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Attorneys for Valley Utilities Water Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-01412A-08-0586

Valley Utilities Water Company, an Arizona corporation ("Company"), hereby submits this Notice of Filing Rebuttal Testimony in the above-referenced matter. Specifically filed herewith is Company's Rebuttal Testimony, which includes the following testimonies, along with supporting schedules and/or exhibits:

1. Rebuttal Testimony of Robert Prince; and
2. Rebuttal Testimony of Thomas J. Bourassa.

DATED this 5th day of August, 2009.

FENNEMORE CRAIG, P.C.

By: ______________________
Patrick J. Black
Attorneys for Valley Utilities Water Company

Arizona Corporation Commission
DOCKETED
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ORIGINAL and 13 copies of the foregoing filed
this 5th day of August, 2009 with:

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

COPY of the foregoing hand-delivered
this 5th day of August, 2009 to:

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2223859.1

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Attorneys for Valley Utilities Water Company, Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY INC. FOR AN INCREASE IN ITS WATER RATES FOR CUSTOMERS WITHIN MARICOPA COUNTY, ARIZONA	DOCKET NO. W-01412A-08-0586

REBUTTAL TESTIMONY OF

ROBERT L. PRINCE

August 5, 2009

Table of Contents

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I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TELEPHONE NUMBER.

A. Robert L. Prince, 6808 N. Dysart Road, Suite 112, Glendale, Arizona 85307. My telephone number is (623) 935-1100.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the President of Valley Utilities Water Company, Inc. ("Valley Utilities" or the "Company").

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IS THE INSTANT CASE?

A. Yes, my direct testimony was submitted in support of the initial application in this proceeding.

II. PURPOSE OF REBUTTAL TESTIMONY.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. I am providing rebuttal testimony in response to Arizona Corporation Commission Utilities Division Staff ("Staff") witnesses Gary T. McMurry and Marlin Scott, Jr. concerning the capital improvements and expenditures made by Valley Utilities in relation to: (1) the construction of arsenic treatment facilities required for the Company to comply with the federal Safe Drinking Water Act, (2) the drilling and construction of a new well ("Replacement Well No. 6") to replace a failed well, which had been taken out of service on August 24, 2007 when its pump was destroyed due to the failure of the well casing; (3) the ability of the Company to pay its monthly debt service for the outstanding Water Infrastructure Financing Authority ("WIFA") loan based on an arsenic removal surcharge; and (4) other issues concerning the Company's application.

Q. CAN YOU PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY?

A. Yes. In order to minimize the number of disputed issues between Valley Utilities and Staff prior to the September 15, 2009 hearing in this matter, the Company is willing to accept Staff's recommended negative adjustments to rate base by removing the arsenic treatment facilities ("ATFs") from post test-year plant, provided that the Arsenic Removal Surcharge Mechanism ("ARSM") first approved in Decision No. 68309 (November 14, 2005), but awaiting final approval as to the amount in Docket No. W-01412A-04-0736, remains in place until the conclusion of the Company's next rate case. *See* Rebuttal Testimony of Thomas Bourassa ("Bourassa RB") at 8. However, Replacement Well No. 6 should be included in rate base as it will be fully operational and serving customers prior to the hearing in this matter. Inclusion of Replacement Well No. 6 in rate base will also eliminate the current Emergency Interim Surcharge ("EIS") established in Decision No. 70138 (January 23, 2008). The ARSM, coupled with the financial impact of revisions to the Company's proposed: (1) Original Cost Rate Base ("OCRB") and Fair Value Rate Base ("FVRB"), (2) operating margin, and (3) other miscellaneous rebuttal adjustments, will provide Valley Utilities sufficient annual cash flow to service existing WIFA debt, pay reasonable operating expenses, produce net income for capital reinvestment in the Company, and continue to provide quality service to its customers.

Alternatively, if the Arizona Corporation Commission ("Commission") chooses to eliminate the ARSM and EIS in this rate proceeding without a corresponding adjustment to rate base, then inclusion of Valley Utilities' proposed post test-year plant as proposed in the Company's direct testimony will be necessary for Valley Utilities to avoid a deterioration of its financial condition. To that end, I update my direct testimony concerning when the associated post test-year plant will be fully operational and serving customers, address the Company's efforts to finance its existing WIFA debt with available funds and respond to some miscellaneous issues raised in Staff's direct testimony. Finally, I address other issues related to the Company's rate application.

III. POST TEST-YEAR PLANT.

Q. PLEASE PROVIDE SOME BACKGROUND CONCERNING THE FUNDING AND CONSTRUCTION OF ARSENIC TREATMENT FACILITIES.

A. The U.S. Environmental Protection Agency reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb, with a compliance date of January 23, 2006. Valley Utilities' wells have arsenic concentrations that range between 5 and 14 ppb. The Company hired a consulting firm to conduct an arsenic treatment study using treatment model methods presented in the Arizona Department of Environmental Quality Arsenic Master Plan guidelines. That study, which was completed in May 2004, recommended using absorption media treatment with a total treatment system cost of $1,926,100 to be used for five of the Company's six wells.

Q. DID VALLEY UTILITIES ADOPT THE RECOMMENDED ARSENIC REMEDIATION PLAN OUTLINED IN THE MAY 2004 STUDY?

A. In response to the study, the Company filed a rate case application and approval to incur long-term debt up to $1,926,100 with the Commission on October 7, 2004.

Q. WHAT WAS THE RESULT OF THAT APPLICATION WITH RESPECT TO THE COMPANY'S ARSENIC REMEDIATION PLAN?

A. The Commission determined that the ATFs were appropriate, and that the estimated capital costs and O&M costs were reasonable for purposes of the financing request. Although the proposed debt, which was acquired through a

WIFA loan, would exacerbate the Company's negative equity at the time, the Commission recognized that there were no other known options to finance the purchase/construction of the required ATFs. Therefore, the Commission approved the financing request. *See* Decision No. 68309 (November 14, 2005).

Q. WHEN DID THE COMPANY BEGIN HAVING THE ARSENIC TREATMENT FACILITIES CONSTRUCTED?

A. After the design and engineering work was completed by NCS, Inc., the Company sent the project out for bid. The successful bidder, Archer Western, began constructing the treatment facilities at two sites ("Glendale" and "Bethany Home" Site) in December, 2006. However, construction was suspended in November 2007 because the Company's engineering consultant, NCS, Inc., thought that a Special Use Permit ("SUP"), which the Maricopa County Planning Department ("MCPD") requires before constructing the treatment facilities, could be obtained after construction was finalized, but before operation began. In response to NCS, Inc.'s error, a SUP application was filed in November 2007 after construction had been suspended by Maricopa County. Unfortunately, the county did not issue the required SUP for the Glendale Site until October, 2008.

Q. WHAT ABOUT THE SUP FOR THE BETHANY SITE?

A. The SUP for the Bethany Site has not yet been issued. As I mentioned earlier, the Company's engineering consultant, NCS, Inc., is responsible for obtaining the required plant permits on behalf of Valley Utilities. Suffice it to say, but I have been disappointed to date in NCS, Inc.'s efforts to get the ATFs operational in a timely and efficient manner. NCS, Inc. strongly advised the Company to submit the SUP for the Glendale Site and Bethany Site separately.

Q. BUT ISN'T THE COMPANY, NOT ITS CONSULTANTS, RESPONSIBLE FOR MEETING PERMITTING DEADLINES, OR DEMONSTRATING TO THE COMMISSION THAT THE ARSENIC TREATMENT FACILITIES ARE USED AND USEFUL?

A. I agree. However, I want to clarify for the record that despite the Company's best internal efforts, the ATFs did not become fully operational as first expected. Although I am confident that the Glendale Site will be fully operational and serving customers before the hearing, the Bethany Site is problematic. Nevertheless, whether or not the ATFs are included in rate base is of secondary importance to the Company's ability to service its WIFA debt, pay its operating expenses and make a reasonable income for reinvestment in plant – all while continuing to provide quality service to our customers.

Q. WHAT IS THE CURRENT STATUS OF THE GLENDALE SITE?

A. The Glendale Site is nearing full operations. The Company has performed the "validation" sampling testing required by MCESD, and those tests have been approved. The Company is now in the "Commissioning" testing Phase I. This testing should be completed within the next two weeks. Assuming that these samples pass and during the testing, the Glendale Site ATFs will be fully operational and serving customers, subject only to Phase II of the Commissioning testing. Phase II involves taking one sample each week for five straight weeks. If any one sample is found over the MCL for arsenic, further testing will be required.

Q. WHY WOULD IT BE REASONABLE TO INCLUDE THE GLENDALE SITE FACILITIES IN THE COMPANY'S RATE BASE AT THIS TIME?

A. Because these ATFs are likely to be fully operational and serving customers by the time of the hearing. In addition, their inclusion in rate base (along with the Bethany Site facilities) would eliminate the need for an ARSM for these particular

ATFs, all other things being equal. I would note that the test year utilized in this proceeding was established in Decision No. 70138 with the assumption that the ATFs and Replacement Well No. 6 would be fully operational and placed into rate base. Decision No. 70138 at ¶ 22.

Q. WHAT IS THE CURRENT STATUS OF THE BETHANY HOME SITE?

A. We are still waiting on obtaining the applicable SUP so that we can file for approvals to construct and approvals of construction. Valley Utilities' engineering consultant, NCS, Inc., must still provide revisions to the SUP application concerning the Site Plan and Drainage Report, as requested by MCPD. *See* attached Exhibit 1. The Company is making every effort to have MCPD's request addressed in a timely and efficient manner by NCS, Inc.

Q. WOULD IT BE REASONABLE TO INCLUDE THE BETHANY HOME SITE FACILITIES IN THE COMPANY'S RATE BASE AT THIS TIME?

A. Perhaps, but since the ATFs are not likely to be fully operational by the time of the hearing, I cannot say for certain. Nonetheless, I think it would be much easier for all parties involved to treat the ATFs at both sites as one project for purposes of rate base treatment versus the ARSM. That is the reason the Company is willing to forgo rate base treatment of the Glendale Site ATFs at this time.

Q. PLEASE DESCRIBE THE COMPANY'S REPLACEMENT WELL NO. 6.

A. Replacement Well No. 6 is a new well that was constructed to replace a failed well No. 6. The old well was added to the system in 2002, was 800 feet deep and 12 inches in diameter, and designed to produce 425 gallons-per-minute ("gpm"). However, the well had water and production problems from the start, and despite spending $150,000.00 to resolve these problems, we could never get the well to produce 425 gpm. Water production steadily declined from 350 gpm to 65 gpm, and then totally stopped when the pump was destroyed due to the failure of the well casing. In Decision No. 70138, the Commission approved an emergency surcharge, as well as WIFA financing in an amount not to exceed $250,000, for the Company to fund and construct Replacement Well No. 6.

Q. WHAT IS THE CURRENT STATUS OF REPLACEMENT WELL NO. 6?

A. In my direct testimony, I mentioned that the test pumping on Replacement Well No. 6 revealed sand infiltration problems. At that time, the only remedial measure was to use a well-liner and gravel-filter, estimated to cost approximately $100,000. However, the Company was able to explore less costly measures, and installed a sand separator in the discharge line connected into the ATFs. We have received a New Source Approval from MCESD, and just today received the applicable Approval to Construct and Approval of Construction, attached hereto as Exhibit 2. Replacement Well No. 6 will be fully operational and serving customers by the end of today.

Q. DID VALLEY UTILITIES EXPERIENCE ANY WATER SHORTAGE OUTAGES DURING THIS PAST SUMMER DURING PEAK DAYS?

A. No.

Q. WHY IS IT REASONABLE TO INCLUDE REPLACEMENT WELL NO. 6 IN THE COMPANY'S RATE BASE AT THIS TIME?

A. Because it is essentially fully operational and serving customers at this time, and inclusion in rate base would eliminate the need for the EIS. When the Commission established the EIS in Decision No. 70138, it was with the understanding that the surcharge would be eliminated and the plant included in Valley Utilities' rate base. It would be inappropriate to eliminate the EIS if Replacement Well No. 6 (and related debt) is not included in rate base, and therefore not recognized in rates.

Q. WOULD INCLUDING THE ARSENIC TREATMENT FACILITIES IN RATE BASE AT THE COST RECOMMENDED BY THE COMPANY DURING DIRECT TESTIMONY REFLECT THE TOTAL COST OF THESE FACILITIES?

A. No. The total actual cost of the ATFs is now over $2,184,000, and the WIFA loan funding this plant is only $1,926,000. The total actual cost of Replacement Well No. 6 is now approximately $260,000, and the WIFA loan funding this plant is only $250,000.

Q. PLEASE CONTINUE.

A. Just to be clear, the Company has revised its direct testimony to remove the ATFs from post test-year plant in order to minimize the number of disputed issues in this proceeding. Staff's opinion that the arsenic treatment facilities are not used and useful is reasonable given the overall status of these facilities (not fully operational) at the time of Staff's direct testimony. However, Staff was unclear regarding the continuance of the ARSM. Direct Testimony of Gary McMurry ("McMurry DT") at 5. The 26.7% increase the Company originally sought included folding the ARSM and EIS into base rates once the post test-year plant was added to rate base. Direct Testimony of Robert L. Prince at 10. Assuming Staff agrees that the ARSM should remain in place pending the Company's next rate case, it makes sense for Valley Utilities to file a future rate application at some time – with a test year that includes the ATFs in rate base and enough information to determine annual operating costs – in order to eliminate the surcharge altogether. This appears to be consistent with the Commission's intent when it ordered the Company to file this rate application when it issued Decision No. 70138, with a test-year ending June 30, 2008. The Commission suggested that the Company could not only seek to include Replacement Well No. 6 in rate base, but the ATFs as well. Decision No. 70138 at ¶ 22, 23. This plan is also consistent with the Company's Equity Improvement Plan filed with the Commission on February 13, 2006, which includes among other things the adoption of a policy to file rate applications more often to keep the Company's earnings more accurate. Bourassa RB at 4.

Q. HAS STAFF ISSUED ITS RECOMMENDATION IN THE SURCHARGE APPLICATION DOCKET?

A, No. But the Company believes that Staff will reach a reasonable conclusion given the authorization for the ARSM in Decision No. 68309, as well as the financial impact analysis submitted by the Company with its Surcharge Application. Certainly, Valley Utilities reserves the right to change its position in this proceeding in the event Staff proposes a rejection of the ARSM, or adopts a surcharge that does not allow the Company to service its existing WIFA debt on a monthly basis. However, all I can do is speculate at the moment, and I am hopeful that Staff will recognize the importance of the ARSM to the Company's ability to pay its WIFA debt and avoid default, absent inclusion of the arsenic treatment facilities in rate base, among other things, as more fully addressed by Thomas Bourassa in his rebuttal testimony. *Id.*

Q. SO, THE COMPANY'S POSITION ON THE EXCLUSION OF THE ATFs FROM POST TEST-YEAR PLANT IS DEPENDENT ON THE CONTINUATION OF AN ARSM UNTIL THE COMPANY'S NEXT RATE CASE?

A. Yes. Without the ARSM, inclusion of the ATFs in post test-year plant, in addition to the adoption of the Company's other proposed adjustments, will provide the Company with the sufficient cash flow it needs to maintain, and hopefully improve its financial condition. By contrast, discontinuing the ARSM or EIS (or both) along with the removal of all of the Company's proposed post test-year plant from rate base will likely result in negative net earnings for Valley Utilities. *Id.* at 6. Most importantly, however, is that the Commission based its establishment of the test year in Decision No. 70138 with the expectation that the post test-year plant would be used and useful within the test year. Decision No. 70138 at ¶ 22.

IV. <u>ARSENIC REMOVAL SURCHARGE MECHANISM.</u>

Q. MR. PRINCE, PLEASE PROVIDE SOME BACKGROUND REGARDING THE COMPANY'S PROPOSED ARSM.

A. In Decision No. 68309, the Commission required that the Company file with Docket Control "an application for approval of an arsenic removal surcharge tariff if a surcharge is necessary to allow Valley Utilities Water Company, Inc. to meet its principal and interest obligations on the amount of the WIFA loan and income taxes on the surcharges." Decision No. 68309 at 26. On November 13, 2008, the Company filed with the Commission a request to set an ARSM at a level commensurate with the Company's debt service obligations. *See* Company Surcharge Application in Docket Nos. W-01412A-04-0736, W-01412A-04-0849 ("Surcharge Application"). At that time, the Company estimated that it could service its monthly WIFA debt payment of $16,483.00 with available funds through January 2009. Certain other funds ("Set-Aside") had been frozen at the time the Surcharge Application was filed, which is the reason why the Company proposed two different ARSM rates; one based on granting the Company's motion to release the Set-Aside funds to service existing WIFA debt, and the other based on rejection of the motion and need to make up the difference.

Q. BUT BOTH SCENARIOS ASSUMED AN IMMEDIATE OR EXPEDITED IMPLEMENTATION OF THE ARSM, CORRECT?

A. Yes. When Valley Utilities filed the Surcharge Application on November 13, 2008, it was intended that the ARSM would remain in place until the associated ATFs could be included in rate base. However, because the ATFs will not likely be included in the Company's rate base as a result of this rate proceeding, it is logical and reasonable to keep the ARSM until such time that the plant is considered used and useful by the Commission. Bourassa RB at 9.

Q. WHAT IS THE STATUS OF THE SURCHARGE APPLICATION?

A. We filed the Surcharge Application on November 13, 2008. Despite Staff's assurance of an expedited review and recommendation during the procedural conference held on December 2, 2008, certain intervening events (i.e. budget issues) and Staff's increased workload seems to have delayed the process.

