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**BEFORE THE ARIZONA CORPORATION COMMISSION**

**RIO VERDE UTILITIES, INC.**

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

**SURREBUTTAL TESTIMONY OF DAN L. NEIDLINGER**

**ON BEHALF OF THE**

**RIO VERDE COMMUNITY ASSOCIATION**

**AND**

**RIO VERDE COUNTRY CLUB**

**JANUARY 31, 2000**

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

**Surrebuttal Testimony of Dan L. Neidlinger**

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

Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

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

Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS MATTER ON BEHALF OF INTERVENORS RIO VERDE COMMUNITY ASSOCIATION AND THE RIO VERDE COUNTRY CLUB?

A. Yes.

Q. WHAT IS THE PURPOSE OF THIS ADDITIONAL TESTIMONY?

A. The purpose of this additional testimony is to comment on certain aspects of the direct testimony of ACC Staff witnesses William A Rigsby and John Chelus as well as the rebuttal testimonies of Company witnesses Arthur Brooks and Thomas Bourassa. I will also discuss amended schedules reflecting revised rate base, rate of return and recommended rates for both the water and sewer divisions of Rio Verde Utilities, Inc. ("Company").

## EXCESS CAPACITY

Q. HAVE YOU REVIEWED THE REBUTTAL TESTIMONY AND RELATED REPORT OF ARTHUR N. BROOKS REGARDING THE COMPANY'S WATER STORAGE FACILITIES?

A. Yes. Mr. Brook's engineering firm, Brooks, Hersey & Associates, was responsible for the design of the Asher Hill water storage facility. Not surprisingly, he does not believe it to represent excess capacity. Paradoxically, Mr. Brooks states in his rebuttal report that this storage was built to serve both the Rio Verde and Tonto Verde developments, yet his calculations, if believed, would indicate that the current minimum storage requirements already exceed the current capacity of the Asher Hill storage facility. As outlined in the business development brochure appended to Mr. Brook's testimony and report, his firm received a Technical Excellence Award of Merit in 1997 from the Arizona Consulting Engineers Association for the design of the "Tonto Verde Integrated Water and Wastewater Treatment Systems". [Emphasis supplied]. Interestingly, Rio Verde is not mentioned. The Asher Hill facility was clearly, in my view, constructed to provide water storage capacity capable of serving Rio Verde, Tonto Verde and future development beyond Tonto Verde. Since it was not properly financed through developer advances or higher connect fees (either or both of which the Company could have requested of the Commission), the excess capacity adjustment I discussed in my direct testimony is especially justified in this case. If this adjustment is not made, current customers will be required to pay for storage capacity, tank structures, pumping equipment and transmission mains that were constructed to serve many future customers.

Q. WHAT ABOUT MR. BROOK'S CONTENTION THAT THE MINIMUM STORAGE REQUIREMENTS FOR THE COMPANY DURING 1999 EXCEEDED THE CAPACITY OF THE ASHER HILL TANK?

A. Mr. Brook's calculations supporting this contention are entirely unrealistic. First, ADEQ Bulletin No. 10 provides only guidelines, not specific engineering instructions for designing a water system under a defined set of facts. More importantly, his calculations ignore the fact that the Company has not one but four potable water wells and that the largest producer, well number 2, is equipped with a standby generator. Production from these wells can and should be considered when determining storage requirements. Moreover, if the lack of standby power was a concern at the time the Asher Hill facility was designed, that problem could have been rectified by adding small generators at an extremely modest cost when compared with the $1.2 million invested in the Asher Hill project. Finally, the only conclusion that one can logically reach from Mr. Brook's calculations is that the Company invested $1.19 million to provide water storage for 1,240 customers or approximately $960 per customer. Prior to this project at the end of 1994, the Company's was serving 870 customers and the per-customer plant investment for storage, including related equipment, was in the range of $250 to $280. The gross plant value of the original 300,000 gallon tank itself was only $78,000 or $90 per customer. Accordingly, under this scenario, the project moves into the uneconomic or imprudent investment category since the Company could have met the storage needs of 370 additional customers at a fraction of the cost of the Asher Hill facility. Even if one accepts Mr. Brooks calculations, an adjustment to reduce the cost of the facility due to uneconomic investment is appropriate.

