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Arizona Corporation Commission  
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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 5<sup>th</sup> day of July 2005.

SALLQUIST, DRUMMOND & O'CONNOR, P.C.  
By: [Signature]  
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Attorneys for Valley Utilities Water Company, Inc.

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Original and fifteen copies of the foregoing filed this 9<sup>th</sup> day of July 2005:

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

A copy of the foregoing ~~made~~ hand delivered this 5<sup>th</sup> day of July 2005, to:

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

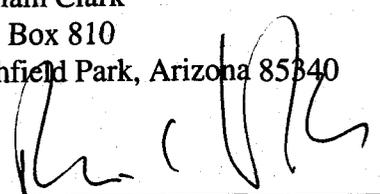
Legal Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

Hearing Division  
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**VALLEY WATER UTILITIES COMPANY**  
**DOCKET NOS. W-01412A-04-00736 7 0849**

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**REJOINDER TESTIMONY OF**  
**THOMAS J. BOURASSA**

**July 5, 2005**

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**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%.

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**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%

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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%

\* 2<sup>nd</sup> 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:

	<u>Proposed Revenues</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
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%

\* 2<sup>nd</sup> 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

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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.

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**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:

	<u>OCRB</u>	<u>FVRB</u>
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)

\* 2<sup>nd</sup> 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

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3 Staff's expense adjustments. The slight differences are in depreciation expense,  
4 property tax expense, and income tax expense.

5 Rejoinder adjustment number one shows the Company's proposed rate  
6 increase. This is the same amount as proposed by Staff and produces an  
7 approximate 10 percent operating margin.

8 Rejoinder adjustment number two shows the increase in revenues required  
9 for the ARSM. The Company's number is slightly lower than Staff's.

10 Rejoinder adjustment number three reflects property taxes at proposed  
11 revenues. Proposed revenues include both the rate increase and the ARSM  
12 revenues. The property tax calculation reflects the recently passed Arizona  
13 legislation (HB 2779) which reduces the property tax assessment ratio by 5  
14 percent over 10 years. That is, 1/2 of one percent for each of the next 10 years  
15 starting in 2006. The Company's calculation employs a two year reduction from  
16 25% to 24%.

17 Rejoinder adjustment four increases interest expense to reflect interest on  
18 the proposed WIFA loan. This adjustment is necessary to account for interest  
19 expense effects on income taxes.

20 Rejoinder adjustments five increase income taxes to reflect the Company's  
21 rejoinder proposed income taxes.

22 V. ARSENIC RECOVERY SURCHARGE MECHANISM

23 Q. DOES STAFF SUPPORT AN ARSENIC RECOVERY SURCHARGE  
24 MECHANISM?

25 A. Yes. As I testified above, my previous understanding was Staff did not propose  
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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 CALCULATED THE IMPACT OF THE ARSM ON RATES USING THE COMPANY’S REJOINER 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

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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

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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**

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**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

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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  
 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
1	5/8 Inch	Residential	9,251	\$ 26.28	\$ 29.72	13.09%	6.70	\$ 36.42	38.58%	\$ 7.77	\$ 44.19	68.15%
2	3/4 Inch	Residential	10,134	32.94	36.44	10.63%	10.05	46.49	41.14%	8.51	55.00	66.98%
3	1 Inch	Residential	19,749	60.07	66.50	10.70%	16.75	83.25	38.59%	16.59	99.84	66.20%
4	5/8 Inch	Commercial	3,369	15.67	17.30	10.40%	6.70	24.00	53.16%	2.83	26.83	71.22%
5	1 Inch	Commercial	38,207	98.53	115.49	17.21%	16.75	132.24	34.21%	32.09	164.33	66.79%
6	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%
7	2 Inch	Commercial	158,299	415.39	471.04	13.40%	53.60	524.64	26.30%	132.97	657.61	58.31%
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(1) Arsenic Recovery Surcharge Mechanism for recovery of debt service on WIFA loan. See Exhibit 1 for calculation.

