,690.00	2,320.00	630.00	1,690.00	2,320.00
3" Turbine Meter	1,935.00	805.00	1,470.00	2,275.00	805.00	1,470.00	2,275.00
3" Compound Meter	2,650.00	845.00	2,265.00	3,110.00	845.00	2,265.00	3,110.00
4" Turbine Meter	3,030.00	1,170.00	2,350.00	3,520.00	1,170.00	2,350.00	3,520.00
4" Compound Meter	3,835.00	1,230.00	3,245.00	4,475.00	1,230.00	3,245.00	4,475.00
6" Turbine Meter	3,535.00	1,730.00	4,545.00	6,275.00	1,730.00	4,545.00	6,275.00
6" Compound Meter	7,130.00	1,770.00	6,280.00	8,050.00	1,770.00	6,280.00	8,050.00
8" Meter	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
10" Meter	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
12" Meter	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

Service Charges	Present	Company Proposed Phase One	Staff Recommended
Establishment	30.00	30.00	30.00
Establishment (After Hours)	45.00	45.00	45.00
Reconnection (Delinquent)	40.00	40.00	40.00
Reconnection (Delinquent)- After Hours	40.00	40.00	40.00
Meter Test (If Correct)	30.00	30.00	30.00
Deposit - Residential Note 1			
Deposit - Non - Residential Note 2			
Deposit Interest - Note 3	6.00%	6.00%	6.00%
Re-Establishment (Within 12 Months)- Note 4			
NSF Check	25.00	25.00	25.00
Meter Re-Read (If Correct)	10.00	10.00	10.00

Note 1 Per Commission Rules (R14-2-403.B) Two times the average bill.
Note 2 Per Commission Rules (R14-2-403.B) Two and one-half times the average bill
Note 3 Per Commission Rules (R14-2-403.B)
Note 4 Months off system times the minimum (R14-2-403.D)

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-17

MINIMUM MONTHLY CHARGES AND COMMODITY RATES

LINE NO.	CUSTOMER CLASS	PRESENT		COMPANY PHASE TWO		STAFF RECOMMENDED		PRESENT RATES			
								TIER ONE		TIER TWO	
		MINIMUM CHARGE	GALLONS INCLUDED	MINIMUM CHARGE (b)	GALLONS INCLUDED	MINIMUM CHARGE	GALLONS INCLUDED	COMMODITY RATE	UPPER LIMIT	COMMODITY RATE	UPPER LIMIT
1	Residential 5/8"x3/4"	$ 9.60	-	$ 14.16	-	$ 11.24	-	$ 1.80	25,000	$ 2.20	9,999,999
2	Residential 3/4"	$ 14.50	-	$ 21.38	-	$ 16.87	-	$ 1.80	25,000	$ 2.20	9,999,999
3	Residential 1"	$ 24.00	-	$ 35.38	-	$ 28.10	-	$ 1.80	25,000	$ 2.20	9,999,999
4	Residential 1.5"	$ 48.00	-	$ 70.78	-	$ 56.21	-	$ 1.80	25,000	$ 2.20	9,999,999
5	Residential 2"	$ 77.00	-	$ 113.54	-	$ 89.94	-	$ 1.80	25,000	$ 2.20	9,999,999
6	Residential 3"	$ 144.00	-	$ 212.33	-	$ 179.87	-	$ 1.80	25,000	$ 2.20	9,999,999
7	Residential 4"	$ 240.00	-	$ 353.88	-	$ 281.05	-	$ 1.80	25,000	$ 2.20	9,999,999
8	Residential 6"	$ 480.00	-	$ 707.75	-	$ 562.10	-	$ 1.80	25,000	$ 2.20	9,999,999
9	Commerical 5/8"	$ 9.60	-	$ 14.16	-	$ 11.24	-	$ 1.80	25,000	$ 2.20	9,999,999
10	Commerical 3/4"	$ 14.50	-	$ 21.38	-	$ 16.87	-	$ 1.80	25,000	$ 2.20	9,999,999
11	Commerical 1"	$ 24.00	-	$ 35.38	-	$ 28.10	-	$ 1.80	25,000	$ 2.20	9,999,999
12	Commerical 1.5"	$ 48.00	-	$ 70.78	-	$ 56.21	-	$ 1.80	25,000	$ 2.20	9,999,999
13	Commerical 2"	$ 77.00	-	$ 113.54	-	$ 89.94	-	$ 1.80	25,000	$ 2.20	9,999,999
14	Commerical 3"	$ 144.00	-	$ 212.33	-	$ 179.87	-	$ 1.80	25,000	$ 2.20	9,999,999
15	Commerical 4"	$ 240.00	-	$ 353.88	-	$ 281.05	-	$ 1.80	25,000	$ 2.20	9,999,999
16	Commerical 6"	$ 480.00	-	$ 707.75	-	$ 562.10	-	$ 1.80	25,000	$ 2.20	9,999,999
17	Construction Water	$ 144.00	-	$ 212.33	-	$ 179.87	-	$ 2.60	9,999,999		
18	Intentially Left Blank										

LINE NO.	CUSTOMER CLASS	COMPANY PROPOSED RATES: PHASE TWO						STAFF RECOMMENDED RATES					
		TIER ONE		TIER TWO		TIER THREE		TIER ONE		TIER TWO		TIER THREE	
		COMMODITY RATE	UPPER LIMIT (000's)	COMMODITY RATE	UPPER LIMIT	COMMODITY RATE	UPPER LIMIT	COMMODITY RATE	UPPER LIMIT	COMMODITY RATE	UPPER LIMIT	COMMODITY RATE	UPPER LIMIT
19	Residential 5/8"x3/4"	$ 2.94	8,000	$ 3.60	12,000	$ 3.9580	Infinite	$ 1.50	3,000	$ 2.31	10,000	$ 2.53	Infinite
20	Residential 3/4"	$ 2.94	12,000	$ 3.60	18,000	$ 3.9580	Infinite	$ 1.50	3,000	$ 2.31	10,000	$ 2.53	Infinite
21	Residential 1"	$ 2.94	20,000	$ 3.60	30,000	$ 3.9580	Infinite	$ 2.31	50,359	$ 2.53	Infinite		
22	Residential 1.5"	$ 2.94	40,000	$ 3.60	60,800	$ 3.9580	Infinite	$ 2.31	126,054	$ 2.53	Infinite		
23	Residential 2"	$ 2.94	64,000	$ 3.60	96,000	$ 3.9580	Infinite	$ 2.31	151,256	$ 2.53	Infinite		
24	Residential 3"	$ 2.94	128,000	$ 3.60	192,000	$ 3.9580	Infinite	$ 2.31	403,274	$ 2.53	Infinite		
25	Residential 4"	$ 2.94	200,000	$ 3.60	300,000	$ 3.9580	Infinite	$ 2.31	453,722	$ 2.53	Infinite		
26	Residential 6"	$ 2.94	400,000	$ 3.60	600,000	$ 3.9580	Infinite	$ 2.31	1,260,313	$ 2.53	Infinite		
27	Commerical 5/8"	$ 2.94	8,000	$ 3.60	12,000	$ 3.9580	Infinite	$ 2.30	18,000	$ 2.58	Infinite		
28	Commerical 3/4"	$ 2.94	12,000	$ 3.60	18,000	$ 3.9580	Infinite	$ 2.30	18,000	$ 2.58	Infinite		
29	Commerical 1"	$ 2.94	20,000	$ 3.60	30,000	$ 3.9580	Infinite	$ 2.31	50,359	$ 2.53	Infinite		
30	Commerical 1.5"	$ 2.94	40,000	$ 3.60	60,800	$ 3.9580	Infinite	$ 2.31	126,054	$ 2.53	Infinite		
31	Commerical 2"	$ 2.94	64,000	$ 3.60	96,000	$ 3.9580	Infinite	$ 2.31	151,256	$ 2.53	Infinite		
32	Commerical 3"	$ 2.94	128,000	$ 3.60	192,000	$ 3.9580	Infinite	$ 2.31	403,274	$ 2.53	Infinite		
33	Commerical 4"	$ 2.94	200,000	$ 3.60	300,000	$ 3.9580	Infinite	$ 2.31	453,722	$ 2.53	Infinite		
34	Commerical 6"	$ 2.94	400,000	$ 3.60	600,000	$ 3.9580	Infinite	$ 2.31	1,260,313	$ 2.53	Infinite		
35	Construction Water	$ 4.25	Infinite					$ 3.02	Infinite				
36	Intentially Left Blank												

