BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AN INCREASE IN ITS WATER RATES FOR CUSTOMERS WITHIN MARICOPA COUNTY.	DOCKET NO. W-01412A-08-0586 **STAFF'S NOTICE OF AMENDED FILING OF DIRECT TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Amended Direct Testimony of Gary T. McMurry of the Utilities Division in the above-referenced matter.

Mr. McMurry's testimony was filed on July 6, 2009, but an error occurred in the printing process which resulted in the final pages of Mr. McMurry's narrative being omitted. Staff hereby files an amended version of the document with the previously-missing pages in place.

RESPECTFULLY SUBMITTED this 7th day of July, 2009.

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Original and thirteen (13) copies of the foregoing were filed this 7th day of July, 2009 with:

Docket Control
Arizona Corporation Commission
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Copy of the foregoing mailed this
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DIRECT

TESTIMONY

OF

GARY T. MCMURRY

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 6, 2009

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SCHEDULES

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 delinquently 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.

I. INTRODUCTION

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

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

Q. Please describe your educational background and professional experience.

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

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

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

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

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

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

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

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

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

Q. How is your testimony organized?

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

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

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

II. BACKGROUND

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

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

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

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

Q. When were VUWC's present rates established?

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

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

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

III. CONSUMER SERVICE

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

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

IV. SUMMARY OF PROPOSED REVENUES

Q. What revenue requirement is VUWC proposing?

A. The Company's application proposes total operating revenue of $1,533,160, an increase of $323,456, or 26.74 percent over its test year revenue of $1,209,704. The Company's proposed revenue, as filed, would provide an operating income of $229,974 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.

Q. What is Staff's revenue requirement recommendation?

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

Q. Is the Company requesting an ARSM surcharge?

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

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

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

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

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

V. SUMMARY OF STAFF'S RATE BASE AND OPERATING INCOME ADJUSTMENTS

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

A. Rate Base:

<u>Access Rights</u> – This adjustment reclassifies $55,000, representing easement rights in a property from the Water Treatment Plant account to the Land and Land Rights account.

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

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

Operating Income:

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

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

Water Testing Expense – This adjustment increases expenses by $2,389 to normalize the cost of Water Testing.

General Liability Insurance – This adjustment reclassifies $10,304 from the Insurance – General Liability account to the Insurance Health and Life account.

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

Depreciation expense – This adjustment decreases depreciation expense by $77,776 to reflect application of Staff's recommended depreciation rates to Staff recommended plant amounts.

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

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

VI. RATE BASE

Fair Value Rate Base

Q. Does VUWC's application include schedules with elements of a Reconstruction Cost New Rate Base?

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

Rate Base Summary

Q. Please summarize Staff's rate base recommendation.

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

Rate Base Adjustment No. 1 – Easement Reclassification

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

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

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

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

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

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

Q. What is Staff's Recommendation?

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

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

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

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

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

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

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

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

Q. What is Staff's Recommendation?

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

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

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

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

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

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

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

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

Q. What is Staff's Recommendation?

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

VII. OPERATING INCOME

REVENUES

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

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

Operating Income Adjustment No. 1 – Revenue Annualization

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

A. The Company proposes a proforma adjustment of $21,877 decrease to test year operating revenue. Page 5 of the Company's application, schedule C-2, shows that the $21,877 adjustment is composed of a $24,537 decrease due to annualization of revenues and a $2,660 increase due to proposed increases in miscellaneous service charges. The revenue annualization portion of the adjustment is based on the assumption that the test year end customers are representative of on-going customers for each month of the test year. The revenue adjustment is calculated by multiplying the average revenue per customer in each month by the difference between to the actual number of customers for each month and the number of customers at the end of the test year for each customer class. The miscellaneous revenue portion of the adjustment is calculated by multiplying the proposed increase in the charge for each service by the number of occurrences for that service in the test year.

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

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

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

A. Yes. First, the Company's calculation as shown in Schedules C-2, pages 5.1 through 5.11 contains computational errors. For example, the "Increase in Number of Customers/Bills" 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 mathematical errors. Second, pages 5.2, 5.3, 5.4, 5.5, 5.6 and 5.7 fail to use the actual end of test year customer count, as claimed by the Company and which is consistent with the particular annualization method used, for the "Year End Number of Customers" for purposes of calculating the annualization adjustment. Third, Construction Water on page 5.11 accounts for $25,640 of the $24,537 downward adjustment due to annualization of revenues. In other words, except for inclusion of construction water, the Company's revenue annualization would have been a $1,103 increase to test year revenues. Fourth, a negative annualization adjustment implies that the Company is losing customers, and this is inconsistent with Schedule E-7 of the Company's application that shows that the year end customer counts for the fiscal years ending June 30 in 2006, 2007, and 2008 were 1,401, 1,418, and 1477, respectively, indicating a positive customer growth rate for the Company over the past two years. Fifth, the $2,660 increase due to increases in proposed miscellaneous service charges is not related to the test year just as the Company's proposed increases in minimum monthly charges and commodity rates for water sales are not test year adjustments.