Q. HOW MUCH OF THE ASHER HILL FACILITY ARE YOU RECOMMENDING TO BE INCLUDED IN RATE BASE?

A. I am recommending that $441,704 of gross plant and $380,800 of net plant related to the Asher Hill facility be included in rate base. The gross plant amount I am recommending, <u>on a per-customer basis</u>, is $356 or 27% to 42% greater than the <u>per-customer</u> investment for storage prior to the construction of the Asher Hill facility. Since customer growth normally reduces the per-customer investment for a utility, this increased allowance is more than reasonable.

Q. HAVE YOU CALCULATED, FOR ILLUSTRATIVE PURPOSES, EXCESS CAPACITY UNDER MR. BROOK'S ASSUMPTIONS, MODIFIED ONLY FOR THE AVAILABILITY OF WELL NO. 2 AS A RESOURCE?

A. Yes. This calculation is shown on Surrebuttal Schedule DLN-1. Using Mr. Brook's assumptions for storage capacity, peak demands and fire flow requirements and Well number 2 as a production resource, the excess storage capacity is 305,180 gallons or 41.24%.

Q. HAVE YOU MODIFIED OR REDUCED YOUR EXCESS STORAGE CAPACITY RECOMMENDATION BASED ON THIS CALCULATION?

A. No. The excess calculations provided in my direct testimony are appropriate for ratemaking purposes in this case. Schedule DLN-1 merely illustrates the fact that with one reasonable addition to Mr. Brook's set of assumptions, the Asher Hill facility had significant excess capacity at the end of 1999.

Q. HAVE YOU REVIEWED MR. BROOK'S REBUTTAL TESTIMONY AND RELATED REPORT REGARDING SEWER TREATMENT CAPACITY?

A. Yes. Mr. Brook's states in his report that "during the peak flow hours of the peak day, the wastewater treatment plant has been operating very near full capacity (86%)". This conclusion is based on a "measured" peak daily flow of 354,000 gallons on April 19, 1999. I don't know the origin of this peak flow amount. The Association, in data request RVCA-18, requested that the Company provide total and maximum daily sewerage flows for each month of the test year. The Company stated that this information was not available. This additional information is needed to evaluate whether the 354,000 gallons represents a realistic peaking level on a continuing basis. However, my basic disagreement with Mr. Brook's analysis is not with the 354,000-gallon peak, per se, since this amount falls within my calculated range of 347,827 to 378,600 peak gallons. His misapplication of this statistic is the problem. Wastewater treatment plant capacities are rated based on daily flows, not hourly or diurnal flows. The Company's treatment plant diurnal patterns are normal for a wastewater system with a large residential sewerage component.

Q. HOW DID YOU CALCULATE YOUR EXCESS TREATMENT CAPACITY PERCENTAGE?

A. As indicated in my direct testimony, I calculated excess treatment capacity under two approaches: one based on total effluent and the other based on assumptions concerning sewerage flows per customer. The first showed an excess capacity of 50%. The second method produced an excess capacity of 46%. I concluded that a 45% capacity adjustment was reasonable after reviewing these calculations. The Company itself included a 35% excess capacity adjustment in its filing based on a customer calculation. My adjustment is primarily based on a modified version of the

Company's own calculation. The Company, however, assumed average occupancy per household of 3.6 residents. My calculation assumes an average of 2.0 residents. This assumption is high since a recent population count in Rio Verde shows 1,709 residents in 911 households or an average of 1.88 residents per household. Further, I used ADEQ's guideline flows of 100 gallons per day per resident. This assumption is also high since per capita flows in retirement communities, such as Rio Verde, are typically in the range of 70 to 80 gallons per day. In summary, I view my proposed 45% capacity adjustment to treatment capacity to be very reasonable in this case.

Q. DID THE STAFF ENGINEER, MR. JOHN CHELUS, ACCEPT THE COMPANY'S PROPOSED 35% EXCESS CAPACITY ADJUSTMENT TO THE WASTEWATER TREATMENT PLANT?

A. Yes. Mr. Chelus, however, provided no independent analysis to support the reasonableness of the 35% adjustment. Similarly, he evidently accepted, without analysis, the Company's contention that all water plant is fully utilized, and there is no excess capacity in storage facilities. He should have, in my view, reviewed in more depth the service capacities of the utility plant included by the Company in rate base for both divisions.