(2) Arsenic Operating and Maintenance Recovery Surcharge Mechanism. Commodity cost per 1,000 gallons is \$ 0.84

Arsenic Operating and Maintenance Costs (A)

\$ 216,600

Gallons Sold during Test Year in 1,000's (B)

258,740

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.		<u>Company Proposed</u>	<u>Projected Arsenic O&amp;M Expense Impacts</u>	<u>Company Proposed With Arsenic O&amp;M</u>
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)	<u>\$ 247,268</u>		<u>\$ 54,428</u>
9				
10	<b><u>Debt Service Coverage ("DSC")</u></b>			
11				
12	Operating Income	\$ 247,268		\$ 54,428
13	Depreciation & Amortization	133,545		196,269
14	Income Taxes	86,534		50
15	Total (1)	<u>\$ 467,347</u>		<u>\$ 250,747</u>
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)	<u>\$ 195,537</u>		<u>\$ 195,537</u>
22				
23	DSC [1 divided by 2]	<u>2.39</u>		<u>1.28</u>
24				
25	DSC [1 minus 5 divided by 2]	<u>3.06</u>		<u>1.64</u>
26	(without consideration of AIAC refunds)			
27				
28	<b><u>Cash Flow Calculation</u></b>			
29				
30	<b><u>Cash Inflows</u></b>			
31	Net Income (loss) [3 minus 4]	\$ 152,270		\$ (40,570)
32	Depreciation & Amortization	133,545		196,269
33	Total Cash Inflows (6)	<u>\$ 285,815</u>		<u>\$ 155,699</u>
34				
35	<b><u>Cash Outflows</u></b>			
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)	<u>\$ 195,537</u>		<u>\$ 195,537</u>
40				
41	Net Cash (6 minus 7 equals 8)	<u>\$ 90,278</u>		<u>\$ (39,838)</u>
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	<b><u>Excluding ARSM Revenues</u></b>						
19	Customer						
20	<b><u>Classification</u></b>						
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	<b><u>Revenue Annualization</u></b>						
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		<u>\$825,148</u>		<u>\$954,728</u>		<u>\$ 129,580 15.70%</u>

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.		Present Rates	Proposed Rates *	Dollar Increase	Percent Increase
1	<b><u>Including ARSM Revenues</u></b>				
2	Customer				
3	<u>Classification</u>				
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	<b>Revenue Annualization</b>				
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	<b>Total of Water Revenues</b>	<b>\$825,148</b>	<b>\$1,139,970</b>	<b>\$ 314,821</b>	<b>38.15%</b>

\* Includes ARSM revenues.

**SUPPORTING SCHEDULES:**

- 28 Rebuttal B-1
- 29 Rebuttal C-1
- 30 Rebuttal C-3
- 31 Rebuttal H-1

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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	<u>1,391,574</u>
4		
5	Net Utility Plant in Service	\$ 2,911,495
6		
7	<u>Less:</u>	
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	<u>Plus:</u>	
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	<u>\$ (543,488)</u>

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    Amount	Rejoinder Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 4,303,069		\$ 4,303,069
3				
4	<b>Less:</b>			
5				
6	Accumulated			
7	Depreciation	<u>1,391,574</u>		<u>1,391,574</u>
8				
9	Net Utility Plant			
10	in Service	\$ 2,911,495		\$ 2,911,495
11				
12	<b>Less:</b>			
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	<b>Plus:</b>			
22				
23	Deferred Tax Assets	-		-
24				
25	Working capital	96,114		96,114
26				
27				
28	Total	<u>\$ (543,488)</u>		<u>\$ (543,488)</u>

32 SUPPORTING SCHEDULES:  
33 Rejoinder B-5

32 RECAP SCHEDULES:  
33 Rejoinder B-1

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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:

16 Rejoinder C-1

17

RECAP SCHEDULES:

Rejoinder B-2

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	<b>Revenues</b>						
2	Metered Water Revenues	\$ 785,774	1	129,946	\$ 915,720		\$ 915,720
3	Arsenic Recovery Surcharge (ARSM) Revenues	-			-	2	185,236
4	Unmetered Water Revenues	-			-		-
5	Other Water Revenues	41,791			41,791		41,791
6		<u>\$ 827,565</u>		<u>\$ 129,946</u>	<u>\$ 957,511</u>	<u>\$ 185,236</u>	<u>\$ 1,142,747</u>
7	<b>Operating Expenses</b>						
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
26		-			-		-
27	<b>Total Operating Expenses</b>	<u>\$ 813,587</u>		<u>\$ 49,193</u>	<u>\$ 862,780</u>	<u>\$ 32,699</u>	<u>\$ 895,479</u>
28	<b>Operating Income</b>	<u>\$ 13,978</u>		<u>\$ 80,753</u>	<u>\$ 94,731</u>	<u>\$ 152,537</u>	<u>\$ 247,268</u>
29	<b>Other Income (Expense)</b>						
30	Interest Income	-			-		-
31	Other income	-			-		-
32	Income Tax Provision	-			-		-
33	Interest Expense	-			-	4	(94,998)
34	Other Expense	-			-		-
35	Gain/Loss Sale of Fixed Assets	-			-		-
36	<b>Total Other Income (Expense)</b>	<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ (94,998)</u>	<u>\$ (94,998)</u>
37	<b>Net Profit (Loss)</b>	<u>\$ 13,978</u>		<u>\$ 80,753</u>	<u>\$ 94,731</u>	<u>\$ 57,539</u>	<u>\$ 152,270</u>

38  
 39 SUPPORTING SCHEDULES:  
 40 Rejoinder C-2  
 41  
 42

RECAP SCHEDULES:  
 Rejoinder A-1

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

Line No.	1	2	3	4	5	6	Subtotal
	Revenue Increase	Arsenic Recovery Surcharge	Property Taxes	Interest Expense on WIFA Loan	Income Taxes	INTENTIONALLY LEFT BLANK	
1	129,946	185,236					315,182
2			1,641		47,552		49,193
3							
4							
5							
6							
7	129,946	185,236	(1,641)	-	(47,552)	-	265,989
8							
9							
10							
11				(94,998)			(94,998)
12							
13							
14							
15							
16	129,946	185,236	(1,641)	(94,998)	(47,552)	-	170,991
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							170,991
37							
38							

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	<u>Proposed Increase in the Revenue Requirement</u>	
2		
3		
4	Proposed Increase (approximately 10 percent operating margin approach)	\$ 129,946
5		
6		
7		
8		
9		
10	Increase (decrease) in revenues	<u>\$ 129,946</u>
11		
12		
13		
14		
15		
16		
17	<u>SUPPORTING SCHEDULE:</u>	
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	<u>Arsenic Recovery Surcharge Revenues</u>	
2		
3		
4	Principle 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)	<u>94,998</u>
8		
9	Total Increase in Revenue Requirement (3) plus (4) equals (5)	\$ 185,236
10		
11		
12	Adjustment to Revenues and/or Expenses	<u>\$ 185,236</u>
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	<u>Property Taxes</u>	
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	<u>1,142,747</u>
6	Average of three year's of revenue	<u>\$ 932,626</u>
7	Average of three year's of revenue, times 2	\$ 1,865,251
8	Add:	
9	Construction Work in Progress at 10%	0
10	Deduct:	
11	Book Value of Transportation Equipment	29,253
12		
13	Total Book Value of Transportation Equipment	<u>\$ 29,253</u>
14		
15	Full Cash Value	\$ 1,835,998
16	Assessment Ratio	<u>24%</u>
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	<u>\$ 50,193</u>
24	Rebuttal Property Taxes in the test year	48,552
25	Change in Property Taxes	<u>\$ 1,641</u>
26		
27		
28	Adjustment to Revenues and/or Expenses	<u>\$ 1,641</u>
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

<u>Line</u> <u>No.</u>			
1	<u>Interest Expense</u>		
2			
3	Interest Expense on WIFA Loan	\$	94,998
4			
5			
6			
7			
8			
9	Adjustment to Revenues and/or Expense	\$	<u>(94,998)</u>
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.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Federal Income Taxes	29.27%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	<u>0.00%</u>
6		
7		
8	Total Tax Percentage	36.24%
9		
10	Operating Income % = 100% - Tax Percentage	63.76%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.5683
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		Rejoinder A-1
20		

1  
2  
3  
4 **REJOINDER TESTIMONY OF**

5 **RONALD L. KOZOMAN**

6  
7 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

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

9  
10  
11 **Q. YOU ARE THE SAME RONALD L. KOZOMAN WHO SUBMITTED DIRECT  
12 AND REBUTTAL TESTIMONY IN THIS DOCKET?**

13 **A.** Yes, I am.