Q. HAS THE DELAY CAUSED AN ECONOMIC IMPACT TO VALLEY UTILITIES AND ITS RATEPAYERS?

A. Only in the sense that the Company had to be creative in ensuring that it did not default on the WIFA debt. In the full term of the note, there will be a slight increase in the interest expense. I understand the difficult position that Staff has been in over the past year, and have worked hard to foster a better relationship with the Commission in addressing matters affecting the Company and its customers. When it became apparent that there would be a delay in the Surcharge Application, the Company discussed with WIFA alternative means of paying its monthly debt service. As a result of such discussions, Valley Utilities entered into a temporary arrangement with WIFA to pay interest and fees until such time that the Company received rate relief from the Commission. This allowed Valley Utilities to use available funds to essentially 'bridge the gap' until the Commission acted on the Company's motion to release the Set-Aside Funds. The Commission did release the Set-Aside funds, in the amount of $73,565.49, in April 2009 for use solely to service the outstanding WIFA debt. However, absent an ARSM, the amount released was only enough to service regular monthly payments in the amount of $16,483.00 for about two months after the June 1, 2009 payment of the applicable WIFA interest, fee and replenishment of the debt reserve fund. As a result of this shortfall, and absent the ARSM, WIFA agreed to allow the Company to continue making fee and interest only payments until the conclusion of this rate application. *See* Status Report filed in this docket on July 15, 2009. The Company has made every effort to keep Staff informed of its dealings with WIFA.

Q. IF THE ARSM IS APPROVED IN AN AMOUNT PROPOSED BY THE COMPANY IN THE SURCHARGE APPLICATION, WILL IT PROVIDE IMMEDIATE DEBT SERVICE RELIEF?

A. No. I was hopeful that we could begin collecting the ARSM earlier in the year, but now my focus is to ensure that the Company is able to meet its monthly debt service on the outstanding WIFA loan for the ATFs. The proposed adjustments outlined in Mr. Bourassa's rebuttal testimony, with the inclusion of the ARSM, should allow us to reach that goal.

V. OTHER ISSUES.

Q. ARE THERE ANY OTHER ISSUES RAISED IN STAFF'S DIRECT TESTIMONY THAT YOU WOULD LIKE TO ADDRESS?

A. Yes. The first is Figure D-1 (Growth) attached to the Direct Testimony of Marlin L. Scott. According to this chart, the Company's number of customer is expected to grow from 1,399 in 2008 to approximately 1,640 customers by 2013. However, as the chart also demonstrates, the periods 2006 through 2008 show that the number of customers actually declined from 1,418 to 1,399.

Q. HOW HAS THIS GROWTH PATTERN AFFECTED THE COMPANY?

A. The overall national economic turndown, exacerbated by the housing market in Arizona, has caused development to cease within Valley Utilities' service area.

One ATF funding mechanism established by the Commission to address WIFA debt service requirements included the implementation of an Arsenic Impact Fee ("AIF"). Decision No. 67669 (March 2, 2005). However, the amount of AIFs collected since July 2008 has been $1,320.00.

Q. DO YOU ANTICIPATE THAT THE TREND REGARDING THE NUMBER OF VALLEY UTILITIES' CUSTOMERS WILL CONTINUE?

A. I certainly do not see much growth anytime in the near future. Hopefully, the Company will not continue to lose customers. Therefore, I think it is reasonable to conclude that there will be no growth in the Company's service area as long as the housing market continues to suffer here in Arizona. Furthermore, this slowdown in growth has had a negative effect on the Company's annual revenues. Mr. Bourassa addresses this in more detail in his rebuttal testimony. Bourassa RB at 15-16.

Q. WHAT ABOUT STAFF'S CONCLUSIONS AND RECOMMENDATIONS CONCERNING THE COMPANY'S COMPLIANCE RECORD?

A. I readily concede that it has been difficult for the Company to track and monitor all the compliance issues that result from various Commission orders, and we have taken initial steps to address this problem. Nonetheless, more can be done, and I agree with Staff's recommendation to implement formal policies and procedures to ensure that all compliance matters are addressed in a timely manner. McMurry DT at 31. I appreciate Staff's recognition of things that the Company has been doing to improve its equity position, reduce the number of non-arm's length transactions and meet compliance deadlines.

Q. ONE OUTSTANDING COMPLIANCE ISSUE RAISED BY MR. MCMURRY INVOLVES THE COMPANY'S PURCHASE OF 250 ACRE FEET OF CENTRAL ARIZONA PROJECT ("CAP") WATER ANNUALLY. WHAT IS THE COMPANY'S RESPONSE?

A. I would respectfully disagree with Mr. McMurry's characterization of the CAP purchase agreement as debt subject to the provisions of A.R.S. §§ 40-301 and 40-302. In 2007, the Company had the opportunity to secure a long-term water supply for its customers that would reduce our reliance on groundwater. I believe the Commission has continued to support activity that will eventually lead to less groundwater pumping. Given the choice between paying a one-time payment of $163,000, or with five annual installments of $36,000, I chose the latter installment contract because that was what we could afford from the Company's net income. None of the Company's assets are encumbered as a result of the installment contract. Furthermore, the installment contract is not a debt despite carrying costs of roughly 5.2%; Valley Utilities can turn in the 250 acre feet allocation at anytime and receive a full refund. We are not forced to make the annual installment payments, but rather choose to do so in order to secure surface-area water rights that will hopefully become used and useful for the Company and its customers. The fact that Valley Utilities can immediately turn in the CAP allocation for a full refund only demonstrates the value in this asset, which the Company has not requested be placed into rate base since it is neither *directly* used nor useful at this time.

In appears that Mr. McMurry is somewhat sympathetic to this issue, as his recommendation to file an application for Commission authorization is made out of "an abundance of caution." McMurry DT at 31. Given the Company's past compliance issues, Mr. McMurry's pause here is understandable. However, a financing application can be a costly endeavor, and I ask that Staff and the Commission consider not only the financial impact to the Company if it is ordered to make such a filing, but also whether this type of installment contract – which is a mechanism used in furtherance of the Commission's policy goal to reduce reliance on precious groundwater – falls under the requirements of A.R.S. §§ 40-301 and 40-302. If the Company is required to file some form of application, the board will have to determine at that time whether to move forward with such a filing, or instead drop the CAP allocation altogether.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes it does.

Exhibit 1

Maricopa County
Planning & Development Department

Kevin Bischel, P.E.
Planning & Development
501 North 44th Street, Suite 200
Phoenix, Arizona 85008
Phone: (602) 372-0966
Fax: (602) 506-8762
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kevinbischel@mail.maricopa.gov

FACSIMILE TRANSMITTAL COVER SHEET

To: Ramesh Narasimhan, P.E.	From: Kevin Bischel
Company/Dept: NCS	Company/Dept: Planning and Development
Phone: 602 629-0206 Fax: 602-629-0223	Phone: 602 506-4427 Fax: 602 372-3950
Re: Bethany Arsenic Treatment Facility, Z2008128	Date: 02/03/2009 Number of Pages: 2

The Special Use Permit application processed on 5-26-09 is NOT approved. Please submit the following revisions prior to approval:

SITE PLAN

1. **Repeated comment, insufficiently addressed, still required:** Please provide a benchmark and onsite Temporary Benchmark with elevations and datum. **Additional clarification:** the benchmark should be a published benchmark that also establishes the datum. In addition, describe the form of the property corner Temporary Bench Marks. Are they ½" rebar with survey caps? Are they chiseled "X's" in concrete pads? PK nail and shiner in wooden posts?

2. **Repeated comment, insufficiently addressed, still required:** Please put on plan typical wall facing and cross-sectional details.

3. **Repeated comment, insufficiently addressed, still required:** Indicate the proposed driveway surface and thickness on the plan. **Additional clarification:** show the accessways and areas where equipment will be moved from one area of the site to the other. Show internal driveways. Provide construction details for the proposed driveway surface, including the thicknesses of the ABC and asphalt millings.

4. **Repeated comment, insufficiently addressed, still required:** All retention basins shall have a maximum 4:1 horizontal to vertical sideslope, if un-lined. **Additional explanation:** Although both retention basins are indicated as having 4:1 sideslopes, Retention Basin 2 is currently graded at 2:1.

5. **Repeated comment, insufficiently addressed, still required:** Provide a certification statement to be signed and sealed after construction, from the registered professional civil engineer of record, stating that he/she has reviewed the "as-built" for the above referenced commercial/industrial project and certifies that the development has been constructed in accordance with the approved grading & drainage and/or improvement plans, that it will function as designed, and that all retention basins will drain in 36 hours. **Additional clarification:** please ensure that there is a signature block and space for the engineer's seal to be signed as a part of providing the as-builts after the building permits have been issued and construction has concluded.

6. **Repeated comment, not addressed, still required:** Provide grading that shows how the proposed run-off

will first flow to the proposed retention basins, and then exit at the historic site outfall. **Additional Clarification:** No proposed grading information has been provided on the plan. In addition, the proposed contours for Retention Basin 1 are discontinuous. Please correct the grades shown.

DRAINAGE REPORT

1. **Repeated comment, insufficiently addressed, still required:** Please provide a drainage report on this site. Please utilize the Drainage Design Report format and checklists from Chapter 6 and Appendix A of the Maricopa County Drainage Policies and Standards Manual in formatting your drainage report. Prepare your drainage report so that you can state that this report and related design have been developed in accordance with Maricopa County regulations, standards and policies. Please include this statement in the drainage report: "This report and related design have been developed in accordance with Maricopa County regulations, standards and policies." **Additional Clarification:** Please delineate the flows on the north side of the property, including the flow through the northwest corner of Parcel 501-56-010V. Provide all calculations.

2. **Repeated comment, insufficiently addressed, still required:** Justify the run-off coefficients used in the report. The minimum run-off coefficient for all impervious structures is 0.95. Use 1.0 as the run-off coefficient for the tops of retention basin areas. Please see the Drainage Policies and Standards Manual for appropriate run-off coefficients to use in the retention calculations. **Additional Clarification:** The pervious area runoff coefficient is 0.5. In addition, the booster station area, the wells, the hydropneumatic tank area, etc. has not been taken into account. Please include these in the impervious area calculation. Also, the retention basin areas are incorrect. Include the parking area as gravel (C=0.88). Please verify and correct.

3. **Repeated comment, insufficiently addressed, still required:** Provide drain-down time calculations showing that the retention basins will completely drain within 36 hours. Include any provided freeboard volume in the drain-down time calculations. **Additional Clarification:** The drain-down time as determined by the retention basin top area is incorrect. Remember that the retention basins are all or almost all sideslope, and as the volume diminishes, the area available for the water to infiltrate the soil also diminishes. Please provide modified drain-down calculations taking this additional factor into account. Additionally, the volume shown as provided is almost two times the actual provided volume. Please check your work. Please note that the volume provided in the Special Use Application narrative is different (less than) the volume shown as required OR provided in the drainage report. Please ensure that the numbers match.

4. **Repeated comment, not addressed, still required:** Provide ASTM D-3385 Double-Ring Infiltrometer tests at the locations and depths of the proposed retention basins. Include the raw data from the tests. **Additional Clarification:** Supply the referenced geotechnical report with all supporting documentation.

Exhibit 2

ENVIRONMENTAL SERVICES
DEPARTMENT
1001 N. Central, Ste 201
Phoenix, AZ 85004-1940

Division of Water and Waste Management
Subdivision Infrastructure & Planning Program
(602) 506-6675
FAX (602) 506-5813

Approval Date: 8-5-09

MCESD Project: No. 091077
PWS SYSTEM No. 0407079

CERTIFICATE OF APPROVAL TO CONSTRUCT
(WITH STIPULATIONS)
PUBLIC WELL

PROJECT DESCRIPTION: Valley Utilities Water Company Well # 6 - install new well with ability to pump 500 GPM with a point of connection to the Valley Utilities Water Company water system. (DWR #55-216455)

LOCATION: Litchfield Park, Maricopa County
Section 11, T1N, R1W
Bethany Home and 126th Avenue

PROJECT OWNER: Robert Prince, President & CEO
Valley Utilities Water Company
6808 N Dysart Road, Suite 112
Goodyear, AZ 85307

Pursuant to Arizona Administrative Code (AAC) Title 18: Chapters 4 and 5 and the Maricopa County Environmental Health Code: Chapters IV and V.

Approval to construct the above described facilities as represented in the approved plan documents on file with the Maricopa County Environmental Services Department is hereby given subject to the following stipulations: **Each water source must have MCESD water quality approval prior to connecting to the potable water system.**

Operation of this public water system project shall not begin until an Approval of Construction is issued by Maricopa County Environmental Services Department.

WATER AND WASTE MANAGEMENT DIVISION

By Shuxin Li for
Wesley A. Shonerd, PE, Program Manager
Subdivision Infrastructure & Planning Program

From the approval date noted above this certificate will expire if construction has not commenced within one year, there is a halt in construction of more than one year or construction is not completed within three years.

Environmental Services Department
1001 N. Central Avenue, Suite 201
Phoenix, AZ 85004-1940

Division of Water and Waste Management
Subdivision Infrastructure & Planning
(602) 506-1058
FAX (602) 506-5813

Approval of Construction and/or Verification of General Permit Conformance

PWS# 04-07- 0 7 9 **MCESD #** 09/077 **Type of Component** Well
(One (1) MCESD# per request) **(Example: water, sewer, reuse, lift station, etc.)**

DWR# 55- 2 1 6 4 5 5 **Wells Only (Must have source approval before applying for AOC.)**

Project Name: Valley Utilities Water Company Well # 6

Project Address: Bethany Home Rd. and 126th Ave., Litchfield Park, AZ
(Physical location of project)

Project Description
8" Discharge Well

Project Owner: Robert Prince Job Title President & CEO
Company Name Valley Utilities Water Company
Mailing Address 6808 N. Dysart Rd. Ste. 112
City Goodyear State AZ Zip Code 85307
Signature of Project Owner Robert R. Prince Date 7-15-09

Engineer's Certificate of Completion

I, Ken Knickerbocker, P.E. , a Professional Engineer registered in the State of Arizona; confirm that the project was completed in compliance with the plans and specifications approved by the Department, except as noted on the "as-built" plans. Applicable test results as required are attached.

Seal & Signature

Registered Professional Engineer (Civil)
CERTIFICATE NO. 19634
K. L. KNICKERBOCKER
Date Signed 7-15-09
ARIZONA, U.S.A.
Expires: 6/30/2010

Engineer's Phone 602-264-6831
Engineer's Fax 602-264-0928

Department Use Only

Approval of Construction and/or Verification of General Permit Conformance

For the project as described above, the Project Owner is granted an Approval of Construction and/or Verification of General Permit Conformance for operation and/or discharge under the terms of General Permit 4.01 in accordance with Title 18, Chapter 9, and Permit Article 2 (Wastewater); And/Or Title 18, Chapters 4 and 5 and Chapters IV and V of The Maricopa County Environmental Health Code (Water).

By Shimin Li for
Wesley A. Shonerd, PE, Program Manager
Subdivision Infrastructure & Planning **Date** 8-5-09

(Note: Once MCESD Signs This Application, It Becomes The Certificate)

DO NOT ALTER APPLICATION

FENNEMORE CRAIG, P.C.
Patrick J. Black (No. 017141)
3003 N. Central Ave.
Suite 2600
Phoenix, Arizona 85012
Attorneys for Valley Utilities Water Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: W-014212A-08-0586

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

August 5, 2009

Table of Contents

2222732.4

I. INTRODUCTION, PURPOSE, AND SUMMARY OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND ADDRESS?

A. My name is Thomas J. Bourassa and my business address is 139 W. Wood Drive, Phoenix, AZ 85029.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct testimony was submitted in support of the initial application in this docket by Valley Utilities Water Company ("VALLEY UTILITIES" or "Company").

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. I will provide rebuttal testimony in response to the direct filing by Arizona Corporation Commission Utilities Division Staff ("Staff") with respect to rate base, revenues and expenses, operating margin and rate design.

Q. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING IN ITS REBUTTAL?

A. The Company is proposing a total revenue requirement of $1,322,302, which constitutes an increase in revenues of $215,564, or 19.48 percent over test year revenues.

Q. HOW DOES THIS COMPARE WITH THE COMPANY'S DIRECT FILING?

A. In the direct filing, the Company requested a total revenue requirement of $1,533,160, which required an increase in revenues of $323,456, or 26.74%.

Q. WHY IS THE REQUESTED REVENUE INCREASE LOWER IN VALLEY UTILITIES' REBUTTAL FILING?

A. In its rebuttal filing, Valley Utilities has adopted a number of adjustments recommended by Staff, as well as proposed a number of adjustments of its own.

Included among the proposed adjustments adopted from Staff is the exclusion of post test year arsenic treatment plant from rate base and related depreciation from operating expenses. This eliminates a major issue between the parties. The Company is also proposing a lower operating margin of 10 percent compared to its direct filing of 15 percent, which is the same operating margin Staff proposes. The lower operating margin recommended by the Company is to help minimize issues between the parties.

The adoption of Staff's recommendation to exclude post test year arsenic treatment plant and to accept a lower operating margin assumes the surcharge from Arsenic Recovery Surcharge Mechanism ("ARSM") approved in Decision No. 68309 is subsequently approved[1], is adequate to service the debt, and remains in effect until the conclusion of the Company's next rate case. The Emergency Interim Surcharge ("EIS") approved in Decision No. 70138 would be eliminated under the Company's proposal.

Q. HAS THE COMPANY PROPOSED RATE BASE DECREASED?

A. Yes. The Company proposes a net decrease in Original Cost Rate Base ("OCRB") and Fair Value Rate Base ('FVRB') is $1,871,000 from the direct filing. The Company's rate base is now negative at ($184,909).

II. REVENUE REQUIREMENT.

Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY AND STAFF AT THIS STAGE OF THE PROCEEDING?

A. The proposed revenue requirements and proposed rate increases are as follows:

[1] ARSM surcharge is under consideration in Docket W-01412A-04-0736. Staff has not issued a report at this time.

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$1,533,160	$ 323,456	26.74%
Staff	$1,379,135	$ 153,645	12.54%
Company Rebuttal	$1,322,302	$ 215,564	19.48%

Q. EXCUSE ME, MR. BOURASSA, BUT I NOTICE THAT THE RATE INCREASE RECOMMENDED BY THE COMPANY IS HIGHER THAN STAFF'S, BUT THE REVENUE REQUIREMENT IS LOWER. PLEASE EXPLAIN?