## EFFECT ON REVENUE REQUIREMENTS OF STAFF'S RECOMMENDATION TO DELAY APPROVAL OF THE COMPANY'S PROPOSED FINANCING

Q. HAVE YOU REVIEWED STAFF WITNESS RIGSBY'S RECOMMENDATION TO DELAY APPROVAL OF THE COMPANY'S PROPOSED DEBT FINANCING?

A. Yes. Mr. Rigsby's recommendation to delay approval of this financing is unreasonable in view of the Company's need to refinance short-term advances from its parent company. Further, by not considering this additional debt in determining revenue requirements, the benefits of this financing have not been reflected in Staff's proposed rates. It would be wrong, in my view, for the Commission to approve revenue requirements that are at or near those recommended by Staff and then approve, in a subsequent proceeding, the financing sought by the Company. If this were to occur, the benefits of the financing would not be reflected in rates until the next rate proceeding, and the Company would over-earn in the interim.

Q. DID STAFF DETERMINE THE RATE IMPACT OF ITS DECISION TO DEFER CONSIDERATION OF THE COMPANY'S FINANCING REQUEST?

A. No. In response to our data request, Staff witnesses indicated that they hadn't bothered to make these calculations.

Q. HOW WOULD THE INCLUSION OF THE COMPANY'S PROPOSED DEBT FINANCING AFFECT STAFF'S REVENUE REQUIREMENTS?

A. As shown on Schedule DLN-2, Staff's revenue requirements would have been reduced by approximately $104,000, or 6.68%, solely due to changes in cost of capital and interest expenses. The bulk of this reduction, $79,000, is related to water revenue requirements. Instead of a 43% increase in water revenues, the recommended increase would be 35%.

Q. HOW SHOULD THIS PROBLEM BE REMEDIED?

A. I suggest that the Staff prepare a supplemental filing that incorporates the Company's proposed financing, including the changes in debt costs provided in its rebuttal testimony. These adjusted recommendations concerning revenue requirements and rates would then be available for consideration, subject to Commission approval of the financing.

## REBUTTAL TESTIMONY OF TOM BOURASSA

Q. ON PAGE 12 OF HIS REBUTTAL TESTIMONY, MR. BOURASSA STATES THAT YOU HAVE UNFAIRLY ELIMINATED DEBT HOLDBACK RESERVES FROM RATE BASE. HOW DID YOU TREAT THESE ITEMS?

A. I increased the effective cost of debt for these reserves thereby increasing the weighted cost of capital. This approach is preferable, in my view, since it more correctly reflects the true cost of borrowing and results in a better matching of rate base and capital costs. In fact, it is precisely this same matching concept that Mr. Bourassa himself espoused, and with which I agree, at pages 14 and 15 of his rebuttal testimony. Both the Company and the Staff have included these items in rate base. This treatment incorrectly provides for an equity return, via the equity component in the weighted cost of capital, on a rate base element that is 100% debt-related.

Q. ON PAGES 14 AND 15 OF HIS REBUTTAL, MR. BOURASSA STATES THAT YOUR INTEREST EXPENSE CALCULATIONS AND REVENUE CONVERSION FACTOR ARE INCORRECT. WHAT IS YOUR RESPONSE?

A. Mr. Bourassa is correct on both counts. The interest expense used to calculate income taxes in my direct presentation was incorrect. Mr. Bourassa contends that all of the plant that I removed from rate base was debt-financed and that I failed to make a corresponding adjustment to interest expense. I have reviewed this assertion and determined that 71%, not 100%, of this plant was debt-financed. Additionally, the income tax conversion factor used to calculate revenue requirements was too low. I have corrected both of these deficiencies in my amended recommendations on revenue requirements and rates.

Q. WHAT ABOUT MR. BOURASSA'S CLAIM THAT THE COMPANY'S WATER PUMPING POWER COSTS WOULD INCREASE BY $22,000 IF THE STORAGE CAPACITY ADJUSTMENTS RECOMMENDED BY YOU AND RUCO WERE TO BE ADOPTED?

A. I don't know how the $22,000 was calculated, but, to be conservative, I have increased water-pumping costs by that amount in my amended water operating income statement. The Company's opportunities to pump off-peak would admittedly be diminished with reductions in storage capacities. Whether the savings would be totally eliminated, as assumed by Mr. Bourassa, is problematic.

