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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- 3 KRISTIN K. MAYES, Chairman
- GARY PIERCE
- 4 PAUL NEWMAN
- SANDRA D. KENNEDY
- 5 BOB STUMP

6 IN THE MATTER OF THE APPLICATION OF
 7 VALLEY UTILITIES WATER COMPANY,
 8 INC. FOR AN INCREASE IN ITS WATER
 9 RATES FOR CUSTOMERS WITHIN
 MARICOPA COUNTY.

DOCKET NO. W-01412A-08-0586

**STAFF'S NOTICE OF FILING
DIRECT TESTIMONY**

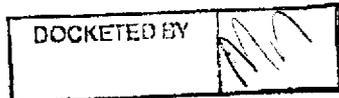
10 Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of
 11 Gary T. McMurry, and Marlin Scott, Jr. of the Utilities Division in the above-referenced matter.

12 RESPECTFULLY SUBMITTED this 6th day of July, 2009.

14 Arizona Corporation Commission

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JUL - 6 2009



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TESTIMONY

OF

**GARY T. McMURRY
MARLIN SCOTT, JR.**

DOCKET NO. W-01412A-08-0586

**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**

JULY 6, 2009

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

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-08-0586

DIRECT

TESTIMONY

OF

GARY T. MCMURRY

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 6, 2009

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EXECUTIVE SUMMARY
VALLEY UTILITIES WATER COMPANY, INC.
DOCKET NO. W-01412A-08-0586

Valley Utilities Water Company Inc. ("VUWC" or "Company") is an Arizona for-profit Class B public service corporation providing water service to approximately 1,400 customers in Glendale, Arizona. On December 2, 2008, VUWC filed a general rate application. The application shows that VUWC posted a \$12,012 adjusted operating income for the test year that ended June 30, 2008. VUWC requests a \$323,456 revenue increase to provide a \$229,974 operating income for a 15.0 percent operating margin. The requested operating margin would provide a 13.2 percent rate of return on the proposed \$1,741,355 fair value rate base which is the same as the proposed original cost rate base.

The testimony of Mr. Gary McMurry presents Staff's recommendation in the areas of rate base, operating income, revenue requirement and rate design. Staff recommends a \$153,645 (12.54 percent) revenue increase to provide a 10.0 percent operating margin. Staff's adjustments resulted in a negative rate base of \$279,909 for which no meaningful rate of return can be calculated. Staff's recommendation reflects three rate base adjustments and eight operating income adjustments. Staff's adjustment to remove \$1,717,100 in arsenic treatment facilities is the primary contributor to the difference between the Staff and Company rate bases.

The present rate design consists of an inverted tier rate structure that includes three tiers for the residential 5/8-x3/4-inch and 3/4-inch meter customers and two tiers for all others. The additional tier for the residential 5/8-x3/4-inch and 3/4-inch meters is for the first 3,000 gallons, an estimate of non-discretionary use. All other break-over points graduate by meter size beginning with 10,000 gallons for 5/8-x3/4-inch meters. The commodity rates per 1,000 gallons for the first, second and third tiers are \$1.50, \$2.31 and \$2.53, respectively. The minimum monthly charge for 5/8-x3/4-inch meters is \$11.25. The minimum monthly charge increases in proportion to the volumetric flow capacity for larger meters.

The Company proposes to continue use of an inverted tier rate structure that includes three tiers for the residential 5/8-x3/4-inch and 3/4-inch meter customers and two tiers for all others. The Company proposes a uniform 27.6 percent increase to the existing monthly minimum charges for each meter size and increases in the commodity rates that vary from 27.3 percent to 27.7 percent. The Company is also proposing to lower the tier break-over points for the 5/8-x3/4-inch and 3/4-inch meter commercial customers and for all larger meters to reflect the flow capacities for each meter size relative to that of a 5/8-x3/4-inch meter. For residential 5/8-x3/4-inch and 3/4-inch meter customers, the Company's proposal would increase the minimum monthly charge from \$11.25 to \$14.34, the first tier (3,000 gallons) commodity rate per thousand gallons from \$1.50 to \$1.91, the second tier (next 7,000 gallons) from \$2.31 to \$2.95, and the third tier (all additional use) from \$2.53 to \$3.23. For 1-inch and larger residential meters and all commercial meters, the proposed commodity rates for the first and second tiers are equal to the second and third tier commodity rates for the residential 5/8 x 3/4-inch and 3/4-inch meter customers, i.e., \$2.95 and \$3.23, respectively. The Company's proposed rates would

increase the 5/8-x3/4-inch meter residential customer monthly bill with median use of 5,500 gallons by \$5.93, or 27.6 percent, from \$21.52 to \$27.45.

Staff also recommends continued use of an inverted tier rate structure that includes three tiers for the residential 5/8-x3/4-inch and 3/4-inch meter customers and two tiers for all others. Consistent with the existing rate structure, Staff's recommended minimum monthly charge for each meter size is calculated as a multiple of the amount for a 5/8-x3/4-inch meter (\$12.50) using the relative volumetric flow capacity for each meter size compared to a 5/8-x3/4-inch meter. Staff's recommended break-over points are lower than those in the existing rates to further encourage efficient water use, and they avoid any crossovers where the bill for a smaller meter is greater than that for a larger meter for a given usage. Staff's recommended rate design would generate Staff's recommended water revenue requirement of \$1,379,135, including \$1,331,009 from metered water sales. The typical residential 5/8-x3/4-inch meter bill with median use of 5,500 gallons would increase by \$2.59, or 12.0 percent, from \$21.52 to \$24.10.

Staff reviewed non-arm's length transactions as directed by Decision No. 68309 and found two such transactions. Staff also determined several items in which the Company has not complied Commission decisions or other regulations. Specifically, the Company improperly used set-aside funds, executed multi-year financing arrangements to purchase Central Arizona Project ("CAP") allocations without requesting authorization, and delinquent filed documentation pertaining to the purchase of the Maryland Booster Station. Staff recommends that the Commission direct the Company to develop policies and procedures to comply with all Commission directives, rules and statutes.

Staff observed with respect to Advances-in-aid-of-Construction ("AIAC") and Contributions-in-aid-of-Construction ("CIAC") that the Company could not provide supporting schedules detailing basic information such as the date received, individuals and amounts owed which would reconcile to the general ledger account. Accordingly, Staff recommends that the Company be ordered to maintain adequate records to verify that its accounting is in accordance with National Association of Regulatory Utility Commissioners Uniform System of Accounts.

1 **I. INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Gary McMurry. I am a Public Utilities Analyst employed by the Arizona
4 Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Please describe your educational background and professional experience.**

8 A. I received a Bachelor of Science degree in Business Administration with a major in
9 Accounting in 1980. I have since been awarded two professional designations, as a
10 Certified Fraud Examiner and as a Certified Internal Auditor; after successfully meeting
11 the prescribed requirements established by each professional organization.

12
13 My prior work experience includes approximately 20 years of auditing (both internal and
14 external), five additional years as a bank examiner, and two years of Investigations work.
15 Prior to joining the Commission, I was employed by the Office of Audit and Analysis for
16 the Department of Transportation primarily as a construction auditor.

17
18 In April 2007, I began employment at the Commission as a Public Utilities Analyst IV in
19 the Finance and Regulatory Analysis Section. Since coming to the Commission, I have
20 participated in a number of rate cases and other regulatory proceedings involving water
21 and gas utilities. I have also attended various seminars and classes on general regulatory
22 and business issues, including the National Association of Regulatory Utility
23 Commissioners ("NARUC") Utility Rate School and the Institute of Public Utilities
24 Annual Regulatory Studies Program ("Camp NARUC").

1 **Q. Briefly describe your responsibilities as a Public Utilities Analyst.**

2 A. I am responsible for the examination and verification of financial and statistical
3 information included in assigned utility rate applications and other financial regulatory
4 matters. I develop revenue requirements, design rates, and prepare written reports,
5 testimony and schedules to present Staff's recommendations to the Commission.

6
7 **Q. What is the purpose of your testimony in this case?**

8 A. The purpose of my testimony is to present Staff's analysis and recommendations
9 regarding the Valley Utilities Water Company Inc.'s ("VUWC" or "Company")
10 application for a permanent rate increase. I will present Staff's recommendations in the
11 areas of rate base, operating income, revenue requirement, rate design and related party
12 transactions. Staff witness Marlin Scott, Jr. will present Staff's engineering analysis and
13 recommendations.

14
15 **Q. What is the basis of Staff's recommendations?**

16 A. I have performed a regulatory audit of the Company's records to determine whether
17 sufficient, relevant and reliable evidence exists to support the proposals in VUWC's rate
18 application. My regulatory audit consisted of the following: (1) examining and testing
19 VUWC's accounting ledgers, reports and supporting documents; (2) checking the
20 accumulation of amounts in the records; (3) tracing recorded amounts to source
21 documents; and (4) verifying that the Company applied accounting principles in
22 accordance with the NARUC Uniform System of Accounts ("USOA").

1 **Q. How is your testimony organized?**

2 A. My testimony is presented in nine sections. Section I is this introduction. Section II
3 provides a background of the Company. Section III is a summary of consumer service
4 issues. Section IV is a summary of proposed revenues. Section V is a summary of Staff's
5 rate base and operating income adjustments. Section VI presents Staff's rate base
6 recommendations. Section VII presents Staff's operating income recommendations.
7 Section VIII presents other regulatory issues. Section IX discusses rate design.

8
9 **Q. Have you prepared any schedules to accompany your testimony?**

10 A. Yes. I prepared schedules GTM-1 to GTM-19.

11
12 **II. BACKGROUND**

13 **Q. Would you please review the pertinent background information associated with the**
14 **Company's application for a permanent rate increase?**

15 A. Yes. VUWC is a class B public service corporation that provides water service to
16 approximately 1,400 customers in the vicinity of the City of Glendale, County of
17 Maricopa, Arizona. On December 2, 2008, VUWC filed an application for approval of
18 permanent rates and charges for water service, and on January 6, 2009, Staff filed a letter
19 declaring the application sufficient. VUWC's application asserts that an increase in
20 revenues is required to recover operating expenses, debt service coverage and a 15 percent
21 operating margin.

22
23 **Q. What test year did VUWC use in its filing?**

24 A. VUWC's rate filing is based on the twelve month period that ended June 30, 2008.

1 **Q. When were VUWC's present rates established?**

2 A. The Commission authorized the Company's present permanent rates in Decision
3 No. 68309, dated November 14, 2005. In Decision No. 70138, dated January 23, 2008,
4 the Commission authorized an interim emergency surcharge subject to refund pending a
5 decision in this rate case.

6
7 **Q. Does VUWC have any other cases currently pending before the Commission?**

8 A. Yes. On November 13, 2008, the Company filed a request for an arsenic remedial
9 surcharge mechanism ("ARSM") (Docket Nos. W-1412A-04-0736 and W-1412A-04-
10 0849) pursuant to the provisions of Decision No. 68309. Staff is currently processing that
11 application.

12

13 **III. CONSUMER SERVICE**

14 **Q. Please provide a brief summary of customer complaints received by the Commission**
15 **regarding VUWC.**

16 A. Staff reviewed the Commission's records and found six complaints during the past four
17 years and one opinion opposed to the rate increase. The complaints have been resolved.
18 The Company is in good standing with Corporations Division.

19

20 **IV. SUMMARY OF PROPOSED REVENUES**

21 **Q. What revenue requirement is VUWC proposing?**

22 A. The Company's application proposes total operating revenue of \$1,533,160, an increase of
23 \$323,456, or 26.74 percent over its test year revenue of \$1,209,704. The Company's
24 proposed revenue, as filed, would provide an operating income of \$229,974 for a 15.0
25 percent operating margin. The requested operating margin would provide a 13.2 percent

1 rate of return on the proposed \$1,741,355 fair value rate base which is the same as the
2 proposed original cost rate base.

3
4 **Q. What is Staff's revenue requirement recommendation?**

5 A. Staff recommends revenues of \$1,379,135, a \$153,645 (12.54 percent) increase over test
6 year revenues of \$1,225,490, to provide an operating margin of \$137,913, or 10.0 percent.

7
8 **Q. Is the Company requesting an ARSM surcharge?**

9 A. Yes. The Company has requested an ARSM surcharge in a separate docket (W-1412A-
10 04-0736).

11
12 **Q. Is Staff approving the Company's request for an ARSM surcharge in this filing?**

13 A. No. In the current rate case, Staff is recommending disallowance of the arsenic treatment
14 plant in rate base because it is not yet used and useful.

15
16 **Q. What effect will the establishment of rates in this rate case have on the ARSM
17 surcharge?**

18 A. Typically speaking the ARSM surcharge terminates when rates are subsequently
19 established in a general rate case.

20
21 **V. SUMMARY OF STAFF'S RATE BASE AND OPERATING INCOME
22 ADJUSTMENTS**

23 **Q. Please summarize Staff's rate base and operating income adjustments.**

24 A. Rate Base:

25 Access Rights – This adjustment reclassifies \$55,000, representing easement rights in a
26 property from the Water Treatment Plant account to the Land and Land Rights account.

1 Replacement Well No. 6 -- This adjustment removes a \$250,000 pro forma for the
2 estimated cost of a post test year well which is not functional as intended, and thus, is not
3 used or useful for the provision of utility service.

4
5 Water Treatment Plant -- This adjustment removes \$1,771,000 estimated cost for two
6 arsenic treatment facilities that have not received an Approval of Construction from the
7 Maricopa County Environmental Services Department ("MCESD"), and thus, are not used
8 and useful for the provision of utility service.

9
10 Operating Income:

11 Revenue Annualization -- This adjustment modifies the Company's \$21,877 pro forma
12 annualization adjustment to reduce test year revenues to \$0 to correct mathematical and
13 conceptual errors.

14
15 Repairs and Maintenance Expenses -- This adjustment reduces expenses by \$1,542 to
16 provide a normalized level based on the past three years.

17 Water Testing Expense -- This adjustment increases expenses by \$2,389 to normalize the
18 cost of Water Testing.

19
20 General Liability Insurance -- This adjustment reclassifies \$10,304 from the Insurance --
21 General Liability account to the Insurance Health and Life account.

22
23 Health and Life Insurance -- This adjustment reduces expenses by \$10,364 to eliminate a
24 non-recurring expense.