A. In the Company's rebuttal filing I have adjusted the direct adjusted test-year revenues for known and measurable revenue losses that occurred after the test year. As you will recall, the Company's direct case adjusted test-year revenue was $1,207,703. The Company's proposed revenue loss adjustment reduces the adjusted test-year revenues to approximately $1,106,737 – or by about $103,000. The lower "starting point" in the determination of the revenue requirement, even with the $215,564 rate increase proposed by the Company, results in a lower revenue requirement. I will discuss the revenue loss and its justification later in my testimony.

Q. WHY IS THE COMPANY RECOMMENDING AN OPERATING MARGIN APPROACH IN THE DETERMINATION OF THE REVENUE REQUIREMENT?

A. Since rate base is negative, a rate of return approach is not meaningful. Low equity and or negative equity are also reasons to employ an operating margin approach. The primary goal of an operating margin approach is to provide a utility sufficient operating income to remain financially healthy, and in some cases, to help it improve its financial condition.

Q. WHY IS THE COMPANY PROPOSING A 10 PERCENT OPERATING MARGIN?

A. Based on the Company's rebuttal recommendations, a minimum 10 percent operating margin is warranted. The Company would have recommended a higher operating margin, but chose 10 percent to help eliminate issues between the parties. I believe an operating margin of 12 percent is warranted in the instant case because a higher operating margin will help the Company more in improving its financial health, deal with any expected and unexpected changes in revenues and expenses, and help fund capital expenditures between this rate case and its next rate case. But, again, the minimum 10 percent is being proposed by the Company. Hopefully, despite using a 10 percent operating margin to set rates, the Company's equity position will not only be positive by the next case, but will be improved enough to eliminate the need for another operating margin approach in the next rate case.

Q. YOU STATED THAT THE 10 PERCENT OPERATING MARGIN IS BASED ON THE COMPANY'S RECOMMENDATIONS. IF THE COMPANY'S RECOMMENDATIONS ARE NOT ADOPTED BY THE COMMISSION, WHAT OPERATING MARGIN DO YOU RECOMMEND?

A. It depends. When determining the appropriate operating margin I not only look at cash flows, but also whether it provides sufficiently positive net earnings during the period when new rates are in effect. The Company recommended a 15 percent operating margin in the Company's direct filing based on its recommendation at that time. The direct filing Company recommendations included recognizing the arsenic treatment plant in rate base and related depreciation expense in operating expenses. It also included the elimination of the ARSM (if subsequently approved by the Commission) and the EIS. A 15 percent operating margin was necessary under the Company's direct filing recommendations in order to help the Company maintain adequate cash flows and to continue improving its financial condition through positive net earnings.

Q. **DID THE COMMISSION RECOMMEND THE COMPANY MAKE EFFORTS TO IMPROVE ITS EQUITY POSITION IN AN EARLIER DECISION?**

A. Yes. In the last rate case decision, the Commission ordered the Company to submit a plan to increase its equity position to 40 percent. *See* Decision No. 68309 at 4 and 11-12. The Company's equity improvement plan, submitted to the Commission on February 13, 2006, included the timely filing of new rate cases in order to keep its earnings adequate.

In accordance with its plan, all dividends continue to be suspended. Further, the Company has used its earnings, such as they have been, to help fund needed capital improvements aside from the replacement well and arsenic treatment facilities. These capital expenditures include capital repairs to its wells (over $207,000), storage tank repairs ($22,000), a tie line between Litchfield Park Service Company and Valley Utilities ($53,397) to name a few of the major items. Among other steps the Company has taken since the last rate case is the transfer of land and equipment in exchange for common stock and short-term debt totaling $429,000 (Decision No. 70052, dated December 4, 2007). The Equity Improvement Plan not only addressed improving the equity position of the Company, but also removed relationships and transactions between the Company and its owners that were not arm's length which the prior decision highlighted. *Id.* at 11.

Q. **IS THE FILING OF THE INSTANT CASE CONSISTENT WITH THE COMPANY'S EQUITY IMPROVEMENT PLAN?**

A. Yes. In its plan, the Company adopted a policy to file rate cases more often to insure adequate earnings so as to avoid deterioration of its financial condition. Furthermore, the current rate application and test year was ordered by the Commission in Decision No. 70138 so that the surcharges would be eliminated with the inclusion of arsenic treatment plant and the replacement well in the Company's rate base. If, in the instant case, the Company is left without adequate earnings over the next few years when new rates will be in effect, the Company's financial condition will not significantly improve and may even deteriorate. Furthermore, since post test-year arsenic treatment plant and the corresponding amount of depreciation are excluded from rates under both the Company's revised and Staff's original recommendations, the Company will need to file another rate case in order to get this plant recognized in rates.

Q. DOES STAFF RECOGNIZE THE COMPANY HAS SIGNIFICANTLY IMPROVED ITS EQUITY POSITION?

A. Yes. Direct Testimony of Gary McMurry ("McMurry Dt.") at 24. It should be recognized that the improvement in the Company's equity position since the last case has been primarily the result of the stock issuance and not the result of positive net earnings.

Q. PLEASE COMMENT ON STAFF'S RECOMMENDED OPERATING MARGIN AND RATE INCREASE.

A. Staff recommends a 10 percent operating margin and a rate increase of $153,645. Based on Staff's recommended revenues and expenses after the rate increase, Staff shows an operating income of approximately $138,000 (see Staff Schedule GT-8). This would seem adequate, except that the net income to the Company will be less than $5,000 when all the interest expense on the Company's long-term debt is recognized, a full year depreciation on post-test year plant recognized, and the impact on income taxes are considered. I have prepared a schedule attached hereto as Exhibit A which shows the results. *See* Column [3], line 40 of Exhibit A.

Q. **WHY IS A LESS THAN $5,000 NET INCOME INADEQUATE?**

A. Because small increases in either operating expenses and/or decreases in revenues will cause Valley Utilities to experience a net loss. An increase in operating expenses of less than 1 percent over the adjusted operating expenses will cause a net loss for Valley Utilities. Long-term historical inflation has been around 3 percent annually.

Similarly, a revenue loss of less than 1 percent will cause a net loss for Valley Utilities. As I will discuss later, the Company's construction revenues alone dropped by over $40,000 in the year following the test-year. My downward revenue annualization adjustment to construction revenues was only about $26,000. That's $14,000 less than actual construction water revenue loss in the year following the test year and by itself more than 1 percent of Staff's recommended revenue requirement. As I will also discuss, other meter water revenues are down by over $90,000. It is highly likely that the Company will not recover the authorized revenue requirement and, more importantly, incur net losses over the next few years when new rates are in effect under Staff's proposals.

Q. **PLEASE CONTINUE.**

A. If Staff's upward revenue annualization adjustment for construction water is removed (as discussed later in my testimony), the analysis demonstrates that the Company will experience a net loss. *See* Column [5], line 40 of Exhibit A. But the loss will likely be far greater because Staff's recommendations do not include recognizing revenue loss that has occurred since the end of the test-year. If the revenue loss is reflected, the analysis shows the net losses will be much higher, and on the order of $100,000 or more. *See* Column [7], line 40 of Exhibit A.

Q. IF THE ARSM SURCHARGE IS NOT APPROVED, OR IT IS ELIMINATED WHEN NEW RATES IN THE INSTANT CASE ARE IMPLEMENTED BUT THE COMPANY'S OTHER RECOMMENDATIONS ARE ADOPTED, WILL THE COMPANY HAVE SUFFICIENT REVENUES TO AVOID SIGNIFICANT NET FUTURE LOSSES?

A. No. While they will not likely be as great as under Staff's recommendations, significant losses will still likely occur. The key to keeping the Company on the path to financial health is the approval of an adequate ARSM surcharge to cover the WIFA debt service, and to allow that surcharge to remain in effect until the conclusion of the Company's next rate case.

Q. WHAT IS THE CURRENT STATUS OF THE ARSENIC RECOVERY SURCHARGE MECHANISM SURCHARGE APPROVAL?

A. The ARSM was approved in Decision No. 68309, but the actual ARSM surcharge itself has not been approved. The Company filed its request for approval of a surcharge in November 2008 (Docket W-1412A-04-0736) – nearly 9 months ago. As of yet, Staff has not issued its report and recommendations. Further still, the Commission will need to approve the final surcharge amount. The delay has caused severe cash flow problems for the Company in keeping current on its WIFA loan payments as a result. The Company began making payments on the loan for the arsenic treatment plant from the Water Infrastructure Finance Authority ("WIFA") in 2008. Recently, the Company had to enter into an agreement with WIFA to reduce its payments to interest and fees only so that it could avoid a default. Mr. Prince discusses this in more detail in his testimony. Rebuttal Testimony of Robert L. Prince ("Prince RB") at 12.

Q. THE COMPANY ALSO HAS AN EMERGENCY INTERIM SURCHARGE ASSOCIATED WITH THE DEBT FUNDING THE WELL REPLACEMENT, CORRECT?

A. Yes. The emergency interim surcharge ("EIS") was approved in Decision No. 70138, on January 23, 2008.

Q. SHOULD THE EIS SURCHARGE CEASE UPON IMPLEMENTATION OF NEW RATES UNDER THE COMPANY'S PROPOSAL?

A. Yes. As I have previously testified, under the Company's proposal the replacement well is being recognized in rates and should be eliminated at the conclusion of this case.

Q. DOES STAFF RECOMMEND THE ARSM SURCHARGE BE ELIMINATED WHEN NEW RATES ARE PUT INTO EFFECT?

A. As far was the ARSM surcharge, it would appear so. *See* Direct Testimony of Gary T. McMurry ("McMurry Dt.") at 5. I would agree with Staff is this were the typical situation.

Q WHAT ABOUT THE EIS?

A. It is not clear from Staff's testimony whether the EIS would be eliminated if replacement Well No. 6 is not recognized in rate base.

Q. WHY SHOULDN'T THE ARSM SURCHARGE CEASE WHEN NEW RATES IN THE INSTANT CASE ARE PUT INTO EFFECT?

A. First, let me state that I believe an ARSM surcharge should be approved. And, assuming that it is, it would be inappropriate to eliminate the surcharge since the arsenic treatment plant (and related debt) is not recognized in rates. The primary reason for the ARSM is to help the Company service its debt and preserve the Company's cash flow. Until such time as the plant is recognized in rate base and the related depreciation is recognized in operating expenses, it would be inappropriate to eliminate the ARSM surcharge.

II. RATE BASE.

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS?

A. The rate bases proposed by all parties in the case are as follows:

	OCRB	FVRB
Company-Direct	$1,741,191	$1,741,355
Staff	$ (279,909)	$ (279,909)
Company Rebuttal	$ (184,909)	$ (184,909)

A. Post Test-Year Plant.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE, AND IDENTIFY THE ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?

A. The Company's rebuttal rate base adjustments to OCRB are shown on rebuttal Schedule B-2, pages 3. Rebuttal Schedule B-2, page 1, shows the rebuttal OCRB. The Company adopts Staff's proposal to eliminate post test year arsenic treatment plant from rate base and related depreciation from operating expenses in order to help eliminate issues between the parties. The Company does not agree with Staff on the exclusion of the post test-year replacement well. The replacement well is expected to be in service in the next two weeks and should be included in rate base in the instant cease. The status of the replacement well project, as well as the arsenic treatment plant project, are discussed in greater detail in Robert Prince's rebuttal testimony. Prince RB at 6-8.

Q. PLEASE IDENTIFY THE COMPANY'S REBUTTAL RATE BASE ADJUSTMENTS.

A. Adjustment 1 of rebuttal rate base adjustment number 1, as shown on B-2, page 3, removes all arsenic treatment related post test year plant from plant-in-service that was proposed in the Company's direct filing. The total of the downward adjustment is $1,926,100.

Q. WHAT IS STAFF'S TOTAL ADJUSTMENT TO REMOVE POST TEST-YEAR PLANT?

A. A downward adjustment of $2,021,100 which includes the removal of $1,771,100 of arsenic treatment plant costs and $250,000 of replacement well costs. *See* Staff Schedule GTM-3. Staff's adjustment to remove arsenic treatment plant costs is $155,000 lower than the Company's (compare to $1,926,100). The $155,000 difference consists of arsenic media costs of $100,000 and land and land rights of $55,000 which Staff did not remove.

Q. ARE THE ACTUAL COSTS OF THE ARSENIC TREATMENT PLANT HIGHER THAN COMPANY PROPOSED IN ITS DIRECT FILING?

A. Yes, by over $258,000. Mr. Prices discusses this in his testimony. It is not clear how the Company will fund this increase in cost since the Company has drawn down nearly all of the loan funds from the Water Infrastructure and Finance Authority ("WIFA"). The Company currently does not have the cash flows to fund these increased costs.

B. <u>Miscellaneous Rate Base Issues.</u>

Q. PLEASE CONTINUE WITH THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS?

A. There are no other rate base issues. Both Staff and the Company are in agreement on the level of accumulated depreciation, advances-in-aid of construction ("AIAC"), contributions-in-aid of construction ("CIAC"), customer meter deposits (refundable meter and service line charges), and deferred income taxes.

III. INCOME STATEMENT.

Q. PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF.

A. The Company rebuttal adjustments are detailed on Rebuttal Schedule C-2, pages 1-10. The rebuttal income statement with adjustments is shown on Rebuttal Schedule C-1, pages 1-2.

In rebuttal adjustment number one, the depreciation expense is annualized, reflecting the plant-in-service adjustments discussed above. Depreciation expense has decreased from the Company's direct filing due to the plant-in-service adjustments I discussed above.

Q. DO ALL PARTIES RECOMMEND THE SAME DEPRECIATION RATES?

A. Yes.

Q. IS STAFF'S DEPRECIATION EXPENSE DIFFERENT THAN THE COMPANY'S?

A. Yes, it is higher. The depreciation expense proposed by Staff includes depreciation on arsenic media costs which are part of the post test-year arsenic treatment plant, which Staff did not remove.

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME STATEMENT ADJUSTMENTS.

A. The Company accepts Staff's method of computing property taxes. This is the same method that the Commission has consistently used in past cases. Bourassa Dt. at 10. This method includes two years of adjusted revenues plus one year of proposed revenues. Using this methodology, I computed the property taxes based on the Company's proposed revenues, and then used the property tax rate that was used in the direct filing. Rebuttal adjustment number 2 reflects a correction to the net book value of transportation equipment and the CWIP component of the formula to match Staff' and uses the Company's rebuttal proposed revenues. The difference between Staff and the Company's proposed property taxes is the result of differences in each of the parties proposed revenues.

Rebuttal adjustment number 3 reflects the Company's revenue annualization. As shown there are no changes.

Q. PLEASE RESPOND TO STAFF'S CRITICISMS OF YOUR REVENUE ANNUALIZATION COMPUTATIONS.

A. Staff asserts that my computations contained errors. McMurry Dt. at 8-9. Specifically, that I failed to use test year-end levels of customers, and that there were mathematical errors. *Id.* After a review, I find that my computations do reflect the test year-end level of customers and are correct as set forth in both my direct and rebuttal schedules H-1. I have corrected the printed detail schedules that may have contained some incorrect information and that may have given the impression that errors were made. *See* Rebuttal Schedule C-2, pages 3.1 to 3.11.

Q. PLEASE COMMENT ON STAFF'S REVENUE ANNUALIZATION ADJUSTMENT.

A. Staff criticizes and rejects my revenue annualization adjustment stating that it contains errors. McMurry Dt. at 11. Staff also suggests that a revenue annualization for construction water sales is inappropriate and suggests that a better method is "normalization". *Id.* at 12. As I understand Staff's testimony, Staff has proposed no downward adjustment to construction water revenue. *Id.* at 12-13. In other words, Staff believes that construction water revenues will continue at the test-year levels.

Q. HAS STAFF PROVIDED COMPUTATIONS OF THEIR REVENUE ANNUALIZATION?

A. Yes. Staff states that it recomputed my revenue annualization correcting for errors. Staff's recommendation is a net downward adjustment of $6,091. *Id.* at 13. However, after a review Staff's work papers I find Staff's corrections are based on incorrect information. Ultimately, I find that the revenue annualization numbers on the direct filing H-1 contain no errors. As I stated earlier, the printed detail did contain some incorrect information. Staff used this incorrect information without actually checking my work papers. For example, in Staff's revenue annualization for the 5/8 inch residential customers, Staff "corrected" my revenue annualization for April 2008 using 163 customers shown on the printed detail (Direct Schedule C-2, page 5.1) rather than the actual number of customers correctly shown on the H-5. The H-5 shows that April 2008 actual number of customers was 161. The printed detail (Direct Schedule C-2 page 5.1) shows a difference between the April 2008 actual number of bills (163 at line 17) and the year-end number of bills (161) as zero. The difference of zero was correct (161 minus 161), but the 163 shown in the detail was incorrect. Again, I corrected the printed detail in my rebuttal. Compare Direct C-2, page 5.1 with Rebuttal C-2, page 3.1.

Putting that aside, Staff eliminated the Company's proposed $25,640 downward adjustment for construction water sales and proposes no downward adjustment of its own. Based on Staff's testimony concerning past customer growth rates (McMurry Dt. at 12), it appears that Staff does not believe that construction water revenue will be lower in the future, or at least significantly lower in the future. However, I do not find that Staff considered the current and expected economic environment in the next few years and the impact it has had and will have on construction activity and on construction water sales. Clearly the significant housing growth and construction activity in the Phoenix area that occurred in the past several years is not occurring today. In fact, many utilities are losing customers and revenues because of housing foreclosures. The depressed housing and construction market in the Phoenix area is expected to continue for several years. Valley Utilities is not immune to these market conditions.

