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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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KRISTIN K. MAYES  
GARY PIERCE

2007 FEB 14 P 4: 22

AZ CORP COMMISSION  
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS PARADISE VALLEY DISTRICT

DOCKET NO. W-01303A-05-0405

Arizona Corporation Commission

DOCKETED

FEB 14 2007

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY FOR APPROVAL OF AN AGREEMENT WITH THE PARADISE VALLEY COUNTRY CLUB.

DOCKET NO. W-01303A-05-0910

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NOTICE OF FILING  
REVISED STEP-1 ACRM SCHEDULES  
PARADISE VALLEY WATER DISTRICT

On December 19, 2006, Arizona-American Water Company filed schedules for its Paradise Valley water district supporting a Step-One ACRM surcharge of \$15.67 on the monthly minimum charge and \$0.4788 per 1,000 gallons on the commodity charge. In the weeks since its filing the Company has responded to discovery from Staff and RUCO. Both Staff and RUCO have made Arizona-American aware of a number of concerns they have with the Company's December 19<sup>th</sup> Step-One ACRM filing. In response to those concerns, Arizona-American Water hereby files revised Step-One ACRM schedules for its Paradise Valley water district supporting a Step-One ACRM surcharge of \$14.48 on the monthly minimum charge and \$0.4425 per 1,000 gallons on the commodity charge.

Among other changes, the revised Step-One ACRM schedules attached hereto as Exhibit A reflect the removal of \$399,715 in charges incurred by the Company as of November 1<sup>st</sup>, 2006 for the Paradise Valley Arsenic Sludge Handling Facility. As of the date of this filing the Sludge

1 Handling Facility has yet to be placed into service. However, the Sludge Handling Facility is  
2 expected to be completed and in service by mid-March. Because the Commission will likely rule  
3 on the Company's Step-One ACRM filing *after* the Sludge Handling Facility is completed and  
4 placed in service, the Company has attached hereto as Exhibit B, revised Step-One ACRM  
5 schedules which include costs for the Sludge Handling Facility that are recoverable under the Step-  
6 One ACRM. The schedules attached hereto as Exhibit B support a Step-One ACRM surcharge of  
7 \$14.84 on the monthly minimum charge and \$0.4534 per 1,000 gallons on the commodity charge.  
8 Upon completion of the Sludge Handling Facility the Company will notify both Staff and RUCO  
9 and make the Facility available for inspection by all parties.

10 In addition to the adjustments for the Paradise Valley Sludge Handling Facility reflected in  
11 Exhibit A, the Company has incorporated the following adjustments into both Exhibits A and B in  
12 response to the concerns raised by Staff and RUCO:

13  
14 ADJ-1: Adjustment ADJ-1, shown on page 2 of Schedule ACRM-5 (Revised),  
15 adjusts the composite ACRM Step-1 depreciation rate to reflect; (1) a 3.33%  
16 depreciation rate on account 310 (Power Production Equipment) as  
17 recommended by Staff; (2) a 9.76% depreciation rate on account 346  
18 (Communication Equipment) instead of the erroneous 109.76% included in  
19 the Company's original filing; and (3) the effect on depreciation expense of  
20 transferring Sludge Handling Equipment from account 320 (Water  
21 Treatment Equipment) to account 348 (Other Tangible Plant) and the  
22 consequential application of a 5.0% depreciation rate.

23 ADJ-2: Adjustment ADJ-2, shown on page 3 of Schedule ACRM-5 (Revised),  
24 adjusts the Company's Step-One ACRM revenue requirement to reflect the  
25 allocation (and removal) of a portion of the Paradise Valley Arsenic  
26 Treatment Facility's backup electricity generator to non-arsenic activities.

1 The excluded portion will be requested for inclusion in rate base in the  
2 Company's next rate case.

3 ADJ-3 Adjustment ADJ-3, shown on page 4 Schedule ACRM-5 (Revised), adjusts  
4 the Step-One ACRM rate base and recoverable depreciation expense to  
5 reflect the retirement of three on-site storage tanks installed between 1957  
6 and 1959, and three on-site pumps (300 hp, 150 hp, and 100 hp) installed in  
7 1995.