1 Depreciation expense – This adjustment decreases depreciation expense by \$77,776 to
2 reflect application of Staff’s recommended depreciation rates to Staff recommended plant
3 amounts.

4
5 Property Taxes – This adjustment decreases test year property taxes by \$657 to correct the
6 book value of transportation equipment deducted as well as to reflect application of the
7 modified version of the Arizona Department of Revenue’s property tax methodology
8 which the Commission has consistently adopted.

9
10 Test Year Income Taxes – This adjustment increases test year income tax expense by
11 \$67,694 to reflect application of statutory state and federal income tax rates to Staff
12 adjusted taxable income.

13
14 **VI. RATE BASE**

15 **Fair Value Rate Base**

16 **Q. Does VUWC’s application include schedules with elements of a Reconstruction Cost**
17 **New Rate Base?**

18 A. No. The Company’s application does not request recognition of a Reconstruction Cost
19 New Rate Base. Accordingly, Staff has treated the Company’s original cost rate base
20 (“OCRB”) as its fair value rate base (“FVRB”).

21
22 **Rate Base Summary**

23 **Q. Please summarize Staff’s rate base recommendation.**

24 A. Staff recommends a negative \$279,909 for rate base, a \$2,021,100 reduction from the
25 Company’s proposed \$1,741,191 rate base. Staff’s recommendation results from the rate
26 base adjustments described below.

1 **Rate Base Adjustment No. 1 – Easement Reclassification**

2 **Q. In what account did the Company record the cost to acquire an easement to the**
3 **Bethany Hills West Well Yard?**

4 A. The Company recorded the easement in the Water Treatment Equipment account.
5

6 **Q. According to the NARUC USOA, is Water Treatment Equipment the most**
7 **appropriate account to record the easement?**

8 A. No. Staff concludes that the easement is a land right. According to the NARUC USOA,
9 land rights should be recorded in the Land and Land Rights account, and the Water
10 Treatment Equipment account is for recording of apparatus, equipment and other facilities.
11

12 **Q. Is the accounting and ratemaking treatment different for Land and Land Rights**
13 **versus Water Treatment Equipment?**

14 A. Yes. Water Treatment Equipment is a depreciable account and Land and Land Rights is
15 not a depreciable account.
16

17 **Q. What is Staff's Recommendation?**

18 A. Staff recommends reclassifying this \$55,000 land easement right from the Water
19 Treatment Equipment account to the Land and Land Rights account.
20

21 **Rate Base Adjustment No. 2 – Unsuccessful, Non-used and Useful Well**

22 **Q. What does the Company propose with respect to replacement Well No. 6 in its**
23 **application?**

24 A. VUWC proposes a \$250,000 pro forma adjustment to the Wells accounts to include the
25 estimated cost of a post test year replacement for Well No. 6.

1 **Q. Did Staff make a used and useful determination with respect to replacement Well**
2 **No. 6?**

3 A. Yes. Staff's examination revealed that the Company placed the well into production in
4 March 2009, subsequent to the test year end and removed it from service approximately
5 three weeks later. According to the Company's response to SDR GTM-6.9 repairs are in
6 process, and once they are completed, it will seek an Approval of Construction from
7 MCESD.

8
9 **Q. Should plant that is not used and useful be included in rate base?**

10 A. No. A determination that plant is used and useful is a condition necessary for including
11 plant in rate base.

12
13 **Q. What is Staff's Recommendation?**

14 A. Staff recommends removing \$250,000 from plant as shown on Schedule GTM-6 since the
15 well is clearly not used or useful to the utility.

16
17 **Rate Base Adjustment No. 3 – Remove not Used and Useful Water Treatment Plant**

18 **Q. What did the Company propose with respect to the Arsenic Treatment Plant?**

19 A. VUWC proposed a pro forma adjustment to include in rate base a post test year plant
20 addition for the Arsenic Treatment facilities totaling \$1,826,100.

21
22 **Q. What did Staff find with respect to the Arsenic Plant's operations?**

23 A. The Arsenic plant was placed into operation in March 2009 (more that eight months after
24 the end of the test year); however, according to the Company's response to SDR GTM-
25 6.9, the plant is running in test mode and has not been inspected by MCESD and the
26 Company lacks Approval of Construction.

1 **Q. What did Staff determine with respect to the plant's used and usefulness?**

2 A. The plant was not in service at any time during the test year and lacking the proper
3 inspection and approval to operate by MCESD, Staff has determined that the facilities are
4 not used and useful to the Utilities operations.

5
6 **Q. What is Staff's Recommendation?**

7 A. Staff recommends decreasing plant in service by \$1,771,100 as shown on Schedule GTM-
8 7. The balance \$55,000 difference between the Company's proposed \$1,826,100 amount
9 for the arsenic treatment facility and Staff's adjustment was transferred to land rights in
10 rate base adjustment No. 1.

11
12 **VII. OPERATING INCOME**

13
14 **REVENUES**

15 **Q. Please summarize the results of Staff's examination of test year operating income.**

16 A. Staff determined a test year operating income of \$52,114, \$40,102 higher income than the
17 Company's proposed \$12,012 operating income. Staff's recommendation results from the
18 operating income adjustments described below.

19
20 **Operating Income Adjustment No. 1 – Revenue Annualization**

21 **Q. What does the Company propose with respect to revenue annualization?**

22 A. The Company proposes a proforma adjustment of \$21,877 decrease to test year operating
23 revenue. Page 5 of the Company's application, schedule C-2, shows that the \$21,877
24 adjustment is composed of a \$24,537 decrease due to annualization of revenues and a
25 \$2,660 increase due to proposed increases in miscellaneous service charges. The revenue
26 annualization portion of the adjustment is based on the assumption that the test year end
27 customers are representative of on-going customers for each month of the test year. The

1 revenue adjustment is calculated by multiplying the average revenue per customer in each
2 month by the difference between to the actual number of customers for each month and
3 the number of customers at the end of the test year for each customer class. The
4 miscellaneous revenue portion of the adjustment is calculated by multiplying the proposed
5 increase in the charge for each service by the number of occurrences for that service in the
6 test year.

7
8 **Q. Is the annualization of revenue a recognized ratemaking principle?**

9 A. Yes. Adjustments to test year results to annualize revenues and expenses is a widely
10 recognized ratemaking principle. The purpose of annualization is to recognize changes
11 that occurred during the test year as if those events had been reflected in the entire test
12 year. For example, if the customer count at the beginning of the test year is 1,000, and 10
13 new customers join the system in each of the twelve months of the test year; the ending
14 customer count is 1,120. In this example, the annualization would reflect additional
15 revenues for 10 customers in the eleventh month, 20 customers in the tenth month and so
16 on until additional revenues for 120 customers is reflected in the first month of the test
17 year. As a result of the annualization adjustment, the adjusted test year revenues reflect
18 the changes that occurred during the test year. Similar adjustments are appropriate for
19 variable expenses that are known to vary based on customer count.

20
21 **Q. Does Staff have concerns regarding the Company's proposed revenue annualization?**

22 A. Yes. First, the Company's calculation as shown in Schedules C-2, pages 5.1 through 5.11
23 contains computational errors. For example, the "Increase in Number of Customers/Bills"
24 presented on lines 17 and 21 of pages 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7 and 5.11 contain
25 mathematical errors. Second, pages 5.2, 5.3, 5.4, 5.5, 5.6 and 5.7 fail to use the actual end
26 of test year customer count, as claimed by the Company and which is consistent with the

1 particular annualization method used, for the "Year End Number of Customers" for
2 purposes of calculating the annualization adjustment. Third, Construction Water on page
3 5.11 accounts for \$25,640 of the \$24,537 downward adjustment due to annualization of
4 revenues. In other words, except for inclusion of construction water, the Company's
5 revenue annualization would have been a \$1,103 increase to test year revenues. Fourth, a
6 negative annualization adjustment implies that the Company is losing customers, and this
7 is inconsistent with Schedule E-7 of the Company's application that shows that the year
8 end customer counts for the fiscal years ending June 30 in 2006, 2007, and 2008 were
9 1,401, 1,418, and 1477, respectively, indicating a positive customer growth rate for the
10 Company over the past two years. Fifth, the \$2,660 increase due to increases in proposed
11 miscellaneous service charges is not related to the test year just as the Company's
12 proposed increases in minimum monthly charges and commodity rates for water sales are
13 not test year adjustments.

14
15 **Q. Did Staff recalculate the test year revenue annualization adjustment using the data**
16 **in the Company's Schedule C-2, pages 5.1 through 5.11 correcting for the**
17 **mathematical errors and using the reported end of test year customer counts?**

18 A. Yes. The Company's downward \$24,537 revenue annualization recalculated to correct for
19 the mathematical errors and using the reported year end customers (but not excluding
20 construction water) is \$36,553 downward.

21
22 **Q. Are there reasons to exclude construction water (Company application, Schedule C-**
23 **2, page 5.11) from the revenue annualization calculation?**

24 A. Yes. Typically, construction water sales vary from year-to-year and from month-to-
25 month. The type of adjustment appropriate for addressing year-to-year variances is
26 normalization, not annualization. Furthermore, month-to-month or seasonal customer

1 variances are not properly annualized by use of end of year customers as the Company has
2 proposed. A better methodology for annualizing seasonal variances is based on annual
3 growth rates calculated using comparison of the customers in each month of the test year
4 to the same months in the prior year.

5
6 **Q. Did Staff recalculate the test year revenue annualization adjustment using the data**
7 **in the Company's Schedule C-2, pages 5.1 through 5.11 correcting for the**
8 **mathematical errors, using the reported end of test year customer counts and**
9 **excluding construction water?**

10 A. Yes. The revenue annualization recalculated to remove construction water is \$6,091
11 downward.

12
13 **Q. Has Staff computed a normalization adjustment for construction water or a revenue**
14 **annualization adjustment using an alternate method for non-construction water?**

15 A. No. Staff has issued data requests to obtain information needed to evaluate the
16 appropriateness of such adjustments and reserves the right to modify its recommendations
17 for these items upon receipt and analysis of the Company's responses.

18
19 **Q. Please comment on the \$2,660 portion of the Company's revenue annualization**
20 **adjustment due to increases in its proposed miscellaneous service charges.**

21 A. Staff is taking no exception to the Company's calculation that the increase in its proposed
22 service charges will produce an additional \$2,660 over that collected for these services in
23 the test year. However, the Company's proposal to adjusted test year revenues due to
24 anticipated authorization to increase the charges for services is technically incorrect and
25 potentially confusing in a manner that could lead to errors in calculating the rates
26 necessary to generate the authorized revenue. The Company's proposal overstates test

1 year revenue and results in an equal understatement of the required increase in revenue.
2 Since these amounts are offset, with the Company's proposed treatment, there will be no
3 impact to the rates as long as (1) the additional \$2,660 of miscellaneous service charge
4 revenue is not included in the incremental revenue generated by the authorized rates and
5 (2) the proposed miscellaneous service charges are authorized. Since both of these items
6 create the potential for errors and recognizing incremental revenue in the test year in
7 anticipation of an authorized rate increase is technically incorrect, the \$2,660 portion of
8 the Company's revenue annualization adjustment due to the proposed increases in
9 miscellaneous service charges should be removed.

10
11 **Q. What does Staff recommend?**

12 A. Staff recommends on a provisional basis modifying the \$24,537 downward portion of
13 Company's proforma annualization adjustment to a downward adjustment of \$6,091 and
14 removal of the \$2,660 upward portion related to proposed increases in service charges. In
15 addition, Staff notes that the Company's pro forma adjustments to decrease Chemical
16 expense by \$142 and to decrease Purchased Power expense by \$60 are based on the
17 revenue annualization, accordingly, these immaterial adjustment should also be removed.

18
19 **Operating Income Adjustment No. 2 – Repairs and Maintenance**

20 **Q. What does the Company propose for Repairs and Maintenance expense?**

21 A. VUWC proposes its actual recorded amount for the test year of \$14,210.
22

1 **Q. Is the test year expense representative of average on-going repairs and maintenance**
2 **expense?**

3 A. No. The Company's reported Repairs and Maintenance expenses for the fiscal years
4 2006, 2007, and 2008 totaled \$19,641, \$2,964, and \$14,210, respectively, which indicates
5 that these expenses vary widely from year to year. Accordingly, Staff calculated a
6 normalized amount by using the three-year average annual cost per customer (\$8.58) and
7 the test year customer count (1,477).

8
9 **Q. What is Staff's Recommendation?**

10 A. Staff recommends normalizing repairs and maintenance expenses over the past three
11 years. Staff recommends removing \$1,542 from repairs and maintenance to reflect a
12 normalized level of repair and maintenance expenses as shown in Schedule GTM-11.

13
14 **Operating Income Adjustment No. 3 – Water Testing Expense**

15 **Q. What is the Company proposing for Water Testing Expense?**

16 A. VUWC proposes its actual recorded amount for the test year of \$6,247 for water testing.
17 The Company recorded water testing expenses in the Water Sampling account and
18 included it in the application as a portion of Outside Services.

19
20 **Q. Is the Company's actual test year water testing expense representative of its average**
21 **on-going expense?**

22 A. No. Water testing expense varies from one year to the next based on the schedule
23 intervals for the various tests. Staff has determined that water testing expense is \$8,639.

1 **Q. What is Staff's Recommendation?**

2 A. Staff recommends Water Testing expense of \$8,636, a \$2,389 increase from the
3 Company's reclassified amount as shown in Schedule GTM-12.

4

5 **Operating Income Adjustment No. 4 – Reclassify Insurance Expense**

6 **Q. Did the Company record all of its test year health and life insurance expenses in the**
7 **correct account?**

8 A. No. The Company misclassified \$10,304 of health and life insurance expenses in the
9 Insurance – General Liability instead of Insurance - Health and Life. Staff has reclassified
10 \$10,304 to correct the error as shown in Schedule GTM-13. Staff's adjustment has no
11 impact on the revenue requirement.

12

13 **Operating Income Adjustment No. 5 – Health and Life Insurance**

14 **Q. What does the Company propose for Health and Life Insurance?**

15 A. The Company proposes to include \$10,364 in payments to non-insurance companies like
16 medical offices, pharmacies, stipends paid to individuals, and credit card providers.