Q. HAVE YOU LOOKED AT CONSTRUCTION WATER SALES FOR VALLEY UTILITIES IN THE 12 MONTHS FOLLOWING THE TEST YEAR?

A. Yes. A review of the 12 month construction sales for the period following the test year (July 2008 to June 2009) demonstrates that construction water revenues dropped to less than $27,000. This is a revenue loss of over $40,000 when compared to the test year construction water revenues of approximately $67,600.

Q. HAS OTHER METERED REVENUES DECLINED SINCE THE END OF THE TEST YEAR?

A. Yes. Metered water revenues, exclusive of construction water sales, declined by about $90,000 for the 12 month period (July 2008 to June 2009) when compared to the Company's actual test year revenues. Together with the construction water revenue decline of over $40,000, the Company's revenue loss was over $130,000. This is not surprising given the state of the economy and housing. According to the Company there have been a substantial number of customers who have lost their homes due to foreclosures and these homes are now owned by banks and/or investors. Water use has dropped substantially because no one is living in the home and/or landscaping water usage and other water usage (*e.g.* pool water) has decreased in order to save money. And, depending on whether someone is living in a home, the Company may not be even be recovering the monthly minimum charge. In my opinion, the revenue loss will continue for the next several years.

The Phoenix housing market was severely impacted by the downturn in the economy late last year. Along with Las Vegas, Phoenix saw a rather robust housing and construction market prior to the downturn. Phoenix, like Las Vegas, now has a significantly high level of excess housing inventory compared to many other parts of the country. This inventory will not be absorbed for many years to come.

Q. YOUR REVENUE ANNUALIZATION IS A DOWNWARD ADJUSTMENT OF LESS THAN $22,000, ARE YOU CONCERNED BY THE REVENUE LOSS OF OVER $130,000 IN THE YEAR FOLLOWING THE TEST YEAR?

A. Absolutely. At a 10 percent operating margin the Company will have significant net losses if this revenue loss is not recognized.

Q. HOW HAVE YOU RECOGNIZED THIS REVENUE LOSS?

A. The Company proposes a downward revenue adjustment of $102,996. This recognizes the net downward revenue annualization adjustment already included in the adjusted test year revenue proposed in the Company direct filing and discussed above totaling about ($22,000). The revenue loss adjustment is shown in adjustment number 4.

Adjustment number 5 reduces purchased power and chemical expense. This adjustment is intended to match to the revenue loss adjustment from adjustment number 4. The Company sold approximately $22 million gallons less water that the adjusted and annualized test year gallons sold.

Adjustment number 6 increases purchased power costs from APS which was granted a rate increase in 2008. This adjustment makes sense. The purchased power costs for the 12 months after the test year were higher than the test year even though less water was sold (pumped).

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE REBUTTAL PROPOSED REVENUE AND EXPENSE ADJUSTMENTS.

A. Adjustment number 7 adopts Staff's proposed adjustment to outside services for water testing expense.

Adjustment number 8 adopts Staff's proposed reclassification of insurance expenses.

Adjustment number 9 adopted Staff's proposed adjustment to insurance expense for non-recurring expense.

Adjustment number 10 reclassifies miscellaneous revenue annualization from metered water revenues to miscellaneous revenues. This is a correction to the revenue annualization adjustment reflected in the Company's direct schedules.

Adjustment number 11 increases interest expense. Since under the Company's proposal the replacement well is being recognized, it is appropriate to recognize an interest expense deduction on the debt financing this project in the income tax computation.

Adjustment number 12 reflects the proposed increase in income taxes on adjusted test year revenues and expenses. The income tax computation specifically excludes the interest expense deduction for post test-year plant arsenic treatment plant funded with long-term WIFA debt since the plant is not recognized in rate base.

Q. IS THIS BECAUSE THE DEBT SERVICE IS EXPECTED TO BE RECOVERED THROUGH THE ARSENIC RECOVERY SURCHARGE?

A. Yes.

Q. PLEASE COMMENT ON STAFF'S CRITICISM OF YOUR APPROACH TO COMPUTING INCOME TAXES AND THE TAX GROSS-UP FACTOR.

A. Staff asserts that my computation set forth on Schedule C-3 is inconsistent with rate making. Frankly, I am confused by this assertion. Schedule C-3 follows the construction of the gross revenue conversion factor ("GRCF") set forth in the Commission rules (R-14-103 Appendix A) (the "Rules"). This approach necessarily requires the computation of income tax before and after the proposed rate increase be computed using the effective tax rate under proposed rates. Staff uses a different construction of the GRCF and will generally produce a different GRCF. It does not require the income taxes before the rate increase be computed using the effective tax rate under proposed rates. As long as the adjusted test year operating income (including income taxes) are properly matched with the approach used to compute the GRCF the end result (income taxes, rate increase, and revenue requirement at proposed rates) will be the same. The Rules do permit alternative methods for computing the GRCF and as such I will not criticize Staff for not following the Rules. As you can see from Staff Schedule GTM-2, Staff's approach is much more complicated. Each approach to computing the GRCF has it merits – the schedule C-3 format set for in the Rules merit is simplicity, ease of use, and ease of understanding, and Staff's approach has merit for not requiring income taxes before the proposed rate increase be computed using the effective tax rate at proposed rates. Again, either way, the end result is the same.

Q. ARE THERE ANY OTHER REVENUE AND/OR EXPENSE ADJUSTMENTS FROM STAFF THAT THE COMPANY DOES NOT ACCEPT THAT YOU WOULD LIKE TO ADDRESS?

A. Yes. The Company disagrees with Staff's proposed operating expense adjustment to repairs and maintenance that is based on averaging the test year with two historical years.

Q. WHY DO YOU DISAGREE WITH THE USE OF AVERAGES?

A. I generally disagree with use of averages as a method of normalizing expenses.

Surrounding facts and circumstances must justify their use. I have found that only in limited cases, based on the evidence, can they be justified. Averaging does not reflect a known and measurable change to the test year. It is, at best, a guess. Averaging as a means of normalizing an expense is also subjective with respect to which expenses are averaged and which years (historical or future) and how many years are included in the average. Averaging with historical years is also backward looking. Additionally, historical levels of expense may reflect abnormally high or abnormally low levels and should be examined thoroughly before being considered for use in an average. Finally, in my experience, Staff uses averages to adjust expense downward far more frequently than it uses averages to adjust expenses upward.

By averaging in this proceeding, Staff has reduced repairs and maintenance expense down to $12,688. McMurry Dt. at 15. But, there are other averaging approaches which would indicate a higher level of expense than that recommended by Staff. By way of comparison, for example, let's examine three other approaches to computing an average for repairs and maintenance. First, based on a 5 year average using the test year (2008) and four historical years (2004, 2005, 2006, and 2007) the resulting normalized expense would be $16,402. Second, averaging the test year (2008) with two historical years (2006 and 2007) and one future year (2009)[2] would produce an expense level of $15,258. Third, averaging the test year (2008) with one historical year and one future year (2009) would produce an expense level of $13,797. All of these alternative "normalization" approaches would produce higher levels of expense than Staff's recommendation and two of the approaches produce levels of expense even greater than the test year level of

[2] For the period July 2008 to June 2009 repairs and maintenance expenses were $24,217.

$14,210. None of the methods can be said to produce the most correct result because the choice of which years to use and how many years are used is highly subjective. Normalization by means of averaging should be avoided as a result.

Q. WHAT REASONS DID STAFF PROVIDE TO JUSTIFY THE USE OF AVERAGING?

A. None. McMurry Dt. at 15. Staff has not justified the use of it average based on the circumstances in the instant case. Without a meaningful analysis, there is simply too much subjectivity in Staff's normalization approach and therefore it reflects poor ratemaking policy. If we are going to use the historical test year, with all of its flaws, we shouldn't just discard the test-year level of expense based on the presumption something is wrong with the test-year, particularly in the absence of evidence that shows extenuating circumstances.

IV. RATE DESIGN.

Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES?

A. The monthly charges at proposed rates are listed below.

All Classes

Meter Size	Monthly Minimum	Gallons included in Monthly Minimum
5/8 Inch	$ 13.29	0
¾ Inch	$ 19.94	0
1 Inch	$ 33.21	0
1 1 /2 Inch	$ 66.44	0
2 Inch	$ 106.31	0
3 Inch	$ 212.61	0
4 Inch	$ 332.20	0

6 Inch	$ 664.40	0
3 Inch Construction	$ 212.61	0

The commodity charges and tiers by meter size are:

Meter Size	Tier (gallons)	Charge per 1,000 gallons
5/8" Residential	1 to 3,000	$ 1.77
	3,001 to 10,000	$ 2.73
	Over 10,000	$ 2.99
¾" Residential	1 to 3,000	$ 1.77
	3,001 to 10,000	$ 2.73
	Over 10,000	$ 2.99
5/8" Commercial	1 to 15,000	$ 2.73
	Over 15,000	$ 2.99
¾" Commercial	1 to 15,000	$ 2.73
	Over 15,000	$ 2.99
1 Inch	1 to 25,000	$ 2.73
	Over 25,000	$ 2.99
1 ½ Inch	1 to 50,000	$ 2.73
	Over 50,000	$ 2.99
2 inch	1 to 80,000	$ 2.73
	Over 80,000	$ 2.99
3 Inch	1 to 160,000	$ 2.73
	Over 160,000	$ 2.99
4 inch	1 to 250,000	$ 2.73
	Over 250,000	$ 2.99

6 inch	1 to 500,000	$ 2.73
	Over 500,000	$ 2.99
3" Construction	All gallons	$ 3.25

Q. HOW DOES THE COMPANY'S PROPOSED RATE DESIGN DIFFER FROM STAFF'S?

A. Both the Company and Staff rate designs are inverted tier designs. Both designs include a 3 tier design for the 5/8 inch and ¾ inch meters residential meters and two tier designs for 5/8 inch and ¾ inch commercial as well as 1 inch and larger meters. The break over points for the 5/8 inch and ¾ inch residential meters are the same under the Company's design and Staff's design at 3,000 gallons and 10,000 gallons. Where the two designs depart is in the break over points for the 5/8 inch and ¾ inch commercial and for the 1 inch and larger meters. The Company's break over points for these meter sizes and classes are scaled on the flows of a 5/8 inch meter. This break-over point design flows the scaling of the monthly minimums. While Staff's monthly minimums are scaled on the flows of a 5/8 inch meter, it is unclear how Staff determined the break over points. Generally, Staff break-over points are higher than the Company's for each meter size.

The increases in the commodity rates are also different between Staff and the Company. The Company applies the rate increase evenly over the present commodity rates and at the same overall increase in rates. Staff's commodity rates are increased substantially above the Staff's overall rate increase (approximately 12 percent). For example, the 2nd tier of the 5/8 and ¾ inch residential meters is increase by over 19 percent and the 3rd tier by over 38 percent. Similarly, the 1st and 2nd tier of the 5/8 inch and ¾ inch commercial meters and the 1 inch and larger meters are increased by over 19 percent and 38 percent, respectively. In other words, Staff design shifts more revenue recovery from the small commercial and 1 inch and larger meters. This will result in more revenue instability than the Company's design and increase the likelihood that the Company will not generate the authorized revenue requirement. A rate design which increases the chances of not recovering the revenue requirement, particularly for the Company which is not in good financial health (negative equity and high debt), should not be adopted.

Q. WHAT IS THE IMPACT OF THE COMPANY'S PROPOSED RATES ON AN AVERAGE 5/8 INCH METERED RESIDENTIAL CUSTOMER?

A. The present monthly bill for a 5/8 inch metered residential customer using an average of 7,376 gallons is $25.85. The proposed monthly bill for a 5/8 inch metered residential customer using an average of 7,376 gallons is $30.54 – an increase of $4.69 or 18.14 percent over the present rates.

Q. ARE THERE ANY DISPUTES BETWEEN STAFF AND THE COMPANY ON THE COMPANY PROPOSED MISCELLANEOUS CHARGES AND METER AND SERVICE LINE INSTALLATION CHARGES?

A. No.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

Exhibit A

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Income Statement

Exhibit A
Page 1
Witness: Bourassa

Line No.		[1] Staff Adjusted with Rate Increase	[2] Adjustment	[3] Adjusted with Rate Increase	[4] Adjustment	[5] Adjusted with Rate Increase	[6] Adjustment	[7] Adjusted with Rate Increase
1	**Revenues**							
2	Metered Revenues	$ 1,331,009		$ 1,331,009 3	$ (15,787)	$ 1,315,222 5	$ (102,966)	$ 1,212,256
3				-		-		-
4	Other Wastewater Revenues	48,126		48,126		48,126		$ 48,126
5		$ 1,379,135	$ -	$ 1,379,135	$ (15,787)	$ 1,363,348	$ (102,966)	$ 1,260,382
6	**Operating Expenses**							
7	Salaries and Wages	$ 355,559		$ 355,559		$ 355,559		$ 355,559
8	Employee Pensions and Benefits	5,343		5,343		5,343		5,343
9	Purchased Water	4,357		4,357		4,357		4,357
10	Purchased Power	137,023		137,023		137,023		137,023
11	Chemicals	7,691		7,691		7,691		7,691
12	Repairs and Maintenance	12,669		12,669		12,669		12,669
13	Office Supplies and Expense	10,006		10,006		10,006		10,006
14	Outside Services	34,123		34,123		34,123		34,123
15	Water Testing	-		-		-		-
16	Rents	56,601		56,601		56,601		56,601
17	Transportation Expenses	25,266		25,266		25,266		25,266
18	Insurance - General Liability	28,709		28,709		28,709		28,709
19	Insurance - Health and Life	84,577		84,577		84,577		84,577
20	Advertising	-		-		-		-
21	Regulatory Comm. Exp. - Rate Case	40,000		40,000		40,000		40,000
22	Regulatory Comm. Exp. - Other	15,856		15,856		15,856		15,856
23	Bad Debt Expense	228		228		228		228
24	Miscellaneous Expense	42,327		42,327		42,327		42,327
25	Depreciation and Amortization	235,742 1	84,866	320,608		320,608		320,608
26	Taxes Other Than Income	29,351		29,351		29,351		29,351
27	Property Taxes	40,202		40,202		40,202		40,202
28	Income Tax	75,592 2	(74,481)	1,111 4	(1,061)	50 6	-	50
29	Rounding	(1)		(1)		(1)		(1)
30	**Total Operating Expenses**	$ 1,241,221	$ 10,385	$ 1,251,606	$ (1,061)	$ 1,250,544	$ -	$ 1,250,544
31	**Operating Income**	$ 137,914	$ (10,385)	$ 127,529	$ (14,726)	$ 112,804	$ (102,966)	$ 9,838
32	**Other Income (Expense)**							
33	Interest Income	-		-		-		-
34	Other income	-		-		-		-
35	Gain on Disposal Fixed Assets	-		-		-		-
36	Interest Expense	-	(123,329)	(123,329)		(123,329)		(123,329)
37	Other Expense	-		-		-		-
38								
39	**Total Other Income (Expense)**	$ -	$ (123,329)	$ (123,329)	$ -	$ (123,329)	$ -	$ (123,329)
40	**Net Profit (Loss)**	$ 137,914	$ (133,714)	$ 4,200	$ (14,726)	$ (10,525)	$ (102,966)	$ (113,491)

41
42 SUPPORTING SCHEDULES:
43 Staff Schedule GTM -8
44
45 ADJUSTMENTS
46 Adj #1 - Required depreciation adjustment related to post test year plant. See page 2.
47 Adj #2 - Computed income tax adjustment reflecting interest expense deduction.
48 Adj #3 - Reverse Staff's inappropriate revenue annualization adjustment. See testimony.
49 Adj #4 - Computed income tax adjustment reflecting reversal of Staff revenue annualization adjustment.
50 Adj #5 - Revenue loss adjustment proposed by Company. See testimony.
51 Adj #6 - Computed income tax adjustment reflecting revenue loss.
52

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Adjustments to Revenues and Expenses
Adjustment Number 1

Line No.	Acct. No.	Description	Adjusted Original Cost	Proforma Adjustments 1 Direct PTY Plant Arsenic Water Trmnt	2 Increase in PTY Plant Arsenic Water Trmnt	3 Staff Proposed Plant Reclass	Adjusted Original Cost	Proposed Rates	Depreciation Expense
1	Depreciation Expense								
2									
3									
4									
5									
6									
7	301	Organization Cost	-				-	0.00%	-
8	302	Franchise Cost	-				-	0.00%	-
9	303	Land and Land Rights	448,196				448,196	0.00%	-
10	304	Structures and Improvements	17,167				17,167	3.33%	572
11	305	Collecting and Impounding Res.	-				-	2.50%	-
12	306	Lake River and Other Intakes	-				-	2.50%	-
13	307	Wells and Springs	1,147,717				1,147,717	3.33%	38,219
14	308	Infiltration Galleries and Tunnels	-				-	6.67%	-
15	309	Supply Mains	-				-	2.00%	-
16	310	Power Generation Equipment	-				-	5.00%	-
17	311	Electric Pumping Equipment	448,660				448,660	12.50%	56,082
18	320	Water Treatment Equipment	22,334				22,334	3.33%	744
19	330	Distribution Reservoirs & Standpipe	828,116				828,116	2.22%	18,384
20	331	Transmission and Distribution Mains	2,593,007				2,593,007	2.00%	51,860
21	333	Services	123,765				123,765	3.33%	4,121
22	334	Meters	419,733				419,733	8.33%	34,964
23	335	Hydrants	147,203				147,203	2.00%	2,944
24	336	Backflow Prevention Devices	-				-	6.67%	-
25	339	Other Plant and Misc. Equip.	1,237				1,237	6.67%	83
26	340	Office Furniture and Fixtures	66,856				66,856	6.67%	4,459
27	341	Transportation Equipment	88,026				88,026	20.00%	17,605
28	342	Stores Equipment	-				-	4.00%	-
29	343	Tools and Work Equipment	38,585				38,585	5.00%	1,929
30	344	Laboratory Equipment	-				-	10.00%	-
31	345	Power Operated Equipment	5,930				5,930	5.00%	296
32	346	Communications Equipment	-				-	10.00%	-
33	347	Miscellaneous Equipment	20,000				20,000	10.00%	2,000
34	348	Other Tangible Plant	4,237				4,237	3.33%	141
35									
36		Subtotal Plant	$ 6,420,770	$ -	$ -	$ -	$ 6,420,770		$ 234,404
37									
38	Post Test Year plant								
39	303	Land and Land Rights	$ -	$ -		$ 55,000	$ 55,000	0.00%	$ -
40	307	Wells and Springs	-	250,000			250,000	3.33%	8,325
41	320	Water Treatment Equipment	-	1,826,100	258,883	(55,000)	2,029,983	3.33%	67,598
42	348	Other Tangible Plant - Arsenic Media	-	100,000			100,000	67.00%	67,000
43			$ -	$ 2,176,100	$ 258,883	$ (55,000)	$ 2,379,983		$ 142,923
44		Total Plant	$ 6,420,770				$ 8,800,753		$ 377,328
45									
46	Less: Amortization of Contributions		$ 1,322,934				$ 1,322,934	4.2874%	$ (56,720)
47									
48	Total Depreciation Expense								$ 320,608
49									
50	Staff Adjusted Test Year Depreciation Expense								235,742
51									
52	Increase (decrease) in Depreciation Expense								84,866
53									
54	Adjustment to Revenues and/or Expenses								$ 84,866
55									
56	SUPPORTING SCHEDULE								