14  
15  
16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 **A.** I will testify for Valley Utilities Water Inc. (the "Company") concerning the surrebuttal  
18 testimony of Mr. Dennis Rogers of the Arizona Corporation Commission ("ACC) Staff  
19 relating to his proposed rates.

20  
21  
22 **Q. BEFORE YOU BEGIN YOUR REJOINDER TESTIMONY, DO YOU WANT TO  
23 MAKE AN APOLOGE TO MR. ROGERS FOR A STATEMENT IN YOUR  
24 REBUTTAL TESTIMONY?**

25 **A.** Yes. I would like to apologize to Mr. Rogers regarding my rebuttal testimony that his  
26 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.

27  
28  
29 **Q. WOULD YOU PROVIDE AN A BRIEF SUMMARY OF YOUR REJOINDER  
30 TESTIMONY ON RATES?**

1 A. Yes. The Company still disagrees with Mr. Rogers recommended rate design,  
2 particularly the low income, lifeline, or nondiscretionary water use with a tier that is  
3 available only for residential customers on 5/8 x 3/4 inch meters and 3/4 inch meters.  
4 Staff proposed three tier rates, but only for the residential customers on 5/8 x 3/4 inch  
5 meters and 3/4 inch meters. All other customers, except the construction class on the  
6 three inch meter, would have two tiered rates.

7 The Company proposes three tier rates for all customers, except the construction  
8 customer class on the three inch meter.

9  
10 **Q. BUT DOESN'T MR. ROGERS TESTIFY THAT THE COMMISSION HAS**  
11 **ADOPTED HIS THREE TIER RATE DESIGN FOR ARIZONA AMERICAN**  
12 **WATER COMPANY?**

13 A. Yes, he does. Because the Commission adopted Staff's proposed rate design for Arizona  
14 American Water Company, doesn't mean that I agree that it the best rate design.

15 He also testifies that I proposed a three tier rate for the smaller residential  
16 customer class in Rio Rico Utilities.

17  
18 **Q. YOU RECOMMENDED A THREE TIER RATE FOR THE RESIDENTIAL**  
19 **CUSTOMERS ON SMALLER METERS FOR RIO RICO UTILITY, WHY?**

20 A. To have some chance that the Administrative Law Judge would adopt my proposed rate  
21 design, which spread the rate increase as uniformly as possible, and also adhered to my  
22 cost of service study in that case as much as possible. Rio Rico Utilities had a single tier  
23 rate, prior to the last Commission Decision.

24 Mr. Rogers, who was also a witness in that case, proposed a three tier rate design  
25 for Rio Rico which didn't spread the rate increase as uniformly as the three tier rate  
26 design that I proposed. Additionally, the Residential Utility Consumers Office

1 ("RUCO") was recommending a rate design that transferred a high dollar amount of their  
2 proposed rate increase to customers on larger sized meters. Thus, I had to provide an  
3 alternative to the Administrative Law Judge.

4 And recently I submitted a three tier rate design for Chaparral City Water  
5 Company (Docket No.W-01223A-04-0616). This was also done to provide a choice to  
6 the Administrative Law Judge.

7  
8 **Q. WHAT IS YOUR MAJOR OBJECTION WITH STAFF'S RECOMMENDED**  
9 **RESIDENTIAL FIRST TIER RATE DESIGN?**

10 A. I am of the opinion that lower rates are acceptable for customers who actually need a life  
11 line, low income, or a nondiscretionary water use (or whatever you chose to call it) rate.  
12 But, I don't think it is appropriate to offer a life line, low income or nondiscretionary  
13 water use rate to all residential customers on a particular meter sizes.

14 It doesn't make sense to create a subsidy for certain classes of customers when  
15 there is no support for such a subsidy. Staff has never provided, in this case, or other  
16 cases, any study supporting why residential customers on 5/8 inch and 3/4 inch meters  
17 need a lower rate. The lower first tier rate is just an attempt reduce the rate increase on  
18 these residential classes.