17

18 **Q. What is the Company's explanation for claiming these items as health expenses?**

19 A. In response to SDR GTM-6.11 that requested an explanation, the Company offered no
20 direct explanation. The Company's response to SDR GTM-5.19 regarding group
21 insurance coverage indicates that it does not have an employee benefits manual that could
22 be used to determine what health costs are covered by the Company. In response to SDR
23 GTM-5.6, the Company also stated with respect to Health and Life Insurance that it had
24 "stopped paying medical expenses during the test year." Thus, these cost are non-
25 recurring.

1 **Q. What is Staff's Recommendation?**

2 A. Staff recommends removing \$10,364 from the Insurance - Health and Life expense
3 account as shown in Schedule GTM-14 to eliminate the non-recurring expenses.
4

5 **Operating Income Adjustment No. 6 – Depreciation Expense**

6 **Q. What is the Company proposing for Depreciation expense?**

7 A. The Company proposes to recover depreciation expense on post-test year plant additions
8 which include two arsenic treatment facilities and replacement Well No. 6 as well as the
9 test year plant.
10

11 **Q. Does Staff recommend any modifications to the Company's proposed Depreciation
12 expense calculation?**

13 A. Yes. As previously discussed, Staff recommends disallowance of the arsenic treatment
14 facilities and replacement Well No. 6 from rate base. Accordingly, Staff's depreciable
15 plant is less than the Company's. Staff calculated Depreciation expense by applying its
16 recommended component depreciation rates by account to its recommended plant
17 balances.
18

19 **Q. What is Staff's Recommendation?**

20 A. Staff recommends \$235,742 for Depreciation expense, a \$77,776 reduction from the
21 Company's proposed amount as shown in Schedule GTM-15.
22

23 **Operating Income Adjustment No. 7 – Property Tax Expense**

24 **Q. What is the Company proposing for Test Year Property Taxes?**

25 A. VUWC is proposing \$39,304 for test year property taxes, i.e., its actual property tax bills
26 for the test year.

1 **Q. Does the Commission normally use the actual property tax bill for the test year for**
2 **ratemaking purposes of Class C water utilities?**

3 A. No. The Commission's practice in recent years has been to use a modified Arizona
4 Department of Revenue ("ADOR") methodology for water and wastewater utilities. The
5 results from using this methodology are primarily dependent upon the test year and
6 authorized revenues. In other words, for each revenue requirement, there is a specific
7 property tax expense in the same manner as each operating income has a specific income
8 tax expense. Although the results for this methodology are frequently referred to as test
9 year amounts, in fact, the results are representative of the average expected property tax
10 over a subsequent three-year period based partially on authorized revenues. The modified
11 ADOR calculation for property tax expense is static, i.e., it is representative only at a
12 specific revenue level.

13
14 **Q. Has Staff developed a solution to address the dependent relationship between**
15 **Property Tax expense and revenues?**

16 A. Yes. Staff has included a factor for property taxes in the gross revenue conversion factor
17 ("GRCF") (See Schedule GTM-2) that automatically adjusts the revenue requirement for
18 changes in revenue in the same way that income taxes are adjusted for changes in
19 operating income. This flexible method will accurately reflect Property Tax expense at
20 any authorized revenue level. This refinement removes the need to include proposed
21 revenues in the calculation of test year Property Tax expense and allows for accurate
22 calculation of Property Tax expense at the test year revenue level.

1 **Q. What is Staff recommending for test year Property Tax expense?**

2 A. Staff recommends \$38,647 for test year property tax expense, a \$657 reduction from the
3 Company's proposed amount as shown in Schedule GTM-16.¹ Staff further recommends
4 adoption of its GRCF that includes a factor for Property Tax expense as shown in
5 Schedule GTM-2.

6

7 **Operating Income Adjustment No. 8 – Income Tax Expense**

8 **Q. What is the Company proposing for Test Year Income Tax Expense?**

9 A. VUWC is proposing negative \$54,130 for Test Year Income Tax Expense.

10

11 **Q. Did the Company's deviate from ratemaking principles in its calculation of test year
12 Income Tax expense?**

13 A. Yes. Normally, synchronized interest is a deduction used to determine the taxable income
14 used in the calculation of Income Tax expense. Synchronized interest is determined by
15 multiplying the weighted average cost of debt times the rate base. Using the Company's
16 weighted average cost of debt (5.85 percent) and rate base (\$1,741,191) provides
17 synchronized interest of \$101,860. The Company used its annual projected interest
18 expense of \$123,851 (Schedule C-2, page 10) to determine the taxable income for its
19 calculation of Income Tax expense. The Company's use of annual projected interest
20 expense instead of synchronized interest expense results in an overstatement of interest
21 expense, an understatement of taxable income and Income Tax expense and an
22 overstatement of operating income for the test year.

¹ Schedule GTM-16 also shows calculations for Property Tax Expense for Staff's recommended revenue.

1 **Q. How did Staff calculate Test Year Income Tax Expense?**

2 A. Staff calculated Test Year Income Tax expense by applying the statutory State and Federal
3 income tax rates to Staff's adjusted test year taxable loss as shown in Schedule GTM-2.
4 Staff's calculation of Income Tax expense uses zero for synchronized interest because
5 Staff's rate base is negative and the synchronized interest calculations result in a negative
6 amount.

7
8 **Q. What is Staff's Recommendation?**

9 A. Staff recommends a Test Year Income Tax expense of \$13,564 as shown in Schedule
10 GTM-2 and GTM-17.

11
12 **Q. Does Staff have any additional comments regarding income taxes?**

13 A. Yes. On Schedule C-3, the Company shows its calculation of a 1.4840 GRCF. This
14 GRCF is based on an effective Federal tax rate of 25.65 percent calculated in Schedule C-
15 22, page 11 and a State tax rate of 6.97 percent. This effective Federal tax rate represents
16 the portion of pre-tax income that becomes Federal income taxes. This calculation is
17 inconsistent with the ratemaking use of the GRCF.

18
19 The purpose of a GRCF is to provide a mechanism for determining the amount of
20 additional revenue needed to increase the test year operating income to the authorized
21 amount. For taxable entities, the increase in revenue must exceed the difference between
22 the authorized and test year operating incomes because each increase in revenue results in
23 a corresponding increase in income tax expense. Thus, the GRCF must be measured over
24 the range that begins with the test year taxable income and ends with the taxable income
25 that corresponds with the authorized operating income. The Company's calculation of its
26 1.4840 GRCF (Schedule C-3) is not calculated over the appropriate range of taxable

1 incomes. The Company's GRCF is based on the average combined State and Federal
2 income tax rates for its recommended revenues and taxable income. In other words, it is
3 calculated on the range that begins at zero instead of at test year taxable income.

4
5 Staff Schedule GTM-2 provides a reconciliation of Staff's test year and recommended
6 revenues. The reconciliation shows the incremental operating income, property tax
7 expense and income tax expense components of Staff recommended increase in revenue.
8 The reconciliation verifies that Staff's 1.7060 GRCF results in the recommended
9 operating income.

10
11 **VIII. OTHER ISSUES**

12 **Q. Please identify any regulatory issues that came to Staff's attention during this rate**
13 **case.**

14 A. Commission Decision No. 68309 directed Staff to review several issues. In addition,
15 Staff's review revealed several examples of the Company's failure to comply with
16 Commission directives.

17
18 **Q. What directives did the Commission give Staff with respect to this rate case?**

19 A. The Commission directed Staff to "carefully scrutinize Valley Utilities Water Company,
20 Inc.'s books in the next rate case, and bring to the Commission's attention any instances of
21 transactions between the Valley Utilities Water Company, Inc. and its shareholder that are
22 not arm's length..."²

² Decision No. 68309 page 27, lines 11-14.

1 **Non-arm's Length Transactions**

2 **Q. Please provide some history to explain the Commission's directive to Staff to review**
3 **for non-arm's length transactions.**

4 A. During the prior rate case, Staff determined that the Company was involved in a non-
5 arm's length transaction (i.e., vehicle lease) as well as making payments on personal
6 expenditures (i.e., gym membership, personal phone calls, etc.).

7
8 **Q. What did the Commission decide with respect to these affiliated transactions?**

9 A. In Decision No. 68309, dated November 14, 2005, the Company was ordered to develop
10 and "institute operating policies that would remove any and all transactions between the
11 Company and its owners which are not arm's length transactions".³

12
13 **Q. Did Staff find any instances of non-arm's length transactions?**

14 A. Yes. Staff found two transactions that involved the Company and its shareholders, Robert
15 and Barbara Prince. The first transaction involved the purchase of easement rights by the
16 Company. The second transaction involved the payment/reimbursement of medical
17 expenses by the utility on behalf of the Company's shareholders.

18
19 **Q. Please describe the non-arm's length transaction pertaining to the purchase of**
20 **easement rights.**

21 A. On February 13, 2009, VUWC paid Robert and Barbara Prince \$55,000 for easement
22 rights to the Bethany Hills West Well yard.

³ ACC Decision No. 68309 page 27, line 8-10.

1 **Q. What is Staff's concern regarding the easement transaction?**

2 A. Staff's concern is with the appropriateness of the purchase price. In response to SDR
3 GTM-6.10, the Company replied that fair compensation was determined by multiple
4 factors and was reviewed by the Company's engineers. These factors included 1) the
5 access and egress rights to the plant site devalued the personal property of the seller, 2) the
6 seller lost use of their personal property, and 3) the Princes were forced into this
7 transaction by Maricopa County. Staff's concern is that the fair market value was not
8 established via the services of a reputable real estate appraiser. The absence of an
9 appropriate independent appraisal reduces the ability to assess the reasonableness of the
10 transaction price. Nevertheless, no information suggests that the transaction price was
11 unreasonable.

12
13 **Q. Please describe the non-arm's length transaction pertaining to
14 payment/reimbursement of medical expense.**

15 A. During the test year the Company paid \$10,304 in medical reimbursements to its
16 employees. Those employees included shareholders.

17
18 **Q. Are medical reimbursements to shareholders a concern to Staff?**

19 A. Yes. Medical reimbursements to shareholders may be reasonable. However, the
20 Company should have an established policy for the medical benefits it provides to all
21 employees. In this instance, the Company has no written policy to establish and inform its
22 employees regarding the medical benefits offered. In response to SDR GTM-5.19, the
23 Company stated that it had no employee benefits manual documenting the Company's
24 formalized medical policies. Staff observed that during the test year VUWC paid \$10,304
25 on behalf of its employees, which includes Robert and Barbara Prince, for items such as

1 office visits, prescription co-payments, reimbursements to employees for out of pocket
2 expenses, stipends in lieu of premium coverage, and other items.

3
4 **Equity Position**

5 **Q. Were there any other directives that the Commission gave to Staff regarding this**
6 **rate case?**

7 A. Yes. The Commission instructed Staff to bring to its attention “any inappropriate
8 practices that contribute to the deterioration of, rather than to the building of equity.”⁴

9
10 **Q. Did Staff find any examples of practices that eroded equity?**

11 A. No. Staff’s examination of directors’ fees, compensation to shareholders and operating
12 expenses revealed no practices detrimental to the Company’s equity position. The
13 Company has not historically issued dividends, and its equity plan states that it will
14 continue to suspend dividends. The Company’s equity has improved since the prior rate
15 case (test year ended December 31, 2003) from negative \$413,442 to negative \$6,319.

16
17 **Compliance Issues**

18 **Q. Did Staff observe any compliance issues?**

19 A. Yes. Staff noted the following compliance issues: (1) untimely and incomplete filing of
20 Arsenic Impact Fees (“AIF”) reports; (2) unauthorized use of set-aside funds; (3) untimely
21 title transfer for the Maryland Avenue Booster Station real estate purchase; (4) possibly
22 entering multi-year financing arrangement for a CAP water allocation without
23 Commission authorization; and (5) non-compliance with the Commission prescribed
24 NARUC USOA.

⁴ ACC Decision No. 68309 page 27, line 22-23

VALLEY UTILITIES WATER COMPANY, INC

Docket No. W-0412A-08-0586

Test Year ended June 30, 2008

DIRECT TESTIMONY OF Gary T. McMurry

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REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY RECONSTRUCTION COST	(C) COMPANY FAIR VALUE	(D) STAFF ORIGINAL COST	(E) STAFF RECONSTRUCTION COST	(F) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 1,741,191	\$ 1,741,191	\$ 1,741,191	\$ (279,909)	\$ (279,909)	\$ (279,909)
2	Adjusted Operating Income (Loss)	\$ 12,012	\$ 12,012	\$ 12,012	\$ 47,852	\$ 47,852	\$ 47,852
3	Current Rate of Return (L2 / L1)	0.69%	0.69%	0.69%	-17.10%	-17.10%	-17.10%
4	Proposed/Recommended Operating Margin	15.00%	15.00%	15.00%	10.00%	10.00%	10.00%
5	Required Rate of Return	13.21%	13.21%	13.21%	NMF	NMF	NMF
6	Required Operating Income (L4 * L1)	\$ 229,974	\$ 229,974	\$ 229,974	\$ 137,913	\$ 137,913	\$ 137,913
7	Operating Income Deficiency (L5 - L2)	\$ 217,962	\$ 217,962	\$ 217,962	\$ 90,061	\$ 90,061	\$ 90,061
8	Gross Revenue Conversion Factor	1.4840	1.4840	1.4840	1.7060	1.7060	1.7060
9	Required Revenue Increase (L7 * L6)	\$ 323,456	\$ 323,456	\$ 323,456	\$ 153,645	\$ 153,645	\$ 153,645
10	Adjusted Test Year Revenue	\$ 1,225,490	\$ 1,225,490	\$ 1,225,490	\$ 1,225,490	\$ 1,225,490	\$ 1,225,490
11	Proposed Annual Revenue (L8 + L9)	\$ 1,548,946	\$ 1,548,946	\$ 1,548,946	\$ 1,379,135	\$ 1,379,135	\$ 1,379,135
12	Required Increase in Revenue (%)	26.39%	26.39%	26.39%	12.54%	12.54%	12.54%
13	Rate of Return on Common Equity (%)	NMF	NMF	NMF	NMF	NMF	NMF

References:

Column (A): Company Schedule B-1
Column (B): Company Schedule B-1
Column (C): Company Schedules A-1, A-2, & D-1
Column (D): Staff Schedule GTM-2, GTM-3 & GTM-10
Column (E): Staff Schedule GTM-2, GTM-3 & GTM-10
Column (F): Staff Schedule GTM-2, GTM-3 & GTM-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	41.3836%			
5	Subtotal (L3 - L4)	58.6164%			
6	Revenue Conversion Factor (L1 / L5)	1.706008646			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	40.7843%			
9	One Minus Combined Income Tax Rate (L7 - L8)	59.2157%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 44)	36.3491%			
16	Effective Federal Income Tax Rate (L14 x L15)	0.338162515			
17	Combined Federal and State Income Tax Rate (L13 +L16)	40.7843%			
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	40.7843%			
20	One Minus Combined Income Tax Rate (L18 - L19)	59.2157%			
21	Property Tax Factor (GTM-18, L24)	1.0122%			
22	Effective Property Tax Factor (L 21 * L 22)	0.5994%			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		41.3836%		
24	Required Operating Income (Schedule GTM-1, Line 5)	\$ 137,913			
25	Adjusted Test Year Operating Income (Loss) (Schedule GTM-10, Line 40)	\$ 47,852			
26	Required Increase in Operating Income (L24 - L25)		\$ 90,061		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ 75,592			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ 13,564			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 62,029		
30	Recommended Revenue Requirement (Schedule GTM-1, Line 10)	\$ 1,379,135			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		\$ -		
35	Property Tax with Recommended Revenue (GTM-18, L19)	\$ 40,202			
36	Property Tax on Test Year Revenue (GTM-18, L 18)	\$ 38,647			
37	Increase in Property Tax Due to Increase in Revenue (GTM-18, L22)		\$ 1,555		
38	Total Required Increase in Revenue (L26 + L30 + L34+L37)		\$ 153,645		
<u>Calculation of Income Tax:</u>					
		Test Year		STAFF Recommended	
39	Revenue (Schedule GTM-10, Col.(C), Line 5 & Sch. GTM-1, Col. (B), Line 10)	\$ 1,225,490		\$ 1,379,135	
40	Operating Expenses Excluding Income Taxes	\$ 1,164,074		\$ 1,165,629	
41	Synchronized Interest (L47)	\$ -		\$ -	
42	Arizona Taxable Income (L36 - L37 - L38)	\$ 61,416		\$ 213,506	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L39 x L40)		\$ 4,279		\$ 14,877
45	Federal Taxable Income (L33 - L35)	\$ 57,137		\$ 198,629	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500		\$ 7,500	
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ 1,784		\$ 6,250	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ 38,465	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax		\$ 9,284		\$ 60,715
52	Combined Federal and State Income Tax (L35 + L42)		\$ 13,564		\$ 75,592
53	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				36.35%
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule GTM-3, Col. (C), Line (17))	\$ (279,909)			
55	Weighted Average Cost of Debt (Schedule GTM-1)	5.20%			
56	Synchronized Interest (L45 X L46)	NMF			

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	REF	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 8,596,870	\$ (2,021,100)	\$ 6,575,770
2	Less: Accumulated Depreciation	2,051,031	-	2,051,031
3	Net Plant in Service	<u>\$ 6,545,839</u>	<u>\$ (2,021,100)</u>	<u>\$ 4,524,739</u>
<u>LESS:</u>				
4	Contributions in Aid of Construction (CIAC)	\$ 1,322,934	\$ -	\$ 1,322,934
5	Less: Accumulated Amortization	289,647	-	289,647
6	Net CIAC	<u>\$ 1,033,287</u>	<u>\$ -</u>	<u>\$ 1,033,287</u>
7	Advances in Aid of Construction (AIAC)	3,515,087	-	3,515,087
8	Customer Deposits	224,503	-	224,503
9	Deferred Income Tax Credits	31,772	-	31,772
<u>ADD:</u>				
10	Unamortized Finance Charges	-	-	-
11	Deferred Tax Assets	-	-	-
12	Working Capital	-	-	-
13	Intentionally Left Blank	-	-	-
14	Original Cost Rate Base	<u>\$ 1,741,191</u>	<u>\$ (2,021,100)</u>	<u>\$ (279,909)</u>

References:

Column (A), Company Schedule B-1
Column [B]: Column [C] - Column [A]
Column [C], GTM-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) GTM-5 Access Rights ADJ #1	(C) GTM-6 Well #6 ADJ #2	(D) GTM-7 Treatment Plant ADJ #3	(E) Not Used ADJ #4	(F) Not Used ADJ #5	(J) STAFF ADJUSTED
PLANT IN SERVICE:									
1	301	Organization Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	302	Franchise Cost	-	-	-	-	-	-	-
3	303	Land and Land Rights	448,196	55,000	-	-	-	-	503,196
4	304	Structures and Improvements	17,167	-	-	-	-	-	17,167
5	305	Collecting and Impounding Res.	-	-	-	-	-	-	-
6	306	Lake River and other Intakes	-	-	-	-	-	-	-
7	307	Wells and Springs	1,397,717	(250,000)	-	-	-	-	1,147,717
8	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-
9	309	Supply Mains	-	-	-	-	-	-	-
10	310	Power Generation Equipment	-	-	-	-	-	-	-
11	311	Electrical Pumping Equipment	448,660	-	-	-	-	-	448,660
12	320	Water Treatment Equipment	1,848,434	(55,000)	(1,771,100)	-	-	-	22,334
13	330	Distribution Reservoirs & Standpipe	828,116	-	-	-	-	-	828,116
14	331	Transmission and Distribution Mains	2,593,007	-	-	-	-	-	2,593,007
15	333	Services	123,765	-	-	-	-	-	123,765
16	334	Meters	419,733	-	-	-	-	-	419,733
17	335	Hydrants	147,203	-	-	-	-	-	147,203
18	336	Backflow Prevention Devices	-	-	-	-	-	-	-
19	339	Other Plant & Miscellaneous Equipment	1,237	-	-	-	-	-	1,237
20	340	Office Furniture & Fixtures	66,856	-	-	-	-	-	66,856
21	341	Transportation Equipment	88,026	-	-	-	-	-	88,026
22	342	Stores Equipment	-	-	-	-	-	-	-
23	343	Tools and Work Equipment	38,585	-	-	-	-	-	38,585
24	344	Laboratory Equipment	-	-	-	-	-	-	-
25	345	Power Operated Equipment	5,930	-	-	-	-	-	5,930
26	346	Communications Equipment	-	-	-	-	-	-	-
27	347	Miscellaneous Equipment	20,000	-	-	-	-	-	20,000
28	348	Other Tangible Plant	4,237	-	-	-	-	-	4,237
29	348	Other Tangible Plant Arsenic Media	100,000	-	-	-	-	-	100,000
30		Rounding Amount	1	-	-	-	-	-	1
31		Subtotal Plant in Service	\$ 8,586,870	\$ (250,000)	\$ (1,771,100)	\$ -	\$ -	\$ -	\$ 6,575,770
32									
33		Add:							
34	Other 1	Construction Work in Progress	-	-	-	-	-	-	-
35	Other 2	General Office Plant Allocation	-	-	-	-	-	-	-
36	Less:								
37	Other 3	Post Test Year Plant	-	-	-	-	-	-	-
38	Other 4	General Office Plant Allocation	-	-	-	-	-	-	-
39									
40		Total Plant in Service:	\$ 8,586,870	\$ (250,000)	\$ (1,771,100)	\$ -	\$ -	\$ -	\$ 6,575,770
41		Less: Accumulated Depreciation (Company Sch. B-2 Page 4)	2,051,031	-	-	-	-	-	2,051,031
42		Intentionally Left Blank	-	-	-	-	-	-	-
43		Net Plant in Service (L59 - L 60)	\$ 6,545,839	\$ (250,000)	\$ (1,771,100)	\$ -	\$ -	\$ -	\$ 4,524,739
44									
45		LESS:							
46		Contributions in Aid of Construction (CIAC)	-	-	-	-	-	-	-
47		Less: Accumulated Amortization	1,322,934	-	-	-	-	-	1,322,934
48		Net CIAC (L25 - L26)	289,647	-	-	-	-	-	289,647
49		Advances in Aid of Construction (AIAC)	3,515,087	-	-	-	-	-	3,515,087
50		Customer Deposits	224,503	-	-	-	-	-	224,503
51		Deferred Income Taxes	31,772	-	-	-	-	-	31,772
52									
53		ADD:							
54		Unamortized Finance Charges	-	-	-	-	-	-	-
55		Deferred Tax Assets	-	-	-	-	-	-	-
56		Working Capital	-	-	-	-	-	-	-
57		Regulatory Asset (Liability)	-	-	-	-	-	-	-
58		Original Cost Rate Base	\$ 1,741,191	\$ (250,000)	\$ (1,771,100)	\$ -	\$ -	\$ -	\$ (279,909)

References:
 Column (A) Schedule B-2

VALLEY UTILITIES WATER COMPANY, INC
Docket No. W-0412A-08-0586
Test Year ended June 30, 2008

Schedule GTM-5

ORIGINAL COST RATE BASE ADJUSTMENT # 1 - EASEMENT RECLASSIFICATION

<u>Line No.</u>	<u>Account Number</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	301	Land and Land Rights	\$ 44,196	\$ 55,000	\$ 99,196
2	320	Water Treatment Equipment	1,848,434	\$ (55,000)	\$ 1,793,434

References:

Col [A]: Company Schedule B-1

Col [B]: GTM Testimony

Col [C]: Col. [A] + Col. [B]

Col [C]: Col. [A] + Col. [B]

VALLEY UTILITIES WATER COMPANY, INC
Docket No. W-0412A-08-0586
Test Year ended June 30, 2008

Schedule GTM-6

ORIGINAL COST RATE BASE ADJUSTMENT # 2 - UNSUCCESSFUL, NON-USED AND USEFUL WELL

<u>LINE</u> <u>NO.</u>	<u>Account</u> <u>Number</u>	<u>DESCRIPTION</u>	<u>[A]</u> <u>COMPANY</u> <u>PROPOSED</u>	<u>[B]</u> <u>STAFF</u> <u>ADJUSTMENTS</u>	<u>[C]</u> <u>STAFF</u> <u>RECOMMENDED</u>
1	307	Wells and Springs	<u>\$ 1,397,717</u>	<u>\$ (250,000)</u>	<u>\$ 1,147,717</u>

References:

Col [A]: Company Schedule B-1

Col [B]: GTM Testimony

Col [C]: Col. [A] + Col. [B]

VALLEY UTILITIES WATER COMPANY, INC
 Docket No. W-0412A-08-0586
 Test Year ended June 30, 2008

Schedule GTM-7

ORIGINAL COST RATE BASE ADJUSTMENT # 3 REMOVE WATER TREATMENT PLANT

<u>LINE NO.</u>	<u>Account Number</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	320	Water Treatment Equipment Staff Rate Base Adjustment No 1 Net	\$ 1,848,434 (55,000) <u>\$ 1,793,434</u>	\$ (1,771,100)	\$ 22,334

References:

Col [A]: Company Schedule B-1

Col [B]: GTM Testimony

Col [C]: Col. [A] + Col. [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>OPERATING REVENUES:</u>					
2	Metered Water Revenues	\$ 1,164,238	\$ 15,786	\$ 1,180,024	\$ 150,985	\$ 1,331,009
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	45,466	-	45,466	2,660	48,126
5	Total Operating Revenues	\$ 1,209,704	\$ 15,786	\$ 1,225,490	\$ 153,645	\$ 1,379,135
6						
7	<u>OPERATING EXPENSES:</u>					
8	Salaries and Wages	\$ 355,559	-	\$ 355,559	-	\$ 355,559
9	Employee Pensions & Benefits	5,343	-	5,343	-	5,343
10	Purchased Water	4,357	-	4,357	-	4,357
11	Purchased Power	136,963	60	137,023	-	137,023
12	Chemicals	7,549	142	7,691	-	7,691
13	Repairs and Maintenance	14,210	(1,542)	12,668	-	12,668
14	Office Supplies and Expense	10,006	-	10,006	-	10,006
15	Outside Services	31,734	2,389	34,123	-	34,123
16	Water Testing	-	-	-	-	-
17	Rents	56,601	-	56,601	-	56,601
18	Transportation Expenses	25,266	-	25,266	-	25,266
19	Insurance - General Liability	39,013	(10,304)	28,709	-	28,709
20	Insurance - Health and Life	84,637	(60)	84,577	-	84,577
21	Advertising	-	-	-	-	-
22	Regulatory Comm Expense - Rate Case	40,000	-	40,000	-	40,000
23	Regulatory Comm Expense - Other	15,856	-	15,856	-	15,856
24	Bad Debt Expense	228	-	228	-	228
25	Miscellaneous Expense	42,327	-	42,327	-	42,327
26	Depreciation and Amortization	313,518	(77,776)	235,742	-	235,742
27	Taxes other than Income	29,351	-	29,351	-	29,351
28	Property Taxes	39,304	(657)	38,647	1,555	40,202
29	Income Tax	(54,130)	67,694	13,564	62,029	75,592
30	Total Operating Expenses	\$ 1,197,692	(20,054)	\$ 1,177,638	\$ 63,584	\$ 1,241,221
31						
32	Operating Income	12,012	35,840	47,852	90,061	137,914

References:
 Column [A]: Company Schedule C-1
 Column [B]: Schedule GTM-11
 Column [C]: Column [A] + Column [B]
 Column [D]: Schedules GTM-1 and GTM-2
 Column [E]: Column [C] + Column [D]

VALLEY UTILITIES WATER COMPANY, INC
 Docket No. WY-0472A-08-0588
 Test Year ended June 30, 2008