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-18

TYPICAL BILL ANALYSIS AVERAGE AND MEDIAN USAGE AND COSTS

LINE NO.	CUSTOMER CLASS	CURRENT			
		AVERAGE		MEDIAN	
		USAGE	DOLLARS	USAGE	DOLLARS
1	Residential 5/8"	9,251	$ 26.25	6,500	$ 21.30
2	Residential 3/4"	10,134	$ 32.74	7,500	$ 28.00
3	Residential 1"	19,749	$ 59.55	12,000	$ 45.60
4	Commerical 5/8"	3,369	$ 15.66	2,500	$ 14.10
5	Commerical 1"	38,207	$ 98.05	26,500	$ 72.30
6	Commerical 1.5"	52,593	$ 153.70	35,500	$ 116.10
7	Commerical 2"	158,299	$ 415.26	82,500	$ 248.50
8	Construction Water	53,779	$ 283.83	3,500	$ 153.10
9	Intentially Left Blank				

LINE NO.	CUSTOMER CLASS	COMPANY PROPOSED: PHASE TWO					
		AVERAGE	INCREASE	PERCENT	MEDIAN	INCREASE	PERCENT
10	Residential 5/8"	$ 42.23	$ 15.98	60.86%	$ 34.49	$ 13.19	61.93%
11	Residential 3/4"	$ 51.49	$ 18.75	57.28%	$ 46.37	$ 18.37	65.61%
12	Residential 1"	$ 94.32	$ 34.78	58.40%	$ 72.13	$ 26.53	58.18%
13	Commerical 5/8"	$ 24.07	$ 8.40	53.63%	$ 21.51	$ 7.41	52.55%
14	Commerical 1"	$ 160.49	$ 62.43	63.67%	$ 117.57	$ 45.27	62.62%
15	Commerical 1.5"	$ 233.70	$ 80.00	52.05%	$ 175.15	$ 59.05	50.86%
16	Commerical 2"	$ 641.29	$ 226.04	54.43%	$ 297.29	$ 48.79	19.63%
17	Construction Water	$ 441.05	$ 157.23	55.40%	$ 244.23	$ 91.13	59.52%
18	Intentially Left Blank						

TYPICAL BILL ANALYSIS AVERAGE AND MEDIAN USAGE AND COSTS

LINE NO.	CUSTOMER CLASS	STAFF RECOMMENDED WITH ESTIMATED ARSENIC REMEDIAL SURCHARGE MECHANISM					
		AVERAGE	INCREASE	PERCENT	MEDIAN	INCREASE	PERCENT
19	Residential 5/8"	$ 30.18	$ 3.93	14.97%	$ 23.83	$ 2.53	11.86%
20	Estimated Arsenic Surcharge	$ 6.71	$ 6.71	25.56%	$ 6.71	$ 6.71	31.50%
21	Total	$ 36.89	$ 10.64	40.53%	$ 30.54	$ 9.24	43.37%
22	Residential 3/4"	$ 37.88	$ 5.14	15.69%	$ 31.76	$ 3.76	13.45%
23	Estimated Arsenic Surcharge	$ 10.06	$ 10.06	30.74%	$ 10.06	$ 10.06	35.94%
24	Total	$ 47.94	$ 15.20	46.43%	$ 41.83	$ 13.83	49.39%
25	Residential 1"	$ 73.72	$ 14.17	23.80%	$ 55.82	$ 10.22	22.41%
26	Estimated Arsenic Surcharge	$ 16.77	$ 16.77	28.17%	$ 16.77	$ 16.77	36.78%
27	Total	$ 90.49	$ 30.94	51.96%	$ 72.59	$ 26.99	59.19%
28	Commerical 5/8"	$ 19.02	$ 3.36	21.45%	$ 17.02	$ 2.92	20.69%
29	Estimated Arsenic Surcharge	$ 6.71	$ 6.71	42.83%	$ 6.71	$ 6.71	47.58%
30	Total	$ 25.73	$ 10.07	64.28%	$ 23.73	$ 9.63	68.27%
31	Commerical 1"	$ 113.65	$ 15.59	15.90%	$ 83.99	$ 11.69	16.17%
32	Estimated Arsenic Surcharge	$ 16.77	$ 16.77	17.10%	$ 16.77	$ 16.77	23.20%
33	Total	$ 130.42	$ 32.37	33.01%	$ 100.77	$ 28.47	39.37%
34	Commerical 1.5"	$ 191.90	$ 38.20	24.85%	$ 147.80	$ 31.70	27.30%
35	Estimated Arsenic Surcharge	$ 33.54	$ 33.54	21.82%	$ 33.54	$ 33.54	28.89%
36	Total	$ 225.44	$ 71.74	46.67%	$ 181.34	$ 65.24	56.20%
37	Commerical 2"	$ 490.91	$ 75.65	18.22%	$ 298.91	$ 50.41	20.29%
38	Estimated Arsenic Surcharge	$ 53.67	$ 53.67	12.92%	$ 53.67	$ 53.67	21.60%
39	Total	$ 544.58	$ 129.32	31.14%	$ 352.58	$ 104.08	41.88%
40	Construction Water	$ 342.39	$ 58.56	20.63%	$ 190.45	$ 37.35	24.39%
41	Estimated Arsenic Surcharge	$ 100.63	$ 100.63	35.46%	$ 100.63	$ 100.63	65.73%
42	Total	$ 443.02	$ 159.20	56.09%	$ 291.08	$ 137.98	90.12%
43	Intentially Left Blank						

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-19

FINANCIAL ANALYSIS

Month 12, 2003 Income Statement and Capital Structure and Staff Recommended Pro Forma 2003
Including Immediate Effects of the Proposed Debt

		[A] *12/31/2003*		[B] *Pro Forma*	
1	Operating Income	$ 13,138		$ 95,751	
2	Depreciation & Amort.	133,494		133,494	
3	Income Tax Expense	(21,105)		54,262	
4					
5	Interest Expense	0		94,998	
6	Repayment of Principal	0		57,539	
7					
8					
9	**TIER**[1]				
10	[1+3] ÷ [5]	N/A		1.58	
11	**DSC**				
12	[1+2+3] ÷ [5+6]	N/A		1.86	
13	**Cash Coverage Ratio**				
14	[1+2+3] ÷ [5]	N/A		2.98	
15					
16					
17					
18	Short-term Debt	$0	0%	$152,537	10.1%
19					
20	Long-term Debt	$0	0%	$1,773,563	117.2%
21					
22	Common Equity	($413,442)	100%	($413,442)	-27.3%
23					
24	Total Capital	($413,442)	100%	$1,512,658	100.0%
25					
26					
27	[1]EBIT Interest coverage (earnings before interest and taxes)				

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-20

CALCULATION OF INCREMENTAL REVENUE REQUIRED FOR WIFA LOAN TO PRESERVE CASH FLOW

Line No.		
1	Annual Principal Payment on the Loan	$ 57,539
2	Gross Revenue Conversion Factor	1.5685
3	Increase in Revenue Due to Principal Payment [L1 X L2]	$ 90,248
4	Annual Principal Payment on the Loan [L1]	$ 57,539
5	Incremental Income Taxes [L3 - L4]	$ 32,710
6	Annual Interest Payment on the Loan	$ 94,998
7	Debt Service Component of Incremental Revenue [L1+L6]	$ 152,537
8	Total Incremental Revenue Requirement [L5 + L7]	$ 185,247