19 The purpose of three tier rates is to encourage conservation, not create subsidies,  
20 or design rates that favor a particular class of customer. Lowering the present commodity  
21 rate from \$1.80 to \$1.50 is just not a conservation message.

22 Conservation begins with the first and the last gallon sold to customers.  
23 Providing lower first tier rates greatly weakens the conservation message.

24 If the purpose of three tier rates is not to encourage conservation, why are three  
25 tier rates being proposed?  
26

1 Q. WHAT MESSAGE DOES STAFF'S THREE TIER RATES GIVE TO  
2 CUSTOMERS?

3 A. The message is that Company can produce the first 3,000 gallons of water for residential  
4 customers at a lower cost than it can produce additional gallons. However, as long as you  
5 don't need additional production capacity, the cost of producing water is for all purposes  
6 uniform.

7  
8 Q. DO YOU HAVE A COST OF SERVICE STUDY IN THE INSTANT CASE TO  
9 SUPPORT THAT CONCLUSION?

10 A. No, I don't. But I have never seen a cost of service study that shows it is less expensive  
11 to produce the first 3,000 gallons compared to additional gallons, assuming that  
12 production capacity is not a problem.

13  
14 Q. HAVE ARE YOU PREPARED REJOINDER SCHEDULES IN THE INSTANT  
15 CASE?

16 A. Yes. There are two sets of Rejoinder Schedules, consisting of Schedules H-1, H-2, and  
17 H-3. The first set of Rejoinder Schedules contains the rates and resulting revenues based  
18 on the Company's Rejoinder revenue requirement, without the loan surcharge for the  
19 Arsenic Recovery Surcharge Mechanism ("ARSM").

20 The second set of Rejoinder Schedules contains the rates and resulting revenues  
21 based on the Company's Rejoinder revenue requirement, with the loan surcharge for the  
22 ARSM.

23  
24 Q. HAVE THE MONTHLY MINIMUMS CHANGED FROM WHAT WAS  
25 PROPOSED IN THE REBUTTAL PHASE OF YOUR TESTIMONY?

26

1 A. No, the minimums remain the same as proposed in my Rebuttal. The proposed monthly  
2 minimums, without the ARSM charge are:  
3

<b>Meter Size</b>	<b>Monthly Minimum</b>	<b>Gallons Included in Monthly Minimum</b>
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

15  
16 **Q. ARE YOU PROPOSING NEW COMMODITY RATES IN THIS TESTIMONY?**

17 A. Yes. The commodity rates are \$2.00, \$2.50 and \$2.86 per 1,000 gallons for tiers one, two  
18 and three respectively. These rates are applicable to all water sales except construction  
19 water sales. The water sold for Construction is priced at \$3.10 per thousand for all water.  
20

21 **Q. ARE YOU PROPOSING DIFFERENT BREAK-OVER POINTS FOR THE TIERS  
22 THAN YOU PREVIOUSLY USED?**

23 A. No.  
24  
25  
26

1 Q. WHAT ARE THE PROPOSED MONTHLY MINIMUMS WHICH INCLUDE  
2 THE ARSM FOR THE LOAN TO SECURE ARESENIC TREATMENT PLANT?

3 A. The proposed monthly minimums, with the ARSM charge are:

4

5

6

7

8

9

10

11

12

13

14

15

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

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26

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.

1 Q. **HAVE YOU COMPARED YOUR PROPOSED RATES TO STAFF PROPOSED**  
2 **RATES?**

3 A. Yes. The comparison is shown on Exhibit 1.  
4

5 Q. **WOULD YOU EXPLAIN WHAT IS CONTAINED ON THIS EXHIBIT?**

6 A. On page one of Exhibit 1 the Company's present and proposed rates are shown. I have  
7 listed the proposed monthly minimums without the ARSM charge, and with the ARSM  
8 charge. Additionally I have included the break-over points for each size meter, and the  
9 commodity rates.