Schedules

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Fair Value Rate Base	$	(184,909)
Adjusted Operating Income		(10,393)
Current Rate of Return		NM
Required Operating Income	$	132,230
Proposed Operatin Margin		10.00%
Operating Income Deficiency	$	142,623
Gross Revenue Conversion Factor		1.5114
Increase in Gross Revenue Revenue Requirement	$	215,564
Test Year Revenues	$	1,106,737
Increase in Gross Revenue Revenue Requirement	$	215,564
Proposed Revenue Requirement	$	1,322,302
Percent Increase		19.48%

Customer Classification	**Present Rates**	**Proposed Rates**	**Dollar Increase**	**Percent Increase**
5/8 Inch	$ 55,282	$ 65,317	$ 10,035	18.15%
3/4 Inch	386,376	456,492	70,116	18.15%
1 Inch	384,994	459,961	74,967	19.47%
1 1/2 Inch	23,801	28,696	4,895	20.57%
2 Inch	267,706	319,306	51,600	19.27%
3 Inch Construction	67,596	74,610	7,014	10.38%
Revenue Annualization	(24,537)	(27,045)	(2,508)	10.22%
Revenue Loss Adjustment	(102,966)	(102,966)	-	0.00%
Subtotal	$ 1,058,253	$ 1,274,370	$ 216,118	20.42%
Misc. Service Revenues	45,466	45,466	-	0.00%
Annualization of Misc Service Revenues	2,660	2,660	-	0.00%
Reconciling Amount H-1 to C-1	359	(194)	(553)	-154.04%
Total of Water Revenues	$ 1,106,737	$ 1,322,302	$ 215,565	19.48%

NM -= Not Meaningful

SUPPORTING SCHEDULES:
Rebuttal B-1
Rebuttal C-1
Rebuttal C-3
Rebuttal H-1

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base		Fair Value Rate Base	
1					
2	Gross Utility Plant in Service	$	6,670,770	$	6,670,770
3	Less: Accumulated Depreciation		2,051,030		2,051,030
4					
5	Net Utility Plant in Service	$	4,619,739	$	4,619,739
6					
7	Less:				
8	Advances in Aid of				
9	Construction		3,515,087		3,515,087
10	Contributions in Aid of				
11	Construction		1,322,934		1,322,934
12	Accumulated Amortization of CIAC		(289,647)		(289,647)
13					
14	Customer Meter Deposits		224,503		224,503
15	Deferred Income Taxes & Credits		31,772		31,772
16			-		-
17					
18					
19	Plus:				
20	Unamortized Finance				
21	Charges		-		-
22	Deferred Regulatory Assets		-		-
23	Allowance for Working Capital		-		-
24					
25					
26	Total Rate Base	$	(184,909)	$	(184,909)
27					
28					
29					
30	SUPPORTING SCHEDULES:				
31	Rebuttal B-2				
32	Rebuttal B-5				
33					
34					
35					

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

	Adjusted at End of Test Year	Proforma Adjustments Amount	Rebuttal Adjusted at end of Test Year
Gross Utility Plant in Service	$ 8,596,870	(1,926,100)	$ 6,670,770
Less:			
Accumulated Depreciation	2,051,030	-	2,051,030
Net Utility Plant in Service	$ 6,545,839		$ 4,619,739
Less:			
Advances in Aid of Construction	3,515,087	-	3,515,087
Contributions in Aid of Construction (CIAC)	1,322,934	-	1,322,934
Accumulated Amortization of CIAC	(289,647)	-	(289,647)
Customer Meter Deposits	224,503	-	224,503
Deferred Income Taxes	31,772	-	31,772
Plus:			
Unamortized Finance Charges	-	-	-
Deferred Regulatory Assets	-	-	-
Allowance for Working Capital	-	-	-
Total	$ 1,741,191		$ (184,909)

SUPPORTING SCHEDULES:
Rebuttal B-2, pages 2-3

RECAP SCHEDULES:
Rebuttal B-1

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at end of Test Year	Proforma Adjustments 1 Plant Adjustments	Proforma Adjustments 2 Intentionally Left Blank	Proforma Adjustments 3 Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
1	Gross Utility					
2	*Plant in Service*	$ 8,596,870	(1,926,100)			$ 6,670,770
3						
4	**Less:**					
5	Accumulated					
6	Depreciation	2,051,030				2,051,030
7						
8						
9	Net Utility Plant					
10	in Service	$ 6,545,839	$ (1,926,100)	$ -	$ -	$ 4,619,739
11						
12	**Less:**					
13	Advances in Aid of					
14	Construction	3,515,087				3,515,087
15						
16	Contributions in Aid of					
17	Construction (CIAC)	1,322,934				1,322,934
18						
19	Accumulated Amort of CIAC	(289,647)				(289,647)
20						
21	Customer Meter Deposits	224,503				224,503
22	Deferred Income Taxes	31,772				31,772
23						
24						
25	**Plus:**					
26	Unamortized Finance					
27	Charges	-				-
28	Deferred Reg. Assets	-				-
29	Allowance for Working Capital	-				-
30						
31	Total	$ 1,741,191	$ (1,926,100)	$ -	$ -	$ (184,909)
32						
33						
34						
35	<u>SUPPORTING SCHEDULES:</u>					
36	Rebuttal B-2, pages 3					
37						
38						
39						
40						

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

Line No.	Acct. No.	Description	Direct Adjusted Original Cost	ADJUSTMENT A PTY Plant Arsenic Water Treatment	B Plant Reclass	C Intentionally Left Blank	Rebuttal Adjusted Original Cost
1	Plant-in-Service						
5	301	Organization Cost	-				-
6	302	Franchise Cost	-				-
7	303	Land and Land Rights	448,196				448,196
8	304	Structures and Improvements	17,167				17,167
9	305	Collecting and Impounding Res.	-				-
10	306	Lake River and Other Intakes	-				-
11	307	Wells and Springs	1,147,717				1,147,717
12	308	Infiltration Galleries and Tunnels	-				-
13	309	Supply Mains	-				-
14	310	Power Generation Equipment	-				-
15	311	Electric Pumping Equipment	448,660				448,660
16	320	Water Treatment Equipment	22,334				22,334
17	330	Distrib. Reservoirs & Standpipe	828,116				828,116
18	331	Trans. and Distrib. Mains	2,593,007				2,593,007
19	333	Services	123,765				123,765
20	334	Meters	419,733				419,733
21	335	Hydrants	147,203				147,203
22	336	Backflow Prevention Devices	-				-
23	339	Other Plant and Misc. Equipment	1,237				1,237
24	340	Office Furniture and Fixtures	66,856				66,856
25	341	Transportation Equipment	88,026				88,026
26	342	Stores Equipment	-				-
27	343	Tools and Work Equipment	38,585				38,585
28	344	Laboratory Equipment	-				-
29	345	Power Operated Equipment	5,930				5,930
30	346	Communications Equipment	-				-
31	347	Miscellaneous Equipment	20,000				20,000
32	348	Other Tangible Plant	4,237				4,237
33	348	Other Tangible Plant - Arsenic Media					-
34		TOTALS	$ 6,420,770	$ -	$ -	$ -	$ 6,420,770
35							
36	Post Test Year Plant						
37	303	Land and Land Rights	$ -				$ -
38	307	Wells and Springs	250,000				250,000
39	320	Water Treatment Equipment	1,826,100	(1,826,100)			-
40	348	Other Tangible Plant - Arsenic Media	100,000	(100,000)			-
41			$ 2,176,100	$ (1,926,100)	$ -	$ -	$ 250,000
42		Total Plant	$ 8,596,870	$ (1,926,100)	$ -	$ -	$ 6,670,770
43							
44	Direct Adjusted Plant-in-Service						$ 8,596,870
45							
46	Increase (decrease) in Plant-in-Service						$ (1,926,100)
47							
48	Adjustment to Plant-in-Service						$ (1,926,100)
49							
50	SUPPORTING SCHEDULES		ADJUSTMENTS				
51			Adjustment A - See Rebuttal B-2, page 3.1				

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 - A

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line No.		
1		
2	Post Test Year Plant	
3		
4	Arsenic Treament Facilities - Account 320	
5	Cost per Rebuttal Filing	$ -
6	Cost Per Direct Filing	1,826,100
7	Increase (Decrease) in Cost	$ (1,826,100)
8		
9	Arsenic Media - Account 348	
10	Costs per Rebuttal Filing	$ -
11	Cost Per Direct Filing	100,000
12	Increase (Decrease) in Cost	$ (100,000)
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	93,646
3	Pumping Power (1/24 of Pumping Power)		6,022
4	Purchased Water (1/24 of Purchased Water)		182
5	Prepaids/Deferred Debits		85,945
6	Materials & Supplies		28,626
7			
8			
9	Total Working Capital Allowance	$	214,420
10			
11			
12	Working Capital Requested	$	-
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16		Rebuttal B-1	
17			

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Revenues	$ 1,164,238	$ (105,626)	$ 1,058,612	$ 215,564	$ 1,274,176
3						-
4	Other Wastewater Revenues	45,466	2,660	48,126		48,126
5		$ 1,209,703	$ (102,966)	$ 1,106,737	$ 215,564	$ 1,322,302
6	**Operating Expenses**					
7	Salaries and Wages	$ 355,559	-	$ 355,559		$ 355,559
8	Employee Pensions and Benefits	5,343	-	5,343		5,343
9	Purchased Water	4,357	-	4,357		4,357
10	Purchased Power	136,963	7,563	144,526		144,526
11	Chemicals	7,549	(540)	7,009		7,009
12	Repairs and Maintenance	14,210	-	14,210		14,210
13	Office Supplies and Expense	10,006	-	10,006		10,006
14	Outside Services	31,734	2,389	34,123		34,123
15	Water Testing	-	-	-		-
16	Rents	56,601	-	56,601		56,601
17	Transportation Expenses	25,266	-	25,266		25,266
18	Insurance - General Liability	39,013	(10,304)	28,709		28,709
19	Insurance - Health and Life	84,637	(60)	84,577		84,577
20	Advertising	-	-	-		-
21	Regulatory Comm. Exp. - Rate Case	40,000	-	40,000		40,000
22	Regulatory Comm. Exp. - Other	15,856	-	15,856		15,856
23	Bad Debt Expense	228	-	228		228
24	Miscellaneous Expense	42,327	-	42,327		42,327
25	Depreciation and Amortization	313,518	(118,926)	194,592		194,592
26	Taxes Other Than Income	29,351	-	29,351		29,351
27	Property Taxes	39,304	(2,081)	37,223		37,223
28	Income Tax	(54,130)	41,399	(12,731)	72,941	60,210
29				-		-
30	**Total Operating Expenses**	$ 1,197,692	$ (80,561)	$ 1,117,131	$ 72,941	$ 1,190,072
31	**Operating Income**	$ 12,012	$ (22,405)	$ (10,393)	$ 142,623	$ 132,230
32	**Other Income (Expense)**					
33	Interest Income	-	-	-		-
34	Other income	-	-	-		-
35	Gain on Disposal Fixed Assets	-	-	-		-
36	Interest Expense	(123,851)	109,351	(14,500)		(14,500)
37	Other Expense	-	-	-		-
38						
39	**Total Other Income (Expense)**	$ (123,851)	$ 109,351	$ (14,500)	$ -	$ (14,500)
40	**Net Profit (Loss)**	$ (111,839)	$ 86,946	$ (24,893)	$ 142,623	$ 117,730
41						
42	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
43	Rebuttal C-1 page 2				Rebuttal A-1	
44						
45						

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2
Witness: Bourassa

Line No.		Direct Test Year Adjusted Results	1 Depreciation Expense	2 Property Taxes	3 Revenue Annualization	4 Metered Revenue Loss Adjustment	5 Purch. Power & Chemical Adj. For Rev. Loss	6 Purchased Power Adj. For APS Incr.	7 Water Testing	8 Reclass Insurance	9 Non-Recurring Ins. Exp.	10 Reclass Revenues	11 Interest Expense	12 Income Taxes	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**																
2	Metered Revenues	$ 1,164,238			$ -	$ (102,966)						$ (2,660)			$ 1,058,612	$ 215,564	$ 1,274,176
3																	-
4	Other Wastewater Revenues	45,466										2,660			48,126		48,126
5		$ 1,209,703	$ -	$ -	$ -	$ (102,966)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,106,737	$ 215,564	$ 1,322,302
6	**Operating Expenses**																
7	Salaries and Wages	$ 355,559													$ 355,559		$ 355,559
8	Employee Pensions and Benefits	5,343													5,343		5,343
9	Purchased Water	4,357													4,357		4,357
10	Purchased Power	136,963					(9,656)	17,219							144,526		144,526
11	Chemicals	7,549					(540)								7,009		7,009
12	Repairs and Maintenance	14,210													14,210		14,210
13	Office Supplies and Expense	10,006													10,006		10,006
14	Outside Services	31,734							2,389						34,123		34,123
15	Water Testing	-													-		-
16	Rents	56,601													56,601		56,601
17	Transportation Expenses	25,266													25,266		25,266
18	Insurance - General Liability	39,013								(10,304)					28,709		28,709
19	Insurance - Health and Life	84,637								10,304	(10,364)				84,577		84,577
20	Advertising	-													-		-
21	Reg. Comm. Exp. - Rate Case	40,000													40,000		40,000
22	Reg. Comm. Exp. - Other	15,856													15,856		15,856
23	Bad Debt Expense	228													228		228
24	Miscellaneous Expense	42,327													42,327		42,327
25	Depreciation and Amortization	313,518	(118,926)												194,592		194,592
26	Taxes Other Than Income	29,351													29,351		29,351
27	Property Taxes	39,304		(2,081)											37,223		37,223
28	Income Tax	(54,130)												41,399	(12,731)	72,941	60,210
29															-		-
30	**Total Operating Expenses**	$ 1,197,692	$ (118,926)	$ (2,081)	$ -	$ -	$ (10,197)	$ 17,219	$ 2,389	$ -	$ (10,364)	$ -	$ -	$ 41,399	$ 1,117,131	$ 72,941	$ 1,190,072
31	**Operating Income**	$ 12,012	$ 118,926	$ 2,081	$ -	$ (102,966)	$ 10,197	$ (17,219)	$ (2,389)	$ -	$ 10,364	$ -	$ -	$ (41,399)	$ (10,393)	$ 142,623	$ 132,230
32	**Other Income (Expense)**																
33	Interest Income	-													-		-
34	Other income	-													-		-
35	Gain on Disposal Fixed Assets	-													-		-
36	Interest Expense	(123,851)											109,351		(14,500)		(14,500)
37	Other Expense	-													-		-
38																	
39	**Total Other Income (Expense)**	$ (123,851)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 109,351	$ -	$ (14,500)	$ -	$ (14,500)
40	**Net Profit (Loss)**	$ (111,839)	$ 118,926	$ 2,081	$ -	$ (102,966)	$ 10,197	$ (17,219)	$ (2,389)	$ -	$ 10,364	$ -	$ 109,351	$ (41,399)	$ (24,893)	$ 142,623	$ 117,730
41																	
42	SUPPORTING SCHEDULES:														RECAP SCHEDULES:		
43	Rebuttal C-2														Rebuttal C-1, page 1		
44																	
45																	

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses 1 Depreciation Expense	2 Property Taxes	3 Revenue Annualization	4 Revenue Loss Adjustment	5 Purch. Power Chemical Exp.	6 Purchased Power Adj.	Subtotal
1								
2								
3	Revenues			-	(102,966)			(102,966)
4								
5	Expenses	(118,926)	(2,081)			(10,197)	17,219	(113,985)
6								
7	Operating							
8	Income	118,926	2,081	-	(102,966)	10,197	(17,219)	11,019
9								
10	Interest							-
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	118,926	2,081	-	(102,966)	10,197	(17,219)	11,019
17								
18		Adjustments to Revenues and Expenses						
19		7	8	9	10	11	12	Subtotal
20		Water	Reclass	Non-Recurring	Reclass	Interest	Income	
21		Testing	Insurance	Expense	Revenues	Expense	Taxes	
22	Revenues				-			(102,966)
23								
24	Expenses	2,389	-	(10,364)			41,399	(80,561)
25								
26	Operating							
27	Income	(2,389)	-	10,364	-	-	(41,399)	(22,405)
28								
29	Interest							
30	Expense					109,351		109,351
31	Other							
32	Income /							-
33	Expense							
34								
35	Net Income	(2,389)	-	10,364	-	109,351	(41,399)	86,946
36								