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) GTM-10 Rev Annualization ADJ.#1	(C) GTM-11 Repair & Maintenance ADJ.#2	(D) GTM-12 Water Testing ADJ.#3	(E) GTM-13 Liability Insurance ADJ.#4	(F) GTM-14 Health & Life ADJ.#5	(G) GTM-15 Depreciation ADJ.#6	(H) GTM-16 Property Taxes ADJ.#7	(I) GTM-17 Income Taxes ADJ.#8	(J) STAFF ADJUSTED
1	<i>Operating Revenues:</i>										
2	Metered Water Revenues	\$ 1,164,238	\$ 15,766								\$ 1,180,004
3	Unmetered Water Revenues										
4	Other Water Revenues	45,466									45,466
5	Total Operating Revenues	\$ 1,209,704	\$ 15,766								\$ 1,225,470
6											
7	<i>Operating Expenses:</i>										
8	Salaries and Wages	\$ 355,559									355,559
9	Employee Pensions & Benefits	5,343									5,343
10	Purchased Water	4,357									4,357
11	Purchased Power	136,983	60								137,043
12	Chemicals	7,549	142								7,691
13	Repairs and Maintenance	14,210		(1,542)							12,668
14	Office Supplies and Expense	10,006									10,006
15	Outside Services	31,734			2,389						34,123
16	Water Testing										
17	Rents	56,801									56,801
18	Transportation Expenses	25,266									25,266
19	Insurance - General Liability	38,013				(10,304)					27,709
20	Insurance - Health and Life	84,537				10,304					94,841
21	Advertising										
22	Regulatory Comm Expense - Rate Case	40,000									40,000
23	Regulatory Comm Expense - Other	15,856									15,856
24	Bad Debt Expense	228									228
25	Miscellaneous Expense	42,327									42,327
26	Depreciation and Amortization	313,518					(77,776)				235,742
27	Taxes other than Income	29,351									29,351
28	Property Taxes	38,304							(657)		37,647
29	Income Tax	(54,130)								67,894	13,764
30	Total Operating Expenses	\$ 1,197,582	\$ 202	\$ (1,542)	\$ 2,389	\$ -	\$ (10,364)	\$ (77,776)	\$ (657)	\$ 67,894	\$ 1,177,638
	Operating Income	\$ 12,072	\$ 15,564	\$ 1,542	\$ (2,389)	\$ -	\$ 10,364	\$ 77,776	\$ 657	\$ (67,894)	\$ 47,852

OPERATING INCOME ADJUSTMENT # 1 - REVENUE ANNUALIZATION

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Revenue Annualization	\$ (24,537)	\$ 18,446	\$ (6,091)
2	Miscellaneous Charges Annualization	\$ 2,660	\$ (2,660)	\$ -
3	Subtotal	\$ (21,877)	\$ 15,786	\$ (6,091)
4	Purchased Power	\$ 60	\$ (60)	\$ -
5	Chemical Expense	\$ 142	\$ (142)	\$ -
6	Total		<u>\$ 15,584</u>	

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References:

Col [A]: Company Schedule C-1 Page 3
Col [B]: GTM Testimony
Col [C]: Col. [A] + Col. [B]

VALLEY UTILITIES WATER COMPANY, INC

Schedule GTM-11

Docket No. W-0412A-08-0586

Test Year ended June 30, 2008

OPERATING INCOME ADJUSTMENT # 2 - NORMALIZATION OF REPAIRS AND MAINTENANCE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Repairs and Maintenance	\$ 14,210	\$ (1,542)	\$ 12,668
2				
3				
4			Number of	Weighted Ave
5	Repairs and Maintenance		Customers	Cost / Customer
6	FY 2006	\$ 19,641	1,401	14.02
7	FY 2007	2,964	1,418	2.09
8	FY 2008	14,210	1,477	9.62
9	Total	\$ 36,815		25.73
10	Number of Years			3
11	Normalized cost per customer			8.58
12				
13	Normalized amount based on cost per customer			
14	(e.g. 8.58 * 1,477 customers)			12,668
15				
16	<u>References:</u>			
17	Col [A]: Company Schedule C-1 Page 3			
18	Col [B]: GTM Testimony			
19	Col [C]: Col. [A] + Col. [B]			

VALLEY UTILITIES WATER COMPANY, INC
Docket No. W-0412A-08-0586
Test Year ended June 30, 2008

Schedule GTM-12

OPERATING INCOME ADJUSTMENT # 3 - WATER TESTING EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Water Sampling	\$ 6,247	\$ 2,389	\$ 8,636
2				
3				
4				
5	Outside Services	Test Year		
6	631 Engineering	\$ 1,351		
7	632 Legal & Accounting	\$ 23,436		
8	635 Water Sampling	\$ 6,247		
9	636 Contract Labor	\$ 700		
10	Total	<u>\$ 31,734</u>		

11

12

References:

13

Col [A]: Company Schedule C-1 Page 3

14

Col [B]: GTM Testimony

15

Col [C]: Col. [A] + Col. [B]

OPERATING INCOME ADJUSTMENT # 4 - RECLASSIFY INSURANCE EXPENSE

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Insurance - General Liability	\$ 39,013	\$ (10,304)	\$ 28,709
2	Insurance - Health and Life	84,637	10,304	94,941
3	Total Insurance	<u>\$ 123,650</u>	<u>\$ -</u>	<u>\$ 123,650</u>
4				
5				
6				
7				
8				
9				
10				

References:

- 11 Col [A]: Company Schedule C-1 Page 3
- 12 Col [B]: GTM Testimony
- 13 Col [C]: Col. [A] + Col. [B]
- 14 Col [C]: Col. [A] + Col. [B]
- 15

OPERATING INCOME ADJUSTMENT # 5 - NON-RECURRING HEALTH AND LIFE INSURANCE

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Insurance - Health and Life	84,637	(10,364)	74,273
2	Reclassification (Staff Adj. #4)	-	-	10,364
3	Total Insurance	<u>\$ 84,637</u>	<u>\$ (10,364)</u>	<u>84,637</u>
4				
5				
6				
7				
8				
9				
10				
11				
12	<u>References:</u>			
13	Col [A]: Company Schedule C-1 Page 3			
14	Col [B]: GTM Testimony			
15	Col [C]: Col. [A] + Col. [B]			
16	Col [C]: Col. [A] + Col. [B]			

OPERATING INCOME ADJUSTMENT # 6 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Operating Income	\$ 313,518	\$ (77,776)	\$ 235,742

OPERATING INCOME ADJUSTMENT # - DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	[A] Company Proposed PLANT IN SERVICE BALANCE	[B] STAFF DEPR. PLANT BALANCE	[C] STAFF RECOMMENDED RATE	[D] STAFF RECOMMENDED EXPENSE
Plant In Service						
2	301	Organization Cost	\$ -	-		
3	302	Franchise Cost	-	-	0.00%	\$ -
4	303	Land and Land Rights	448,196	503,196	0.00%	-
5	304	Structures and Improvements	17,167	17,167	3.33%	572
6	305	Collecting and Impounding Res.	-	-	2.50%	-
7	306	Lake River and other Intakes	-	-	2.50%	-
8	307	Wells and Springs	1,397,717	1,147,717	3.33%	38,219
9	308	Infiltration Galleries and Tunnels	-	-	6.67%	-
10	309	Supply Mains	-	-	2.00%	-
11	310	Power Generation Equipment	-	-	5.00%	-
12	311	Electrical Pumping Equipment	448,660	448,660	12.50%	56,082
13	320.0	Water Treatment Equipment	1,848,434	22,334	3.33%	744
14	330	Distribution Reservoirs & Standpipe	828,116	828,116	2.22%	18,384
15	331	Transmission and Distribution Mains	2,593,007	2,593,007	2.00%	51,860
16	333	Services	123,765	123,765	3.33%	4,121
17	334	Meters	419,733	419,733	8.33%	34,964
18	335	Hydrants	147,203	147,203	2.00%	2,944
19	336	Backflow Prevention Devices	-	-	6.67%	-
20	339	Other Plant & Miscellaneous Equipment	1,237	1,237	6.67%	83
21	340	Office Furniture & Fixtures	66,856	66,856	6.67%	4,459
22	341	Transportation Equipment	88,026	88,026	20.00%	17,605
23	342	Stores Equipment	-	-	4.00%	-
24	343	Tools and Work Equipment	38,585	38,585	5.00%	1,929
25	344	Laboratory Equipment	-	-	10.00%	-
26	345	Power Operated Equipment	5,930	5,930	5.00%	296
27	346	Communications Equipment	-	-	10.00%	-
28	347	Miscellaneous Equipment	20,000	20,000	10.00%	2,000
29	348	Other Tangible Plant	4,237	4,237	3.33%	141
30	348	Other Tangible Plant Arsenic Media	100,000	100,000	67.00%	67,000
31						
		Subtotal General	\$ 8,596,869	\$ 6,575,769		\$ 301,404
32		Less: Non-depreciable Account(s)	448,196	503,196		
33		Depreciable Plant (L29-L30)	\$ 8,148,673	\$ 6,072,573		
34		Contributions-in-Aid-of-Construction (CIAC)			\$ 1,322,934	
35		Composite Depreciation/Amortization Rate			4.9634%	
36		Less: Amortization of CIAC (L32 x L33)				\$ 65,662
37		Depreciation Expense - STAFF [Col. (C), L29 - L34]				\$ 235,742

OPERATING INCOME ADJUSTMENT # 7 - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2006	\$ 1,225,490	\$ 1,225,490
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 2,450,980	\$ 2,450,980
4a	Staff Adjusted Test Year Revenues - 2006	1,225,490	1,379,135
4b	Staff Recommended Revenue, Per Schedule GTM-1		1,379,135
5	Subtotal (Line 4 + Line 5)	\$ 3,676,470	\$ 3,830,115
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 1,225,490	\$ 1,276,705
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 2,450,980	\$ 2,553,410
10	Plus: 10% of CWIP -	110,850	110,850
11	Less: Net Book Value of Licensed Vehicles	16,499	16,499
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 2,545,331	\$ 2,647,761
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	534,519	\$ 556,030
15	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)	7.2302%	7.2302%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 38,647	
17	Company Proposed Property Tax	39,304	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (657)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 40,202
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 38,647
21	Increase/(Decrease) to Property Tax Expense		\$ 1,555
22	Decrease to Property Tax Expense		\$ 1,555
23	Increase In Revenue Requirement		153,645
24	Decrease to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.012228%

References:

Col [A]: Company Schedule C-1 Page 3

Col [B]: GTM Testimony

VALLEY UTILITIES WATER COMPANY, INC
Docket No. W-0412A-08-0586
Test Year ended June 30, 2008

Schedule GTM-17

OPERATING INCOME ADJUSTMENT # 8 - INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Tax	<u>\$ (54,130)</u>	<u>\$ 67,694</u>	<u>\$ 13,564</u>
2				
3				
4				
5				
6				
7				
8				
9				
10				

References:

- 11
- 12 Col [A]: Company Schedule C-1 Page 3
- 13 Col [B]: Column [C] - Column [A]
- 14 Col [C]: Schedule GTM-2

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8" Meter - All Classes	\$ 11.24	\$ 14.34	\$ 12.50
3/4" Meter - All Classes	\$ 16.87	\$ 21.53	\$ 18.75
1" Meter - All Classes	\$ 28.10	\$ 35.86	\$ 31.25
1½" Meter - All Classes	\$ 56.21	\$ 71.72	\$ 62.50
2" Meter - All Classes	\$ 89.24	\$ 114.76	\$ 100.00
3" Meter - All Classes	\$ 179.87	\$ 229.51	\$ 200.00
4" Meter - All Classes	\$ 281.05	\$ 358.62	\$ 312.50
6" Meter - All Classes	\$ 562.10	\$ 717.24	\$ 625.00
3" Construction	\$ 179.87	\$ 229.51	N/A
Construction - All Classes			\$ -
Commodity Rates			
5/8" Meter (Residential)			
From 1 to 3,000 Gallons	\$ 1.50	\$ 1.91	\$ 1.70
From 3,001 to 10,000 Gallons	\$ 2.31	\$ 2.95	\$ 2.60
Over 10,000 Gallons	\$ 2.53	\$ 3.23	\$ 3.10
3/4" Meter (Residential)			
From 1 to 3,000 Gallons	\$ 1.50	\$ 1.91	\$ 1.70
From 3,001 to 10,000 Gallons	\$ 2.31	\$ 2.95	\$ 2.60
Over 10,000 Gallons	\$ 2.53	\$ 3.23	\$ 3.10
1" Meter (Residential)			
From 1 to 50,359 Gallons	\$ 2.31	N/A	N/A
Over 50,359 Gallons	\$ 2.53	N/A	N/A
From 1 to 25,000 Gallons	N/A	\$ 2.95	N/A
Over 25,000 Gallons	N/A	\$ 3.23	N/A
From 1 to 30,000 Gallons	N/A	N/A	\$ 2.60
Over 30,000 Gallons			\$ 3.10
5/8" Meter (Commercial)			
From 1 to 18,000 Gallons	\$ 2.31	\$ 2.95	N/A
Over 18,000 Gallons	\$ 2.53	\$ 3.23	N/A
From 1 to 10,000 Gallons	N/A	N/A	\$ 2.60
Over 10,000 Gallons	N/A	N/A	\$ 3.10

3/4" Meter (Commercial)					
From 1 to 18,000 Gallons	\$	2.31		N/A	N/A
Over 18,000 Gallons	\$	2.53		N/A	N/A
From 1 to 15,000 Gallons		N/A	\$	2.95	N/A
Over 15,000 Gallons		N/A	\$	3.23	N/A
From 1 to 10,000 Gallons		N/A		N/A	\$ 2.60
Over 10,000 Gallons		N/A		N/A	\$ 3.10
1" Meter (Commercial)					
From 1 to 50,359 Gallons	\$	2.31		N/A	N/A
Over 50,359 Gallons	\$	2.53		N/A	N/A
From 1 to 25,000 Gallons		N/A	\$	2.95	N/A
Over 25,000 Gallons		N/A	\$	3.23	N/A
From 1 to 30,000 Gallons		N/A		N/A	\$ 2.60
Over 30,000 Gallons		N/A		N/A	\$ 3.10
1 1/2" Meter (Res., Comm.)					
From 1 to 126,054 Gallons	\$	2.31		N/A	N/A
Over 126,054 Gallons	\$	2.53		N/A	N/A
From 1 to 50,000 Gallons		N/A	\$	2.95	N/A
Over 50,000 Gallons		N/A	\$	3.23	N/A
From 1 to 80,000 Gallons		N/A		N/A	\$ 2.60
Over 80,000 Gallons		N/A		N/A	\$ 3.10
2" Meter (Res., Comm.)					
From 1 to 151,256 Gallons	\$	2.31		N/A	N/A
Over 151,256 Gallons	\$	2.53		N/A	N/A
From 1 to 80,000 Gallons		N/A	\$	2.95	N/A
Over 80,000 Gallons		N/A	\$	3.23	N/A
From 1 to 140,000 Gallons		N/A		N/A	\$ 2.60
Over 140,000 Gallons		N/A		N/A	\$ 3.10
3" Meter (Res., Comm.)					
From 1 to 403,274 Gallons	\$	2.31		N/A	N/A
Over 403,274 Gallons	\$	2.53		N/A	N/A
From 1 to 160,000 Gallons		N/A	\$	2.95	N/A
Over 160,000 Gallons		N/A	\$	3.23	N/A
From 1 to 300,000 Gallons		N/A		N/A	\$ 2.60
Over 300,000 Gallons		N/A		N/A	\$ 3.10
4" Meter (Res., Comm.)					
From 1 to 453,722 Gallons	\$	2.31		N/A	N/A
Over 453,722 Gallons	\$	2.53		N/A	N/A
From 1 to 250,000 Gallons		N/A	\$	2.95	N/A
Over 250,000 Gallons		N/A	\$	3.23	N/A
From 1 to 450,000 Gallons		N/A		N/A	\$ 2.60
Over 450,000 Gallons		N/A		N/A	\$ 3.10
6" Meter (Res., Comm.)					
From 1 to 1,260,313 Gallons	\$	2.31		N/A	N/A
Over 1,260,313 Gallons	\$	2.53		N/A	N/A
From 1 to 500,000 Gallons		N/A	\$	2.95	N/A
Over 500,000 Gallons		N/A	\$	3.23	N/A
From 1 to 1,000,000 Gallons		N/A		N/A	\$ 2.60
Over 1,000,000 Gallons		N/A		N/A	\$ 3.10
3" Construction (Res., Comm.)					
All Gallons	\$	3.02		3.23	3.15