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-21

FINANCIAL ANALYSIS

Selected Financial Data
Including Immediate Effects of the Proposed Debt With Staff Recommended Surcharge
Staff Recommended Rates and Pro Forma Surcharge and WIFA Loan

INCOME STATEMENT	[A] Recommend Rates	[B] Pro Forma Surcharge	[C] Recommend Rates With Surcharge	[D] With WIFA Loan
Metered Water Revenue	$ 915,720		$ 915,720	$ 915,720
Surcharge	$ -	$ 185,247	$ 185,247	$ -
Other Water Revenues	$ 41,791	$ -	$ 41,791	$ 41,791
Operating Revenue:	$ 957,511	$ 185,247	$ 1,142,758	$ 957,511
Operating Expenses:				
Purchased Water/Pumping Power	$ 106,043	$ -	$ 106,043	$ 106,043
Admin. & General	$ 480,922	$ -	$ 480,922	$ 480,922
Maintenance & Testing	$ 20,630	$ -	$ 20,630	$ 20,630
Depreciation [4]	$ 133,543	$ -	$ 133,543	$ 133,543
Property Taxes	$ 48,747	$ -	$ 48,747	$ 48,747
Other taxes	$ 17,612	$ -	$ 17,612	$ 17,612
Income Tax [2]	$ 54,262	$ 32,710	$ 86,972	$ 54,262
Total Operating Expense	$ 861,760	$ 32,710	$ 894,469	$ 861,760
Operating Income [1]	$ 95,751	$ 152,537	$ 248,288	$ 95,751
Interest Income	$ -	$ -	$ -	$ -
Interest Expense [3]		$ 94,998	$ 94,998	$ 94,998
Interest-Customer Deposits	$ -	$ -	$ -	$ -
Net Income	$ 95,751	$ 57,539	$ 153,290	$ 753
Principal Repayment [5]	$ -	$ 57,539	$ 57,539	$ 57,539
TIER (Interest Coverage)				
[1 + 2] ÷ 3	N/A		3.53	1.58
DSC				
[1 + 2 + 4] ÷ [3 + 5]	N/A		3.07	1.86

Capital Structure

Short-term Debt	$ -	0%	$ 94,998	$ 94,998	6.3%
Long-term Debt	$ -	0%	$ 1,831,102	$ 1,831,102	121.1%
Common Equity	$ (413,442)	100%	$ (413,442)	$ (413,442)	-27.3%
Total Capital	$ (413,442)	100%	$ 1,512,658	$ 1,512,658	100%

[A] Staff's recommended permanent rates without WIFA loan
[B] Staff's recommended pro forma surcharge effects with a WIFA loan
[C] Column [A] + Column [B]
[D] Staff's recommended permanent rates without a surcharge

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-22

Calculation of Staff Recommended ARCM Surcharge by Meter Size

Principal Payment	57,538.61
Interest Payment	94,998.29
GRCF	1.5685

i	Metered Size i	Multiplier i	# of Customers
1	5/8"x 3/4" Meter	1	250
2	3/4" Meter	1.5	602
3	1" Meter	2.5	282
4	1½" Meter	5	6
5	2" Meter	8	46
6	3" Meter	15	3
7	4" Meter	25	0
8	6" Meter	50	0

A. Take the Principal Payment and multiply it by the GRCF. The result will be the additional revenue required to cover the Principal Payment.

$ 57,539 Times 1.568484333 equals $ 90,248

B. Add the Interest payment to the additional revenue required to cover the Principal Payment. The result will be the Total Increase in Revenue.

$ 94,998 Plus $ 90,248 equals $ 185,247

1. Multiply the number of customers for each meter size and the corresponding multiplier. Multiply each result by 12. The results will be the Equivalent Annual Bills for each meter size.

# of Customers for meter i		Multiplier i				
250	Times	1	Times	12	equals	3000
602	Times	1.5	Times	12	equals	10836
282	Times	2.5	Times	12	equals	8460
6	Times	5	Times	12	equals	360
46	Times	8	Times	12	equals	4416
3	Times	15	Times	12	equals	540
0	Times	25	Times	12	equals	0
0	Times	50	Times	12	equals	0
					Total	27612

2. Add up all the equivalent annual bills for the different meter sizes. The result will be the Total Equivalent Annual Bills.

3. Divide the Total Increase in Revenue by the Equivalent Annual Bills. The result will be the Monthly Surcharge for 5/8"x 3/4" Meter.

$ 185246.69 / 27612 = $ 6.71

4. To find the monthly surcharge for each meter size, take the Monthly Surcharge for 5/8"x 3/4" Meter found in step 3 and multiply it by the corresponding meter size multiplier.

Metered Size i	Multiplier i	Times Monthly Surcharge for 5/8"x3/4" Meter	Equals Monthly Surcharge for Meter Size
5/8"x 3/4" Meter	1	$ 6.71	$ 6.71
3/4" Meter	1.5	$ 6.71	$ 10.06
1" Meter	2.5	$ 6.71	$ 16.77
1½" Meter	5	$ 6.71	$ 33.54
2" Meter	8	$ 6.71	$ 53.67
3" Meter	15	$ 6.71	$ 100.63
4" Meter	25	$ 6.71	$ 167.72
6" Meter	50	$ 6.71	$ 335.45

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-23

TABLE A
Conversion Factor Table (Based on a 20-year Loan)

Principal	Years
$1	20
$1	20
$1	20
$1	20
$1	20
$1	20
$1	20
$1	20
$1	20
$1	20
$1	20
$1	20
$1	20
$1	20
$1	20
$1	20
$1	20
$1	20
$1	20

Line No.	Column A Annual Interest	Total Payment	Interest	Column B Annual Payment Conversion Factor	Column C Annual Interest Payment Conversion Factor	Column D Annual Principal Payment Conversion Factor
1	3.50%	($0.07)	($0.03)	0.0696	0.0344	0.0352
2	3.75%	($0.07)	($0.04)	0.0711	0.0369	0.0342
3	4.00%	($0.07)	($0.04)	0.0727	0.0394	0.0333
4	4.25%	($0.07)	($0.04)	0.0743	0.0419	0.0324
5	4.50%	($0.08)	($0.04)	0.0759	0.0444	0.0316
6	4.75%	($0.08)	($0.05)	0.0775	0.0468	0.0307
7	5.00%	($0.08)	($0.05)	0.0792	0.0493	0.0299
8	5.25%	($0.08)	($0.05)	0.0809	0.0518	0.0291
9	5.50%	($0.08)	($0.05)	0.0825	0.0543	0.0283
10	5.75%	($0.08)	($0.06)	0.0843	0.0568	0.0275
11	6.00%	($0.09)	($0.06)	0.0860	0.0593	0.0267
12	6.25%	($0.09)	($0.06)	0.0877	0.0618	0.0259
13	6.50%	($0.09)	($0.06)	0.0895	0.0643	0.0252
14	6.75%	($0.09)	($0.07)	0.0912	0.0668	0.0245
15	7.00%	($0.09)	($0.07)	0.0930	0.0692	0.0238
16	7.25%	($0.09)	($0.07)	0.0948	0.0717	0.0231
17	7.50%	($0.10)	($0.07)	0.0967	0.0742	0.0224
18	7.75%	($0.10)	($0.08)	0.0985	0.0767	0.0218
19	8.00%	($0.10)	($0.08)	0.1004	0.0792	0.0211

Instructions to Calculate the Annual Surcharge Revenue Requirement on the Loan

Step 1. Find the Annual Payment on the Loan
Refer to Table A, the Conversion Factor Table. Reading the table from top to bottom, find the interest rate in column A that is equal to the stated annual interest rate of the loan. Reading across the table, find the Annual Payment Conversion Factor in Column B that corresponds with the loan interest rate (in the event that the loan interest rate is different from the interest rates in Table A, use the next higher interest rate that can be found in Table A). Multiply that annual payment conversion factor by the total amount of the loan to calculate the annual debt service on the loan.