8 ADJ-4 (Exhibit A Only) Adjustment ADJ-4, shown on page 5 of Schedule ACRM-  
9 5 (Revised), removes from the Step-One ACRM revenue requirement all  
10 charges incurred for the Paradise Valley Sludge Handling Facility. In the  
11 event the Commission rules on the Company's Step-One ACRM after the  
12 Sludge Handling Facility is verified as completed and placed in service, the  
13 Company requests that the Step-One ACRM surcharge reflected in Exhibit  
14 B be approved.

15 ADJ-5 Adjustment ADJ-5, shown on page 6 of Schedule ACRM-5 (Revised),  
16 removes from the Step-One ACRM revenue requirement the cost of 400,000  
17 gallons of storage tank capacity, as recommended by the Staff engineer.

18 ADJ-6 Adjustment ADJ-6, shown on page 7 of Schedule ACRM-5 (Revised),  
19 adjusts the amount of on-site structures & improvements allocated to arsenic  
20 from 86.95% to 86.58%, to correct errors in the Company's original  
21 calculation of allocation factors.

22 In Arizona-American's post hearing-schedules filed in this docket, we estimated ACRM  
23 Step-1 increases of \$22.25 for the monthly minimum charge and \$0.6412 per every 1000 gallons  
24 consumed. The revised (Exhibit A) increases in this filing are \$7.77 lower for the monthly  
25 minimum charge and \$0.28 lower for every 1,000 gallons consumed.

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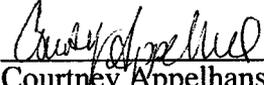
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**RESPECTFULLY SUBMITTED** on February 14, 2007.

Craig A Marks *CM*

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1 Original and 15 copies **filed**  
2 on February 14, 2007, with:  
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5 Arizona Corporation Commission  
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7 Phoenix, Arizona 85007  
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10 on February 14, 2007, to:  
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40 By:   
41 Courtney Appelhans

# **Exhibit A**

Step-One ACRM

Revenue Requirement

Without

Sludge Handling Facility

Line No.	[A] Orig. Filing.	[B] Revsd. Filing Adjtsmts. ADJ-1	[C] Revsd. Filing Adjtsmts. ADJ-2	[D] Revsd. Filing Adjtsmts. ADJ-3	[E] Revsd. Filing Adjtsmts. ADJ-4	[F] Revsd. Filing Adjtsmts. ADJ-5	[G] Revsd. Filing Adjtsmts. ADJ-6	[H] Adjusted / Revised
1	Arsenic Plant Revenue Requirement	\$ 19,382,673	(7,230)	(141,911)	(399,715)	(144,800)	(41,783)	\$ 18,647,235
2	Arsenic Plant in Service/Rate Base	3.53%						2.93% <sup>4</sup>
3	Depreciation rate	683,905	(241)	(14,787)	(19,986)	(4,561)	(836)	545,914
4	Depreciation expense	419,925	(148)	(9,079)	(12,271)	(2,801)	(513)	335,197
5	Depreciation expense net of tax savings <sup>1</sup>	-						-
6	Recoverable O&M costs	-						-
7	Recoverable O&M costs net of tax savings <sup>1</sup>	-						-
8	Arsenic Operating Income	\$ (419,925)	\$ 148	\$ 9,079	\$ 12,271	\$ 2,801	\$ 513	\$ (335,197)
9	Rate of return	-2.17%						-1.80%
10	Required Rate of Return <sup>2</sup>	7.24%						7.24%
11	Required Operating Income	1,403,306						1,350,060
12	Operating Income deficiency	1,823,231						1,685,257
13	Gross revenue conversion factor <sup>2</sup>	1.62863						1.62863
14	Revenue deficiency	\$ 2,969,368						\$ 2,744,660

Rates	Current Rates Per Dec. 68858		**REVISED**	
	Base Rates	PS Schg. <sup>3</sup>	Proposed ACRM	**REVISED** Total
Minimum 5/8" Meter	\$ 9.50	-	\$ 9.50	\$ 23.98
Commodity Rate 0 to 25,000 gallons	0.7600	-	0.7600	1.2025
Commodity Rate 25,001 to 80,000 gallons	1.6500	-	1.6500	2.0925
Commodity Rate 80,001 gallons and over	2.1800	2.1500	4.3300	4.7725