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

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

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

A. Yes. Typically, construction water sales very from year-to-year and from month-to-month. The type of adjustment appropriate for addressing year-to-year variances is normalization, not annualization. Furthermore, month-to-month or seasonal customer variances are not properly annualized by use of end of year customers as the Company has proposed. A better methodology for annualizing seasonal variances is based on annual growth rates calculated using comparison of the customers in each month of the test year to the same months in the prior year.

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

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

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

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

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

A. Staff is taking no exception to the Company's calculation that the increase in its proposed service charges will produce an additional $2,660 over that collected for these services in the test year. However, the Company's proposal to adjusted test year revenues due to anticipated authorization to increase the charges for services is technically incorrect and potentially confusing in a manner that could lead to errors in calculating the rates necessary to generate the authorized revenue. The Company's proposal overstates test year revenue and results in an equal understatement of the required increase in revenue. Since these amounts are offset, with the Company's proposed treatment, there will be no impact to the rates as long as (1) the additional $2,660 of miscellaneous service charge revenue is not included in the incremental revenue generated by the authorized rates and (2) the proposed miscellaneous service charges are authorized. Since both of these items create the potential for errors and recognizing incremental revenue in the test year in anticipation of an authorized rate increase is technically incorrect, the $2,660 portion of the Company's revenue annualization adjustment due to the proposed increases in miscellaneous service charges should be removed.

Q. What does Staff recommend?

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

Operating Income Adjustment No. 2 – Repairs and Maintenance

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

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

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

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

Q. What is Staff's Recommendation?

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

Operating Income Adjustment No. 3 – Water Testing Expense

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

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

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

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

Q. What is Staff's Recommendation?

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

Operating Income Adjustment No. 4 – Reclassify Insurance Expense

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

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

Operating Income Adjustment No. 5 – Health and Life Insurance

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

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

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

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

Q. What is Staff's Recommendation?

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

Operating Income Adjustment No. 6 – Depreciation Expense

Q. What is the Company proposing for Depreciation expense?

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

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

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

Q. What is Staff's Recommendation?

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

Operating Income Adjustment No. 7 – Property Tax Expense

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

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

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

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

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

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

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

A. Staff recommends $38,647 for test year property tax expense, a $657 reduction from the Company's proposed amount as shown in Schedule GTM-16.[1] Staff further recommends adoption of its GRCF that includes a factor for Property Tax expense as shown in Schedule GTM-2.

Operating Income Adjustment No. 8 – Income Tax Expense

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

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

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

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

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

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

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

Q. What is Staff's Recommendation?

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

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

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

The purpose of a GRCF is to provide a mechanism for determining the amount of additional revenue needed to increase the test year operating income to the authorized amount. For taxable entities, the increase in revenue must exceed the difference between the authorized and test year operating incomes because each increase in revenue results in a corresponding increase in income tax expense. Thus, the GRCF must be measured over the range that begins with the test year taxable income and ends with the taxable income that corresponds with the authorized operating income. The Company's calculation of its 1.4840 GRCF (Schedule C-3) is not calculated over the appropriate range of taxable incomes. The Company's GRCF is based on the average combined State and Federal income tax rates for its recommended revenues and taxable income. In other words, it is calculated on the range that begins at zero instead of at test year taxable income.

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

VIII. OTHER ISSUES

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

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

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

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

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

Non-arm's Length Transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. Are medical reimbursements to shareholders a concern to Staff?

A. Yes. Medical reimbursements to shareholders may be reasonable. However, the Company should have an established policy for the medical benefits it provides to all employees. In this instance, the Company has no written policy to establish and inform its employees regarding the medical benefits offered. In response to SDR GTM-5.19, the Company stated that it had no employee benefits manual documenting the Company's formalized medical polices. Staff observed that during the test year VUWC paid $10,304 on behalf of its employees, which includes Robert and Barbara Prince, for items such as office visits, prescription co-payments, reimbursements to employees for out of pocket expenses, stipends in lieu of premium coverage, and other items.