## AMENDED REVENUE REQUIREMENTS AND RATES

Q. HAVE YOU DEVELOPED REVISED REVENUE REQUIREMENTS AND RATES FOR BOTH OF THE COMPANY'S DIVISIONS?

A. Yes. A summary of my recommended revenue requirements is provided on Schedule DLN-3. The recommended increase in water revenues is now $246,079 or 26.95%. This increase is approximately $43,000 greater than the increase recommended in my direct testimony. The recommended increase in sewer revenues remains essentially unchanged at $112,853 or 20.94%.

Q. WHAT IS THE BASIS FOR THESE REVISIONS?

A. My starting point was the adoption of the Company's rebuttal amounts for rate base and test year operating income for both divisions. The rate bases of both divisions were then reduced for excess capacity; finance charges and debt reserves were also eliminated. As previously discussed, the cost of finance charges and debt reserves was included in my calculation of the embedded cost of long-term debt. Operating revenues for both divisions were increased to reflect connect fee revenues based on 80 connections per year. In my direct testimony, I adopted the Company's connect fee revenues that were based on 70 connections per year. However, recent historical and projected customer growth statistics support an annual connect rate of 80 customers rather than 70. Pro forma adjustments were made to water operating expenses to increase pumping power costs and reduce depreciation expense for the depreciation related to the excess capacity adjustment. Interest expense was also reduced for the interest related to the debt portion of the plant removed from rate base. Similar adjustments were made to sewer operating expenses and interest expense.

Q. WHAT ABOUT COST OF CAPITAL?

A. Weighted cost of capital calculations for both divisions were modified to incorporate the revised cost of debt related to proposed financing as provided in the Company's rebuttal filing. The weighted cost of capital calculations for the water and sewer divisions are shown on Schedules DLN-6 and DLN-9, respectively.

Q. HOW DO THESE REVISIONS AFFECT YOUR RECOMMENDED RATES?

A. All of the increase in water revenues is recovered through increases in commodity rates for both potable and irrigation water. As shown on Schedule DLN-10, the proposed commodity rate for potable water is $1.51 per thousand gallons or $0.10 per thousand higher that the $1.41 recommendation contained in my direct testimony. The proposed irrigation commodity rate has been increased from $1.04 per thousand gallons to $1.08. The only change in proposed sewer rates is a miniscule, $0.08 per month, increase in the residential charge to $40.98 per month.

Q. HAVE YOU PROPOSED ANY CHANGES WITH RESPECT TO CONNECT FEES?

A. No. The proposed connect fees shown on Schedule DLN-12 are the same as those recommended in my direct testimony.

Q. WHY DO YOU DISAGREE WITH THE COMPANY'S REBUTTAL POSITION ON CONNECT FEES?

A. Although I understand that the Company is seeking a compromise position, I do not agree with removing any of the existing level of revenue support supplied by these fees. The Commission decided that issue, correctly in my opinion, after a contested (by Staff) hearing in the last rate proceeding. Additionally, it is critical to raise these fees as high as is reasonable to provide CIAC to offset both the extremely high plant costs this Company continues to incur and any additional excess capacities that might be incorporated in new utility construction. I do agree with Mr. Bourassa that these are no more "subsidies" to existing customers than any other form of developer or customer advance-in-aid. In fact, the current revenue treatment helps to partially eliminate the subsidization of future customers that is inherent in Staff's position.

Q. DOES THAT CONCLUDE YOU SURREBUTTAL TESTIMONY?

A. Yes, it does.

Schedule DLN-1
Surrebuttal

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

### EXCESS STORAGE CAPACITY USING ASSUMPTIONS OF ARTHUR BROOKS

| DESCRIPTION | AMOUNT |
|---|---|
| Storage Capacity - Gallons (1) | 740,000 |
| Less: Storage Level Adjustment | (74,000) |
| Storage Capacity Available | 666,000 |
| Peak Daily Demand (1) | 699,000 |
| Peak Hourly Demand | 29,125 |
| 4 Hour Demand | (116,500) |
| 4 Hour Fire Flow (1) | (408,000) |
| Total 4 Hour Demand | (524,500) |
| 4 Hour Pumping Capability - Well 2 (2) | 163,680 |
| Storage Requirement | (360,820) |
| Excess Storage Capacity | 305,180 |
| Percent | 41.24% |

NOTES:
(1) Per Company Rebuttal Report of Brooks, Hersey & Associates
(2) Well 2 is Equipped With a Standby Generator