Annual payment conversion factor
(*) Times total amount of the loan
(=) Equals annual debt service on the loan

Step 2. Find the Annual Interest Payment on the Loan
Refer to Table A and find the annual interest payment conversion factor in Column C that corresponds with the stated annual interest rate of the loan. Multiply the annual interest payment conversion factor by the total amount of the loan to calculate the annual interest expense on the loan.

Annual interest payment conversion factor
(*) Times total amount of the loan
(=) Equals annual interest expense on the loan

Step 3. Find the Annual Principal Payment on the Loan
Refer to Table A and find the annual principal payment conversion factor in Column D that corresponds with the stated annual interest rate of the loan. Multiply the annual principal payment conversion factor by the total amount of the loan to calculate the annual principal payment on the loan.

Annual principal payment conversion factor
(*) Times total amount of the loan
(=) Equals annual principal payment on the loan

Step 4. Find the *Gross Revenue Conversion Factor*[1] (GRCF)
The GRCF calculated below is used in step 5.

$$\text{GRCF} = \frac{1}{1 - \text{Effective incremental income tax rate}^{2}}$$

[1] The gross revenue conversion factor indicates the incremental revenue required to increase operating income by one dollar.
[2] The effective income tax rate represents the effective tax rate on the incremental income. Use the effective incremental income tax rate of .362442

$$GRCF = \frac{1}{1 - 0.362442} = \frac{1}{0.637558} = 1.5684$$

Step 5. Find the Incremental Income Tax Factor
The incremental income tax factor is calculated below:

Incremental Income Tax Factor = GRCF - 1

= 1.5684 - 1

= 0.5684

Step 6. Find the Annual Income Tax Component of the Surcharge Revenue
Multiply the incremental income tax factor by the annual principal payment on the loan determined in step 3 to calculate the income tax component of the annual surcharge revenue.

Incremental income tax conversion factor
(*) Times the annual principal payment on the loan
(=) Equals the annual income tax component of the annual surcharge revenue

Step 7. Find the Debt Service Component of the Annual Surcharge Revenue
Add the annual interest expense on the loan determined in step 2 to the annual principal payment determined in step 3. The sum is the debt service component of the annual surcharge revenue.

Annual interest payment on the loan
(+) Plus annual principal payment
(=) Equals the debt service component of the annual surcharge revenue

Step 8. Find the Total Annual Surcharge Revenue Requirement Needed for the Loan.
Add the annual income tax component determined in step 6 to the annual debt service component determined in step 7. The sum equals the annual surcharge revenue requirement for the loan.

Annual income tax component of the surcharge revenue
(+) Plus annual debt service component of the surcharge revenue
(=) Equals the total annual surcharge revenue requirement for the loan

Step 9. Find the monthly surcharge per customer.
Divide the Result obtained in step 8 by the number of months in a year (12). Divide this result by the number of customers at filing time to obtain the monthly surcharge per customer.

Total annual surcharge revenue requirement needed for the loan
(/) Divided by 12
(=) Total monthly surcharge revenue requirement needed for the loan
(/) Divided number of customers at filing time
(=) Equals the monthly surcharge per customer

MEMORANDUM

TO: Dennis Rogers
Public Utilities Analyst IV
Utilities Division

FROM: Bradley G. Morton
Public Utilities Analyst II
Utilities Division

THRU: Connie Walczak
Consumer Services Manager
Utilities Division

DATE: May 10, 2005

RE: VALLEY UTILITIES WATER COMPANY, INC.
Docket No. W-01412A-04-0736

COMPANY HISTORY

Valley Utilities Water Company, Inc. ("Valley Utilities" or "Company") was granted a Certificate of Convenience and Necessity ("CC&N") to provide water utility service in Glendale, Arizona, Maricopa County, pursuant to authority granted by the Arizona Corporation Commission ("Commission") in Decision No. 55823, dated December 23, 1987.

The current rates have been in effect since October 1, 2000 per Decision No. 62908.

Valley Utilities is an "A" Corporation in good standing with the Corporations Division of the Commission. The Company was incorporated July 17, 1973.

COMPLAINT HISTORY

A search of Consumer Services complaint files reveal the following customer complaints were filed against Valley Utilities:

2002 - one complaint - customer didn't request a transfer of service from the builder, service was disconnected. Company billed after hours installation charges, which the builder split with the customer. Customer was satisfied.
Zero inquiries
Zero opinions

2003 - Zero complaints
One inquiry - customer questioned termination /disconnection rules. Explanation provided.
Zero opinions

2004 - Three complaints – one, customer questioned high costs for mainline and arsenic treatment. One, customer questioned meter re-read charge on his bill and a customer was disconnected for an insufficient check.
Two inquiries – both concerning late payment charges for bills received late. Company provided postmarked envelopes in evidence of late receipt.
Zero opinions

2005 - One complaint, regarding a late payment charge due to change of address.
Zero inquiries
Six opinions, all opposed to a rate increase.

All complaints have been resolved.

SUFFICIENCY STATUS

Valley Utilities application met sufficiency status on November 5, 2004.

AFFIDAVIT OF MAILING

Valley Utilities Affidavit of Mailing of the Customer Notification was filed on February 9, 2005.

ANNUAL REPORT FOR UTILITIES DIVISION

Records indicate that the Company filed its 2003 Annual Report on April 5, 2004.

BILL FORMAT COMPLIANCE

A review of Valley Utilities bill format indicates compliance with R14-2-409.B.2.a thru R14-2-409.B.2.j of the Arizona Administrative Code, Title 14, Chapter 4.

CORPORATIONS DIVISION STATUS

The Corporations Division of the Commission reflects that Valley Utilities is good standing.

CROSS-CONNECTION/BACKFLOW TARIFF

The Cross-Connection/Backflow Tariff was approved in Decision No. 62908.

CURTAILMENT TARIFF

None on file.

HEARING DATE

A hearing date has been set for July 14, 2005.

INTERVENORS

No request for intervention has been filed at this time.

Cc: Engineering
File

ALL-STATE LEGAL®
EXHIBIT
S-3
Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN MAYES
Commissioner

IN THE MATTER OF THE APPLICATIONS OF VALLEY UTILITIES WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR INCREASE IN ITS WATER RATES FOR CUSTOMERS WITHIN MARICOPA COUNTY, ARIZONA	DOCKET NO. W-01412A-04-0736
IN THE MATTER OF THE APPLICATION OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AUTHORITY TO ISSUE PROMISSORY NOTE(S) AND OTHER EVIDENCES OF INDEBTEDNESS PAYABLE AT PERIODS OF MORE THAN TWELVE MONTHS AFTER DATE OF ISSUANCE	DOCKET NO. W-01412A-04-0849

SURREBUTTAL TESTIMONY

OF

DENNIS R. ROGERS

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 20, 2005

TABLE OF CONTENTS

Page

INTRODUCTION 1

RATE DESIGN 1

STAFF'S INVERTED THREE TIER RATE DESIGN 2

THREE TIER 5/8 – INCH & 3/4 - INCH RESIDENTIAL CUSTOMERS 4

TESTIMONY OF MR. ROBERT L. PRINCE 4

RATE DESIGN RECOMMENDATION 4

ARSENIC RECOVERY SURCHARGE MECHANISM 4

ATTACHMENTS

RATE DESIGN ..... Revised Schedule DRR-16
RATE DESIGN ..... Revised Schedule DRR-17
FINANCIAL ANALYSIS ..... Revised Schedule DRR-21

EXECUTIVE SUMMARY
VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 and W-01412A-04-0849

The surrebuttal testimony of Staff witness Dennis R. Rogers addresses the following issues:

Staff responds to Mr. Kozoman's assertion that Staff did not recommend a monthly minimum for construction water sold through 3-inch meters. Staff's Schedule DRR-16, Rate Design, recommends a monthly minimum charge of $179.87 for 3-inch construction water meters.