Equity Position

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

A. Yes. The Commission instructed Staff to bring to its attention "any inappropriate practices that contribute to the deterioration of, rather than to the building of equity."[4]

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

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

Compliance Issues

Q. Did Staff observe any compliance issues?

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

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

Q. Please provide background on the first issue involving AIF reporting.

A. On November 26, 2004, VUWC filed an application requesting approval to establish a tariff to collect hook-up fees for arsenic treatment to provide debt service to fund the construction of an arsenic treatment system.

Q. What was the result of the application?

A. In Decision No. 67669, dated March 9, 2005, the Commission approved the requested fee and ordered, among other things, that status reports be filed "for every twelve (12) months beginning January 31, 2006, and until the AIF tariff is no longer in effect."[5]

Q. Did the Company file the status reports in compliance with Decision No. 67669?

A. No. The Company did not file any status reports until February 22, 2008. This report covered the calendar years 2005, 2006, and 2007. Thus, the AIF reports for the calendar years 2005, 2006 and 2007 were delinquently filed.

Q. Were AIF status reports the Company filed for 2005, 2006 and 2007 complete?

A. No. Decision No. 67669 required the reports to "contain a list of all customers that have paid the AIF Tariff, the amount each has paid, the amount of money spent fro the account, the amount of interest earned on the AIF Tariff account, and a list of all facilities that have been installed with the AIF Tariff funds."[6] None of the status reports filed contained all of the information required by the Commission.

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[5] ACC Decision No. 67669, page 3 lines 13-14
[6] Ibid. Page 3, lines 14-16.

Q. Please explain the second issue involving the set-aside funds.

A. Commission Decision No. 62908, dated September 18, 2000, authorized a permanent rate increase and incurrence of debt from the Water Infrastructure and Finance Authority of Arizona ("WIFA"). That Decision also required the Company to establish a set-aside account into which it was initially required to deposit $6.35 per month per customer bill for the sole purpose of servicing a proposed the loan ("WIFA Loan No. 1"). The monthly set-aside amount was to be reset to coincide with actual monthly debt service requirement on WIFA Loan No. 1 after it became known.

Q. Did the Company execute WIFA Loan No. 1?

A. Yes, but the loan did not close until January 7, 2005, and for the amount of $52,350, an amount much less than the $452,080 authorized. The Company asserts that it never drew any funds on WIFA Loan No. 1, and the Company never filed a copy of the closing documents as required by Decision No. 62908.

Q. Has the Commission provided subsequent direction pertaining to the set-aside account or funds?

A. Yes. Decision Nos. 68309[7] and 70956[8] provide additional comments regarding the set-aside funds. Decision No. 68309, dated November 14, 2005, granted a rate increase and approved obtaining another WIFA loan in the amount of $1,926,100 ("WIFA Loan No. 2"), and it stated the following regarding the unused set-aside funds:

> "The Company has not incurred the WIFA debt approved in Decision No. 62908, but has collected funds intended to pay that debt. The existing balance of the collected debt-service funds must either be refunded or applied to WIFA debt. Because the Company is again requesting WIFA financing, and is requesting imposition of a surcharge to pay the debt

[7] Issued November 14, 2005.
[8] Issued April 7, 2009.

> service, it would be reasonable and efficient to apply the existing balance of the collected funds to service the new WIFA debt. Under the circumstances, it is reasonable to cancel the prior WIFA financing authority, and require the Company to use the collected fund balance to service the arsenic *remediation-related long-term debt authorized herein*."[9]

Decision No. 70956 concluded (1) that "VUWCO did not comply with Decision No. 62908 when it commingled funds, failed to advise Staff of the actual debt service amount, and failed to file copies of the closing documents";[10] the "terms of Decision No. 62908 were modified by Decision No. 68309";[11] there "is not sufficient information to determine what funds should be in the Set-Aside Account";[12] "VUWCO must use the funds in the Set-Aside Account to service the debt for WIFA Loan #2";[13] VUWCO should be allowed to "begin using the currently existing balance in the Set-Aside Account to service WIFA Loan #2",[14] with the understanding that additional funds that should have been in the Set-Aside Account may also be required to offset the WIFA Loan #2; and that "a determination of what, if any, additional funds will be attributed as an offset will be made in the context of either the pending Rate Application, Surcharge Application, or an OSC".[15]

Q. Does Staff intend to address the Set-Aside Account balance is this proceeding?

A. No. Staff intends to address the Set-Aside Account balance in the Company's arsenic remediation surcharge case (Docket Nos. W-1412A-04-0736 and W-1412A-04-0849).