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

## ADJUSTED STAFF REVENUE REQUIREMENTS WITH PROPOSED FINANCING

| DESCRIPTION | TOTAL COMPANY | WATER DIVISION | SEWER DIVISION |
|---|---|---|---|
| Staff Rate Base | $6,864,999 | $4,104,475 | $2,760,524 |
| Staff Operating Income - Present Rts. | 334,256 | 187,653 | 146,603 |
| Staff Cost of Capital | | 10.65% | 9.67% |
| Staff Cost of Capital - Inc. Prop. Fin.(1) | | 10.38% | 9.89% |
| Op. Inc. Reqmt. - Staff Report | 704,069 | 437,127 | 266,943 |
| Op. Inc. Reqmt. - Inc. Prop. Fin | 699,060 | 426,045 | 273,016 |
| Interest Expense - Staff Report | 186,497 | 51,779 | 134,718 |
| Interest Expense - Inc. Prop. Financing | 345,763 | 170,746 | 175,017 |
| Income Taxes - Staff Report | 79,493 | 75,195 | 4,298 |
| Income Taxes - Inc. Prop. Financing | 21,200 | 38,454 | (17,254) |
| Increase In Op. Income | 58,293 | 36,741 | 21,552 |
| Revised Op. Inc. - Inc. Prop. Fin. | 392,549 | 224,394 | 168,155 |
| Op. Inc. Reqmt. - Inc. Prop. Financing | 699,060 | 426,045 | 273,016 |
| Operating Income Deficiency | 306,511 | 201,651 | 104,861 |
| Operating Income Con. Factor | 1.6469 | 1.6469 | 1.6469 |
| Revised Increase In Revenues | 504,794 | 332,098 | 172,695 |
| Staff Recommended Inc. In Rev. | 609,039 | 410,853 | 198,186 |
| **Reduction in Rev. Reqmt.** | **$104,245** | **$78,755** | **$25,491** |
| Staff Test Year Revenues | $1,560,483 | $949,205 | $611,278 |
| Staff Recommended Percentage Inc | 39.03% | 43.28% | 32.42% |
| **Revised Percentage Increase** | **32.35%** | **34.99%** | **28.25%** |
| **Reduction in Percentage Inc.** | **6.68%** | **8.30%** | **4.17%** |

NOTE:
(1) Per Response to Data Request to Staff, RVCA-44

Schedule DLN-3
Surrebuttal

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

## REVENUE REQUIREMENTS SUMMARY

| DESCRIPTION | TOTAL COMPANY | WATER DIVISION | SEWER DIVISION |
|---|---|---|---|
| Original Cost Rate Base | $5,677,532 | $3,463,892 | $2,213,640 |
| Test Year Operating Income | 354,374 | 204,297 | 150,077 |
| Current Rate of Return | 6.24% | 5.90% | 6.78% |
| Required Rate of Return | 10.12% | 10.26% | 9.91% |
| Operating Income Requirement | $574,767 | $355,395 | $219,372 |
| Operating Income Deficiency | 220,393 | 151,098 | 69,295 |
| Revenue Conversion Factor | 1.6286 | 1.6286 | 1.6286 |
| Increase in Gross Revenues | $358,932 | $246,079 | $112,853 |
| Test Year Revenues - Sales | $1,451,862 | $912,925 | $538,937 |
| Percentage Increase | 24.72% | 26.95% | 20.94% |

Schedule DLN-4
Surrebuttal

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

**ORIGINAL COST RATE BASE - WATER DIVISION**

| DESCRIPTION | PER COMPANY REBUTTAL | PROPOSED ADJUST. | ADJUSTED AMOUNT |
|---|---|---|---|
| Gross Utility Plant in Service (1) | $6,491,892 | ($745,354) | $5,746,538 |
| Less: Accumulated Depreciation (1) | 1,020,690 | (102,773) | 917,917 |
| Net Utility Plant in Service | $5,471,202 | ($642,581) | $4,828,621 |
| Less: | | | |
| Contributions - Net of Amortization | $1,269,912 | | $1,269,912 |
| Meter Deposits | 120,684 | | 120,684 |
| Deferred Income Taxes | 64,776 | | 64,776 |
| Total Deductions | $1,455,372 | $0 | $1,455,372 |
| Plus: | | | |
| Working Capital Allowance | $90,643 | | $90,643 |
| Unamortized Finance Costs (2) | 12,904 | (12,904) | 0 |
| Debt Reserve Fund (2) | 129,039 | (129,039) | 0 |
| Total Additions | $232,586 | ($141,943) | $90,643 |
| Total Rate Base | $4,248,416 | ($784,524) | $3,463,892 |