<sup>1</sup>38.5989 % tax rate per Dec. 68858

<sup>2</sup>Decision no. 68858

<sup>3</sup>Public Safety Surcharge Treated as Contribution in Aid of Construction

<sup>4</sup>Calculated as total adjusted Depr. Exp. Divided by adjusted Rate Base, includes effect of Tank and Pump retirements.

Line No.	[A] Total Proj. Original Filing	[B] Depr. Rate Orig. Filing	[C] Depr. Expense Orig. Filing	[D] Plant Adjustments	[E] Adjusted Plant	[F] Revised Depr. Rates	[G] Revised Depr. Expense
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12							
13	\$ 13,005,440	2.00%	260,109		\$ 13,005,440	2.00%	260,109
14	531,995	4.42%	23,514		531,995	3.33%	17,715
15	471,003	4.39%	20,677		471,003	4.39%	20,677
16	3,405,028	7.06%	240,395	(399,715)	3,005,313	7.06%	212,175
17	204,196	3.15%	6,432		204,196	3.15%	6,432
18	1,649,077	2.34%	38,588		1,649,077	2.34%	38,588
19	8,038	4.80%	386		8,038	4.80%	386
20	-	4.04%	-		-	4.04%	-
21	4,483	3.61%	162		4,483	3.61%	162
22	19,865	9.76%	1,939		19,865	9.76%	1,939
23	83,548	109.76%	91,703		83,548	9.76%	8,154
24	-	0%	-	399,715	399,715	5.00%	19,986
25	\$ 19,382,673		683,905		\$ 19,382,673		586,323
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Adjustment to Depreciation Expense (Col. E Ln. 22 - Col. E Ln. 22) (97,581)

Line No.			
1	<u>Adjust Power Production Equipment (Backup Generator) to Allocate Portion to Administrative Building</u>		
2			
3	Scheduled Capacity of Backup Generator	2,136 KVA	
4			
5	Capacity after Change Order (to include Admin. Bldg.)	2,182 KVA	
6			
7	Additional Capacity related to Admin. Bldg. (Ln. 5 - Ln. 3)	<u>46 KVA</u>	
8			
9	Percent of Admin. Bldg. not related to Arsenic	85%	
10			
11	Capacity of Backup Generator not related to Arsenic (Ln. 9 X Ln. 7)	39 KVA	
12			
13	Percent of Backup Generator not related to Arsenic (Ln. 11 / Ln. 5)	2%	
14			
15	Balance of Task Order 50073242 (Power Production Equip.) included in Original Filing	\$ 403,480	
16			
17	Less: Percent of Backup Generator not related to Arsenic (Ln. 13 X Ln. 15)	<u>7,230</u>	
18			
19	Adjusted Balance of Task Order 50073242 (Power Production Equip.) - Revised Filing (Ln. 15 - Ln. 17)	<u>\$ 396,250</u>	
20			
21	Depreciation Rate	3.33%	
22			
23	Adjustment to Depreciation Expense (Ln. 21 X Ln. 17)	(241)	
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Line No.	Adjust Rate Base & Depreciation Expense to Reflect Retirements	Original Cost	Accum. Depr.	Net Book Val.	Depr. Rate	Annual Depr. Expense
1						
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6						
7	Three Steel Tanks - Installed 1959 & 1967	\$ 69,990	\$ (69,990)	\$ -	3.15%	\$ 2,205
8						
9	On-Site 300 hp, 150 hp, & 100 hp pumps - Installed 1995	286,602	(144,691)	141,911	4.39%	12,582
10						
11						
12	Required Adjustment to Rate Base (-1 X (Ln. 7 + Ln. 9))			\$ (141,911)		
13						
14	Required Adjustment to Depreciation Expense (-1 X (Ln. 7 + Ln. 9))					\$ (14,787)
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Arizona-American Water Company  
Paradise Valley Water District  
Docket No. W-01303A-05-0404  
Adjustments to Arsenic Revenue Requirement  
ADJ-4