Present	Co. Proposed			Staff Recommended		
	Total	Line	Meter	Total	Line	Meter
\$ 520	\$ 445	\$ 155	\$ 600	\$ 445	\$ 155	\$ 600
600	445	255	700	445	255	700
690	495	315	810	495	315	810
5,035	550	525	1,075	550	525	1,075
1,595	830	1,045	1,875	830	1,045	1,875
2,320	830	1,890	2,720	830	1,890	2,720
2,275	1,045	1,670	2,715	1,045	1,670	2,715
3,110	1,165	2,545	3,710	1,165	2,545	3,710
3,520	1,490	2,670	4,160	1,490	2,670	4,160
4,475	1,670	3,645	5,315	1,670	3,645	5,315
6,275	2,210	5,025	7,235	2,210	5,025	7,235
8,050	2,330	6,920	9,250	2,330	6,920	9,250
Cost	Cost	Cost	Cost	Cost	Cost	Cost
Cost	Cost	Cost	Cost	Cost	Cost	Cost
Cost	Cost	Cost	Cost	Cost	Cost	Cost
\$ 30.00			\$ 40.00			\$ 40.00
45.00			60.00			60.00
30.00			30.00			30.00
(a)			(a)			(a)
(a)			(a)			(a)
6.00%			3.00%			3.00%
(b)			(b)			(b)
(b)			(b)			(b)
25.00			25.00			25.00
1.5%			1.50%			1.50%
10.00			10.00			10.00
Cost			Cost			Cost
25.00			50.00			50.00
10.00			10.00			10.00
NT = No Tariff				Greater of \$10 or 2 percent of the general service rate for a similar size meter.		

Per Commission Rules (R14-2-403.B)

Residential - two times the average bill. Non-residential - two and one-half times the average bill.

Minimum charge times number of months disconnected.

\$100 Plus \$12.50 times months off system.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per Commission Rule (14-2-409.D.5).

All advances and/or contributions are to include labor, materials, overheads and all applicable taxes,

Cost to include labor, materials and parts, overheads and all applicable taxes.

Typical Bill Analysis
Residential 5/8 Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	7,376	\$ 25.85	\$ 32.98	\$ 7.13	27.59%
Median Usage	5,500	21.52	27.45	\$ 5.93	27.56%
Staff Recommended					
Average Usage	7,376	\$ 25.85	\$ 28.98	\$ 3.13	12.11%
Median Usage	5,500	21.52	24.10	\$ 2.59	12.01%

Present & Proposed Rates (Without Taxes)
Residential 5/8 Inch Meter

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 11.24	\$ 14.34	27.58%	\$ 12.50	11.21%
1,000	12.74	16.25	27.55%	14.20	11.46%
2,000	14.24	18.16	27.53%	15.90	11.66%
3,000	15.74	20.07	27.51%	17.60	11.82%
4,000	18.05	23.02	27.53%	20.20	11.91%
5,000	20.36	25.97	27.55%	22.80	11.98%
5,500	21.52	27.45	27.56%	24.10	12.01%
6,000	22.67	28.92	27.57%	25.40	12.04%
7,000	24.98	31.87	27.58%	28.00	12.09%
7,376	25.85	32.98	27.59%	28.98	12.11%
8,000	27.29	34.82	27.59%	30.60	12.13%
9,000	29.60	37.77	27.60%	33.20	12.16%
10,000	31.91	40.72	27.61%	35.80	12.19%
11,000	34.44	43.95	27.61%	38.90	12.95%
12,000	36.97	47.18	27.62%	42.00	13.61%
13,000	39.50	50.41	27.62%	45.10	14.18%
14,000	42.03	53.64	27.62%	48.20	14.68%
15,000	44.56	56.87	27.63%	51.30	15.13%
16,000	47.09	60.10	27.63%	54.40	15.52%
17,000	49.62	63.33	27.63%	57.50	15.88%
18,000	52.15	66.56	27.63%	60.60	16.20%
19,000	54.68	69.79	27.63%	63.70	16.50%
20,000	57.21	73.02	27.64%	66.80	16.76%
25,000	69.86	89.17	27.64%	82.30	17.81%
30,000	82.51	105.32	27.65%	97.80	18.53%
35,000	95.16	121.47	27.65%	113.30	19.06%
40,000	107.81	137.62	27.65%	128.80	19.47%
45,000	120.46	153.77	27.65%	144.30	19.79%
50,000	133.11	169.92	27.65%	159.80	20.05%
75,000	196.36	250.67	27.66%	237.30	20.85%
100,000	259.61	331.42	27.66%	314.80	21.26%

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

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-08-0586

DIRECT
TESTIMONY
OF
MARLIN SCOTT, JR.
UTILITIES ENGINEER
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

JULY 6, 2009

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**EXECUTIVE SUMMARY
VALLEY UTILITIES WATER COMPANY, INC.
DOCKET NO. W-01412A-08-0586**

CONCLUSIONS

- A. The Valley Utilities Water Company, Inc. ("Company") has a water loss of 6.0% which is within the acceptable limits.
- B. The Company's current well and storage capacity is adequate to serve the present customer base. The Company's well capacity is near capacity and this system will need the new Well #6's production in the near future. In the meantime, the emergency interconnection with the Litchfield Park Service Company's water system will provide a supplemental source until the new Well #6 is placed into service. (See Recommendation #3 below for the post-test year ("PTY") plant recommendation for the new Well #6.)
- C. The Company reported its arsenic levels ranging from 7 parts per billion ("ppb") to 13 ppb. Based on these levels, the Company is currently completing construction of two arsenic treatment facilities and has reported these arsenic treatment facility projects as post-test year ("PTY") plant items. (See Recommendation #3 below for PTY plant recommendation for the arsenic treatment facilities.)
- D. The Company is located in the Arizona Department of Water Resources' Phoenix Active Management Area ("AMA") and ADWR has reported that the Company is in compliance with ADWR's requirements governing water providers and/or community water systems.
- E. According to the Utilities Division Compliance database, the Company has no delinquent Arizona Corporation Commission ("ACC") compliance items.
- F. The Company has an approved curtailment tariff on file with the ACC.
- G. The Company has an approved backflow prevention tariff on file with the ACC.

RECOMMENDATIONS

- 1. The Company has not submitted the Maricopa County Environmental Service Department ("MCESD") Compliance Status Report for its system. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of an updated MCESD Compliance Status Report indicating that the Company's system has no deficiencies and is in compliance with MCESD requirements. Staff further recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of the updated MCESD Compliance Status Report indicating that the system is in compliance and delivering safe water.

2. Staff recommends an average annual water testing expense of \$8,636 be adopted for this proceeding.
3. The Company does not have the final approvals for the PTY plant items, i.e., new Well #6 and arsenic treatment facilities. Therefore, Staff concludes that the requested PTY plant items are not used and useful for the provision of service to customers at this time.
4. Staff recommends that the Company continue to use the depreciation rates by individual National Association of Regulatory Utility Commissioners category as presented in Table I-1.
5. Staff recommends the acceptance of the Company's proposed service line and meter installation charges as presented in Table J-1.

1 **INTRODUCTION**

2 **Q. Please state your name, place of employment and job title.**

3 A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation
4 Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix,
5 Arizona 85007. My job title is Utilities Engineer.

6
7 **Q. How long have you been employed by the Commission?**

8 A. I have been employed by the Commission since November 1987.

9
10 **Q. Please list your duties and responsibilities.**

11 A. As a Utilities Engineer, specializing in water and wastewater engineering, my
12 responsibilities include: the inspection, investigation, and evaluation of water and
13 wastewater systems; preparing reconstruction cost new and/or original cost studies,
14 reviewing cost of service studies and preparing investigative reports; providing technical
15 recommendations and suggesting corrective action for water and wastewater systems; and
16 providing written and oral testimony on rate applications and other cases before the
17 Commission.

18
19 **Q. How many cases have you analyzed for the Utilities Division?**

20 A. I have analyzed approximately 520 cases covering various responsibilities for the Utilities
21 Division.

22
23 **Q. Have you previously testified before this Commission?**

24 A. Yes, I have testified in 73 proceedings before this Commission.

1 **Q. What is your educational background?**

2 A. I graduated from Northern Arizona University in 1984 with a Bachelor of Science degree
3 in Civil Engineering Technology.

4

5 **Q. Briefly describe your pertinent work experience.**

6 A. Prior to my employment with the Commission, I was Assistant Engineer for the City of
7 Winslow, Arizona, for about two years. Prior to that, I was a Civil Engineering
8 Technician with the U.S. Public Health Service in Winslow for approximately six years.

9

10 **Q. Please state your professional membership, registrations, and licenses.**

11 A. I am a member of the National Association of Regulatory Utility Commissioners
12 (“NARUC”) Staff Subcommittee on Water.

13

14 **PURPOSE OF TESTIMONY**

15 **Q. Were you assigned to provide Staff’s engineering analysis and recommendation for
16 the Valley Utilities Water Company, Inc. (“Company”) in this proceeding?**

17 A. Yes. I reviewed the Company’s rate application and I inspected the water system on
18 April 8 and May 6, 2009. This testimony and the attached Exhibit MSJ presents Staff’s
19 engineering evaluation.

20

21 **ENGINEERING REPORT**

22 **Q. Please describe the attached Engineering Report, Exhibit MSJ.**

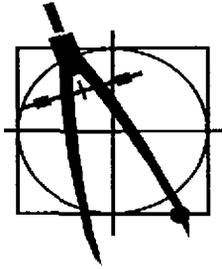
23 A. Exhibit MSJ presents the details and analyses of Staff’s findings for this rate case, and is
24 attached to this direct testimony. Exhibit MSJ contains the following major topics: (1) a
25 description of the water system and the processes, (2) water use, (3) growth, (4)
26 compliance with the rules of the Maricopa County Environmental Services Department,

1 Arizona Department of Water Resources, and the Arizona Corporation Commission, (5)
2 post-test year plant, (6) depreciation rates, (7) service line and meter installation charges,
3 and (8) tariff filings.

4
5 Staff's conclusions and recommendations from the engineering report are contained in the
6 "EXECUTIVE SUMMARY" above.

7
8 **Q. Does this conclude your direct testimony?**

9 **A. Yes, it does.**

**Engineering Report****For****Valley Utilities Water Company, Inc.****Docket No. W-01412A-08-0586 (Rates)****June 3, 2009****A. LOCATION OF VALLEY UTILITIES WATER COMPANY, INC. ("COMPANY")**

The Company serves a community located on Maricopa County land, just east of Luke Air Force Base, in the Phoenix West Valley. Figure A-1 shows the location of the Company within Maricopa County and Figure A-2 shows the approximate five square-miles of certificated area.

B. DESCRIPTION OF WATER SYSTEM

The water system was field inspected on April 8 and May 6, 2009, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Robert Prince and Scott Keith, representing the Company. The current operation of the water system consisted of six producing wells, six storage tanks, four booster stations and a distribution system serving over 1,400 customers as of June 2008. This system is also interconnected with Litchfield Park Service Company with a 6-inch meter, limited to a maximum of 300 GPM, for emergency purposes. A system schematic is shown in Figure B-1 with detailed plant facility descriptions as follows:

Table 1. Well Data

Well #	ADWR ID No.	Pump Hp (Submersible)	Flow Rate (GPM)	Casing Size & Depth	Meter Size	Year Drilled
#1	55-639720	25	75	12" x 650'	4"	1942
#2	55-639721	30	125	10" x 650'	4"	1969
#3	55-639723	25	125	8" x 425'	8"	1965
#4	55-639722	25	125	12" x 800'	4"	1970
#5	55-503273	75 - Turbine	375	20" x 850'	8"	1982
#6 - Old	Capped			12" x 810'		2001
#6 - New	55-580082	125 - Turbine	* N/A	20" x 811'	8"	2009
#7	55-208819	125 - Turbine	300	16" x 715'	8"	2007
		TOTAL:	1,125			

* Note: The Company submitted an application for a Certificate for Approval to Construct on May 13, 2009.

Table 2. Storage Tanks

Capacity (Gallons)	Quantity (Each)	Location
560,000	1	@ Maryland Booster Station
1,000,000	1	
200,000	1	@ Bethany Hills West
100,000	3	Two tanks @ Glendale Yard & one tank @ Lux Yard
Totals: 2,060,000 gal.	6	

Table 3. Booster Systems

Location	Booster Systems	Storage Tanks (From Table 2)
Glendale Yard (Wells #1, #2 & #7)	50, 20 & 15-Hp booster pumps 5,000 gal. pressure tank	Two 100,000 gal. storage tanks
Lux Yard (Well #3)	30, 30 & 20-Hp booster pumps 5,000 gallon pressure tank	100,000 gal. storage tank
Bethany Hills West (Wells #4, #5 & #6)	40, 40 & 40-Hp booster pumps 7,500 gal. pressure tank	200,000 gal. storage tank
Maryland Booster Station	50,50, 20 & 20-Hp booster pumps 10,000 gal. pressure tank	560,000 gal. & 1.0 MG storage tanks

Table 4. Water Mains

Diameter	Material	Length
4-inch	AC & PVC	10,000 ft.
6-inch	AC & DIP	78,034 ft.
8-inch	AC & DIP	52,911 ft.
10-inch	DIP	2,952 ft.
12-inch	AC & DIP	5,925 ft.
	Total:	149,822 ft.