NOTES:
(1) Excess Storage Capacity Adjustment
(2) Removed From Rate Base - Included in Embedded Cost of Debt Calculation

Schedule DLN-5
Surrebuttal

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

**ADJUSTED OPERATING INCOME - WATER DIVISION**

| DESCRIPTION | PER COMPANY REBUTTAL | PROPOSED ADJUST. | ADJUSTED AMOUNT |
|---|---|---|---|
| Revenues (1) | $953,199 | $5,000 | $958,199 |
| Operating Expenses: | | | |
| Pumping Power (2) | $156,637 | $22,000 | $178,637 |
| Depreciation (3) | 154,281 | (22,838) | 131,443 |
| Income Taxes (4) | 38,577 | 20,933 | 59,510 |
| All Other Operating Expenses | 384,312 | 0 | 384,312 |
| Total Operating Expenses | $733,807 | $20,095 | $753,902 |
| Operating Income | $219,392 | ($15,095) | $204,297 |
| Interest Expense | $158,023 | ($48,388) | $109,635 |
| Net Income | $61,369 | $33,293 | $94,662 |

NOTES:
(1) Increase in Connect Fees to Reflect Customer Connections at 80 Per Year
(2) Increase in Pumping Power to Reflect Reduced Off-Peak Pumping
(3) Decrease In Depreciation - Excess Plant Capacity Adjustment
(4) Income Tax Effect of Pro Forma Adjustments and Reduced Interest Expense

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

**WEIGHTED COST OF CAPITAL - WATER DIVISION**

| DESCRIPTION | BALANCE AT 12-31-99 | PERCENT | COST | WEIGHTED COST |
|---|---|---|---|---|
| Long-Term Debt: | | | | |
| Second Rio Verde Co. | $566,223 | 13.71% | 9.77% | 1.34% |
| Proposed Loan (1) | 1,148,446 | 27.81% | 8.93% | 2.48% |
| | 1,714,669 | 41.52% | | 3.82% |
| Common Equity | 2,415,521 | 58.48% | 11.00% | 6.43% |
| | $4,130,190 | 100.00% | | 10.26% |

NOTE:
(1) Adjusted for Debt Reserve & Financing Costs

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

## ORIGINAL COST RATE BASE - SEWER DIVISION

| DESCRIPTION | PER COMPANY REBUTTAL | PROPOSED ADJUST. | ADJUSTED AMOUNT |
|---|---|---|---|
| Gross Utility Plant in Service (1) | $5,391,755 | ($368,671) | $5,023,084 |
| Less: Accumulated Depreciation (1) | 812,276 | (33,597) | 778,679 |
| Net Utility Plant in Service | $4,579,479 | ($335,074) | $4,244,405 |
| Less: | | | |
| Contributions - Net of Amortization | $1,946,088 | | $1,946,088 |
| Deferred Income Taxes | 146,534 | | 146,534 |
| Total Deductions | $2,092,622 | $0 | $2,092,622 |
| Plus: | | | |
| Working Capital Allowance | $61,857 | | $61,857 |
| Unamortized Finance Costs (2) | 29,016 | (29,016) | 0 |
| Debt Reserve Fund (2) | 342,440 | (342,440) | 0 |
| Total Additions | $433,313 | ($371,456) | $61,857 |
| Total Rate Base | $2,920,170 | ($706,530) | $2,213,640 |

NOTES:
(1) Excess Treatment Capacity Adjustment
(2) Removed From Rate Base - Included in Embedded Cost of Debt Calculation

Schedule DLN-8
Surrebuttal

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

## ADJUSTED OPERATING INCOME - SEWER DIVISION

| DESCRIPTION | PER COMPANY REBUTTAL | PROPOSED ADJUST. | ADJUSTED AMOUNT |
|---|---|---|---|
| Revenues (1) | $593,778 | $27,500 | $621,278 |
| Operating Expenses: | | | |
| Depreciation (2) | $79,622 | ($9,599) | $70,023 |
| Income Taxes (3) | (17,555) | 25,263 | 7,708 |
| All Other Operating Expenses | 393,470 | 0 | 393,470 |
| Total Operating Expenses | $455,537 | $15,664 | $471,201 |
| Operating Income | $138,241 | $11,836 | $150,077 |
| Interest Expense | $166,167 | ($28,350) | $137,817 |
| Net Income | ($27,926) | $40,186 | $12,260 |