Staff responds to Mr. Kozoman's observation that the commercial 5/8-inch meter has a different first tier rate than the other classes of customers. Staff has revised Schedules DRR-16 and DRR-17 to correct a typographical error that listed the commercial 5/8- inch meter first tier at $2.30. The corrected figure is $2.31.

Staff responds to Mr. Kozoman's inability to duplicate Staff's revenue requirement. When inputting Staff's rates Mr. Kozoman derives $950,809 rather that Staff's $957,511 for a difference of $6,702. Staff utilized the same bill counts for its recommended revenues that balanced to the Company's original application, annualized revenues, and proposed amounts.

Staff responds to Mr. Kozoman's arguments concerning Staff's rate design pertaining to "Life Line Rates", lack of a cost of service study, and three tiers for the Residential 5/8 – inch and 3/4 - inch customers while the other classifications have but two tiers. These questions were addressed in both the Arizona American and Rio Rico rate cases. The Commission found that in the case of Arizona American's seven water systems that Staff's rate design was appropriate, and in the Rio Rico decision the Commission adopted a three tier inverted rate structure for the 5/8 –inch residential and commercial customers while maintaining an inverted two tier structure for all other meter sizes and classes that Mr. Kozoman proposed.

Staff responds to Mr. Robert L. Prince's testimony that customers may choose to lower their water bills by downsizing from their 1-inch meter and "over revving" the smaller meter which could impact revenues and expenses. The Company's proposed rate design provides for the same asserted opportunity.

Staff responds to Mr. Bourassa testimony as to what appears to be the main source of disagreement between Staff and the Company. The Company proposes a surcharge mechanism for recovery of estimated arsenic removal operation and maintenance costs. Staff recommends that the Company file another rate case application after the costs become known and measurable consistent with prior Commission decisions.

Staff responds to Mr. Bourassa's statement that the Arsenic Recovery Surcharge Mechanism does not require a subsequent filing by the Company for consideration by the Commission for approval. Staff is recommending approval of the Company's application for financing through the Water Infrastructure Finance Authority ("WIFA") in the form

described in its Direct Testimony, Pages 27 and 28. The methodology is consistent with other Accelerated Arsenic Cost Recovery Mechanisms previously authorized by the Commission; please see Ash Fork Water Service, Decision No. 67158 and Mountain Glen Water Service Inc., Decision No. 67163.

Staff responds to Mr. Bourassa's proposal that the Operation and Maintenance Costs associated with the mandated arsenic removal should be recovered by an Arsenic Operating and Maintenance Recovery Surcharge Mechanism ("AOMRSM"), which the Company will only incur actual costs. Staff recommends that the surcharge mechanism be disallowed and that the Company file a rate case application after a period of time has elapsed so that the actual operation and maintenance costs can be determined and the appropriate rates established. Mr. Bourassa acknowledges that the costs, although a reasonable estimate, are projected.

Staff responds to Mr. Bourassa's inclusion of refunds of Advances in Aid of Construction ("AIAC") in the Company's calculation of Debt Service Coverage ("DSC"). Staff acknowledges the difference in the methodologies used by the Company and Staff. Staff has revised Schedule DRR-21 to show both methodologies.

Staff responds to Mr. Bourassa's observation that Staff incorrectly overstates income tax expense. Staff agrees with Mr. Bourassa. Schedule DRR-21, Column [D], With WIFA Loan, did not reduce income tax expense because of the interest expense associated with the WIFA loan. Staff has reduced income tax expense in Column [D] by $39,420, from $54,262 to $14,842. This has no effect on Staff recommended rates or Staff's recommended authorization and method of handling the WIFA financing application.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Dennis R. Rogers. I am a Public Utilities Analyst IV employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Dennis R. Rogers who filed direct testimony in this case?

A. Yes, I am.

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

A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of the Staff, to the rebuttal testimonies of Valley Utilities Water Company, Inc.'s ("Company") witnesses Ronald L Kozoman, C.P.A., Mr. Ronald L. Prince, and Thomas J. Bourassa, C.P.A., regarding rate design issues and revenue requirements.

Q. Please explain how Staff's surrebuttal testimony is organized.

A. Staff testimony is organized to present issues in the same sequence as presented in the Company's rebuttal testimony.

RATE DESIGN

Q. How does Staff respond to Mr. Kozoman's testimony on Page 3, lines 5 through 6, that:

> **Staff proposes no monthly minimum for construction water sold through 3" meters.?**

A. Staff's Direct Testimony, Schedule DRR-16, Rate Design, shows the Company's Proposal of $212.33 compared to Staff's Recommended $179.87.

Q. How does Staff respond to Mr. Kozoman's rebuttal testimony on Page 7, that Staff's rate design for the commercial class on a 5/8-inch meter differs from all other classes?

A. There is no difference. Staff acknowledges that the first tier commodity charge on Schedules DRR-16 and DRR-17 for the commercial 5/8 inch and 3/4 inch meters should have been listed as $2.31 rather than $2.30. Revised Schedules DRR-16 and DRR-17 are attached.

Q. How does Staff respond to Mr. Kozoman's rebuttal testimony on Page 7, Lines 9 and 10:

> **Additionally, I can't duplicate Staff's revenue requirement of $957,511. Inputting Staff's rates, I derive only $950,809.**

A. Staff utilized the same bill counts for its recommended revenues that balanced to the Company's original application, annualized revenues, and proposed amounts.

STAFF'S INVERTED THREE TIER RATE DESIGN

Q. Has the Commission previously considered Mr. Kozoman's arguments concerning Staff's rate design pertaining to "Life Line Rates", lack of a cost of service study, and three tiers for the Residential 5/8 - inch and 3/4 - inch while the other classifications have but two tiers?

A. Yes it has. These issues were addressed both in the Arizona-American Water Company rate case, which consisted of seven water systems, Decision No. 67093, and the Rio Rico Utilities, Inc. rate case Decision No. 67279.

Q. What was the Commission's decision regarding rate design in the Arizona American Water Company rate case?

A. The Commission adopted Staff's recommended rate design for all seven water systems which consisted of an inverted three tier rate design for Residential 5/8 - inch and 3/4 - inch customers and an inverted two tier structure for all other meter sizes and customer classes.

Q. What has Mr. Kozoman identified as problems with Staff's recommended rate design?

A.

> "The major problem I have with Staff's proposed rates is that the lifeline or low income commodity rates in the first tier for the residential customers on 5/8 x ¾ inch and ¾ inch meters. Staff is proposing the three tier rate for residential customers only, and the first tier is available on for the residential customers on smaller meters. All other customers have a two tier rate design."[1]

Q. What was the Commission's decision regarding rate design in the Rio Rico Utilities, Inc. rate case?

A. In the Rio Rico Utilities, Inc. rate case *Mr. Kozoman* proposed and the Commission adopted his inverted three tier rate design for 5/8 – inch customers (both residential and commercial) while all other customer classes have an inverted two tier rate design.

Q. Does Staff's rate design have an inverted three tier design for Residential 5/8 - inch and 3/4 - inch customers and an inverted two tier design for all other classes of customers?

A. Yes, it does.

---

[1] Rebuttal Testimony, Ronald L. Kozoman, Page 3, lines 18 thru 23.

THREE TIER 5/8 – INCH & 3/4 - INCH RESIDENTIAL CUSTOMERS

Q. How does Staff respond to Mr. Kozoman's rebuttal testimony on Pages 3 and 4 that suggests that Staff's alternative justification for its first tier rate is to provide a lifeline rate for residential 5/8 – inch and 3/4 - inch customers while all other customers have a two tier rate design?