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Line No.				Proforma Adjustments					
1	Depreciation Expense								
2				1	2	3			
3				B-2 Adj. 1 - A	B-2 Adj. 1 - B				
4			Adjusted	PTY Plant			Adjusted		
5	Acct.		Original	Arsenic	Plant		Original	Proposed	Depreciation
6	No.	Description	Cost	Water Trmnt	Reclass		Cost	Rates	Expense
7	301	Organization Cost	-				-	0.00%	-
8	302	Franchise Cost	-				-	0.00%	-
9	303	Land and Land Rights	448,196				448,196	0.00%	-
10	304	Structures and Improvements	17,167				17,167	3.33%	572
11	305	Collecting and Impounding Res.	-				-	2.50%	-
12	306	Lake River and Other Intakes	-				-	2.50%	-
13	307	Wells and Springs	1,147,717				1,147,717	3.33%	38,219
14	308	Infiltration Galleries and Tunnels	-				-	6.67%	-
15	309	Supply Mains	-				-	2.00%	-
16	310	Power Generation Equipment	-				-	5.00%	-
17	311	Electric Pumping Equipment	448,660				448,660	12.50%	56,082
18	320	Water Treatment Equipment	22,334				22,334	3.33%	744
19	330	Distribution Reservoirs & Standpipe	828,116				828,116	2.22%	18,384
20	331	Transmission and Distribution Mains	2,593,007				2,593,007	2.00%	51,860
21	333	Services	123,765				123,765	3.33%	4,121
22	334	Meters	419,733				419,733	8.33%	34,964
23	335	Hydrants	147,203				147,203	2.00%	2,944
24	336	Backflow Prevention Devices	-				-	6.67%	-
25	339	Other Plant and Misc. Equip.	1,237				1,237	6.67%	83
26	340	Office Furniture and Fixtures	66,856				66,856	6.67%	4,459
27	341	Transportation Equipment	88,026				88,026	20.00%	17,605
28	342	Stores Equipment	-				-	4.00%	-
29	343	Tools and Work Equipment	38,585				38,585	5.00%	1,929
30	344	Laboratory Equipment	-				-	10.00%	-
31	345	Power Operated Equipment	5,930				5,930	5.00%	296
32	346	Communications Equipment	-				-	10.00%	-
33	347	Miscellaneous Equipment	20,000				20,000	10.00%	2,000
34	348	Other Tangible Plant	4,237				4,237	3.33%	141
35									
36		Subtotal Plant	$ 6,420,770	$ -	$ -	$ -	$ 6,420,770		$ 234,404
37									
38	Post Test Year plant								
39	303	Land and Land Rights	$ -		$ -		$ -	0.00%	$ -
40	307	Wells and Springs	250,000	-			250,000	3.33%	8,325
41	320	Water Treatment Equipment	1,826,100	(1,826,100)	-		-	3.33%	-
42	348	Other Tangible Plant - Arsenic Media	100,000	(100,000)			-	67.00%	-
43			$ 2,176,100	$ (1,926,100)	$ -	$ -	$ 250,000		$ 8,325
44		Total Plant	$ 8,596,870				$ 6,670,770		$ 242,729
45									
46	Less: Amortization of Contributions		$ 1,322,934				$ 1,322,934	3.6387%	$ (48,138)
47									
48	Total Depreciation Expense								$ 194,592
49									
50	Adjusted Test Year Depreciation Expense								313,518
51									
52	Increase (decrease) in Depreciation Expense								(118,926)
53									
54	Adjustment to Revenues and/or Expenses								$ (118,926)
55									
56	SUPPORTING SCHEDULE								
57	Rebuttal B-2, page 3								

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended 06/30/2008	$	1,106,737
4	Adjusted Revenues in year ended 06/30/2008		1,106,737
5	Proposed Revenues		1,322,302
6	Average of three year's of revenue	$	1,178,592
7	Average of three year's of revenue, times 2	$	2,357,184
8	Add:		
9	Construction Work in Progess at 10%	$	110,850
10	Deduct:		
11	Book Value of Transportation Equipment	$	16,498
12			
13	Full Cash Value	$	2,451,536
14	Assessment Ratio		21%
15	Assessed Value		514,822
16	Property Tax Rate		7.2302%
17			
18	Property Tax		37,223
19	Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	$	37,223
22	Property taxes in the test year		39,304
23	Change in property taxes	$	(2,081)
24			
25			
26	Adjustment to Revenues and/or Expenses	$	(2,081)
27			
28			

Valley Utilities Water Company, Inc.
5/8 Inch Residential
Customers to Year End Levels
Test Year Ended June 30, 2008

Exhibit
Rebuttal Schedule C-2
Page 3.1
Witness: Bourassa

Line No.		Month of Jul-07	Month of Aug-07	Month of Sep-07	Month of Oct-07	Month of Nov-07	Month of Dec-07	Month of Jan-08
1	Year End Number of Customers	161	161	161	161	161	161	161
2	Actual Customers	162	162	159	160	161	161	159
3	Increase in Number of Customers/Bills	(1)	(1)	2	1	-	-	2
4	Average Revenue / Present Rates	$ 34.61	$ 28.03	$ 28.09	$ 29.22	$ 23.68	$ 18.84	$ 20.65
5	Revenue Annualization / Present Rates	$ (35)	$ (28)	$ 56	$ 29	$ -	$ -	$ 41
6								
7	Increase in Number of Customers	(1)	(1)	2	1	-	-	2
8	Average Revenue / Proposed Rates	$ 40.89	$ 33.12	$ 33.19	$ 34.52	$ 27.98	$ 22.26	$ 24.40
9	Revenue Annualization / Proposed Rates	$ (41)	$ (33)	$ 66	$ 35	$ -	$ -	$ 49
10	Additional Gallons to be Produced	(11,068)	(8,321)	16,693	8,835	-	-	10,253
11								
12		Month	Month	Month	Month	Month		Total
13		of	of	of	of	of		Year
14		Feb-08	Mar-08	Apr-08	May-08	Jun-08		
15	Year End Number of Customers	161	161	161	161	161		
16	Actual Customers	163	159	161	159	161		
17	Increase in Number of Customers/Bills	(2)	2	-	2	-		5
18	Average Revenue / Present Rates	$ 19.70	$ 24.26	$ 25.02	$ 29.36	$ 28.95		
19	Revenue Annualization / Present Rates	$ (39)	$ 49	$ -	$ 59	$ -		$ 132
20								
21	Increase in Number of Customers	(2)	2	-	2	-		
22	Average Revenue / Proposed Rates	$ 23.28	$ 28.66	$ 29.56	$ 34.69	$ 34.20		
23	Revenue Annualization / Proposed Rates	$ (39)	$ 49	$ -	$ 59	$ -		$ 156
24	Additional Gallons to be Produced	(9,430)	13,378	-	17,793	-		38,132

Valley Utilities Water Company, Inc.
3/4 Inch Residential
Customers to Year End Levels
Test Year Ended June 30, 2008

Exhibit
Rebuttal Schedule C-2
Page 3.2
Witness: Bourassa

Line No.		Month of Jul-07	Month of Aug-07	Month of Sep-07	Month of Oct-07	Month of Nov-07	Month of Dec-07	Month of Jan-08
1								
2	Year End Number of Customers	827	827	827	827	827	827	827
3	Actual Customers	838	841	835	842	834	824	829
4	Increase in Number of Customers/Bills	(11)	(14)	(8)	(15)	(7)	3	(2)
5	Average Revenue / Present Rates	$ 46.00	$ 40.05	$ 38.54	$ 39.48	$ 33.97	$ 30.14	$ 31.22
6	Revenue Annualization / Present Rates	$ (506)	$ (561)	$ (308)	$ (592)	$ (238)	$ 90	$ (62)
7								
8	Increase in Number of Customers	(11)	(14)	(8)	(15)	(7)	3	(2)
9	Average Revenue / Proposed Rates	$ 54.34	$ 47.32	$ 45.54	$ 46.64	$ 40.13	$ 35.62	$ 36.88
10	Revenue Annualization / Proposed Rates	$ (598)	$ (662)	$ (364)	$ (700)	$ (281)	$ 107	$ (74)
11	Additional Gallons to be Produced	(146,766)	(153,890)	(83,170)	(161,489)	(59,180)	20,395	(14,524)
12								
13								
14								

Line No.		Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Total Year
15							
16	Year End Number of Customers	827	827	827	827	827	
17	Actual Customers	833	830	831	825	827	
18	Increase in Number of Customers/Bills	(6)	(3)	(4)	2	-	(65)
19	Average Revenue / Present Rates	$ 29.99	$ 33.90	$ 35.38	$ 40.60	$ 39.71	
20	Revenue Annualization / Present Rates	$ (180)	$ (102)	$ (142)	$ 81	$ -	$ (2,519)
21							
22	Increase in Number of Customers	(6)	(3)	(4)	2	-	
23	Average Revenue / Proposed Rates	$ 35.43	$ 40.05	$ 41.81	$ 47.97	$ 46.92	
24	Revenue Annualization / Proposed Rates	$ (180)	$ (102)	$ (142)	$ 81	$ -	$ (2,976)
	Additional Gallons to be Produced	(40,379)	(25,266)	(36,267)	22,419	-	(678,117)

Valley Utilities Water Company, Inc.
1 Inch Residential
Customers to Year End Levels
Test Year Ended June 30, 2008

Exhibit
Rebuttal Schedule C-2
Page 3.3
Witness: Bourassa

Line No.		Month of Jul-07	Month of Aug-07	Month of Sep-07	Month of Oct-07	Month of Nov-07	Month of Dec-07	Month of Jan-08
1	Year End Number of Customers	386	386	386	386	386	386	386
2	Actual Customers	393	389	389	389	389	386	397
3	Increase in Number of Customers/Bills	(7)	(3)	(3)	(3)	(3)	-	(11)
4	Average Revenue / Present Rates	$ 98.38	$ 85.97	$ 86.44	$ 88.35	$ 70.45	$ 55.66	$ 57.16
5	Revenue Annualization / Present Rates	$ (689)	$ (258)	$ (259)	$ (265)	$ (211)	$ -	$ (629)
6								
7	Increase in Number of Customers	(7)	(3)	(3)	(3)	(3)	-	(11)
8	Average Revenue / Proposed Rates	$ 117.63	$ 101.58	$ 102.18	$ 104.65	$ 83.22	$ 65.77	$ 67.54
9	Revenue Annualization / Proposed Rates	$ (823)	$ (305)	$ (307)	$ (314)	$ (250)	$ -	$ (743)
10	Additional Gallons to be Produced	(212,978)	(75,162)	(75,762)	(78,249)	(54,994)	-	(138,402)
11								
12		Month	Month	Month	Month	Month		Total
13		of	of	of	of	of		Year
14		Feb-08	Mar-08	Apr-08	May-08	Jun-08		
15	Year End Number of Customers	386	386	386	386	386		
16	Actual Customers	397	388	392	387	386		
17	Increase in Number of Customers/Bills	(11)	(2)	(6)	(1)	-		(50)
18	Average Revenue / Present Rates	$ 54.43	$ 65.10	$ 70.12	$ 85.15	$ 85.02		
19	Revenue Annualization / Present Rates	$ (599)	$ (130)	$ (421)	$ (85)	$ -		$ (3,546)
20								
21	Increase in Number of Customers	(11)	(2)	(6)	(1)	-		
22	Average Revenue / Proposed Rates	$ 64.31	$ 76.91	$ 82.84	$ 100.59	$ 100.43		
23	Revenue Annualization / Proposed Rates	$ (599)	$ (130)	$ (421)	$ (85)	$ -		$ (4,200)
24	Additional Gallons to be Produced	(125,369)	(32,032)	(109,150)	(24,696)	-		(926,794)

Valley Utilities Water Company, Inc.
2 Inch Multi-family
Customers to Year End Levels
Test Year Ended June 30, 2008

Exhibit
Schedule C-2
Page 3.4
Witness: Bourassa

Line No.		Month of Jul-07	Month of Aug-07	Month of Sep-07	Month of Oct-07	Month of Nov-07	Month of Dec-07	Month of Jan-08
1	Year End Number of Customers	32	32	32	32	32	32	32
2	Actual Customers	33	33	33	33	33	33	33
3	Increase in Number of Customers/Bills	(1)	(1)	(1)	(1)	(1)	(1)	(1)
4	Average Revenue / Present Rates	$ 457.40	$ 488.53	$ 356.81	$ 409.50	$ 327.89	$ 294.57	$ 334.18
5	Revenue Annualization / Present Rates	$ (457)	$ (489)	$ (357)	$ (410)	$ (328)	$ (295)	$ (334)
6								
7	Increase in Number of Customers	(1)	(1)	(1)	(1)	(1)	(1)	(1)
8	Average Revenue / Proposed Rates	$ 558.78	$ 595.55	$ 430.71	$ 498.87	$ 393.31	$ 350.21	$ 401.45
9	Revenue Annualization / Proposed Rates	$ (559)	$ (596)	$ (431)	$ (499)	$ (393)	$ (350)	$ (401)
10	Additional Gallons to be Produced	(158,391)	(170,695)	(115,526)	(138,339)	(103,010)	(88,586)	(105,734)
11								
12		Month	Month	Month	Month	Month		Total
13		of	of	of	of	of		Year
14		Feb-08	Mar-08	Apr-08	May-08	Jun-08		
15	Year End Number of Customers	32	32	32	32	32		
16	Actual Customers	33	33	33	33	32		
17	Increase in Number of Customers/Bills	(1)	(1)	(1)	(1)	-		(11)
18	Average Revenue / Present Rates	$ 317.22	$ 378.80	$ 387.51	$ 463.32	$ 390.17		
19	Revenue Annualization / Present Rates	$ (317)	$ (379)	$ (388)	$ (463)	$ -		$ (4,216)
20								
21	Increase in Number of Customers	(1)	(1)	(1)	(1)	-		
22	Average Revenue / Proposed Rates	$ 379.50	$ 459.16	$ 470.42	$ 565.78	$ 473.86		
23	Revenue Annualization / Proposed Rates	$ (317)	$ (379)	$ (388)	$ (463)	$ -		$ (5,104)
24	Additional Gallons to be Produced	(98,388)	(125,049)	(128,816)	(160,733)	-		(1,393,267)

Valley Utilities Water Company, Inc.
1 Inch Commercial
Customers to Year End Levels
Test Year Ended June 30, 2008

Exhibit
Rebuttal Schedule C-2
Page 3.5
Witness: Bourassa

Line No.		Month of Jul-07	Month of Aug-07	Month of Sep-07	Month of Oct-07	Month of Nov-07	Month of Dec-07	Month of Jan-08
1	Year End Number of Customers	12	12	12	12	12	12	12
2	Actual Customers	11	11	11	11	11	11	11
3	Increase in Number of Customers/Bills	1	1	1	1	1	1	1
4	Average Revenue / Present Rates	$ 150.99	$ 154.48	$ 129.08	$ 120.71	$ 87.95	$ 113.15	$ 86.90
5	Revenue Annualization / Present Rates	$ 151	$ 154	$ 129	$ 121	$ 88	$ 113	$ 87
6								
7	Increase in Number of Customers	1	1	1	1	1	1	1
8	Average Revenue / Proposed Rates	$ 184.94	$ 189.06	$ 157.33	$ 146.51	$ 104.13	$ 136.73	$ 102.78
9	Revenue Annualization / Proposed Rates	$ 185	$ 189	$ 157	$ 147	$ 104	$ 137	$ 103
10	Additional Gallons to be Produced	52,952	54,332	43,712	40,090	25,910	36,819	25,455
11								
12		Month	Month	Month	Month	Month		Total
13		of	of	of	of	of		Year
14		Feb-08	Mar-08	Apr-08	May-08	Jun-08		
15	Year End Number of Customers	12	12	12	12	12		
16	Actual Customers	11	11	11	11	12		
17	Increase in Number of Customers/Bills	1	1	1	1	-		11
18	Average Revenue / Present Rates	$ 84.64	$ 85.85	$ 99.32	$ 129.79	$ 145.28		
19	Revenue Annualization / Present Rates	$ 85	$ 86	$ 99	$ 130	$ -		$ 1,243
20								
21	Increase in Number of Customers	1	1	1	1	-		
22	Average Revenue / Proposed Rates	$ 99.98	$ 101.42	$ 118.84	$ 158.26	$ 178.20		
23	Revenue Annualization / Proposed Rates	$ 85	$ 86	$ 99	$ 130	$ -		$ 1,500
24	Additional Gallons to be Produced	24,474	25,000	30,831	44,023	-		403,599

Valley Utilities Water Company, Inc.
1.5 Inch Commercial
Customers to Year End Levels
Test Year Ended June 30, 2008

Exhibit
Rebuttal Schedule C-2
Page 3.6
Witness: Bourassa

Line No.		Month of Jul-07	Month of Aug-07	Month of Sep-07	Month of Oct-07	Month of Nov-07	Month of Dec-07	Month of Jan-08
1	Year End Number of Customers	10	10	10	10	10	10	10
2	Actual Customers	8	8	8	8	8	8	8
3	Increase in Number of Customers/Bills	2	2	2	2	2	2	2
4	Average Revenue / Present Rates	$ 150.11	$ 148.76	$ 129.12	$ 146.53	$ 118.44	$ 117.57	$ 125.66
5	Revenue Annualization / Present Rates	$ 300	$ 298	$ 258	$ 293	$ 237	$ 235	$ 251
6								
7	Increase in Number of Customers	2	2	2	2	2	2	2
8	Average Revenue / Proposed Rates	$ 177.34	$ 175.74	$ 152.55	$ 173.11	$ 139.93	$ 138.91	$ 148.46
9	Revenue Annualization / Proposed Rates	$ 355	$ 351	$ 305	$ 346	$ 280	$ 278	$ 297
10	Additional Gallons to be Produced	81,301	80,126	63,126	78,201	53,876	53,126	60,126
11								
12		Month	Month	Month	Month	Month		Total
13		of	of	of	of	of		Year
14		Feb-08	Mar-08	Apr-08	May-08	Jun-08		
15	Year End Number of Customers	10	10	10	10	10		
16	Actual Customers	9	8	8	8	10		
17	Increase in Number of Customers/Bills	1	2	2	2	-		21
18	Average Revenue / Present Rates	$ 119.22	$ 150.00	$ 146.79	$ 156.18	$ 118.67		
19	Revenue Annualization / Present Rates	$ 119	$ 300	$ 294	$ 312	$ -		$ 2,898
20								
21	Increase in Number of Customers	1	2	2	2	-		
22	Average Revenue / Proposed Rates	$ 140.86	$ 177.20	$ 173.42	$ 184.50	$ 140.21		
23	Revenue Annualization / Proposed Rates	$ 119	$ 300	$ 294	$ 312	$ -		$ 3,423
24	Additional Gallons to be Produced	27,278	81,201	78,426	86,551	-		743,336