Line No.		
1	<u>Remove All Charges Incurred for Sludge Handling Facility From Revenue Requirement</u>	
2		
3	Total charges for Filter Press included in original filing	\$ 144,715
4		
5	Total charges for Sludge Thickener included in original filing	255,000
6		
7	Total Adjustment to Rate Base (-1 X (Ln. 3 + Ln. 5))	<u>\$ (399,715)</u>
8		
9	Depreciation Rate	5.00%
10		
11	Adjustment to Depreciation Expense (Ln. 7 X Ln. 9)	(19,986)
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Arizona-American Water Company  
Paradise Valley Water District  
Docket No. W-01303A-05-0404  
Adjustments to Arsenic Revenue Requirement  
ADJ-5

Line No.			
1	Remove 400,000 Gallons of Storage Tank Capacity from Revenue Requirement		
2			
3	Total Capacity of Storage Tank	1,500,000	Gallons
4			
5	Remove 400,000 Gallons of Capacity	400,000	
6			
7	Percent of Total Capacity (Ln. 5 ? Ln. 3)	26.67%	
8			
9	Total Storage Tank Costs included in original Filing	\$ 543,000	
10			
11	Adjustment to Rate Base (-1 X (Ln. 7 X Ln. 9)	<u>\$ (144,800)</u>	
12			
13	Depreciation Rate	3.15%	
14			
15	Adjustment to Depreciation Expense (Ln. 11 X Ln. 13)	(4,561)	
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Line No.	Adjust Arsenic Allocation Factor on Task Order 50073241 (Structures & Improvements) from 86.95% to 86.58% to Correct Allocation Errors	Adjst'd Total	Arsenic Allocation %	Total Arsenic Treatment
1				
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6				
7	Task Order (50073241) Amount - Original Filing	\$11,343,814	86.95%	\$ 9,863,704
8				
9	Task Order (50073241) Amount - Revised Filing	11,343,814	86.58%	9,821,922
10				
11	Adjustment to Rate Base			\$ (41,783)
12				
13	Depreciation Rate			2.00%
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15	Adjustment to Depreciation Exeprse			\$ (836)
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# **Exhibit B**

Step-One ACRM

Revenue Requirement

With

Sludge Handling Facility

Line No.	[A] Orig. Filing.	[B] Revsd. Filing Adjts. ADJ-1	[C] Revsd. Filing Adjts. ADJ-2	[D] Revsd. Filing Adjts. ADJ-3	[E] Revsd. Filing Adjts. ADJ-4	[F] Revsd. Filing Adjts. ADJ-5	[G] Revsd. Filing Adjts. ADJ-6	[H] Adjusted / Revised
1	Arsenic Plant Revenue Requirement							
2	Arsenic Plant in Service/Rate Base	\$ 19,382,673	(7,230)	(141,911)	-	(144,800)	(41,783)	\$ 19,046,950
3	Depreciation rate	3.53%						2.97% <sup>4</sup>
4	Depreciation expense	683,905	(241)	(14,787)	-	(4,561)	(836)	565,899
5	Depreciation expense net of tax savings <sup>1</sup>	419,925	(148)	(9,079)	-	(2,801)	(513)	347,469
6	Recoverable O&M costs	-						-
7	Recoverable O&M costs net of tax savings <sup>1</sup>	-						-
8	Arsenic Operating Income	\$ (419,925)	148	9,079	-	2,801	513	\$ (347,469)
9	Rate of return	-2.17%						-1.82%
10	Required Rate of Return <sup>2</sup>	7.24%						7.24%
11	Required Operating Income	1,403,306						1,378,999
12	Operating Income deficiency	1,823,231						1,726,468
13	Gross revenue conversion factor <sup>2</sup>	1.62863						1.62863
14	Revenue deficiency	\$ 2,969,368						\$ 2,811,777