A. Mr. Kozoman's suggestion that Staff's alternative purpose for the first tier for residential 5/8-inch and 3/4-inch residential customers is to provide a life line rate is a red herring. Although the first tier for these customers may have some characteristics of a lifeline rate, they are incidental to Staff's overall rate design.

TESTIMONY OF MR. ROBERT L. PRINCE

Q. What about Mr. Prince's assertion that customers may choose to lower their water bills by downsizing from their 1 inch meter and "over revving" the smaller meter which could impact revenues and expenses?[2]

A. The Company's proposed rate design provides for the same asserted opportunity.

RATE DESIGN RECOMMENDATION

Q. What is Staff's surrebuttal recommendation regarding rate design?

A. Staff continues to recommend the rate design as presented in its Direct Testimony.

ARSENIC RECOVERY SURCHARGE MECHANISM

Q. What appears to be the main point of disagreement between Staff and the Company concerning this rate case application?

A. The Company proposes a surcharge mechanism to recover estimated operation and maintenance costs for arsenic treatment and removal. Staff recommends Commission

[2] Rebuttal Testimony Robert L. Prince, lines 12 and 13.

authorization of the surcharge mechanism for the financing portion of plant. Staff further recommends that the Company file a new rate case application after the operation and maintenance costs become known and measurable consistent with prior Commission Decisions.

Q. How does Staff respond to Mr. Bourassa's statement: "However, unlike Staff, the Company believes the ARSM can be approved now in form and does not require a subsequent filing by the Company for consideration by the Commission for approval."[3]

A. Staff is recommending approval of the Company's application for financing through the Water Infrastructure Finance Authority ("WIFA") in the form described in its Direct Testimony, Pages 27 and 28. The methodology is consistent with other Accelerated Arsenic Cost Recovery Mechanisms previously authorized by the Commission; please see Ash Fork Water Service, Decision No. 67158 and Mountain Glen Water Service Inc., Decision No. 67163.

Q. How does Staff respond to Mr. Bourassa's proposal that the Operation and Maintenance Costs associated with the mandated arsenic removal should be recovered by an Arsenic Operating and Maintenance Recovery Surcharge Mechanism ("AOMRSM"), which the Company will only incur actual costs.

A. Staff recommends that the surcharge mechanism be disallowed and that the Company file a rate case application after a period of time has elapsed so that the actual operation and maintenance costs can be determined and the appropriate rates established.

[3] Rebuttal testimony, Mr. Thomas J. Bourassa, Page 8, lines 15 thru 17.

Q. Is the amount of operation and maintenance expenses known and measurable?

A. No. Mr. Bourassa acknowledges that the costs, although a reasonable estimate, are projected.

Q. Is the establishment of the surcharge mechanism in this instance consistent with sound ratemaking principles?

A. No. Authorizing estimated costs, to be recovered at some future time, before they are known and measurable does not allow Staff the opportunity ascertain with any degree of confidence the reasonableness of the charges and whether they are accounted for correctly.

Q. How has the Commission handled these types of projected costs in the past?

A. The Commission has consistently ordered that the operation and maintenance costs associated with arsenic removal be segregated and tracked for a period of time, and that the Company file a new rate case application after the actual costs become known and measurable.

Q. How does Staff respond to Mr. Bourassa's inclusion of refunds of Advances in Aid of Construction ("AIAC") in the Company's calculation of Debt Service Coverage ("DSC")?

A. The Company and Staff differ in their respective methods of calculating DSC. Revised Schedule DRR-21 shows both Staff's and the Company's DSC using their respective methods. Staff's DSC, Column D is 1.86, the Company's DSC, the $43,000 figure from Company Exhibit 4, is 1.45.

Q. Does Staff agree with Mr. Bourassa's statement on Page 7 of his Rebuttal Testimony that Staff incorrectly overstates income tax expense?

A. Staff agrees with Mr. Bourassa. Schedule DRR-21, Column [D], With WIFA Loan, neglected reducing income tax expense because of the interest expense associated with the WIFA loan. Staff has reduced income tax expense in Column [D] by $39,420, from $54,262 to $14,842. This has no effect on Staff recommended rates or Staff's recommended authorization of the WIFA financing application.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

RATE DESIGN

Monthly Usage Charge Residential and Commercial	Present Rates	Company Phase Two	Staff Recommended	Estimated ARSM
5/8" x 3/4" Meter	9.60	14.16	11.24	$ 6.71
3/4" Meter	14.50	21.38	16.87	$ 10.06
1" Meter	24.00	35.38	28.10	$ 16.77
1½" Meter	48.00	70.78	56.21	$ 33.54
2" Meter	77.00	113.54	89.94	$ 53.67
3" Meter	144.00	212.33	179.87	$ 100.63
4" Meter	240.00	353.88	281.05	Not Used
6" Meter	480.00	707.75	562.10	Not Used
8" Meter			899.36	Not Used
10" Meter			1,292.83	Not Used
12" Meter			2,417.03	Not Used
Commerical Construction 3"	144.00	212.33	179.87	$ 100.63

Commodity Charges	Present		Company Proposed: Phase Two				Staff Recommended					
No Gallons included in any Minimum	1st Tier	2nd Tier	1st Tier	2nd Tier	3rd Tier		Upper		Upper			Upper
Excess of Minimum - per 1,000 Gallons	$ 1.80	$ 2.20	$ 2.9400	$ 3.5990	$ 3.9580	1st Tier	Limit	2nd Tier	Limit	3rd Tier		Limit
Residential 5/8" Meter	25,000	Infinite	8,000	12,000	Infinite	$ 1.50	3,000	$ 2.31	10,000	$ 2.53		Infinite
Commercial 5/8" Meter	25,000	Infinite	8,000	12,000	Infinite	$ 2.31	18,000	$ 2.58	Infinite			
Residential 3/4" Meter	25,000	Infinite	12,000	18,000	Infinite	$ 1.50	3,000	$ 2.31	10,000	$ 2.53		Infinite
Commercial 3/4" Meter	25,000	Infinite	12,000	18,000	Infinite	$ 2.31	18,000	$ 2.58	Infinite			
Residential and Commercial												
1" Meter	25,000	Infinite	20,000	30,000	Infinite	$ 2.31	50,359	$ 2.53	Infinite			
1½" Meter	25,000	Infinite	40,000	60,800	Infinite	$ 2.31	126,054	$ 2.53	Infinite			
2" Meter	25,000	Infinite	64,000	96,000	Infinite	$ 2.31	151,256	$ 2.53	Infinite			
3" Meter	25,000	Infinite	128,000	192,000	Infinite	$ 2.31	403,274	$ 2.53	Infinite			
4" Meter	25,000	Infinite	200,000	300,000	Infinite	$ 2.31	453,722	$ 2.53	Infinite			
6" Meter	25,000	Infinite	400,000	600,000	Infinite	$ 2.31	1,260,313	$ 2.53	Infinite			
8" Meter												
10" Meter												
12" Meter												
Commerical Construction 3" Flat Rates	$ 2.60		$ 4.25				$ 3.02					