10 On Page two of Exhibit 1, the Staff's proposed monthly minimums, break-over  
11 points for each meter size, and the commodity rates, *without the ARSM charge and with*  
12 *the ARSM charge* are shown.  
13

14 Q. **WOULD YOU PLEASE EXPLAIN WHAT IS SHOWN ON PAGES 3 AND 4 OF**  
15 **EXHIBIT ONE?**

16 A. Page 3 contains a comparison of the Company's proposed rates compared to the Staff's  
17 proposed rates for residential customers on 5/8 inch and 3/4 meters at various usage  
18 levels. This comparison includes the ARSM charge. Page 4 is a comparison of rates for  
19 the residential 1 inch customers at various usage levels, and a similar comparison for  
20 commercial customers on the 2 inch meters.  
21

22 Q. **HOW COME THE COMPANY'S PROPOSED RATE INCREASES FOR THE 5/8**  
23 **AND 3/4 INCH RESIDENTIAL CUSTOMERS ARE LOWER IN DOLLARS AND**  
24 **PERCENT THAN STAFF'S? THIS IS TRUE FOR THE USAGE UP TO 2,000**  
25 **GALLONS, YET STAFF RECOMMENDS A LOWER PRICED TIER FOR THE**  
26 **RESIDENTIAL FIRST TIER?**

1 A. Staff recommends more of an increase in the monthly minimum, without the ARSM  
2 surcharge than the Company. (The Company's ARSM surcharge is approximately the  
3 same as the Staff's). Staff's increase in the monthly minimum is greater than the savings  
4 from the lower commodity rate for the first tier. The Company's lower increase in the  
5 monthly minimum has more risk, because as the customers conserve, the revenue  
6 received from customers will be lower.  
7

8 **Q. WHAT HAPPENS AFTER USAGE OF 2,000 GALLONS?**

9 A. The Company's proposed rates are higher than Staff's.  
10

11 **Q. IS THIS WHAT YOU WERE REFERRING TO A CONSERVATION MESSAGE**  
12 **FOR BOTH THE FIRST AND LAST GALLON SOLD TO A CUSTOMER?**

13 A. Yes. The customer can't affect a saving in the monthly minimum. The only savings the  
14 customer can bring about is to use less water.  
15

16 **Q. IS THIS ALSO TRUE FOR THE RESIDENTIAL CUSTOMER ON A 1 INCH**  
17 **METER, AND THE COMMERCIAL CUSTOMER ON A 2 INCH METER?**

18 A. Yes.  
19

20 **Q. THEN THE DIFFERENCE IS DUE TO A MIX OF THE MONTHLY MINIMUMS**  
21 **INCREASES AND THE INCREASES IN THE COMMODITY RATES?**

22 A. Yes.  
23

24 **Q. AND YOU PREVIOUSLY TESTIFIED SAID THAT INCREASING THE**  
25 **MONTHLY MINIMUMS IS LESS RISKY THAN INCREASING THE**  
26 **COMMODITY RATES?**

1 A. Yes.

2

3 **Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY?**

4 A. Yes, it does.

5

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**Valley Utilities Water Company Inc.**  
 Comparison of Company's Present & Rejoinder Proposed and  
 and ACC Staff's Proposed Surrebutal 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			Breakover Tier 1	Breakover Tier 2	Breakover Tier 3	Rate for Tier 1	Rate for Tier 2	Rate for Tier 3
		Monthly Minimums								
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										
12										
13										
14										
15										
16										
17										
18										
19										
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										
31										
32										
33										
34										
35										
36										
37										
38										
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.**  
 Comparison 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

Line No.	Meter Size	ACC Staff's Proposed Rates Without Estimated ARSM Surcharge		Data From Surrebuttal Schedule DDR-17					
		Monthly Minimums	Monthly Percent-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		

Line No.	Meter Size	ACC Staff's Proposed Rates With Estimated ARSM		Rate Data From Surrebuttal Schedule DDR-17 ARSM Surcharge from Rebuttal Schedule DDR-16					
		Monthly Minimums	Monthly Percent-Increase	Breakover Tier 1	Breakover Tier 2	Breakover Tier 3	Rate for Tier 1	Rate for Tier 2	Rate for 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.**  
**Comparison 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	Company Proposed Rates With				Staff Proposed Rates With			
		Present Rates	ARSM Surcharge	Dollar Increase	Percent Increase	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%	