Rates	Current Rates Per Dec. 68858		**REVISED**	
	Base Rates	P.S. Schg. <sup>3</sup>	Proposed ACRM	Proposed Total
Minimum 5/8" Meter	9.50	-	9.50	24.34
Commodity Rate 0 to 25,000 gallons	0.7600	-	14.84	1.2134
Commodity Rate 25,001 to 80,000 gallons	1.6500	-	0.4534	2.1034
Commodity Rate 80,001 gallons and over	2.1800	2.1500	0.4534	4.7834

<sup>1</sup>38.5989 % tax rate per Dec. 68858

<sup>2</sup>Decision no. 68858

<sup>3</sup>Public Safety Surcharge Treated as Contribution in Aid of Construction

<sup>4</sup>Calculated as total adjusted Depr. Exp. Divided by adjusted Rate Base, includes effect of Tank and Pump retirements.

Line No.	[A] Total Proj. Original Filing	[B] Depr. Rate Orig. Filing	[C] Depr. Expense Orig. Filing	[D] Plant Adjustments	[E] Adjusted Plant	[F] Revised Depr. Rates	[G] Revised Depr. Expense
1							
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8							
9							
10							
11							
12							
13	\$ 13,005,440	2.00%	260,109		\$ 13,005,440	2.00%	260,109
14	531,995	4.42%	23,514		531,995	3.33%	17,715
15	471,003	4.39%	20,677		471,003	4.39%	20,677
16	3,405,028	7.06%	240,395	(399,715)	3,005,313	7.06%	212,175
17	204,196	3.15%	6,432		204,196	3.15%	6,432
18	1,649,077	2.34%	38,588		1,649,077	2.34%	38,588
19	8,038	4.80%	386		8,038	4.80%	386
20	-	4.04%	-		-	4.04%	-
21	4,483	3.61%	162		4,483	3.61%	162
22	19,865	9.76%	1,939		19,865	9.76%	1,939
23	83,548	109.76%	91,703		83,548	9.76%	8,154
24	-	0%	-	399,715	399,715	5.00%	19,986
25	\$ 19,382,673		683,905		\$ 19,382,673		586,323
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Adjustment to Depreciation Expense (Col. E Ln. 22 - Col. E Ln. 22)

(97,581)

Line No.		
1	<u>Adjust Power Production Equipment (Backup Generator) to Allocate Portion to Administrative Building</u>	
2		
3	Scheduled Capacity of Backup Generator	2,136 KVA
4	Capacity after Change Order (to include Admin. Bldg.)	2,182 KVA
5		
6		
7	Additional Capacity related to Admin. Bldg. (Ln. 5 - Ln. 3)	<u>46 KVA</u>
8		
9	Percent of Admin. Bldg. not related to Arsenic	85%
10		
11	Capacity of Backup Generator not related to Arsenic (Ln. 9 X Ln. 7)	39 KVA
12		
13	Percent of Backup Generator not related to Arsenic (Ln. 11 / Ln. 5)	2%
14		
15	Balance of Task Order 50073242 (Power Production Equip.) included in Original Filing	\$ 403,480
16		
17	Less: Percent of Backup Generator not related to Arsenic (Ln. 13 X Ln. 15)	<u>7,230</u>
18		
19	Adjusted Balance of Task Order 50073242 (Power Production Equip.) - Revised Filing (Ln. 15 - Ln. 17)	<u>\$ 396,250</u>
20		
21	Depreciation Rate	3.33%
22		
23	Adjustment to Depreciation Expense (Ln. 21 X Ln. 17)	(241)
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Line No.	Adjust Rate Base & Depreciation Expense to Reflect Retirements	Original Cost	Accum. Depr.	Net Book Val.	Depr. Rate	Annual Depr. Expense
7	Three Steel Tanks - Installed 1959 & 1967	\$ 69,990	\$ (69,990)	\$ -	3.15%	\$ 2,205
9	On-Site 300 hp, 150 hp, & 100 hp pumps - Installed 1995	286,602	(144,691)	141,911	4.39%	12,582
12	Required Adjustment to Rate Base (-1 X (Ln. 7 + Ln. 9))			<u>\$ (141,911)</u>		
14	Required Adjustment to Depreciation Expense (-1 X (Ln. 7 + Ln. 9))					<u>\$ (14,787)</u>