2 Inch Commercial
Customers to Year End Levels
Test Year Ended June 30, 2008

Rebuttal Schedule C-2
Page 3.7
Witness: Bourassa

Line No.		Month of Jul-07	Month of Aug-07	Month of Sep-07	Month of Oct-07	Month of Nov-07	Month of Dec-07	Month of Jan-08
1	Year End Number of Customers	11	11	11	11	11	11	11
2	Actual Customers	9	9	9	9	9	9	9
3	Increase in Number of Customers/Bills	2	2	2	2	2	2	2
4	Average Revenue / Present Rates	$ 187.06	$ 173.18	$ 171.56	$ 214.78	$ 186.34	$ 173.23	$ 156.49
5	Revenue Annualization / Present Rates	$ 374	$ 346	$ 343	$ 430	$ 373	$ 346	$ 313
6								
7	Increase in Number of Customers	2	2	2	2	2	2	2
8	Average Revenue / Proposed Rates	$ 221.01	$ 204.61	$ 202.70	$ 253.75	$ 220.16	$ 204.67	$ 184.91
9	Revenue Annualization / Proposed Rates	$ 442	$ 409	$ 405	$ 507	$ 440	$ 409	$ 370
10	Additional Gallons to be Produced	84,090	72,067	70,667	108,089	83,467	72,112	57,623
11								
12–14		Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08		Total Year
15	Year End Number of Customers	11	11	11	11	11		
16	Actual Customers	9	9	9	9	11		
17	Increase in Number of Customers/Bills	2	2	2	2	-		22
18	Average Revenue / Present Rates	$ 147.77	$ 141.92	$ 153.21	$ 162.71	$ 130.05		
19	Revenue Annualization / Present Rates	$ 296	$ 284	$ 306	$ 325	$ -		$ 3,737
20								
21	Increase in Number of Customers	2	2	2	2	-		
22	Average Revenue / Proposed Rates	$ 174.60	$ 167.69	$ 181.03	$ 192.25	$ 153.68		
23	Revenue Annualization / Proposed Rates	$ 296	$ 284	$ 306	$ 325	$ -		$ 4,415
24	Additional Gallons to be Produced	50,067	45,001	54,779	63,001	-		760,963

Valley Utilities Water Company, Inc.
3/4 Inch Irrigation
Customers to Year End Levels
Test Year Ended June 30, 2008

Exhibit
Rebuttal Schedule C-2
Page 3.8
Witness: Bourassa

Line No.		Month of Jul-07	Month of Aug-07	Month of Sep-07	Month of Oct-07	Month of Nov-07	Month of Dec-07	Month of Jan-08
1	Year End Number of Customers	1	1	1	1	1	1	1
2	Actual Customers	-	-	-	-	-	2	1
3	Increase in Number of Customers/Bills	1	1	1	1	1	(1)	-
4	Average Revenue / Present Rates	$ 16.87	$ 16.87	$ 16.87	$ 16.87	$ 16.87	$ 16.87	$ 16.87
5	Revenue Annualization / Present Rates	$ 17	$ 17	$ 17	$ 17	$ 17	$ (17)	$ -
6								
7	Increase in Number of Customers	1	1	1	1	1	(1)	-
8	Average Revenue / Proposed Rates	$ 19.94	$ 19.94	$ 19.94	$ 19.94	$ 19.94	$ 19.94	$ 19.94
9	Revenue Annualization / Proposed Rates	$ 20	$ 20	$ 20	$ 20	$ 20	$ (20)	$ -
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12		Month	Month	Month	Month	Month		Total
13		of	of	of	of	of		Year
14		Feb-08	Mar-08	Apr-08	May-08	Jun-08		
15	Year End Number of Customers	1	1	1	1	1		
16	Actual Customers	1	1	1	1	1		
17	Increase in Number of Customers/Bills	-	-	-	-	-		4
18	Average Revenue / Present Rates	$ 16.87	$ 24.96	$ 34.20	$ 16.87	$ 16.87		
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -		$ 67
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	$ 19.94	$ 29.49	$ 40.40	$ 19.94	$ 19.94		
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -		$ 80
24	Additional Gallons to be Produced	-	-	-	-	-		-

Valley Utilities Water Company, Inc.
1 Inch Irrigation
Customers to Year End Levels
Test Year Ended June 30, 2008

Exhibit
Rebuttal Schedule C-2
Page 3.9
Witness: Bourassa

Line No.		Month of Jul-07	Month of Aug-07	Month of Sep-07	Month of Oct-07	Month of Nov-07	Month of Dec-07	Month of Jan-08
1	Year End Number of Customers	7	7	7	7	7	7	7
2	Actual Customers	5	6	6	6	6	8	7
3	Increase in Number of Customers/Bills	2	1	1	1	1	(1)	-
4	Average Revenue / Present Rates	$ 144.95	$ 169.57	$ 135.03	$ 88.55	$ 203.09	$ 52.64	$ 70.34
5	Revenue Annualization / Present Rates	$ 290	$ 170	$ 135	$ 89	$ 203	$ (53)	$ -
6								
7	Increase in Number of Customers	2	1	1	1	1	(1)	-
8	Average Revenue / Proposed Rates	$ 177.80	$ 206.88	$ 165.04	$ 104.90	$ 246.46	$ 62.20	$ 83.10
9	Revenue Annualization / Proposed Rates	$ 356	$ 207	$ 165	$ 105	$ 246	$ (62)	$ -
10	Additional Gallons to be Produced	101,129	60,295	46,292	26,167	73,544	(10,625)	-
11								
12		Month	Month	Month	Month	Month		Total
13		of	of	of	of	of		Year
14		Feb-08	Mar-08	Apr-08	May-08	Jun-08		
15	Year End Number of Customers	7	7	7	7	7		
16	Actual Customers	7	7	7	7	7		
17	Increase in Number of Customers/Bills	-	-	-	-	-		5
18	Average Revenue / Present Rates	$ 44.44	$ 85.50	$ 70.51	$ 126.01	$ 152.79		
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -		$ 833
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	$ 52.51	$ 101.01	$ 83.30	$ 153.37	$ 187.06		
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -		$ 1,017
24	Additional Gallons to be Produced	-	-	-	-	-		296,802

Valley Utilities Water Company, Inc.
1.5 Inch Irrigation
Customers to Year End Levels
Test Year Ended June 30, 2008

Exhibit
Rebuttal Schedule C-2
Page 3.10
Witness: Bourassa

Line No.		Month of Jul-07	Month of Aug-07	Month of Sep-07	Month of Oct-07	Month of Nov-07	Month of Dec-07	Month of Jan-08
1	Year End Number of Customers	3	3	3	3	3	3	3
2	Actual Customers	1	3	3	3	3	3	3
3	Increase in Number of Customers/Bills	2	-	-	-	-	-	-
4	Average Revenue / Present Rates	$ 1,274.76	$ 524.11	$ 244.09	$ 216.52	$ 417.68	$ 219.07	$ 98.95
5	Revenue Annualization / Present Rates	$ 2,550	$ -	$ -	$ -	$ -	$ -	$ -
6								
7	Increase in Number of Customers	2	-	-	-	-	-	-
8	Average Revenue / Proposed Rates	$ 1,525.30	$ 638.78	$ 296.47	$ 260.81	$ 513.09	$ 264.10	$ 116.91
9	Revenue Annualization / Proposed Rates	$ 3,051	$ -	$ -	$ -	$ -	$ -	$ -
10	Additional Gallons to be Produced	985,200	-	-	-	-	-	-
11								
12–14		Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08		Total Year
15	Year End Number of Customers	3	3	3	3	3		
16	Actual Customers	3	3	3	3	3		
17	Increase in Number of Customers/Bills	-	-	-	-	-		2
18	Average Revenue / Present Rates	$ 126.67	$ 166.71	$ 334.41	$ 333.26	$ 319.09		
19	Revenue Annualization / Present Rates	$ -	$ -	$ -	$ -	$ -		$ 2,550
20								
21	Increase in Number of Customers	-	-	-	-	-		
22	Average Revenue / Proposed Rates	$ 149.65	$ 196.94	$ 413.30	$ 411.80	$ 393.48		
23	Revenue Annualization / Proposed Rates	$ -	$ -	$ -	$ -	$ -		$ 3,051
24	Additional Gallons to be Produced	-	-	-	-	-		985,200

Valley Utilities Water Company, Inc.
3 Inch Construction Water
Customers to Year End Levels
Test Year Ended June 30, 2008

Exhibit
Rebuttal Schedule C-2
Page 3.11
Witness: Bourassa

Line No.		Month of Jul-07	Month of Aug-07	Month of Sep-07	Month of Oct-07	Month of Nov-07	Month of Dec-07	Month of Jan-08
1	Year End Number of Customers	5	5	5	5	5	5	5
2	Actual Customers	9	9	8	9	10	9	12
3	Increase in Number of Customers/Bills	(4)	(4)	(3)	(4)	(5)	(4)	(7)
4	Average Revenue / Present Rates	$ 863.40	$ 752.31	$ 1,786.53	$ 700.45	$ 518.64	$ 278.16	$ 426.63
5	Revenue Annualization / Present Rates	$ (3,454)	$ (3,009)	$ (5,360)	$ (2,802)	$ (2,593)	$ (1,113)	$ (2,986)
6								
7	Increase in Number of Customers	(4)	(4)	(3)	(4)	(5)	(4)	(7)
8	Average Revenue / Proposed Rates	$ 948.19	$ 828.64	$ 1,941.63	$ 772.83	$ 577.18	$ 318.38	$ 478.16
9	Revenue Annualization / Proposed Rates	$ (3,793)	$ (3,315)	$ (5,825)	$ (3,091)	$ (2,886)	$ (1,274)	$ (3,347)
10	Additional Gallons to be Produced	(905,334)	(758,201)	(1,596,019)	(689,512)	(560,876)	(130,179)	(571,960)
11								
12		Month	Month	Month	Month	Month		Total
13		of	of	of	of	of		Year
14		Feb-08	Mar-08	Apr-08	May-08	Jun-08		
15	Year End Number of Customers	5	5	5	5	5		
16	Actual Customers	9	6	5	7	5		
17	Increase in Number of Customers/Bills	(4)	(1)	-	(2)	-		(38)
18	Average Revenue / Present Rates	$ 740.99	$ 413.92	$ 635.23	$ 473.07	$ 788.88		
19	Revenue Annualization / Present Rates	$ (2,964)	$ (414)	$ -	$ (946)	$ -		$ (25,640)
20								
21	Increase in Number of Customers	(4)	(1)	-	(2)	-		
22	Average Revenue / Proposed Rates	$ 816.46	$ 464.48	$ 702.64	$ 528.14	$ 868.00		
23	Revenue Annualization / Proposed Rates	$ (2,964)	$ (414)	$ -	$ (946)	$ -		$ (28,317)
24	Additional Gallons to be Produced	(743,201)	(77,500)	-	(194,172)	-		(6,226,954)

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1			
2	Revenue Annualization		
3			
4	Revenue Annualization Per Direct	$	(24,537)
5			
6	Revenue Annualization per Rebuttal		(24,537)
7			
8	Increase (Decrease) in Revenues	$	-
9			
10			
11			
12			
13	Adjustment to Revenues and/or Expense	$	-
14			
15			
16	SUPPORTING SCHEDULES		
17	Rebuttal C-2, page 3.1 to 3.11		
18			
19			
20			

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Revenue Loss Adjustment		
Metered Revenues July 2008 to June 2009	$	1,058,682
Test Year Metered Revenues before Revenue Annualization		1,186,185
Revenue Loss before Revenue Annualization		(127,503)
Less: Metered Revenue Annualization per Direct		(24,537)
Indicated Additional Metered Revenue Loss Adjustment		(102,966)
Proposed Metered Revenue Loss Adjustment	$	(102,966)
Increase (Decrease) in Revenues	$	(102,966)
Adjustment to Revenues and/or Expense	$	(102,966)

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Puchased Power & Chemical Expense Adjustment Related to Revenue Loss Adjustment in Rb. Adj. # 3			
Purchased Power Adjustment			
[1] Adjusted Test Year Purchased Power		$	136,963
[2] Test Year Gallons Sold (in 1,000's)	325,407		
[3] Additional Gallons sold from Revenue Annualization (in 1,000's)	(6,019)		
[4] Adjusted Yest Year Gallons Sold (in 1,000's) [2] minus [3]			319,387
[5] Cost per 1,000 Gallons Sold [1] divided by [4]		$	0.429
[6] Gallons Sold July 2008 to June 2009 (in 1,000's)	296,878		
[7] Adjusted Test Year Gallons Sold (in 1,000's)	319,387		
[8] Additional Gallons Sold from Revenue Loss Adj. (in 1,000's) [6] minus [7]			(22,509)
[9] Increase (Decrease) in Purchased Power Costs [8] times [5]		$	(9,656)
Checmical Expense Adjustment			
[1] Adjusted Test Year Chemicals Expense		$	7,549
[2] Test Year Gallons Sold (in 1,000's)	325,407		
[3] Additional Gallons sold from Revenue Annualization (in 1,000's)	(6,019)		
[4] Adjusted Yest Year Gallons Sold (in 1,000's) [2] minus [3]			319,387
[5] Cost per 1,000 Gallons Sold [1] divided by [4]		$	0.024
[6] Gallons Sold July 2008 to June 2009 (in 1,000's)	296,878		
[7] Adjusted Test Year Gallons Sold (in 1,000's)	319,387		
[8] Additional Gallons Sold from Revenue Loss Adj. (in 1,000's) [6] minus [7]			(22,509)
[9] Increase (Decrease) in Purchased Power Costs [8] times [5]		$	(540)
Adjustment to Revenues and/or Expense		$	(10,197)

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Increase in Purchased Power Cost due to APS Rate Increase		
[1] Purchased Power Costs July 2008 to June 2009	$	144,446
[2] Gallons Sold July 2008 to June 2009 (in 1,000's)		296,878
[3] Cost per 1,000 Gallons Sold [1] divided by [3]	$	0.487
[4] Adjusted test Year Cost per 1,000 Gallons (computed in Rb. Adj. #4)	$	0.429
[5] Increase (Decrease) in Cost per 1,000 Gallons [3] minus [4]	$	0.058
[6] Increase (Decrease) in Purchased Power Costs [2] times [5]	$	17,219
Adjustment to Revenues and/or Expense	$	17,219

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Water Testing Expense		
Staff's Recommended Level of Water testing Expense	$	8,636
Adjusted Test Year Water Testing Expense		6,247
Increase(decrease) in Water Testing Expense	$	2,389
Adjustment to Revenue and/or Expense	$	2,389

SUPPORTING SCHEDULES
Staff Schedule GTM-12 - Operating Income Adjustment #3

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2001
Adjustment to Revenues and/or Expenses
Adjustment Number 8

Exhibit
Schedule C-2
Page 9
Witness: Bourassa

<u>Reclassify Insurance Expense</u>		
Insurance - General Liability	$	(10,304)
Insurance - Health and Life	$	10,304
Increase (decrease) in Expense	$	-
Adjustment to Revenues and/or Expense	$	-

<u>SUPPORTING SCHEDULES</u>
Staff Schedule GTM-13 - Operating Income Adjustment #4

Valley Utilities Water Company, Inc.
Test Year Ended December 31, 2001
Adjustment to Revenues and/or Expenses
Adjustment Number 9

Exhibit
Rebuttal Schedule C-2
Page 10
Witness: Bourassa

Line No.			
2	Remove Non-recurring Health and Life Insurance		
4	Non-recurring Insurance - Health and Life Expense	$	(10,364)
8	Increase (decrease) in Insurance - Health and Life	$	(10,364)
11	Adjustment to Revenue and/or Expense	$	(10,364)
13	SUPPORTING SCHEDULES		
14	Staff Schedule GTM-14 - Operating Income Adjustment #5		

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Rebuttal Schedule C-2
Page 11
Witness: Bourassa

Line No.			
1	Reclass Revenues		
2			
3	Meter Water Revenues	$	(2,660)
4			
5	Miscellaneous Revenues		2,660
6			
7	Increase (Decrease) in Revenues	$	-
8			
9			
10			
11	Adjustment to Revenues and/or Expense	$	-
12			
13			
14			
15			
16			
17			
18			
19			
20			

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Adjustment to Revenues and Expenses
Adjustment Number 11

Exhibit
Rebuttal Schedule C-2
Page 12
Witness: Bourassa

Line No.					
1	Interest Expense				
2	-				
3	WIF Loan on Replacement Well	$	250,000		
4	Interest Rate		5.80%		
5					
6	Interest Expense per Rebuttal			$	14,500
7					
8	Interest expense per Direct filing			$	123,851
9					
10	Increase (Decrease) in Interest Expense			$	(109,351)
11					
12					
13					
14					
15	Adjustment to Revenues and/or Expense			$	109,351
16					
17					
18					
19					
20					

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Adjustment to Revenues and/or Expenses
Adjustment Number 12