Service Line and Meter Installation Charges

	Present Rates	Company Proposed Phase Two			Staff Recommended		
Residential and Commercial	Total	Service Line	Meter Install.	Total	Service Line	Meter Install.	Total
5/8" x 3/4" Meter	455.00	385.00	135.00	520.00	385.00	135.00	520.00
3/4" Meter	515.00	385.00	215.00	600.00	385.00	215.00	600.00
1" Meter	590.00	435.00	255.00	690.00	435.00	255.00	690.00
1½" Meter	820.00	470.00	465.00	935.00	470.00	465.00	935.00
2" Turbine Meter	1,380.00	630.00	965.00	1,595.00	630.00	965.00	1,595.00
2" Compound Meter	2,010.00	630.00	1,690.00	2,320.00	630.00	1,690.00	2,320.00
3" Turbine Meter	1,935.00	805.00	1,470.00	2,275.00	805.00	1,470.00	2,275.00
3" Compound Meter	2,650.00	845.00	2,265.00	3,110.00	845.00	2,265.00	3,110.00
4" Turbine Meter	3,030.00	1,170.00	2,350.00	3,520.00	1,170.00	2,350.00	3,520.00
4" Compound Meter	3,835.00	1,230.00	3,245.00	4,475.00	1,230.00	3,245.00	4,475.00
6" Turbine Meter	3,535.00	1,730.00	4,545.00	6,275.00	1,730.00	4,545.00	6,275.00
6" Compound Meter	7,130.00	1,770.00	6,280.00	8,050.00	1,770.00	6,280.00	8,050.00
8" Meter	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
10" Meter	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
12" Meter	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

Service Charges	Present	Company Proposed Phase One	Staff Recommended
Establishment	30.00	30.00	30.00
Establishment (After Hours)	45.00	45.00	45.00
Reconnection (Delinquent)	40.00	40.00	40.00
Reconnection (Delinquent)- After Hours	40.00	40.00	40.00
Meter Test (If Correct)	30.00	30.00	30.00
Deposit - Residential Note 1			
Deposit - Non - Residential Note 2			
Deposit Interest - Note 3	6.00%	6.00%	6.00%
Re-Establishment (Within 12 Months)- Note 4			
NSF Check	25.00	25.00	25.00
Meter Re-Read (If Correct)	10.00	10.00	10.00

Note 1 Per Commission Rules (R14-2-403.B) Two times the average bill.
Note 2 Per Commission Rules (R14-2-403.B) Two and one-half times the average bill
Note 3 Per Commission Rules (R14-2-403.B)
Note 4 Months off system times the minimum (R14-2-403.D)

VALLEY UTILITIES WATER COMPANY, INC.
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

Schedule DRR-17

MINIMUM MONTHLY CHARGES AND COMMODITY RATES

LINE NO.	CUSTOMER CLASS	PRESENT		COMPANY PHASE TWO		STAFF RECOMMENDED		PRESENT RATES			
								TIER ONE		TIER TWO	
		MINIMUM CHARGE	GALLONS INCLUDED	MINIMUM CHARGE (b)	GALLONS INCLUDED	MINIMUM CHARGE	GALLONS INCLUDED	COMMODITY RATE	UPPER LIMIT	COMMODITY RATE	UPPER LIMIT
1	Residential 5/8"x3/4"	$ 9.60	-	$ 14.16	-	$ 11.24	-	$ 1.80	25,000	$ 2.20	9,999,999
2	Residential 3/4"	$ 14.50	-	$ 21.38	-	$ 16.87	-	$ 1.80	25,000	$ 2.20	9,999,999
3	Residential 1"	$ 24.00	-	$ 35.38	-	$ 28.10	-	$ 1.80	25,000	$ 2.20	9,999,999
4	Residential 1.5"	$ 48.00	-	$ 70.78	-	$ 56.21	-	$ 1.80	25,000	$ 2.20	9,999,999
5	Residential 2"	$ 77.00	-	$ 113.54	-	$ 89.94	-	$ 1.80	25,000	$ 2.20	9,999,999
6	Residential 3"	$ 144.00	-	$ 212.33	-	$ 179.87	-	$ 1.80	25,000	$ 2.20	9,999,999
7	Residential 4"	$ 240.00	-	$ 353.88	-	$ 281.05	-	$ 1.80	25,000	$ 2.20	9,999,999
8	Residential 6"	$ 480.00	-	$ 707.75	-	$ 562.10	-	$ 1.80	25,000	$ 2.20	9,999,999
9	Commerical 5/8"	$ 9.60	-	$ 14.16	-	$ 11.24	-	$ 1.80	25,000	$ 2.20	9,999,999
10	Commerical 3/4"	$ 14.50	-	$ 21.38	-	$ 16.87	-	$ 1.80	25,000	$ 2.20	9,999,999
11	Commerical 1"	$ 24.00	-	$ 35.38	-	$ 28.10	-	$ 1.80	25,000	$ 2.20	9,999,999
12	Commerical 1.5"	$ 48.00	-	$ 70.78	-	$ 56.21	-	$ 1.80	25,000	$ 2.20	9,999,999
13	Commerical 2"	$ 77.00	-	$ 113.54	-	$ 89.94	-	$ 1.80	25,000	$ 2.20	9,999,999
14	Commerical 3"	$ 144.00	-	$ 212.33	-	$ 179.87	-	$ 1.80	25,000	$ 2.20	9,999,999
15	Commerical 4"	$ 240.00	-	$ 353.88	-	$ 281.05	-	$ 1.80	25,000	$ 2.20	9,999,999
16	Commerical 6"	$ 480.00	-	$ 707.75	-	$ 562.10	-	$ 1.80	25,000	$ 2.20	9,999,999
17	Construction Water	$ 144.00	-	$ 212.33	-	$ 179.87	-	$ 2.60	9,999,999		
18	Intentially Left Blank										

LINE NO.	CUSTOMER CLASS	COMPANY PROPOSED RATES: PHASE TWO						STAFF RECOMMENDED RATES					
		TIER ONE		TIER TWO		TIER THREE		TIER ONE		TIER TWO		TIER THREE	
		COMMODITY RATE	UPPER LIMIT (000's)	COMMODITY RATE	UPPER LIMIT	COMMODITY RATE	UPPER LIMIT	COMMODITY RATE	UPPER LIMIT	COMMODITY RATE	UPPER LIMIT	COMMODITY RATE	UPPER LIMIT
19	Residential 5/8"x3/4"	$ 2.94	8,000	$ 3.60	12,000	$ 3.9580	Infinite	$ 1.50	3,000	$ 2.31	10,000	$ 2.53	Infinite
20	Residential 3/4"	$ 2.94	12,000	$ 3.60	18,000	$ 3.9580	Infinite	$ 1.50	3,000	$ 2.31	10,000	$ 2.53	Infinite
21	Residential 1"	$ 2.94	20,000	$ 3.60	30,000	$ 3.9580	Infinite	$ 2.31	50,359	$ 2.53	Infinite		
22	Residential 1.5"	$ 2.94	40,000	$ 3.60	60,800	$ 3.9580	Infinite	$ 2.31	126,054	$ 2.53	Infinite		
23	Residential 2"	$ 2.94	64,000	$ 3.60	96,000	$ 3.9580	Infinite	$ 2.31	151,256	$ 2.53	Infinite		
24	Residential 3"	$ 2.94	128,000	$ 3.60	192,000	$ 3.9580	Infinite	$ 2.31	403,274	$ 2.53	Infinite		
25	Residential 4"	$ 2.94	200,000	$ 3.60	300,000	$ 3.9580	Infinite	$ 2.31	453,722	$ 2.53	Infinite		
26	Residential 6"	$ 2.94	400,000	$ 3.60	600,000	$ 3.9580	Infinite	$ 2.31	1,260,313	$ 2.53	Infinite		
27	Commerical 5/8"	$ 2.94	8,000	$ 3.60	12,000	$ 3.9580	Infinite	$ 2.31	18,000	$ 2.58	Infinite		
28	Commerical 3/4"	$ 2.94	12,000	$ 3.60	18,000	$ 3.9580	Infinite	$ 2.31	18,000	$ 2.58	Infinite		
29	Commerical 1"	$ 2.94	20,000	$ 3.60	30,000	$ 3.9580	Infinite	$ 2.31	50,359	$ 2.53	Infinite		
30	Commerical 1.5"	$ 2.94	40,000	$ 3.60	60,800	$ 3.9580	Infinite	$ 2.31	126,054	$ 2.53	Infinite		
31	Commerical 2"	$ 2.94	64,000	$ 3.60	96,000	$ 3.9580	Infinite	$ 2.31	151,256	$ 2.53	Infinite		
32	Commerical 3"	$ 2.94	128,000	$ 3.60	192,000	$ 3.9580	Infinite	$ 2.31	403,274	$ 2.53	Infinite		
33	Commerical 4"	$ 2.94	200,000	$ 3.60	300,000	$ 3.9580	Infinite	$ 2.31	453,722	$ 2.53	Infinite		
34	Commerical 6"	$ 2.94	400,000	$ 3.60	600,000	$ 3.9580	Infinite	$ 2.31	1,260,313	$ 2.53	Infinite		
35	Construction Water	$ 4.25	Infinite					$ 3.02	Infinite				
36	Intentially Left Blank												