NOTES:
(1) Increase in Connect Fees to Reflect Customer Connections at 80 Per Year
(2) Decrease In Depreciation - Excess Plant Capacity Adjustment
(3) Income Tax Effect of Pro Forma Adjustments and Reduced Interest Expense

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

## WEIGHTED COST OF CAPITAL - SEWER DIVISION

| DESCRIPTION | BALANCE AT 12-31-99 | PERCENT | COST | WEIGHTED COST |
|---|---|---|---|---|
| Long-Term Debt: | | | | |
| Cobank (1) | $1,620,102 | 40.73% | 9.55% | 3.89% |
| Proposed Loan (1) | 1,032,442 | 25.96% | 9.08% | 2.36% |
| | 2,652,544 | 66.69% | | 6.25% |
| Common Equity | 1,325,092 | 33.31% | 11.00% | 3.66% |
| | $3,977,636 | 100.00% | | 9.91% |

NOTE:
(1) Adjusted for Debt Reserve & Financing Costs

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

## PROPOSED REVENUES AND RATES - WATER DIVISION

| DESCRIPTION | PRESENT RATES | PROPOSED RATES | INCREASE | PERCENT INCREASE |
|---|---|---|---|---|
| REVENUES - WATER SALES: | | | | |
| Residential | $280,993 | $363,321 | $82,328 | 29.30% |
| Commercial | 42,270 | 58,606 | 16,336 | 38.65% |
| Irrigation | 589,662 | 737,078 | 147,416 | 25.00% |
| Total Water Sales | $912,925 | $1,159,005 | $246,080 | 26.96% |
| RATES: | | | | |
| Potable Water | | | | |
| Monthly Service Charges: (1) | | | | |
| 5/8",3/4" & 1" Meters | $7.00 | $9.00 | $2.00 | 28.57% |
| 2" | 40.00 | 80.00 | 40.00 | 100.00% |
| 4" | 50.00 | 100.00 | 50.00 | 100.00% |
| 6" | 100.00 | 200.00 | 100.00 | 100.00% |
| Commodity Charge - Per 1,000 Gal. | $1.28 | $1.51 | $0.23 | 17.97% |
| Irrigation Water | | | | |
| Monthly Service Charges: (1) | | | | |
| 6" Meters | $100.00 | $200.00 | $100.00 | 100.00% |
| 6" Meters - Potable | 100.00 | 200.00 | 100.00 | 100.00% |
| 8" Meters | 200.00 | 400.00 | 200.00 | 100.00% |
| 12" Meters | 400.00 | 800.00 | 400.00 | 100.00% |
| Commodity Charge - Per 1,000 Gal. | $0.88 | $1.08 | $0.20 | 22.73% |
| Irrigation Surcharge - Potable Water | 0.40 | 0.43 | 0.03 | 7.50% |
| Standpipe & Construction Water | $1.28 | $2.25 | $0.97 | 75.78% |

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

Schedule DLN-11
Surrebuttal

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

## PROPOSED REVENUES AND RATES - SEWER DIVISION

| DESCRIPTION | PRESENT RATES | PROPOSED RATES | INCREASE | PERCENT INCREASE |
|---|---|---|---|---|
| SEWER SERVICE REVENUES: | | | | |
| Residential | $477,360 | $575,363 | $98,003 | 20.53% |
| Domestic Commercial | 16,350 | 21,800 | 5,450 | 33.33% |
| Commercial - Restaurants | 1,800 | 3,600 | 1,800 | 100.00% |
| Effluent | 43,427 | 51,027 | 7,600 | 17.50% |
| Total Sewer Service Revenues | $538,937 | $651,790 | $112,853 | 20.94% |
| RATES: | | | | |
| Monthly Residential | $34.00 | $40.98 | $6.98 | 20.53% |
| Monthly Domestic Commercial | 75.00 | 100.00 | 25.00 | 33.33% |
| Monthly Commercial - Restaurants | 75.00 | 150.00 | 75.00 | 100.00% |
| Effluent - Per 1,000 Gallons | 0.80 | 0.94 | 0.14 | 17.50% |

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

## PROPOSED WATER AND SEWER CONNECT FEES

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

NOTE:
(1) Recommended Treatment:
Water Revenues - $500
Water Plant Contributions - $1,500
Sewer Revenues - $1,000
Sewer Plant Contributions - $1,000