Line  
No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35

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Arizona-American Water Company  
Paradise Valley Water District  
Docket No. W-01303A-05-0404  
Adjustments to Arsenic Revenue Requirement  
ADJ-5

Line No.			
1	<u>Remove 400,000 Gallons of Storage Tank Capacity from Revenue Requirement</u>		
2			
3	Total Capacity of Storage Tank	1,500,000	Gallons
4			
5	Remove 400,000 Gallons of Capacity	400,000	
6			
7	Percent of Total Capacity (Ln. 5 ? Ln. 3)	26.67%	
8			
9	Total Storage Tank Costs included in original Filing	\$ 543,000	
10			
11	Adjustment to Rate Base (-1 X (Ln. 7 X Ln. 9)	<u>\$ (144,800)</u>	
12			
13	Depreciation Rate	3.15%	
14			
15	Adjustment to Depreciation Expense (Ln. 11 X Ln. 13)	(4,561)	
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Arizona-American Water Company  
Paradise Valley Water District  
Docket No. W-01303A-05-0404  
Adjustments to Arsenic Revenue Requirement  
ADJ-6

Line No.	Adjustment Description	Adjusted Total	Arsenic Allocation %	Total Arsenic Treatment
1	Adjust Arsenic Allocation Factor on Task Order 50073241 (Structures & Improvements) from 86.95% to 86.58% to Correct Allocation Errors			
7	Task Order (50073241) Amount - Original Filing	\$11,343,814	86.95%	\$ 9,863,704
8	Task Order (50073241) Amount - Revised Filing	11,343,814	86.58%	9,821,922
11	Adjustment to Rate Base			\$ (41,783)
13	Depreciation Rate			2.00%
15	Adjustment to Depreciation Expense			\$ (836)

Line	No.	Growth	Customers	Total Gallons Sold	Per Cust.	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]
1	Sep. 2005 (Year 1)	4,711	2,993,289	635.38									
2	Sep. 2006 (Year 2)	4,732	3,208,796	678.11									
3	Year 2 minus Year 1	21	215,507	43									
4	Percentage Change	0.45%	7.20%	6.72%									
5	Avg Gallons (Col B Ln 1 + Col B Ln 2 + 2)		3,101,043										
10	Meter Size	Average Customers at Sep. 2006	Estimated Customers at Sep. 2007	Estimated Average Customers	Monthly Minimum	Minimum Multiples	Equivalent Meters	Fixed Increment Monthly	Annual Total				
11	5/8-inch	2,385	2,395	2,390	9.50	1.0	2,390	14.84	425,515				
12	3/4-inch	32	32	32	9.83	1.0	33	15.35	5,939				
13	1-inch	2,015	2,024	2,019	15.85	1.7	3,369	24.75	599,831				
14	1.5-inch	75	75	75	32.00	3.4	253	49.98	45,031				
15	2-inch	267	268	267	51.00	5.4	1,436	79.65	255,617				
16	3-inch	23	23	23	94.50	9.9	233	147.59	41,418				
17	4-inch	1	1	1	157.25	16.6	17	245.60	2,954				
18	6-inch	5	5	5	315.00	33.2	166	491.97	29,584				
29	Total	4,803	4,824	4,813			7,896		1,405,889				

Line	Description	Minimum Surcharge	Commodity Surcharge
31	Calculation of Surcharge		
32	Total costs to be recovered (Sch. 5 Col A Ln 14)	\$ 2,811,777	
33	Monthly Minimum Revenue (Col B Ln 33 + 2)	\$ 1,405,889	
34	Commodity Revenue (Col B Ln 33 + 2)		\$ 1,405,889
37	Monthly Increment Per Equivalent Meter		
38	Equivalent Meters (Col F Ln 29 x 12 Months)	94,754	
39	Minimum Surcharge (Ln 34 + Ln 38)	<u>\$ 14.84</u>	
40	Average Gallons (Col B Ln 5)		3,101,043
41	Commodity Surcharge (Ln 35 + Ln 42)		<u>\$ 0.4534</u>