Exhibit
Rebuttal Schedule C-2
Page 13
Witness: Bourassa

Line No.			Rebuttal Test Year Adjusted Results		Rebuttal Adjusted with Rate Increase	
1	Income Tax Computation					
2						
3						
4						
5						
6						
7	Taxable Income		$ (37,624)		$ 177,940	
8						
9	Taxable Income		$ (37,624)		$ 177,940	
10						
11						
12						
13	Income Before Taxes		$ (37,624)		$ 177,940	
14						
15	Arizona Income Before Taxes		$ (37,624)		$ 177,940	
16						
17	Less Arizona Income Tax		$ (2,622)		$ 12,399	
18	Rate =	6.97%				
19	Arizona Taxable Income		$ (35,003)		$ 165,541	
20						
21	Arizona Income Taxes		$ (2,622)		$ 12,399	
22						
23	Federal Income Before Taxes		$ (37,624)		$ 177,940	
24						
25	Less Arizona Income Taxes		$ (2,622)		$ 12,399	
26						
27	Federal Taxable Income		$ (35,003)		$ 165,541	
28						
29						
30						
31	FEDERAL INCOME TAXES:					
32	15% BRACKET		$ (5,250)		$ 7,500	
33	25% BRACKET		$ -		$ 6,250	
34	34% BRACKET		$ -	Federal	$ 8,500	Federal
35	39% BRACKET		$ -	Effective	$ 25,561	Effective
36	34% BRACKET		$ -	Tax	$ -	Tax
37				Rate		Rate
38	Federal Income Taxes		$ (5,250)	13.95%	$ 47,811	26.87%
39						
40						
41	Total Income Tax		$ (7,872)		$ 60,210	
42						
43	Overall Tax Rate		20.92%		33.84%	
44						
45	Computed Income Tax at Proposed Rates Effective Rate		$ (12,731)			
46						
47	Direct Adjusted Income Taxes		(54,130)			
48						
49	Increase (Decrease) in Income Tax Expense		$ 41,399			
50						

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	26.87%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	33.84%
9		
10	Operating Income % = 100% - Tax Percentage	66.16%
11		
12		
13		
14		
15	$\frac{1}{\text{Operating Income \%}}$ = Gross Revenue Conversion Factor	
16		1.5114
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rebuttal A-1
20		

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Summary of Cost of Capital

Exhibit
Rebuttal Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	End of Test Year Percent of Total	End of Test Year Cost Rate	End of Test Year Weighted Cost	End of Projected Year Dollar Amount	End of Projected Year Percent of Total	End of Projected Year Cost Rate	End of Projected Year Weighted Cost
6	Long-Term Debt	$ 913,985	100.68%	5.81%	5.85%	$ 2,130,823	95.02%	5.81%	5.52%
8	Stockholder's Equity	(6,155)	-0.68%	N/A	0.00%	111,575	4.98%	N/A	0.00%
10	Totals	$ 907,830	100.00%		5.85%	$ 2,242,398	100.00%		5.52%

SUPPORTING SCHEDULES:
Direct D-1
Direct B-2

RECAP SCHEDULES:

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8 Inch	Residential	$ 53,327	$ 63,001	$ 9,674	18.14%	4.82%	4.76%
2	3/4 Inch	Residential	383,309	452,857	69,547	18.14%	34.63%	34.25%
3	1 Inch	Residential	359,019	428,868	69,849	19.46%	32.44%	32.43%
4		Subtotal	$ 795,655	$ 944,725	$ 149,071	18.74%	71.89%	71.45%
5								
6	1 Inch	Multi-family	$ 1,171	$ 1,402	$ 231	19.70%	0.11%	0.11%
7	2 inch	Multi-family	156,599	186,884	30,285	19.34%	14.15%	14.13%
8		Subtotal	157,770	188,286	30,516			
9								
10	5/8 Inch	Irrigation	$ 644	$ 767	$ 122	19.01%	0.06%	0.06%
11	3/4 Inch	Irrigation	163	192	30	18.18%	0.01%	0.01%
12	1 Inch	Irrigation	8,834	10,580	1,746	19.76%	0.80%	0.80%
13	1.5 Inch	Irrigation	10,324	12,526	2,202	21.33%	0.93%	0.95%
14	2 Inch	Irrigation	92,769	110,630	17,861	19.25%	8.38%	8.37%
15		Subtotal	$ 112,734	$ 134,695	$ 21,961	19.48%	10.19%	10.19%
16								
17	5/8 Inch	Commercial	$ 1,311	$ 1,550	$ 239	18.22%	0.12%	0.12%
18	3/4 Inch	Commercial	2,904	3,443	539	18.56%	0.26%	0.26%
19	1 Inch	Commercial	15,970	19,111	3,141		1.44%	1.45%
20	1.5 Inch	Commercial	13,478	16,170	2,693	19.98%	1.22%	1.22%
21	2 Inch	Commercial	18,338	21,792	3,454	18.83%	1.66%	1.65%
22		Subtotal	$ 52,001	$ 62,065	$ 10,064	19.35%	4.70%	4.69%
23								
24	3 Inch	Construction	67,596	74,610	7,014	10.38%	6.11%	5.64%
25								
26		Subtotal Revenues	$ 1,185,756	$ 1,404,382	$ 218,626	18.44%	107.14%	106.21%
27								
28								
29								
30								

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 2
Witness: Bourassa

Line No.	Meter Size	Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Present Water Revenues	Proposed Water Revenues
1								
2	**Revenue Annualization**							
3								
4								
5								
6	5/8 Inch	Residential	$ 132	$ 156	$ 24	18.14%	0.01%	0.01%
7	3/4 Inch	Residential	(2,519)	(2,976)	(457)	18.14%	-0.23%	-0.23%
8	1 Inch	Residential	(3,546)	(4,200)	(654)	18.45%	-0.32%	-0.32%
9		Subtotal	$ (5,933)	$ (7,020)	$ (1,087)	18.33%	-0.54%	-0.53%
10								
11	1 Inch	Multi-family	$ -	$ -	$ -	0.00%	0.00%	0.00%
12	2 inch	Multi-family	(4,216)	(5,104)	(888.00)	21.06%	-0.38%	-0.39%
13		Subtotal	$ (4,216)	$ (5,104)	$ (888)	21.06%	-0.38%	-0.39%
14								
15	5/8 Inch	Irrigation	$ -	$ -	$ -	0.00%	0.00%	0.00%
16	3/4 Inch	Irrigation	67	80	12.28	18.20%	0.01%	0.01%
17	1 Inch	Irrigation	833	1,017	183.19	21.98%	0.08%	0.08%
18	1.5 Inch	Irrigation	2,550	3,051	501.09	19.65%	0.23%	0.23%
19	2 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
20		Subtotal	$ 3,450	$ 4,147	$ 697	20.19%	0.31%	0.31%
21								
22	5/8 Inch	Commercial	$ (39)	$ (46)	$ (7)	18.16%	0.00%	0.00%
23	3/4 Inch	Commercial	(36)	(44)	(7)	20.25%	0.00%	0.00%
24	1 Inch	Commercial	1,243	1,500	257	20.69%	0.11%	0.11%
25	1.5 Inch	Commercial	2,898	3,423	526	18.14%	0.26%	0.26%
26	2 Inch	Commercial	3,737	4,415	678	18.15%	0.34%	0.33%
27								
28		Subtotal	$ 7,802	$ 9,248	$ 1,447	18.54%	0.70%	0.70%
29								
30	3 Inch	Construction	(25,640)	(28,317)	(2,676)	10.44%	-2.32%	-2.14%
31								
32	Subtotal Revenue Annualization		$ (24,537)	$ (27,045)	$ (2,508)	10.22%	-2.22%	-2.05%
33								
34	Metered Revenue Loss (Rb. Adj. #4)		$ (102,966)	$ (102,966)	-	0.00%	-9.30%	-7.79%
35								
36	Misc Service Charges		$ 45,466	$ 45,466	-	0.00%	4.11%	3.44%
37	Annualization of Increases to							
38	Misc Service Chgs (H-3, page 3.1)		$ 2,660	$ 2,660	-	0.00%	0.24%	0.20%
39	Reconciling Amount to C-1		$ 359	$ (194)	(553)	-154.04%	0.03%	-0.01%
40								
41	Total Water Revenues with annualization		$ 1,106,737	$ 1,322,302	$ 215,565	19.48%	100.00%	100.00%
42								

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Analysis of Revenue by Detailed Class

Line No.	Meter Size, Class		(a) Average Number of Customers at 6/30/2008	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8 Inch	Residential	161	7,376	$ 25.85	$ 30.54	4.69	18.14%
2	3/4 Inch	Residential	832	9,531	36.46	43.07	6.62	18.15%
3	1 Inch	Residential	390	20,364	75.14	88.77	13.63	18.14%
4		Subtotal	1,383					
5								
6	1 Inch	Multi-family	1	29,584	$ 96.44	$ 115.11	18.67	19.36%
7	2 inch	Multi-family	33	126,929	383.14	464.78	81.63	21.31%
8		Subtotal	34					
9								
10	5/8 Inch	Irrigation	1	17,584	$ 51.86	$ 61.93	10.07	19.42%
11	3/4 Inch	Irrigation	1	1,375	20.05	23.69	3.65	18.18%
12	1 Inch	Irrigation	7	34,531	107.87	129.89	22.03	20.42%
13	1.5 Inch	Irrigation	3	104,662	297.98	366.17	68.19	22.89%
14	2 Inch	Irrigation	8	355,655	956.48	1,148.20	191.72	20.04%
15		Subtotal	19					
16								
17	5/8 Inch	Commercial	6	2,413	$ 16.81	$ 19.87	3.05	18.17%
18	3/4 Inch	Commercial	5	12,641	46.07	54.43	8.36	18.14%
19	1 Inch	Commercial	11	37,954	115.77	140.12	24.35	21.03%
20	1.5 Inch	Commercial	8	34,143	135.08	159.59	24.51	18.14%
21	2 Inch	Commercial	9	32,867	165.86	195.97	30.11	18.15%
22		Subtotal	40					
23								
24	3 Inch	Construction	8	168,618	$ 689.10	$ 760.62	71.52	10.38%
25								
26		Totals	1,431					
27								
28								
29	(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.							

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Bourassa

Line No.	Monthly Usage Charge for:		Present Rates	Proposed Rates	Change	Percent Change
1	Meter Size (Classes):					
2	5/8 Inch		$ 11.24	$ 13.29	$ 2.05	18.20%
3	3/4 Inch		16.87	19.94	3.07	18.20%
4	1 Inch		28.10	33.21	5.11	18.20%
5	1 1/2 Inch		56.21	66.44	10.23	18.20%
6	2 Inch		89.94	106.31	16.37	18.20%
7	3 Inch		179.87	212.61	32.74	18.20%
8	4 Inch		281.05	332.20	51.15	18.20%
9	6 Inch		562.10	664.40	102.30	18.20%
10	Construction Water		179.87	212.61	32.74	18.20%
11						
12						
13	Gallons In Minimum (All Classes)		-	-		
14						
15			(Per 1,000 gallons)			
16	**Commodity Rates**		**Present**	**Proposed**		**Percent**
17	**(Residential, Commercial, Irrigation)**	**Block**	**Rate**	**Rate**	**Change**	**Change**
18						
19	5/8 Inch and 3/4 Inch Meter Residential	0 gallons to 3,000 gallons	$ 1.50	$ 1.77	$ 0.27	18.10%
20		3,001 gallons to 10,000 gallons	$ 2.31	$ 2.73	$ 0.42	18.10%
21		over 10,000 gallons	$ 2.53	$ 2.99	$ 0.46	18.10%
22						
23	5/8 Inch and 3/4 Inch Meter Commercial	0 gallons to 18,000 gallons	$ 2.31			
24		over 18,000 gallons	$ 2.53			
25		0 gallons to 15,000 gallons		$ 2.73	$ 0.42	
26		over 15,000 gallons		$ 2.99	$ 0.46	
27						
28	1 Inch Meter	0 gallons to 50,359 gallons	$ 2.31			
29		over 50,359 gallons	$ 2.53			
30		0 gallons to 25,000 gallons		$ 2.73	$ 0.42	
31		over 25,000 gallons		$ 2.99	$ 0.46	
32						
33	1.5 Inch Meter	0 gallons to 126,054 gallons	$ 2.31			
34		over 126,054 gallons	$ 2.53			
35		0 gallons to 50,000 gallons		$ 2.73	$ 0.42	
36		over 50,000 gallons		$ 2.99	$ 0.46	
37						
38	2 Inch Meter	0 gallons to 151,256 gallons	$ 2.31			
39		over 151,256 gallons	$ 2.53			
40		0 gallons to 80,000 gallons		$ 2.73	$ 0.42	
41		over *80,000 gallons*		$ 2.99	$ 0.46	
42						
43						
44						

Chaparral City Water Company
Test Year Ended June 30, 2008
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 2
Witness: Bourassa

Commodity Rates (Residential, Commercial, Industrial)	Block	Present Rate (Per 1,000 gallons)	Proposed Rate (Per 1,000 gallons)	Change	Percent Change
3 Inch Meter	0 gallons to 403,274 gallons	$ 2.31			
	over 403,274 gallons	$ 2.53			
	0 gallons to 160,000 gallons		$ 2.73	$ 0.42	
	over 160,000 gallons		$ 2.99	$ 0.46	
4 Inch Meter	0 gallons to 453,722 gallons	$ 2.31			
	over 453,722 gallons	$ 2.53			
	0 gallons to 250,000 gallons		$ 2.73	$ 0.42	
	over 250,000 gallons		$ 2.99	$ 0.46	
6 Inch Meter	0 gallons to 1,260,313 gallons	$ 2.31			
	over 1,260,313 gallons	$ 2.53			
	0 gallons to 500,000 gallons		$ 2.73	$ 0.42	
	over 500,000 gallons		$ 2.99	$ 0.46	
Construction	All gallons	$ 3.02	$ 3.25	$ 0.230	7.62%

*In addtion to the collection of regular rates, the uility will collect from its customers a proportionate share of any privilage, sales, use, and fmachise tax per Commission Rile R-14-2-409.D.5.

Valley Utilities Water Company, Inc.
Changes in Representative Rate Schedules
Test Year Ended June 30, 2008

Exhibit
Rebuttal Schedule H-3
Page 3
Witness: Kozoman

Other Service Charges	Present Rates	Proposed Rates
Establishment	$ 30.00	$ 40.00
Establishment (After Hours)	$ 45.00	$ 60.00
Reconnection (Deliquent) (b)	$ 40.00	$ 50.00
Reconnection (Deliquent and After Hours)	(b)	(b)
Meter Test (if correct)	$ 30.00	$ 30.00
Deposit Requirement	(a)	(a)
Deposit Interest	6%	3%
Re-Establishment (With-in 12 Months)	(b)	(b)
Re-Establishment (After Hours)	(b)	(b)
NSF Check (per Rule R14-2-409F)	$ 25.00	$ 25.00
Deferred Payment, Per Month	1.50%	1.50%
Late Charge per month	$ 10.00	$ 10.00
Meter Re-Read (per Rule R14-2-408C)	$ 10.00	$ 10.00
Charge of Moving Customer Meter - Customer Requested per Rule R14-2-405B	Cost	Cost
After hours service charge, per Rule R14-2-403D	25.00	50.00

(a) Residential - two times the average bill. Non-residential - two and one-half times the average bill. Interest per Rule R14-2-4-403B.
(b) Per rule R14-2-403D.

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, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES, IF APPLICABLE.

Valley Utilities Water Company, Inc.
Changes in Representative Rate Schedules
Impact of Change in Tariff
Test Year Ended June 30, 2008

Exhibit
Rebuttal Schedule H-3
Page 3.1
Witness: Bourassa

Other Service Charges	Present Rates	Proposed Rates	Increase in Charge	Number of Occurr-ences (a)	Increase Revenues
Establishment	$ 30.00	$ 40.00	$ 10.00	156	$ 1,560
Establishment (After Hours)	$ 45.00	$ 60.00	$ 15.00	10	150
Reconnection (Delinquent)	$ 40.00	$ 50.00	$ 10.00	95	950
Totals					$ 2,660

(a) Based on actual Occurrences during the test year

Valley Utilities Water Company, Inc.
Test Year Ended June 30, 2008
Service Charges
Meter and Service Line Charges

Exhibit
Rebuttal Schedule H-3
Page 4
Witness: Bourassa

Line No.		Present Service Line Charge	Present Meter Installation Charge	Total Present Charge	Proposed Service Line Charge[1]	Proposed Meter Installation Charge	Total Proposed Charge
1	5/8 x 3/4 Inch	$ 385.00	$ 135.00	$ 520.00	$ 445.00	$ 155.00	$ 600.00
2	3/4 Inch	385.00	215.00	600.00	445.00	255.00	700.00
3	1 Inch	435.00	255.00	690.00	495.00	315.00	810.00
4	1 1/2 Inch	470.00	465.00	935.00	550.00	525.00	1,075.00
5	2 Inch / Turbine	630.00	965.00	1,595.00	830.00	1,045.00	1,875.00
6	2 Inch / Compound	630.00	1,690.00	2,320.00	830.00	1,890.00	2,720.00
7	3 Inch / Turbine	805.00	1,470.00	2,275.00	1,045.00	1,670.00	2,715.00
8	3 Inch / Compound	845.00	2,265.00	3,110.00	1,165.00	2,545.00	3,710.00
9	4 Inch / Turbine	1,170.00	2,350.00	3,520.00	1,490.00	2,670.00	4,160.00
10	4 Inch / Compound	1,230.00	3,245.00	4,475.00	1,670.00	3,645.00	5,315.00
11	6 Inch / Turbine	1,730.00	4,545.00	6,275.00	2,210.00	5,025.00	7,235.00
12	6 Inch / Compound	1,770.00	6,280.00	8,050.00	2,330.00	6,920.00	9,250.00
13	8 Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
14	10 Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
15	12 Inch	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

[1] For long-side service line installation charge will be at actual cost.