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[9] Decision No. 68309, page 9, lines 1-8.
[10] Decision No. 70956, page 13, lines 14-16.
[11] Ibid, page 14, lines 2-3.
[12] Ibid, page 14, lines 19-20.
[13] Ibid, page 14, lines 25-26.
[14] Ibid, page 15, lines 1-2.
[15] Ibid, page 15, lines 3-5.

Q. Please explain the compliance issue involving the Maryland Avenue Booster Station *transaction.*

A. The Company filed an application on May 9, 2007, to purchase some real property from the utilities shareholders, Robert and Barbara Prince. On December 4, 2007, via Commission Decision No. 70052, the Commission approved the purchase of the land from the utility's owners.

Q. Did the Commission provide a deadline for completing the transaction?

A. Yes. The Company was given 90 days from the effective date of the order (March 3, 2008) to provide copies of all executed documents to the Commission.

Q. Did the Company complete the transaction on a timely basis?

A. No. According to SDR GTM-7.11, the transfer of said property was not recorded until April 10, 2009, over one year past the 90 day compliance deadline and nine months past the end of the test year.

Q. Please explain the possibl non-compliance issue pertaining to the Company's acquisition the CAP water.

A. On January 12, 2007, the Board of Directors of VUWC approved the purchase of 250 acre feet of CAP water annually. The terms of the deal were to either 1) pay a one-time payment of $163,000 or 2) make five annual installment payments of $36,000 (total of $180,000). The Company chose to make five installment payments over five years at $36,000 a year thus incurring $17,000 ($180,000 - $163,000) in financing charges.

Q. Did the Company request Commission approval for the transaction?

A. No. The Company stated that it did not seek approval as it was not asking for it to be included in rate base.

Q. Is Commission approval necessary for issuance of evidence of indebtedness?

A. Yes. Arizona Revised Statutes §§ 40-301 and 40-302 have provisions that govern the issuance of debt.

Q. Do the terms of the CAP water purchase agreement suggest that a debt may have been incurred?

A. Yes. The terms provide for acquiring an asset over a five-year term that includes an implied 5.2 percent interest rate.

Q. Can the Company provide a schedule of its outstanding Contributions In Aid of Construction ("CIAC")?

A. No. Staff requested that the Company provide a schedule of CIAC showing the name, date, and amount received from each contributor which would reconcile to the general ledger. In response to SDR GTM-6.16, the Company only provided detail of CIAC activity during the test year.

Q. Does this response satisfy the NARUC USOA guidelines?

A. No. According to the USOA guidelines, the CIAC records should reflect the amount received, the purpose of the contribution, the identity of the contributor, and any conditions surrounding the contribution.

Q. Did the Company provide a schedule of outstanding Advances In Aid of Construction ("AIAC")?

A. No. Staff requested that the Company provide a schedule of AIAC showing the name, date, and amount received from each party, and amount refunded to date which would reconcile to the general ledger. In response to SDR GTM-6.15, the Company only provided detail of AIAC activity during the test year.

Q. Does this response satisfy the NARUC USOA guidelines?

A. No. According to NARUC USOA, "Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts thereto."[16]

Q. What are Staff's conclusions and recommendations regarding these regulatory issues?

A. The Company has significantly reduced non-arm's length transactions. Due to the nature of certain assets e.g., real property, it may occasionally be appropriate for the Company to engage in non-arm's length transactions. However, non-arm's length transactions are generally undesirable and avoidable. The Company should establish and maintain policies to minimize non-arm's length transactions to prevent regressing as it pertains to non-arm's length transactions, e.g., shareholders should not normally purchase assets and then lease them to the utility. Similarly, the Company should develop written policies and procedures regarding the benefits offered to employees.

[16] NARUC USOA for Class A Utilities, 1996, Page 14.

The Company should continue improving its equity position. Staff typically recommends that investor-owned utilities maintain a minimum equity position of 40 percent of total equity. Company's that lack access to the capital equity markets should maintain higher equity positions. The Company should avoid draining equity through large dividends distributions and other distributions to shareholders such as payment of bonuses, excessive increases in salaries and benefits and inadequate internal controls over expenditures and misappropriations.

The Company should also develop and implement policies to comply with all Commission directives, rules and statutes.

In an abundance of caution, the Company should file an application for Commission authorization of its five-year purchase agreement with the Central Arizona Water Conservation District at the earliest reasonable date, to allow the Commission to determine if financing approval is required.

The Company should maintain its records in accordance with the Commission mandated NARUC USOA.