Table 5. Customer Meters

Size	Quantity
5/8 x 3/4-inch	162
3/4-inch	763
1- inch	404
1-1/2-inch	13
2-inch	52
3-inch	5
Total:	1,399

Table 6. Fire Hydrants

Size	Quantity
Standard	175

Table 7. Structures & Treatment Equipment

Structures & Treatment Equipment
Wells #1, #2 & #7: 500 GPM arsenic treatment system with a 16,500 gallon backwash tank, liquid chlorination unit and 175 kW diesel generator. Arsenic treatment building is 22 ft. by 36 ft. metal building; motor control center building is 11 ft. by 22 ft. metal building.
Well #3: Liquid chlorination unit
Maryland Booster Station: Tablet chlorination unit and 125 kW diesel generator. Chlorination building is 14 ft. by 14 ft. metal building; motor control center building is 12 ft. by 38 ft. metal building.
Wells #4, #5 & #6: 1,500 GPM arsenic treatment system with a 72,000 gallon backwash tank & liquid chlorination. Arsenic treatment building is 40 ft. x 60 ft. metal building.

C. WATER USE

Water Sold

Based on the information provided by the Company, water use for the test year is presented in Figure C-1. Customer consumption experienced a high monthly average water use

of 872 gallons per day ("GPD") per connection in July and a low monthly average water use of 358 GPD per connection in December for an average annual use of 637 GPD per connection.

Non-Account Water

Non-account water should be 10% or less. The Company reported 377,937,000 gallons pumped/purchased and 355,372,000 gallons sold, resulting in a water loss of 6.0%. This 6.0% is within the acceptable limits.

System Analysis

The water system's current well capacity of 1,125 GPM and storage capacity of 2,060,000 gallons is adequate to serve the present customer base. The Company's wells are near capacity and this system will need the new Well #6's production in the near future. In the meantime, the emergency interconnection with the Litchfield Park Service Company's water system will provide a supplemental source until the new Well #6 is placed into service.

The new Well #6 has not been placed into service due to problems with sand infiltration. The Company is currently evaluating its option to resolve the sand infiltration. See Section H – Post-Test Year Plant for further discussion.

D. GROWTH

Figure D-1 depicts the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. During the test year ending June 2008, the Company had approximately 1,400 customers and it is projected that the Company could have approximately 1,640 customers by December 2013.

E. MARICOPA COUNTY ENVIRONMENTAL SERVICES DEPARTMENT ("MCESD") COMPLIANCE

Compliance

The Company has not submitted its MCESD Compliance Status Report ("CSR") for its system, PWS No. 07-079. In response to Staff's Data Request MSJ 1-1, dated February 12, 2009, the Company stated it had contacted MCESD for an updated CSR and would submit this report upon receipt. In addition, on both of Staff's field inspection dates, April 8 and May 6, 2009, Staff reminded the Company to file the CSR and as of this date, the Company has not submitted the updated CSR.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of an updated MCESD Compliance Status Report indicating that the Company's system has no deficiencies and is in compliance with MCESD requirements. Staff further recommends that any increase in rates and charges approved in this proceeding not become effective until the first day of the month following the Company's filing of the updated MCESD Compliance Status Report indicating that the system is in compliance and delivering safe water.

Water Testing Expense

The Company reported and combined its water testing expense with other expenses in the Outside Services Account. Through a data request, the Company provided laboratory invoices totaling to \$6,247 and the Arizona Department of Environmental Quality Monitoring Assistance Program invoice at \$3,835. Staff has reviewed these invoice amounts and has made adjustments to determine its own average annual water testing expense of \$8,636 as shown in Table E-1. Staff recommends its average annual water testing expense of \$8,636 be adopted for this proceeding.

Arsenic

The Company reported the arsenic levels for its Well No. 1 at 12 parts per billion (“ppb”), Well No. 2 at 13 ppb, Well No. 3 at 7 ppb, Well No. 4 at 12 ppb, Well No. 5 at 13 ppb, Well No. 6 at 11 ppb and Well No. 7 at 13 ppb. The Company is currently completing construction of two arsenic treatment facilities. The Company has reported these arsenic treatment facility projects as post-test year plant items that are further discussed below.

F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

The Company is located in the Phoenix Active Management Area (“AMA”). According to ADWR, the Company is in compliance with its requirements governing water providers and/or community water systems.

G. ARIZONA CORPORATION COMMISSION (“ACC”) COMPLIANCE

According to the Utilities Division Compliance database, the Company had no delinquent ACC compliance items.

H. POST-TEST YEAR PLANT

In its rate application filing, the Company submitted \$2,000,500 worth of post-test year (“PTY”) plant for two arsenic treatment facilities and the new Well #6. During Staff’s field inspections on April 8 and May 6, 2009, Staff noted that construction at both of the arsenic treatment facility sites was near completion and the operation of the treatment facilities had begun. Staff also took notice that the new Well #6 was not in operation due to the pumping of sand.

Arsenic Treatment Facilities

According to MCESD, on December 15, 2008, the Company submitted an application for the Approval to Construct (“ATC”) for one of the arsenic treatment facilities (“ATF”) located at the Glendale Avenue Site. On May 20, 2009, MCESD issued the Certificate of ATC for the Glendale Avenue ATF. Within this ATC, MCESD stated that the Company was issued a Special Use Permit (“SUP”) for this site. A SUP is required for the construction and operation of a

treatment plant that is located on Maricopa County land. The Approval of Construction (“AOC”) for this ATF is pending until the successful completion of the Validation and Commissioning Testing requirements.

As for the other ATF located at the Bethany Home Road Site, Staff has yet to receive a copy of the ATC and/or the AOC from MCESD or the Company. According MCESD, the ATC for the Bethany Home Road ATF cannot be issued until a SUP is issued for this site. The approval of this SUP is still pending with MCESD.

New Well #6

According to MCESD, on May 13, 2009, the Company submitted an application for the ATC for the new Well #6. Once the Company addresses and resolves its sand infiltration problem, the Company would then need to apply and receive the AOC to place this new source into operation.

Conclusion of PTY Plant

At this time, the Company does not have the final approvals for each of the PTY plant items. Therefore, Staff concludes that the requested PYT plant items are not used and useful for the provision of service to customers at this time.

I. DEPRECIATION RATES

In the prior rate case, the Company adopted Staff’s typical and customary depreciation rates. In this current proceeding, the Company is requesting specific depreciation rates for the arsenic treatment media and leasehold improvements. Staff has reviewed these specific requested rates and finds them reasonable. Staff further reclassified the Company’s requested arsenic treatment media from Account 348 – Other Tangible Plant to Account 320 – Water Treatment Equipment. These rates are presented in Table I-1 and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

J. SERVICE LINE AND METER INSTALLATION CHARGES

The Company has requested increases to its service line and meter installation charges. These charges are refundable advances and the Company’s proposed increased charges are within Staff’s recommended range of charges. In addition, the Company has requested that the long-side (road crossing) service installation charges be charged at cost. This requested additional charge is to meet the Maricopa County requirement for boring across the road in lieu of pavement cutting. Staff recommends the acceptance of the Company’s proposed installation charges which includes the actual cost incurred when road crossing is required as shown in Table J-1.

K. CURTAILMENT PLAN TARIFF

The Company has an approved curtailment tariff on file with the ACC.

L. BACKFLOW PREVENTION TARIFF

The Company has an approved backflow prevention tariff on file with the ACC.

FIGURES

Maricopa County Map Figure A-1
Certificated Area Figure A-2
System Schematic Figure B-1
Water Use Figure C-1
Growth Figure D-1

TABLES

Water Testing Cost Table E-1
Depreciation Rates Table I-1
Service Line and Meter Installation Charges Table J-1