(a)

(a) Does Not Include Estimated Operation & Maintenance Expenses for Arsenic Treatment

**Residential 3/4 Inch Customer**

Line No.	Water Usage	Company Proposed Rates With				Staff Proposed Rates With			
		Present Rates	ARSM Surcharge	Dollar Increase	Percent Increase	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%	

(a)

(a) Does Not Include Estimated Operation & Maintenance Expenses for Arsenic Treatment

**Valley Utilities Water Company Inc.**  
 Comparison 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	Company Proposed Rates With				Staff Proposed Rates With			
		Present Rates	ARSM Surcharge	Dollar Increase	Percent Increase	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%	

(a)

(a) Does Not Include Estimated Operation & Maintenance Expenses for Arsenic Treatment

**Commercial 2 Inch Customer**

Line No.	Water Usage	Company Proposed Rates With				Staff Proposed Rates With			
		Present Rates	ARSM Surcharge	Dollar Increase	Percent Increase	ARSM Surcharge	Dollar Increase	Percent 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%	

(a)

(a) Does Not Include Estimated Operation & Maintenance Expenses for Arsenic Treatment



Valley Utilities Water Company, Inc.  
 Test Year Ended December 31, 2003  
 Analysis of Revenue by Detailed Class  
 Rejoinder Rates Without ARSM Surcharge

Line No.	Meter Size Class	(a) Average Number of Customers at 12/31/2003	Revenues		Proposed Increase		
			Average Consumption	Present Rates	Proposed Rates	Dollar Amount	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							
18	Totals						
19							
20							
21							

Totals 1,162

(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	<b>Monthly Usage Charge for:</b>			
2	<u>Residential and Commercial</u>	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	<u>Gallons In Minimum</u>			
15	Residential, Commercial, Industrial	-	-	
16				
17	Construction Water	-	-	
18				
19				
20	<u>Gallons for Rate Tiers</u>			
21	<u>Tier 1: (Gallon upper limit.)</u>			
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	<u>Tier 2: (Gallons upper limit, 150% of Tier 1)</u>			
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	<u>Tier 3: (Gallon over)</u>			
40	All	999,999,999	All Gallons in Excess of tier 2 above	
41				
42				
43	Construction Water (All)	999,999,999	999,999,999	
44				
45				
46				
47	<u>Residential, Commercial, Industrial</u>	Present Rates	Proposed Rates	Percent Change
48	<u>Commodity Rates</u>	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  
 Analysis of Revenue by Detailed Class  
 Rejoinder Rates with ARSM Surcharge

Line No.	Meter Size, Class	(a) Average Number of Customers at 12/31/2003	Revenues		Proposed Increase	
			Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	5/8 Inch Residential	247	\$ 29.72	\$ 36.42	6.70	22.54%
2	3/4 Inch Residential	584	36.44	46.49	10.05	27.58%
3	1 Inch Residential	258	66.50	83.25	16.75	25.19%
4	1.5 Inch Residential					
5	Subtotal	1,089				
6						
7	Commercial	7	\$ 17.30	\$ 24.00	6.70	0.39
8	3/4 Inch Commercial					
9	1 Inch Commercial	11	115	132	17	0.15
10	1.5 Inch Commercial	6	164	198	34	0.20
11	2 Inch Commercial	45	471	525	54	0.11
12	3 Inch Commercial	4	334	442	107	0.32
13	Construction Subtotal	73				
14						
15						
16						
17	Totals	1,162				

(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	<b>Monthly Usage Charge for:</b>			
2	<u>Residential and Commercial</u>	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	<u>Gallons In Minimum</u>			
15	Residential, Commercial, Industrial	-	-	
16				
17	Construction Water	-	-	
18				
19				
20	<u>Gallons for Rate Tiers</u>			
21	<u>Tier 1: (Gallon upper limit.)</u>			
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	<u>Tier 2: (Gallons upper limit, 150% of Tier 1)</u>			
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	<u>Tier 3: (Gallon over)</u>			
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				
47	<u>Residential, Commercial, Industrial</u>			
48	<u>Commodity Rates</u>	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%