The issues discussed above show a less than stellar performance for VUWC as a public utility company in regards to compliance with Commission requirements. No set of rules and regulations and no amount of measuring and monitoring can ensure that a utility will meet its obligations unless the utility's management has the capacity and desire to deliver on those obligations. Staff recommends that the Commission direct the Company to develop the policies and procedures suggested above and to make the filing suggested above. Staff further recommends that the Commission place the Company on notice that future indiscretions regarding its obligations as a public service corporation must end.

IX. RATE DESIGN

Present Rate Design

Q. Please provide an overview of the Company's present rates.

A. The following is a general description of the present rate design. Details of the rate designs are presented in Schedule GTM-18. 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-x 3/4-inch meters is $11.25. The minimum monthly charge increases in proportion to the volumetric flow capacity for larger meters.

The Company's Proposed Water Rate Design

Q. Please provide an overview of the Company's proposed rate structure.

A. The Company's 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-x3/4-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. Detail of the Company's proposed rate design is shown in Schedule GTM-18.

Q. Did the Company propose any changes to its water system service charges?

A. Yes. The Company has proposed changes to service charges. The Company's proposed service charge changes are shown in the Company's Revised Schedule H-3 and GTM-18. The Company's proposed rates for service charges are in line with the service charges of other water utilities.

Q. Has the Company submitted proposed tariff language specifying the terms and conditions as well as its rates and charges?

A. No. The Company's application proposes only rate and charges. No specific tariff language is proposed.

Staff's Recommended Water Rate Design

Q. In addition to maintaining non-discriminatory rates that provide Staff's recommended revenue and other issues such as gradualism, revenue stability, and customer affordability, what policy objectives are reflected in Staff's recommended rates?

A. Staff's rate design recognizes the growing importance of managing water as a finite resource and its increasing cost. The quantity of water resources available to Arizona and in VUWC's service territory does not grow with population and customer base, and the cost of developing, treating, and delivering water increases with diminishing supply and increased health and safety regulations. Staff recommends a rate design that encourages efficient use of water.

Q. Please provide a description of Staff's recommended rate structure for the water system.

A. Staff recommends a three-tier inverted block rate structure for residential 5/8-x3/4-inch and 3/4-inch meter customers with break-over points at 3,000 gallons and at 10,000 gallons. Staff recommends a two-tier inverted block rate structure for commercial 5/8-x3/4-inch and 3/4-inch meter customers and for all residential and commercial 1-inch. 1.5-inch, 2-inch, 3-inch, 4-inch and 6-inch meter customers. The recommended break-over points for two-tier customers increase with meter size as shown in Schedule GTM-18. Under the recommended rate design, the monthly bill at any usage level is higher for a larger meter than for a smaller meter. This will serve to send an appropriate economic signal to customers to all customers for all consumption. Staff's rate design also includes rate recommendations for meter sizes for which there are presently no customers. This will serve to provide a rate structure should the Company have requests for service through these meter sizes in the future.

Q. Please describe the basis for Staff's recommended monthly minimum charges and commodity rates?

A. The monthly minimum charges and commodity rates recommended by Staff in this case are based on a methodology relied on by Staff regularly in water rate cases. These Staff recommendations have been regularly adopted by the Commission. Staff's methodology establishes monthly minimum charges in direct proportion to the relative flow rate capacity of the various meter sizes to that of a 5/8-x3/4-inch.

Q. Did Staff prepare schedules showing the present, Company proposed, and Staff recommended monthly minimums and commodity rates for each rate class?

A. Yes. Staff's Direct Testimony Schedule GTM-18 shows the present monthly minimum charges and commodity rates, the Company's proposed monthly minimum charges and commodity rates and Staff's recommended monthly minimum charges and commodity rates.

Q. Did Staff prepare a schedule showing the average and median monthly bill under present rates, the Company's proposed rates, and Staff's recommended rates?

A. Yes. Staff's Direct Testimony Schedule GTM-19 presents the average and median monthly bill using present rates, the Company's proposed rates and Staff's recommended rates.

Q. What is the impact to the median customer bill with Staff's rate design?

A. The typical 3/4-inch meter bill with median use of 5,500 gallons would increase by $2.59, or 12.01 percent, from $21.52 to $24.10.

Q. What water system service charges does Staff recommend?

A. Staff's recommendations for service charges are shown in Schedule GTM-21. These service charges will generate $48,126 based on the Company's estimates for the various services provided in the test year as previously discussed.

Q. Will Staff's recommended rate design generate Staff's recommended revenue requirement?

A. 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.

Q. Does this conclude your direct testimony?

A. Yes, it does.