VALLEY UTILITIES WATER COMPANY, INC. **REVISED 6/09/2005** Schedule DRR-21
Docket Nos. W-01412A-04-0736 & W-01412A-04-0849
Test Year Ended December 31, 2003

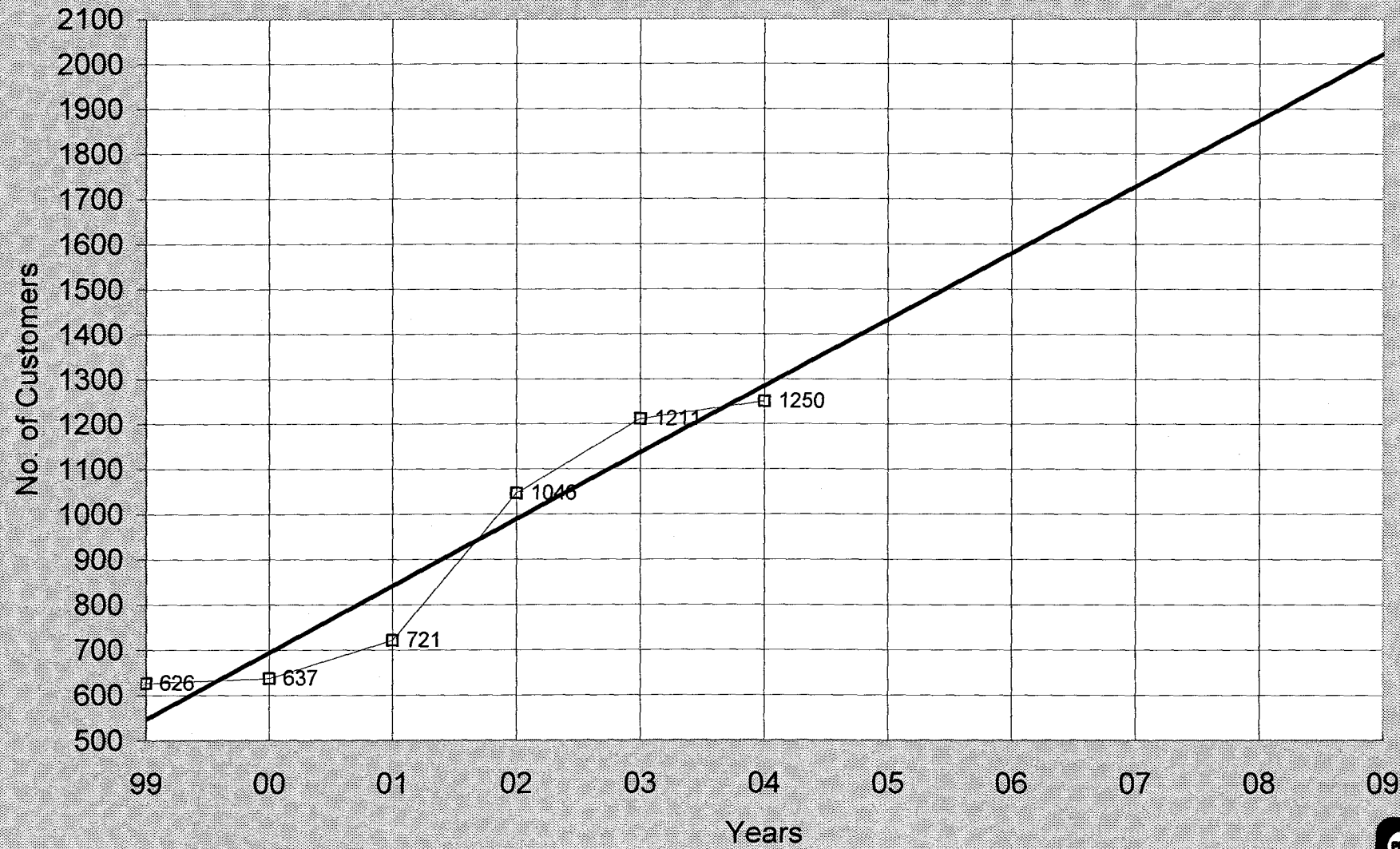
FINANCIAL ANALYSIS

Selected Financial Data
Including Immediate Effects of the Proposed Debt With Staff Recommended Surcharge
Staff Recommended Rates and Pro Forma Surcharge and WIFA Loan

INCOME STATEMENT	[A] Recommend Rates	[B] Pro Forma Surcharge	[C] Recommend Rates With Surcharge	[D] With WIFA Loan
Metered Water Revenue	$ 915,720		$ 915,720	$ 915,720
Surcharge	$ -	$ 185,247	$ 185,247	$ -
Other Water Revenues	$ 41,791	$ -	$ 41,791	$ 41,791
Operating Revenue:	$ 957,511	$ 185,247	$ 1,142,758	$ 957,511
Operating Expenses:				
Purchased Water/Pumping Power	$ 106,043	$ -	$ 106,043	$ 106,043
Admin. & General	$ 480,922	$ -	$ 480,922	$ 480,922
Maintenance & Testing	$ 20,630	$ -	$ 20,630	$ 20,630
Depreciation [4]	$ 133,543	$ -	$ 133,543	$ 133,543
Property Taxes	$ 48,747	$ -	$ 48,747	$ 48,747
Other taxes	$ 17,612	$ -	$ 17,612	$ 17,612
Income Tax [2]	$ 54,262	$ 32,710	$ 86,972	$ 14,842
Total Operating Expense	$ 861,760	$ 32,710	$ 894,469	$ 822,339
Operating Income [1]	$ 95,751	$ 152,537	$ 248,288	$ 135,172
Interest Income	$ -	$ -	$ -	$ -
Interest Expense [3]	$ -	$ 94,998	$ 94,998	$ 94,998
Interest-Customer Deposits	$ -	$ -	$ -	$ -
Refunds of AIAC during Test Year [6]	$ 43,000	$ 43,000	$ 43,000	$ 43,000
Net Income	$ 95,751	$ 57,539	$ 153,290	$ 40,173
Principal Repayment [5]	$ -	$ 57,539	$ 57,539	$ 57,539
TIER (Interest Coverage)				
[1 + 2] ÷ 3	N/A		3.53	1.58
Staff DSC				
[1 + 2 + 4] ÷ [3 + 5]	N/A		3.07	1.86
Company DSC				
[1 + 2 + 4] ÷ [3 + 5 + 6]	N/A		2.40	1.45
Capital Structure				
Short-term Debt	$ -	0%	$ 94,998	$ 94,998
Long-term Debt	$ -	0%	$ 1,831,102	$ 1,831,102
Common Equity	$ (413,442)	100%	$ (413,442)	$ (413,442)
Total Capital	$ (413,442)	100%	$ 1,512,658	$ 1,512,658

[A] Staff's recommended permanent rates without WIFA loan
[B] Staff's recommended pro forma surcharge effects with a WIFA loan
[C] Column [A] + Column [B]
[D] Staff's recommended permanent rates without a surcharge

Figure D-1. Growth



PENGAD-Bayonne, N.J.
EXHIBIT
S-4
Identified