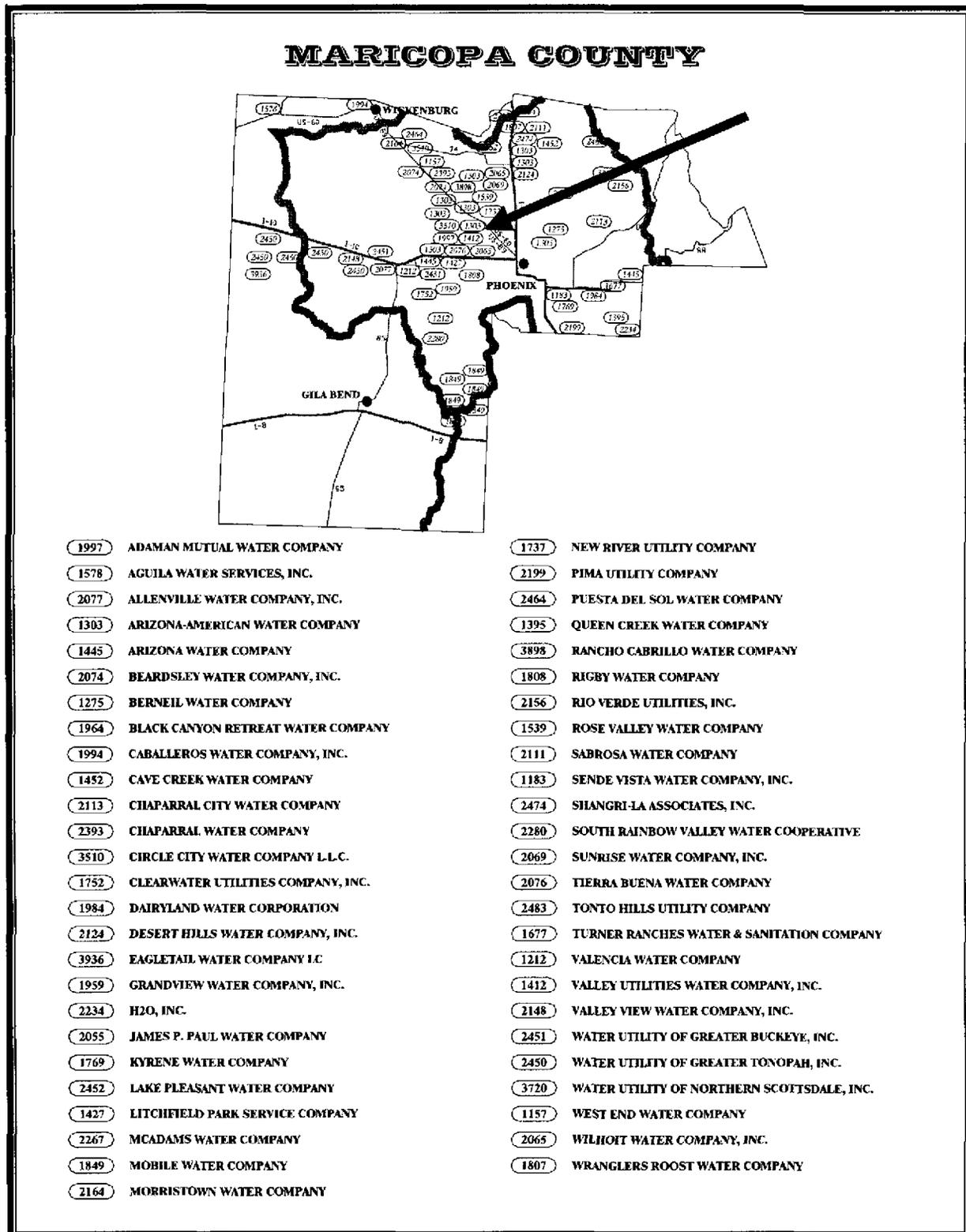


Figure A-1. Maricopa County Map

COUNTY = *Maricopa*

RANGE 1 West

TOWNSHIP 2 North

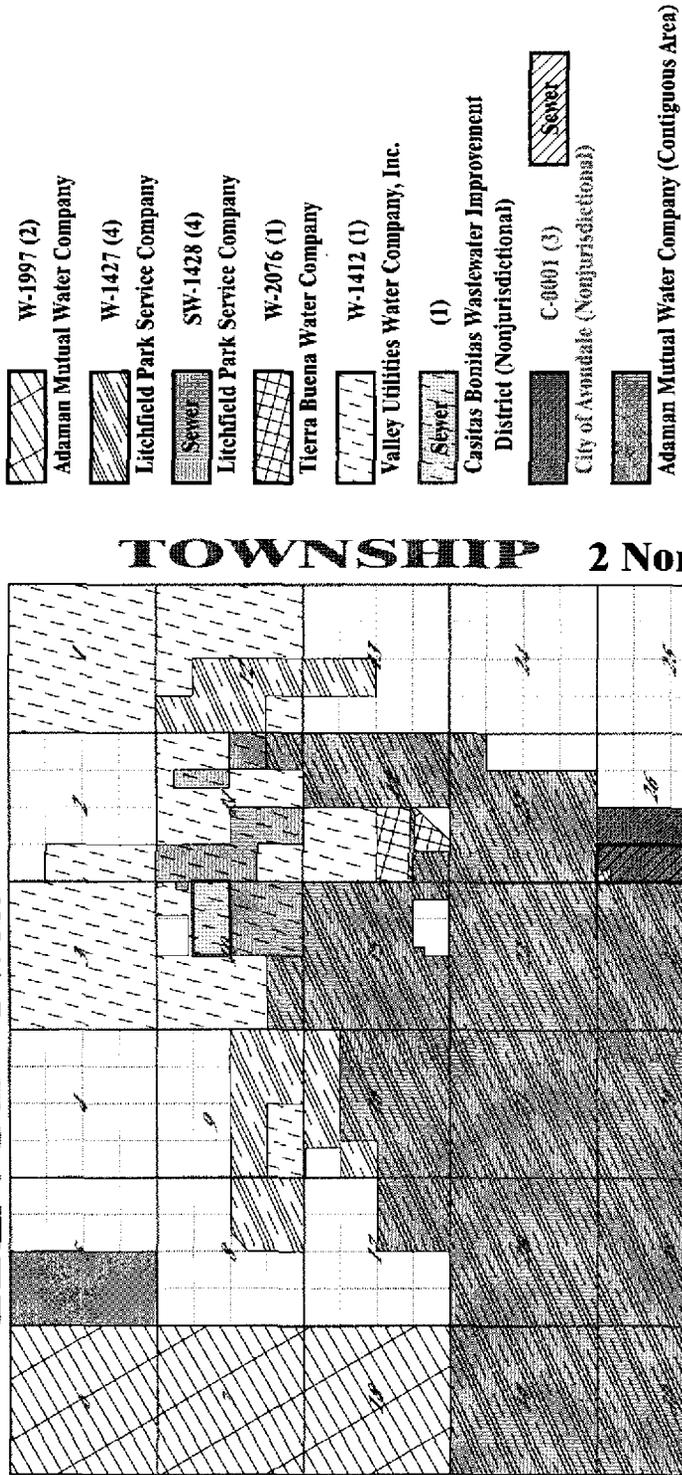


Figure A-2. Certificated Area

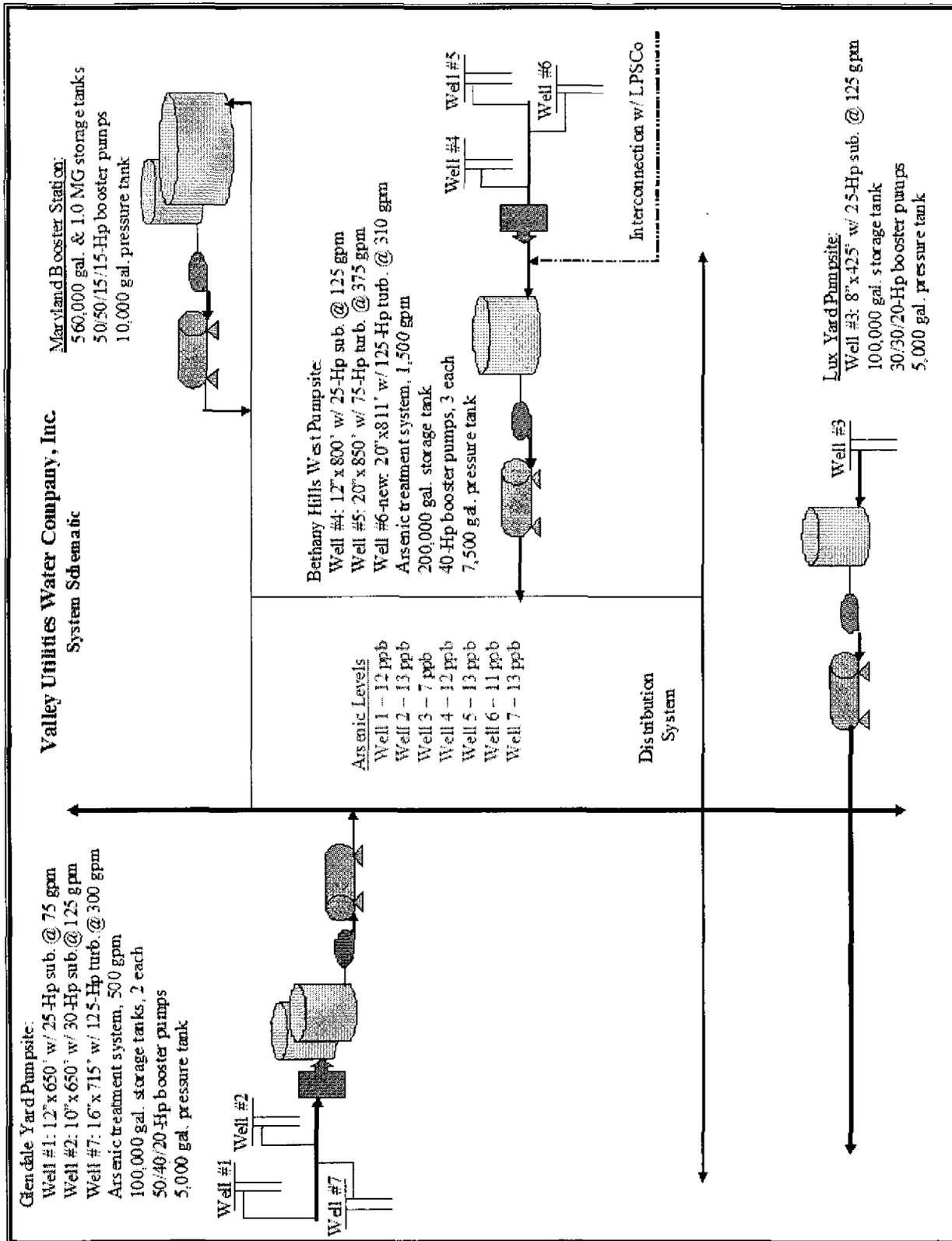


Figure B-1. System Schematic

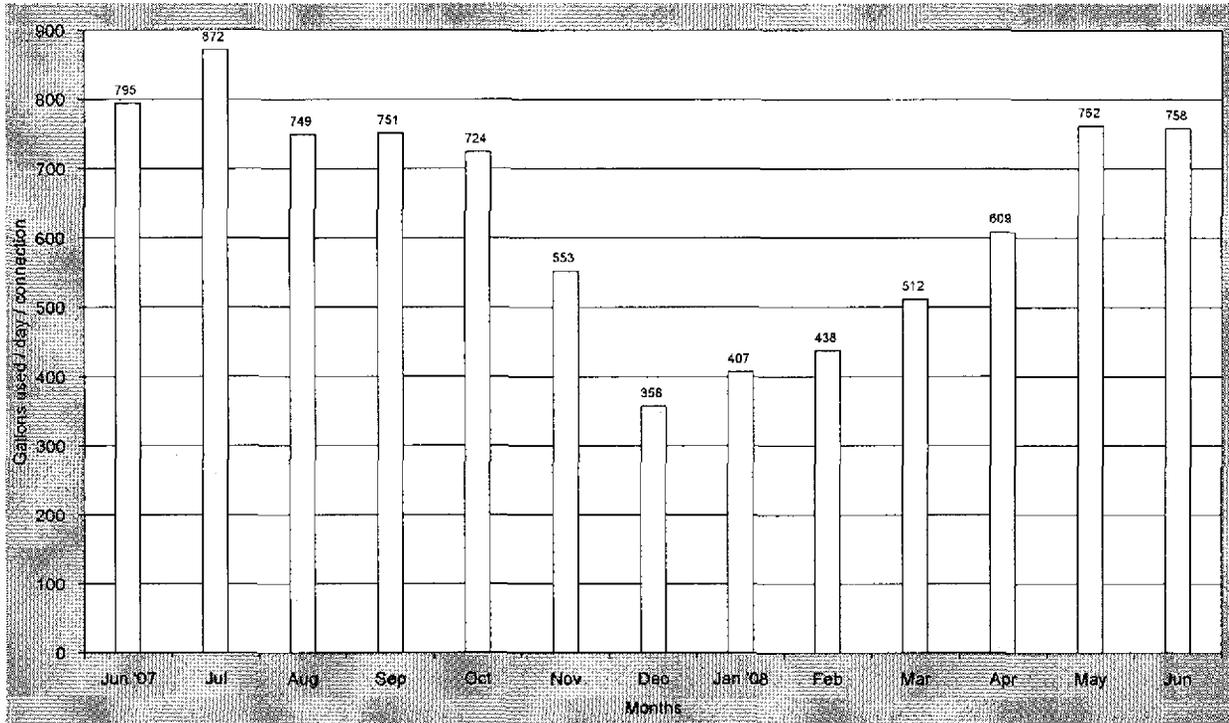


Figure C-1. Water Use

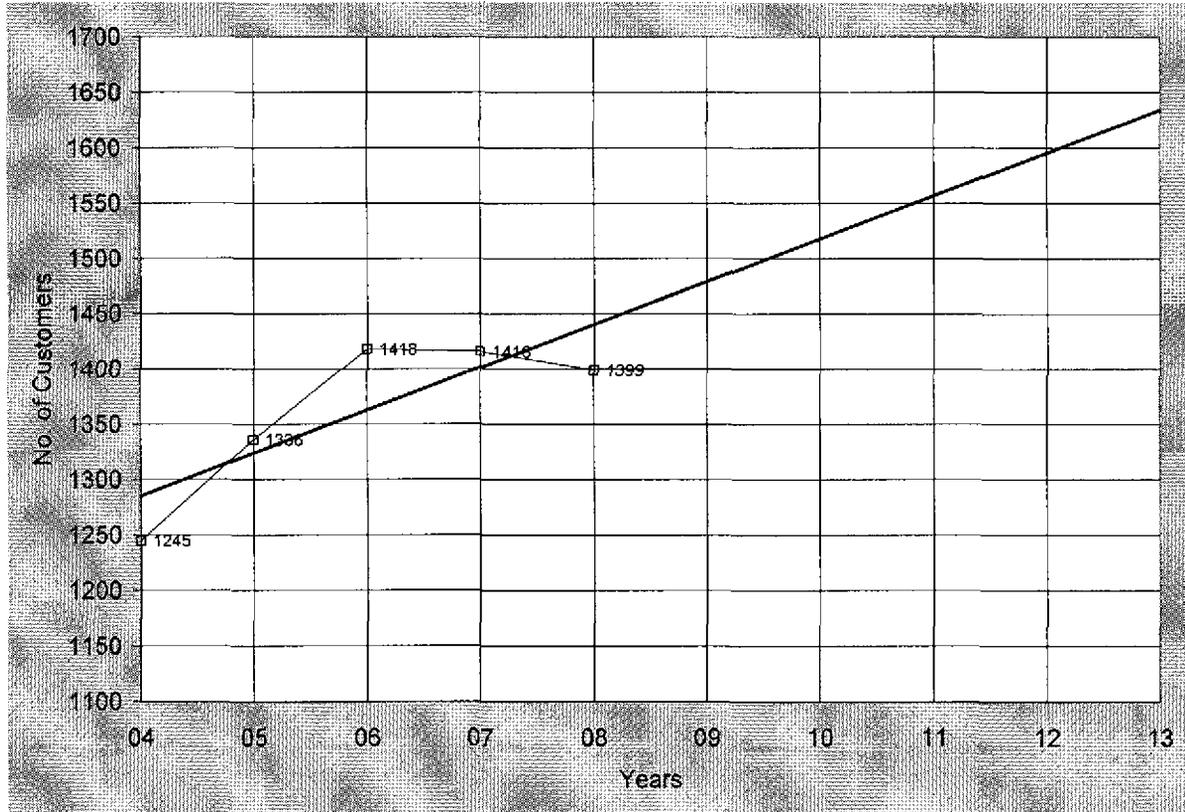


Figure D-1. Growth

Table E-1. Water Testing Cost

Monitoring	Cost per test	No. of test	Annual Cost
Total coliform – 6 samples per month	\$16	72	\$1,152
Total coliform – per customer inquiry	\$16	6	\$96
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$3,835
Arsenic – 6 samples per month	\$21	72	\$1,512
Lead & Copper -- 25 samples per 3 years	\$34	25	\$283
Nitrate & Nitrite - annually	\$40	4	\$160
New source – Well #7 – per 3 years	\$474	1	\$158
D/DBP – TTHM/HAA5 – 4 samples per year	\$360	4	\$1,440
Total			\$8,636

Note: ADEQ - MAP invoice for the 2009 Calendar Year is \$3,835.15.

Table I-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Company's Current Rates (%)	Company's Proposed Rates (%)
304	Structures & Improvements	3.33	3.33
305	Collecting & Impounding Reservoirs	2.50	2.50
306	Lake, River, Canal Intakes	2.50	2.50
307	Wells & Springs	3.33	3.33
308	Infiltration Galleries	6.67	6.67
309	Raw Water Supply Mains	2.00	2.00
310	Power Generation Equipment	5.00	5.00
311	Pumping Equipment	12.5	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	3.33	3.33
320.2	Solution Chemical Feeders	20.0	20.0
320.3	Media for Arsenic Treatment	None	67.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	2.22	2.22
330.2	Pressure Tanks	5.00	5.00
331	Transmission & Distribution Mains	2.00	2.00
333	Services	3.33	3.33
334	Meters	8.33	8.33
335	Hydrants	2.00	2.00
336	Backflow Prevention Devices	6.67	6.67
339	Other Plant & Misc Equipment	6.67	6.67
340	Office Furniture & Equipment	6.67	6.67
340.1	Computers & Software	20.00	20.00
341	Transportation Equipment	20.00	20.00
342	Stores Equipment	4.00	4.00
343	Tools, Shop & Garage Equipment	5.00	5.00
344	Laboratory Equipment	10.00	10.00
345	Power Operated Equipment	5.00	5.00
346	Communication Equipment	10.00	10.00
347	Miscellaneous Equipment	10.00	10.00
348	Other Tangible Plant	10.00	None
348	Other Tangible Plant – leasehold improve	None	3.33
348	Other Tangible Plant – Arsenic Media	None	None

Table J-1. Service Line and Meter Installation Charges

Meter Size	Current Service Line Charges	Current Meter Charges	Current Total Charges	Proposed Service Line Charges **	Proposed Meter Charges	Proposed Total Charges
5/8 x3/4"	\$385	\$135	\$520	\$445	\$155	\$600
3/4"	\$385	\$215	\$600	\$445	\$255	\$700
1"	\$435	\$255	\$690	\$495	\$315	\$810
1-1/2"	\$470	\$465	\$935	\$550	\$525	\$1,075
2" Turbine	\$630	\$965	\$1,595	\$830	\$1,045	\$1,875
2" Compound	\$630	\$1,690	\$2,320	\$830	\$1,890	\$2,720
3" Turbine	\$805	\$1,470	\$2,275	\$1,045	\$1,670	\$2,715
3" Compound	\$845	\$2,265	\$3,110	\$1,165	\$2,545	\$3,710
4" Turbine	\$1,170	\$2,350	\$3,520	\$1,490	\$2,670	\$4,160
4" Compound	\$1,230	\$3,245	\$4,475	\$1,670	\$3,645	\$5,315
6" Turbine	\$1,730	\$4,545	\$6,275	\$2,210	\$5,025	\$7,235
6" Compound	\$1,770	\$6,280	\$8,050	\$2,330	\$6,920	\$9,250
8"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
10"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
12"	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

** Note: To include the actual cost incurred when road crossing is required.